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COMPANIES: CML, CSCO, DELL, EMC, HIT, HPQ, IBM, ISLN, NTAP, ORCL, VMW



NTAP FY3Q11 Solid, Storage Outlook Strong

Sources expect the same factors fueling a robust 2011 storage market outlook — particularly virtualization projects — and a timely product refresh to fuel continued strong FY3Q11 business for NetApp.

- OTR Global's read on NTAP is positive, as in the Nov. 9 note; the read on the storage industry is positive
- Sources' 2011 overall storage sales expected up 14%–16% yy, nearly double industry estimates, driven by continued strength from virtualization projects, technology refreshes
- U.S., Asian NTAP sources' FY3Q11 average sales growth roughly in line with consensus forecast of 7% qq, with 20 of 25 sources reporting growth at or above that rate; European channel demand still significantly stronger
- New NTAP offerings well received, boosting NTAP calendar year-end momentum vs. EMC as more NTAP sources on track to exceed their goals than EMC sources (in the Dec. 16 note)
- Areas to Watch: NTAP's FlexPod virtualization collaboration with VMW and CSCO stacking up well vs. EMC's Vblocks; EMC product refresh details still unknown

EXECUTIVE SUMMARY

NetApp Inc.'s sales remain strong for channel partners, building on an active FY2Q11 to continue qq growth for FY3Q11 that is in line with consensus estimates in the U.S. and Asia, with European sources reporting much higher increases due to channel sales that are offsetting direct sales force weakness. Twenty of 25 sources who responded expect their own sales during FY3Q11 to grow at or above the consensus rate. Sources said the refreshed midrange and high-end products — in addition to the new virtualization initiative in partnership with **VMware Inc.** and **Cisco Systems Inc.** — are boosting NetApp's profile against rival **EMC Corp.** and winning deals. Meanwhile, sources across all vendors expect continued double-digit sales growth next year, nearly double industry estimates of around 8%. Virtualization projects remain a top driver, with a greater proportion of sources singling out desktop virtualization projects, as in the Nov. 11 Enterprise Server report.

KEY DATA

NetApp Sources Optimistic About Meeting to Exceeding FY3Q11 Goals

(number of sources)

	U.S.	EUROPE	ASIA	TOTAL
Exceed	4	1	1	6
Meet	9	6	3	18
Miss	1	-	1	2
OTR Comparative Index	21	14	0	15

SOURCES & BACKGROUND

45 sources comprising channel partners of NetApp, EMC and other storage vendors

UNITED STATES 23 sources representing more than \$1.6 billion in expected 2010 storage sales and \$846 million in 2010 NetApp sales; **EUROPE** 12 sources (4 each in France, the United Kingdom and Germany) representing more than \$300 million in expected 2010 storage sales and \$283 million in NetApp sales; **ASIA** 10 sources (5 each in India and Japan) representing more than \$700 million in expected 2010 storage sales and \$188 million in 2010 NetApp sales

REPEAT SOURCES 27 channel partners (16 in the United States, 4 in Europe and 7 in Asia) from OTR Global's October report, plus 11 from other OTR Global technology reports

INTERVIEWS Late November and early December

AVERAGES NetApp averages weighted according to sources' 2010 NetApp sales; overall storage growth figures weighted according to sources' 2010 overall storage revenue; global average weighted according to an industry composite

"NetApp is gaining faster because their unified storage story is stronger than EMC's."

U.S. channel partner

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NetApp: Solid Outlook for FY3Q11

Building on the positive momentum found in OTR Global's Oct. 14 report, NetApp gained traction at the end of the calendar year, spurred on by a full slate of new product releases unveiled in November. One-half of sources who responded expect to exceed FY3Q11 consensus of about 7% qq growth, and more than three-fourths said their NetApp business would meet or exceed their own expectations. A large European source said, "There has been a good outlook and good demand around NetApp, especially in November and the beginning of December." A Japanese source said, "We didn't expect this many deals to close this quarter."

U.S. sources trended in line with overall consensus, averaging 6%–8% qq growth. "I would not be surprised to hit that number or surpass it. People are spending," a U.S. source said, noting the three- to five-year life cycle for storage products has run its course for many customers who now have great incentives to buy technology that has improved significantly in capacity and functionality since their last purchases.

