The State of the Open Source Industry

Eclipse Foundation Annual General Meeting
17 March 2008

Raven Zachary

Research Director, Open Source
The 451 Group

Agenda

- About The 451 Group
- Open source today
- VC funding + M&A activity
- Reviews and previews
- The role of the Eclipse Foundation

About The 451 Group

- Independent technology industry analyst company
- Focused on the business of enterprise IT innovation
- www.the451group.com

451 key stats

- 700+ customers across
  - Vendors
  - Investors (150 VCs and 80 Investment Banks)
  - Service-providers (SIs, consulting, etc.)
  - End users
- Offices in New York (HQ), Boston, London, SF
  - 80+ total employees w/ 35+ analysts
- Tier1 Research subsidiary focused on IT services
- Operate a number of major events per year

451 CAOS Research Service

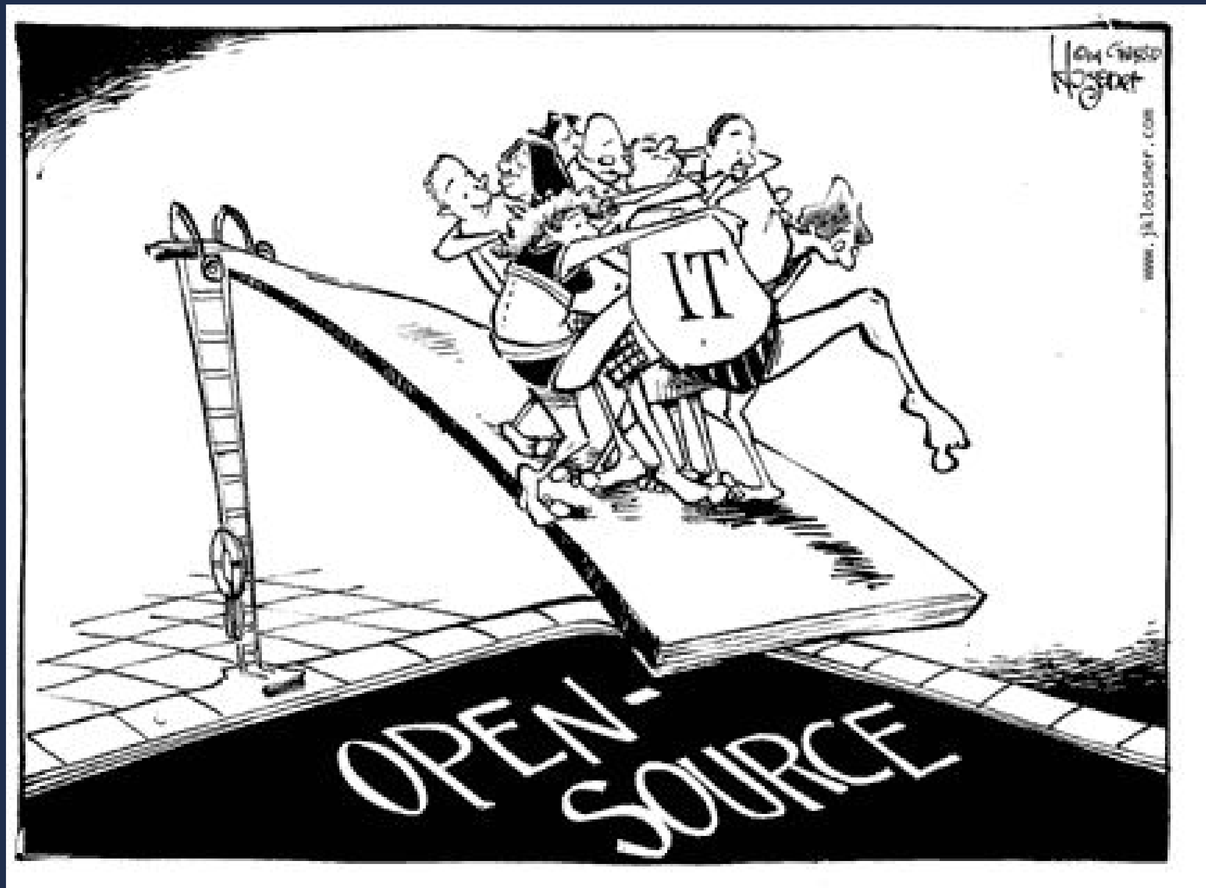
- <u>**C**</u>ommercial <u>**A**</u>doption of <u>**O**</u>pen <u>**S**</u>ource
- In-depth, timely perspectives on the impact of open source on software vendors, end users, and investors
- Qualitative research reports, backed by quantitative research surveys
- Case studies and 'lessons learned' from early adopters and vendors
- Reports, ongoing coverage, and advisory services
- 3 dedicated open source analysts, 8+ additional coverage

