

Survey with Enterprise Europe Network on Cybersecurity

Background

Cybersecurity is becoming increasingly important for companies – irrespective of size, sector or geographic location. Cybersecurity companies face many challenges to develop their businesses and access to finance is one such barrier.

Agencia Vasca De Desarrollo Empresarial, Basque Region, Spain, requested the European Investment Advisory Hub, a joint advisory initiative of the European Investment Bank (EIB) Group and the European Commission, to undertake a market assessment study to evaluate the need for, potential design options to implement a pan-European investment platform dedicated to the Cybersecurity Market. The study was conducted in association with the European Cyber Security Organisation. The announcement of the commencement of the market study was confirmed in a [press release](#).

The dedicated investment platform could enable more cybersecurity companies to scale up, stay in Europe and compete in the global market. This initiative could also include collaboration with different digital and innovation hubs to provide technical assistance and support to companies.

The data collection for the market study included a survey of cybersecurity companies, organised in conjunction with the Enterprise Europe Network, to get insights from sector specific companies (see annexed questionnaire). The survey targeting companies that are actively engaged in the cyber-security market (micro-businesses, SMEs, mid-caps and large companies). It aimed to explore the need, and potential options, for an investment platform to support the growth of small and medium-sized cybersecurity companies. The questionnaire also looked at ways to encourage additional private investment by providing access to, and simplifying, information about the European Union's cybersecurity market and the possibilities of creating dedicated technical assistance support programmes for investors and companies.

Short summary of the survey

Company information (size and country of origin)

138 replies have been received during the six weeks period of time the EU survey on cybersecurity was open for responses. Among the respondents, 46.4% of respondents (64) were micro enterprises (less than 9 employees, including self-employed people), 33.3% (46) were small enterprises (10-49 employees), 15.9% were medium enterprises (50-249 employees), and 4.3% (6) were mid-caps and larger enterprises (250+ employees).

Among the 138 respondents, 84 self-classified as a cybersecurity company (i.e. a company that develops or provides cybersecurity solutions or products). 48.8% (41) of these were micro enterprises, 33.3% (28) were small enterprises, 14.3% (12) were medium enterprises, and 3.6% (3) were mid-caps and larger enterprises. For reasons of relevance and scope of the ECIP, only responses from cybersecurity companies were analysed.

Respondents came from across the EU. The country with the highest number of responses was Spain (23 responses, of which 19 from cybersecurity companies), whereas the countries with the lowest number of responses were Belgium, Romania, Slovakia,

Estonia, and Lithuania (1 response each). No responses were recorded from Sweden, Latvia, Denmark, Luxembourg, Ireland, and Bulgaria.

1. Most relevant factors for the scale up and growth of the company

Respondents were asked to rate the relevance of a series of growth factors from “Not relevant at all” to “very relevant”.

The availability of debt financing was reported as relevant or very relevant by 31 respondents out of 84 (36.9%), whereas it was pointed as not relevant by 24 respondents (28.6%). Equity financing was relevant for 38 respondents (45.2%), and not relevant for 20 (23.8%). Technical assistance was relevant for 45 respondents (53.6%), whereas only 15 reported it as not relevant (17.9%). The availability of skilled workers was the most relevant factor for cybersecurity respondents, with 75 (89.3%) of them selecting it as either relevant or very relevant, with only 6 (7.1%) of them classifying it as lowly relevant or not relevant.

2. Main growth barriers for cybersecurity companies in Europe

In addition to the growth factors, companies were asked to rate from “Not relevant at all” to “very relevant” a series of barriers that hinder the growth of cybersecurity companies in Europe. These barriers were lack of debt financing, lack of equity financing, fragmentation of the European market, fragmentation of the EU financing landscape, insufficient awareness of how to get access to appropriate finance, availability of qualified workforce, and uncertainty of the legislative framework. Although it might seem that the two questions are overlapping, they were kept separate as companies might not struggle with one given factor, but still recognise it as key for their growth (e.g. one company might not struggle hiring qualified employees, but recognises that its growth is heavily influenced by them).

For debt and equity financing, as well as for the availability of qualified workforce, respondents were very similar to the previous question on the growth factors, with equity financing scoring a bit higher than in the previous question (44, 52.4%, respondents found the lack of equity financing as a very relevant or relevant barriers for their growth). This showed consistency among responses.

The fragmentation of the EU market and of the financing landscape were defined as important barriers by 53 and 49 respondents, respectively (63.1% and 58.3%), thus showing the potential impact that addressing these two bottlenecks could have.

60 respondents (71.4%) reported that they have insufficient awareness on how to get adequate financing (whether it is EU schemes, national programmes, etc.), and 70 (83.3%) indicated that difficulties in finding qualified workforce limits their growth.

3. Investment needs and types of financing

Cybersecurity respondents provided heterogeneous answers when asked about their financial needs. The reported average financial need over the next 3-5 years ranged between €10,000 and €20 million per company. When considering only micro and small enterprises, the responses ranged from €10,000 to €10 million, with a median financial need of €500,000, and therefore mainly suitable for Seed and Series A financing. Medium companies reported higher financial needs, with a median need of around €3 million, with some companies stating they would need up to €15 million. These ticket amounts are in line with Series A deals, up to Series B. Finally, the only large

cybersecurity company that provided an estimation of its financial needs reported these to be around €20 million (Series C financing). Despite not providing a precise estimation of the financial needs of EU cybersecurity companies, these numbers provide an idea of the ticket sizes needed by companies.

