SALES PULSE RESEARCH

Technology Trends

Sales Pulse Research Update **August 14, 2023**

Summary of Recent Research – Cybersecurity, UCaaS, BI and Analytics, Changes in IT Spending Priorities

This update provides brief summaries of our recent research. Access to the full report is for SPR clients only or requested trials.

8.13.23 -SPR Update - EVLV - Evidence of acceleration...

Key Takeaways:

- Evolv Technology Holdings provides AI-based weapons detection security screening systems. They have grown quickly over the past few years and last week posted Q2 revenue of $19.9, up 119% YoY.

- The company has a rich valuation amid high expectations. They have a very large TAM and are far ahead of competitors. Our field checks support the view that the company is executing very well and seeing very rapid growth in some of their vertical markets.

- Evolv's solution has very clear advantages over traditional metal detectors. One of their scanners can replace 10 traditional metal detectors in some cases. They improve the experience for customers / users and dramatically reduce the security manpower needed to attend to their systems.

- Evolv sells into a number of vertical markets, including education, healthcare, sports and other entertainment venues, shopping malls, offices, warehouses and manufacturing. Sports arenas appear to be low hanging fruit because of the very strong ROI. Education, K-12, is one of their largest markets. They are making solid progress, but they face more more bureaucratic and cultural considerations selling into that market, so relatively slower penetration.

- Evolv started selling their scanners as a bundled hardware/software solution and is now part way through their transition to a majority software / ARR model.

- Critics note that Evolv's system has a low detection rate for some types of knives. As part of their AI strategy, Evolv delivers new software every quarter with enhancements based on field experience and machine learning. Their just released version 6.0 includes enhancements specific to knife detection. We suspect that they have improved detection of knives but rates are likely still not as high as for guns. In our research the only criticism we have heard for gun detection is a lower rate for plastic guns. Evolv technology will continue to make improvements but their current ability to detect metal guns appears to be exceptional and, combined with the strong ROI, customer experience and operational ease is driving very strong growth.

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8.8.23 -SPR Update – Updated Channel Views – Cyber Security (PANW, FTNT, ZS, OKTA, CYBR, SPLK, S)

Key Takeaways:

- Channel feedback on Zscaler has been very strong, indicating that they are benefitting from accelerated growth of the SASE market, larger deal sizes and very strong US Fed.

- Despite the shortfall that Fortinet reported, the Palo Alto channels we spoke with had a strong finish to FY Q4 and likely finished at least in-line.

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8.4.23 -SPR Update - BI/Analytics/Big Data/DevOps (AYX, MDB, SNOW, INFA, SPLK, ORCL, ESTC, CFLT, FROG)

Key Takeaways:

- Cloud database solutions are still seeing strong renewals from existing customers; favorable for SNOW, BASE, MDB and Databricks.
- Large, new projects continue to experience delays as end users optimize and scrutinize budgets.
- There is strong interest in machine learning and AI, but most of these projects are not yet well defined. They typically are expensive and take longer to approve. According to Systems Integrators, applications of AI are not yet driving significant new revenue, but, of course, expectations are high and budgetary requests are being made for next year.
- Snowflake, Databricks and Alteryx are vendors that SIs see benefitting from new, AI based analytics projects when funding improves. They see Alteryx' cloud partnerships with Snowflake and Databricks as progressing well.

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8.2.23 -SPR Update: UCaaS/CCaS/CPaaS - (RNG, EGHT, NICE, ZM, RNG, FIVN, MSFT, OOMA, AVYA, LVOX, TWLO

Key Takeaways:

- Margin improvements will likely continue to be seen by major players as most have made significant cuts and maintained very minimal revenue growth guidance. In particular, channels have positive views for Nice, Five9 and Ring Central.
- Macro-economic issues continue depressing revenue growth in terms of long sales cycles, long Proof of Concept tests and more cautious rollouts.
- AI growth and monetization of features is bringing an expansion in the Addressable Market for SP's in the next 5 years. It is also giving the ~80% of end users who still use premise based contact center solutions a compelling reason to move to the cloud.
- Growth of AI may mean a reduction in seat counts in the long term, as the complex capabilities AI delivers will be at the expense of the need for some human interaction. But, increased revenues for advanced features will raise ARPU from the sub-$200 range to the $300-$400 range in some cases. The long term future will bring consumption based pricing in lieu of seat-based pricing models for high-end capabilities.