WWW.THE451GROUP.COM

Analyzing the business of enterprise IT innovation

the 451 group

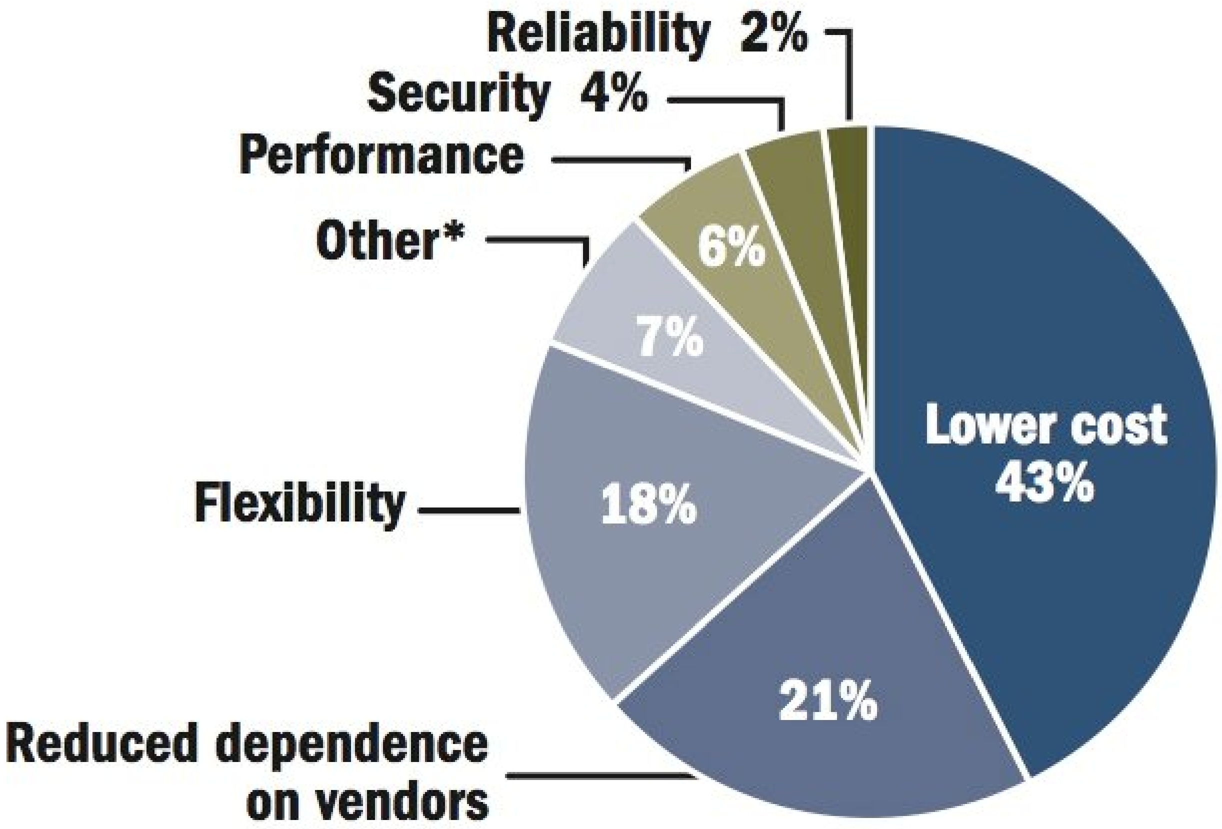
Open source today


IT
OPEN-SOURCE
www.jklossner.com

Open source today

- It’s everywhere!
- Disruptive force in the software industry
- Knowledge and comfort-level expansion
- Adoption is increasing dramatically
- It’s still largely a cost-reduction story
- Support is the success story, but VCs and vendors are uneasy with a services model

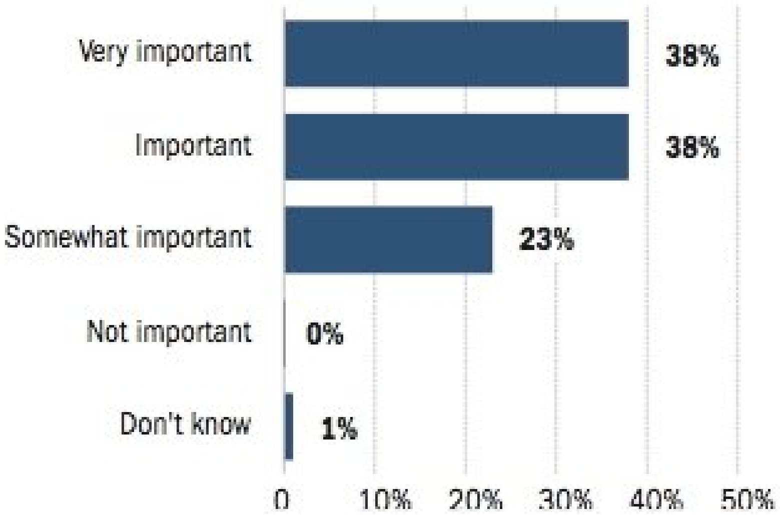
Adoption drivers



Cost savings - before and after

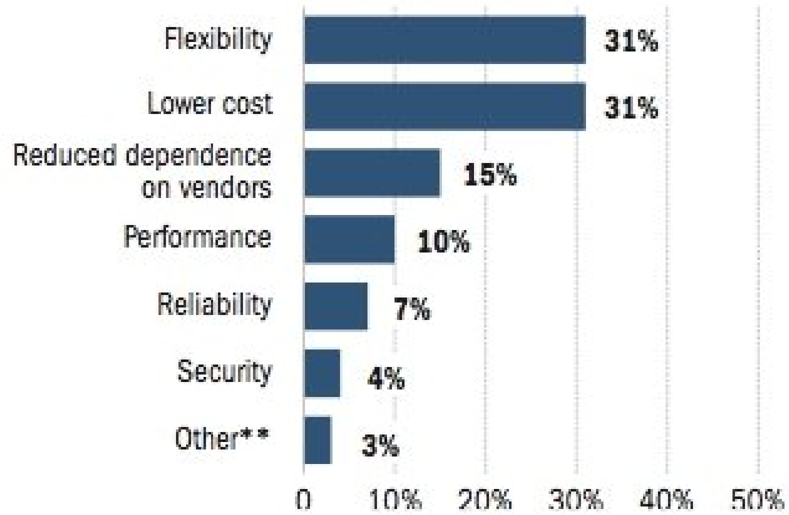
"Cost savings" is important before adoption...

