STREAMING QUOTES ARE

Home   Research   News   Editorials   IBD University   IBD TV   eIBD   Leaderboard   Store

Investing   Business   Economy   Technology   Management   Politics   Retirement   Special Reports   Economic Calendar

Enter Symbol/Keyword   ● Get Quote   ○ Search Site

TECHNOLOGY

Sponsored by: EXPLOSIVE STOCK PICKS

Cisco, Juniper Get Good News On SDN Hardware

By Pete Barlas, Investor's Business Daily

Posted 04:50 PM ET

Email   Print   License   Comment   Like 0   Tweet 1   Share

Software defined networking's potential threat to computer networking hardware might have been grossly exaggerated.

The move to SDN in data centers is a big tech trend. It's long been viewed as shifting much of computer networking to software and reducing the need for routers, switches and other networking gear.

But most SDN revenue will for years continue to come from hardware systems required to run the systems rather than the software, say two reports.

The reports appear to be good news for computer networking hardware makers such as **Cisco Systems** (CSCO) and **Juniper Networks** (JNPR). Shares for both companies — which started their own SDN programs last year in the face of the trend — suffered last year in part because of a perceived risk by SDN to their core hardware businesses, says Rohit Mehra, an analyst for IDC. The research firm produced one of the two reports.

"The media coverage and investor concern last year was somewhat premature, thinking SDN would significantly cannibalize network equipment sales or at a minimum lead to commoditization of the networking market," he said.

SDN, sometimes called network virtualization, is emerging software that helps companies more cost-effectively manage their data.

By 2016, the global market for SDN revenue will top $3.7 billion, up from just $360 million this year and $81 million last year, says IDC.

But 58% of that total — $2.15 billion — will come from sales of the requisite hardware systems needed to run SDN systems, says IDC.

In a separate report, Pacific Crest Securities says SDN revenue will reach $2.2 billion by 2016, which it says will account for only 3% total networking revenue.

"In the short run, SDN could be an overstated risk to smart networking stocks," wrote Pacific

Registration Benefits

IBD Forums

Participate in an IBD Forum and connect with other IBD subscribers.

Investing Tip

Beware of low volume at the breakout.

Most Popular

Most Viewed

☑ All   ☐ Articles   ☐ Media

Stocks Keep To Uptrend Despite Uncertainty

Gov. Rick Perry fires back at Obama's gun li…

Obama Ignores Dangers Of Father-Free Zones

IBM Q4 Earnings Expectations Called 'Fairly…

Republicans Can't Govern From One House Of C…

01/18/2013 07:00:26 PM ET

Crest analyst Brent Bracelin.

Hardware will remain king in networking, says IDC's Mehra.

"The reality is network equipment will be very much integral to the SDN ecosystem," he said.

Much like virtualization and cloud computing, SDN is a technology that helps companies wring more performance from their servers and computer networks.

Companies hope SDN will help get more out of their ever-growing computer networks, says Eric Johnson, chief executive of SDN maker Adara Networks.

Besides Cisco and Juniper, virtualization leader **VMware** (VMW) is also in the SDN market, following its $1.26 billion July acquisition of SDN software maker Nicira.

Privately held players, besides Adara, include Big Switch Networks, Embrane, Midokura and Vello Systems, All focus on hardware. Plexxi, sells both software and hardware SDN products.

Networking companies will need to launch SDN programs this year to keep up with trends such as cloud computing and virtualization software, Ben Cherian, Midokura's chief strategy officer, told IBD via email.

"Any major industry shift takes time, but just as virtualization has disrupted traditional compute and storage, innovation in (SDN) will take off (in 2013) and disrupt traditional networking," he said.

Cisco launched its SDN effort in June. Juniper boosted its position in the market in December when it bought Contrail Systems, an SDN startup, for $176 million.

Adoption of SDN is crucial for Cisco and Juniper, says Adara's Johnson, who points out that their revenue growth has slowed.

SDN, he says, lets companies "leverage and optimize the physical infrastructure, not necessarily replace it, but optimize it."

Cisco is testing SDN with select customers, says Rob Soderbery, general manager of Cisco's enterprise networking group.

"This entire market is very, very early and there is limited deployment of any SDN technology from any vendor," he said.

Johnson won't say how many customers Adara has, but that they are in such industries as health care, biotech and consumer services.

Business is good and the company is considering going public, he says. "We are in conversations with multiple investment banks," he said.

SDN is more than a pipe dream for Adara. "I can tell you from personal experience that SDN is real," Johnson said. "It's growing a little faster than I'd have expected."

Trading Center

- Lessons on Buying Stocks
- Lessons on Selling Stocks
- What is CAN SLIM?
- How to Invest in Options
- Investing Education Videos