

Netezza more than weathers economic storm, illuminates warehouse business, key partners

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Sector: Enterprise Software

Netezza recently reported its third-quarter results for fiscal 2009, which saw a doubling in sales over the equivalent quarter of the previous year. Revenue also more than doubled for the three quarters leading to October 31. **EMC** and **Actuate** emerged as two key partners. One fruit of Netezza's OEM deal with EMC – shipment of EMC storage arrays in Netezza Performance Server (NPS) warehouse appliances – appeared in its third quarter; there are also other developments underway. Deliverables from an OEM deal with Actuate, under which the enterprise business-intelligence stalwart will bring to market an all-in-one BI and warehouse combo drawing on NPS, are due next year. Also, expect a new release of Netezza's warehouse software in the coming months and more applications and toolkits out of the Netezza Developer Network (NDN).

The 451 Take

So far, Netezza isn't experiencing any detrimental effects to its business as the recession continues to grip the economy, although whether that situation continues next year clearly remains to be seen. For now though, it is flourishing in the wake of an increasingly competitive environment where two main rivals – Oracle and Teradata – have recently upped the ante in the data-warehouse appliance fray, and another – IBM – continues to gun hard.

Context

Netezza's recent third-quarter fiscal 2009 numbers show a 51% jump in revenue over the equivalent period a year ago to \$50.6m, and net income is also up at \$3.5m compared to \$1.6m in the three months ending October 31, 2007. Sales for the nine-month period ending October 31 also more than doubled when compared to the equivalent period from a year ago, rising 57% to \$137.2m on a net income of \$8.7m. During the same nine months in fiscal 2008, the company posted a \$1.4m loss. The company has also raised fiscal 2009 revenue guidance to \$187m from \$182m, although that implies its fiscal fourth quarter will be flat with its third quarter.

The data warehouse now reportedly has over 200 customers, up from about 109 in September 2007 when it first set out its analytic-appliance strategy (see below). We're told performance and compression advancements in the last major release of its warehouse software, delivered mid-2008, have not only enabled it to add new accounts, but have led existing customers to come back and buy more in order to move beyond a departmental data mart or project-specific warehouse to more of an enterprise data-warehouse deployment. In the third quarter of fiscal 2009, 68% of sales came from its installed base versus 48% a year ago. In terms of industries, analytical services providers such as **The Nielsen Company**, as well as telcos and retailers, made up 72% of its business in the third quarter with financial services

contributing 10% of revenue. In general we're told retail, telecommunications and financial services remain very strong for it, and healthcare and pharmaceutical are shaping up as good vertical markets too.

Although much of Netezza's nondomestic revenue in Asia and Europe is generated by resellers, the company has been expanding its geographic reach through direct channels. This year, offices in France and Germany were opened to join an existing office in the UK. The company has also set up a sales office in India and an operation in South Korea. Headcount stood at 376 employees at the end of the third quarter. That said, geographic expansion has yet to hit its top line: 82% of its business was from the US and 18% from other geographies for the nine months to October 31, 2008. Although the game plan is to continue to expand its international footprint, the expectation is that domestic versus international business will stay in the range of an 80/20 split for the next few quarters.

Partners

EMC is one of Netezza's notable newer partners. Netezza announced an OEM relationship with the storage giant in May in order to use its Clariion AX4 network-storage array inside NPS. NPS systems with the EMC storage array inside began shipping at the end of its third quarter, replacing storage from **Hewlett-Packard**. Netezza is also developing reference architectures with EMC that draw on both vendors' wares for business continuity, for example. EMC is also reportedly positioning NPS systems for disaster recovery and archival projects for its own long-time customers.

Actuate is one of the latest partners on Netezza's BI roster. We're told the Netezza relationship with Actuate involves a sealed OEM agreement so that Actuate can go to market leveraging NPS in order to provide an all-in-one offering for data warehousing and BI.

