

# THE CLOUD IPO PIPELINE

Kara Marciscano – Associate, Research  
09/25/2020

Public equity investors in cloud stocks are watching developments from the private markets carefully—particularly as many of the private companies look at [valuations](#) in the public markets as a good time to issue shares.

September and August 2020 have been active months for cloud computing initial public offerings (IPO). At the time of this writing, five companies have completed or are nearing the tail end of the IPO process.

Snowflake, a cloud data warehouse provider, was the blockbuster IPO of the week ending September 18. The company priced its offering at \$120 per share, raising \$3.36bn and valuing the company at approximately \$33.5bn.<sup>1</sup> Notably, Snowflake's IPO price was 50% above the midpoint of the initial range estimated just a week prior. The increase in price reflected mounting demand for the company's public debut, including investments from Berkshire Hathaway and Salesforce.<sup>2</sup> Snowflake began trading on September 16 at \$245/share, about 100% above its IPO price! As of this writing, Snowflake is valued at 164x trailing 12-month (TTM) sales.

JFrog, Sumo Logic and Unity Software began trading in the same week, but their newly listed shares experienced less of a “pop” than Snowflake's.<sup>3</sup>

| Company    | Business Description   | Initial Valuation Range | Latest Valuation Range / IPO Price | Opening Price | IPO “Pop” | TTM Revenue (\$mn) | TTM Revenue Growth | Price-to-TTM Revenue |
|------------|--|-------------------------|------------------------------------|---------------|-----------|--------------------|--------------------|----------------------|
| Snowflake  | Enables organizations to unify and query data to drive meaningful business insights, build data-driven applications and share data; allowing customers to focus on deriving value from data rather than managing infrastructure. | \$75-80/shr             | \$120/shr                          | \$245/shr     | 104%      | \$402.7            | 138%               | 164.1x               |
| JFrog      | Enables organizations to shorten their software release cycles and enable the continuous flow of current, up-to-date software from any source to any destination   | \$33-\$37/shr           | \$44/shr                           | \$71/shr      | 62%       | \$127.8            | 74%                | 45.0x                |
| Sumo Logic | Enables organizations to automate the collection, ingestion and analysis of application, infrastructure, security and internet-of-things data to derive actionable insights within seconds.                                      | \$17-\$21/shr           | \$22/shr                           | \$27/shr      | 21%       | \$181.4            | 42%                | 13.6x                |
| Unity      | Provides a comprehensive set of software solutions to create, run and monetize interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles and augmented and virtual reality devices.                     | \$34-\$42/shr           | \$52/shr                           | \$75/shr      | 44%       | \$640.3            | 38%                | 28.1x                |
| Asana      | Provides system of record for work that collects and structures institutional knowledge about how past work was completed and provides a real-time plan and road map for current and future initiatives.                         | N/A (Direct Listing)    | N/A (Direct Listing)               | N/A           | N/A       | \$181.3            | 71%                | N/A                  |

Sources: WisdomTree, FactSet, Bloomberg, SEC EDGAR, as of 9/18/20. TTM = trailing 12 months.

Given that the median public cloud company valuation is near a five-year high, the influx of IPOs is no surprise—raising capital at potentially [premium](#) valuations is

attractive for private shareholders.

Bessemer Venture Partners has been tracking developments in the private markets in their [Cloud 100 Benchmarks Report](#)<sup>4</sup> on an annual basis since 2016. Based on the previous Cloud 100<sup>5</sup> lists, 33 of the 204 total private cloud companies have completed public offerings (this includes Snowflake, JFrog and Sumo Logic).

But did all the gains to investors in cloud stocks only accrue to private investors, and was it too late to buy once these companies hit the public markets?

Bessemer's analysis shows that the IPO route has proven very accretive to public market shareholders—65% of public cloud companies' current [market capitalizations](#) were captured in public markets, with only 35% created while private.

