



Informatica Company Assessment

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Informatica Company Assessment

SUMMARY

Impact

The Informatica brand has been synonymous with data integration for over 17 years. The company has evolved rapidly during that time, growing both organically and inorganically, to retain a leadership position in the market. After initially focusing on providing extract, transform, and load (ETL) tools for analytic data warehousing, the company branched out to address broader operational data integration requirements. Informatica continues to extend the breadth and depth of its core Informatica Platform with a combination of in-house development and a series of technology-focused acquisitions in the past five years that promise to open up new adjacent markets to leverage its data integration technology. Today the Informatica Platform enables a variety of data management initiatives: enterprise data integration, data quality, cloud data integration, B2B data exchange, low-latency messaging, application information lifecycle management (AILM), complex event processing (CEP), and master data management (MDM).

The company is also keeping abreast of modern IT developments and aligning its technology to evolving trends in service-oriented architecture (SOA) and cloud computing. As one of the remaining independent data integration pure-plays in the market, Informatica has continued to grow its business impressively, despite a challenging economy and the presence of much larger infrastructure and application vendors entering its market.

However, in terms of not having an application, database, or cloud agenda, that independence and growth make Informatica an attractive partner or acquisition target for IT vendors that want to gain a neutral, top-drawer data integration toolset and competency. Admittedly, that group of suitors gets smaller every year.

Ovum view

Informatica has evolved as a company by delivering new and innovative technology. However, it has also stayed true to its roots. The notion of Informatica as a siloed, data warehousing-centric (ETL) tools provider is now a distant memory. Yet the company still maintains its focus on data integration – an ever-present hurdle for any IT project. Data integration is tricky and not for the faint of heart. Informatica has stepped up to the plate and brings not only a wealth of technology to the table, but also depth of experience in this market.

Even though Informatica enjoys a large share of the data warehousing market, it neither has been content to rest on its laurels, nor can afford to do so. After staking its intent to be a pure-play data integration specialist, the company has always had to keep its options broad and open. As it is not tethered to any specific



database or enterprise application system, Informatica's software is partner friendly and especially suitable as an OEM partner for ISVs seeking to keep their options open. Its worldwide partner program (INFORM) is also helping Informatica expand these lucrative OEM opportunities by opening the door for a highly flexible "Informatica Inside" strategy that embeds "right-sized" components inside ISV partner offerings.

Additionally, the partner program allows Informatica to seek out adjacent application areas and software markets that would benefit from its core data integration prowess. While data warehousing still accounts for a large chunk of software revenues, other parts of Informatica business (such as data quality, MDM, ILM, and the cloud) are also paying dividends – in its most recent quarter Informatica had at least one \$1 million+ deal in each of its product lines except for the cloud. An aggressive yet carefully targeted and sequenced acquisition strategy over the past several years has allowed the company to branch out and tool up in complementary areas such as data quality, master data management (MDM), business-to-business (B2B), exchanges, and unstructured data management – which all become part of a much bigger data integration problem. Since the cloud promises to bring forward the next big wave of data fragmentation, we believe it represents the next big growth market for Informatica's business. Informatica has already shown that it is ready to bet big on stealing an early lead in the market. It is adapting more of its platform's functionality to the cloud as a trio of software-, platform-, and infrastructure-as-a-service (SaaS, PaaS, and IaaS) offerings, which should accelerate its medium- and long-term growth rate. For example, Informatica's B2B exchange, archiving, and data quality software products are offered today as cloud-based solutions, along with a hosted MDM solution.

However, Informatica's status as the "Switzerland" of data integration also presents its challenges. Rampant consolidation in the data management software market has seen several long-time partners suddenly become competitors overnight – and formidable ones at that (IBM, SAP, Oracle, and Microsoft). Yet at the same time, Informatica continues to maintain strategic technical and marketing relationships with influential IT vendors such as HP, Salesforce.com and, more recently, EMC. Informatica was also content to partner with IT vendors that offered adjacent (and highly complementary) technologies that played into its broadening data integration strategy. Despite its recent acquisition streak, we believe Informatica remains committed to its open and neutral stance. It has in fact executed a series of calculated acquisitions that align closely to two dimensions of expansion:

- data-centric technologies, which address the value chain of turning data into a valuable business asset through continual additions and enrichment of the core Informatica data integration platform
- integration-centric technologies, in which the emphasis is on moving and integrating data around certain applications.

That explains Informatica's acquisitions in adjacent markets such as AILM, CEP, and low-latency messaging. These are natural extensions to Informatica's core



platform which, because it can integrate data anywhere it resides (even in the cloud), now becomes absorbed into a variety of data integration scenarios.

Consolidating and unifying all of these expansive moves relies on a solid, enterprise-grade data integration runtime engine. Informatica has worked hard to keep the engine's functionality aligned to increasing demands for more granular and lower-latency patterns with new and enhanced data services capabilities in the Informatica 9 release. It is also important to provide quick and tight integration of Informatica's newly acquired technologies with the core engine, as well as with other tools where it makes relevant sense to do so. Fortunately, the company has a good track record in that respect.

Broadening its platform functionally and differentiating itself via new cloud-based delivery models will give Informatica ample room and opportunity to grow its business and remain competitive against increasing pressure from larger IT incumbents that have moved into its space. However, maintaining a sharp technology focus has been one of Informatica's hallmark strengths in the market, and it should guard against straying too far from the core data integration competency that has served it so well. Each time Informatica does so it risks losing focus, opens up a new competitive front, and increases its sphere of "co-opetition."

Informatica remains financially solid, and fiscal 2009 was a landmark year. The company posted a 10% increase in revenues – no mean feat in today's economic climate – and nudged past the \$500 million revenue mark for the first time, with steady growth in the first half of 2010. The steady performance of the company over the past several years is befitting of the calm, yet confident personality of its CEO, Sohaib Abbasi, who has disciplined the company to execute strongly on a consistent three-pronged strategy of growth:

- expansion across all geographic regions with higher contribution from international regions
- growth beyond data warehousing projects by automating more IT initiatives
- continual technology innovation to deliver more value to customers.

In addition, Informatica was an early believer in cloud computing and saw the trend coming five years ago. Because Informatica was able to steal an early lead in cloud data integration, the company is now reaping the rewards of being an early mover in this market.

