



## Technology: Enterprise IT Infrastructure

### Disruptive Innovation: Interview with Scott Genereux, CEO Of Nirvanix

#### THINK SUMMARY:

We had a chance to interview Scott Genereux, CEO of Nirvanix, which is a pioneer in the fast-growing market for Cloud Storage. According to Scott Genereux, the key trend that is driving Cloud Storage growth is the rapid growth of unstructured data in the enterprise and the inability of existing on-premise storage solutions such as near-line archiving and tape to satisfy the speed, cost and compliance demands of enterprises simultaneously. Nirvanix offers the most logical transition from the Enterprise Datacenter to the Enterprise Cloud, given its ability to offer all flavors of Cloud Storage - public, private or hybrid - all under a usage based pricing model, according to Genereux. With an OEM deal with IBM solidified, with bookings doubling y/y in all quarters in 2011 in the midst of a secular trend, Nirvanix appears to be hitting its stride.

#### KEY POINTS:

San Diego-based Nirvanix is a pioneer in the fast-growing Cloud Storage market. An interview with CEO Scott Genereux follows in this note.

According to Scott Genereux:

- Nirvanix reduces the cost and complexity of storage by eliminating the constant churn of data migrations.
- With cloud storage's pay-by-the-drink model Nirvanix is removing the heavy upfront costs for storage, eliminating CapEx and reducing OpEx in terms of maintenance and PS fees.
- The key trend driving the Cloud Storage market today is the rapid growth of unstructured data in the enterprise. Nearline storage is not cost effective for these burgeoning file archives, and tape storage can't satisfy compliance demands for rapid data access. If it's in the cloud, everything is tagged and indexed and can be accessed at Internet search speeds and at a compelling ROI.
- Cloud Storage transcends vertical barriers since every enterprise needs backup and archive.
- IDC estimates private cloud storage to be a \$11B market by 2014 and public cloud an additional \$7B by 2015.
- Nirvanix offers the most logical transition from the Enterprise Datacenter to the Enterprise Cloud, given its ability to offer all flavors of Cloud Storage - public, private or hybrid - all under a usage based pricing model.
- While before 2010, people were primarily doing evaluations and some early adopters were implementing, 2011 has seen a sizable uptake in enterprise level cloud storage deployments, with Nirvanix doubling its bookings every quarter in 2011.
- The recent 5-year IBM OEM deal represents another sizable opportunity to accelerate growth for Nirvanix.

#### Reason for Report:

#### Industry Update

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## **Interview with Scott Genereux, President and CEO, Nirvanix**

Scott Genereux is president and CEO at Nirvanix, a provider of enterprise-class cloud storage services. Prior to his CEO appointment in November 2010, Genereux was at QLogic where he served as senior vice president of worldwide sales and marketing. While at QLogic, Genereux expanded the company's presence in Fibre Channel and InfiniBand switching, forging successful design wins at tier-one OEMs such as Dell, EMC, HP, and IBM. Prior to QLogic, he was at DataDirect Networks (DDN), as senior vice president of worldwide sales, marketing and support. Subsequent to DDN, Genereux spent 18 years at Hitachi in strategic sales, marketing and support roles with increasing levels of responsibility.

Here are excerpts of his interview with ThinkEquity LLC:

### **Rajesh Ghai (TE): Can you explain to us the main problem that Nirvanix seeks to solve?**

**Scott Genereux (SG):** I think one of the biggest business issues that large enterprise customers are struggling with is how to manage and store data that is growing so fast and being generated at such a rapid rate that it's becoming a nightmare for the IT department. They're constantly adding capacity to their installed storage systems and tape silos so they don't run out, migrating data every 3 years or so to move from one product generation to the next, or moving data to a different vendor platform altogether when products reach end of life. And for the type of data we're talking about—large unstructured content files--customers don't want to do data migrations every three years. It's costly. There are customers out there who are paying millions of dollars a year just to move data. When you factor in people and professional services it's extremely, extremely expensive, and it doesn't add any value to the company's business at all. So how many times are you going to migrate from one tape silo to the next and how many times are you going to migrate from one storage vendor to the next? Some customers are finding that they can never catch up—data is growing at the same time they're migrating. They are doing it because the vendors are forcing them to do it. There are companies out there today that are constantly EOLing their products, forcing customers to buy the next generation box they lashed together. NetApp now is EOLing their virtual tape product. EMC's Centera is headed for an EOL. What do customers do? How do they get off it? They are forced to move the data. You don't run into that problem with the cloud. Nirvanix reduces the cost and complexity of storage by eliminating the constant churn of data migrations. We automatically and seamlessly migrate data to new infrastructure on standard refresh cycles invisibly to the customer. The customer never notices it and is never involved. The key point here is that with Nirvanix, it will be the last data migration you'll ever make, period. So I think that's a big piece of the problem we solve. On top of that with conventional storage acquisitions customers are paying for everything upfront regardless of whether they are actually using all of the capacity on day one and they always buy extra capacity so they don't run out. Of course, there are also monthly maintenance and support fees on top of that. With cloud storage's pay by the drink model we are removing the heavy upfront costs for storage and eliminating CapEx.