Overall, how important was the issue of cost savings in the decision-making process for open source adoption?

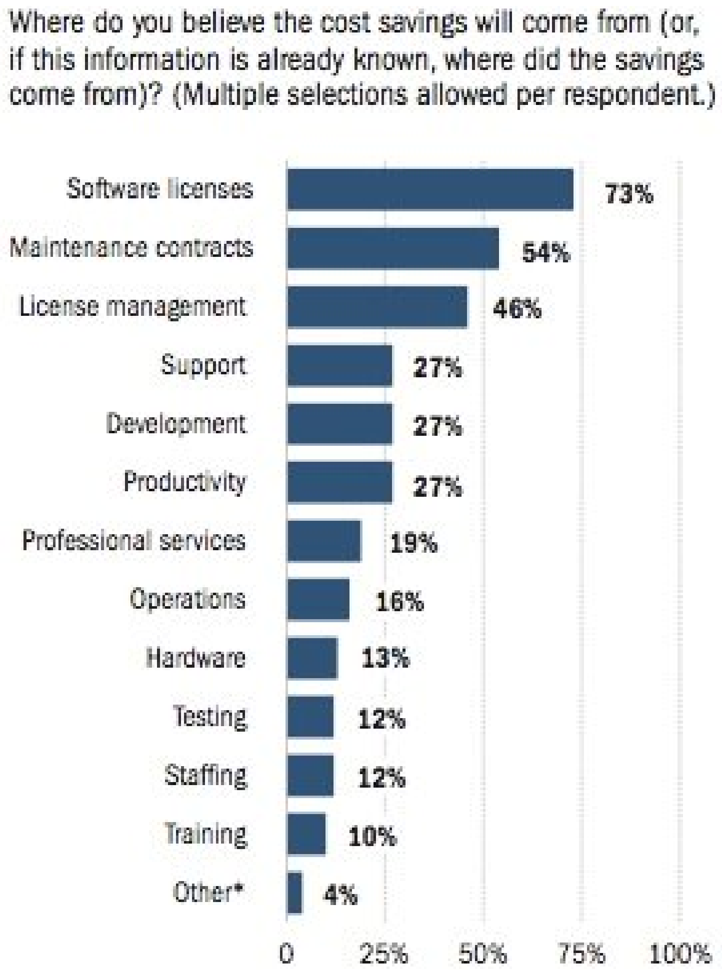


...but not as important after adoption.

After your organization adopted open source software, what was the primary benefit of its use?