Abbasi's job has been made easier due to the products that Informatica develops and sells. Informatica offers a critical piece of technology that tackles one of the most complex aspects of IT development. Demand for robust and scalable data integration solutions will only increase as data rises in volume and complexity and the pace of doing business increases. Ironically, the more pronounced the value of data integration technology becomes, the more Informatica, as the last sizable independent data integration specialist left in the market, will be cast into the acquisition spotlight itself. With 4,100 customers, it is certainly a leading contender in its space, which will pique the speculative interest of the likes of Oracle, Hewlett-Packard, Microsoft, or even EMC as potential suitors.



Ultimately, any merger will be a boardroom decision. In the meantime, it is business as usual for Informatica. A sharp focus on data integration, coupled with a well-thought-out market expansion strategy, has translated into consistent revenue growth. As Informatica pushes toward becoming a billion-dollar company, we believe it has a bright future. Data integration might not be the most exciting technology segment in the market; however, it is important enough to have the staying power necessary for Informatica to grow and dominate.

Key findings

- Informatica seems to be executing well on its three-pronged growth strategy of expanding its flagship core data integration platform, growing into broader market segments, and diversifying geographically.
- The company continues to branch out into complementary software segments – such as information lifecycle management, event stream processing, and realtime messaging – where it can leverage its core data integration platform.
- Informatica recognizes the cloud as the next big opportunity – and challenge – for its business. The company is investing heavily to adapt all of the key components of its core Informatica 9 platform for SaaS, PaaS, and IaaS deployment.
- MDM, long seen as an opportunity to expand the functionality within Informatica's platform, was finally addressed following the acquisition of Siperian, and is part of a concerted effort to cover all of the data integration lifecycle bases in a single unified platform.
- Informatica has demonstrated strong organic growth with version 9 by building a broad yet unified data integration platform. The company's product road map and acquisition strategy points to the provision of more data-centric, as opposed to integration-centric, technologies over time.
- Informatica recently acquired several technologies that are adjacent and highly complementary to its business strategy. They offer both market and revenue expansion opportunities to leverage its data integration competency and the strengths of its core data integration platform.
- Market consolidation has concentrated Informatica in terms of reviewing its partnership opportunities. The establishment of the INFORM program is intended to level the playing field and broaden OEM opportunities for ISVs. The Informatica Marketplace also puts an interesting twist on the cloud "exchange" model, which it hopes will open up its customer base to a broader partner ecosystem.
- Although Informatica has no stated intentions to be acquired, and would be a very expensive acquisition, we believe it will remain an attractive target for larger IT vendors looking to capture a market-leading technology, brand, and customer base.



MARKET AND STRATEGY ANALYSIS

Competitive environment

The market for data integration software is relatively immature. Today Informatica's major competitor is hand-coding, with organizations that feel they can develop the solution internally – a sign of an early-stage market and an opportunity to forward a buy (as opposed to build) approach. The vendor landscape also remains fragmented since data integration overlaps with related technologies such as data quality, data adapters, data modeling, and MDM. This fragmentation is also a symptom of the complex way in which data integration tools are acquired and used within organizations – with IT development teams using different tools sourced from multiple vendors across various data integration projects. However, the drive to offer a full stack of data integration capabilities has resulted in considerable vendor consolidation which, in turn, has driven both convergence and rationalization of once separately implemented and used tools into more cohesive data integration platforms and suites.

Admittedly, the data integration market is awash with alternatives to Informatica's offerings when it comes to dealing with the obvious data sources. The market is now split between large data integration platform and suite vendors and small, single-purpose point-tool providers, though the latter are increasingly being absorbed into the former. Informatica competes against both sets of vendors on many fronts.

The heavyweights are the large applications infrastructure platform providers:

- IBM, which offers a broad set of data integration capabilities through a combination of home-grown and acquired technologies, notably Ascential and Data Mirror
- SAP, which acquired data integration capabilities through its Business Objects acquisition
- Oracle, which bought Sunopsis, GoldenGate, and SilverCreek to complement the rest of its own Fusion-branded integration middleware tools.

Like Informatica, all three vendors are working to address all enterprises' data integration needs through a single platform, and continue to add breadth and depth. They are also increasingly bundling data integration tools with their other offerings at limited additional cost to the customer. However, since most of these platforms have been assembled from largely acquired point solutions, tight integration within the toolsets remains a work in progress for many vendors. Arguably, Informatica has a head start in this respect, having expanded its platform around a strong and consistent core and paying close attention to toolset integration and seamless interoperability.

Ultimately, Informatica's closest rival is still hand-coding. Surprisingly, many IT organizations continue to develop custom code for data integration from scratch manually. While this has proved to be effective for small-scale, departmental data



integration projects, scalability is an inherent weakness in this approach. We see great opportunity for all automated tool vendors, including Informatica, to sell into this base. However, that shift might not come as quickly as vendors would like. Many organizations will continue to persist with hand-coded, custom-built data integration solutions due to the cost and magnitude of change in moving to commercial, off-the-shelf solutions. In a time of tightened or frozen IT budgets, many organizations have deferred their investments in data integration solutions. However, as IT purse strings loosen and organizations become more educated on the importance of having a sound data management competency, vendors should prepare to battle it out.

We believe Informatica is strongly positioned because of the stature and respect it commands in the market. The company has excelled in customer acquisition (through multiple channels) and retention and built up a sizable and loyal customer base. However, the more the company diversifies its product portfolio, the more competitive fronts it opens up for itself. For example, the acquisition of 29West, a provider of messaging software, now puts Informatica in competition with certain elements of Tibco Software Rendezvous, IBM MQ, and other formidable messaging platforms.

Strategic vision and objectives

We believe Informatica is following a three-pronged strategy to grow its business:

- Expanding the functional breadth and depth of its core platform – Informatica continues to enhance the capabilities of its platform in several directions, with the goal of integrating any data, irrespective of the data type and location, to transform it into a valuable corporate asset. The company continues to introduce new product and technology enhancements on a regular basis, via both internal product development and strategic technology acquisitions. This has extended the functional reach of the platform into areas such as data quality, unstructured data management and, more recently, multi-domain MDM capabilities.
- Growing its addressable market beyond data warehousing – With the objective of catering to a broader enterprise data integration market, Informatica has expanded its horizons and moved beyond its core analytical data warehousing (namely ETL) domain to adjacent integration-centric technologies such as application ILM, CEP, and ultra-low latency messaging, which demand fast and efficient data movement and integration.
- Diversifying beyond its domestic market – Informatica continues to make significant efforts to broaden its geographical footprint. After strengthening its global sales and marketing teams in different geographies, the company now has a strong direct presence in all major regions. Recognizing the partner-friendly nature of its data integration technology, the company is starting to invest heavily in channels to extend its market reach into more remote local markets.