WisdomTree licensed the BVP Nasdaq Emerging Cloud Index from Nasdaq, which tracks the performance of public companies that meet Bessemer's definition of a pure-play cloud computing company—complete with specific revenue growth thresholds and trading requirements. Companies must be publicly traded for three months before they are eligible for this cloud Index.

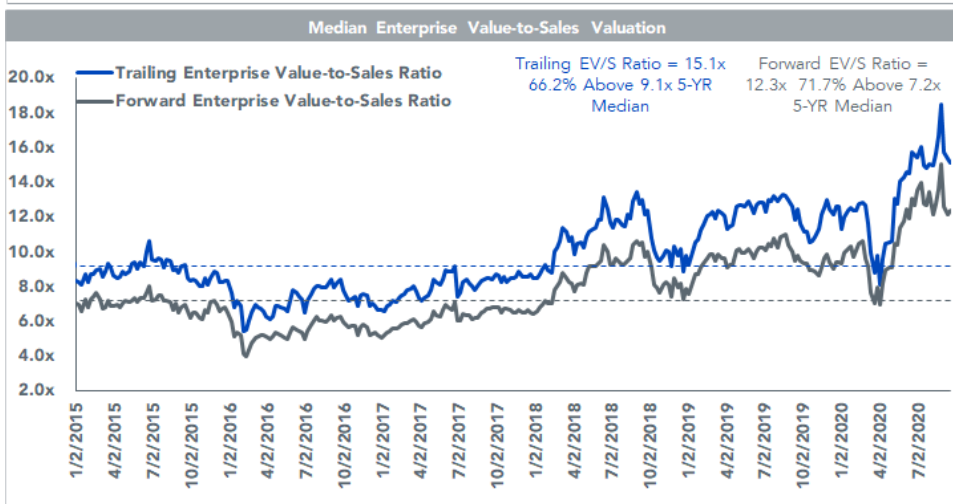
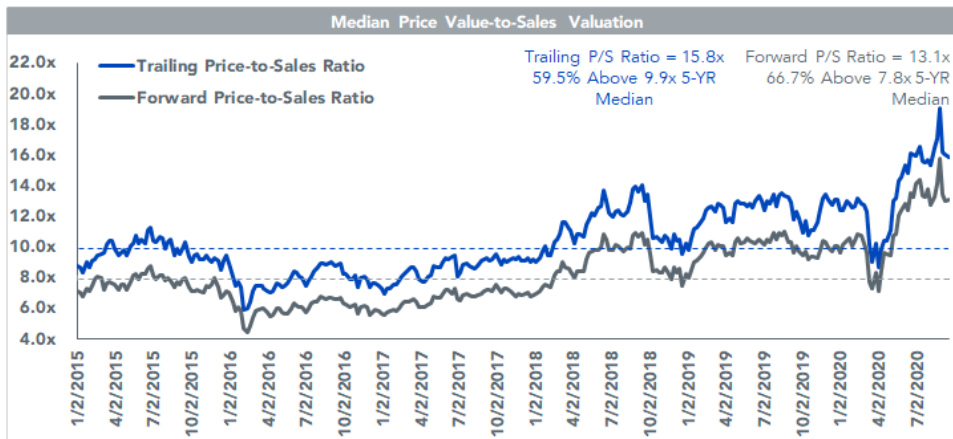
The private Cloud 100 list is interesting to watch because it gives a sense of developments in the private market. If these private firms decide to pursue IPOs, it is possible, but not guaranteed, that they could become candidates for inclusion in indexes as publicly traded cloud companies.

*"The Cloud 100 has also delivered a meaningful portion of the public cloud software market capitalization, as measured by the BVP Nasdaq Emerging Cloud Index. Twenty-two of the EMCLOUD component companies are Cloud 100 graduates, contributing over \$350 billion of market capitalization of the total \$1.6 trillion." —Mary D'Onofrio, Vice President at Bessemer Venture Partners*

#### Public Cloud Valuations

Pure-play cloud stocks have notched record [multiple expansions](#) since the pandemic-induced trough of March 2020. Current valuations are approximately 60%–70% above their five-year medians.

