

The Cloud Investment Opportunity Remains Open

Published May 20, 2020

Jeremy Schwartz, CFA

Global Chief Investment Officer

Kara Marciscano, CFA

Associate, Research

Bessemer Venture Partners (BVP), a leading venture capital firm in the cloud computing industry, recently released its annual update, “State of the Cloud for 2020.”

The presentation’s focus is the cloud industry, but there are valuable insights for investors and businesses in all industries, which we summarize below.

The cloud computing industry has experienced strong growth but may have hardly penetrated its total addressable market. BVP believes all businesses must undergo a digital transformation, especially amid the current health crisis. BVP expects cloud computing to become the underlying connectivity source for our entire \$88 trillion global economy.

- From 2008 to 2020, the total market capitalization of the top five publicly traded cloud companies (as measured by market cap) increased by 44 times, from \$14 billion to \$616 billion.¹
- The market cap of public cloud companies grew 35% annually from 2015 to 2018, above BVP’s 25% expectation. Total cloud market cap reached \$1 trillion in 2020, doubling the size of BVP’s original expectation for \$500 billion by 2020.²
- The cloud computing industry generated more than \$200 billion in annual revenue in 2019. Cloud computing segments are driving profitable growth for tech giants operating multiple lines of business (e.g., Amazon, Microsoft and Alphabet).³
- Today, cloud software accounts for approximately 30% of the overall software market. By 2030, BVP anticipates cloud will account for 83% of the software market.
- *BVP does not believe that cloud investors and stakeholders have missed the opportunity—BVP believes the greatest potential lies ahead.* BVP expects cloud penetration to extend beyond the software market. Cloud computing is powering technological innovations that are transforming non-tech sectors. The digitization of medicine and automobile connectivity are just two notable developments that will impact the health care and transportation industries, respectively.

Some of the most successful cloud companies have demonstrated the ability to efficiently scale their business.⁴ They diversify their revenue sources and execute appropriately timed investments in sales and marketing.

- Zoom Video Communication is an example of a cloud computing company with dominant scale. BVP estimates that Zoom controls 64% of the video conferencing market.⁵
- According to BVP, cloud companies are scaling more rapidly than ever—cloud market leaders, like Twilio and Slack, were able to grow from generating \$1 million to \$100 million in annual revenue in under five years.⁶
- Successful cloud companies have had a “second act” that has driven scale. Shopify is an example; it had initial success providing e-commerce platforms for merchants, and later launched solutions for payments, shipping and fulfillment.⁷
- BVP believes cloud companies should limit additional investments in sales and marketing until current initiatives are generating more in revenue than total costs.

The common theme in BVP’s 2020 predictions is the proliferation of cloud computing across sectors and geographies.

- Cloud computing’s global footprint is expected to expand. BVP predicts that Western Europe, China, Asia, Latin America and Africa will continue to drive the cloud revolution.
- BVP believes a significant portion of the future workforce will be remote. There will be a mega wave of cloud software to support a decentralized workforce, including tools for HR & payroll, onboarding, training, culture management and knowledge sharing.
- Business-to-business (B2B) commerce has been largely executed offline through intermediaries (e.g., payment via check). BVP predicts cloud companies will offer solutions to digitize and drive efficiencies in B2B workflows, which represents a \$100 trillion market opportunity.
- Consumers will demand higher data privacy standards, forcing businesses to reduce their “privacy debt”. Many companies do not have the infrastructure to safely collect and store data. BVP envisions a greater need for solutions that help enterprises protect data.
- BVP predicts that cloud computing will drive digital transformation across industries, primarily through the use of application programming interfaces (APIs) that simplify software development.
- BVP anticipates that cloud computing will increasingly be used to reduce operational complexity and to automate entire business processes.

With support from BVP, Nasdaq provides an index, the BVP Nasdaq Emerging Cloud Index (EMCLOUD), to track the performance of the cloud computing industry. In September 2019, Nasdaq collaborated with WisdomTree to launch an exchange-traded fund, the [WisdomTree Cloud Computing Fund \(WCLD\)](#), which provides investors with targeted cloud exposure.

- 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 focused on delivering cloud-based software to customers.

The cloud computing industry has proven resilient in the recent economic downturn induced by COVID-19.

- As of May 12, 2020, WCLD has returned +25.04% year-to-date, significantly outperforming total market, tech and growth benchmarks like the Nasdaq 100 Index (+4.72%), S&P 500 Index (-10.53%), S&P 500 Growth Index (-1.89%) and S&P 500 Information Technology Index (+2.37).⁸

Please visit [WCLD's Fund page](#) for standardized performance and more information on the Fund and the EMCLOUD Index.

Unless otherwise stated, data source is "State of the Cloud 2020," Bessemer Venture Partners, as of April 22, 2020.

1"State of the Cloud 2020," Bessemer Venture Partners, 4/22/20. For the period 12/31/07–12/31/19.

2"State of the Cloud 2020," Bessemer Venture Partners, 4/22/20. For the period 12/31/15–12/31/18.

3As of 4/30/20, WCLD does not hold any weight in Amazon, Microsoft or Alphabet.

4As measured by revenue growth.

5As of 4/30/220, WCLD held approximately 2.6% of its weight in Zoom.

6Based on market share and revenue growth metrics. As of 4/30/20, WCLD held approximately 1.8% and 1.9% of its weight in Twilio and Slack, respectively.

7As of 4/30/19, WCLD held approximately 2.4% of its weight in Shopify.

8WisdomTree, Bloomberg. WCLD returns at NAV. For the period 12/31/19–5/12/20.

Important Risks Related to this Article

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Performance data for the most recent month-end is available at [wisdomtree.com](https://www.wisdomtree.com).

Short-term performance may often reflect conditions that are likely not sustainable, and thus such performance may not be repeated in the future.

Forecasts are inherently limited and should not be relied on as the sole basis for investment decisions. Securities mentioned are not a recommendation to buy or sell those 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 ADVISER 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.