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Red Hat Sales: How Do They Do It?

On June 17, 2004, Red Hat announced what I would call a good a good 1Q05 (the quarter ended on May 31, 2004). The revenue for the quarter was \$41.6M — a 53% year over year increase. That number will likely change with Red Hat's re-statement of its revenue after PricewaterhouseCoopers found a "flaw" in their accounting for subscriptions. Red Hat will now start recognizing subscription revenue on a daily basis over each contract term. My understanding is that PricewaterhouseCoopers uncovered the flaw on June 16, 2004, the day before the 1Q05 earnings were announced and well after Kevin Thompson privately told Red Hat that he was stepping down as Red Hat CFO. PricewaterhouseCoopers is the new auditor of record as part of the required rotation of audit partners every five years.

Following the 1Q05 announcement, Red Hat's stock prices dropped several dollars per share even though the quarter produced very good numbers. The thing that I find interesting in the quarter's announcement (I'm a little late to be talking about a quarter announcement that took place a month ago, but bear with me) is the growth rate in the number of subscriptions. Sales of subscriptions reached 98,000 for the quarter with 75,000 subscriptions sold into the enterprise market and 23,000 subscriptions sold into the high performance computing and hosting markets. In addition, the renewal rate for subscriptions sold in previous years was about 85%.

The question of interest is "How does Red Hat reach sales of 98,000 subscriptions in one quarter?" Having great high brand recognition and more than 450 ISVs certified to run on RHEL is part of the answer, but there is more to it than that. Red Hat has several ways that it sells:

1. Direct sales to big customers.
2. Sales through IHV (and Premier Alliance) partners such as Dell, HP, IBM, and others. Dell and IBM now pre-load RHEL, if requested.
3. Sales with other Premier Alliance partners such as BEA, BMC, Oracle, Veritas, and Wind River.
4. Distributors such as Avnet, Ingram Micro, KeyLink Systems, and others.

5. Inside sales to customers, usually small customers, through lead generation.
6. Web sales via the Red Hat Store for RHEL AS, ES, WS, Red Hat Desktop, etc.
7. Sales that result from relationships with over 450 ISVs.
8. Sales to Fedora users who move up to RHEL.

Some sales result from customers just calling Red Hat because of their high brand recognition. Red Hat generates these sales with just over 50 sales staff. There is nothing magical about how Red Hat's sells so many subscriptions. Having many of the large ISVs certified to run on RHEL, great brand recognition, good focus on targeted markets, and hard work is making Red Hat successful.

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