In Europe, NetApp's channel business continued to track well above consensus, as in OTR Global's previous reports, but sources said there has been a significant shift from direct to indirect sales in that region, and channel consolidation also temporarily skewed some sources' figures artificially high. A large European reseller said, "NetApp's channel business is doing great, but its direct sales have fallen off a cliff. They haven't recovered since the recession started, so the channel is filling the black hole that is fallen direct sales." Asian sources' sales grew 5%–7% qq, also roughly in line with consensus, but Japanese results were more mixed while Indian sources were positive.

Most sources also expect their FY4Q11 NetApp business to grow in line with or above current consensus estimates of 7.8% qq growth. A U.S. source said, "Our NetApp business is growing, and that [growth rate] is what we want."

"NetApp's channel business is doing great, but its direct sales have fallen off a cliff. They haven't recovered since the recession started, so the channel is filling the black hole that is fallen direct sales."

Large European reseller

Good Start for New Products

Feedback was positive for the series of new products NetApp released Nov. 9 for its mid-range and high-end customers. These include an enhanced ONTAP 8 operating system, new FAS 3200 and FAS 6200 storage models and new bundled pricing for more software components. Key to the product launch was FlexPod, a server-network-storage solution for data centers. This effectively rebundles its current Cisco- and VMware-compatible offerings with its FAS 3200 solution, and is aimed squarely at taking on EMC's Vblock data center range of Cisco/VMware products.

Several sources said the products already were gaining traction, and slightly less than one-half of sources expect them to have a positive impact on sales during FY3Q11 or FY4Q11. A U.S. source said, "I'm kind of surprised how much of the 3200 and 6200 stuff we are selling since it was only announced on Nov. 9. We have probably closed five or six FAS 6280s, and 10 or 15 FAS 3200 series in the past month." Greater momentum was expected during FY4Q11 once all the products were fully available, with one U.S. source saying, "I think you can order today, but it is not all available; the 3200 models are shipping this year, but the 6200 are all next year."

Expected impact on FY2H11 sales from NetApp's new product cycle

	U.S.	EUROPE	ASIA	TOTAL
Significantly positive	3	-	-	3
Positive	2	5	2	9
Neutral	9	3	3	15

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Sources also said the FlexPod combination would be a plus in the crucial virtualization sector. “Instead of having to look at separate networking, storage and virtualization solutions, customers can now look at all of those together; 90% of customers have Cisco somewhere in the organization and this just ties it all together,” a European source said. In contrast, sources were less favorable toward EMC’s Vblock (a similar collaboration with VMware and Cisco released last year), saying customers had complained about Vblock’s lack of scalability and integration (see OTR Global’s [Dec. 16 note](#)). Two large U.K. sources said customers were actively turning away from EMC because of Vblock. “I recently won a deal against EMC with NetApp’s solution as the customer was not impressed with EMC. He originally wanted EMC, but when he looked deeper, he saw that it would not integrate with his existing infrastructure,” one said.

NetApp Metrics Trending Better than EMC

Overall, NetApp sources were more optimistic about their prospects for the current quarter than EMC sources, as in the Dec. 16 note. One-half of repeat sources from the previous report raised their estimates for FY3Q11 growth, while almost one-half of repeat EMC sources decreased their forecasts. “New NetApp announcements position them better than EMC, performance-wise,” a U.S. source said. Another said, “NetApp is gaining faster because their unified storage story is stronger than EMC’s.” The horse race aspect of the competition was evident in the data, with the two companies nearly tied for mentions when sources were asked which vendors were gaining, maintaining and losing momentum. However, as sources noted in the Dec. 16 note, strength in EMC’s high-end VMAX and Data Domain deduplication products has offset the company’s weakness in the Clariion segment.

“New NetApp announcements position them better than EMC, performance-wise.”

U.S. source

Difference between sources’ current quarter estimates and prior estimates*

	EMC (4Q10)	NTAP (FY3Q11)
Increased	3	6
Same	4	2
Decreased	6	4
OTR Comparative Index	-23	17

*Not all sources had prior estimates. In the Dec. 16 note, sources said the impact from EMC’s May midrange product refresh has diminished, and sources’ 4Q10 EMC sales finish would be down to the wire as channel partners and customers await an expected January EMC midrange product overhaul. Those product transition concerns resulted in sources giving NetApp a slight lead compared with its rival, because of its more recent and significant product introduction.