Strategy

We're told that NDN, which was set up to create in-database analytics inside NPS systems as part of its analytic-appliance strategy, remains a key growing part of its business. Although Netezza's mainstream business is in selling critical, strategic and tactical warehouse appliances in the shape of NPS boxes, developing toolkits for functional packages, which are licensed to NDN partners so they can build their own applications, is an essential tenant of NDN. Netezza isn't trying to get into the analytic applications business, but instead continues to foster an ecosystem for in-database analytics inside NPS, which is also designed to make analytics run faster too.

Netezza's two tactical purchases to advance in-database analytics – it bought **NuTech Solutions** in May and technology developed by NDN member **Intelligent Integration Systems** (IISi) in August – are reportedly progressing well. Although Netezza and NuTech's relationship was originally more of a consultative one, NuTech had been developing learning algorithms at its development offices in Warsaw, Poland, and Dortmund, Germany. Management reports that Netezza is continuing with the consulting relationships, but is also now looking at ways to bring some of the NuTech algorithms inside NPS as part of a strategy to offer advanced functionality. We're told the technology bought from IISi is part of an ongoing push to create new and novel applications for NPS. The acquired IISi wares

mainly take the form of spatial analytic capabilities, now known as Netezza Spatial, designed to provide so-called location intelligence in its data-warehousing environment by enabling querying of both nonspatial and spatial data.

Competition

Despite the mushrooming of vendors in the warehouse sector over the past couple of years, we're told **Oracle**, **Teradata** and **IBM** remain the vendors Netezza continues to encounter most frequently.

Oracle's big data-warehouse appliance move to deliver the HP Oracle Database Machine and Exadata Storage Server, co-developed by HP in September, has reportedly been a boon to Netezza's business. Management contends that Oracle's first formal entrance into the warehouse-appliance fray, having delivered reference architectures with HP, IBM and **Dell/EMC** for some three years, validates the sector. We're also told Oracle's move has generated many sales inquiries for Netezza and that it hasn't competed with the Oracle/HP offering so far in deals. We think it will at some point down the line. Oracle has had geospatial capabilities for some time, and we have suggested in the past that the move to buy similar functionality from IISi was partly enacted to make Netezza more competitive with this long-time archrival.

Teradata has made a flurry of data-warehouse appliance announcements in 2008 in a bid to up its game. The enterprise warehouse veteran only really moved into the warehouse-appliance fray this year, and it is arguably still finding its feet. That said, we believe it is more competitive with Netezza than at this time last year. Like Netezza, Teradata is also making in-database analytic moves with **SAS Institute**, which is also a NDN member. **Sybase** was the other major incumbent to make its first warehouse-appliance play this year. IBM continues to push hard into the warehouse and data-warehouse appliance space, leveraging acquired BI capabilities from **Cognos**, for example, in its InfoSphere Balanced Warehouse appliance line.

When it comes to the newer market entrants, we're told competition from **Greenplum** has tailed off quite a bit in the last two quarters. Greenplum is another data warehouse to have made an in-database analytic move. Although we're told it continues to track many of the new breed of data warehouse, including **Dataupia**, **Paracel**, **KickFire** and **Aster Data Systems**, Netezza hasn't reportedly seen any of them in head-to-head competition so far.

Microsoft is arguably going to be the next major vendor to shake up the sector when fruits of Project Madison, which incorporates warehouse software from its summertime acquisition of data-warehouse startup **Datallegro**, appear. But that's not likely to happen until the tail end of 2009, or given Microsoft's tardy release schedules, possibly 2010.

Strengths	Weaknesses
Netezza has been exhibiting impressive growth and profitability in the face of an increasingly turbulent economic climate.	Although geographic expansion continues, Netezza is still mainly a US data warehouse and isn't generating that much revenue from elsewhere.
Opportunities	Threats
In-database analytics is clearly a growing area, which should make NPS more applicable and give it broader appeal. OEM deals also continue to be a good avenue to pursue.	Oracle and Teradata, we believe, are now more potent rivals than last year as a result of data-warehouse appliance moves, and the sector in general has gotten more crowded. Netezza may not have seen any of the younger guns yet, but we think it will in the future.

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