Cloud leadership

In addition to the three-pronged growth strategy, Informatica has already taken early leadership in cloud-based and -focused products and services. The company continues to underscore its commitment to bringing data integration into the cloud via several product and service initiatives, which are being developed and marketed under SaaS and PaaS banners.

Strategy execution

Expanding the functional breadth and depth of its core platform

It is not surprising that, as a company with a singular focus, Informatica has been at the forefront of innovation in data integration technology. The company has consistently delivered new and upgraded product releases almost every quarter for the last four years. These have included major architectural overhauls of the core platform and hundreds of functional enhancements and additions, as well as the integration of new capabilities from acquired products. That relentless pace of enhancement and innovation continues to punctuate Informatica's marketing – that it not only provides a full "six pack" of best-of-breed data integration tools, but also makes sure they work in concert together.

The latest release of its core data integration platform, Informatica 9, continues that innovation theme. Touted as "the most important release" in the company's history, the release packs a hefty punch that we feel broadens, rather than deepens, its core data integration functionality. The strength of the platform is derived from the core engine, around which Informatica has built numerous functional upgrades (aimed largely at increasing collaboration between business and IT) and significant SOA advancements. However, Informatica has also focused on several main areas of expansion, which we would classify as data-centric enhancements intended to transform both structured and semi-/unstructured data into a usable and valuable asset. These have largely been accomplished through technology-focused acquisitions that subsequently add value to the core Informatica 9 capabilities.

Data quality

Informatica has clearly gone down the acquisition route to assemble its data quality solution, acquiring Similarity Systems/Evoke (for data cleansing and profiling), Identity Systems (a subsidiary of Nokia that provides identity search, matching, and resolution software), and AddressDoctor (for global address validation). We estimate that Informatica has spent over \$150 million building its data quality suite. The company has also offered SaaS versions of its data quality suite. We believe many of these acquisitions were defensive moves to grab some of the leading, yet dwindling number of independent data quality specialists before its competitors do.

Master data management



For a long time MDM, or lack thereof, was a conspicuous gap in Informatica's so-called "end-to-end" portfolio, which the company finally plugged following its acquisition of Siperian in January 2010. Informatica argues that its late entry into MDM was part of a conscious disciplined approach – having previously acquired Similarity Systems, Identity Systems, and AddressDoctor to provide a complementary bed of technologies around data quality, identity resolution, and address verification. However, we believe this was a tad overdue, since the logical ties between data quality and MDM were obvious. Moreover, Siperian's technology already shared a deep level of integration with the Informatica platform and its identity resolution and address verification technologies.

Although MDM is still a relatively new addition to the platform, most of the integration work has already been done. Pre-acquisition, several of Informatica's products (PowerCenter, Identity Resolution, and AddressDoctor) enjoyed strong integration capabilities with Siperian's MDM offering. 50% of Siperian customers used PowerCenter, all of them used the tightly embedded Identity Resolution matching engine, and a majority tapped directly into address validation capabilities.

Unstructured data integration

Informatica has also been eyeing opportunities in unstructured data integration for some time. The company's November 2006 acquisition of Itemfield was its first serious foray into this space, adding semi- and unstructured data (Microsoft Office, PDF, HIPAA, SWIFT, and so on) transformation capabilities to its PowerCenter product. The choice was not a surprise, as Informatica had previously OEMed Itemfield's technology as an option for PowerCenter. Additional components of the Itemfield technology became the B2B Data Exchange and Data Transformation product. Parts of the technology have also made their way into several other Informatica solutions, including B2B gateway, data aggregation, and B2B customer and channel management. Additionally, data transformation functionality is available in PowerCenter, Informatica Data Services, and the Informatica Cloud.

The Itemfield support for B2B industry standards (such as EDI-X12, EDIFACT, HIPAA, SWIFT, FIX, NACHA) has become the foundation of the Informatica B2B offering. Leveraging the data transformation capabilities allowed Informatica to offer an inter-enterprise data integration solution and tap into the market from a data integration angle.

Beyond the B2B market, the Itemfield acquisition addressed an important issue – the ability to extract, transform, and load all data types and manage data exchange with B2B partners. This remains a nascent segment of the data integration market. Uptake of unstructured data integration solutions in the market has been slow, reflecting the complexity of integrating unstructured and semi-structured data alongside structured data, which remains a dark art rather than a precise science. Nevertheless, it is a market that holds great long-term potential for Informatica to expand into, with its B2B Data Exchange offering leading the way.



Growing its addressable market beyond the data warehousing segment

While some of Informatica's acquisitions have been focused on fleshing out its data integration platform, others have been to broaden the scope of markets that Informatica can address without losing its focus on data integration. We would classify these as "integration-centric" acquisitions, since they focus more on data movement than data transformation and revolve largely around integrating data around various application environments in which Informatica has invested – namely AILM, CEP, and messaging – with Informatica Platform acting as the glue tying all the capabilities together.

Application information lifecycle management

Informatica acquired Applimation in February 2009 to add AILM capabilities to its portfolio of offerings. AILM relates to managing data from its initial inception to its ultimate retirement, including managing and securing data in nonproduction systems and policy-based data archiving. Applimation's Informatica-branded technology subsequently provides existing Informatica customers with capabilities to migrate, integrate, subset, mask, and archive application data throughout its lifecycle – from creation through development, testing, provisioning/archiving, and retirement. The core data-subsetting and data-masking technology was integrated into PowerCenter in the second quarter of 2010.

This is certainly one of Informatica's less predictable moves. However, there are obvious ties between data integration (specifically data migration) and AILM that Informatica is looking to exploit – the former ensures that consistency is maintained across both active and inactive archived data in order to avoid needlessly consuming storage capacity. Archiving is also used to increase the performance and reduce the cost of applications by reducing the size of the back-end application databases. Applimation's subsetting and data-masking functions are highly complementary to data integration – building a development-and-test environment requires subsetting, masking, and ETL of large production databases into target databases. However, Informatica had some work to do. While a third of Applimation's customers also licensed PowerCenter, there was no real integration between the two environments prior to the acquisition. Informatica has since released a test data management capability for data subsetting and data masking that PowerCenter users can access via a purpose-built interface.

