

Offering an Upgraded Platform with More Very Powerful Features, Security Awareness Training Company KnowBe4 is Positioned for Continued Growth



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CEOCFO: *Mr. Sjouwerman, we last spoke over a year ago. I understand that KnowBe4 has had some changes over the past year. What are the highlights today with what you provide?*

Mr. Sjouwerman: We simply have built out our platform with way more powerful features compared to last year. One thing is we acquired SAC, which is short for the Security Awareness Company and they had about 300 awareness training artifacts in their library which we now offer to our customers. Those would include interactive training modules but also interactive games, posters and other training materials to create a fully mature awareness training program. That is one of the big differences compared to last year. We created a new pricing level called Diamond which includes all that that material in an all-you-can-eat buffet. The other main highlight is that we have Active Directory integration so with that you can identify which users and user groups, essentially organizational units in active directory terminology and synchronize that with our platform and then just simply point and click and say I want to face these users and train those users. We have over 500 of our customers running that in production and that is a highly appreciated new feature.

CEOCFO: *Obviously security is more and more of a problem. Are companies waking up more or do you find, in general, companies are still behind the time in looking at the problem, and looking at a solution that is important at a basic level such as KnowBe4?*

Mr. Sjouwerman: You are right that most organizations are still somewhat lagging behind in mitigating the risk of social engineering. We have seen a dramatic increase in demand for our platform. We are essentially growing about 200% per year.

CEOCFO: *Are people taking advantage of the full range of what you offer?*

Mr. Sjouwerman: Most people use both training and phishing because that provides you with an effective way to manage this ongoing problem of social engineering. Rarely do they only do only phishing or they only do training. We have a few of those but since the platform is integrated it allows you to do both training and phishing and the vast majority actually use the entire platform. There are a bunch of individual in-depth kind of features that people only slowly grow into. I would say 60% to 70% of the platform is used every day and maybe 30% to 40% are advanced features that they start using over time.

CEOCFO: *Are there industries that are paying more today and have you made inroads into areas that perhaps were not as active for you in the past?*

Mr. Sjouwerman: We are fairly horizontally focused, we do not particularly focus on any vertical. However, banks and credit unions have found us. We have literally thousands of banks and credit unions so that is our number one slice of the

pie. We have just had an all-time high month in June, we added a thousand customers in this month of June alone, and lots of banks and credit unions. We have over eleven thousand customers now.

CEOCFO: Are there challenges in onboarding so many customers in a short period of time?

Mr. Sjouwerman: We know roughly the ratio of how many accounts a Customer Success Manager (CSM) can handle, which sits at around 200 or 250 max. We train and add CSMs before these kinds of waves happen so it essentially boils down to adding roughly 3 CSMs a month, when it is a really high month like June it may be 4. The process itself is fairly simple. Generally speaking, you can be up and running in less than a day, if that.

CEOCFO: Do you find that less people are falling for the phishing scams?

Mr. Sjouwerman: You nailed it. You first enlighten people that it is quite risky on the internet if you do not pay attention. When you train employees, you get them to a point where they say "Gosh I did not know it was that dangerous out there". Then they start paying attention and they start asking IT if this is phishing. People are getting more aware of cyber crime. They do need some kind of program that first does a baseline test and communicates the percentage to the whole organization. You step them through on-demand engaging, interactive online training so that they can do this anytime even during a lunch break. Last but not least, you should do frequent simulated social engineering tests and you can do that through simulated phishing but also through a phone call to the phone on their desk with a robo voice or text something to their smart phone with a link they can click on.

"Most organizations are still somewhat lagging behind in mitigating the risk of social engineering. We have seen a dramatic increase in demand for our platform. We are essentially growing about 200% per year."- Stu Sjouwerman

CEOCFO: Would you tell us about the KnowBe4 Compliance Manager?

