

REPORT REPRINT

Load DynamiX and Virtual Instruments merge to secure funding, boost product development

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The deal continues the recent trend of startups combining to improve their prospects and secure funding. Will the addition of VI's performance and monitoring analytics tools provide Load DynamiX with the capabilities it needs to become a disruptive player in performance management?

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Load DynamiX has acquired Virtual Instruments, continuing the recent trend of startups combining to improve their prospects and secure funding. The companies both have strong technical backgrounds in storage monitoring and management and were working to gain mainstream acceptance in the infrastructure performance management (IPM) space. With the deal, the combined entity will take the Virtual Instruments name and receive \$20m in funding.

THE 451 TAKE

For Load DynamiX, this was an aggressive and opportunistic move since the merger with VI provides a shortcut in its quest to become a mainstream management player. While Load DynamiX has successfully established itself in the performance testing and validation sector, VI will give it better name recognition and existing channel and partner relationships to accelerate sales efforts. From VI's perspective, the pairing is a lifeline that will offer financial stability and the combined product portfolio provides employees and investors on both sides of the transaction a better chance for success. With funding becoming harder to come by, we expect to see more startups huddling up to increase their chances of survival, and would note that hyperconverged infrastructure specialist Pivot3 bought Nex-Gen Storage in January and the merged company went on to score an additional \$54.6m in funding in mid-March.

DEAL DETAILS

The combined entity will retain the Virtual Instruments name and be led by Philippe Vincent, the current president and CEO of Load DynamiX. Though the vendors are positioning this as a merger, we'd note that the new board will be packed with representatives from the Load DynamiX side of the deal. Vincent, HighBar Partners' John Kim and Roy Thiele-Sardiña, Azure Capital Partners' Paul Weinstein, and industry executive and former Load DynamiX CEO Clay Marr will comprise VI's new board. Load DynamiX's Len Rosenthal will assume the chief marketing office role, while VI veteran John Gentry will be CTO. One notable departure from the merged company is former VI CEO John Thompson, who is also the chairman of Microsoft.

HighBar Partners has led a \$20m funding round, and VI says it will be adding engineering and sales people immediately. The combined entity will have approximately 500 enterprise customers in total.

DEAL RATIONALE

The combination of Virtual Instruments' management tools and Load DynamiX's workload analysis and modeling offerings should provide customers an end-to-end infrastructure management platform that will offer realistic testing capabilities to right-size infrastructure hardware purchases, according to executives. VI had fallen on hard times of late, and was forced to slash two-thirds of its headcount last November. This combination and the fresh funding will keep the company afloat and accelerate Load DynamiX's move into the IPM arena.

Synergy is the key word here – 80 Load DynamiX employees will be joining VI's remaining 100. The business will be based in San Jose, where Load DynamiX is located, and VI's current office will be maintained since it is only a mile away. Load DynamiX was in the process of developing a more extensive set of monitoring and performance analytics tools prior to the transaction, but this will no longer be necessary with the addition of VI.

TARGET PROFILE

Founded in 2008 following the spinoff of Finisar's Fibre Channel probe technology business unit, Virtual Instruments has since developed arguably the most complete and sophisticated storage management platform in the industry – which it has used to leap into the broader IPM domain. The company argues that its ability to understand and act on I/O traffic patterns at the optical level in real time gives it an unparalleled basis for monitoring the health of infrastructure underpinning critical business applications.

VI has traditionally focused on large enterprises (the bigger and more complex the infrastructure, the better), and it counts 40 of the Fortune 100 as customers. Its overall client base stands at about 400 – up from roughly 350 at the end of 2014. Securing repeat business is also a significant part of its strategy, especially since initial sales cycles tend to be long.

The vendor has been looking to expand across a couple of dimensions in a bid to improve its total addressable market. The first is expanding from storage-centric monitoring into broader infrastructure monitoring. It was also making an effort to tap into midsized organizations to improve deal volume. VI reports that it is making solid progress by building a partner network – this includes large system and storage OEM partners EMC, Hitachi, Hewlett Packard Enterprise and IBM, plus an alliance partner network of other technology players and integrators such as Cognizant, VCE, Corning, SAP, Oracle, VMware and Microsoft.

ACQUIRER PROFILE

Load DynamiX's stated mission is to provide actionable insight into storage infrastructure behavior to ensure performance and optimize cost. Founded in March 2009, the firm has 80 employees, most of whom are in engineering. It currently has just under 100 customers, with an even split between enterprises and technology providers. In 2014, the latter accounted for 70% of Load DynamiX's revenue.

Prior to the merger, Load DynamiX had raised \$25m in financing, with its last infusion of \$12m coming in a May 2014 round led by HighBar Partners. Other investors include Azure Capital Partners, Kinetic Ventures, Benhamou Global Ventures, Miramar Venture Partners, Core Capital Partners and Columbus Nova.

The company's workload analysis, modeling and generation tools have a proven track record in the field. They enable engineers and storage performance specialists to quickly validate the benefits of a new storage system or to test the effects of a configuration change.

COMPETITION

While Load DynamiX does not have many direct rivals in the storage performance measurement and workload generation sector, the competition will be far more significant for the newly merged Virtual Instruments in the management space.

The storage performance management market continues to be driven mostly by leading hardware providers such as IBM (with Spectrum Control), NetApp (OnCommand) and EMC (ViPR SRM). Players in this realm have leveraged M&A in the past to bolster their product lines, including NetApp's reach for SAN management specialist Onaro in 2008 and pickup of storage and virtualization management firm Akorri Networks in 2011. To maintain account control, incumbents could heavily discount or give away their storage management wares. Contenders in this arena have had some success gaining traction since customers often want to use a third party to get a second opinion on the reliability, performance and efficiency of their infrastructure. A handful of startups are also ramping up here, including ATS Group's Galileo Performance Explorer, Datagres Technologies, Komprise and Primary Data.

Though storage expertise is still at the heart of VI, the vendor has spent the past few years building out the virtualization management capabilities of its VirtualWisdom platform to demonstrate that it's more than just a storage monitoring and management tool. This extension has also led to some competitive clashes with adjacent firms in the management fray. VI's capabilities are fundamentally different from application performance management technologies, but in some cases, it vied for business with APM providers such as CA Technologies, Compuware and AppDynamics.

ACQUIRER

Load DynamiX

TARGET

Virtual Instruments

SUBSECTOR

Storage / Infrastructure Management

DEAL VALUE

Not disclosed

DATE ANNOUNCED

March 29, 2016

CLOSING DATE

Not disclosed