



SENTINEL
SOFTWARE
MONETIZATION
SOLUTIONS

2013 Global Software Monetization
Market Share Leadership Award



F R O S T & S U L L I V A N



50 Years of Growth, Innovation & Leadership

Market Share Leadership Award Software Monetization Global, 2013

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 2013 Global Market Share Leadership Award in Software Monetization to SafeNet, Inc.

Significance of the Market Share Leadership Award

Key Industry Challenges Addressed by Superior Innovations and Leadership

Licensing and entitlement management solutions solve the problem of monetizing application software and software-powered devices, which Frost & Sullivan notes is quite challenging. This is a technically diverse, yet performance- and usability-sensitive market.

Software monetization solution vendors need to support all relevant and emerging platforms in a rapidly changing technical landscape. They also need to continue evolving in order to support emerging business models, such as pay as you go, delivery models, electronic upgrades, connectivity scenarios (online, offline), and more.

Frost & Sullivan agrees that the landscape for license management is changing. Where desktop applications inside local area networks once dominated, virtualization is growing, and cloud-based and SaaS-based deployments are commonplace. Embedded applications are on the rise as well; the line between cloud and embedded or embedded and software was once clear, yet now the boundaries are blurring. Where software LM was originally developed for anti-piracy and monetization of desktop software applications, today the largest potential segment for software LM is in controlling SKUs and editions, and enforcing hybrid licensing models for embedded software and intelligent devices. Correspondingly, enforcement technology is also evolving away from the dominant use of dongles toward software-based and network-reliant authorization. Business models are evolving away from node-based licensing to usage-based licensing or feature-restricted licensing.

Software monetization ties into many operational aspects of the publisher and the end customer. For example, ERP and CRM systems constantly change; as such, 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/homegrown sector. Frost & Sullivan feels that vendors need to continue incorporating services, education, and products to fully realize the potential revenues and opportunities this space offers.

The traditional mainstay of the software monetization market—B2B desktop software—is at a tipping point. Saturation, weak business spending, migration to the cloud, and currency fluctuations are driving a once-thriving marketplace toward slight declines in year-over-year revenue. In a marketplace with few vendors, maintaining market leadership and a strong growth outlook—despite a significant slowdown in growth of the primary segment for the market—is a difficult proposition. Overcoming this challenge requires sustained innovation in terms of functionality, along with security in traditional segments, such as desktop software license management. It also requires the most successful vendor to aggressively set the bar for state-of-the-art technology in emerging verticals, including embedded and cloud. Resisting commoditization and price wars, and innovating to maintain premium price points, are critical to ongoing growth in revenue and the continued ability to invest in research and development to drive future waves of innovation.

Finally, software monetization remains a market characterized by trust in a company's ability to serve as a secure, scalable and reliable long-term partner. The continued ability to deliver a trustworthy solution and serve as a business-critical partner directly results in strong brand perception and sustained market share leadership.

Best Practice Award Analysis for SafeNet

The Frost & Sullivan Market Share Leadership Award is presented to the company that has demonstrated excellence in capturing the highest market share within its industry. The Award recognizes the company's leadership position within the industry in terms of revenues or units, as specified.