Private cloud valuations are no different. According to Bessemer, the average valuation of the 2020 Cloud 100 List is \$2.7bn, about 60% above the 2019 list's average.



Sources: WisdomTree, FactSet, for the period 12/31/14–9/18/20. Universe includes companies currently held in the BVP Nasdaq Emerging Cloud Index.

For definitions of terms in the charts, please visit our [glossary](#).

The rise in public valuations can at least partially be explained by the outsized growth of the cloud industry.

In the first two quarters of 2020, a significant majority of companies in the [WisdomTree Cloud Computing Fund \(WCLD\)](#) delivered higher-than-forecasted revenue growth. The median WCLD constituent generated approximately 27% top-line growth, about 10x the median rate of the [Nasdaq 100 Index](#).<sup>6</sup>

Realized results, which have showcased the industry’s expansion and defensibility, help to justify a valuation premium; however, the greatest challenge is determining the expectations that are priced in at current multiples.

Valuations appear to reflect continued strength in top-line growth over at least the next 12 months. The median WCLD constituent is forecasted to deliver 20% revenue growth over the next 12 months, well above the 6% forecast for the Nasdaq 100 Index.<sup>7</sup> Some may argue that the deceleration to 20% growth forecasted over the next 12 months from 30% over the trailing 12 months is a red flag, but that 10 percentage point gap between realized and forecasted growth has persisted for the last five years, perhaps because consensus estimates have proven too conservative.

Beyond forecasted top-line growth, it’s unclear what expectations may already be reflected in today’s multiples. Over the medium- to long-term horizon, three potential positive catalysts that are top of mind include: 1) broad profitability across the industry; 2) industry consolidation via M&A (mergers and acquisitions); and 3) broad capital return through dividends or buybacks.

## Positioning for Growth in the Cloud Industry

With a full roster of IPOs, public markets have a full plate of cloud companies to digest—can they do it?

Positive performance for the IPOs launched the week of September 18 provides an initial indication of “yes.” History also suggests “yes,” and that there could be more launches before the end of 2020. Based on Bessemer’s Cloud 100 lists alone, there were 13 and 10 cloud IPOs in 2018 and 2019, respectively.

Importantly, Bessemer views the success of the recent IPOs as a favorable indicator.

*“The performance of recent cloud IPOs, including Snowflake and JFrog, speaks to the incredible public market demand for cloud software, and we are bullish about the prospects for the cloud IPOs and direct listings in the backlog.” –Mary D’Onofrio, vice president at Bessemer Venture Partners*

Over the long term, we view growth of the public cloud universe, both in count and total market capitalization, as a positive development. We have high conviction that the application of cloud technology has hardly penetrated its total addressable market. Bessemer has predicted that cloud will become the underlying connectivity source of our global economy, leaving room for companies to enter new industry verticals and geographies.

As of this writing, the total market capitalization of publicly traded cloud companies, as measured by the BVP Emerging Cloud Index, stands at \$1.6tn. Bessemer predicts that the public cloud benchmark will have reached \$2tn by the release of the 2021 Cloud 100 list.

Investors can potentially position for the evolution of the cloud industry with the WisdomTree Cloud Computing Fund. WCLD seeks to track the price and yield performance, before fees and expenses, of the BVP Nasdaq Emerging Cloud Index, an equally weighted Index designed to measure the performance of emerging public companies.

<sup>1</sup>As of August 31, 2020, the WisdomTree Cloud Computing Fund (WCLD) did not hold Snowflake. WCLD seeks to track the performance, before fees and expenses, of the BVP Nasdaq Emerging Cloud Index. The Index and, accordingly, WCLD require companies to meet a number of requirements for potential inclusion, including requirements around exchange listing, minimum volume, minimum capitalization and revenue growth.

<sup>2</sup>As of August 31, 2020, WCLD held 2.3% of its weight in Salesforce; it did not hold Berkshire Hathaway.

