

Virtual Instruments rounds out products as it remains on track for IPO

Analysts: Henry Baltazar & Simon Robinson

Virtual Instruments, the three-year-old management specialist that was spun off from **Finisar**, says it remains on track for an IPO in the medium term. Fifteen months after the appointment of former **Symantec** CEO John Thompson, the company says it is starting to fire on all cylinders as it builds out a global sales, marketing and support organization. Also expected to help is a new SAN Performance Probe, its first to support 8Gb fiber channel and the first monitoring device that was designed entirely by the VI team since the spinoff, as well as a new version of its core VirtualWisdom software.

The 451 Take

Virtual Instruments is sticking to its guns when it comes to its messaging and go-to-market strategy – it continues to believe it can grow a healthy business at the high-end of the storage spectrum. VI's fiber channel SAN-centric tools are only for those with larger wallets, yet the company claims that the cost benefits it can provide to businesses that rely on their applications being available all of the time (such as e-commerce and trading systems) are incalculable. VI's ability to rope-in top tier storage partners – in particular HDS – is a major factor in its growth to date, although continued success may be contingent on its ability to forge partnerships with other major storage vendors, which may not be so easy. VI's latest updates continue to build on its management capabilities, and the 8Gb FC support, in particular, is a critical new addition. It still lacks more sophisticated capabilities, such as predictive analytics, although VI continues to invest in building out its feature set. So far, the company seems well-placed to achieve the public listing that CEO Thompson desires.

Context

In the three years since being spun off of optical specialist **Finisar**, Virtual Instruments has invested significantly to change its business model and approach from that of an OEM-centric and engineering-focused supplier into one that can sell to and support large enterprise customers. That is easier said than done, since it has essentially had to change the way it packages and sells everything it does, to the extent that it claims what VI now offers 'looks nothing like' the original **Finisar** business.

This effort has required investment – VI took in \$22m in new money, led by **Lightspeed Venture Partners** and **Next World Capital** in 2010, adding to the initial \$10m it raised from investors **Riverwood Capital** and Jim Davidson, co-CEO of **Silver Lake**. It's not planning to raise any more funding before a liquidity event, unless an acquisition opportunity arises, although this is not something it's actively looking for. VI recently appointed

Symantec's former VP of finance and accounting, George Harrington, as CFO; like Thompson, he was persuaded to come out of retirement to join the firm. Total headcount currently stands at 130, and this should continue to grow.

Business model

VI says it now has around 100 customers, most of which can be classed as large enterprises, and all of which run high-transaction-rate systems supported by a SAN that cannot tolerate downtime. This compares to around 35 'real' customers that VI had at the time of the carve-out. It's currently adding six to eight accounts per quarter, with an ASP of \$500,000, although it notes some multimillion-dollar deals.

VI notes a substantial uptick in business in its most recent quarter, during which it says gross bookings were more than the company had achieved in total before then. Overall, sales in its financial year to June were up 200% on FY 2010. Much of this is because VI's direct sales teams are now starting to get up-to-speed; it notes 18 sales teams worldwide today – including five in Europe – with a plan to have 28 in place by year-end. VI is also getting help from some storage partners; its reseller relationship with **Hitachi Data Systems** (HDS), in particular, is worth highlighting, since this has driven one-quarter of its sales. VI also has a reseller relationship with **Dell**, and is hopeful of cultivating one with **Hewlett-Packard** for its **3PAR** products. It has had no luck so far with **EMC** and **IBM**, but it remains positive on the latter.

Strategy

VI has no plans to lower the pricing of its products or attack the lower end of the market. Although it could extend its market reach by adding support for additional IP-based storage protocols, such as NAS and iSCSI, VI feels that it has barely tapped into a \$1.6-1.8bn total addressable market (TAM), and currently has a two-to-three-year technology lead over its closest rival. In this light, it believes adding IP support now would be a distraction, in addition to opening it up to a wider set of competitors.