Further expansion into the ILM space is also likely to make Informatica more attractive to database vendors such as Oracle, which only has a basic ILM tool and incorporates ERP system (including Oracle E-Business Suite) metadata into Applimation's AILM system.

Complex event processing

Informatica acquired Agent Logic in September 2009 to address realtime data integration needs of complex event stream processing, or CEP applications that detect, correlate, and analyze in-flight data events to deliver sub-second insights that conventional business intelligence tools cannot provide. Agent Logic is a good partner with which to step into the market. While it might not be a household



name in IT, its technology commands respect in CEP circles with a sophisticated, rules-driven approach to processing event stream data. Informatica is in the process of integrating the technology into the Informatica Platform to provide "event-driven active data integration," which wraps a situational business context around stream datasets to make it useful for business decision-making.

Integration into the Informatica Platform – particularly tight coupling with components for identity resolution and address cleansing – will raise the bar for Informatica's identity-matching and analysis capabilities. Since CEP is a proven technology in capital markets, Informatica will strengthen its presence in financial services, a key market for the company, albeit for specific use cases outside of algorithmic trading. Agent Logic's focus on the US federal market (defense and national security) will also sharpen the company's public sector focus.

This is a logical move for Informatica. CEP is a natural extension to data integration. The flagship CEP product, RulePoint, has an end-user focus with an easy-to-use web interface and step-by-step wizards that simplify much of the complexity in creating business-facing event processing applications. However, CEP is not a straightforward technology to implement and get right, and usually requires involvement of an experienced systems integrator or consulting partner.

Ultra Messaging

Informatica acquired 29West to signal its expansion into the messaging market. The strongest product alignment is with 29West's B2B Data Transformation technology, which can transform messages from one industry-standard format to another. We also believe the technology is complementary to Informatica's CEP products – with 29West's low-latency pipeline feeding messages or events to Agent Logic's CEP engine, and with Informatica's core capabilities around change data capture (CDC).

Regardless, Informatica gains a modern platform and the advantage of working off a single code base for streaming, persistence, and queuing, which is different from other messaging platforms offered by Tibco Software (Rendezvous) and IBM (WebSphere MQ). However, we do not believe Informatica is preparing to compete with or displace Tibco or IBM.

Early leadership in cloud-based and cloud-focused products and services

Informatica has been paying special attention to cloud computing since 2006, viewing it as both a challenge and an opportunity for its core data integration business. The premise is simple: the more applications organizations push into the cloud, the more the need to integrate multiple data sources between both applications in the cloud and on-premise applications and databases residing within the corporate firewall network. The challenge is to retain control and integrity of data that resides outside the firewall.

So far, Informatica's cloud push has focused on providing SaaS, PaaS, and IaaS offerings for the cloud, allowing data to be moved and integrated in or out of



clouds and on-premise systems or managed from one application to another. It also enables cloud-based deployment of data integration.

- Informatica provides IaaS offering unlimited server and storage resources that can be provisioned on a “pay-as-you-need” basis. Informatica delivered its PowerCenter Cloud Edition, which enables customers to buy and run certain PowerCenter functionality (by the hour) from Amazon’s S3 and EC2 cloud infrastructure, in August 2009. In addition, Data Quality is available on Amazon.
- Informatica continues to add to a suite of SaaS-based data integration services (Informatica Cloud Services), which now covers data loading, synchronization, replication, archiving, profiling, and quality. These multi-tenant SaaS offerings are designed to be easy for non-technical users to use and hand Informatica additional growth down-market, targeting medium-sized organizations previously unavailable to the company.
- Informatica’s PaaS strategy points to an IaaS approach, whereby it offers its entire platform as a multi-tenant, enterprise-class solution for building custom data integration applications in the cloud. To ramp up its PaaS strategy, Informatica unveiled Informatica Cloud 9, which builds on the platform’s extended capabilities for delivering data integration and quality services on a single runtime architecture, in November 2009. Informatica’s Cloud Summer 2010 release extends the services to enable data quality and B2B data transformation in the cloud.

As the cloud promises to usher in the next big wave of data fragmentation, we believe it will provide Informatica with its strongest growth opportunity. It is also impacting the economics of data integration. Informatica’s various offerings, while still representing a small fraction of overall revenues relative to its on-premise technologies, will put the technology within the reach of smaller enterprises that were previously priced out. Currently Informatica counts over 850 companies using the cloud for integration. We expect the company to place a big bet on this part of its business and invest heavily in furthering its cloud data integration portfolio over the next five years.

Diversifying beyond its domestic market

Informatica continues to expand its presence and sales around the world, particularly in areas beyond the historic stronghold of North America, its home market, which still accounts for more than half of the company’s \$500 million+ revenues. However, Informatica is successfully increasing its focus on international geographies by investing in sales and marketing programs across Europe, Latin America, and Asia-Pacific. It now has direct sales presence in 26 countries and, through distributors and partners, indirect presence in 82 countries.

The December 2007 appointment of seasoned and internationally focused chief marketing officer Chris Boorman allowed Informatica to launch a series of aggressive and extensive marketing campaigns to increase its market awareness



globally. These efforts have shown positive results, with roughly 35% of overall revenues now derived from non-US markets.

While the company has invested heavily in maintaining a direct presence in core markets such as Latin America, leveraging partnerships has been equally instrumental in extending Informatica's global reach. Because of its platform neutrality, Informatica can furnish an attractive OEM proposition for ISV and solution partners. In addition, because of Informatica Cloud, users anywhere in the world with an Internet connection can use the Informatica data integration service; this should give them access to new SaaS application partnerships. Informatica also sees resellers as key to penetrating local markets, especially the public sector segment in Asia-Pacific. In the future OEM will become a major component of Informatica's geographical expansion strategy.

