

WCLD REBALANCE – A CONTINUATION OF IPO AND M&A TRENDS

Kara Marciscano — Associate, Research

09/01/2021

The semi-annual review and rebalance of the [WisdomTree Cloud Computing Fund \(WCLD\)](#) provides a window into recent developments in [cloud companies](#)—with a fresh pipeline of new additions following their initial public offerings ([IPOs](#)), which we believe is key to sustaining WCLD's performance. WCLD follows a rules-based methodology that resets constituents and weights back to equal weight in February and August. This simple, yet effective, approach provides significant exposure to fast-growing, emerging businesses that are often overlooked or diluted in [market cap-weighted](#) benchmarks.

The August 2021 rebalance illustrates robust IPO and merger & acquisition (M&A) activity, with a steady inflow of public market entrants and an outflow of recently acquired cloud companies.

The Additions – All IPOs

The three additions to WCLD were UiPath, Inc., C3.ai, Inc., and Qualtrics International, Inc.¹ Each one of these companies was once named on the Cloud 100 list, a definitive ranking of the top 100 private cloud companies by Bessemer Venture Partners, Forbes and Salesforce Ventures. We recently [recapped](#) the 2021 Cloud 100 list—one of the key takeaways was that a meaningful portion of today's public cloud market consists of former Cloud 100 constituents. Following this rebalance, 29 of the 58 companies in WCLD are Cloud 100 graduates.

The most recent IPO addition from April 2021 was UiPath, a company focused on automating business processes across various departments of an enterprise. More specifically, UiPath's software platform uses artificial intelligence (AI) to perform tasks like logging into applications, extracting information from documents, moving folders, filling in forms and updating information fields and databases. Deloitte is an example of a company that has leveraged UiPath's robotic process automation (RPA) platform and its digital workforce to execute repetitive and mundane tasks. Bessemer Venture Partners recently hosted the company's CEO, Daniel Dines, on its Cloud Giants podcast to discuss UiPath's founding and its vision for a fully automated enterprise—you can listen to the full discussion [here](#).

Another artificial intelligence add was C3.ai, Inc., which went public in December 2020 and provides cloud software that enables enterprises to develop and deploy AI applications. One of the many customers the company highlights is a Fortune 500 commercial lender with a legacy credit assessment process that took weeks, on average. With C3.ai's Smart Lending software application, the lender was able to use machine learning to reduce the average assessment timeline by 30%. C3.ai offers customers the ability to build customized enterprise AI applications, as well as families of turnkey AI applications that target various industry verticals, like financial services, manufacturing, utilities, oil and gas, and aerospace and defense.

Qualtrics International, Inc., went public in January 2021 and offers a single software platform for enterprises to manage their customers, employees, products and branding. As an example, JetBlue partners with Qualtrics for customer experience management that merges data on purchase drivers, experience and satisfaction into a centralized hub. This feedback loop helps JetBlue make impactful macro-level (e.g., the introduction of new pricing structures for all passengers) and micro-level decisions (e.g., accommodations specific to an airport, terminal or gate that address customer dissatisfaction).

Company	Business Description	IPO Date	TTM Revenue Growth
C3.ai, Inc.	C3.ai, Inc. provides enterprise artificial intelligence (AI) software for digital transformation. It delivers the C3 AI suite for developing, deploying, and operating large-scale AI, predictive analytics, and Internet of Things (IoT) applications in addition to a portfolio of turn-key AI applications. The company was founded by Thomas M. Siebel, Patricia A. House and Stephen Maurice Ward, Jr. on January 8, 2009 and is headquartered in Redwood City, CA.	12/9/2020	16.9%
Qualtrics International, Inc.	Qualtrics International, Inc. engages in the development of software platforms. It offers employee engagement, survey platform, panel management, conjoint analysis, and brand tracking. The company was founded by Scott M. Smith, Ryan Smith, and Jared Smith in 2002 and is headquartered in Provo, UT.	1/18/2021	31.2%
UiPath, Inc.	UiPath, Inc. engages in the development and provision of software platform to automate business processes. It serves public, healthcare, telecommunication, finance, and banking industries. It offers accounts payable automation, claims processing automation, contact center automation, finance and accounting automation. The company was founded by Daniel Dines and Marius Tirca in 2005 and is headquartered in New York, NY.	4/21/2021	75.0%

The Drops – All M&A Targets

Similar to February 2021, all of the drops from WCLD are pending acquisition targets. It is especially reassuring that the removals are not because of failures to meet growth requirements, but instead because these businesses are attractive takeover candidates. This brings the tally to 16 companies held within WCLD that have been acquired or are pending acquisitions at [premium deal multiples](#).

One of the acquisitions involved two cloud constituents: Five9 as the target and Zoom Video Communications as the acquirer. We recently wrote about the deal [here](#)—the high-level takeaway is that this business combination embeds a cloud-based customer service contact system into Zoom’s video and phone platforms.

Company (Target)	Acquirer	Acquisition Premium	Weight in WCLD Prior to Rebalance
Five9, Inc.	Zoom Video Communications, Inc. (WCLD constituent)	13.5%	1.8%
Medallia, Inc.	Thoma Bravo LLC (private)	20.0%	1.3%

Sources: WisdomTree, FactSet, as of 8/20/21.

The End Results

The private and public cloud markets are fast-moving, and WCLD’s semi-annual rebalance allows the Fund to refresh its constituents and weights for the latest developments.

From a fundamental perspective, there was not an overly significant change in this rebalance. As expected with a reset back to an equally weighted basket, aggregate valuation and size modestly decreased across the portfolio. Meanwhile, revenue growth slightly increased, which is a vote of confidence in the consistent growth rates achieved by the constituents, especially with a difficult year-over-year comparison to 2020, when many of the companies experienced elevated expansion as their customers digitized their operations in earlier stages of the COVID-19 pandemic.

WCLD Rebalance - Summary Statistics								
16.8% Weight Turnover including 3 Additions and 2 Removals								
	# of Companies	TTM Growth Rate	Price-to-Sales Ratio	Total Market Cap	Weighted Average Market Cap	Large-Cap Weight	Mid-Cap Weight	Small-Cap Weight
Before Rebalance	57	40.2%	14.2x	\$2.15tn	\$41.56bn	53.3%	43.8%	2.9%
After Rebalance	58	41.1%	13.8x	\$2.14tn	\$36.86bn	49.1%	47.4%	3.5%
Nasdaq 100 Index	102	28.4%	5.5x	\$17.26tn	\$834.85bn	99.9%	0.1%	-

Sources: WisdomTree, FactSet, as of 8/20/21.

To gain exposure to the ongoing evolution of the public cloud market, investors should consider adding [WCLD](#) to their portfolio.

¹As of 8/19/21, WCLD held 1.7% of its total weight in each of UiPath, Inc., Qualtrics International, Inc., and C3.ai, Inc.

Important Risks Related to this Article

There are risks associated with investing, including 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.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. 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.

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.

Related Blogs

- + [Key Takeaways from the Cloud 100](#)
- + [Cloud Giants: UiPath](#)
- + [Another Cloud Deal: Zoom Announces the Acquisition of Five9](#)

Related Funds

- + [WisdomTree Cloud Computing Fund](#)
- + [WisdomTree BioRevolution Fund](#)
- + [WisdomTree Cybersecurity Fund](#)

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)

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

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

Initial public offering (IPO) : The first sale of stock by a private company to the public.

Market capitalization-weighting : $\text{Market cap} = \text{share prices} \times \text{number of shares outstanding}$. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.