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New IP Drives Quarterly Growth at Brocade



NEWS ANALYSIS
 MITCH WAGNER,
 West Coast Bureau
 Chief, Light
 Reading
 8/20/2015

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Brocade increased quarterly IP networking revenues by double-digits, offsetting a decline in the company's much larger SAN business, in earnings reported Thursday.

Brocade Communications Systems Inc. (Nasdaq: BRCD)'s IP networking product revenue is much smaller than its SAN revenue, but is growing fast. IP networking revenue reached \$154 million in the third quarter of 2015, ending August 1, up 16% year-over-year. SAN product revenue hit \$309 million, down 5% year-over-year

Brocade is targeting 8% to 12% growth for IP networking in the fiscal year 2015/15, and SAN product revenue is projected at 0% to 2% growth in 15/16.

Overall revenue was \$552 million, up 1% year-over-year. Brocade reported \$0.21 GAAP EPS, up from \$0.20 in the third quarter of 2014, and \$0.27 non-GAAP EPS, up 16% year-over-year. The non-GAAP gross margin was 68.6%, up 140 basis points year-over-year.

"Q3 was a solid quarter in which we delivered on our top-line outlook and exceeded our gross margin and operating margin expectations," CEO Lloyd Carney said on the company earnings call.

Brocade is well positioned to take advantage of demand for "third platform computing," which is driving the need for "open and scalable network architectures that make up the New IP," Carney said.

The **Third Platform** is an industry term adopted by Brocade to describe the emerging wave of applications involving mobile devices with billions of connections, requiring a cloud architecture for rapid application deployment and provisioning infrastructure. (Editor's note: The previous link goes to a brief Brocade video with a good explanation of the Third Platform, as well as several bad explanations, including one from an Elvis impersonator.)

The New IP is another industry term, also adopted by Brocade, to describe "radical transformation of closed, proprietary IP networks into open, software-driven innovation platforms" to revolutionize business, according to [Brocade's website](#). New IP networks simplify and automate network processes to enable rapid service delivery and innovation, for businesses that take full advantage of mobility, cloud, social networking and big data technologies.

Light Reading CEO and founder Steve Saunders explains the New IP here: [Introducing 'the New IP'](#).

Brocade outpaced market growth in IP networking in the third quarter, with strength in the service provider and federal markets. \$154 million product revenue was up sequentially from \$145 million.

For highlights of the quarter, Brocade touted customer success with [CERN openlab](#), where it was selected to provide an SDN solution and strategy development, and [Masergy Communications Inc.](#), where Brocade's vRouter is used in the company's Virtual f(n) platform. Brocade also cited its Light Reading Leading Lights Award for its SDN controller and vEPC. Also, [Telekom Austria AG](#) (NYSE: TKA; Vienna: TKA) was awarded the Leading Lights for Most Innovative NFV Deployment Strategy for Network/Data Center Operators for its Brocade-powered solution, the company noted. (See [Masergy's Bold NFV Play Is Customer Driven](#) and [Leading Lights Awards 2015: The Winners](#).)

While other vendors cite tight demand from carriers, Brocade is seeing

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FROM THE FOUNDER

continued demand for next-generation networks, Carney said. Capex reduction is only a small part of the reason for the transition to the New IP; the major reason is restructuring the business for the future, he said.

Brocade is seeing early adopter demand for NFV from large service providers and hosting providers, Carney said. SDN and NFV are too complicated for the average enterprise.

In Brocade's storage business, Brocade is "maintaining an appropriately cautious view of the market near term" but is "encouraged with signs that market conditions are stabilizing, and we believe that our storage networking business will continue to provide healthy revenue and profits over the near term," Carney said.

[Find out more about the New IP on Light Reading's The New IP Channel.](#)

Increased interest in IP storage provides opportunities for Brocade's storage business.

"Historically, IP storage was typically confined to low-priority workloads such a file sharing and home directories. But today, it is being used as an incremental storage environment to support new business-critical workloads, including server virtualization and big data analytics," Carney said.

For the fourth quarter, Brocade is predicting revenue range of \$565 million to \$585 million, and a non-GAAP gross margin of 67.5% to 68.5%. It predicts IP networking to be up 6.5% to 11% quarter to quarter and SAN to be up 1% to 5%.

Brocade traded at \$10.40, up 7%, after hours.

Related:

- [The New IP Gains Traction With CSPs](#)
- [Brocade Boosts SDN Network Performance](#)
- [Brocade: IP Networking Up, But Storage Down](#)

— Mitch Wagner, [Google+](#) [Twitter](#) [LinkedIn](#) [Facebook](#), West Coast Bureau Chief, [Light Reading](#). Got a tip about SDN or NFV? Send it to wagner@lightreading.com.