- NICE and FIVN are clear leaders in adding valuable AI features to their offerings and reaping revenue gains early on.

- ZM, EGHT, RNG, Dialpad and Talkdesk are somewhat behind but quickly developing capabilities.

- Some very large CC deals involving large airlines, financial institutions and healthcare have reportedly closed in the past weeks and months. Word is that FIVN landed two of them, Avaya saved one, ZM landed two 10K+ opportunities. May see these mentioned in the Earnings Calls.

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7.25.23 -SPR Update - Observability - DT DDOG NEWR

Key Takeaways:

- Q2/2023 continued to see pressure from the macroeconomic slowdown. **DDOG, and NEWR** were affected by this, but **Dynatrace** saw less impact. DT had strong customer retention and steady expansion of existing customer accounts as new applications, devices, servers, systems, on-premise and in the cloud drove a small incremental uplift according to our channel contacts.

- Dynatrace has begun to target the SME space with their partner SIs and we understand that the vendor has told their channel partners not to lose new business opportunities because of price against DDOG and NEWR. This has created a bit of revenue uptick from DTs indirect channel. Although not exponential, our channel contacts saw growth that was better than previous quarters.

- In previous notes we described how end users had been initiating projects to consolidate observability tools and then slowed this activity over the past few quarters because organizations have been reluctant to provide the upfront capital and manpower this effort requires. We have now heard that traction around consolidation of Observability platform projects has not yet re-accelerated, but inquiries for budgetary purposes to accomplish this have picked up as organizations prepare for Q4, or more likely Q1/2024. When consolidation efforts ramp up, we believe that DT will benefit from consolidation in the Enterprise and SMEand DDOG will likely benefit in the SMB and with some of their SME clients.

- Although channels are still not seeing significant uptake of Splunk or Elastic's Observability platforms, they are seeing data integration of SIEM dashboards and Observability dashboards for Security remediation and breach protection via APIs. This is being driven by DevSecOps personnel who seek information around events and traces populating security analytics logs in SIEM. So, despite Splunk or Elastic not getting the application revenue, they are gaining on the consumption side of their SIEM to store these logs.

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7.24.23 - SPR Update - ANET, EXTR, JNPR, CSCO, NOK - Supply chain continues to improve, orders soften...

Key Takeaways:

- As supply chain continues to improve, orders from enterprises and service providers for networking equipment continue to soften. "End users are focused on implementing projects that were previously ordered with sparse staff."

- We understand that it is expected that book-to-bill for these vendors will be reported to be below 1. Although it is difficult to understand the magnitude of the fall off in orders we believe that it is unlikely that Arista, Cisco or Juniper will exceed expectations for orders in upcoming reports.

- Based on a limited number of channel views (5), Extreme may see less of a fall off in orders than other vendors. This may be because Extreme is less reliant on large enterprise and telco business. (See summary of improving channel feedback for Extreme in note from last fall.)

- Cisco continues to lose share, mostly to Arista, but also to Juniper and Extreme for reasons we have described in past notes.

- Looking forward, the industry is anticipating a strong upgrade cycle over the next few years as hyperscalers and large data center operators adopt 800G. This cycle is expected to begin at the end of this year and see meaningful ramp in 2024.

- Some industry contacts anticipate an untick in demand for Ethernet networking driven by buildouts of AI clusters. There is no evidence yet that AI is a significant demand driver as most clusters are using Infinband at this time. Ethernet may provide a price / performance advantage in the future as Ethernet speeds increase and AI buildouts become more diverse.