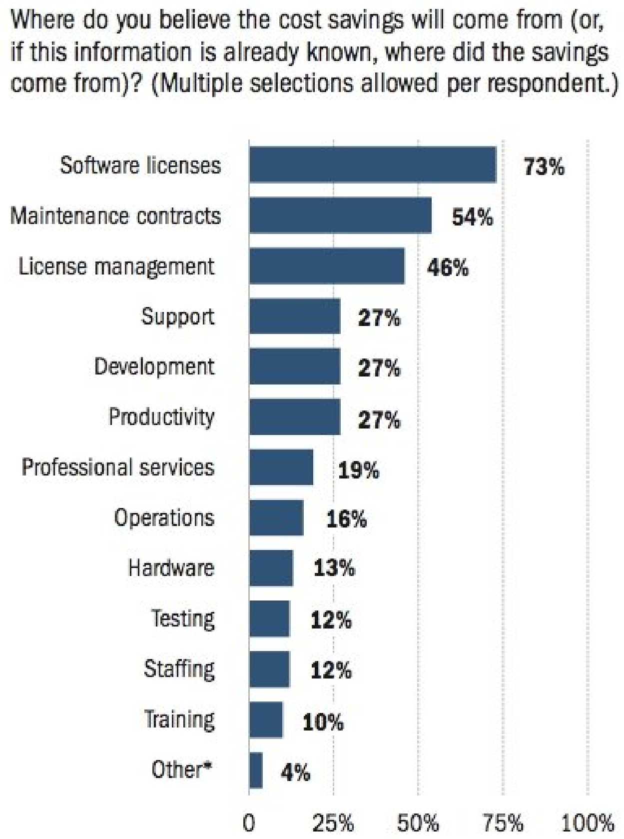


Savings opportunities

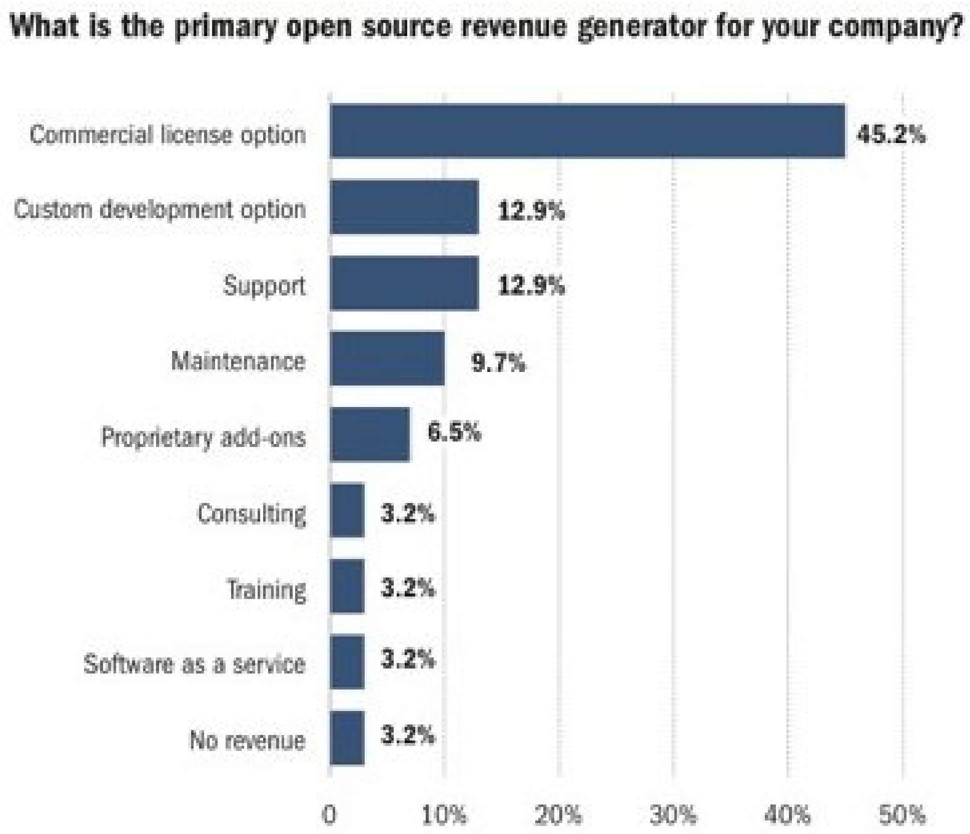


A mismatch?