SafeNet's Performance in Software Monetization Market

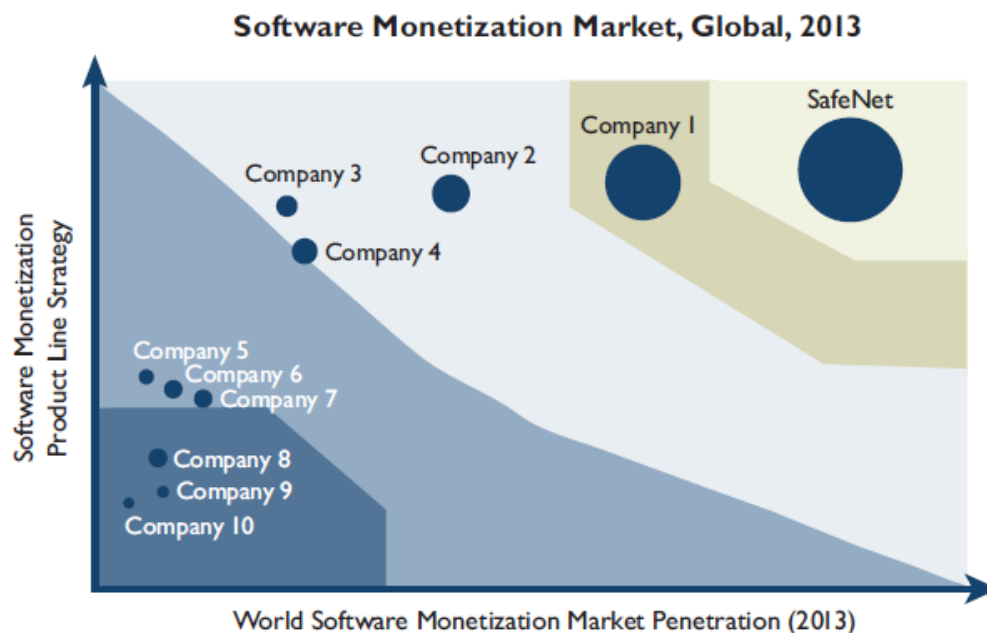
As it has for the past several years as a consequence of acquisitions and organic growth, SafeNet continues to lead the software monetization market. In 2013, the company accounted for more than half of total market revenues worldwide, and more than three-quarters of global revenues in the hardware segment. SafeNet clearly leads in the EMEA and APAC segments of the total market, with over 60% and 50% of revenues, respectively, and has a leading position in the NALA region as well, with over 40% regional market share.

Frost & Sullivan competitive maps provide relative positioning of vendor participants in terms of their current market share and strategic positioning for onward growth. They indicate current leaders while also providing reliable, objective guidance in selecting vendors and investment opportunities in a given market. The image below shows the results of our

analysis of vendors in the software monetization market for 2013. Factors considered in constructing the landscape include:

- **Current market share by revenue.** The size of the company's circle, and its X axis coordinate, correlate to the current size and strength of the vendor's market position. The higher the market share score, the more dominant the company is in the market at the present time.
- **Relative strategic excellence.** The company's position on the Y axis correlates to its strategy score, which is computed based on factors specific to the target market. The higher a vendor's strategy score, the more likely it is to outperform the market and grow market share.

Competitive Landscape Analysis



Key Performance Drivers for SafeNet

Several factors contribute to SafeNet's ongoing leadership position in the software monetization market through its Sentinel suite of products. This market is divided into two segments by product form factor: software and hardware. It is separately divided into four segments by type of product being monetized, including B2B software, B2C software, SaaS and embedded. In the context of these segmentations, Frost & Sullivan discusses the four main factors responsible for SafeNet's success.

Factor 1: Continued Leadership in the B2B Software Segment

From a total accessible market (TAM) perspective, the embedded segment is considerably larger than the B2B software segment. However, from a current revenue perspective, B2B still is the largest segment in the software monetization market, given the higher penetration of commercial license management technology among specific segments, such as computer-aided design and manufacturing (CAD/CAM). SafeNet enables this market in two ways—directly by providing an end-to-end solution or indirectly by providing hardware dongles to supplement third-party license management solutions with stronger anti-piracy protection.

Although growth in the B2B software market itself has slowed, as discussed in the challenges section, SafeNet has continued to maintain and expand the value it provides to this segment, and the revenue it derives from it, through a number of R&D initiatives. For example, its recently announced AppOnChip functionality, which is part of Sentinel Envelope within Sentinel LDK and allows software developers to bind protected software to hardware keys, requiring the physical presence of the key to verify a license at run time as well as to execute code on an ongoing basis. This significantly raises the bar against emulation and cracks, and results in longer-term protection of software revenue and intellectual property within software for SafeNet's customers. Furthermore, the company's flagship Sentinel RMS product allows software to be protected with or without the use of hardware dongles, giving developers the flexibility to choose a revenue protection method that is ideally suited to their own risk profile and their customers' usability needs.

