

ONUG Conference Review

COMMENT

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Takeaways for VMW, CHKP, and PANW

ONUG hosted its biannual user group this week—with panels and keynotes from IT business leaders and vendors about the evolution of SDN. Although we as an investment community tend to speak about SDN very broadly, three key sub-segments are clearly emerging—with each having different value propositions and potential adoption curves. The following are our takeaways:

- **Software-Defined Datacenter Network (SDDN):** Although there was little debate that software-defined overlay networks will serve as the technical foundation of "the future of networking," one of the clear takeaways from ONUG was that the vendor debate (i.e., Cisco vs. VMware—with Nuage Networks being the dark horse gaining momentum) remains unresolved. Although the inflection point may be stretching into mid-to-late 2015 in terms of vendor selection and adoption, we continue to believe that Outperform-rated VMware is well positioned to leverage the "strategic high ground" of the hypervisor into the markets for both software-defined networking and storage. (See [V For Victory: Why VMware Wins The SDN War](#) and [Smells Like Victory: Why VMware Wins The SDS War Too.](#))
- **Software-Defined WAN (SDWAN):** Although much of Wall Street has focused on the "sexy" datacenter aspect of SDN, interest in software-defined WAN has increased meaningfully, and we believe software-defined WAN could experience more-rapid adoption than datacenter overlay technologies. SDWAN can dramatically reduce the cost of WAN deployments by enabling cheaper bit rates in both CAPEX and OPEX (i.e., less cost for same bandwidth or more bandwidth for same cost as compared with high-cost, relatively low-bandwidth MPLS lines) and less overprovisioning for same SLAs. Although the competitive landscape is still evolving (with Glue Networks, CloudGenix, and Viptela being early pioneers), we would expect more vendors to emerge out of stealth-mode and the aforementioned SDDN vendors to enter this market both organically and through acquisition (which would enable them to coordinate control/policy across the LAN and WAN).
- **Network Service Virtualization (NSV):** As a derivative of both the software-defined datacenter network and WAN, IT executives clearly have a growing interest in layer 4-7 virtualization (also known as network service virtualization, which is the enterprise equivalent of network function virtualization (NFV). NSV seeks to virtualize network services (e.g., firewalls, load balancing, IPS) by creating an instance of the network service for each application versus virtualizing a network service once for all applications. We believe the growing need to secure East-West traffic inside of virtualized networks will serve as a major catalyst to drive increased adoption of software-defined networking (SDN), which, in turn, will expand the market for network security by now enabling vendors—including Outperform-rated Check Point and Palo Alto Networks—to monetize previously unsecured network traffic.

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Companies Mentioned (Price as of 29-Oct-2014)

Check Point Software Technologies Ltd. (CHKP.OQ, \$73.59)
Cisco Systems Inc. (CSCO.OQ, \$24.1)
Palo Alto Networks (PANW.N, \$103.56)
VMware Inc. (VMW.N, \$83.81)

Disclosure Appendix

Important Global Disclosures

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3-Year Price and Rating History for Check Point Software Technologies Ltd. (CHKP.OQ)

CHKP.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
17-Jan-12	54.88	67.50	O
17-Oct-12	41.17	55.00	
18-Jul-13	56.40	65.00	
21-Oct-13	59.67	67.50	
28-Jan-14	65.93	72.50	
23-Oct-14	71.00	77.50	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Cisco Systems Inc. (CSCO.OQ)

CSCO.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
10-Nov-11	18.61	26.00	O
09-Feb-12	20.00	27.00	
16-Aug-12	19.00	25.00	
28-Dec-12	19.45		NR
18-Sep-13	24.80	21.00	U*
14-Nov-13	21.40	20.00	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Palo Alto Networks (PANW.N)

PANW.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
14-Aug-12	59.80	70.00	O *
10-Sep-12	71.75	75.00	
05-Oct-12	62.00		R
18-Oct-12	61.90	75.00	O
06-Dec-12	51.30	65.00	
28-Feb-13	61.13	70.00	
30-May-13	54.39	57.50	
25-Nov-13	46.10	60.00	
25-Feb-14	74.95	82.50	
28-May-14	69.51	87.50	
23-Jun-14	80.17		R
25-Jun-14	79.75	87.50	O
09-Sep-14	89.28	110.00	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for VMware Inc. (VMW.N)

VMW.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
24-Jan-12	92.66	115.00	O
19-Apr-12	113.75	130.00	
24-Oct-12	85.67	115.00	
29-Jan-13	77.14	110.00	
23-Apr-13	75.70	100.00	
21-Oct-13	82.65	110.00	
10-Mar-14	103.03	130.00	

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