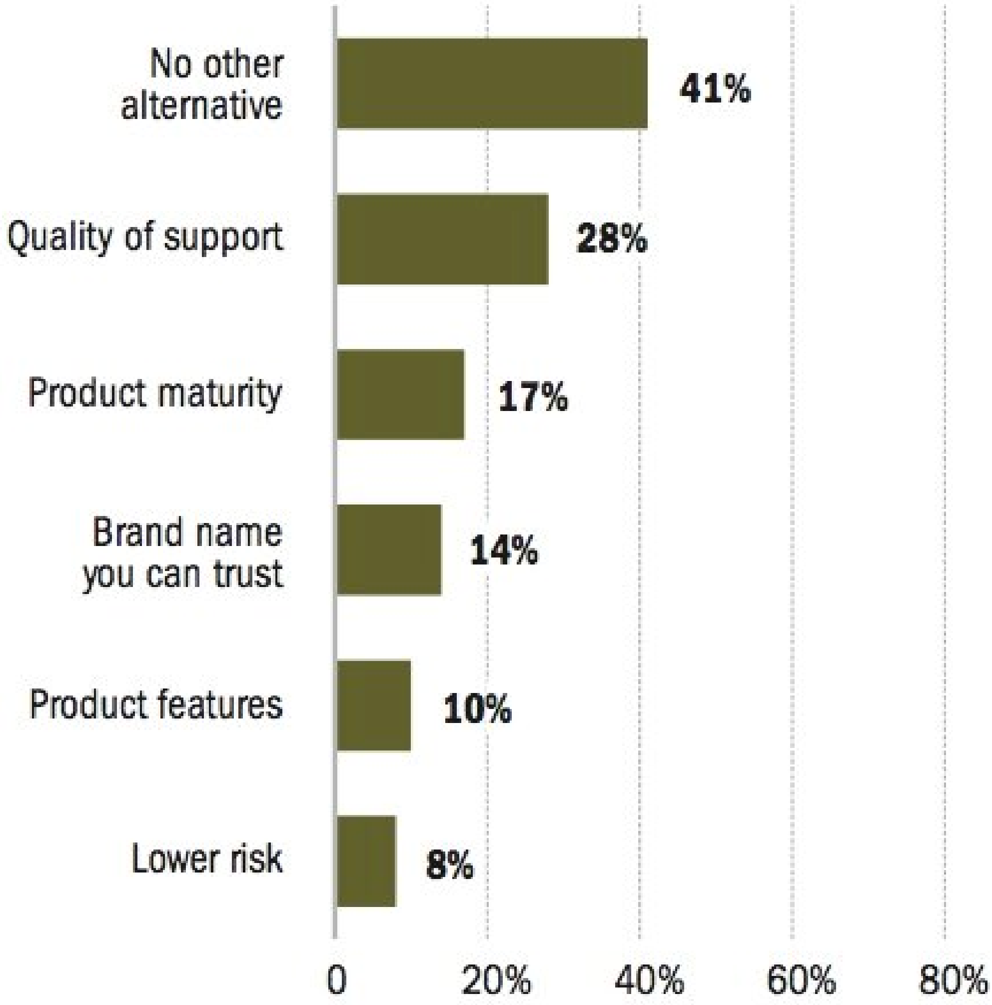
End users



Software vendors

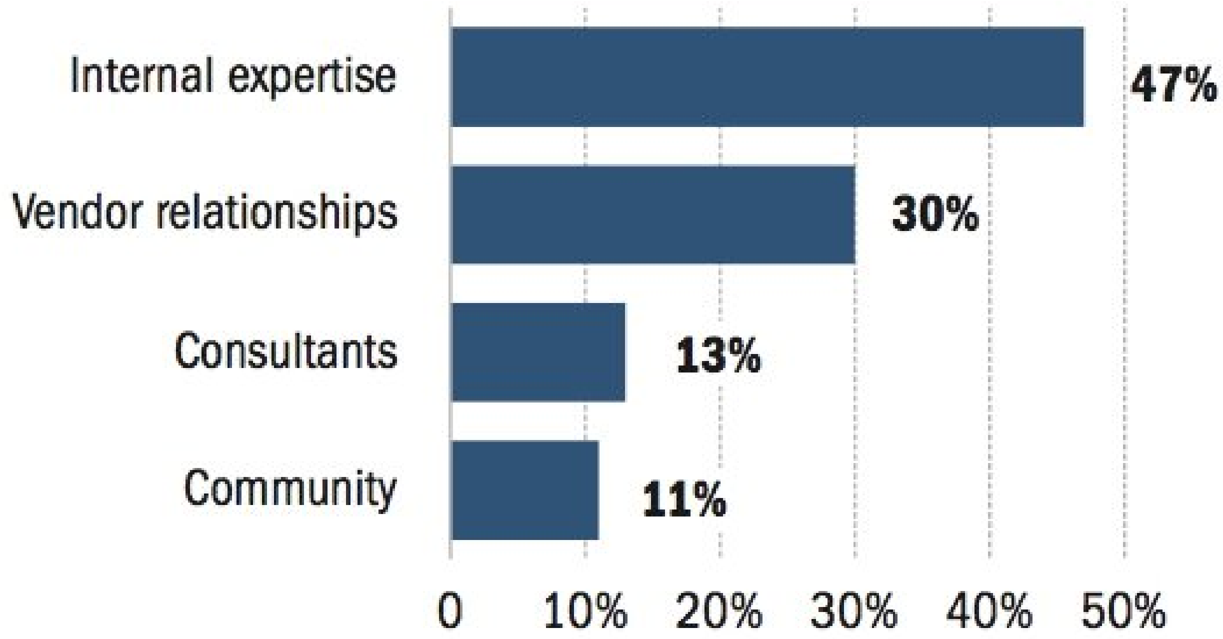


Advantages of proprietary software

