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COMPANIES: SPLK
EMC, HPQ, IBM, TIBX, CLOUDERA INC., LOGRHYTHM INC., SUMO LOGIC INC.



SPLK'S
CHANNEL
BUSINESS

Splunk Channel at Crossroads

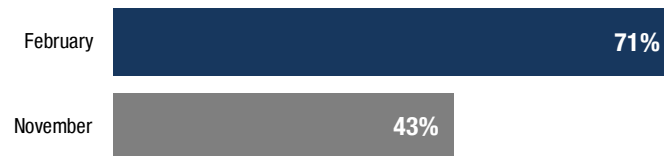
Growing dissatisfaction with Splunk's channel policies is stalling growth for some partners and creating an increasingly challenging environment.

- OTR Global's read on SPLK's channel business is mixed (OTR Global does not cover SPLK's direct sales), a deterioration from the November report
- 6 of 16 responding sources missed FY4Q14 targets (including 4 of 8 U.S. sources), vs. none in FY3Q14
- 10 of 18 partners said channel relations hinder sales, vs. 6 of 14 last time, citing conflicts with direct representatives, low margins, reduced rebates and little support developing sales leads
- Increased user awareness and education drives wider use-case adoption; lack of head-to-head competition cements SPLK's unique market position
- Pipelines still solid, with potential business at least in line with targets for 13 of 15 responding sources

KEY DATA

Poor Channel Relations Increasingly Cited as a Factor Hindering Sales

(percentage of responding sources)



Source: OTR Global

"Splunk has an identity crisis. They have to decide if they want to have a channel or not."

U.S. partner

BY: SUZANNA KERRIDGE

EDITOR: NANCY PICCIN

SOURCES & BACKGROUND

18 Splunk channel partners (9 in North America, 7 in Europe and 2 in India) representing more than \$32.2 million in 2012 Splunk sales (5 sources did not provide a revenue benchmark)

REPEAT SOURCES 9 (3 in North America, 4 in Europe and 2 in Europe) from OTR Global's November report

INTERVIEWS Late January

AVERAGES Straight

NOTE About 30% of Splunk's sales went through indirect channels at the end of 2012; this is solely a read on the channel business.

See last page for Important Disclosures and Analyst Certification

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Splunk Policies Challenging for Partners

Splunk Inc.'s channel partners said growing dissatisfaction with channel policies combined with rising criticism about Splunk's pricing model resulted in a challenging environment during FY4Q14 (November–January). Some who had hoped for great sales increases are becoming discouraged by the lack of channel support, and 10 of 18 sources said the policies were a hindrance to sales, compared with only six of 14 in the November report. One large U.S. partner believes Splunk is at a crossroads, saying, "Splunk has an identity crisis. They have to decide if they want to have a channel or not."

Partners struggled to win new business, partly because of channel changes that eliminated help finding sales leads. They also said awareness of the product remains spotty, making it difficult to sell to C-level executives who can sign off on larger deals. A U.S. source said, "We are getting renewals of business we booked a year ago — but not any new business — [and] no upsell or increase of licenses in those customers we got a year ago." A U.K. source said, "Half of our accounts have grown in the past year, but the majority of growth we see is from existing rather than new customers."

Sources also said Splunk has reduced their profitability. A U.S. source said, "We are finding it more difficult to make money with Splunk; it is an alarming trend. They are very aggressive at point of sale but beat resellers down on margins on renewal business, and most of Splunk is renewal business. . . . Splunk gets stingier and stingier on repeat business. We have a large household-name customer that bought \$500,000–\$600,000 and got very aggressive price from Splunk to win the business. Now, that customer wants \$1–\$2 million more at the same terms, and Splunk is seeking to take it out of our margins." Another U.S. partner said, "Splunk brought in a new channel program, which required us to invest in new skills with no advantage to us to do that, and then reduced our discount or margin. So they upped the requirement and lowered the discount with no benefits to the partners; it's not a good program."

Challenges Hurt Quarterly Performance

Sales vs. Expectations

(number of mentions)

	FY4Q13	FY1Q14	FY2Q14	FY3Q14	FY4Q14
Exceeded	3	2	-	3	3
Met	9	10	10	9	7
Fell below	3	2	3	-	6
OTR Comparative Index	0	0	-23	25	-19

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the "worse" from the "better" responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

Six of 16 sources fell below their FY4Q14 sales targets, which is the highest number OTR Global has found during the past five quarters, and in FY3Q14, no source missed. Four of those sources cited channel policies as part of the reason. U.S. sources found it harder to meet targets than sources in other regions, with four repeat sources missing goals because of a mixture of internal challenges, deal slippage and pricing concerns. One said, "We're still at the bottom of the roller coaster."