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Mitch Wagner,
User Rank: Lightning
8/24/2015 | 2:05:20 PM

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Staggering news

When I posted a headline to this story on Twitter, someone in Brocade marketing mentioned that the company has finally secured the @Brocade handle. Previously, it was @BRCDcomm. Companies with names that are common English words often find their Twitter handles already taken; BRCDcomm was a ghastly workaround for that.

They said it was just a matter of the previous owner of @Brocade not using it and the handle lapsing. No money changed hands, and no other unusual circumstances.

Somehow, Lloyd Carney neglected to mention this staggeringly important event on his earnings call.

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Mitch Wagner,
User Rank: Lightning
8/21/2015 | 10:12:14 AM

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Re: new ip

The question for Brocade is whether the New IP can pull its finances up before declining SAN revenue can drag it down.

The point about IP storage could prove significant in the future. Carney made a statement on the call that as long as customers keep buying storage, they'll buy either SAN or IP storage. That was all he said on the call, but there's an implication there that Brocade may believe that as long as organizations keep buying storage, Brocade will be fine. And it's hard to imagine organizations are going to stop buying storage, not with Big Data, the Internet of Things, and a bajillion people shooting pictures on their smartphones.

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Huawei Opens Back Door Into US

Against the odds, Huawei is growing its telecoms networking equipment business in the US -- that should be ringing some alarm bells for domestic vendors.

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FLASH POLL

Should we put the label "telco" to rest once and for all?

- Yes, it's as outdated as horseless carriages.
- Yes, CSP or communication service provider makes more sense.
- Yes, I would suggest calling them _____. Let us know in the comments section below.
- A telco by any other name is still a telco.
- No, if it's not broken don't fix it.

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[ALL POLLS](#)



Steve Saunders,
User Rank: Blogger
8/20/2015 | 10:55:04 PM

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new ip
doesn't take a financial genius to see that New IP is the future for this company

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LIVE STREAMING VIDEO

CLOUD / MANAGED SERVICES: Prepping Ethernet for the Cloud

Moderator: Ray LeMaistre Panelists: Jeremy Bye, Leonard Sheahan

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UPCOMING LIVE EVENTS

- | | |
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| NFV Everywhere – a 2-Day Event | September 16-17, 2015, The Westin Galleria Dallas, Dallas, TX |
| Telco Data Center Summit | September 16, 2015, The Westin Galleria Dallas, Dallas, TX |
| Women in Comms Breakfast co-located at NFV Everywhere – a 2-Day Event | September 16, 2015, The Westin Galleria Dallas, Dallas, TX |
| Gigabit Europe 2015 – a 2-Day Event | September 29-30, 2015, The Westin Grand München, Munich, Germany |
| Winning With WiFi: How Cable Operators Can Optimize & Monetize Their WiFi Networks | October 14-15, 2015, New Orleans Ernest N. Morial Convention Center, New Orleans, LA |
| Women in Comms Breakfast co-located at OSS in the Era of SDN & NFV: Evolution vs. Revolution | November 5, 2015, London, UK |
| Next-Generation Network Components – Wires, Wireless & Virtual | November 5, 2015, Hilton Santa Clara, Santa Clara, CA |

OSS in the Era of SDN & NFV: Evolution vs. Revolution

November 5, 2015, London, UK

Whitebox Strategies for CSPs

November 17, 2015, Santa Clara, California

The Future of Cable Business Services

December 1, 2015, The Westin Times Square, New York City

Carrier Network Security Strategies

December 2, 2015, The Westin Times Square, New York City

2015 Light Reading's Executive Summit: Light Reading's 2020 Vision

December 8-10, 2015,

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Pics: A Tour of Chattanooga's Gigabit City

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GM Goes 'All In' on 4G Connected Cars

(10)

OpenDaylight Summit in Pics: Behold, the Beard Is Resplendent

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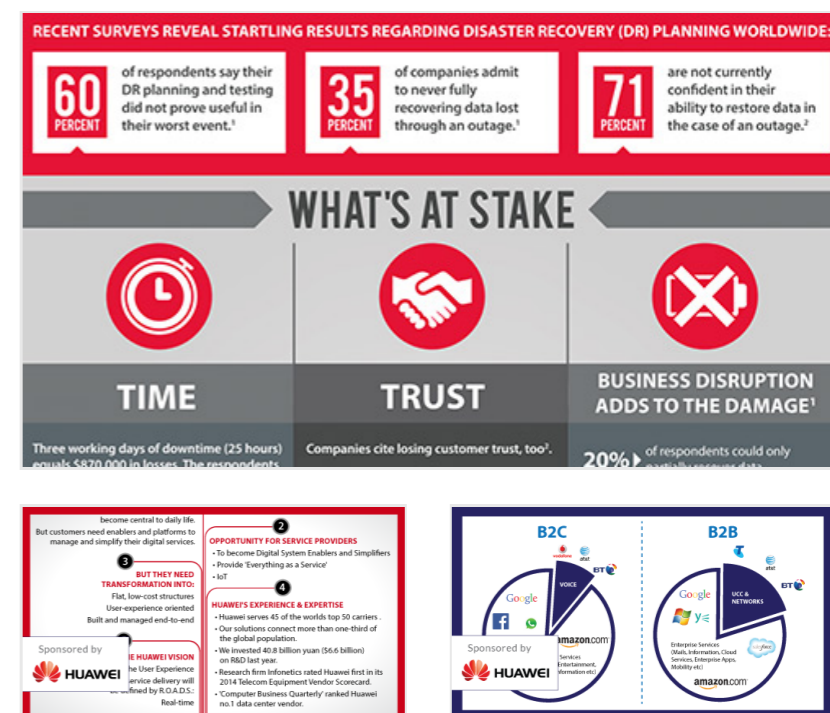
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INFOGRAPHICS

