

Nasdaq CTA Cybersecurity Index™ (NQCYBR™) Contributes to Threat Protection

End-user spending for the information security and risk management market will grow from **\$172.5 billion** in 2022 to **\$267.3 billion** in 2026, or 11% CAGR, according to Gartner. With all this money moving through the cybersecurity ecosystem, investors are keen to learn more about this sector.

Cybersecurity is essential core infrastructure for individuals, companies and governments. Niche solutions have proliferated to meet the demand, and cybersecurity technology has become a growth area for investment. In the last 10 years, the **number** of publicly traded cybersecurity companies has tripled, and more than 1,500 M&A deals have closed, according to Momentum Cyber, a specialized investment bank.

With October being National Cybersecurity Month, Nasdaq is focusing on the cyber thematic with **insights and research** around this growing industry.

More Connectivity, More Vulnerability

Modern work and lifestyles have opened more areas of vulnerability to cyber-attacks. E-commerce has been rising over the last couple of decades, driven by the demand for wider choices and the ability to shop for products and services anytime, anywhere. Remote working has become more common as workers demand more flexibility and work-life balance. Moreover, technological advancements such as the internet-of-things (IoT) and 5G have multiplied vulnerabilities in networks because non-business IoT devices – including items like refrigerators, pet feeders, coffee machines and gym equipment – are connected to corporate networks. Importantly, the COVID-19 lockdowns accelerated these trends.

These changes have major implications for cybersecurity. For example, remote work created new attack surfaces for cybercriminals to take advantage of, such as home devices being used for business purposes. Poorly configured virtual private networks (VPNs), which offer secure remote access connections between employees and their private corporate network, are a high risk. In fact, the Colonial Pipeline attack in May 2021 was administered via a VPN. As a result, security teams have become far more concerned about so-called insider threats, which could potentially damage systems, destroy data, shut down operations and cost millions of dollars to repair.

Cyber-attacks are increasing dramatically in terms of volume, velocity and variety.

- Zscaler, a cloud security company, blocked more than **20 billion threats** over HTTPS between January and September 2021.
- Ransomware attacks increased by **105%** from 2021 and Encrypted Threats by 167%, according to Help Net Security, an independent site focusing on information security.
- Attacks are happening in industries such as education, manufacturing and construction, which were not traditional targets.

These developments have led to a wider variety of solutions required to protect individuals and systems. Cybersecurity used to focus on virus detection, implementing strong passwords and multi-factor authentication, ensuring devices are patched with the latest software updates and training workers to identify phishing attacks. Now it has expanded to an ecosystem comprising cloud security, data security, messaging security, endpoint security, web security, mobile security, network security, identity/access management, policy as code, incident response and more.

The Nasdaq CTA Cybersecurity Index™ (NQCYBR™)

The Nasdaq CTA Cybersecurity Index™ tracks the performance of companies that provide cybersecurity hardware, software and services. This enables investors to gain meaningful exposure to companies that play a key role in protecting the nation's critical infrastructure without having to do extensive research independently. The index includes 37 companies primarily involved in the building, implementation and management of security protocols applied to private and public networks, computers and mobile devices to protect the integrity of data and network operations.

To be included in NQCYBR™, a security must be listed on an index-eligible global stock exchange and classified as a cybersecurity company as determined by the Consumer Technology Association (CTA). Each security must have a worldwide market capitalization of US\$250 million, have a minimum three-month average daily dollar trading volume of US\$1 million and have a minimum free float of 20%.

NQCYBR™ is evaluated semiannually in March and September, and rebalanced quarterly. The modified liquidity weighted methodology includes caps on the percentage of any individual security to derive the final weights of the security.

A Peek Behind the Curtain

As of June 30, 2022, California-based Palo Alto Networks (**PANW**) is among the top 10 holdings in the index. This company delivers **solutions** across five key cyber security areas: zero trust network security, cloud security, secure service edge, security analytics and automation, and threat intelligence and security consulting. Its **total revenue** for the fiscal fourth quarter 2022 grew 27% year over year to \$1.6 billion, compared with total revenue of \$1.2 billion for the fiscal fourth quarter 2021. For the fiscal first quarter 2023, the company expects total revenue in the range of \$1.535 billion to \$1.555 billion, representing year-over-year growth of between 23% and 25%. For the fiscal year 2023, it expects total revenue in the range of \$6.85 billion to \$6.90 billion, representing year-over-year growth of 25%.

Another top 10 holding, Cloudflare (**NET**), provides an integrated suite of solutions for an organization's external facing infrastructure, internal facing infrastructure, developer-based solutions and consumer offerings. The California-based company has more than **132,000 paying customers** around the world, and it added 212 large customers in fiscal second quarter 2022. Cloudflare reported **total revenue** of \$234.5 million for the period, representing an increase of 54% year over year. For the fiscal third quarter 2022, it expects total revenue of \$250 million to \$251 million, and for the full fiscal year, it expects total revenue of \$968 to \$972 million.

Check Point Software ([CHKP](#)), headquartered in Israel, offers products across network security, cloud security, endpoint security, mobile security, IoT security, application security and Zero Trust Protection. For second quarter 2022, the company reported total revenues of \$571 million, compared to \$526 million in the second quarter of 2021, a 9% increase year over year.

The other top 10 holdings by weight include CrowdStrike ([CRWD](#)), Zscaler ([ZS](#)), Cisco Systems ([CSCO](#)), Okta ([OKTA](#)), Booz Allen Hamilton ([BAH](#)), Thales ([HO](#)), and SentinelOne ([S](#)).

Currently, the First Trust Nasdaq Cybersecurity ETF ([CIBR](#)) seeks investment results that correspond generally to the price and yield, fees and expenses, of NQCYBR.

Ultimately, broad-based strategies do not capture meaningful exposure to cybersecurity companies. There is a 3% overlap by weight between the Invesco QQQ Trust ([QQQ](#)), which tracks the Nasdaq 100 Index® ([NDX](#)®), and CIBR. There is a 1% overlap by weight between the SPDR S&P 500 ETF Trust ([SPY](#)) and CIBR. Significantly, NQCYBR has outperformed the S&P 500 Index by about 17 percentage points on a total return basis, cumulatively over the last three years as of June 30, 2022.

As a market owner and operator – and an important part of our nation's critical infrastructure – cybersecurity is a top priority at Nasdaq. We are also committed to supporting companies that protect businesses and individuals from cyber-attacks by enabling them to raise capital on our markets and providing investors with an opportunity to participate in their growth story.

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