
CLOUD COMPUTING CONTINUES TO EXHIBIT STRONG GROWTH IN 2022

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08/30/2022

When you think about [cloud computing companies](#) this year, the most likely starting point will be performance¹:

- The [BVP Nasdaq Emerging Cloud Index](#), from its high last November to its near-term low in June, fell 60.20%.
- This compares to the [S&P 500](#) and [Nasdaq 100 Indexes](#), down 20.99% and 31.06%, respectively, over the same period.

However, from June 16 to August 22 this year²:

- The BVP Nasdaq Emerging Cloud Index returned 17.56%.
- The S&P 500 and Nasdaq 100 Indexes returned 13.16% and 16.03%, respectively, over the same period.

The bottom line: The dominant force behind the performance of cloud computing companies has been [macroeconomic](#), meaning that as the [U.S. Federal Reserve](#) and other [central banks](#) pursue more restrictive monetary policies to fight [inflation](#), the [valuations](#) of cloud companies have fallen. Similarly, if investors “feel” that inflation is easing in any way—and subsequently, central banks may slow the pace of tightening—there has tended to be a strong positive share price response.

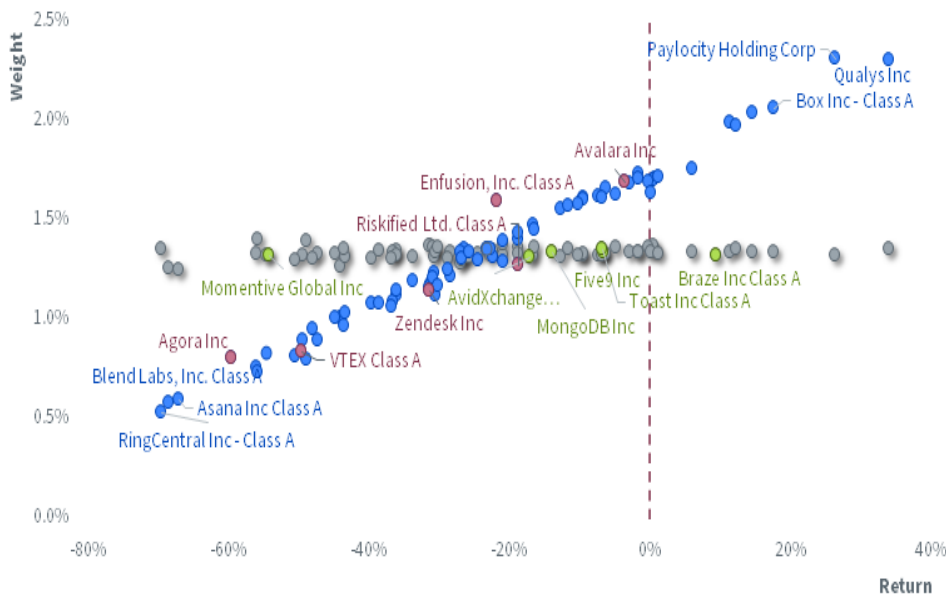
The BVP Nasdaq Emerging Cloud Index: August 2022 Rebalance

We mention the BVP Nasdaq Emerging Cloud Index as a measure of the performance of cloud companies because it is designed to offer a precise exposure to cloud companies growing revenues by serving enterprise customers. What we see in figure 1³:

- The blue line, sloping upward from left to right, represents the weight (vertical axis) and the six-month performance (horizontal axis) of initial constituent companies before the August 2022 rebalance. Companies like RingCentral, Asana and Blend Labs faced performance challenges over this period, whereas companies like Paylocity Holding Corp, Box and Qualys tended to see stronger performance.
- The grey line shows that the rebalance resets the Index to equal weight. Companies that outperformed see their weights decrease, and companies that underperformed see their weights increase. This leads to a valuation sensibility and risk mitigation every six months.
- Red dots and company labels indicate companies that will no longer be constituents after the August 2022 rebalance. Historically, the primary reason companies are deleted is that there is an announced deal, such as an acquisition by a [private equity](#) firm.

- Green dots and company labels indicate companies that are new constituents and will be added to the Index after the August 2022 rebalance. The primary reason companies are added is that they have become accessible in public equity markets.

Figure 1: Bringing the BVP Nasdaq Emerging Cloud Index Back to Equal Weight



Sources: WisdomTree, Bloomberg, Nasdaq. Company returns are presented on a total return basis for the period from the previous rebalance on February 22, 2022, to August 22, 2022. Companies are constituents of the BVP Nasdaq Emerging Cloud Index. Grey markers represent Index constituents as of August 22, 2022 (post-rebalance); blue markers—as of August 19, 2022 (pre-rebalance). Lime markers represent Index constituents added, and crimson markers represent Index constituents removed after the rebalance. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

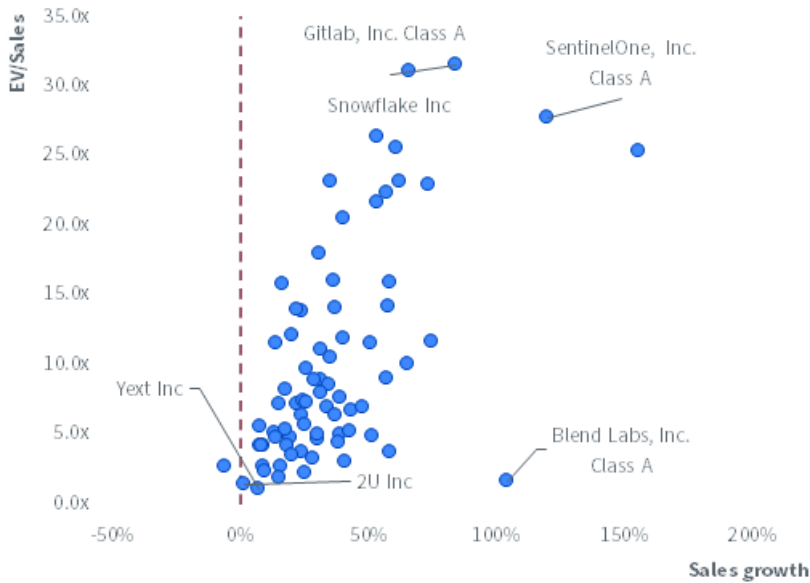
The Fundamentals Will Matter Again

Up to this writing in August, it would be difficult for us to note that the main catalyst for the share price performance of cloud companies has to do with [fundamentals](#) like revenue growth. As we noted earlier, the main catalyst has been the macroeconomic backdrop.