Expedient Looks to Educate on Disaster Recovery

IT managers are worried, they're not prepared for disaster. The bad news is they're not wrong. The good news is Expedient, a cloud, data center and managed services provider, has information to help.

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Huawei IT for Digital Transformation

Why Telcos Need to Embrace a Digital ...

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HOT TOPICS

A Peek at What's Behind Comcast's Momentum

11

Mari Silbey, Senior Editor, Cable/Video, 8/19/2015

Gogo Approved to Speed Up In-Flight WiFi

9

Sarah Thomas, Editorial Operations Director, 8/24/2015

Eurobitex: Swisscom Mixes It With LTE

7

Paul Rainford, Assistant Editor, Europe, 8/20/2015

Google Debuts Smart WiFi Router OnHub

6

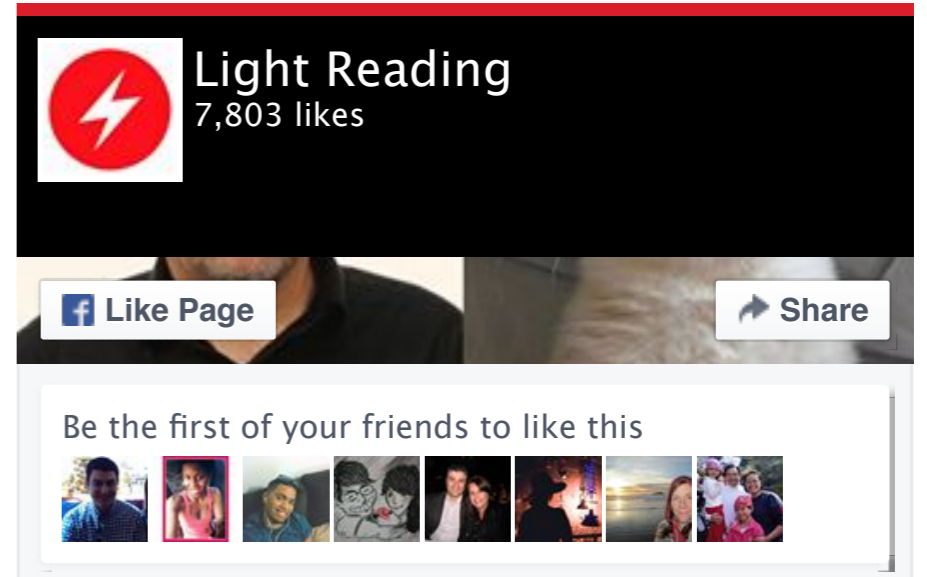
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Fact-Checking the Future of 'Silence Like Diamonds'

6

Mitch Wagner, West Coast Bureau Chief, Light Reading, 8/21/2015

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John Barnes @JohnBarnesSF 23m
Silence Like Diamonds - En fin, finally, the Finale:When in Rome(all roads led there)
lightreading.com/ethernet-ip/ne... via

UPCOMING WEBINARS

August 25, 2015
Putting NFV to the Test

August 26, 2015
Future of Virtualization Webinar Series: A Real-World Roadmap for Virtualization

August 26, 2015
IoT: Building Mobile Networks to Maximize Opportunity

September 2, 2015
Managing and Orchestrating Hybrid Networks

September 3, 2015
When to Test Different Transport Technologies, and Why

September 15, 2015
Use Case Prioritization of 5G

September 22, 2015
Media Begins With "Me"

WEBINAR ARCHIVE

BETWEEN THE CEOs - Executive Interviews



8/14/2015

CEO Chat With Ihab Tarazi, Equinix



Equinix CTO Ihab Tarazi talks to Light Reading founder and CEO Steve Saunders about data center, cloud and the impact of virtualization in the coming years.

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8/10/2015

CEO Chat With Doug Suriano, Oracle



They say there's no such thing as a stupid question, but I probably sail pretty close to

the wind in some of my interviews for LR.
But then that's one of the things I ...
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CATS WITH PHONES

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