

How AI-powered groups are changing the game

Monthly Cybersecurity Update

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Overview

- Earnings season has shown positive outcomes for those companies within the HUR index that have reported. AI, automation, and increasing demand for cloud security have been important growth catalysts.
- The rise of criminal activities powered by AI highlights the need for stronger cybersecurity measures and presents numerous opportunities for cybersecurity companies to innovate against evolving threats.

Q4 Earnings Update: AI, automation, and cloud security as important growth catalysts

In February 2025, the ISE Cyber Security UCITS™ Index (HUR™) declined by 3.59%, underperforming MSCI World (MXWO) (-0.81%), S&P 500 (SPX) (-1.42%), the Nasdaq-100® (NDX®) (-2.76%).

European equities outperformed US equities, which faced some headwinds, as growing uncertainty over the US administration's policies affected both business and consumer confidence.

Trend Micro (+22.31%), Fortinet (+7.07%) and BlackBerry (+6.78%) were the top 3 contributors to HUR Index performance, while Fastly (-34.96%), Ziff Davis (-23.81%), and Akamai Technologies (-19.24%) were the bottom 3 contributors.

As of February 28, 24 companies (72.08% of total index weight) in the HUR Index reported their Q4 2024 earnings. The remaining companies have not yet reported results and/or were missing estimates for the last quarter. Of those firms that have reported results, 20 (66.45% of the total index weight) exceeded revenue expectations, while only 4 firms (5.63% of total index weight) reported revenue misses. The bottom-line results were equally strong, with 18 firms (56.89% by weight), reporting EPS beats, compared to just 5 firms (14.00% by weight) reporting misses. Additionally, 17 firms (56.41% by weight) beat both top and bottom-line estimates.

	Beats		Misses	
	No. of firms/Index weight	Average % Beat	No. of firms/Index weight	Average % Miss
Q4 24 Revenues	20 / 66.45%	3.04%	4 / 5.63%	(2.91%)
Q4 24 Earnings	18 / 56.89%	12.21%	5 / 14.00%	(10.01%)

Several companies identified AI, automation, and increasing demand for cloud security as important growth catalysts. According to Bloomberg, enhancements in AI agents and LLM-based applications represent a

significant opportunity for cybersecurity providers. With the amount of unstructured data available, AI can play a crucial role in detecting and preventing cyberattacks.

Cloudflare's (index weight of 6.68% as of February 28, 2025) security products are becoming more intelligent and effective through the use of machine learning and AI. The company's security systems are able to detect new threats that humans have not identified before. Cloudflare's fourth-quarter revenues increased by 27% YoY, and it surpassed earnings expectations in each of the last four quarters, with an average surprise of 20%. During the last quarter, Cloudflare secured several customer wins where its security products were a key factor, such as a Global 2000 financial institution signed a 4-year / \$13 million contract for application services along with Magic Transit and Threat Intelligence, reinforcing Cloudflare's role in securing and optimizing enterprise network.¹ The stock is up 34.94% YTD and had a positive overall performance this month, increasing by 4.99%. However, it experienced volatility throughout the month. The first half was quite strong, with a return of +17.76% on February 7, which contributed to the overall positive trend. A correction began in the second half of the month, with the largest drop occurring on February 19 (-4.87%).²

Cisco Systems (index weight of 5.36% as of February 28, 2025) beat both top and bottom-line expectations during the last quarter. At \$14 billion, Cisco Systems last-quarter revenue increased 9% YoY. Cisco's security business saw strong performance in the quarter, with security orders more than doubling Cisco Secure Access³ and XDR⁴ have each gained over 1,000 customers and 1 million enterprise users in the past 12 months. Additionally, Cisco recently launched AI Defense, designed to help enterprises develop, deploy, and secure AI applications, while addressing challenges such the rise in data leaks, misuse of AI tools and sophisticated threats. The stock has risen 8.29% YTD and increased by 5.79% in February, contributing 0.27% to the overall index performance for the month.⁵

Fortinet (index weight of 5.66% as of February 28, 2025) exceeded revenues estimates by 4.24% and EPS by 22.02%. The stock gained 7.07% in February and is up 14.32% YTD. The company added 0.33% to the overall index performance for the month. According to the CEO, Ken Xie, Fortinet managed to strengthen its market leadership in Secure Networking. The company experienced 13% billing growth in Unified SASE⁶, which accounts for 23% of Fortinet's business. The company is also leveraging AI across its cybersecurity products.^{7,8}

¹ Application services include Cloudflare's Web Application Firewall (protecting websites and applications from cyber threats), API Security, Load Balancing (distributing incoming traffic across multiple servers) and Bot Management (detecting and mitigating malicious bots) which protect and optimize online applications. Magic Transit helps protect an enterprise's entire network from DDoS attacks. Threat Intelligence is Cloudflare's security analytics and intelligence tool helping institutions detect cyber threats in real time

² https://www.cloudflare.net/files/doc_financials/2024/q4/CORRECTED-TRANSCRIPT-NET-Q4-2024-Earnings-Call.pdf