Once a software vendor has selected a software monetization solution, this solution becomes an integral part of the vendor's back office, order processing workflow, and product code. Given this dependency, there is a high prevalence of homegrown solutions being used by software vendors. At the same time, there is growing market awareness that homegrown solutions are expensive to maintain and enhance in the long term. As a result, there is slow but steady growth in market penetration of software monetization solutions within the B2B software segment. Once a solution is chosen and interwoven into a company's code and operations infrastructure, it is extremely cumbersome for a software vendor to switch away from a selected software monetization solution, which results in very high customer loyalty in this market. By positioning itself as the monetization solution of choice for software vendors who are switching from homegrown solutions to commercial solutions, SafeNet benefits from immediate revenue growth and long-term strength in market position.

Factor 2: Strong Offerings for Cloud

While the cloud- and SaaS-based software segment is still a niche within the software monetization market, it is growing rapidly in significance. SaaS deployment for software is becoming the norm, rather than a novelty, for vendors. A joint survey by the Software & Information Industry Consortium (SIIA) and SafeNet reported that in 2012, 65% of

software publishers offered at least some type of cloud service (rising to an expected 75% by the end of 2013). Furthermore, on average, cloud services comprise just less than a quarter percent of a typical company's software portfolio. In a closely related trend, usage-based licensing is gaining popularity across the board as licensees continue to seek out options to closely control operating costs and minimize long-term licensing commitments. The same survey found that approximately one-third of enterprise licensees consider inflexible licensing as their topmost issue with software consumption; this end-user experience is expected to be considerably enhanced by leveraging the cloud.

In response to these trends, 2012 saw SafeNet release its groundbreaking Sentinel Cloud cloud-based software monetization solution, which was architected from the ground up to serve analytics and monetization needs for cloud and on-premise software monetization in an agile, lightweight manner. Cloud-connected licensing enables usage-based consumption models, the ability to license users as opposed to machines, supports real-time self-service, and eliminates traditional concerns with software management in virtual environments. This is complemented by a strong partnership strategy with cloud service providers, such as Dell Boomi and Amazon Web Services (AWS), which serve as an effective channel for SafeNet and a simplified implementation option for software vendors. This investment is already paying dividends this year, and Frost & Sullivan expects this to continue contributing to ongoing growth for SafeNet and for the software monetization market overall.

Factor 3: Competitive Offerings for Embedded

The embedded segment, serving a variety of verticals from telecommunications to healthcare and aerospace to infotainment and BYOD, represents the fastest growing segment of the software monetization market. However, this is also a challenging market to serve and an extremely difficult market to serve in a superior fashion. Complications include immense fragmentation in chipsets and operating systems, extremely high reliability and performance requirements, restricted computational resource availability, and high risk of counterfeiting.

Sentinel RMS Embedded is an important component of SafeNet's software monetization product strategy, which Frost & Sullivan has recognized as being best in class in this market and which is a key contributor toward SafeNet's market leadership position. Sentinel RMS Embedded is, as Sentinel Cloud was, designed specifically for its intended use case. In response to the growing trend of "smart" embedded devices and the nearly ubiquitous Internet of Things, Sentinel RMS Embedded allows device and equipment manufacturers to secure products during production through shipping and during deployment. It not only ensures revenue and IP are protected, but also provides a cost-effective way to manage product SKUs in reconfigurable software, rather than fixed hardware. The result is better cost and better monetization for vendors, and a superior experience for customers. This win-win situation has encouraged adoption of SafeNet's embedded solution, with SafeNet accounting for more than 60% of global revenues in the embedded segment.

Factor 4: Geographically Broad Footprint

Software publishing and device and manufacturing equipment are global businesses, with products being created and deployed on a globally diverse basis. There are some areas of market concentration. For example, software publishing does have a greater footprint in North America, and embedded devices do have greater market share originating in advanced countries in EMEA and APAC, such as Germany and Japan. Similarly, European markets favor the use of hardware enforcement, while American markets tend to be more evenly balanced between hardware and hardware-free enforcement. The ability to adjust regional offerings to regional preferences and strengths, combined with the ability to maintain a global sales and partnership presence, is critical to achieving a market-leading position.

