Finding a Diamond in the Rough

Garnett & Helfrich took over an ill-fitting CA business with a plan to turn it into the Red Hat of database management. This could be the break Ingres was looking for.

As managing director at private equity firm Garnett & Helfrich Capital, Terry Garnett's job is to turn potential businesses buried inside companies into billion-dollar, standalone enterprises. He thinks he found a candidate nestled deep within Computer Associates.

Christened Ingres, the former CA business unit technically qualifies as a startup. But what a startup! Three months old, the company boasts 8,000 customers and faces a competitive field that includes IBM and Oracle—which between them claim about 70 percent of the $23-billion global database business. The Ingres purchase marks the second dip in Menlo Park, California-based G&H's $250-million investment fund.

Ingres-type venture deals are few and far between. Private equity firms typically buy software companies like SunGard and Serena Software that charge big license fees up front. Maintenance provides the gravy topping.

For open-source businesses, the gravy is everything, so for Ingres to win, it has to pull in masses of customers and earn its money exclusively on support income.

Having spent over 20 years in the database business, Mr. Garnett knew that there are only a handful of dominant players in the worldwide database market, which Forrester Research puts at $23 billion. That left plenty of room for growth for Ingres, which was one of the oldest relational databases, but proved a misfit in CA's management software portfolio.

Some Ingres clients predate its startup status by more than a decade, including pulp and paper maker Bowater, where an Ingres system stores customer data information, order book, and all other back-end data. The relationship goes back 15 years.

A lot is riding on database operations for Bowater, which keeps publishers like Knight Ridder, Dow Jones, and Gannett supplied with newsprint. But if Bowater was nervous about the change in Ingres' ownership, it did a good job of hiding it.

If anything, the company welcomed it. "I don't think Ingres has been given the attention that it deserves," says Tyler McGrath, Bowater's staff database administrator. "CA is a big company with a lot of cogs in the wheel."

Thinking the same thing, Mr. Garnett and his partner David Helfrich approached CA COO Jeff Clarke and Mark Barrenechea, executive vice president of product development, in September 2004 to discuss the possibility of spinning off the unit.

Mr. Garnett made his proposition to Mr. Barrenechea, an old colleague from their days at Oracle, over lunch at CA's headquarters in Islandia, New York.

"G&H's approach was timely and our reaction was very favorable," says Mr. Barrenechea. "[Ingres] is an important technol-

ogy but we are not a database company."

CA had gone through a barrage of accounting scandals and management shakeups earlier in the year and, as it turned out, the timing couldn't have been better: Newly appointed CEO John Swainson had just launched efforts to reorganize the company.

That said, CA did not want to rush the decision. "You want to make sure it's the right product, the right partner, and customers are well taken care of," says Mr. Barrenechea.

On November 7, 2005, the two teams went public with the divestiture. Financial details of the deal were not disclosed but G&H did emerge as the majority shareholder, leaving CA with 20 percent and a seat on the board.

Interestingly, three out of four people on the company's reconstituted board had Oracle histories—Mr. Garnett, who reported directly to CEO Larry Ellison, Mr. Barrenechea, who was senior vice president for applications development, and Michael Rocha, who led the support and development team at Oracle.

CA had held the property for 10 years, acquiring the Ingres technology in 1994 when it purchased ASK Group. Ingres began life as relational database management software at the University of California, Berkeley, 30 years ago.

It was CA that released the software to the open-source community in 2004, just before it began exploring the G&H deal. CA had also used the database technology from the beginning as the underlying database for its own slew of software products.

Mr. Garnett's zeal for the product—and the business model—was enough to persuade him to head up the company himself, at least until he finds the right "powerplayer" to take over.

Viewing the Ingres deal as part of a

> **"I think you are going to see more and more major companies focus on what they are going to be really excellent at and come up with a new business model for the other really great parts."**
>
> TERRY GARNETT,
> MANAGING DIRECTOR,
> GARNETT & HELFRICH CAPITAL

G&H Managing Director Terry Garnett will lead Ingres until he finds a suitable replacement.

wider trend, Mr. Garnett sees parallels between the spin-off from CA and IBM selling off its PC business to Lenovo. "I think you are going to see more and more major companies focus on what they are going to be really excellent at and come up with a new business model for the other really great parts," he says.