<sup>3</sup>As of August 31, 2020, WCLD did not hold JFrog, Sumo Logic, Unity or Asana.

<sup>4</sup>D’Onofrio, Mary. “The Cloud 100 2020 Benchmarks Report.” · Bessemer Venture Partners, 16, September, 2020

<sup>5</sup>“Cloud 100.” · Bessemer Venture Partners, [www.bvp.com/cloud100](http://www.bvp.com/cloud100).

<sup>6</sup>Sources: WisdomTree, FactSet, as of 9/18/20.

<sup>7</sup>Sources: WisdomTree, FactSet, as of 9/18/20.

### Important Risks Related to this Article

Past performance is not indicative of future results. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

There are risks associated with investing, including the possible loss of principal. The Fund invests in cloud computing companies, which are heavily dependent on the Internet and utilizing a distributed network of servers over the Internet. Cloud computing companies may have limited product lines, markets, financial resources or personnel and are subject to the risks of changes in business cycles, world economic growth, technological progress and government regulation. These companies typically face intense

competition and potentially rapid product obsolescence. Additionally, many cloud computing companies store sensitive consumer information and could be the target of cybersecurity attacks and other types of theft, which could have a negative impact on these companies and the Fund. Securities of cloud computing companies tend to be more volatile than securities of companies that rely less heavily on technology and, specifically, on the Internet. Cloud computing companies can typically engage in significant amounts of spending on research and development, and rapid changes to the field could have a material adverse effect on a company's operating results. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Nasdaq® and BVP Nasdaq Emerging Cloud Index® are registered trademarks and service marks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations"), and are licensed for use by WisdomTree. The Fund has not been passed on by the Corporations as to its legality or suitability. The Fund is not issued, endorsed, sold or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

THE INFORMATION SET FORTH IN THE BVP NASDAQ EMERGING CLOUD INDEX IS NOT INTENDED TO BE, AND SHALL NOT BE REGARDED OR CONSTRUED AS, A RECOMMENDATION FOR A TRANSACTION OR INVESTMENT OR FINANCIAL, TAX, INVESTMENT OR OTHER ADVICE OF ANY KIND BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS DOES NOT PROVIDE INVESTMENT ADVICE TO WISDOMTREE OR THE FUND, IS NOT AN INVESTMENT ADVISOR TO THE FUND AND IS NOT RESPONSIBLE FOR THE PERFORMANCE OF THE FUND. THE FUND IS NOT ISSUED, SPONSORED, ENDORSED OR PROMOTED BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS MAKES NO WARRANTY OR REPRESENTATION REGARDING THE QUALITY, ACCURACY OR COMPLETENESS OF THE BVP NASDAQ EMERGING CLOUD INDEX, INDEX VALUES OR ANY INDEX-RELATED DATA INCLUDED HEREIN, PROVIDED HERewith OR DERIVED THEREFROM AND ASSUMES NO LIABILITY IN CONNECTION WITH ITS USE. BESSEMER VENTURE PARTNERS AND/OR POOLED INVESTMENT VEHICLES, WHICH IT MANAGES, AND INDIVIDUALS AND ENTITIES AFFILIATED WITH SUCH VEHICLES, MAY PURCHASE, SELL OR HOLD SECURITIES OF ISSUERS THAT ARE CONSTITUENTS OF THE BVP NASDAQ EMERGING CLOUD INDEX FROM TIME TO TIME AND AT ANY TIME, INCLUDING IN ADVANCE OF OR FOLLOWING AN ISSUER BEING ADDED TO OR REMOVED FROM THE BVP NASDAQ EMERGING CLOUD INDEX.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

**IMPORTANT INFORMATION**

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

## DEFINITIONS

**Valuation**: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Premium**: When the price of an ETF is higher than its NAV.

**Market Capitalization**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Multiple expansion**: Term for a rising P/E ratio, meaning that share prices are rising faster than earnings are growing.

**Nasdaq 100 Index**: Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.