

**Sales Pulse Research Update****December 15, 2021****Sales Pulse Research - 2021 Winners, Losers, Surprises; Top Themes and Names going into 2022**

This note provides brief review of our research during 2021 and the themes we are focusing on going into 2022. We will follow up and would like to get your input on priorities and areas of focus for the new year.

**A Brief Review - 2021 - Winners, Losers and Surprises...**

We started 2021 with a focus on understanding how the uncertainty of the pandemic continued to impact IT spending. We also focused on important trends including continued acceleration of spending on business transformation, shifting priorities in security, changing competitive dynamics in UCaaS / CCaaS, a major shift in analytics spending to cloud-based solutions and our addition of coverage of the Observability market.

- Among our biggest winners - we had positive, high conviction views for **CRWD, PANW, ZS**. We also correctly passed on consistently positive views from systems integrators for **MDB, SNOW, DT, DDOG**.
- Although we reported that the uptake of **ESTC's** Observability solution was disappointing, we did not foresee the weakness they reported in December.
- We presented cautions / negative views for **SUMO, and BASE** that played out during the year. We believe that our negative views on **PLT** were accurate, but less helpful against lowered expectations. We had insight from many channels into the struggles of **SPLK**. Our views for **SPLK** were initial negative but field contacts have been quick to remind us of the underlying strength of their solutions and loyal installed base.
- Channels reported strong demand trends for **UCaaS and CCaaS** and very strong execution by some vendors, especially **Ring Central and Five9**, but despite their strong results, performance of these stocks appears to be overhung by threats of increases competition.
- For more tactical views, in mid-year, our channels correctly warned of slower than expected demand for **Zoom Room**. Another market signal that proved to be prescient, was input from systems integrators who saw significant disruption to Fastly's business as a result of their service disruptions. This triggered a sharp decline in their stock two months after our report.
- Although we were optimistic about a rebound in demand for large **BI / Analytics** going into the year, systems integrators kept us informed about the ongoing push out of demand and therefore delayed re-acceleration for **AYX** and others.
- We picked up some improvement in demand in the **Storage / HCI** market but did not have high conviction views of **NTAP and PSTG or NTNX** as we found it challenging to match performance against expectations.

- Feedback on **Cisco** correctly matched the ups and downs of this vendor during the year. We were cautious for **ANET** early in the year but became more positive as channels reported their progress in the enterprise market. Our positive views on **Juniper** was correct in retrospect, but we did not have insight into the timing of their improved performance.
- Improving views for **Ciena** were on track. Although it was difficult to assess how much supply chain issues impacted revenue, channel contacts were on target with the trends that are driving demand and further acceleration. We picked up positive views on **Calix** prior to 2021 and well ahead of the upturn in this business and stock. Channel contacts were early but they turned out to foreshadow a tremendous move up in their stock.

Although some were not high conviction views, we provided other field input that was helpful but difficult to evaluate and summarize in this brief document (**NOW, PING, OKTA, TENB, RPD, VRNS, SAIL, KNBE, NET, ATEN, PFPT, MIME, ...**)

### 2022 - Top themes - Areas where we believe there will be change, disruption and opportunity in the new year:

- We expect even further **acceleration of spending on Cyber Security** to the benefit of some of the well known winners (**CRWD, PANW, ZS, S, FTNT**) but also some vendors we believe may see unexpected acceleration (**FFIV, PING, VRNS ...**).
- Also in cyber security, the acceleration from legacy security solutions to the newer generation of solutions. We expect **SASE** to become more real, portending the eventual shake-up of enterprise networking (and network security). (**ZS, NET, PANW, FTNT, CHKP, Netskope...**)
- Leverage of AI in cloud based communications and collaboration (**CCaaS**) to the advantage of vendors who are separating themselves from commodity services and pricing (**FIVN, NICE**). We will continue to provide views on the changing competitive landscape as **Zoom, Microsoft, Ring Central** and others collide more in the large and growing UCaaS market.
- The **ramp of spending on service provider networks (cloud service providers and telcos)** driven by building for 5G, overall demand for bandwidth, shift away from Huawei, and funding from RDOF, the Infrastructure bill and, if enacted, Build Back Better. (**CIEN, INFN, LITE, MRVL, ADTN, AAOI, FFIV, ATEN, JNPR, CSCO, ANET, EXTR**)
- **Edge computing** - although still early, we expect to see vendor announcements and signs of early use cases in 2022... (**FSLY, AWS, MSFT, GOOG, NET, AKAM, ANET, CSCO**)
- More strength in **BI / Analytics / Observability** to the benefit of vendors with the strongest cloud based solutions (**DDOG, DT, SNOW, MDB**) but more mixed results from vendors who are working to transition to SaaS based solutions (**AYX, TDC, ESTC**).
- Further work on disruption to end users and vendors due to **supply chain constraints** and of the **lack of skilled personnel**. These factors are contributing to the