- Telco spending is slowing, as seen in last weeks reports by Nokia and Ericsson and previously by Ciena. These vendors have blamed a push out of projects, including a slowdown in 5G buildouts. Carriers have seen slow uptake of 5G as many end users see 4G as good enough for current applications.

- US Fed spending - Although US Fed IT budgets are seen as continuing to be strong through September, security is seen as the greatest priority. There is also risk associated with Congressional approval (or lack of approval) of new budgets and therefore potential operation under CR (Continuing Resolution) starting in October.

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7.19.23 - SPR Update - Channel insights into the SSE market (MSFT, PANW, ZS, NET, FTNT, CHKP, CSCO, Netskope); Another price hike for Palo...

Key Takeaways

- Channels are confident that the SSE/SASE market is accelerating. They are also confident that competition is increasing. Based on opinions from Gartner, etc, we are probably in the 3-4th inning in the SASE/SSE market opportunity. This looks to be a multi year opportunity which is the reason so many companies are jumping in so they can take advantage of this revenue opportunity.

- Deal sizes are getting larger; Sales cycles are getting longer.

- Microsoft will have some success in the market, even with a mediocre product like their end point solution (Defender) and most likely at the low end.

- Because SASE is network based, and Microsoft's strength and relationships are more in the application and end point world, we expect them to have more challenges than they are having with End Point Protection, Identity and even SIEM.

- It will take some time for Microsoft's product to become generally available and years to mature.

- Some new product announcements, especially from strategic vendors, can overhang a market and delay decisions that are in process. We see that as unlikely in this case because of Microsoft's lack of a strong presence in the networking segment. However with more established vendors now competing in this market (Fortinet, Check Point, HP, Cisco and Microsoft…) it is reasonable to expect that there will be more delays in some sales cycles and decision making for ZS and Netskope as prospects give more consideration to working with their incumbent vendors. We see PANW as having less exposure because they are primarily selling into their installed customer base. NET/Cloudflare also fits into this picture but so far they have not shown up as a measurable threat to ZS and Netskope.

- For Zscaler, the "low hanging fruit", replacement of Blue Coat SWGs is winding down. Zscaler benefitted greatly from this. Three years ago ZS had essentially no valid competition, and capitalized on three unique growth drivers : Covid/WFH, O365, and Blue Coat SWG displacement. Today, ZS functions in a competitive environment characterized by vendors with more mature offerings. ZS has been selling successfully into the Firewall shops of CHKP, FTNT and CSCO with little competition. This is rapidly changing.

- SASE includes a variety of functions (SWG, CASB, DDOS, DLP, SD-WAN, DNS, FWaaS,…). Each SASE vendor is strong in one or more of these functions. End users prioritize their requirements for this functionality and for price and performance and chose a vendor who best meets this functionality.

- In response to our exploring why Zscaler is seeing strength despite increased competition, we have learned the following:

    - There is some exaggeration of competitive takeouts of Zscaler. Takeouts are occurring, but vendors are making much noise about relatively few wins.
    - It takes time for competitive takeouts and increased pricing pressure to make a financial impact. SASE deals take a while to implement and to de-install.
    - Zscaler is one of the vendors who has gotten a boost from recent strong US Fed spending.
    - The overall market is growing quickly, making room for multiple vendors to succeed.
    - About two years ago Zscaler started focusing more on developing security channel partners; that is now paying off.

- ZS has a good ROI story and they work to get in front of C Level, to pitch the ROI, early in the sales cycle to help keep sales cycles predictable. This should help them confront the threat from Microsoft.

In summary, the SASE market is growing rapidly and has a large TAM. There is room for multiple vendors to succeed. It will take some time for Microsoft to ramp up in this market. Even then, we believe they will have more impact on the low end of the market and less impact on enterprise class competitors. At this time the more significant change is the progress that Fortinet, HP, Cloudflare and Cisco are making in this market and the changes in sales cycles and pricing pressure that those competitors will bring.