2011 Storage Well Ahead of 2010

Regardless of the vendors with which sources are seeing success, sources expect their 2011 storage sales to grow faster than current industry estimates of a 6%-8% yy increase, growing an average 14%-16% yy, with Europe the strongest and Asia the weakest but still expected to exceed industry estimates. “We plan to grow significantly faster than that with around 30% of growth planned globally,” a European source said. A U.S. source said, “It will be another great year next year. Just the raw growth of data is pushing so many things that are now old.” Another U.S. source, who did not have a great 2010, said, “We’ll be up at least 15%. I see the economy starting to come back next year.”

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Sources' 2011 external storage business growth vs. industry estimates of 6%–8% yy

	U.S.	EUROPE	ASIA	TOTAL
Significantly more	9	3	-	12
More	8	3	3	14
Same	4	1	4	9
Less	1	1	-	2
OTR Comparative Index	73	63	43	65

Virtualization Still Strongest Driver

As in OTR Global's [Oct. 14 report](#), server and desktop virtualization continue to be the primary drivers of storage projects, and virtualization projects are expected to remain that way in 2011. "The continual move toward virtualized environments drives our storage business. You then get even more storage sales when people start moving to or even looking at desktop as the storage needs increase even more," a U.S. source said. Virtualization also will be a 2011 driver of server sales, as noted in the [Nov. 11](#) Enterprise Servers report. Sources in that report also expected server growth to be ahead of industry estimates, partly driven by an expected rise in desktop virtualization projects.

Most other drivers were mentioned at similar rates as in the October report, although cloud computing jumped from a handful of mentions to one-fourth mentioning it this time. Some sources are developing separate practices around private cloud offerings, while others described the trend as a threat. EMC last week unveiled Atmos Cloud Delivery Platform, a new "do it yourself" cloud platform designed for carriers and ISPs.

Sources continue to point to budgets and financial concerns as sales inhibitors. Budget-tightening by customers continues to create longer sales cycles and more scrutiny of ROI and other cost-benefit analyses. A European source said, "While the general idea of a recession seems to have passed, we are finding a lot of companies are incredibly cost-conscious and it has taught them to be more cautious with their money."

Storage Specialists Lead Sector

One very large U.S. source said the strongest trend is a shift from non-storage-specialist vendors toward EMC and NetApp, though his NetApp business continues to grow more rapidly. That observation is consistent with sources ranking EMC, NetApp and **Hitachi Ltd.** best on the gaining/maintaining/losing spectrum, while **Hewlett-Packard Co.** and **IBM Corp.** ranked lower. "The shifts are more to EMC and NetApp," another U.S. source said. Another said, "I haven't heard as much about IBM as I did a few months ago. A while back, they were winning every storage deal." An Asian source said, "HP server sales have slowed down and taken storage sales down with them." As in OTR Global's previous notes, **Oracle Corp./Sun** is considered nearly dead in the storage channel as Oracle continues to leave the largest Sun partners intact but take the rest of that business direct.

Small vendors with differentiated technology tend to perform best. Three of five sources who mentioned **Compellent Technologies Inc.** said it was gaining share. A U.S. source said, "Compellent's fibre channel virtualization story is a very compelling one, with the right price. I see Compellent as more than a one-trick pony, unlike some other Tier 2 and Tier 3 vendors, but they're not at an EMC or NetApp level yet." (These comments were made before **Dell Inc.**'s announcement that it would buy Compellent.)

CUSTOMERS: SHOW ME THE SAVINGS

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Isilon Systems Inc. also previously garnered positive mentions for its differentiated scale-out NAS technology before the announcement in November that EMC would buy the smaller vendor. As in OTR's Oct. 14 report, Isilon was described only in terms of momentum gains, with no source saying it was maintaining or losing momentum. Most sources expressed approval of the deal and felt it will give EMC a competitive advantage. "I know of some biotech/pharmaceutical companies where EMC can now play [with Isilon]. EMC will now be the leader in the scale-out NAS space. NetApp doesn't have an answer there," a U.S. source said. An Asian source said, "I see good synergy in the high-performance computing, parallel computing space with Isilon products. Segments like research, education, defense, media and entertainment, and R&D will open up with the Isilon product suite."

ISILON

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OTR

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UNITED STATES

“Our Data Domain business is taking off. It’s doing better than our core EMC business right now.”

“We’ve been on a rocket ship this year and fully expect it to stay that way.”

“Virtualization and consolidation are the big ones, thanks to government mandates that not only aim to decrease spending on hardware but also cut energy and facility costs and so forth.”