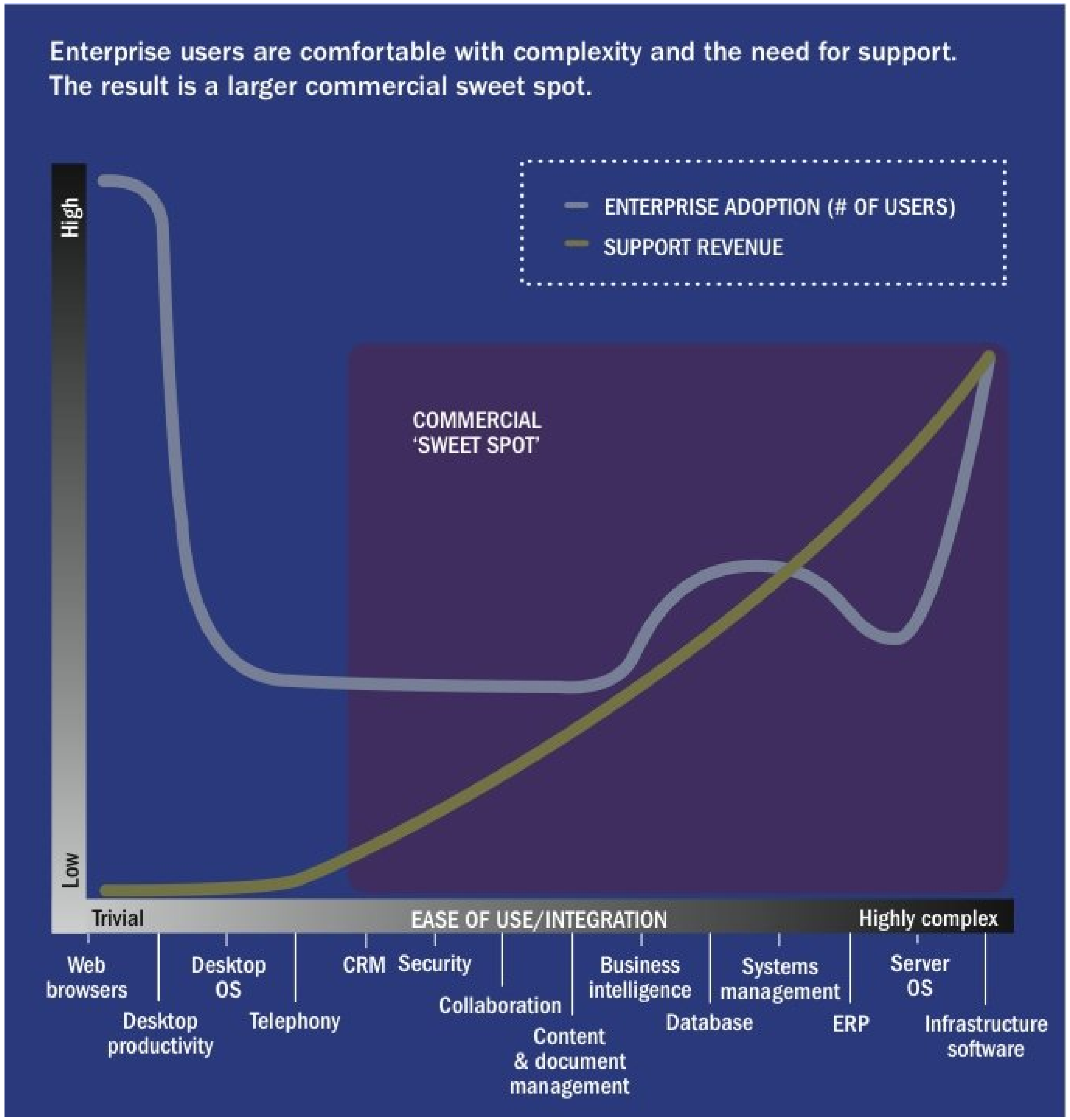


Supporting open source

How does your organization support open source software (e.g., internal expertise, consultants, vendor relationships, etc.)?