Future outlook

Despite the presence of larger players, Informatica has carved out a strong position in the market, with a mature, proven, broad platform offering that covers all of the core data integration bases and more. Functionally, the Informatica Platform is an industrial-strength data integration solution. However, implementing a data integration strategy is more than just about implementing technology. It also requires companies to set up appropriate data governance infrastructure – which is more about people, process, and culture. Hence, implementing any data integration project – and associated technologies – is not for the faint of heart or shallow of pocket. Therefore, usability and pricing are areas that Informatica needs to address continually in its product road map. Enterprise-scale data integration will never be a cheap-and-easy exercise. However, to its credit, Informatica has paid great attention to making its software more affordable and user friendly – the former through modular pricing and cloud deployment, and the latter by masking the underlying technical complexities from both developers and business users.

Despite offering broad functionality, Informatica remains challenged to match competitors' aggressive price points – some of which offer smaller cost footprints as part of discounted bundling deals with applications and database infrastructure, or through cloud-based delivery and open-source development. Informatica recognizes this and has reduced its entry-level pricing in several ways – through discounted solution bundles (for example, around data migration) and pay-as-you-go cloud models that leverage Amazon's EC2 hosting infrastructure.

Since Informatica continues to express a desire to branch out into other areas, ensuring tight integration between the flotilla of complementary technologies it now has under its wing will also be key to its future market strategy. We believe that a top priority for Informatica's data quality suite will be to unify its data profiling and MDM tools and provision all data quality functionality as easily embeddable services in different business applications. Meanwhile, the cloud will also present Informatica with greenfield growth potential, and the company looks committed to investing heavily in this area to steal a lead over rivals in the market. Importantly, Informatica's newer SaaS- and cloud-based offerings put its



premium-priced technology within the reach of a wider audience and make the technology more digestible for smaller enterprises.

We also believe the next logical next step of Informatica's product expansion strategy is to carve out more focused solutions. To do that, Informatica needs to detail how various components of its platform can fit together to address specific data integration application scenarios and vertical use cases.

Finally, the importance of Informatica remaining independent cannot be understated, given the nature of its technology and the direction of its market strategy. An independent platform offering is critical to maintaining the company's channel partnerships, as 60% of its orders are influenced by partners. However, with its position of strength comes uncertainty. An independent Informatica remains an attractive acquisition target for larger IT vendors that want to pocket a top-drawer data integration platform before their competitors. Clearly, data and platform (database and business application) independence are a big part of Informatica's value proposition. However, with vendors such as Oracle and HP being touted as potential suitors, the question is how long Informatica can remain the "Switzerland" of the data integration world. The question is what organization could afford to buy the company and at what price.

COMPANY PROFILE SUMMARY

Key facts

- Founded in 1993, publicly traded (Nasdaq).
- Headquarters in Redwood City, California, with direct presence in North America, Europe, Asia-Pacific, and Latin America.
- Employs nearly 2,000 people globally.
- 2009 revenues of \$500.7 million, and net profits of \$64.2 million.
- 4,100 customers.
- Key officers: Sohaib Abbasi (CEO), Earl Fry (CFO), Girish Pancha (EVP, data integration products), Ivan Chong (EVP, data quality products), Chris Boorman (CMO).

Corporate milestones

Informatica was founded in 1993 by Gaurav Dhillon and Diaz Nesamoney, who both departed years ago. The Californian start-up's overarching premise back then was that data warehousing, ETL, and related data integration tasks should not be hand-coded as they were often time-consuming, expensive, and error-prone. The company pioneered a metadata-driven approach that defined a much more efficient way of integrating data than writing and rewriting transformation scripts. The company has not looked back since, and during the course of its 17-year history – bar a minor, temporary foray into the packaged business analytics space



in 2001 – has remained focused on advancing the frontiers of data integration, building expertise, products, and thought leadership in the market.

The company had its IPO in 1999. Current CEO and President Sohaib Abbasi took over at the helm in July 2004 after the company went through a bumpy patch, having posted declining revenues for ten of the previous 12 quarters. Under Abbasi's leadership, Informatica has enjoyed growth three times higher than the industry average. A disciplined approach to financial management and strong operational execution have turned things around for Informatica and somewhat immunized its business from the macroeconomic turmoil that has spread across the global economy over the past several years. That has allowed Informatica to ride out the economic crisis relatively unscathed, culminating in Abbasi steering the company past the \$500 million annual revenue mark for the first time in its history in January 2010.

Organizational structure

Informatica has its headquarters in Redwood City, California, as well sales operations in 26 countries including Canada, Latin America, Europe and the Middle East, and Asia-Pacific and Japan. The company employs 2,000 people worldwide. It maintains development centers in 12 countries and support centers in nine countries, including the US, Brazil, the Netherlands, and India.

Internally, Informatica is organized according to two product divisions:

- Data Integration Product Division – This area is headed by Girish Pancha and responsible for developing data integration, B2B data exchange, complex event processing, information lifecycle management, cloud data integration, and messaging technologies, as well as the core Informatica Platform technology.
- Data Quality Product Division – This newer division was created in 2007. It is headed by Ivan Chong and responsible for data quality, Identity Resolution, MDM, and AddressDoctor.

As of December 2009, about 610 staff worked in sales and marketing and 500 employees were dedicated to research and development, of which 40% were based in the US. The company also has a sizable services division, which employs around 430 people in consulting, customer support and product education, and training roles.

Acquisitions

Having started life as a relatively conservative company in terms of acquisitions, under Abbasi's leadership Informatica has become more aggressive with its acquisition strategy, which is focused on providing more data- and integration-centric solutions. The company can now point to a laundry list of acquisitions it has executed over the past five years:



- March 2010 – 29West, a Warrenville, Illinois-based provider of specialized messaging technology for addressing ultra-low-latency requirements in capital markets, for an undisclosed sum.
- January 2010 – Siperian, a Foster City, California-based developer of multi-domain MDM solutions, for approximately \$130 million.
- September 2009 – Agent Logic, a Vienna, Virginia-based provider of realtime event stream data processing and correlation technology, for approximately \$35 million.
- June 2009 – AddressDoctor, a German provider of online international address validation and verification software, for \$27.8 million.
- February 2009 – Applimation, a Chicago-based firm providing application data-focused ILM solutions, for \$37.2 million.
- October 2008 – PowerData, a Spanish software distributor, for \$7.1 million.
- May 2008 – Identity Systems, an Old Greenwich, Connecticut-based provider of identity search, matching, and resolution technologies for people, products, companies, and other data elements in over 60 languages, for \$85 million. Identity was a subsidiary of Nokia.
- December 2006 – Itemfield, an Israel-based provider of complex data transformation technologies aimed largely at integrating semi- and unstructured data, for \$55 million. Itemfield had previously been a close OEM partner.
- January 2006 – Similarity Systems, an Irish provider of data profiling, data standardization, data cleansing, data matching, and data quality monitoring technologies, for approximately \$55 million.
- September 2003 – Striva, a San Jose, California-based mainframe data integration company, for \$62 million.

