

THE CLOUD IPO PIPELINE

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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.¹ 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.² 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.³

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](#)⁴ on an annual basis since 2016. Based on the previous Cloud 100⁵ 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.

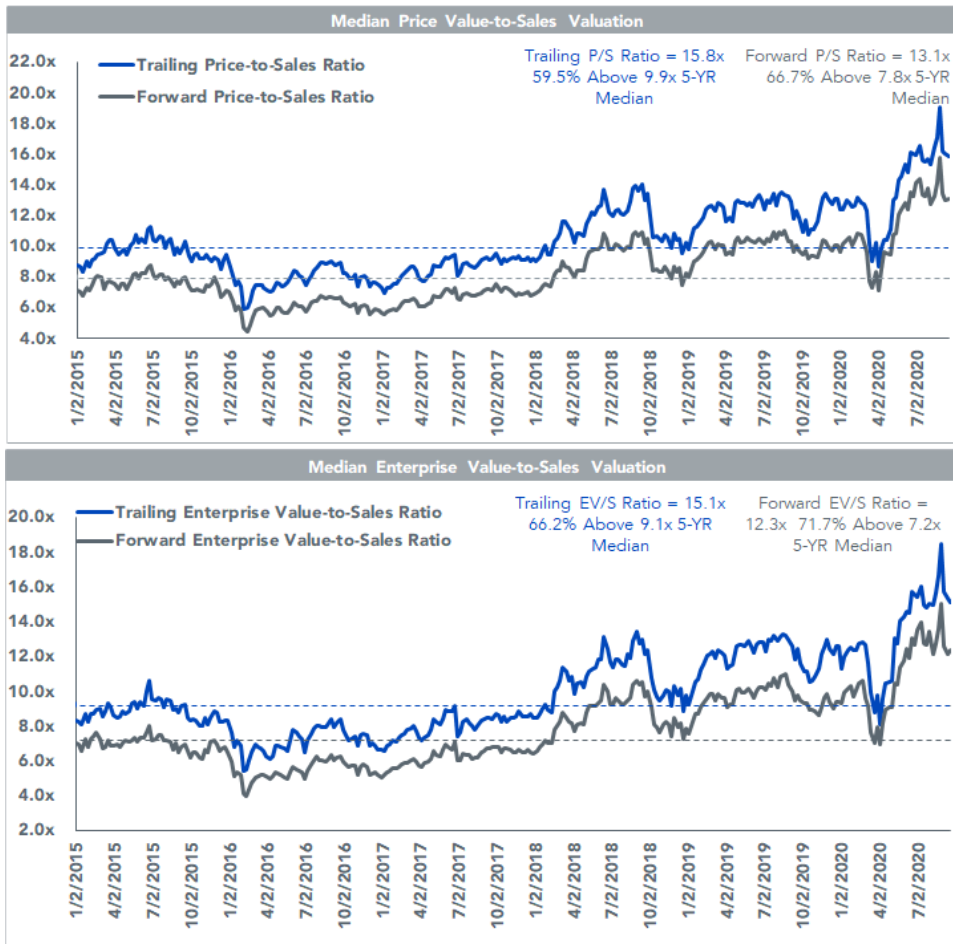
The private Cloud 100 list is interesting to watch because it gives a sense of developments in the private market. If these private firms decide to pursue IPOs, it is possible, but not guaranteed, that they could become candidates for inclusion in indexes as publicly traded cloud companies.

“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](#).⁶

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.⁷ 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.

¹As 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.

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

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

⁴D'Onofrio, Mary. "The Cloud 100 2020 Benchmarks Report." · Bessemer Venture Partners, 16, September. 2020

⁵"Cloud 100." · Bessemer Venture Partners, www.bvp.com/cloud100.

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

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

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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.