Can Solid State Drive Maker STEC Be Stopped?

June 22, 2009
By Paul Shread

While Data Domain (NASDAQ: DDUP) may be getting all the headlines, another data storage company has been every bit as successful.

STEC (NASDAQ: STEC) shook up the data storage industry 17 months ago when EMC (NYSE: EMC) announced that it would use the company's enterprise-class solid state drives (SSDs) in its high-end Symmetrix DMX-4 storage systems, and other vendors soon followed.

Despite the worst economy since the Eisenhower Administration, the performance promised by the pricey drives proved irresistible, and vendors have had trouble keeping them in stock.

STEC shares are up 200 percent in the year since the deal with EMC was announced; Data Domain shares have gained just 50 percent in the same time.

In the last six weeks, STEC shares have twice surged about 30 percent in a single day after the company's torrid growth has proved even better than company officials and analysts expected.

The most recent occurrence was last week, when STEC shares jumped 27 percent in a single day after the company raised guidance a little more than five weeks after its last quarterly earnings report. Analysts expect the company to grow sales 41 percent this year, with just about all of that growth coming from its ZeusIOPS SSD line.

It's hard these days to find a company involved in flash or hard drives that isn't angling after STEC's business, with companies from Intel (NASDAQ: INTC) to startups like SandForce announcing bold plans to enter the market, but STEC CEO Manouch Moshayedi claims to be far ahead of the competition.

Analyst Jim Handy of Objective Analysis says the company's advantage is likely to continue for some time.

"Even if someone entered the market today, they would have to go through at least a full year of OEM qualification tests before they were in a position to wrench the business away from STEC," said Handy.

Avian Securities analyst Matthew Bryson wrote in a research note that "lead times for EMC SSDs remain lengthy, implying STEC has further room to grow before market demand is sated. We continue to believe that forward competition represents a significant threat to both STEC's revenue opportunity and margin structure, however, we do not see alternatives emerging before 2010."

So analysts may be raising their expectations for STEC for a while longer.

And while the rest of the data storage industry may be stuck in the doldrums, Avian Securities last week noted what might be the first positive sign for the industry as a whole in some time. The analyst firm said it sees signs of "shortages of high-capacity SATA products designed for enterprise applications, as we have now heard of delays shipping product at multiple OEMS as well as in the channel."