The cloud services pay by the drink model has become acceptable basically because you are paying for what you use, the ROI becomes extremely, extremely attractive to customers. Customers are no longer paying for RAID overhead—which could be north of 40% in a single storage system—or metadata storage. There's also the elimination of maintenance and tech refresh fees in addition to end of life concerns. As I said, Nirvanix takes care of infrastructure refreshes so there's no such thing as end of life in the cloud. And with this whole idea of being able to now obtain storage, availability and bandwidth resources on demand, there's no more waiting on purchase orders, vendor lead times, or dealing with procurement. I meet with a lot of companies and one of the things they constantly tell me is that the moment they need to buy storage in the conventional model, it could take three to four months to get through their procurement and purchase process entirely. With the cloud, that process goes away. So those are the main problem areas I would say we are addressing with our solutions.

### **TE: Can you talk about the trends that are making this possible today?**

**SG:** I think the obvious one is that business data continues to grow relentlessly. If you look at the current data growth forecasts, there will be nearly 8,000 exabytes of digital data created by 2015 and 90 percent of that is unstructured files, and that's what we're focused on. Building complex tiered storage architectures is no longer practical. With the amount of data that's being created, you cannot continue to throw bodies at it. You've got to do something differently. The massive data sizes, if you start thinking about it, with the onslaught of HD video and 3D video everywhere and photo libraries growing past the breaking point means companies have to look for new solutions to deal with new problems. The size of the data didn't exist three years ago, and I think that's the key. Companies want their IT resources available based on a model of consumption economics, and, you know, that's very important from an overall business management



perspective. I think the need to reduce CapEx and shift to OpEx is a big trend across the board. Nearline storage is not cost effective for these burgeoning file archives, and tape storage can't satisfy compliance demands for rapid data access. If a company needs data quickly and it is on tape, it could take weeks or months to get it back. If it's in the cloud, everything is tagged and indexed and you could access it at Internet search speeds and at a very compelling ROI.

**TE: And who is the target customer? Do you focus on any specific segments or verticals?**

**SG:** Our cloud storage services transcend vertical barriers. Every company in every vertical needs backup and archive. And of the new data being created by enterprise companies, roughly 60-70 percent is of the unstructured type. We have customers in healthcare, financial services, media & entertainment, manufacturing and the information technology sector. Notable clients include Cisco and VMware for distributed content and collaboration. Data collaboration is a big use case for us, where companies can successfully integrate the cloud into their workflow. Other key customers include Cerner Healthcare, NBC Universal, Johnson & Johnson, Logitech, Comcast, Fox Sports and Warner Brothers. Over 1,200 companies worldwide are accessing our cloud storage network. A good example of cloud services transcending barriers is when we talk about rich media as a target market. A lot of times we think about the television and studios, the digital content creators, but in today's market, with the prevalence of iPads, iPhones, Droids and everything else, the fact is that every major corporation has rich media applications now. A recent example is a visit I made to one of our customers and one of the big discussions we got into was training videos. This company isn't a technology manufacturer or a media house, but they have 50 terabytes of video that they'd like to put out there so that people can download and access it around the world. This is going to be critical in every type of company. Across the board, we think there's opportunity in every vertical.