Mr. Sjouwerman: Most organizations some way or another need to comply with at least PCI (Payment Card Industry). For example, who does not take credit cards? You must have a few hundred controls in place. Generally speaking, that is still done by homebrew code or in a spreadsheet which is notoriously error prone. We built the KnowBe4 Compliance Manager for people that need to get a better way to GET and STAY compliant. What this thing does really is you identify the control and who is responsible for that control. They upload the evidence and then they have complied with that control for that month. The product monitors if they actually have uploaded their evidence, and if not, it starts nudging. You get much better control of who does what. From an audit perspective, the auditor can just essentially login as the auditor role and do spot checks and pull down the evidence and check if they are compliant. This product allows you to do an audit at half the cost in half the time.

CEOCFO: Are there many companies you would consider competitors?

Mr. Sjouwerman: There are two different markets for this type of product. This is to some degree an arbitrary number but we have broken down the market into small and medium business which is up to a thousand seats and then there is Enterprise which is a thousand on up. This is to some degree an agreed upon number. It is somewhat arbitrary and other companies use other numbers. If you look at the small and medium side of this particular market, KnowBe4 is the only big player and we are market leader in that section. With Enterprise you wind up with the three usual suspects and the largest now is PhishMe and number two is KnowBe4 and third is Wombat. Those are the three you would want to look at if you were to create a short list.

CEOCFO: Do companies work directly with you at all times?

Mr. Sjouwerman: We have a split which is roughly 20% channel and 80% direct. We have three hundred employees now and half in sales. In many cases the rep early on in the process asks how you normally buy this kind of subscription. They ask if you go direct or through a channel. In many cases they have existing channel partners they want to work through. We help the channels sell this to their customers. I would assume over time that channel is going to get a bigger percentage of revenue.

CEOCFO: As shown on your site one of your company rules is 'do it right the first time, do it fast and have fun while you do it.' Community clearly is also coming through about your company culture. How do you maintain that as you grow?

Mr. Sjouwerman: The main thing is to be transparent and tell it like it is. We have a monthly bonus game that is based on our break-even point. Once every month my CFO tells us what our break-even is, so when we achieve this level we start everyone gets a hundred dollar bill. When we reach a milestone everyone gets another hundred dollar bill. On average

people walk out with a thousand bucks cash every month. Everyone knows exactly what the break-even is and what we need to keep the lights on. From there forward, people know if we are in the black and we are making money.

CEOCFO: *Would you tell us about Kevin Mitnick?*

Mr. Sjouwerman: Kevin is wearing the hat of our chief hacking officer. He comes up with ideas for our platform. He is not here day-to-day. He is an extremely successful keynote speaker and travels all over the world and gets a handsome fee for that. We are on the phone and we text. We see each other every quarter for board meetings. In August we go into the studio in Vegas and we tape the new demos and instruction videos that we use for the next season refresher of our training.

CEOCFO: *What surprised you throughout the whole process of bringing KnowBe4 into the mainstream?*

Mr. Sjouwerman: The good thing has been that it has been surprisingly easy. The bad part is it takes twice as long and three times more money to get where you want to be. I spent a million dollars of my own money creating a platform expecting that this was going to be a success. It is one of those classic hockey stick types of graphs but takes a while to take off. It takes a couple of years. Geoffrey Moore wrote several books but Crossing the Chasm is the best example. Crossing the Chasm notes the bell curve of a product where you have your pioneers and your early adopters, and then you have to cross this chasm into the early mainstream and many products never make it across and they drop into the chasm and lead a short afterlife and then they die.

Getting across the chasm from early adopters to early majority is an art and in this particular case, we were able to do that so we are into the mainstream early adopter stage which is great. Our best most successful strategy has been to create a great product for a surprisingly affordable price and people tell their friends. They are being our ambassadors out there and say, "You got to do this because if you do not train your users, one day or another you will have a ransomware infection." Every sixty days after someone has bought the product, I send them an email with, "Hey how are you doing?" and I ask them if they are a happy camper. Many of these people write back and say it is a great platform and that their users gave them great feedback and the Phish-prone percentage went down. This is just something that works. People tell their friends and that is very rewarding.



KnowBe4 Quarterly Revenue