“We’ve been really busy the past 60 days; it’s been crazy — I’ve never seen anything like this. There’s definitely a Q4 budget flush happening.”

“We have some deals where we’re replacing EqualLogic with NetApp or EMC. Customers are moving away from iSCSI.”

“NetApp is not a solution set; it’s a disk company — that’s why they’re successful. Their model is more collegial than command/control.”

“EMC is gaining in enterprise SAN; NetApp is gaining in commercial.”

“HP is stumbling because their platform isn’t strong — it’s not well integrated and seems to be all over the place with [its] EVA, 3Par and LeftHand.”

“I’m kind of surprised how much of the NetApp 3200 and 6200 stuff we are selling since it was only announced on Nov. 9.”

“I think EMC is weak and vulnerable right now. If I look at their business, without Data Domain, without VMware, I don’t think business is as healthy as they’d like.”

“We have some large NetApp deals in the pipeline that weren’t there before, so FY3Q11 could be bigger for us than we had originally projected.”

“NetApp gets a lot of business when people get fed up with high-priced EMC.”

“NetApp and VMware are still approaching and winning virtualization business well together.”

“We are pushing NetApp heavily and using it to replace lost Oracle business. Overall, I say the storage play these days is in NetApp’s hands, unless you need some really big systems with cache like Hitachi — otherwise, it is NetApp’s game.”

“Average deployment time for a Vblock is eight weeks. I can get a FlexPod running in a few days.”

“NetApp and VMware are still approaching and winning virtualization business well together. I have been hearing from large VARs about a lot of NetApp wins and take outs of other stuff, like EMC and lost Oracle business.”

“Now we’re seeing upgrades and bolt-ons from the customers we originally sold to. That’s how you build a storage business.”

EUROPE

“Consolidation remains our traditional driver next year, but backup and disaster recovery are gaining more and more importance. Both are basically connected with virtualization, that’s understood.”

“We predict our storage sales to be significantly more in 2011. We are inundated with business, and our NetApp business alone is growing at 34% year to year.”

“I hope EMC treats Isilon as they did VMware, because if they do, then they will clean up. It responds well to the low-end market and plugs the holes that EMC has at that end.”

“We’re creating a lot of opportunities around system integrators; that is a large untapped market for NetApp.”

“It is an even mix of old and new. If we look at the midmarket that is new clients to NetApp but higher up, we see more existing — it evens out, though. Most of the new clients are in the mid-size, that’s one to 1,000 users.”

“The sub-\$30,000 bracket is doing especially well. With the FAS 2000 range, we are beating Dell/EqualLogic, EMC, HP/3Par. It is like getting a Rolls Royce for the price of a Jaguar. It has all the support, services and architecture, etc., but at a really low price.”

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ASIA

“The significant driver for overall storage business in 2011 would be an increase in the spending from the government sector.”

“Every CIO out there is keen on reducing his effort in maintaining the data, and storage offers one solution to all his pains.”

“The purchase gives EMC access to Isilon’s existing customer base in oil, gas and media firms.”

“With cloud computing on everyone’s radar, NetApp’s alliance with Cisco and VMware is working well for them.”

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1. Do you expect your NetApp business during FY3Q11 to increase, decrease or remain the same qq?

	U.S.	EUROPE	ASIA	TOTAL
Up 31%–40%:	-	1	-	1
Up 16%–20%:	-	1	-	1
Up 11%–15%:	1	-	1	2
Up 6%–10%:	8*	4	2	14
Up 1%–5%:	1	-	-	1
Up:	1	-	-	1
Flat:	2	-	1	3
Down:	-	-	1	1
Don't know:	1	3	-	4
Weighted average:	Up 6%–8%	Not averaged	Up 5%–7%	Not averaged

* One distributor source excluded to avoid double counting

2. Will your NetApp business during FY3Q11 exceed, meet or miss your expectations?

Exceed:	4	1	1	6
Meet:	9	6	3	18
Miss:	1	-	1	2
Not applicable:	-	2	-	2
OTR Index	25	14	0	15
October Index	18	30	20	23
July Index	36	22	-40	18

3. How will your NetApp FY3Q11 (November-January) sales compare with the consensus growth rate of 6.7% qq?

Significantly more:	-	2	-	2
More:	6	2	2	10
The same:	5	2	1	8
Less:	2	1	2	5
Don't know:	1	2	-	2
OTR Comparative Index	36	10	0	19
October Index:	11	71	0	29