**TE: It seems like a very broad horizontal solution. Have you tried to estimate the size of your TAM?**

**SG:** Yes. Everybody's coming out with market data. We tend to look at the IDC numbers for the cloud storage space since they're the most granular, and their latest estimates were for the public cloud storage market to be roughly \$7 billion by 2014 and private cloud storage to be in excess of \$11 billion by 2015. If you review their numbers, there's nearly about \$20 billion in addressable market opportunity. I've seen numbers higher than that by a factor of two though. What I tell people though is that even if you take the numbers and divide them in half, it's still a gigantic opportunity in the cloud storage market no matter how you slice it.

**TE: Can you share with us some of your key customer wins since you joined the company?**

**SG:** Some of them we've talked about. Cerner Healthcare is a great example. That's a multi-petabyte, private cloud. And that's an interesting one being a healthcare customer. They're going to use their cloud for internal purposes, but they're also going to use their cloud to sell cloud storage to hospitals and doctors. And I think one of the things that cloud services is going to show the industry is that companies can shift from being purely consumers of IT to being providers of IT. So we've now enabled Cerner with their private cloud to go out and sell cloud storage services to all their customers and hospitals while EMC and HP and Oracle are in those same accounts trying to sell boxes. A year or two ago we would never have said that Cerner could be a storage company. Johnson & Johnson, Warner Brothers and Logitech are other new customer of ours. We've had some phenomenal triple digit growth, and we expect it to continue in the coming quarters.

**TE: Can you talk about your competition? And then, more broadly, how do you see it evolving over the next few years?**

**SG:** It is necessary for those looking for cloud storage services to consider a vendor with flexible cloud storage deployment models. Some of our competitors only offer public cloud, others only offer a form of private cloud. We offer public, hybrid and private—all with usage-based pricing, all as a fully managed service. No one else does that. Not a reference architecture that might be supported and not a box with a cloud label on it, but a fully managed cloud storage service with 24x7 support and enterprise-level SLAs. Some of these public cloud-only vendors, such as Amazon S3, are focused on what I would classify as the developer space. They are having a very difficult time moving up into the enterprise space. So we see them as a competitor in the sense that while they offer a usage-based pricing model, their technology is more suited for the small and medium size business and the developer space. We don't see them, typically, in the Fortune 200, 300, offering the type of cloud capabilities that we do. EMC is another competitor, in its various forms, and I say that because personally I don't think EMC really has a cloud offering, even though if you look at their marketing it sounds like that's all they have. EMC goes in and pitches a barrage of unrelated products, from Isilon to Atmos to DataDomain—they pitch just about everything and anything and call it cloud. When I say EMC is a competitor, I really see



us competing with EMC not necessarily because they have a cloud offering but because of their size and stature. EMC is a marketing machine and they've done a really good job of painting the picture as the industry leader of what they call cloud. But, for them, cloud tends to be a piece of hardware or software and "write me a check upfront Mr. Customer" sales approach. And that's not what we call cloud, but, to be fair, I compete against that whole premise. Nirvanix is the most logical transition from the enterprise data center to the enterprise cloud. We focus on the companies that Amazon can't satisfy and that refuse to continue paying excessive upfront hardware fees to EMC and I think that's the key. So, my main competitor in the enterprise space is most likely whether or not they buy another box or shift to a fully managed enterprise cloud service.

**TE: You have talked about the hybrid cloud model in the past. Can you talk about it here too and how that differentiates you from rest of the competition?**

**SG:** We have our public cloud offering which enables you to put your data in one of our seven data centers around the world under the usage-based pricing model and leveraging our global namespace and billion plus sized object store. The other option we offer is what we call hybrid cloud, which has all the benefits of what you get in a public cloud—usage-based pricing, you know, OpEx versus CapEx all the benefits that we already covered, but we'll put the cloud storage node in the customer's environment, within their four walls. And it's still connected to our public cloud, so they can access additional capacity, availability and bandwidth on demand. If they have any kind of security concerns, the first copy is in their location. Then the second or third or fourth copy can be anywhere in the world in our public cloud. And that's unique to us. Nobody else offers that today. Nobody else operates their own public cloud and federates that public cloud with privately deployed cloud storage nodes and manages the whole hybrid cloud federation as a service. This cloud federation gives you the best of both worlds. It gives you customer data on their floor and also data anywhere in the world, especially if you want to do data collaboration, disaster recovery, business continuity, and you have to get it offsite. And you got to get it offsite technically out of the region because we've seen regional disasters where power grids go down and having a data center down the street just doesn't work. So the hybrid cloud gives you the ability to do that. And again, with Nirvanix private cloud, it's a private instantiation of a cloud storage node that is completely fenced off from our public cloud or any other cloud. It's your own private global namespace in your own environment. When our competitors say private cloud, once again they're just selling hardware and some software. For hybrid and private, for the type of customers we're talking about, they backup and archive a couple of hundred terabytes in a week or two. We're the only company out there that offers public, hybrid and private cloud storage services, with true usage-based pricing across the board. Nobody else does that, and that gives us a huge flexibility when talking to customers about building a cloud infrastructure that fits their business needs, not trying to force fit them into the only thing a vendor can do.