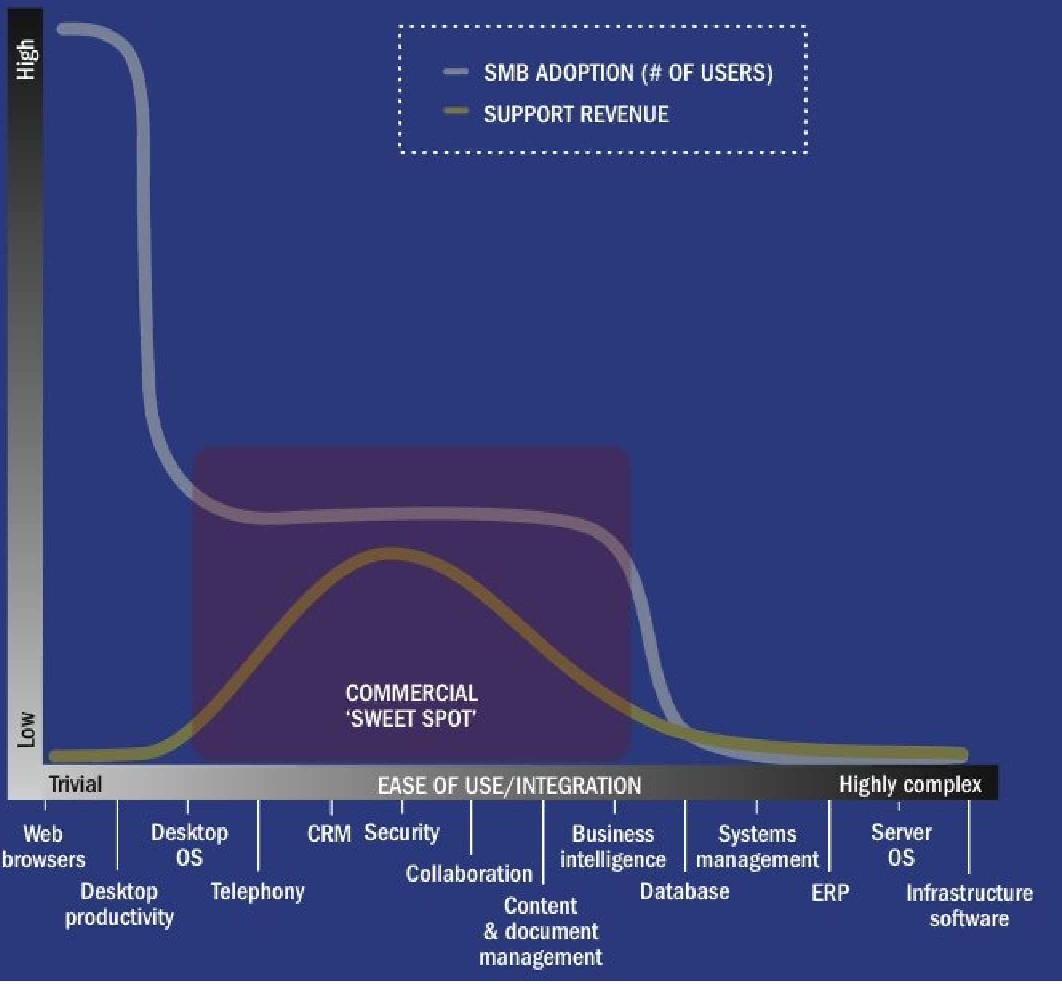


Enterprise market



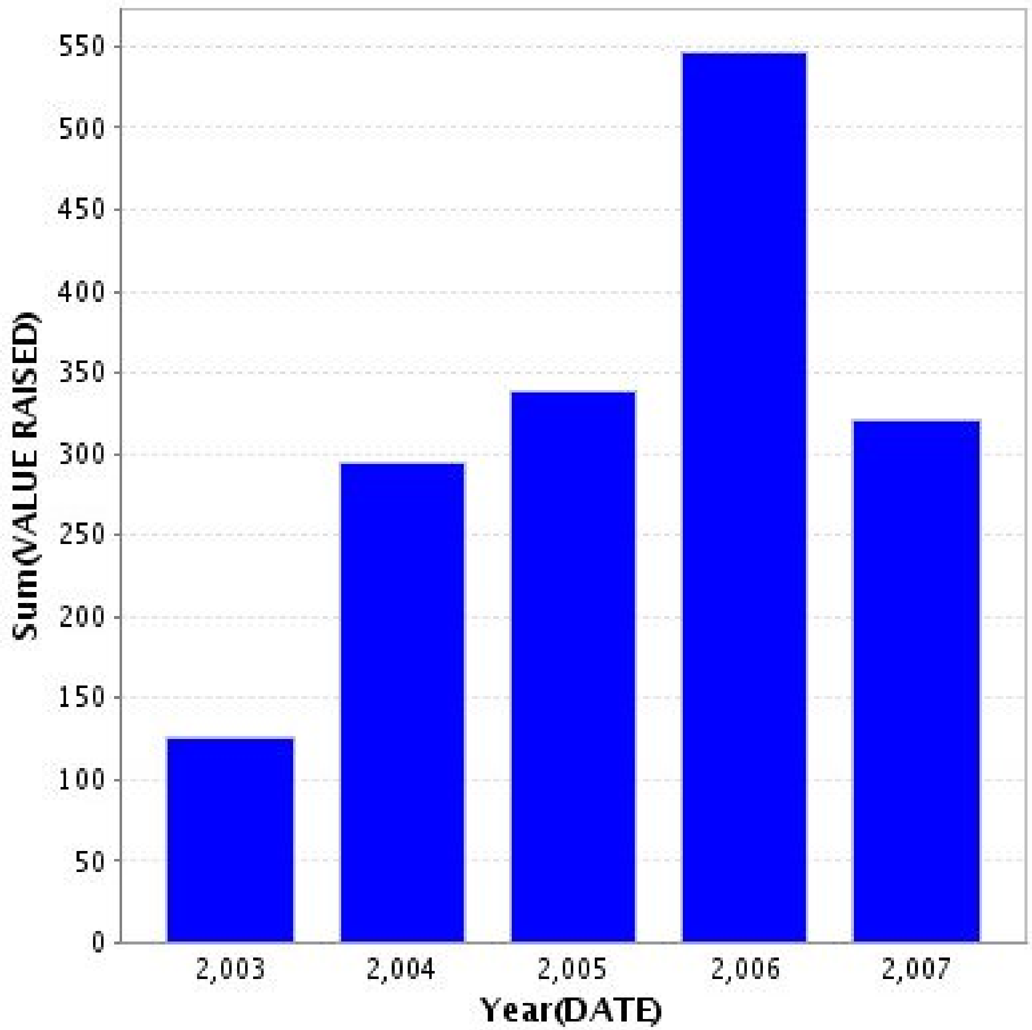
SMB market

Complexity, and the consequent need for support, scares SMB users off. The result is a small commercial sweet spot. SaaS changes the equation.