Informatica asserts that it has been disciplined in terms of sequencing its recent acquisitions, which were executed within the constraints of a carefully thought-out product development and expansion strategy. The rationale has been to add to the core platform's functionality, expand Informatica's addressable market, and strengthen Informatica's presence in vertical markets, rather than necessarily to expand Informatica's customer base. For example, the acquisition of Agent Logic has strengthened Informatica's business in the public (federal) sector. Similarly, the acquisition of 29West bolsters the company's presence in capital markets.

Customer base

More than 4,100 organizations (a 15% increase in 2009) use Informatica technology. These range from large multinationals (including 84 of the Fortune 100) to small and medium-sized enterprises (SMEs) across a variety of industry verticals as well as public sector institutions. In terms of revenue contribution, Informatica's strongest markets are financial services, healthcare, and public sector. No single customer accounted for more than 10% of revenues in 2009. In



addition, about 450 customers are now using the Informatica cloud-based integration offerings.

Partnerships and alliances

In 2008 Informatica revamped its channel partner and OEM program as part of its INFORM global partnering program, an umbrella that covers all of the company's third-party relationships, including resellers and distributors. It has also set up numerous partner portals and developed several training and sales engagement programs for partner enablement.

INFORM stands out as a shining example of how seriously Informatica takes its partnerships. INFORM effectively creates a three-tiered partner network structure that targets systems integrators (SIs) and service providers, as well as over 70 independent software vendors (ISVs). For example, EMC is the latest high-profile ISV to sign up, and now resells Informatica's MDM and AILM product range to extend its tiered storage and enterprise content management platforms. Informatica maintains close ties with leading SIs such as Accenture, Wipro, Infosys, Atos Origin, Deloitte, Cognizant Technology Solutions, Tata, and Capgemini. Most SI partners regard Informatica as their preferred data integration platform. Accenture, for example, has a dedicated Informatica practice, and it embedded Informatica data integration and data quality technologies into its analytics architecture.

Given its ability to deliver connectivity to data wherever it resides, on whatever platform, and in whatever form, Informatica is a natural OEM partner. The company continues to maintain a strong OEM partner network, with half of its 70 partners added in 2009. Importantly, INFORM is also part of an aggressive push to broaden OEM opportunities, in which giving ISV partners a choice is key to success. INFORM is driven by a flexible licensing and bundling policy of data integration, data quality, and other platform components that can be "right-sized" to the needs of various ISVs and comes with the option to grow their use of the platform in the future. In other words, although Informatica has not rolled out "light" versions of its flagship PowerCenter offering, it refuses to let packaging stand in the way of present and future partnering opportunities with ISVs. Additionally, Informatica's forays into cloud-based delivery, coupled with its focus on Salesforce.com, also provides an obvious path for SaaS support that would lower the entry bar for OEM deals.

Informatica's focus on developing and nurturing its partner network has paid rich dividends, resulting in a 400+ partner network that has helped the company to expand both its geographical footprint and market reach. Although half of its most important partners are based in North America, Informatica relies heavily on these partners to address remoter markets in the Middle East and Asia-Pacific.



Product portfolio

Informatica's portfolio presents an impressive set of data integration tools and technologies, which it has assembled to run on a common platform – called the Informatica Platform. This caters to a variety of data integration and data quality activities, such as data migration, consolidation, synchronization, virtualization, warehousing and establishment of data hubs, MDM, and cross-enterprise data exchange. The latest release of the Informatica Platform, Informatica 9, was released in December 2009.

PowerCenter

PowerCenter is the core foundational product for data integration projects. The current version is PowerCenter 9.0.1, released in June 2010. PowerCenter 9 offers enhancements to 24x7 mission-critical operations, metadata management, and business glossary. The version also features enhancements to empower business and IT collaboration, make data quality pervasive within the enterprise, and enable data services based on a service-oriented architecture (SOA). PowerCenter 9 is available in four editions:

- PowerCenter Standard Edition – includes a high-performance data integration server, a global metadata infrastructure, multi-user development and administrative tools, and an environment for collaboration between analysts, architects, and developers.
- PowerCenter Real Time Edition – extends the capabilities of the Standard Edition to provision and integrate transactional and operational data in realtime. This is enabled through a set of sophisticated (web) data services and built-in support for change data capture, integration with messaging systems, dynamic partitioning, data smart parallelism, and process orchestration.
- PowerCenter Advanced Edition – adds enterprise-grade capabilities for data governance and competency centers, including dynamic partitioning data-smart parallelism, metadata management and business glossary, and team-based development.
- PowerCenter Cloud Edition – a cloud-based data integration platform that is delivered as IaaS and designed to run in virtual cloud environments such as Amazon's Elastic Compute Cloud (EC2).

The core data integration capabilities of these four base PowerCenter Editions can be extended to include grid, high availability, data masking, metadata exchange, partitioning, pushdown optimization, and unstructured data management options.

PowerExchange

PowerExchange is a family of data access products for high-performance sourcing of multiple, heterogeneous data sets without custom programming. Direct access is provided to virtually any imaginable target data source, including enterprise applications, databases and data warehouses, mainframe (using technology acquired from Striva in 2003), and messaging systems. PowerExchange provides



change data capture (CDC) for relational and mainframe data sources. PowerExchange can also be used to access SaaS applications (such as Salesforce.com) and cloud services.

Data Services

Informatica Data Services enables organizations to rapidly build and deploy data services for any application, at any latency, using any protocol. Developers can use their existing Informatica skills and a model-driven approach to create data services federated across heterogeneous data sources that include both data integration transformations and data-quality rules. These data services can be provisioned through SQL, web services, or message queues, or as batch processes. Furthermore, these data services can be reused across each of these modes without additional development. Informatica Data Services also includes integrated profiling and join analysis built on a common metadata repository to facilitate business-IT collaboration through role-based tools. Informatica Data Services is an integral part of the Informatica 9 platform, merging federation and virtualization with physical data movement, data quality, and other capabilities. This is important for certain uses such as quickly combining data warehousing and federated data for reporting needs, during mergers and acquisitions, or for new application development using a service-oriented approach.