License-Free Software

As an open-source product, Ingres' database is different from other commercial databases: The technology source code is freely available to change, improve, and customize its design according to clients' needs. But as most people know, it's not completely free. License-free it may be, but the company intends to grow a handsome support and maintenance business, while still keeping costs well below what license-paying customers have to pay.

Customers are getting steamed about high licensing fees paid out for proprietary databases. Oracle's 10g database can cost between $40,000 and $150,000 per processor and between $8,800 and $30,000 more for support. Ingres charges only $2,000 per processor for support, according to Ingres CTO Dave Dargo. Other open-source competitors such as MySQL and Postgres cost more than twice that.

For a very margin-sensitive business like Bowater's, Ingres translates into huge costs savings over Oracle.

Closed-source databases like IBM and Oracle charge mightily, but they employ hundreds of developers to come up with add-on features—which most people never use, Mr. Garnett asserts.

Forrester would seem to back him up. Eighty percent of applications linked to commercial databases tap into only 30 percent of their features, according to Noel Yuhanna, an analyst at Forrester.

Oracle makes 72 percent of its revenue—$8.5 billion of $11.7 billion last year—from its database bread-and-butter license business; this helps, in part, to finance the company's other divisions such as applications and middleware in the software stack and make acquisitions, says Mr. Dargo, who spent 15 years at Oracle building its Linux program.

"We are the pure database company, we don't have an agenda in applications so the customer knows that all of our dollars go into building the best database," Mr. Dargo contends. Only about a half-dozen core developers at Ingres have worked on the database, most of whom have been around for years.

Even though it's a startup, Ingres enjoys the privilege of having the maturity of a full-grown company with a full-blown product, as well as a seasoned development and sales team.

Tough Road Ahead

But competing with dominant companies such as IBM's DB2 database, Oracle's 10g, and Microsoft's SQL Server won't

> ## "If within a year, [Ingres] does not come up with some new features, they are likely to be overtaken by competitors."
>
> NOEL YUHANNA, ANALYST, FORRESTER RESEARCH

be a cakewalk. There's also heavyweight Swedish player MySQL to worry about—considered the up and coming, popular open-source database—not to mention Postgres, another open-source player.

To win, Ingres will have to innovate, and quickly, says Forrester's Mr. Yuhanna. "If within a year, [Ingres] does not come up with some new features, they are likely to be overtaken by competitors," he says. He also thinks that commercial databases will start lowering prices in the face of increasing open-source competition.

Mr. Garnett says he is aggressively trying to hire the best talent in the industry—at year's end, there were roughly 100 openings at Ingres' new facilities location in Redwood City, California. Ingres' boss also knows that to keep customers happy, he must retain the best talent in the industry and create a good ecosystem of developers and partners.

Bowater's Mr. McGrath says it's important that Ingres extricate itself completely from CA and stand on its own. The relationship has been the problem: Buried in the CA organization, Ingres never had the visibility a rival like MySQL enjoys, says Mr. Yuhanna, even though "[it's] better than MySQL and other databases."

However, while MySQL has growing support from partners and the open-source community, Postgres has maturity and a partnership with Sun, which could put Ingres behind, says Stacey Quandt, an analyst with the Aberdeen Group.

And catching up with hard-nosed competitors such as IBM, which has a 35 percent market share in the database business, will be tough.

"The customer and clients are interested in a broad information platform and DB2 is an engine that powers all the aspects," says Bob Picciano, IBM's vice president of database servers. "I don't think CA spinning off what was widely regarded as an underperforming piece of their portfolio poses a significant threat."

IBM has missed software calls before, of course.

For his part, Mr. Garnett has hopes of Ingres doing to database management what Red Hat did for open-source operating systems. "The fact that we are small and nimble is a big advantage here because we are going up against big organizations [with] a lot of layers of management, and that's what makes it an interesting horserace," he says.

With the open-source database business poised to grow from $250 million in 2005 to $1 billion in 2008, Mr. Garnett had better hope he's betting on the right horse. ∎