4. NTAP: If source gave FY3Q11 estimate in last report, how has the number changed?

Significantly increased:	-	1	-	1
Increased:	2	1	2	5
No change:	1	-	1	2
Decreased:	1	-	2	3
Not applicable:	10	7	-	16
OTR Comparative Index:	44	71	50	56

5. What impact will NetApp's new product cycle have on your NetApp business during FY3Q11 and FY4Q11?

Significantly positive:	3	-	-	3
Positive:	2	5	2	9
Neutral:	9	3	3	15
Don't know:	-	1	-	1

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6. How will your NetApp FY4Q11 sales (February-April) compare with the current consensus growth rate of 7.8% qq?

	U.S.	EUROPE	ASIA	TOTAL
More:	4	4	-	8
Same:	3	4	5	12
Less:	2	-	-	2
Significantly less:	1	-	-	1
Don't know:	3	-	-	3
No response:	1	1	-	2
OTR Comparative Index:	20	50	0	22

Overall Storage

7. Do you expect your overall 2011 storage business to increase, decrease or remain the same yy?

	U.S.	EUROPE	ASIA	TOTAL
Up 31%–40%:	1	1*	-	2
Up 26%–30%:	-	2*	-	2
Up 21%–25%:	2	-	-	2
Up 16%–20%:	1	-	-	1
Up 11%–15%:	13	1	2	16
Up 6%–10%:	4	2*	5	11
Up 1%–5%:	1*	1*	-	2
Up:	-	1	-	1
Weighted average:	Up 14%–16%	Up 18%–20%	Up 11%–13%	Up 14%–16%

* Answer from one source excluded due to lack of weighting

8. How do you expect your own external storage business growth to compare with industry estimates of 6%–8% during 2011 yy?

	U.S.	EUROPE	ASIA	TOTAL
Significantly more:	9	3	-	12
More:	8	3	3	14
The same:	4	1	4	9
Less:	1	1	-	2
Total:	22	8	7	37
OTR Comparative Index:	73	63	43	65

9a. What do you expect to be the most significant drivers for your overall storage business during 2011? (Some sources gave more than one answer.)

	U.S.	EUROPE	ASIA	TOTAL
Server & desktop virtualization:	11	3	1	15
Upgrading to newer technology:	10	-	1	11
Backup and data recovery:	3	3	3	9
Cloud computing:	3	2	4	9
Consolidation projects:	4	1	3	8
Expanding capacity :	6	-	1	7
DR (disaster recovery):	4	2	1	7
Desktop Virtualization:	5	-	-	5
Deduplication:	2	-	1	3
Server Virtualization:	2	-	1	3
Budgets opening:	-	-	2	2
Compliance:	1	-	1	2
Year-end budget flush:	1	-	1	2
Storage efficiency:	-	2	-	2
Other:	2	3	-	5

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9b. What do you expect to be the most significant inhibitors for your overall storage business during 2011? (Some sources gave more than one answer.)

	U.S.	EUROPE	ASIA	TOTAL
Budgets or financial concerns:	9	2	4	15
Nothing:	8	4	1	13
Broader economic issues:	1	1	3	5
Competition:	3	1	-	4
Other:	5	-	-	5
No response:	1	-	-	1

10. What storage companies are gaining, maintaining or losing momentum? (Some sources gave more than one answer.)

GAINING

NetApp:	13	4	4	21
EMC:	11	2	7	20
Hitachi:	6	1	-	7
Hewlett-Packard:	2	-	2	4
IBM:	1	1	2	4
Isilon:	1	1	1	3
Compellent:	3	-	-	3
Other:	2	1	-	3
None:	-	1	-	1

MAINTAINING

EMC:	8	3	-	11
NetApp:	4	2	2	8
Hitachi:	3	-	3	6
Hewlett-Packard:	4	-	2	6
IBM:	3	-	1	4
Dell:	2	-	1	3
EqualLogic:	1	-	1	2
Other:	2	3	-	5
None:	2	-	-	2

LOSING

Hewlett-Packard:	4	2	-	6
Oracle/Sun:	2	-	4	6
IBM:	4	-	-	4
Hitachi:	1	1	2	4
EMC:	1	1	-	2
NetApp:	2	-	-	2
Other:	3	-	-	3
None:	2	2	1	5

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