

## H.P.'s Bidding War With Dell Underscores the Demand for Data Storage

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NYT August 23, 2010 SAN FRANCISCO — Data storage used to be one of the more mundane corners of the technology industry. Now it is where an increasing number of tech companies — and Wall Street — want to be.

On Monday, [Hewlett-Packard](#), the world's largest technology company, started a bidding war against its rival [Dell](#) for the rights to 3Par, an 11-year-old storage company based in Fremont, Calif.

H.P.'s bid of \$1.6 billion, or \$24 a share, is 33 percent higher than what Dell offered last week, \$18 a share. It is also 149 percent higher than where 3Par was trading before the Dell offer.

"You see deals go in vogue, and we are clearly seeing that now," said A. M. Sacconaghi Jr., an analyst with the research firm Sanford C. Bernstein & Company.

Companies need a place to store vast amounts of data: video clips, e-mail, reports and presentations. They also need tools to help them search, shrink, shuffle and otherwise manage it. The makers of those tools, like 3Par, have turned into some of the hottest properties in Silicon Valley.

Last year, [EMC](#), the largest storage company worldwide, trumped its main competitor NetApp to buy [Data Domain](#) for \$2.3 billion. The lofty price was the result of two months of haggling that added \$800 million to Data Domain's value. The deal was the largest purchase of a technology company backed by [venture capital](#) last year.

Storage companies like 3Par and Data Domain are becoming attractive because they come to the rescue of large corporations at a desperate time. The amount of data stored continues to double about every 18 months, said Deni Connor, the principal analyst at Storage Strategies Now.

Keeping track of all that information across hundreds or thousands of computing systems has proved a nightmare, as has working with the data in a speedy fashion.

"The amount of storage needed by these companies is getting out of control," Ms. Connor said.

Storage experts foresaw this problem years ago and set to work refining techniques for compressing information, eliminating duplicate files and spreading huge amounts of data across cheap computers in practical ways. Data Domain and 3Par, which both went public in 2007, were part of a wave of storage companies that sought to profit from their mastery of new data manipulation techniques.

David Scott, a former H.P. executive and now chief executive at 3Par, spent nine years shepherding 3Par and has ended up as the belle of the ball. The company manages complex data sets across a large corporate network and reduces the number of hardware systems a company must buy. Large companies already buying this technology may find the pitch more attractive with H.P. or Dell's name behind it.

"They buy these companies and then put them through their huge distribution channels," Mr. Sacconaghi said. "They have really been able to expand sales, and the formula is a reasonably proven one."

With gross margins above 60 percent, 3Par would provide a boost to those of both H.P., at 23 percent, and Dell, at 18 percent.

Storage companies tend to create tight links between software and hardware, which allows them to sell bundles rather than a stand-alone product to customers and to innovate at a quick clip, said Garth Gibson, a computer science professor at [Carnegie Mellon University](#). These trends, along with the importance of data, have helped storage systems outflank computer servers in importance.

“The computers are just providing cycles and have become rather inexpensive,” Mr. Gibson said. “Your data, on the other hand, is really the primary asset in an organization.”

Dell and H.P. have experience adding storage wares to their arsenal. Dell acquired EqualLogic for \$1.4 billion in 2007, and H.P. bought LeftHand Networks, a company with similar storage technology, for \$360 million a year later.

Dell, in particular, has emphasized the importance of storage as the company tries to rework its business away from mere hardware sales. The hope is that storage software sales will provide Dell with higher profits, while also opening a more meaningful relationship with customers that centers on their information.

For its part, H.P. last year hired Dave Donatelli, who worked for 22 years at EMC, as its head of corporate hardware, signaling a desire to expand its storage business.

Analysts have pointed to companies like Compellent, CommVault and [Isilon Systems](#) as possible beneficiaries of the storage acquisition wave. Shares of all three companies were up more than 10 percent on Monday on the back of H.P.’s bid for 3Par.