Venture funding + M&A activity

VC funding activity by year



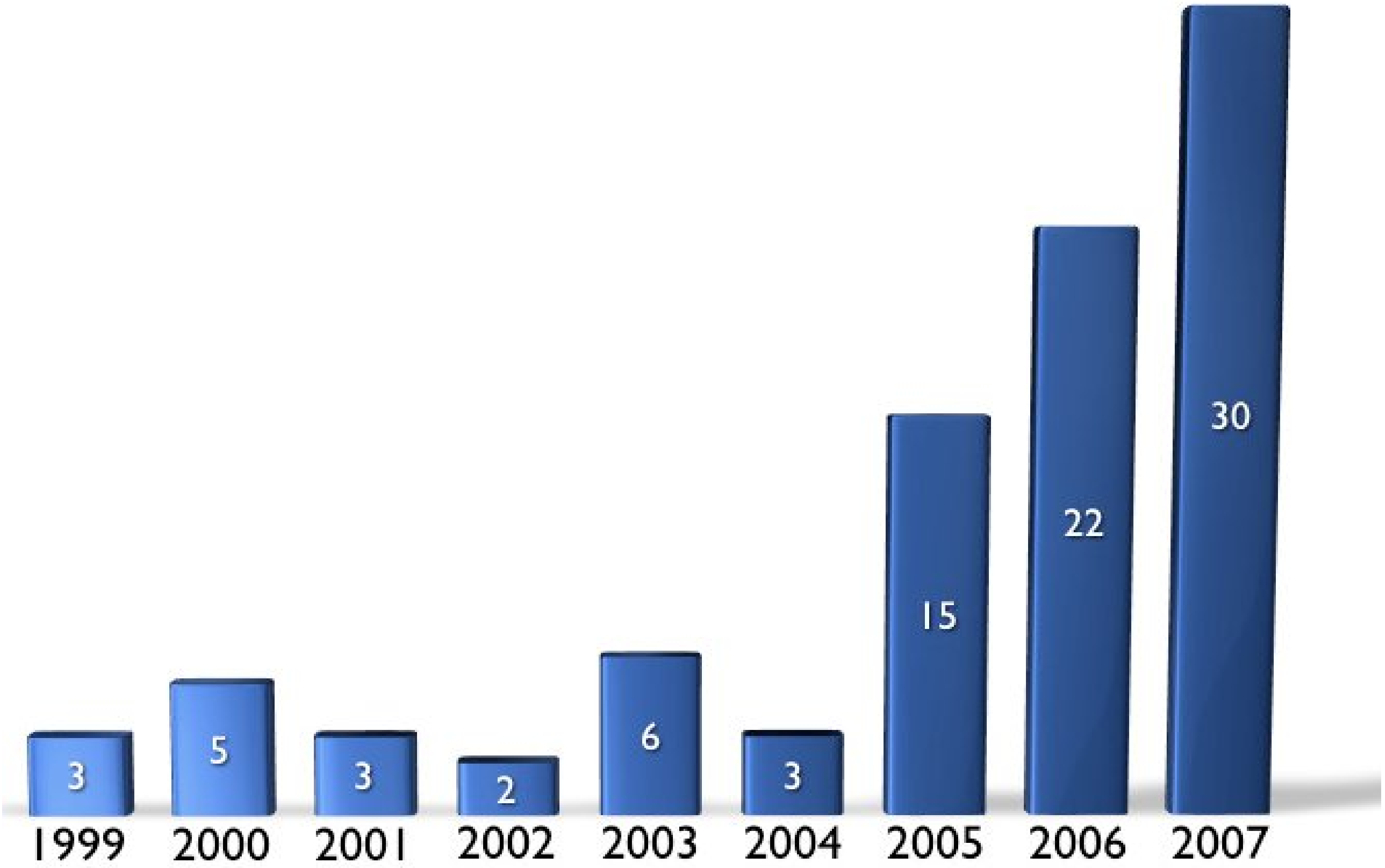
Venture funding

- 2004: $304m, 36 deals
- 2005: $335m, 46 deals
- 2006: $546m, 58 deals <- peak year
- 2007: $324m, 50 Deals
- 2008-on: ~$300m
- ~ $2.38bn since 2000

Why M&A activity is important

- Dominant force in IT activity today
- Impacts customers
  - Product roadmap
  - Innovation
  - Licensing and community
- Over 100 ‘open source vendors’ and growing
- Attractive targets for large IT vendors and Sis
- Component-based nature of open source
- Difficulties in going it alone

M&A activity by year



Red Hat - the consolidator

16 deals

Akopia
ArsDigita
Atomic Vision
BlueCurve
C2Net Software
Cygnus Solutions
Exadel (tools product line)
Hell's Kitchen Systems
JBoss
MetaMatrix
Mobicents
Netscape Enterprise Solutions (AOL)
NOCpulse
Planning Technologies
Sistina
Wirespeed Commnuications

Types of M&A, part 1

- Broadening portfolio
  – Xandros acquires Scalix, 06/2007
- Consolidation play
  – United Devices merges with Univa - UnivaUD, 09/2007
- "Reverse merger" / business overhaul
  – ActiveGrid acquires TurboAJAX, becomes WaveMaker, 09/2007
- Technology play
  – Sun Microsystems acquires Cluster File Systems, 09/2007

Types of M&A, part 2

- Project acquisition
  - Sourcefire acquires ClamAV project, 09/2007
- Academic acquisition / tech transfer
  - Pentaho acquires Wekka project, 09/2006
- Business unit / carve-out
  - CollabNet acquires SourceForge Enterprise Edition from VA Software, 04/2007

Recent M&A milestones

- Oracle acquires Sleepycat
  - 02/2006, $60m
- Red Hat acquires JBoss
  - 04/2006, $350m
- Citrix acquires XenSource
  - 08/2007, $500m
- Yahoo! Acquires Zimbra
  - 09/2007, $350m
- Sun Microsystems Acquires MySQL AB
  - 01/2008, $1b

Targets

- Infrastructure software
  - SpringSource
  - MuleSource
  - TerraCotta
- Stacks and services
  - ~~Covalent~~
  - OpenLogic
- ~~MySQL~~
  - ~~IPO?~~
  - ~~Red Hat, Oracle, Sybase, HP, Sun~~

Reviews and previews

2006 in review

- Major events
  - JBoss acquisition
  - Oracle Unbreakable Linux
  - Microsoft-Novell collaboration agreement
  - Open Source Java
- Funding – $546M, 58 deals, peak funding year
- M&A – 22 deals

2007 in review

- Major events
  - GPLv3 and GPL lawsuits
  - SCO bankruptcy
  - More Microsoft Linux deals
  - New foundations
- Funding – $324M, 50 deals
- M&A – 30 deals, peak M&A year

2008 preview

- Greater shift in activity to existing IT vendors
- Less funding, more M&A
- A new wave of failures
- Continued talent shortages from core contributors
- SMB market adoption is a limited opportunity

2011 preview

- Educated buyers
- Consolidation of open source startups
- Diversification of Linux suppliers
- Federated support models
- Services model wins out
- Open collaboration and standards more important than code

Winners and losers

- Winners
  - Enterprises
  - SaaS providers and ISVs
  - SIs
  - Collaborative vendors
- Losers
  - SMBs
  - Desktop
  - Go-it-alone open source vendors
  - License-based revenue

The role of the Eclipse Foundation

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- Organizational leadership
- Vendor collaboration and new entrants
- Open development platform
- Project diversity
- Beyond IDE, beyond Java
- IBM autonomy

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Thank you!

Raven Zachary

Research Director, Open Source

raven.zachary@the451group.com
503.334.1810

blogs.the451group.com/opensource/