Data quality

Informatica offers a suite of data quality products that can be delivered either on-premise or via the cloud.

- Data Quality – presents core enterprise data analysis, cleansing, matching, reporting, and monitoring capabilities in a business user-friendly interface.
- Data Quality Cloud Edition – enables data profiling, evaluation of data quality, and scorecarding data, including data from cloud applications and on-premise systems on a private and secure Amazon EC2 cloud server.
- Data Explorer – a data profiling and mapping tool that is used to investigate, document, and resolve data-quality issues.
- AddressDoctor – provides online global address validation for over 200 countries. It includes granular support for street-level, delivery-point, and geocoded validations.
- Identity Resolution – an identity resolution tool to search and match identity data from more than 60 languages, in both batch and realtime. It is based on technology acquired from Identity Systems.

Master data management

The Siperian acquisition lends Informatica multi-domain MDM capabilities, while the Registry Edition based on Identity Resolution provides a single view of customers.



- Multidomain Edition – provides consolidated and reliable data of customers, products, suppliers, and employees across different industries. The product is designed to start small by solving immediate business problems and then expand across the enterprise.
- Registry Edition – enables organizations such as government, healthcare, and insurance to create single views of business entities (such as customers, citizens, taxpayers, patients, and criminals).
- Data Director – a data governance product that allows business users and data stewards to create, consume, manage, and monitor master data and relationships. Data Director is common for both the Multidomain and Registry editions.

B2B Data Exchange and Transformation

These products typically cater to inter-enterprise – B2B – data integration needs by providing data integration capabilities outside the firewall. The B2B Data Exchange offers business-driven trading partner management, managed file transfer, and a secure communication layer for data exchange and sharing. There are two main products:

- B2B Data Exchange – provides multi-enterprise data integration tools for building data processing hubs, gateways, and other collaborative infrastructures that extend B2B trading networks.
- B2B Data Transformation – a data transformation solution for semi- and unstructured data that also supports B2B data-formatting standards such as EDI, SWIFT, NACHA, ACORD, HIPAA, and others. The software is based on technology acquired from Itemfield.

Application information lifecycle management

AILM is a product family designed to manage every phase of the data lifecycle from development and testing to archiving and retirement. Informatica's AILM solution comprises the following tools:

- Data Archive – archives application data, including master, reference, and transactional data, but in a highly accessible manner. This offering has also been enhanced to allow archiving in the cloud.
- Data Subset – automatically creates smaller test data sets from large, complex production databases while retaining referential integrity.
- Data Masking – masks sensitive non-production application data (such as credit card information and social security numbers) to prevent unintended exposure, producing realistic de-identified information that maintains data integrity.



Complex event processing

CEP is a solution for the capture, detection, correlation, and analysis of data-driven event streams in order to provide immediate insight into operational business environments. Informatica's CEP solution is comprised of the following tools gained from the acquisition of Agent Logic:

- RulePoint – applies user-defined rules logic to process multiple sources of data.
- Real-Time Alert Manager – a web-based system for receiving and managing realtime alerts.

Ultra Messaging

Ultra Messaging is a unified messaging suite that encompasses streaming, persistence, and queuing. All capabilities are available through a single API that also supports the industry standard JMS API. Ultra Messaging is available in three editions:

- Ultra Messaging Streaming Edition (previously known as 29West's Latency Busters Messaging) – a fast (low-latency), resource-efficient, highly resilient messaging fabric with full protocol support (TCP/IP, latency-bounded TCP, reliable unicast, multi-cast UDP, RDMA, and IPC).
- Ultra Messaging Persistence Edition (previously known as 29West's Ultra Messaging for the Enterprise) – provides guaranteed messaging and flexible failover and recovery capabilities.
- Ultra Messaging Queuing Edition (previously known as 29West's Ultra Messaging with Queuing) – extends the UMS API to include queuing semantics in addition to load balancing.

Informatica Cloud

Informatica has been an early leader in the cloud, providing significant resources since 2006. The latest cloud-based offering consists of three parts:

- Cloud Services – web-based, purpose-built SaaS applications that allow non-technical business users to integrate data across cloud-based applications and on-premise systems and databases in a self-serve manner. SaaS offerings are available for loading data (from on-premise applications into Salesforce.com), data replication, data synchronization, data profiling, and address validation. Informatica recently launched its Cloud Summer 2010 cloud release, which provides pre-packaged plug-ins that enable data quality (address validation and data cleansing) and B2B transformation in the cloud, the introduction of new wizards for previewing data and optimizing the performance of services, a custom source option for testing and running SQL queries, and new transformation capabilities embedded directly within the data mapping environment.
- PaaS – exposes the Informatica Platform capabilities directly to the cloud, allowing users to build, run, and share customized source-to-target data integration and quality routines. The PaaS offering comes with a collaborative



development framework, administration services, connectors (for popular cloud and on-premise application systems), and a sandbox test environment.

- Cloud Editions – Informatica has introduced Cloud Editions for several of its products, providing their capabilities as a pay-as-you-go offering hosted on Amazon EC2. These IaaS offerings are currently available for data integration, data quality, and archiving capabilities.

All of the above offerings are built on a multi-tenant framework and powered by the core Informatica Platform. Additionally, Informatica offers on-premise solutions for integrating data that resides in the cloud. Informatica's PowerExchange product also supports web services-based connectivity to any SaaS or cloud offering.

Services

Informatica backs its products up with a comprehensive set of professional service offerings, with professional services staff located in 19 countries. Informatica's services are primarily focused on technical consulting, customer support, and education.

Consulting services

Consulting services are generally focused on either tactical deployments of the Informatica Platform (system configuration, custom data integration design, performance tuning, and so on) or strategic initiatives around creating integration competency centers of lean integration best practices. Consultants use a proprietary, in-house implementation methodology called "Velocity," which covers the major project lifecycle phases: analyze, design, build, test, deploy, and manage.

Velocity addresses three areas: integration competency center (ICC) set-up, data governance, and SOA.

- The methodology is designed to provide practical views and processes on how to design, run, and manage data integration projects based on eight key project phases and the individual tasks and subtasks that are common among data integration projects. Each of the phases include instructions, personnel requirements, real-world best practices, and sample deliverables from successful engagements.
- The methodology covers a variety of data integration projects, from data warehouses to MDM to data quality.