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accelerating trend to buy more security and analytics solution via services vs. products. SASE, MDR and cloud based data repositories (SNOW, Mongo Atlas) are examples of this huge trend.

We continue to expand our coverage. The channel partners we work with have views of a number of vendors who have recently become publicly traded. We are adding to our coverage list: **HCP, FROG, INFA, CFLT, BASE, KNBE, LVOX, FORG**

## 2022 - Positive Views

Although Sales Pulse Research does not make Buy / Sell recommendations, we do express conviction in our views on trends and vendors. The vendors below are highlighted based on business momentum as reported by channels and other industry contacts. We understand that valuations are stretched and most of these ideas are much more widely recognized now than they were going into 2021. We have included some ideas that we believe are less recognized.

- **CRWD** - Acceleration in the next gen EPP market; broadening solution set and TAM; benefitting from further acceleration in spending on cyber security
- **ZS** - Zscaler is capitalizing on their head start in the SASE market; market is accelerating and ZS is exceeds growing competition so far.
- **FFIV** - Like many legacy vendors, F5 has been trying to make a transition to the world of hybrid cloud and to the higher growth security market. Based on the vendors reported progress as well as more confirming views from channels, we believe that F5 has turned the corner and now has compelling solutions in application security and other areas of the security segment.
- **FIVN** - The boost to the CCaaS market is seen as continuing; AI is providing opportunity for differentiation and price support; "Five9 and Nice/inContact are in every deal". Despite investor concerns of increased competition and pricing pressure, channel input indicates strong demand and performance in the near term for **Zoom, Microsoft and Ring Central**.
- **PANW** - During 2022 Palo provided evidence of their successful transition to broader security platform and ability to penetrate the SASE and Cloud security markets. Channels are optimistic about further growth.
- **S** - Although less established than CRWD, S has a growing reputation in the channel for technical advantages, favorable channel programs and the ability to share the lead in the growing EPP MDR market
- **CIEN** - Ciena has established themselves as a clear beneficiary of the ramp in spending on optical and service provide infrastructure. We have positive, although less convicted views of other vendors including **LITE, CALX, INFN, JNPR, ATEN,...**

## Cautious views:

- **VMW** - As more applications move to cloud native architectures we are hearing industry contacts question the value they add vs. cost.
- **BASE** - As described in our recent notes, this vendor is not fairing well vs. competition and struggling to add new logos
- **EGHT** - Field input indicates operational issues as well as a drag on UC revenues as they migrate current Enterprise customers to their XCaaS platform.

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## M&A in 2022

- We believe there will be additional M&A in the Unified Communication and Collaboration market as large vendors, ie Microsoft, Oracle, Amazon, and others pursue vendors that may include 8X8 and Five9. We also expect consolidation among tier 2 and 3 UCaaS providers.
- In the security segment we expect continued tuck-in acquisitions as established vendors respond to end users preference for broader platforms instead of multiple point products.

## Biggest risks to our views:

- Macro, IT budgets - Views so far are for improving budgets in 1H 2022; Security and UCaaS retaining priority; On-premise infrastructure and resources intensive projects are still restrained.
- Acceleration in adoption of cloud native architectures - negative for demand for IT infrastructure, and could eventually even be a drag on security as well.
- Microsoft and AWS increasing their focus and priority on security and analytics markets. A view that has come out of AWS re:Invent and other cloud discussions has been the move by the major CSPs to offer more application level services. They may develop some of these services themselves but will likely be more acquisitive if they want to accelerate in this direction.
- As always, vendor execution...i.e. Zscaler needs to broaden their solution set; Splunk needs to further address pricing issues, SentinelOne must counter CrowdStrike's criticism of their scalability,...etc.

We are happy to discuss in more detail,

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