Vendors competing with SafeNet have achieved significant footprints in their home regions, but have failed to effectively cross the Atlantic in one direction or the other, thus limiting their market position. SafeNet has also excelled at setting up a professional services organization to complement its product offerings, which helps shorten sales cycles by increasing stakeholder buy-in and reducing project risk. Services also account for a non-trivial portion of SafeNet's total revenues in this market, further contributing to its market share.

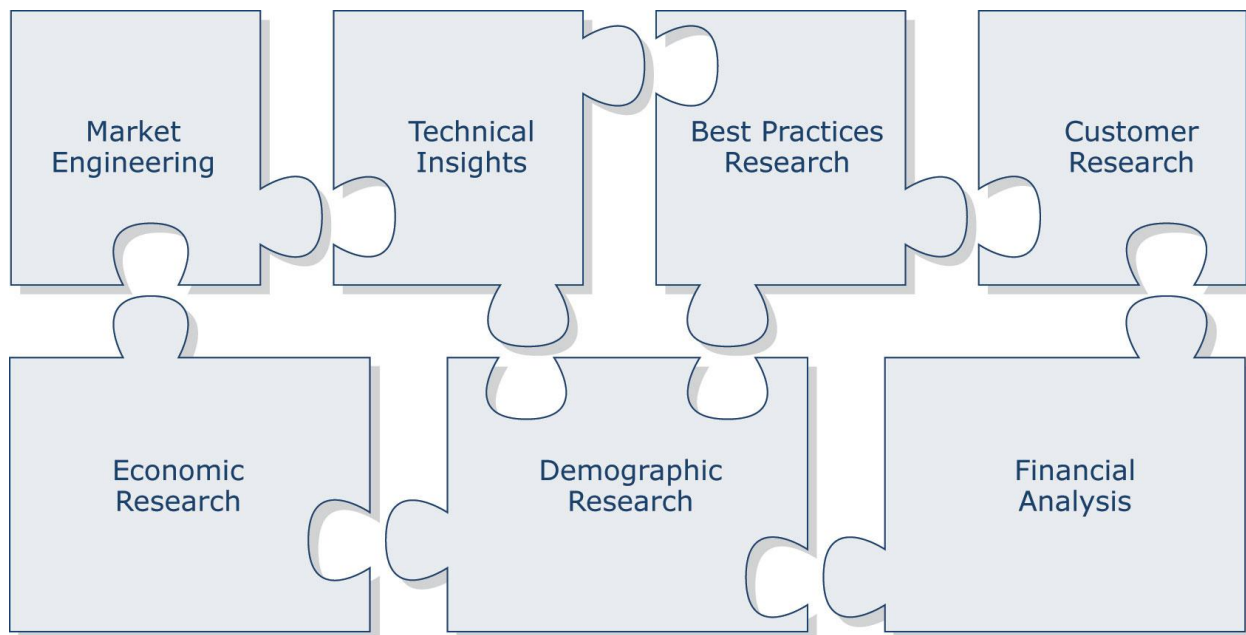
Conclusion

Application software itself is an evolving landscape. Although desktop applications inside local area networks once dominated the space, today's reality is marked by virtualization. Embedded software is the largest opportunity, cloud is a significant trend rather than a novelty, and a growing percentage of the workforce is using handheld devices outside the enterprise perimeter. SafeNet has innovatively and strategically expanded its product line to keep up with the changing depth and breadth of the potential market, while maintaining excellence in both products and services that serve traditional segments in the software monetization market. Through continued excellence in terms of features, security and support for a broad range of use cases in a broad range of geographies, SafeNet continues to maintain its leadership across nearly every aspect of the software monetization market. In recognition of these achievements, Frost & Sullivan is proud to recognize SafeNet with the 2013 Global Market Share Leadership Award.

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.

Benchmarking Performance with TEAM Research



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>.