Product Line Strategy
Software License Management
Global, 2011

Frost & Sullivan's Global Research Platform

Frost & Sullivan is in its 50th year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The company's research philosophy originates with the CEO's 360 Degree Perspective™, which serves as the foundation of its TEAM Research™ methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2011 Global Product Line Strategy Award in Software License Management to SafeNet.

FROST & SULLIVAN

2011 BEST PRACTICES AWARD

GLOBAL SOFTWARE LICENSE MANAGEMENT
PRODUCT LINE STRATEGY AWARD

Significance of the Product Line Strategy Award

Key Industry Challenges Addressed by Product Line Strategy

License management solutions solve the problem of monetizing application software, which is challenging because this is a technically diverse yet usability-sensitive market. Software Rights Management (SRM) vendors need to continuously evolve to support all relevant and emerging platforms, business models, delivery models, upgrade and connectivity scenarios, and more. The landscape for license management is changing.

Where desktop applications inside local area networks once dominated, virtualization is commonplace today, cloud is on the horizon and a majority of the workforce uses handheld devices for enterprise productivity tasks. Boundaries between cloud and embedded software or embedded devices and desktop software are blurring. Software LM was originally developed for anti-piracy and monetization of desktop software applications. Today the largest potential segment for software LM is embedded software and intelligent devices, for the dual purposes of controlling SKUs and editions, and enforcing hybrid licensing models. Correspondingly, enforcement technology is also evolving away from the dominant use of dongles towards software-based and network-reliant authentication.

Software monetization ties into many operational aspects of the publisher and the end customer. For example, ERP and CRM systems evolve, and so back-office integration aspects of the software LM solution have to correspondingly evolve to remain successful.

Finally, software LM remains an issue that traverses people, policy and technology, with a significant disorganized/home-grown sector. Vendors need to incorporate services, education, product and business integration to fully realize the potential revenues and opportunities this space offers.

Accordingly, an effective product line strategy has to be diversified to accommodate new business models such as pay-by-usage, new deployment use cases including virtualization and cloud-based services, new platforms such as Android and iOS, and new product architectures such as hybrid on-premise/cloud offerings. At the same time, the product line has to retain a focus on the core features of license definition at development, back office integration for deployment and entitlement enforcement and logging at run time. Keeping close tabs on fundamentals like order fulfillment times, customer support and release agility, while ensuring the solution's capabilities remain on the leading edge of evolving technologies and requirements, is key to crafting a best-of-breed product line. Since all market segments strongly prefer single-vendor solutions for software monetization, a strong and comprehensive product line directly results in strong brand perception and growth in market share.

Impact of Product Line Strategy Award on Key Stakeholders

The Product Line Strategy Award is a prestigious recognition of SafeNet's accomplishments in the Software License Management market. An unbiased, third-party recognition can provide a profound impact in enhancing the brand value and accelerating SafeNet's growth. As captured in Chart 1 below, by researching, ranking, and recognizing those who deliver excellence and best practices in their respective endeavors, Frost & Sullivan hopes to inspire, influence, and impact three specific constituencies:

- **Investors**

  Investors and shareholders always welcome unbiased and impartial third-party recognition. Similarly, prospective investors and shareholders are drawn to companies with a well-established reputation for excellence. Unbiased validation is the best and most credible way to showcase an organization worthy of investment.

- **Customers**

  Third-party industry recognition has been proven to be the most effective way to assure customers that they are partnering with an organization that is leading in its field.

- **Employees**

  This Award represents the creativity and dedication of SafeNet's executive team and employees. Such public recognition can boost morale and inspire your team to continue its best-in-class pursuit of continued market leadership, in terms of both revenue and technological excellence, for SafeNet.

Chart 1: Best Practices Leverage for Growth Acceleration
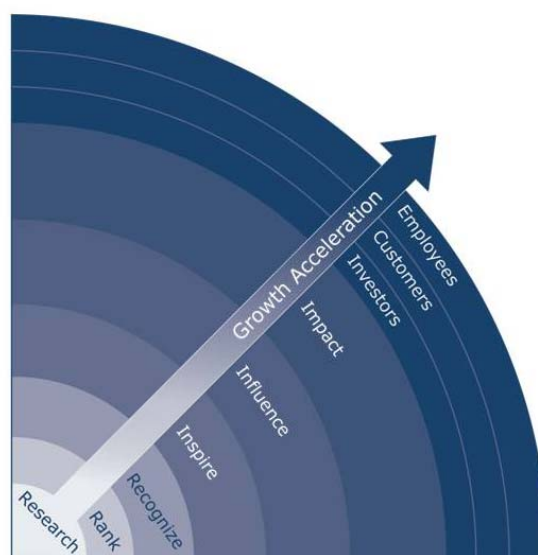
Key Benchmarking Criteria for Product Line Strategy Award