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7.10.23 - SPR Update: Preliminary Channel Feedback for Select Vendors (CHKP, FTNT, PANW, TENB, CYBR, S, CRWD, NOW)

Key Takeaways:

- A common theme across all the segments we follow has been indications of high sales activity but of more uncertainty than usual regarding close dates. As seen earlier in the year, contract durations are shorter and deals are often broken up into smaller pieces.

- We have been surprised to pick up some initial weakness for Palo Alto. Although they still have time left until the close of their fiscal year, it has been quite some time since we picked up weak checks, even mid quarter.

- US FED spending continues to be very strong, and will help make up some lagging enterprise business for vendors who have strong Fed practices (PANW, ZS, NOW, CRWD, S, OKTA, SPLK...)

- Industry contacts continue to be impressed with execution by CyberArk.

- Despite hearing anecdotal evidence of push out of some large deals for ServiceNow, partners saw strength in their core business and in Federal and expect at least an in-line quarter.

- We have picked up solid indications for for the quarter for Fortinet but some uncertainty regarding the strength of sales pipelines.

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6.29.23 -SPR Update: UCaaS/CCaS/CPaaS - (RNG, EGHT, NICE, ZM, RNG, FIVN, AVYA, VG, LVOX, TWLO)

UC/CC/CP - OUTLOOK AND TRENDS:

- Macro-economic issues are still depressing revenue growth in terms of long sales cycles and more cautious rollouts. Despite this, checks continue to be fairly strong, against reduced expectations, for many of the vendors we follow. In particular, channels have positive views for Nice, Five9 and Ring Central.
- Customer Contact Week was held in Las Vegas in mid-June. We did not attend, but spoke with a number of attendees. This Show is more focused on the Trends and Best Practices in Customer Experience and Contact Center Management. A high percentage of speakers are from the Enterprise space, sometimes with the AI or CC Player they chose delivering a Case Study format.
- Major UC/CC Players were present: FIVN, NICE, RC, ZM, TWLO, AWS, LVOX, EGHT, Genesys, Talkdesk, Dialpad, UJET. AI, in all forms, was front and center again and majority of booths were AI-centric players. Noted that Avaya was not present at this Expo.
- We attended the Channel Partners event last month. AI//Generative AI was front and center again, particularly with the CC players, as it was at EC.
- June continues anecdotal reports of CC players taking share at the expense of Avaya. We believe primary beneficiaries are NICE and FIVN and to some extent Genesys, Talkdesk and AWS Connect.
- NICE continues to announce almost weekly Industry Awards for various technology and feature capabilities, mostly in areas of AI, Conversational AI and Analytics. They are a leader versus competitors in monetizing and marketing these valuable features. Input from contacts in their ecosystem indicate very positive pipeline for their quarter ending in June.
- Avaya is going on the offense with CEO Masarek pushing their new Avaya Experience Platform, new product roadmap and GTM with their Channel Partners. My take is that they are turning the corner and will be able to protect a lot of their largest customers, and some mid-market, from continued encroachment by competitors during 2H 2023.
- Based on last round of Earnings Calls, it appears that the cost-cutting efforts of the UC/CC Providers in the past 3 Quarters are taking effect. Margin improvements are being seen across the board while maintaining guidance given on top line revenues.

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6.23.23 -SPR Update - Field Comments on spending on compute, data center and edge build outs for AI

Key Takeaways:

- Industry contacts see AI as accelerating demand for Data Center Space, Fiber and Connectivity and Edge Computing
- We are picking up comments from data center contacts that data center operators are running out of space, pre-selling new space and in some cases, aggressively looking to purchase space from end users.
- Examples of hyperscalers, enterprises and innovative new AIaaS operators rapidly building compute.

- Although the rapid buildout of AI clusters is widely know, we wish to share some comments from industry contacts that confirm and add context to this trend.
- Cloud Optimization efforts being viewed as “new normal” vs. temporary headwind.
- Evidence that edge computing is seeing growing demand.

- AI's demand for real-time processing, low latency, improved privacy, and reduced bandwidth requirements is accelerating the adoption of edge computing as a complementary paradigm to cloud computing.

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Important Disclosures:

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