The ICC capabilities are a key feature of velocity and focus on a "Lean" approach. This demonstrates how organizations can implement template-driven processes for efficient and continuous production of configurable reusable data integration objects. The methodology demonstrates how Agile techniques are applied to data and application integration activities to achieve mass customization as opposed to mass production, and thereby accelerate deployment of solutions at low cost and with high quality.



Velocity is delivered free to all Informatica customers and partners in both online and PDF format. The latest version comprises over 1,500 pages of content, representing thousands of customer projects.

Informatica's professional services organization provides over 50 packaged and custom offerings based on the Velocity methodology.

Customer support

24x7 technical support is available via phone, email, and the Web, and is handled by support centers in the US, Ireland, Spain, the Netherlands, the UK, Brazil, China, India, and Japan. Informatica offers three levels of support – mission-critical (for complex environments, offering faster response), enterprise (tailored for large and medium-sized enterprises with access to Informatica's support console), and standard (entry-level, aimed at non-critical applications).

Education

Informatica offers 50 solution-oriented training courses, delivered through classrooms and e-learning methods. There is a formalized certification program for the PowerCenter and Data Quality product sets. Delivery models include classroom-based training, Virtual Academy (virtual lab), online or e-learning, and on-site.

Community initiatives

Informatica recently launched community initiatives to allow users to collaborate, discuss, and share ideas. Some of the Informatica communities represent the next generation of its developer community, Technology Network (previously called TechNet). Communities have been created around specific Informatica products, roles (developers and architects), and user groups.

Informatica Marketplace is another community aimed at users for buying and selling data integration, data quality, and data management solutions. Partners, private individuals, and even competitors can contribute solutions. Any interested buyer can search, purchase, rate, and review solutions. If a solution is not found, a buyer can request that it be built. Informatica Global Customer Support tests and validates all solutions sold in the MarketPlace.

Financial analysis

Fiscal 2009

During fiscal 2009 (ended December 31), Informatica grew its revenues 10% to \$500.7 million, its fifth consecutive record year, against GAAP net income of \$64.2 million. Most of the growth was driven organically through an increase in license sales (479 new customers added, including via acquisition) and average deal sizes (\$360,000 in 2009 for deals over \$100,000 and 28 transactions over \$1.0 million).

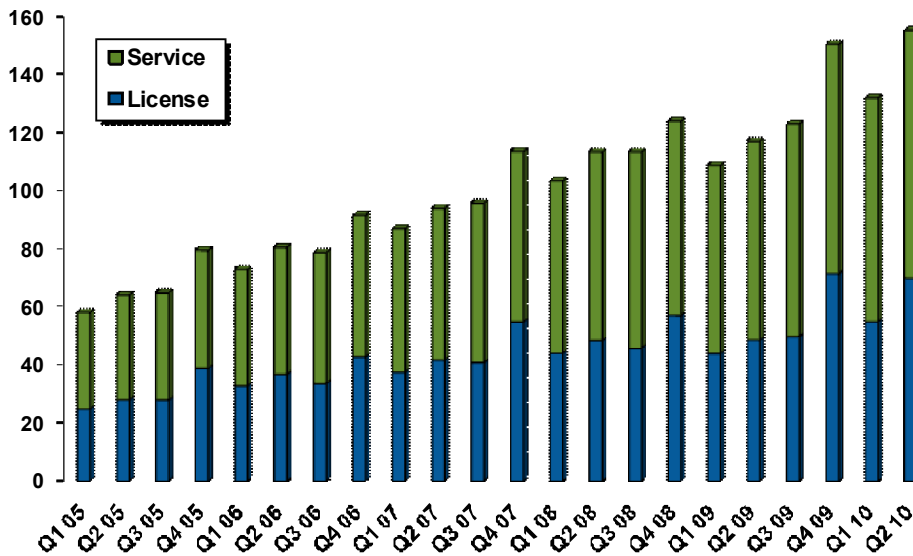


That helped the company to report a 9% increase in software license sales to \$214.3 million during the year, accounting for 43% of overall revenues.

The average deal size in 2009 was \$360,000, up from \$314,000 the previous year.

Less than 5% of overall revenues and less than 40% of growth were attributed to the company's 2009 acquisitions.

Figure 1 **Informatica's revenues by quarter, FY05–FY10**



Source: Informatica 10-K filing

North America contributed the remaining 65% of revenues and grew by 12.0% year-on-year. International revenues comprised 35% (\$158.6 million) of total revenues and grew by 25%, primarily due to the company's expansion efforts in Europe, Asia-Pacific, and Latin America.

Informatica's services revenues saw 10% year-on-year growth, fueled primarily by increasing maintenance revenues, which were up 16% to \$215.3 million, though consulting, education, and other services-related revenues dipped 4% during the year. The company continues to raise its investment in R&D expenditures to \$78.4 million in 2009, up from \$72.5 million the previous year.

Informatica's international revenues (from non-US geographies) continue to grow steadily. The company realized \$178.8 million (or 36% of total revenues) in fiscal 2009, up 13% from 2008. This was attributed to an increase in international maintenance from revenues in Europe and Latin America.



Latest quarters

Informatica continues to ramp up growth in fiscal 2010. It closed its second quarter (ended June 30) with revenues up a healthy 33% to a record \$155.7 million, driven primarily by strong software license sales, which spiked an impressive 44% at \$70.0 million during the quarter. Net profits for the quarter rose 33% to \$17.4 million.

For the first six months of 2010, revenues increased 28% to \$290.8 million compared with the previous year. License revenues continued to be strong, up 35% to \$125.1 million. Net income for the same stood at \$29.2 million, up from \$23.0 million a year earlier.

FURTHER INFORMATION

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- www.informatica.com.

APPENDIX

Further reading

- *Informatica – PowerCenter 8.6*, April 2009
- *Informatica's online marketplace sniffs out leads*, June 2010
- *Informatica trims fat off data integration*, May 2010
- *Informatica enters messaging with 29West buy*, April 2010
- *Informatica's cloud thickens*, February 2010
- *Informatica 9 packs a broad punch*, November 2010

Methodology

- In-house research – Ovum's publications on data integration and related data management topics.
- Vendor briefings – in-depth interviews with senior executives and product managers at Informatica vendors.



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