For the Product Line Strategy Award, the following criteria were used to benchmark SafeNet's performance against key competitors:

- Breadth of Product Line

- Size of Addressable Customer Base

- Impact on Customer Value

- Impact on Market Share

- Breadth of Applications/Markets Served

Decision Support Matrix and Measurement Criteria

To support its evaluation of best practices across multiple business performance categories, Frost & Sullivan employs a customized Decision Support Matrix (DSM). The DSM is an analytical tool that compares companies' performance relative to each other with an integration of quantitative and qualitative metrics. The DSM features criteria unique to each Award category and ranks importance by assigning weights to each criterion. The relative weighting reflects current market conditions and illustrates the associated importance of each criterion according to Frost & Sullivan. Fundamentally, each DSM is distinct for each market and Award category. The DSM allows our research and consulting teams to objectively analyze each company's performance on each criterion relative to its top competitors and assign performance ratings on that basis. The DSM follows a 10-point scale that allows for nuances in performance evaluation; ratings guidelines are shown in Chart 2.

Chart 2: Performance-Based Ratings for Decision Support Matrix
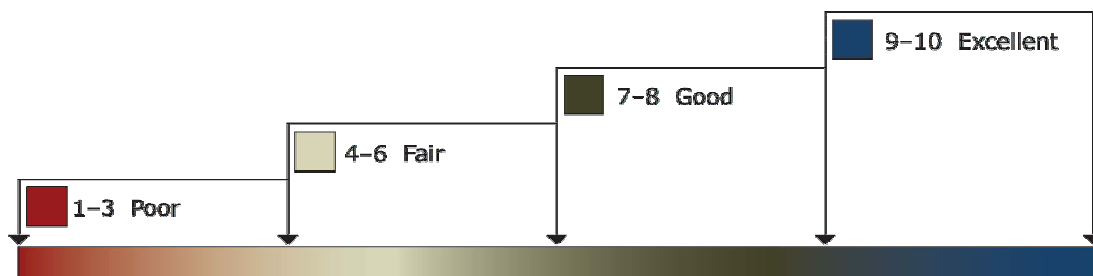
This exercise encompasses all criteria, leading to a weighted average ranking of each company. Researchers can then easily identify the company with the highest ranking. As a final step, the research team confirms the veracity of the model by ensuring that small changes to the ratings for a specific criterion do not lead to a significant change in the overall relative rankings of the companies.

Chart 3: Frost & Sullivan's 10-Step Process for Identifying Award Recipients

Best Practice Award Analysis for SafeNet

The Decision Support Matrix, shown in Chart 4, illustrates the relative importance of each criterion for the Product Line Strategy Award and the ratings for each company under evaluation. To remain unbiased while also protecting the interests of the other organizations reviewed, we have chosen to refer to the other key players as Competitor 1 and Competitor 2.

**Chart 4: Decision Support Matrix for
Product Line Strategy Award**

Measurement of 1–10 (1 = lowest; 10 = highest)	**Award Criteria**					
	Breadth of Product Line	Size of Addressable Customer Base	Impact on Customer Value	Impact on Market Share	Breadth of Applications/Markets Served	**Weighted Rating**
Relative Weight (%)	20%	20%	20%	20%	20%	100%
SafeNet	9	9	8	9	7	8.4
Competitor 1	7	7	8	8	7	7.4
Competitor 2	7	7	7	6	7	6.8

Criterion 1: Breadth of Product Line

Breadth of product line is important to fully address the myriad use cases, platforms, business models and deployment scenarios that characterize the software LM marketplace. The market strongly favors one-stop vendors, and so breadth of product line, with significant depth across all modalities, is an important driver for revenue growth and rise in market share. SafeNet's Sentinel suite combines the following elements:

a) Sentinel HASP, which provides license management for desktop and enterprise applications, enforced through software or using dongles. The product is designed for quick integration, and is based on HASP technology acquired from Aladdin in 2009. It includes a set of back-office integration and reporting tools, application analytics and reporting, and support for virtualization.

b) Sentinel RMS, which is a full-fledged license management platform that enables power users to implement customized business models. It supports a broad range of enterprise use cases in a scalable and reliable manner. Licenses are enforced either through software

or using HASP dongles. For entitlement management, Sentinel RMS integrates out of the box with Sentinel EMS, the company's web-based entitlement management platform.

b) Sentinel EMS, a centralized, web-based system for managing and automating all licensing activity including: entitlement generation, registration, activation and license distribution. EMS provides the critical functionality of integrating the ISV's back office systems: including ERP, CRM, billing, marketing with their one or many software LM system(s). Integration can be simply done out of the box, or can be customized through professional services (PS). Importantly, EMS provides comprehensive views and reports of licensing across products and back-office systems for the ISV, and allows end users to independently manage their own licenses. Sentinel EMS is available in on-premise and hosted versions.