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Although some sources have been developing their Splunk business for a couple of years, several said sales still come in fits and starts. Six of 13 sources who gave FY4Q14 performance data said sales were flat or down qq, including four of seven U.S. sources.

Number of Large Deals Mostly Unchanged QQ

(number of mentions)

	NOVEMBER	FEBRUARY
Significantly increased	1	-
Increased	4	2
Remained the same	5	6
Decreased	-	1

Only two of nine partners reported an increase in big deals (more than \$100,000), compared with five of 10 in November. Sources cited difficulty in finding new customers and high pricing, as well as the lack of channel support to reach bigger customers.

Partners continued to rely on their own efforts to generate revenue, as in OTR Global's previous reports. A U.S. source said, "The Splunk folks are out looking for their own customers. They're encouraging us to find customers and supporting us, but we don't get leads [or] offers to co-sell. They're out doing their thing but not working with us in partnership; that has changed from the early days. So if we're not able to find our own leads or close our own business, we're on our own."

Inflexible Pricing Also a Barrier

In OTR Global's previous reports, partners said Splunk deployments can become very expensive fairly quickly; this issue remains top of mind, particularly for European and Asian sources. A French source said, "The cost of license is high, but if you add the cost of installation, it becomes very expensive for simple use." A German source said, "Some customers are really shocked when all details are done and they see the final pricing. Also looking to Big Data, easily the cost could explode, and it is not always easy to make the customers understand why they should pay so much. Customers will not see the ROI or miscalculate their budget."

Asian sources said customers often fail to maximize on Splunk's full potential because they cut corners to minimize their implementation spending. An Asian source said, "Some customers get daunted by the license cost and cost of implementation. Others just buy the licenses and try to implement themselves and lose out on the full capability of Splunk."

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Flexibility, Security Drive Uses

Most Common Use Cases

(number of mentions)

	AUGUST	NOVEMBER	FEBRUARY
Security/Compliance	12	10	17
IT Management	11	6	6
Application Management	5	5	5
Big Data	1	-	2
BI	2	3	1
Other	-	12	8

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Despite their own challenges selling Splunk, sources still praised the product and believe its potential to help customers turn previously unused data into business intelligence has only begun to be tapped. Splunk's technological flexibility remains the No. 1 business driver, and as user awareness and education expands, so do use cases. A U.S. partner said, "There's a lot of excitement for the product in the marketplace. I've seen quite a few transactions. ... This data was usually being thrown away in the past; now, it's being used. That is pretty powerful. When we show it to customers, and they really understand the product, they get really excited."

Security remains the most common use case, and it is one that is easily demonstrated. A U.K. source said, "We focus on the core and then build it out from there. For a quick win, we go after the security guys." A U.S. source said, "Customers buy it for compliance with PCI, HIPAA [Health Insurance Portability and Accountability Act] or ISO or SOX [Sarbanes-Oxley]. And that is, by and large, the most common reason people buy it."

IT management and application management were again in the second tier of popular uses as customers build out cloud infrastructures and data centers become more dependent on software. Only two partners mentioned Big Data analytics as a current use case, but several said Splunk has great potential in that sector. A U.S. source said, "A lot of customers are talking about Big Data and trying to get their arms round that. Splunk can be their first foray into Big Data in an organization." Another said, "If big companies want to keep their customers and data centers open and IT functions going, they're going to have to embrace Splunk or Splunk-like products to compete with the Amazons and Googles of the world."

Pipeline Solid

Despite their dissatisfaction with channel policies and disappointment about customers ramping closer than they would have liked, 13 of 15 partners said their pipelines were at least as full as they had expected, although some said deals that had been pushed out were a factor. One U.S. source said he was 30% above where he expected to be because of increased demand for data analytics and new customers as he grew his business. A U.K. source said, "We have a number of customers renewing, and the typical extra spend is 20% of the original spend." One German source who missed 4Q14 targets said his pipeline was better than expected because his company stepped up its own internal efforts to educate customers. He said, "The pipeline is looking better for FY1Q15; our efforts on showing and explaining a complex structure and measuring the calculation of the budget with the customers are showing positive results. Here, we see the most need for discussion and communication."

