

SolarWinds keeps on growing

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Perched above Barton Creek in Southwest Austin, SolarWinds' glass and limestone headquarters is bursting at the seams.

The software maker added 100 employees to its local workforce last year, bringing it to about 300. Now it's planning to sublet nearby office space on South MoPac Boulevard (Loop 1) for more hires next year.

After a year of wowing Wall Street, and fresh off a stellar third quarter performance, the company — which sells software that businesses and governments use to manage their technology networks — said it's just getting started.

Strong revenue growth, thanks partly to recent acquisitions and new products, as well as widening profit margins have put it on investors' radars. And they like what they see: SolarWinds' stock hit a 52-week high last week and closed Friday at \$29.93 a share on the New York Stock Exchange. Shares of the company, which has a market cap of \$2.2 billion, are up more than 50 percent year -to-date.

"In a difficult environment, they have had a very good year," said Steve Ashley, senior software and services analyst at Robert W. Baird & Co. "Their products are unique, and they've done a great job of adding to their offerings through acquisitions. That has kept them growing and maintaining above-average profitability, and we expect that to continue."

SolarWinds' most recent quarterly report, released late last month, easily exceeded analyst predictions, with year-over-year revenue up 31 percent to \$53.9 million, and net income rising 70 percent to \$20.8 million.

"The question from analysts has always been, 'Can you get to (annual revenue of) \$100 million? Can you get \$150 million? Can you get to \$200 million?'" CEO Kevin Thompson said. "We're answering the doubters by showing success and showing growth. Our goal is to be a billion-dollar software company, and our goal is to do it quickly."

At a time when social media and mobile apps are in the spotlight, SolarWinds has excelled by doing what Austin's software industry has traditionally done best — enterprise software that helps corporations manage their businesses.

Unlike many Austin business software makers that build products and are soon acquired by bigger players, SolarWinds remains an independent company.

Founded in 1999 in Tulsa, Okla., SolarWinds moved to Austin in 2006, when local high-tech veteran Mike Bennett took over as CEO.

The company raised \$112.5 million in a well-received initial public offering in 2009 in what was Austin's first IPO in more than three years. Bennett stepped down last year, citing ongoing health problems, and was replaced by Thompson, who had been the company's chief financial officer.

"A strong publicly traded company like SolarWinds is an example of what you need to build a sustainable tech community," said Bob Smith, managing director of Austin-based BridgePoint Consulting. "An IPO says a company has passed a critical test: They've built something that has staying power — and that brings credibility both to the company and the community."

Thompson said SolarWinds, which competes with much bigger rivals including IBM Corp., CA Technologies and Hewlett-Packard, intends to remain a stand-alone company.

"We feel like we've positioned ourselves to be able to grow rapidly on our own, and we have no desire to get bought," he said.

But Ashley of Baird & Co. cautioned that the company's 2012 plans — including increasing business in Brazil, Germany and Japan and growing its workforce worldwide — will present new challenges.

"They want to build up their presence in international markets, and that can be a real learning process," Ashley said. "It remains to be seen if SolarWinds' Web-based (sales) strategy will be embraced by Japanese IT professionals."

"The Japanese have a culture of doing business face-to-face. Will they buy a product via the Web without live human interaction?"

Thompson said that managing growth is his top concern: "It's something I worry about a lot. We're growing quickly, from 400 worldwide a year ago to 600 today, and when you add employees that quickly, there's always a risk that new employees don't understand who you are and what you do."

SolarWinds has more than 100,000 customers worldwide, ranging from a 30-person dental office to more than 425 Fortune 500 firms.

The company's offerings solve problems faced every day by IT professionals, such as figuring out when servers are down and keeping networks running. Over the past year, it has expanded from network management into new markets including storage management, systems application management and virtualization.

SolarWinds has made six acquisitions, including Austin-based startup Hyper9 Inc. in January for \$23 million. Hyper9, which had 60 customers, developed software that manages and tracks virtual servers.

In July, SolarWinds bought Idaho-based TriGeo Network Security Inc., which sells log and event-management software, in a \$35 million deal. More purchases are likely, Thompson said.

Analysts said one of the company's biggest advantages over larger competitors is its lower prices. "Every time we make an acquisition, we cut the price at least in half," Thompson said.

The company also keeps costs down by using an internal sales force, which reaches potential customers over the Web.

"IT guys would rather do anything than talk to a sales guy," Thompson said. "It really amazes me that, in the age of social media, so many software companies are still doing sales the same way. Our inside sales reps can work hundreds, if not thousands, of sales in a given quarter. That's what helps us make an average 50 percent profit on every sale."

One SolarWinds customer said he was impressed by the company's pricing and performance.

Evan Marks began using the company's software earlier this year when he joined data processor Connecticut Online Computer Center as an infrastructure manager.

"I came from a much larger company that used software from HP and a few other large vendors, and I found that SolarWinds' software not only did everything that the larger competitors did, but did it at a fraction of the cost," Marks said.

Courtesy of JB Goodwin