c) Sentinel Cloud, which supports monetization of service-based architectures. This cloud-based service was introduced in 2011, and is designed to serve the fast-growing SaaS segment, which is gaining momentum as a competing or complementary offering, as the case may be, to traditional on-premise software applications. Although competitors 1 and 2 both adjusted their established offerings to support basic aspects of SaaS LM, they have not seen broad adoption because of the fundamental differences in the way desktop and cloud applications are built, released and monetized. Sentinel Cloud is architected specifically for SaaS applications. It offers a deeper set of features and supports a wider set of use cases, placing it well in terms of competitive strength and differentiation. As an example of synergy across Sentinel suite components, the hosted version of Sentinel EMS is a key component of Sentinel Cloud.

d) SafeNet and Competitor 1 have well established consulting and professional services arms to help larger publishers with planning and implementation of license management.

Competitor 1 offers functionally deep license management for desktop software applications, which has high market adoption. However, the company has yet to gain equivalent traction in the embedded segment- for example in terms of platform support - and offers limited support for cloud-based use cases. Competitor 2 has a diverse product offering to support cloud/SaaS and on-premise; and embedded or desktop applications, and a correspondingly distributed clientele. Across the board, however, their feature set is functional but shallow. Their ability to provide professional services is also limited.

Criterion 2: Size of Addressable Customer Base

The software LM market comprises of desktop software, embedded software and SaaS segments. Total accessible market (TAM) for the software license management in general is a percentage of the total revenue from software in that segment.

 "We Accelerate Growth"

The embedded segment offers the highest TAM, although adoption is still in the early growth stage. SafeNet has established a leading position in the embedded segment through the use case and platform support capabilities of its product line.

Desktop software offers the next highest TAM, and being the most mature of the three segments it contributes the highest revenue today. SafeNet serves customers in all tiers of the desktop software segment through its range of software-enforcement, hardware-enforcement, lower-end out of the box and higher-end customizable product offerings. Thus, it sees the highest addressable customer base in this segment as well.

SaaS or cloud is yet an emerging segment, but is poised to see the highest – rates- of growth, and SafeNet is well positioned to capitalize on this opportunity.

Competitors 1 and 2 also serve all three segments, but address the needs of either fewer customer tiers or fewer use cases within each segment. Competitor 1 has comparable strength to SafeNet in the desktop software segment, but has more limited ability to meet the full range of needs and use cases in the cloud and in embedded devices. It also has more restricted support in terms of client and server platforms. Competitor 2 has not proven the scale and reliability to serve large enterprise deployment needs. Additionally, their product line is not designed to enable high degrees of customization. As a result, they are less able to address the needs of tier-I customers.

Criterion 3: Impact on Customer Value

Monetization is at the heart of any software publisher's business. License management solutions are designed to enable and optimize monetization. Functions include:

- Defining and implementing product editions and license terms,

- Generation, distribution and enforcement of those licenses, and

- Gathering back data on application usage and leveraging this for compliance auditing, sales lead generation and product planning.

Effective prevention of license abuse and piracy is one consideration for impact on customer value. On the other hand, efficient and seamless functionality is also critical. Well-designed, reliable and automated software LM products enhance customer value (i.e. value to software publishers) by reducing development time and lowering administrative overhead. Products that restrict business models, disrupt end user workflow, require modifications to publisher or end user processes, or that do not integrate easily with other process infrastructure components, become expensive and fail to provide RoI to the publisher.

SafeNet's lower-end products support simpler licensing needs, while the higher end products support highly complex deployment scenarios. Their strong emphasis on application analytics is also valuable to publishers, as is support for virtualized execution of

software, enabling grace periods for software use – e.g. during network outages - and pay by usage models. SafeNet EMS integrates cleanly into the back-office, providing a consistent interface for all types of protected products (desktop, embedded, or services) across various types of deployments (hardware or software locking, on-premise or SaaS). Hardware dongles are the traditional solution for secure node locking, with significant existing footprint today, and form a significant portion of SafeNet's business. By complementing their traditional dongle-based solutions with software- and cloud- based enforcement options, SafeNet is in the unique position of allowing ISVs the flexibility to choose the option or options that best meet their requirements and goals.

Competitor 1 has similar customer value impact as SafeNet, in terms of broad business model support, a mature back office component, scalable and reliable products that are proven in enterprise-scale deployments. They enable integration with third party dongles, which provides slightly higher value for publishers. However, their products are packaged and priced to be slightly less customer friendly, and so in the balance the two companies score evenly. Competitor 2 offers lower pricing than SafeNet and competitor 1, but their back-office integration and automation is less powerful, as is the ability to fine-tune product editions, business models and delivery. Their all-software implementation has fewer robustness measures, and so is more susceptible to hacking than the other two companies. However, since it has only a fraction of the market share of leading vendors, it is a less lucrative target for attackers and cracks are hosted on fewer sites with less publicity.

