

Mass Storage News

Opportunities and Trends in Data Storage & Retrieval

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Reprinted from the February 19, 2004 issue

Who Says Tape Is Dead?

StorageTek posts spectacular revenue and income figures for Q4 and for 2003.

If tape is dead or dying, someone better tell the folks at **StorageTek**. The vendor recently announced it easily topped its fourth-quarter projections. The company earned \$0.64 a share on revenue that topped \$655 million. For 2004, StorageTek's sales were \$2.18 billion, which resulted in net income of \$148.9 million. The announcement is significant considering many storage companies continued to struggle in 2003. Even more significant is the fact that StorageTek has now marked its 14th straight quarter of improved quarterly profits.

Think these figures are not significant? Then consider this: Competitor **ADIC** saw net income decrease in 2001 and 2002 before seeing a turn around in 2003. **Quantum** saw net income decline in both 2002 and 2003, while **Exabyte** has lost money each of the last four years. In addition to the 14 straight quarters of improved quarterly profits, StorageTek also has posted six consecutive quarters of year-over-year revenue growth. This has left the company in an extremely strong financial position with cash on hand of over \$1.1 billion, strong margins, and virtually no debt.



**Martin Payne, director
of product marketing
for StorageTek.**

What factors have made StorageTek so successful? One obvious one is that the company is seeing growth in all areas. In 2003, revenue from overall disk solutions increased 17% over 2002, while revenue from open systems grew by 37%. Since hardware prices will have a huge impact on sales, looking at terabytes shipped would be a better indicator of how much product StorageTek is moving. In fact, the company shipped over 120% more terabytes of disk in 2003 than it did in 2002.

In the fourth quarter, automated tape solutions revenue increased by 18% from Q4 2002, while enterprise tape revenue grew by nearly 50%. Revenue growth in virtual disk solutions was even more amazing, growing by over 150% compared to the same quarter in 2002 and 20% for the full year. Even the services sector was not left out. Storage services revenue in Q4 was the highest in the company's 34-year history.

StorageTek's performance in the tape sector would certainly lead many to believe that the technology is far from dead. In fact, it may now be more popular than ever. Tape continues to be one of the best performing sectors for the company. "We talk to a lot of customers, and we are always hearing that tape is a pain in the rear," says Martin Payne, director of product marketing for StorageTek. "But, when we probe deeper into those comments, we find out that backup, not tape itself, is what is painful for them."

Many of the inconveniences resulting from backup are actually caused by interoperability problems, product upgrades, and indexing problems that make it difficult to locate files to be restored. Payne believes improvements in backup technologies will continue to make backup quicker and easier for the customer. In fact, virtual tape solutions are already solving the indexing problem.

Payne also believes that underlying market fundamentals will continue to drive demand for tape. Regulatory compliance requirements are forcing many companies to look at how they archive data. Tape plays a huge

Tape Vendor Sales And Net Income (millions)

	2003		2002		2001	
	Sales	Net Income	Sales	Net Income	Sales	Net Income
StorageTek	\$2,180	\$149	\$2,040	\$110	\$2,045	\$67
ADIC	\$424	\$13	\$338	\$2	\$365	(\$11)
Quantum	\$876	(\$264)	\$1,088	\$43	\$1,406	\$161

role in information lifecycle management (ILM) and will be a perfect complement to disk solutions. An x-ray has to be maintained on disk for a couple of days so that doctors can access it. But, it then has to be archived to tape in case it is needed in the future. "The solutions have to work together," says Payne. "We are seeing demand for disk/tape solutions in the healthcare, broadcasting, and video surveillance markets. It is also a great solution for email."

In the services sector, StorageTek offers pre-fulfillment, fulfillment, and support services. On the pre-fulfillment side, the company offers professional services, which includes assessments and gap analysis for industry best practices. If a customer needs help with disaster recovery or business continuity, StorageTek will recommend various courses of action. This allows the company to also engage its consulting and architecture design teams. The goal, of course, is to have a pre-fulfillment contact eventually lead to an implementation and installation. Then, the services team moves in to not only service StorageTek products, but other heterogeneous products as well. The goal is to eventually become a one-stop shop for customer services.

If we look back at 2003, it was certainly not a breakout year for storage companies overall. Was the success of StorageTek an indication that companies are finally starting to spend again, or simply a case of customers looking for specific solutions that this company happens to offer? Payne believes it is a combination of both, but more the latter.

"We are not seeing a huge pick up in overall customer IT spending," he says. "But, we are seeing spending on some projects. Certain projects are now getting top priority in companies, and compliance projects are definitely ones that are now surviving the cut. Compliance problems are ones where a firm's reputation is at stake and the ones that will also cause companies the biggest problems."

We also wondered how much of StorageTek's success has resulted from increased demand for solutions in the market, versus gains that have come at the expense of its competitors. Payne did not have an accurate breakdown, but believes wins are coming from both sources. Many existing customers are still experiencing data growth rates in excess of 80% per year. Many of them are loyal StorageTek customers that continue to buy from the company. But, StorageTek has also been brought into competitive situations where it is bidding against competitors that already have hardware at the customer site. Payne tells *MSN* that StorageTek is winning many of those deals as well.

"Customers are concerned about the time and expense they have to spend on IT projects," says Payne. "When we design a new product, the primary concern is how to bring more value to the customer. I think this has led to our success against our competitors. When customers look at both price and value, StorageTek is often at the top of the list."

Finally, improvements in StorageTek's channel efforts have yielded positive results as well. The channel was the fastest growing segment of StorageTek's sales in 2003. One key improvement has been better partnering between the direct sales team and channel partners. StorageTek has also made changes to its tiered reseller program to insure VARs are compensated for hitting certain thresholds. All of the efforts were designed to reduce friction and make the company easier to do business with.

If the results are any indication, the company is making all of the right moves. If IT spending continues to improve, we expect to see another banner year for StorageTek. That should keep investors happy and its competitors awake at night.

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