**TE: Sounds a very compelling value proposition. Have you done any ROI analysis and can you share it if you have one?**

**SG:** It's interesting here in that customers want to pay by the drink for storage. They want data accessibility from anywhere around the world, not just a single data center. They want their data replicated across multiple geolocations, and they want to pick where it resides. So they want storage on demand, which is what we do, but they want their own hybrid clouds that facilitate access to a public cloud along with the right kind of security. Our customers find that we save them 70-80 percent over conventional storage system purchases. You have to keep in mind the maintenance, the tech refreshes, the data migrations that people are forced to undergo. Forrester recently did a TCO study and had similar findings. I was with a customer recently who told me that they spend more on EMC's remote replication software per year than they spend on EMC hardware. We don't do that. That's part of our overall cost. So when you start thinking about how much does a customer pay for network costs and multiple copies, the actual capacity and the replication software and maintenance and the tech refreshes and the data migrations every three years, it becomes a pretty big savings. As we talked about, the primary competitive advantages for us include the ability to upload once, access anywhere with our global namespace. We're the only consistent storage on the Internet. It's self-healing, which I think is really important. For example a customer runs a job and the job fails. All of a sudden, a person has to get involved and orders a tape from Iron Mountain. It shows up hopefully two days later. If they're lucky, the tape is readable. If it's not readable, then he goes down this whole other path to recover the data if it's at all possible. But that takes days. And, by the way, it could take weeks to get data back. With our cloud, he goes out there and accesses the data. Let's say there's two copies in our cloud and it's in L.A. and New York. Let's say in our L.A. facility it can't read the data. The job doesn't fail. It picks it up in our New York facility where the secondary copy is, and the job runs and the customer has their data instantaneously. It's running, everything's great to the customer. The customer doesn't even know. The cool thing about our cloud is that the cloud goes back and says, why couldn't we read the L.A. facility? It determines whether or not there is an existing



problem. And it basically takes the New York copy and fixes it for the L.A. copy. And so now we're all synched up again. All that stuff is done without customer involvement. All of it is self healing. All of it is done that way. This is what customers want for this type of data. When you're thinking that there's 8,000 exabytes of data that's being created, and it's data that you're not going to access a lot, but when you do need it, you need it immediately. You don't want to throw a lot of people and time and money at it. You do for tier one data because the CEO or the CIO is calling, screaming at you. But, for this type of data, you want just to be as self-healing and requiring no intervention at all, and that's what we've created with our cloud. That's what customers love, especially for tier three, tier four data.

**TE: Interesting. Given that cloud storage is a fairly new concept, I wanted inquire into the level of interest as well as the customer willingness to spend compared to a year ago.**

**SG:** Customers are aggressively shifting to the cloud. In fact if you look at our booking revenues, they've doubled for the past two consecutive quarters. Whereas I think in 2009 and 2010 people were primarily doing evaluations while some early adopters were actually implementing, 2011 has seen a massive uptake in enterprise level cloud storage deployments. I think the uptake has been so significant that IBM has noticed this growth. IBM is now an OEM of our cloud storage technology and is integrating it with their cloud computing solution. Customers are shifting their buying intentions from the decade-old approach of conventional storage to enterprise cloud storage services. I probably spend 70 percent of my time talking to customers and prospects. I am always in front of the C-suite or VP of IT, and since I joined the company in the last year, 99 percent of the time every meeting I come out of, there's a follow-up meeting scheduled. There's a perfect storm starting. So I think that's a good indication that there's a lot of interest in what we're doing, and I think the numbers and OEM partnerships speak for themselves also.