Criterion 4: Impact on Market Share

The strength of a product line in terms of features and quality directly impacts market share. SafeNet accounts for more than half of the software LM market today. This strength is partially due to a long history in the marketplace and its strategic acquisitions of leading competitors in the dongle space such as Aladdin Knowledge Systems. Product planning must not only allow for present conditions however, but also look to the future. The LM market is fluid, with many fundamental shifts underway.

The traditionally leading segment of dongle-based desktop software protection sold under a perpetual licensing model is approaching maturity in major markets. By engineering its product line to meet changing business models, enforcement preferences and deployment scenarios in desktop software, and by building comparable breadth of use case support in the other segments of the LM market – embedded and cloud – SafeNet's product line is best positioned to contribute to maintenance and growth of its market share moving forward.

Criterion 5: Breadth of Applications/Markets Served

Typically, diversity of markets covered is as important in product line coverage as it is in an investment portfolio. However, by its nature, software license management meets the needs of monetizing application software in enterprise deployment use cases. While this is a large opportunity, with organized revenues slated to exceed $450 million in 2018, it is still

designed to serve only a fraction of the overall application software market. Alternative technologies like activation, manual audits and protection methods specific to sales channels all compete with the license management approach to monetize software. To date, major LM vendors have not crossed over into these spaces in a meaningful way - largely because of the vast differences in customer demographics, product needs and potential revenues. As a result, all contenders are evenly ranked on this category.

Conclusion

SafeNet dominates the software license management market today, accounting for over half of total market revenues. Factors contributing to this leadership include SafeNet's traditional strength in hardware dongles and its strategic acquisition of Aladdin Knowledge Systems, as well as the company's global footprint and strong presence in both the desktop software and embedded segments of this market.

However, application software is an evolving landscape. Where desktop applications inside local area networks once dominated the space, today virtualization is commonplace, embedded software is the largest opportunity, cloud is on the horizon and a growing percentage of the workforce is using handheld devices outside the enterprise perimeter and on the go. License management is a vital component in monetizing software. To ensure continued relevance, it is crucial for software LM solutions to adapt and evolve in tandem.

Accordingly, SafeNet is strategically expanding its product line to remain in a market leadership position as the market evolves. Examples include a growing focus on software-based licensing solutions, and the newly launched Sentinel Cloud offering. SafeNet's Sentinel product line is crafted to position the company as a comprehensive go-to vendor for the broadest range of markets and use cases – both current and emerging. Owing to this best-in-class product line strategy, Frost and Sullivan has presented SafeNet with the 2011 Global Product Line Strategy Award in Software License Management.

The CEO 360-Degree Perspective^{TM} - Visionary Platform for Growth Strategies

The CEO 360-Degree Perspective™ model provides a clear illustration of the complex business universe in which CEOs and their management teams live today. It represents the foundation of Frost & Sullivan's global research organization and provides the basis on which companies can gain a visionary and strategic understanding of the market. The CEO 360-Degree Perspective™ is also a "must-have" requirement for the identification and analysis of best-practice performance by industry leaders.

The CEO 360-Degree Perspective™ model enables our clients to gain a comprehensive, action-oriented understanding of market evolution and its implications for their companies' growth strategies. As illustrated in Chart 5 below, the following six-step process outlines how our researchers and consultants embed the CEO 360-Degree Perspective™ into their analyses and recommendations.

360-Degree Perspective™ Model

Critical Importance of TEAM Research

Frost & Sullivan's TEAM Research methodology represents the analytical rigor of our research process. It offers a 360 degree view of industry challenges, trends, and issues by integrating all seven of Frost & Sullivan's research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. In that vein, the letters T, E, A and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The

integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

Chart 6: Benchmarking Performance with TEAM Research

About SafeNet

SafeNet is a global leader in information security, protecting data at rest, data in motion, data in use, software and license management with the broadest range of security solutions in the world. Founded in 1983, SafeNet, Inc. is one of the largest information security companies in the world, and is trusted to protect the most sensitive data for market-leading organizations around the globe. SafeNet's data-centric approach focuses on the protection of high value information throughout its lifecycle, from the data center to the cloud. More than 25,000 customers across commercial enterprises and government agencies trust SafeNet to protect and control access to sensitive data, manage risk, ensure compliance, and secure virtual and cloud environments.

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best-practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 40 offices on six continents. To join our Growth Partnership, please visit http://www.frost.com.