

Important lessons for investors from soaring tech startups

Published 28 August 2024

Mobeen Tahir

Director, Research

Key Takeaways

- Alphabet's bold move with Wiz tells us something very important about cybersecurity.
- Groq's valuation shows that companies can differentiate themselves in the semiconductor industry.
- As rates are cut, smaller companies and thematic exposures stand to benefit.
- Related Products WisdomTree Artificial Intelligence UCITS ETF – USD Acc, WisdomTree Cybersecurity UCITS ETF – USD Acc, WisdomTree Cloud Computing UCITS ETF - USD Acc Find out more

Plenty of deals are happening in the world of tech startups, but two stories stand out, offering three important lessons for investors.

The first story is about Google's parent Alphabet, which was considering a \$23 billion acquisition of the cybersecurity startup Wiz. Had this deal gone through, it would have been the largest in Alphabet's history, far exceeding its previous \$12.5 billion acquisition of Motorola Mobility over a decade ago. A notable detail from this story is that Wiz's most recent valuation before Alphabet's bid was \$12 billion¹. This means Alphabet was willing to pay nearly double for a startup that secures cloud-based programs. Ultimately, Wiz did not accept the bid, stating it intended to go public.

The second story relates to semiconductor startup Groq, which was recently valued at \$2.8 billion, more than double its last valuation of \$1.1 billion in 2021². Groq's chips are designed for fast artificial intelligence (AI) inference, which is particularly useful for enabling AI-powered chatbots to deliver quick responses.

In both instances, two tech startups with specialised expertise have seen their valuations soar. So, what lessons can investors draw from these stories?

How can investors capture the opportunity?

At WisdomTree, our thematic exchange-traded funds (ETFs) aim to include promising upcoming businesses that stand to benefit from the growth in megatrends like AI, cybersecurity, and cloud computing. We believe gaining exposure to small businesses in public markets strikes the right balance between holding potential moonshots and avoiding the risks associated with privately owned startups. This identification of promising and relevant businesses is done in partnership with industry experts in each theme.

- [WisdomTree Artificial Intelligence UCITS ETF](#) is built in partnership with the Consumer Technology Association (CTA) and invests across the AI value chain, including semiconductor businesses and software companies.
- [WisdomTree Cloud Computing UCITS ETF](#) invests in emerging cloud businesses experiencing fast revenue growth. The ETF has been built in partnership with Bessemer Venture Partners.
- [WisdomTree Cybersecurity UCITS ETF](#) provides investors with pure exposure to fast-growing cybersecurity companies. The ETF has been built in partnership with Team8.

Big tech knows the importance of key technologies

With AI swiftly becoming mainstream across all industries, few themes are as hot as cybersecurity. Given that generative AI – currently all the rage – is built on data, securing that data is paramount to maintaining public trust in technology companies.

Google (or its parent company, Alphabet) understands this very well. The reputational risk of a cyber breach is too great, even for tech giants. It's better to pay top dollar now to avoid a catastrophic scenario later. This idea was further reinforced by the recent CrowdStrike Windows Software update, which crashed 8.5 million computers worldwide³. Though this wasn't a cyberattack, it was a stark reminder of the importance of technology working smoothly and securely.

For investors, this represents an exciting opportunity to consider a theme that benefits from the AI revolution while offering a differentiated mix of companies.

Small players with a specialism are highly valuable

We've all seen the rapid rise of OpenAI. If a small player has a unique idea and executes it effectively, they can quickly become a behemoth. The goal of these startups is not to follow the crowd and compete directly with big tech companies but to identify a niche where they can create something compelling that could appeal to the masses.

Groq's example shows that this principle applies even in the world of semiconductors, a product that is often seen as homogeneous. However, semiconductors from different companies serve different functions and cater to different customers. Not all devices in the Internet of Things require Nvidia chips, even though Nvidia has garnered much of the recent hype. A simple analogy is cars – not everyone needs or wants to buy from a single brand.

For investors, broad exposure across a wide range of companies doing interesting things in the digital economy appears to be the best way to diversify and capture the potential upside of emerging companies.

Timing matters

In one of our recent blog posts, we highlight how smaller companies stand to benefit from a rate-cutting cycle by the US Federal Reserve (Fed). Smaller companies with more uncertain future cash flows naturally

have a higher sensitivity to interest rates. It's no surprise that big tech companies are looking to make deals before the Fed's rate-cutting cycle gets underway.

While the two examples discussed in this blog are of private companies, the lessons also apply to small, publicly listed companies. Publicly listed companies offer investors the added cushion of being on slightly firmer ground than privately owned companies while still in the early stages of growth.

Investors seeking pure exposure to themes like AI and cybersecurity will likely have a healthy mix of small and medium-sized companies in their portfolios. This should set them up nicely for the next phase of the economic cycle.

1 Bloomberg, 23 July 2024.

2 Financial Times, 05 August 2024.

3 Financial Times, 25 July 2024.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

WisdomTree Artificial Intelligence UCITS ETF

Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the "Fund") has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

WisdomTree Cloud Computing UCITS ETF

Nasdaq® is a registered trademark of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and is licensed for use by WisdomTree Management Limited. The WisdomTree Cloud Computing UCITS ETF (the "Fund") has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are 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 provided for informational and discussion purposes only and 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 (“BVP”). BVP makes no warranty or representation regarding any such information or the data presented in such materials. BVP and/or pooled investment vehicles which it manages, and individuals and entities affiliated with such vehicles, may purchase, sell or hold securities of (a) issuers that are constituents of the BVP Nasdaq Emerging Cloud Index or (b) the Fund itself 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.

The information attributable to BVP is provided for informational and discussion purposes only and 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 BVP. BVP makes no warranty or representation regarding any such information or the data presented in such materials.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree’s website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and

the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard

Hausmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.