In terms of types of financing, cybersecurity companies see equity as the source of financing that should cover the relative majority of their investment needs (on average, 41.7% of the financing mix). Own resources are the second source of financing (on average 38.3% of the financial mix), followed by bank loans (12.5%) and grants (10.0%).

Debt financing (bank loans) is not considered as a main source mainly because traditional financial institutions like commercial banks are reluctant to provide bank loans for cybersecurity projects. This is notably due to the challenge banks have to correctly assess

- the related risks (banks often do not employ cybersecurity specialists able to adequately appraise relevant projects and understand their characteristics and business potential),
- the lack of track record of the company, and
- the lack of collateral, since cybersecurity companies' main asset is intangible (e.g. the software that is being developed, which cannot be easily resold/used by the banks in case of missed repayments of the loan) or not yet existent (the start-up does not own office space, a building, or expensive machineries that can be taken by the bank in case of default of the loan).

Furthermore, the current market situation of low interest rates results in limited difficulties for those companies that are at the scale to seek debt financing. To confirm this, only 2 out of 15 medium and large cybersecurity companies, and 28 out of 69 micro and small companies that took part to the survey reported that bank financing is relevant for their growth and scale-up.

Next steps

The EIBG and the European Commission will take into considerations the findings and the inputs provided by cybersecurity companies to design the structure and functioning of a potential European Cybersecurity Investment Platform. The survey results will be particularly relevant when defining the type of services and financing that a Platform could provide to maximise the impact in the EU cybersecurity ecosystem.

Annex 1: Questionnaire: SMEs panel on Cybersecurity

1a. Please specify your company's country(ies) of business activity

Country(ies): _____

1b. Please specify your company's size:

- Micro enterprise / Self-employed (0-9 employees)
- Small enterprise (10-49 employees)
- Medium Enterprise (50-249 employees)
- Mid-cap and bigger enterprises (>250 employees)

2. Is your company active in the cybersecurity market (i.e. your company provides/develops cybersecurity products/services)?

- Yes
- No

3. Please indicate which of the following types of solution your company usually works with.

[Put a cross in the relevant cells (for the solutions that your company works with), more than one option is possible]

Type of solution	X
Detection	
Identification	
Protection	
Recovery	
Response	
Authentication	
Other	

If other, please specify

4. What are the most relevant factors for the future scale-up and growth of your company?

[Please rate the options from "very relevant" to "not relevant at all"]

- a. Availability of financial support from banks (debt financing)
- b. Availability of VC funds or other private investors (equity financing)
- c. Technical assistance / advisory support on e.g. business plan, growth strategy, availability of funding etc.
- d. Availability of staff with the right skills
- e. Other support

Other support: please specify other types of support are relevant for growth and scaling up of your company

5. What are the main growth barriers for cybersecurity companies in Europe?

[Please rate the options from “very relevant” to “not relevant at all”]

- a. Lack of access to debt financing (i.e. loans from banks)
- b. Lack of access to equity financing (i.e. from investment funds, business angels, etc.)
- c. Fragmentation of the European market (i.e. different standards and laws among Member States)
- d. Fragmentation of the EU financing landscape (i.e. small financing opportunities, often difficult to identify, and small investment tickets, unable to cover the needs, etc.)
- e. Insufficient of awareness of how to get access to appropriate finance (i.e. national funding schemes, EU level etc.)
- f. Significant challenge to source qualified skilled employees
- g. Uncertainty/unclarity of the legislative framework
- h. Insufficient know-how to enter international (non-EU) markets to source new customers
- i. Others

Others: please specify which are the other main growth barriers for cybersecurity companies in Europe

6. Is the financing for cybersecurity companies sufficient in your country/region?

- a. Yes
- b. No

If you answered no, please provide a comment to justify your response

7. What type of other local, national or EU-level non-financial support would you consider important for the growth, scale-up and expansion of cybersecurity companies in the EU? Please explain. *[open question]*

8. Please provide an estimation of your company's investment needs for cybersecurity-related activities (e.g. purchase of products/services, development of products/services, equipment, etc.) in the:

- a. Short term (1-2 years): EUR _____
- b. Medium term (3-5 years): EUR _____

9. Please specify the financing mix (percentage) for your company's investment needs for cybersecurity-related activities (e.g. purchase of products/services, development of products/services, purchase of equipment etc.) over the next 3-5 years (medium term) for each of the following options
[The total should be 100].

- a. Debt (e.g. bank loans): ___ %
- b. Equity: ___ %
- c. Grants: ___ %
- d. Own resources: ___ %
- e. Other type: ___ %

If you mentioned other type, please specify which type

10. What would be the most suitable form of support for your company?
[Please rate the options from "very relevant" to "not relevant at all"]

- a. Additional finance (debt, equity or other)
- b. Market intelligence (information on trends, legislative decisions, etc.)
- c. Technical assistance (support in the development of the business plan, etc.)
- d. Skills (support for hiring qualified workforce, upskilling of current employees, etc.)
- e. Regulatory environment and legislation (both national and EU, etc.)
- f. Others

If other forms of support are relevant to your company, please specify which ones:

11. What should be done to increase public and private investments in European cybersecurity companies? *[open question]*
