

# New Relic, AppDynamics plot APM's next act

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Over the past seven years, New Relic and AppDynamics have followed both parallel and divergent courses that have led New Relic to a successful IPO late last year and AppDynamics to more than \$150m in annual bookings and a valuation of over \$1bn in its last financing round. We expect both companies to continue to explore similar yet different paths to growth and find plenty of opportunities along the way, even as the next generation of application performance management (APM) vendors emerges to challenge them.

## The 451 Take

APM and big-data analytics will likely remain at the center of both companies' universes even as they explore different paths to growth. For New Relic, that means being a developer-centric platform provider, empowering developers and DevOps teams to build new analytical applications for both IT and business units. AppDynamics is similarly focused on 'application intelligence,' providing business and operational insights into app performance. The company will maintain its enterprise focus, emerging as a unified IT management and analytics supplier, while New Relic will continue to reach DevOps teams at organizations both large and small. While they will compete on some level, there will be plenty of growth opportunities for each vendor going forward.

## Context

Startups AppDynamics and New Relic were founded in 2008 by former executives of APM software pioneer Wily Technology, which was acquired by CA Technologies in 2005. Lew Cirne, the founder of Wily, founded New Relic. Jyoti Bansal, a lead software architect at Wily for three years, started

AppDynamics. Both companies have multiple former Wily executives on their teams.

New Relic brought product to market in 2008, with AppDynamics following in 2010. But both vendors have set the pace for the APM market, raising more than \$400m in venture and debt funding in the process. New Relic, which has booked \$96.8m in revenue in the past year, had a successful IPO last December. AppDynamics has yet to indicate any IPO plans but posted more than \$150m in bookings in 2014.

The two companies started out at least occupying different niches in APM. AppDynamics targeted performance management of production enterprise Java and .Net apps but with sophisticated self-learning and configuration, more user-friendly interfaces, a lighter-weight agent more suitable for cloud environments, and an advanced correlation engine, still a key strength and differentiator for the company today. It makes its software available in the cloud as SaaS and as licensed, locally installed software.

New Relic, however, targeted the next generation of Web applications built in Ruby on Rails and then expanded to other dynamic languages. As most of these apps were being built in the cloud via PaaS offerings, the company made its software available in the cloud as SaaS. These apps were typically lightweight and agile, and frequently deployed for Web-centric businesses or for specific tasks, rather than broad transactional systems. Media, gaming, social and mobile applications were early use cases.

Unlike AppDynamics, New Relic doesn't have a licensed software business. It remains 100% SaaS, banking on the low-friction business model and cost-structure advantages for customers that the SaaS model offers.

Over time, of course, the two vendors' use cases converged. New Relic now supports Java and .Net in addition to Ruby, PHP, Node.js and Python. AppDynamics has added support for PHP and Node.js to its Java and .Net flagship offering and has new products in beta that monitor C, C++ and Python apps. Both companies have added server monitoring, mobile APM and browser-based real-user monitoring. New Relic brings synthetic monitoring to that mix while AppDynamics has deep-dive database monitoring of SQL and NoSQL apps. Both companies also have their own analytic platforms.

AppDynamics' analytics focus for now remains on application performance analysis but it plans to add business analytic capabilities later this year. New Relic is expanding its New Relic Insights platform from application performance to customer experience and business analytic use cases,

especially following the purchase of business dashboard software developer Ducksboard. With Insights, New Relic promises quick time to value from the SaaS delivery model of its analytics.

## **Business update**

New Relic reported earnings for the first time as a public company in February. For its fiscal third quarter ended December 31, 2014, the company reported \$29m in revenue - a 69% increase over the year-ago period - with a \$15.6m net loss. It has trailing 12-month revenue of nearly \$97m. New Relic reported 11,270 paying customers at year-end. The company has 579 employees.

Meanwhile, AppDynamics reported more than \$150m in bookings for its fiscal year ended January 31 and booked more than 20 deals valued at over \$1m. The company reports 1,600 paying customers and 650 employees as of March 2015. With more than \$200m raised, it was valued at more than \$1bn at its last funding round in July. New Relic's market cap has hovered in the \$1.5-1.6bn range since it went public.

## **New product directions**

In December, AppDynamics announced its Fall '14 release. The release focused on the vendor's traditional strength: managing application performance across end-user, app, database and infrastructure tiers for large-scale deployments.

New features include the Virtual War Room, a shared virtual space where IT operations, development teams and business users can work together to view and resolve IT problems. DevOps teams also get shareable preconfigured reports that can be automatically generated and sent to key stakeholders. This release moves beyond code-level instrumentation to monitoring of webMethods and TIBCO integration platforms; automatic discovery of Cassandra databases; and monitoring of Microsoft SQL Azure DB cloud database services. It also introduces support for monitoring of C and C++ apps, though that capability is still in beta.

Fall '14 also includes a feature called cross-application flow that tracks app-to-app metrics and maps flow visualizations as a transaction goes across different applications, such as an e-commerce transaction that traverses sales, inventory, fulfillment and shipping apps. Cross-application flow can drill down into the apps to see how they interact with shared services. Tracking of asynchronous transactions that don't follow a defined path, visibility into WebSocket requests made by transactions, and integrated database monitoring are other new performance monitoring features in this version.