On the hardware front, VI's new in-house-designed SAN Performance Probe replaces its older units, which were inherited from Finisar and were designed and manufactured by **JDS Uniphase**. VI says it will be able to reap significantly higher margins from the new Probe now that it does not have to pay royalties to JDS Uniphase (also taking into account that there is no reduction in price for the \$50,000 unit). The vendor believes it does not have any significant rivals on the horizon, and is not inclined to drop prices except for large volume discounts for big customers in the seven-figure range. All of VI's deals come bundled with professional services, which makes sense, given that it caters to customers with latency-sensitive environments.

VI claims that two-thirds of its customers deploy both its hardware and software products together, while one-third deploys the VirtualWisdom software only, which has a lower entry price of \$25,000. The vendor claims one-third of its customers with both hardware and software initially started out as software-only customers. Services has been a good entry point for VI, with one-third of its customers adopting its products after a VI SAN assessment or an emergency troubleshooting engagement.

Products

VI's new VirtualWisdom 3.0 software update adds 25 new metrics and enhances 30 of the older ones, and includes monitoring for buffer-to-buffer credits and virtual fabric frames. It has added automated fabric discovery and a port topology navigation-and-search tool to improve ease of use. Meanwhile, the new SAN Performance Probe hardware adds support for 8Gbps fiber channel and, like its predecessor, captures SAN traffic through Traffic Access Ports (TAPs), which are installed in patch panels and sit between storage arrays and fiber channel switches/directors. VI believes 8Gbps fiber channel support is a crucial addition and expands its market fourfold, especially since 8Gbps fiber channel now ships as standard with new switches, HBAs and arrays. The probe has the ability to simultaneously monitor eight SAN links, and VI is looking to add support for 16Gbps fiber channel and FCoE (fiber channel over Ethernet) in the future. The new unit adds redundant hot-swap power supplies, redundant fans and remote monitoring.

Competition

In a nutshell, VI claims its key differentiation against all other storage monitoring tools is its ability to provide a real-time view of what is happening in a SAN environment. While other management tools can provide snapshots of an incident as it occurs, VI's ability to capture SAN traffic in-band provides a more complete view of what is happening – akin to having a high-definition video recording of an incident instead of incremental snapshots. VI claims this level of granularity allows its tools to locate anomalies at the millisecond level, allowing its customers and service professionals to see problems as they occur and quickly remediate them before issues can create downtime or an unacceptable amount of latency. Besides configuration errors, such as under-provisioning of storage and incorrect multi-pathing settings, the vendor also claims its in-band tools can help find physical problems, such as failed or underperforming cables and optics, and points out that intermittent failures and degradations are far more difficult to locate and diagnose compared with a basic outage.

The major players in the SAN monitoring and management space continue to be the array vendors, such as EMC and **NetApp** (the latter of which acquired **Onaro** and **Akorri Networks** to fill out its lineup). Although it competes for budget against these rivals, VI claims it is often deployed side-by-side with other management tools, to help customers diagnose and fix problems after they get flagged by existing SRM (storage resource management) and monitoring tools. Large server and storage vendors, such as Dell, IBM and Hewlett-Packard, and SAN director players, such as **Cisco** and **Brocade**, could also be potential partners for VI, although these companies also have SAN management tools in the portfolios, as well.

SWOT analysis

Strengths

VI has an established management team and professional services veterans to help it drive and close large deals, which have helped it to foster partnerships with vendors such as HDS. Its products provide a high level of granularity through its TAPs and SAN Performance Probe hardware.

Weaknesses

Although the company has closed large deals, it has not closed many of them. VI is still not a widely known vendor, and its starting price and lack of iSCSI and NAS support may restrict its sales potential beyond the upper echelon.

Opportunities

Virtualization is creating a new set of performance bottlenecks, which could open up opportunities for VI. The vendor claims its products now have a TAM of over one billion dollars.

Threats

Customers tend to purchase storage management and monitoring tools from their array vendors, many of which are loath to share revenue and access to high-end customers, although VI claims vendors are becoming more interested in becoming partners now.

Reproduced by permission of The 451 Group; copyright 2010-11. This report was originally published within The 451 Group's Market Insight Service.

For additional information on The 451 Group or to apply for trial access, go to:
www.the451group.com