Nine of 10 sources who commented on FY2014 sales expect growth, but at widely differing levels.

Head-to-Head Competition Remains Rare

Splunk is maintaining its unique position in the market, which is similar to OTR Global's previous findings. Sources said it continues to win against **Tibco Software Inc.**'s LogLogic, **LogRhythm Inc.** and **EMC Corp.**'s RSA Envision. A U.S. source said, "I am not aware of anything that really does what Splunk does or the way they operate. I think they have different competitors in different spaces, but I am not seeing anyone with specific functionality that is the same as Splunk."

Three sources mentioned **IBM Corp.** as gaining against Splunk, compared with only one in November. A U.S. source said, "IBM is always stronger because of the more partner-friendly channel." A German source said, "IBM is visible mainly due to the pricing; I think the technology is not really

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comparable. Splunk is expensive at a larger data volume because of the license business model. Other companies have a different approach, and, therefore, they can offer a better price, which attracts customers' attention."

Contributors: Jaclynn Anderson, Juliette Courouble, Elizabeth Frey, Michael Menduno and Ulli Wilser

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NORTH AMERICA

“Honestly, Splunk themselves are the biggest hindrance. They went back to being difficult, and pricing is off-the-chart high, so customers are opting for other solutions.”

“Our overall business was down. It was a bumpy quarter for us, and we are trying to figure out why. We think what is happening is that our business is becoming more distributed through the calendar versus hockey-sticking at year- and quarter-ends, like it did historically.”

“One customer was bringing their websites in-house and needed to monitor their weblogs. Almost immediately, they saw where the problematic areas were; Splunk gave them visibility into what was causing the problem. Now, they are getting business value out of log data from the website. They can monitor where people are coming into their site; they can monitor shopping carts and see if people drop off their carts. Another retail organization is using it to monitor returns. They can actually see returns coming in.”

“We had a couple of big deals early last year, and then that didn’t continue [to increase] over the year. So it wouldn’t be that hard to have this year be better. My hope is there are a couple of fairly large prospects. If we are successful at those deals, we will do as well or better as last year [in 2014].”

“We have to decide whether we can really make a go on our own. That is different from the early days when they were hungry and would say, ‘Take us in; we’ll sell it, you can get the business.’ So we’re looking for help getting appointments.”

“There is a product that EMC has come out with that has some of Splunk’s capabilities — but not all of them — in a virtual environment. We have used both tools but have not seen anything out there.”

EUROPE

“Main use cases are log management, capacity planning and monitoring, as well as security and compliance. We are trying to push other fields like BI, analytics and marketing.”

“Without an underlying systems knowledge, customers struggle to get it to do more, which is why we get a lot of short-term service engagements.”

“You really need good application development people in order for Splunk to spread. The customer is not always aware of what they want to do with it. You need to do the scripting and show them the use. Sometimes, that means only a day or two of service revenue; but other times, it means a longer commitment.”

“The hardest thing is the lack of presales support; it is a very lean organization. The business model is about building around the software and not making it a services organization. They are looking for the channel to do the services, but, instead, it ends up with us doing Splunk fixing for very specific needs. So we do a day here or a day there, rather than longer-term relationship building with the customers.”

“There is still double-digit growth out there.”

“Up to December, we did what we had planned to do; but in January, a lot got moved out. For German buyers, it is a little different; in January, budgets are usually not completed yet.”

APAC

“The most common use cases remain the same: enterprise-class log management analytics, big data analytics and online customer experience analysis.”

“Splunk caters to a developing market and is creating its own niche. Although it faces competition from IBM and HP [Hewlett-Packard Co.], I can’t say Splunk is losing out to any due to its uniqueness.”

“Splunk’s unique technology is its biggest driver. It’s unique selling proposition — which is a much faster return on investment — has been providing a fair amount of traction. The new release, Version 6, is also helping.”

“We had a reasonably good quarter, which was not as good as the previous quarter but fared according to expectation.”

“FY4Q14 saw a delay in decision making, which is why some of the deals have been pushed to the current quarter [FY1Q15].”

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1. Did your Splunk FY4Q14 sales exceed, meet or fall below your expectations?