In addition, AppDynamics is polishing its bona fides as a big-data platform in Fall '14. The firm is moving its data platform from a relational database to a non-relational Hadoop-based architecture. This will give customers up to 500 million metrics per minute, up from five million metrics per minute, and allow them to analyze up to one trillion events per day, up from 100 million events per day.

With its SaaS model, New Relic has focused on delivering more frequent product releases that all customers have access to as soon as they go live on the platform.

New Relic Insights is the company's big-data platform, built on its own custom-tuned, Hadoop-like event database and analytics technology with a SQL-like ad hoc query language. New Relic is targeting Insights at business as well as IT users, recently adding new data visualization capabilities for advanced segmentation of customer behavior.

Insights was further expanded into mobile, providing analytics on mobile app performance and crashes in context with user engagement data. New Relic bills combined use of its performance management technologies with Insights as Advanced Performance Analytics, promising insights into development priorities, impact of performance issues on customer behavior, and SLA compliance for top customers.

The latest products include New Relic Synthetics, for automated testing of applications using scripts that simulate the real-user experience of those apps; and New Relic Browser, which adds true real-user monitoring of apps through JavaScript code injection, providing a detailed view of browser-based apps. The company has also added a crash-reporting feature for its New Relic Mobile service. This is used to resolve bugs that cause mobile apps to crash on users' devices. New Relic provides an open platform, enabling its more than 250,000 end users and partners to build and share plug-ins that feed data from other applications and environments to New Relic.

## **Acquisitions**

In March 2013, AppDynamics bought a small startup called Application Performance Ltd, which developed software dubbed DBTuna for database and NetApp storage monitoring. That technology has evolved into AppDynamics for Databases. Six months later, AppDynamics nabbed Nodetime to add monitoring of Node.js applications to its capabilities.

As for New Relic, it purchased dashboard developer Ducksboard last October, raising its game in the quality of data visualizations it can provide to customers.

We expect both companies to rely more on internal development than M&A going forward, though additional small tuck-ins are possible for both. Expect AppDynamics to focus more on expanding its monitoring and analytic capabilities while New Relic figures to concentrate more on platform capabilities that can expand its footprint beyond IT. One area that both companies could buy into is log management, which would expand their monitoring capabilities and, especially, big-data analytic chops.

## **Competitive landscape**

For the past half-decade, New Relic and AppDynamics have dominated the APM discussion, superseding onetime market leader CA APM, the former Wily. CA Technologies has sued both companies for patent infringement. It has filed a separate intellectual property suit against AppDynamics, alleging that AppDynamics founder and CEO Jyoti Bansal and CTO Bhaskar Sunkara developed early AppD code while employed by CA, thus making that code CA's intellectual property, under terms of its purchase of Wily. AppDynamics has countersued, seeking a declaratory judgment to CA's patent infringement claims. As AppDynamics has been more focused on the enterprise Java and .Net opportunity, it has taken away more business from CA than New Relic has.

While New Relic and AppDynamics have garnered the headlines and the funding, dynaTrace is the current market leader in APM, according to 451 Research's Market Monitor service, and is arguably the strongest competitor for both companies. DynaTrace was spun off of Compuware late last year after Compuware's private equity (PE) buyout by Thoma Bravo. It still has much of its original engineering team intact and operates a cloud-based APM subsidiary called Ruxit. Now that it's on its own again and free of mainframe stalwart Compuware, while backed by a growth-oriented PE firm, dynaTrace should continue to be a viable and innovative challenger to New Relic and AppDynamics.

While New Relic, AppDynamics and dynaTrace are the 'big three' in the APM space, other contenders are following in their wake. AppNeta offers a mix of code-level APM, delivered as SaaS, and network performance management (NPM). With its strong presence in the NPM arena, AppNeta could be a compelling choice for operations teams seeking to get better visibility of the application layer, integrated with network and server metrics.

EG Innovations is more of a network and server player as well, especially in virtualized environments, but it too offers code-level metrics for Java and .Net environments. A number of other firms are more focused on performance monitoring and management of infrastructure but do offer application monitoring in context of those metrics. These includes SaaS vendors like Datadog,

Boundary Inc, AppFirst and LogicMonitor, as well as SolarWinds, ScienceLogic and CA's Nimsoft. None of these companies offer code-level monitoring, however, meaning they need to work with APM providers that do to find and resolve performance issues traced to code.

The same goes for more advanced network monitors and analyzers like ExtraHop and ThousandEyes, which are more complementary than competitive to APM tools, but can find performance issues that APM tools can't, and then hand off to an APM tool to trace them back to the code errors that caused them.

Splunk and other performance-focused log managers such as Sumo Logic, Loggly and Logentries can also be both competitive and complementary to APM tools, finding issues in log files that the latter miss, but still not offering code visibility. Finally, upstarts like Sematext and Stackify offer integrated APM and log management and can challenge New Relic and AppDynamics, at least in DevOps use cases.

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