**TE: You spoke about IBM as a technology partner. Who else do you count as key technology partners and how do you expect them to help your business going forward?**

**SG:** IBM obviously as we talked about. We signed a five-year strategic OEM agreement with them so we're pretty excited about that and the massive business opportunity that presents. We're excited about it because IBM is the number one IT services company in the world. They obviously have unparalleled customer relationships with the top companies around the globe. You know, we're a service offering within their services company. It makes a lot of sense for what we're doing. We also have a very strategic relationship with Symantec. NetBackup probably owns about 70 percent of the backup market for enterprise customers. We're the only cloud storage provider today integrated with NetBackup. We think it gives us a big advantage. Who knows what our relationship will be in the future but we've worked with them well for the last year. CommVault is a very strategic partner of ours and we are integrated with them. There's also a company called Front Porch Digital. They're the Symantec of the rich media space. All three of these guys have written to our APIs so just like you have backup to tape, you have backup to the cloud. The same tools that they use to back up to any other platform are the same tools they use to back up to us. So it's one click to the cloud. Cloud backends for business apps are the future and I really think you're going to start seeing that. We have reseller pacts with Dell and HP. This obviously allows access to their customer bases with our leading cloud storage technology. Those are some of our primary partnerships.

**TE: What is the vision for the business five years from now?**

**SG:** Our direction is to become an invisible part of our customer's IT infrastructure and business processes through tight API integration and fully managed services; for cloud to be part of the core fabric of businesses around the world and enable them to thrive in their respective areas; for cloud storage to be as seamless as accessing everyday resources. You can expect cloud storage deployments in our customers at petabyte scale and exabyte scale. Nirvanix's experience with massive petabyte scale cloud storage implementations and enterprise-class production environments is unrivaled. Nirvanix manages real world enterprise customer environments with critical business data on a daily basis today. Nobody else has this experience in working with the Fortune 500 companies, placing petabytes of critical data into the cloud. Other cloud storage service providers don't know what they don't know because they haven't done it yet, and I think that's the key.

**TE: I know that you're a private company and don't have to disclose your financials. However, can you give us an idea of your size and expectations of growth in the future?**

**SG:** Being a privately held company, what I can tell you is that Nirvanix has been posting triple digit consecutive quarterly bookings growth. We are doubling bookings every quarter in 2011. And we believe we're taking material market share and posting strong, consistent growth.



**TE: Looking at the horizon over the next few years, what do you think are your biggest challenges?**

**SG:** I think we have to ensure that we stay more agile and flexible and continue to innovate as the large storage vendors begin to figure out their cloud storage strategies. I think it's not advantageous for the current large storage vendors to offer cloud services and technology like what we have today. It's like going in your installed base and saying I'm going to sell for 30-40 percent less revenue. And that's the problem they have. They are fearful of margin collapse should they shift from boxes to managed services. Over time I'm sure they're going to have to try to figure something out and it's important for us just to make sure that we stay ahead of that and continue to innovate. And with the services that we are going to be rolling out in the next 6 to 12 months, I think is really going to show that.

**TE: Is there anything else that you'd like our investor community to know about Nirvanix?**

**SG:** In closing, I think Nirvanix is positioned at the intersection of cloud innovation and market demand. We bring a very disruptive technology both from a financial model and a technology model to the market. We're at the forefront of what we think is a once in a generation paradigm shift. The leaders in the previous storage paradigm might not be the leaders in the new cloud storage paradigm. The landscape is changing and spending time defending a decades-old storage business model doesn't get vendors any closer to delivering real cloud business benefits to their clients.

**TE: Thanks. We really appreciate your taking the time to talk to us.**

**COMPANIES MENTIONED IN THIS REPORT:**

Company	Exchange	Symbol	Price	Rating
CommVault Systems, Inc.	NASDAQ	CVLT	\$47.49	Buy
EMC Corporation	NYSE	EMC	\$22.54	Buy
NetApp, Inc.	NASDAQ	NTAP	\$35.72	Buy
Oracle Corporation	NASDAQ	ORCL	\$29.87	Buy
QLogic Corporation	NASDAQ	QLGC	\$14.21	Hold
Symantec Corporation	NASDAQ	SYMC	\$16.07	Buy
VMware, Inc.	NYSE	VMW	\$93.99	Buy

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<b>SELL [S]</b>	<b>12</b>	<b>6.10</b>	<b>0</b>	<b>0.00</b>

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