	AMERICAS	EMEA	APAC	TOTAL
Exceeded:	3	-	-	3
Met:	1	4	2	7
Fell below:	4	2	-	6
No response:	1	-	-	1
Not applicable:	-	1	-	1
OTR Comparative Index:	-13	-33	0	-19
FY3Q14 Index:	50	0	50	25

2. What is helping or hindering your Splunk business? (Some sources gave more than one answer while others did not respond.)

HELPING

Technological flexibility:	2	5	2	9
Specific use cases:	5	1	-	6
Internal marketing efforts:	-	2	2	4
Land and expand strategy:	3	1	-	4
Splunk marketing efforts:	-	1	1	2
Security use case:	1	1	-	2
Other:	3	1	-	4
Nothing:	1	-	-	1

HINDERING

Channel related:	6	4	-	10
Pricing:	1	4	2	7
Other:	4	3	-	7
Nothing:	2	-	-	2

3. Did your Splunk FY4Q14 sales increase, decrease or remain the same qq?

Up 41%–50%:	1	-	-	1
Up 11%–15%:	-	-	1	1
Up 6%–10%:	1	1	-	2
Up 1%–5%:	-	1	-	1
Up:	-	1	-	1
Flat:	2	1	-	3
Down:	2	2	-	4
Don't know:	1	-	-	1
No response:	2	-	1	3
Not applicable:	-	1	-	1

4. Is your pipeline for business during FY1Q15 above, below or in line with your expectations?

Significantly above:	1	-	-	1
Above:	1	2	1	4
In line:	3	4	1	8
Below:	1	-	-	1
Significantly below:	1	-	-	1
No response:	2	-	-	2
Not applicable:	-	1	-	1
OTR Comparative Index:	0	33	50	20
FY3Q14 Index:	50	0	100	33

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5. Do you expect your 2014 Splunk business to increase, decrease or remain the same yy?

	AMERICAS	EMEA	APAC	TOTAL
Up 91%–100%:	-	-	1	1
Up 61%–70%:	-	1	-	1
Up 51%–60%:	1	-	-	1
Up 41%–50%:	-	1	-	1
Up 21%–25%:	1	-	-	1
Up 11%–15%:	-	1	-	1
Up 1%–5%:	1	-	-	1
Up:	-	2	-	2
Down:	1	-	-	1
Don't know:	3	1	-	4
No response:	2	-	-	2
Not applicable:	-	1	1	2

6. What other vendors are competitively stronger or weaker than Splunk? (Some sources gave more than one answer while others did not respond.)

STRONGER

IBM:	1	1	1	3
LogRhythm:	1	1	-	2
Cloudera Inc.:	1	-	-	1
Sumo Logic Inc.:	1	-	-	1
Hewlett-Packard's ArcSight:	-	-	1	1
Other:	1	-	-	1
None:	3	5	1	9

WEAKER

Tibco's LogLogic:	1	1	-	2
Hewlett-Packard's ArcSight:	1	-	-	1
LogRhythm:	1	-	-	1
IBM's Q1 Labs:	1	-	-	1
Open source:	-	1	-	1
Other:	-	1	1	2
None:	2	4	1	7

7. What are the most common use cases for your Splunk customers? (Some sources gave more than one answer while others did not respond.)

Security:	7	7	1	15
Application Management:	1	3	1	5
IT Operations Management:	1	3	1	5
Compliance:	2	-	-	2
Capacity Planning & Monitoring:	1	1	-	2
Big Data:	1	-	1	2
Log Management:	-	1	1	2
BI:	-	1	-	1
Other:	3	-	1	4

8. Did the number of large deals (\$100,000 or more) during FY4Q14 increase, decrease or remain the same for your Splunk business qq?

Increased:	-	1	1	2
Remained the same:	1	4	1	6
Decreased:	1	-	-	1
No response:	3	1	-	4
Not applicable:	4	1	-	5

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9a. Are you getting any traction with Hunk?

	AMERICAS	EMEA	APAC	TOTAL
Yes:	1	-	-	1
Maybe:	1	-	-	1
No:	2	5	2	9
Don't know/too early to tell:	2	1	-	3
No response:	3	1	-	4

9b. What impact do you expect Hunk to have on your customers' potential 2014 spending on Splunk?

Positive:	1	-	-	1
No impact:	1	4	-	5
Don't know:	3	2	2	7
No response:	4	1	-	5

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