³ Cisco Secure Access provides secure, seamless access to resources from any device, anywhere, based on zero trust principles. It helps organizations protect their hybrid workforce and ensure secure access to resources and applications

⁴ Cisco XDR integrates data from various sources to detect, investigate, and respond to threats comprehensively. By providing complete visibility and automated response capabilities, Cisco XDR helps organizations detect and respond to threats more effectively, reducing the risk of security breaches and minimizing the impact of incidents

⁵ https://s2.q4cdn.com/951347115/files/doc_financials/2025/q2/Q2FY25-Prepared-Remarks-IR.pdf

⁶ Fortinet Unified SASE (Secure Access Service Edge) is Fortinet's cloud-based solution that integrates network security and wide-area networking (telecommunications network that extends over a large geographical area) into a single, unified service. It helps organization secure their network infrastructure while ensuring fast and reliable access to applications

⁷ FortiGuard AI-powered Security Services combines real-time threat intelligence to help organizations combat known, unknown, zero-day, and emerging AI-based threats. FortiAIOPS uses machine learning to automate and optimize network security management. FortiAI uses natural language and generative AI to guide, simplify, and automate analyst activities in the network and security operations center

⁸ <https://investor.fortinet.com/static-files/46292bf6-3ae7-41b9-97c0-59e956563e04>

Palo Alto (index weight of 5.18% as of February 28, 2025) reported a solid quarter with \$2.3 billion in revenues, +14% YoY. The company beat both top and bottom-line estimates, by 0.71% and 3.97% respectively. According to the company, demand for cybersecurity has been strong in the last quarter, and it expects a similar trend in the future. There has also been an increased demand in firewall hardware, while cloud security, SASE and SIEM will remain growth drivers.⁹ The stock increased by 3.26% in February and has risen 4.65% YTD. The company was responsible for 0.14% of the index's overall performance during the month.¹⁰

Ziff David and Parsons Corp (index weight of 3.64% and 0.32%, respectively, as of February 28, 2025) were among the companies that missed both revenues and earnings estimates for the quarter. Both companies' stocks experienced significant losses of 23.81% and 26.55% during the month of February. Their contribution to the index's monthly performance was, respectively, -1.07% and -0.10%. While Ziff David had a strong quarter in terms of growth and cash flow, they fell slightly short of their revenue expectations due to underperformance in specific segments.¹¹ A significant portion of Parsons' revenue depends on federal contracts. Recent policy changes and an executive order reviewing these contracts create uncertainty and potential risks for contract renewals and terms.¹²

This month's insight: FunkSec, a new ransomware group leveraging AI

December 2024 saw a record of 574 ransomware attacks, a 50% increase YoY.¹³ A newly emerged ransomware group, named FunkSec, gained significant attention as one of the major actors. FunkSec's attacks are based on double extortion, as they encrypt the victim's data and threaten to release sensitive information, unless a ransom is paid. They also appear to sell stolen information to third parties and offer Ransomware-as-a-Service (RaaS).^{14,15} The group has leveraged AI in their Rust-based code, making ransomware easier and faster to develop. The presence of comments written in perfect English within their code suggests it has been generated with the support of an AI agent.¹⁶ The group also released a custom chatbot, named "Scorpion", on Miniapps, a platform lacking the restrictions and safeguards of ChatGPT.^{17,18}

The FunkSec's case shows how AI is making cybercrime accessible to a wider group of criminals, by equipping them with advanced and efficient tools, lowering the technical expertise required to bypass security walls. This underscores the importance of robust cybersecurity measures and presents opportunities for cybersecurity companies to innovate and lead in the fight against evolving cyber threats.

⁹ SIEM (Security Information and Event Management) collects, monitors and analyses security data from various sources real-time

¹⁰ <https://investors.paloaltonetworks.com/static-files/8fdb3ef6-2e39-4120-84e9-c5d160f56d84>

¹¹ https://s205.q4cdn.com/689425761/files/doc_financials/2024/q4/Ziff-Davis-Fourth-Quarter-and-Full-Year-2024-Presentation.pdf

¹² <https://www.enr.com/articles/60377-parsons-corp-is-latest-contractor-assessing-trump-spending-priorities>

¹³ <https://www.nccgroup.com/uk/newsroom/ncc-group-monthly-threat-pulse-review-of-december-2024/#:~:text=December%202024%20breaks%20records%20with,in%202021%2C%20with%20574%20attacks>

¹⁴ The group is selling their ransomware code or malware to other cybercriminals

¹⁵ <https://www.cyware.com/resources/threat-briefings/daily-threat-briefing/cyware-daily-threat-intelligence-january-13-2025>

¹⁶ As opposed to the simpler English used by the group in other contexts

¹⁷ This makes Scorpion potentially more dangerous, as it can freely provide guidance on illegal activities without any ethical or safety constraints. The chatbot have been realized to assist users in their hacking activities

¹⁸ <https://www.cyberdaily.au/security/11575-inside-funksec-the-self-taught-hackers-supported-by-ai-code>

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