However, company fundamentals are always an important force and will always come back to prominence once macro pressures fade. what we see in figure 2⁴:

- Along the horizontal axis, almost every blue dot is to the right of the 0% boundary, indicating positive year-over-year revenue growth, as per the most recent announced quarterly results. It may be a tough economic environment, but by and large, these companies continue to grow revenues.
- Along the vertical axis, higher on the chart means higher valuation. Some companies, like Gitlab, Snowflake and SentinelOne, are still trading in the range of 25.0x–30.0x [enterprise value to sales ratio \(EV/Sales\)](#). While this may not be “inexpensive,” these companies have been growing revenues in the range of 50%–100%, year over year. If that can be kept up, maybe that premium multiple is warranted. We would note that the majority of the 75 blue dots are below the 10.0x line, however.
- The weighted average sales growth for the BVP Nasdaq Emerging Cloud Index is still in the range of 35%–40%, where it has been with some consistency for some time. Is this sustainable? Microsoft Azure, Amazon Web Services and Google Cloud tend to see their, admittedly very large, revenue bases growing year over year in this range. The fact that the biggest players seem to be sustaining these rates of growth, for the moment, tells us that the smaller companies—like those in this Index—may be able to sustain growth rates higher than one could see in other sectors.

Figure 2: Gauging the Fundamentals



	Pre-rebalance	Post-rebalance
Constituents	75	75
Sales growth	34.09%	36.67%
EV/Sales	5.85x	5.52x

Sources: WisdomTree, Bloomberg, Nasdaq, as of 8/22/22. All fundamentals data is from Bloomberg. **Sales growth** for the underlying constituents is computed year over year from quarterly, semi-annual or annual data, based on whichever is available in Bloomberg starting from quarterly data. **EV/Sales** is represented by a ratio of enterprise value over trailing 12-month sales. **Index sales growth** is represented by a weighted average sales growth of the Index constituents. **Index EV/Sales** is represented by a weighted harmonic mean of the EV/Sales for the Index constituents. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion: Cloud Companies Will Continue to Deliver Exciting Results

In cloud computing, it’s important to look at all the available signals to gain the most appropriate sense of market conditions.

Bessemer Venture Partners has just put out its annual Cloud 100 Benchmarks report for 2022.⁵ This report specifically looked at the largest and most dynamic private cloud companies, which provide important signals for the overall health of the business model.

In 2022, Bessemer specifically notes that the valuation of private companies may not be the best metric to look at if the goal is to get a sense of the “health” of a given market. For instance, if companies have not raised money recently, they may not have their valuations marked all the way to present market conditions. Bessemer instead focuses on what they call “Centaur’s.” While a “Unicorn” has \$1 billion in private market valuation, a Centaur has \$100 million in [annual recurring revenue](#).

For the 2022 Cloud 100, 70% are already achieving Centaur status and a further 10% more are quite close and could reasonably do it before the year is out. In an environment where the market is focusing much more on results than exciting stories and private funding is harder to come by, proving business success at the Centaur level is indeed important.

At WisdomTree, we work directly with Bessemer Venture Partners and Nasdaq to provide an investment strategy that seeks to track the returns of the BVP Nasdaq Emerging Cloud Index, the [WisdomTree Cloud Computing Fund](#). If you are thinking it is an interesting

time to learn more about the investment strategy, please visit our [cloud computing](#) research.

¹ Source: Bloomberg, with data from 11/9/21–6/16/22.

² Source: Bloomberg, with data from 6/16/22–8/22/22.

³ Source: The six-month period between rebalances is 2/22/22–8/22/22. The performance source is Bloomberg.

⁴ Sources: WisdomTree, Nasdaq and Bloomberg, with data measured as of 8/22/22. Further details in sourcing are below figure 2.

⁵ Source: D’Onofrio, Teng, Schmitt, “The 2022 Cloud 100 Benchmarks,” Bessemer Venture Partners, 8/9/22.

Important Risks Related to this Article

As of August 26, 2022, WCLD held 1.33%, 1.21%, 1.35%, 1.29%, 1.26%, 1.40%, 1.41%, 1.70% and 1.45% of its weight in RingCentral, Asana, Blend Labs, Paylocity Holding Corp, Box, Qualys, Gitlab, Snowflake and SentinelOne, respectively.

Christopher Gannatti is an employee of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management, Inc.’s parent company, WisdomTree Investments, Inc.

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DEFINITIONS

Cloud-based businesses: companies that provide cloud software and services to their customers.

BVP Nasdaq Emerging Cloud Index: designed to track the performance of emerging public companies primarily involved in providing cloud software to their customers.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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.

Macro: Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Central bank: Refers to the the monetary authority of any country.

Inflation: Characterized by rising price levels.

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.

Private equity: Refers to a constellation of investment funds that invest in or acquire private companies that are not listed on a public stock exchange. So-called PE funds may also buy out public companies, take them private, and then restructure them for potential future growth.

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Enterprise Value-to-Sales (EV/Sales): A financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives investors a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.