
DEMAND FOR CLOUD SERVICES DRIVES STRONG REVENUE GROWTH

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The Covid-19 pandemic has been a very difficult period for global investors. From 19 February 2020 to 23 March 2020, currently the lowest recent point, the MSCI ACWI Index lost more than 33% of its value. Since 23 March 2020, however, the situation has improved for global equities, with the MSCI ACWI Index appreciating more than 36% through 2 June 2020.

For 2020 year-to-date, we've seen the MSCI ACWI Index deliver a return of -7.26%.

From a sector perspective:

- During the downdraft (3 worst decliners)

Energy, as the price of oil was also dropping precipitously, was down 51.85%.

Financials, as there have been concerns about future non-performing loans, were down 41.44%.

Industrials were down 38.21%.

- During the subsequent rally (3 best performers)

Energy, as the price of oil underwent a bit of recovery, was up 56.6%.

Materials were up 45.0%.

Consumer Discretionary was up 40.6%.

- For Year-to-Date 2020

Tech and Healthcare are the only two sectors in positive territory.

Financials and Energy are still down more than 22%.

It's easier to follow good news

The contrarians amongst us may be thinking that Financials and Energy have really been hit hard by the Covid-19 pandemic, so there may be veritable “bargains” available there. However, with negative headlines, dividend cuts or cancellations, and possibilities of increasing non-performing loans, these certainly aren't easy sectors to be comfortable with at present¹.

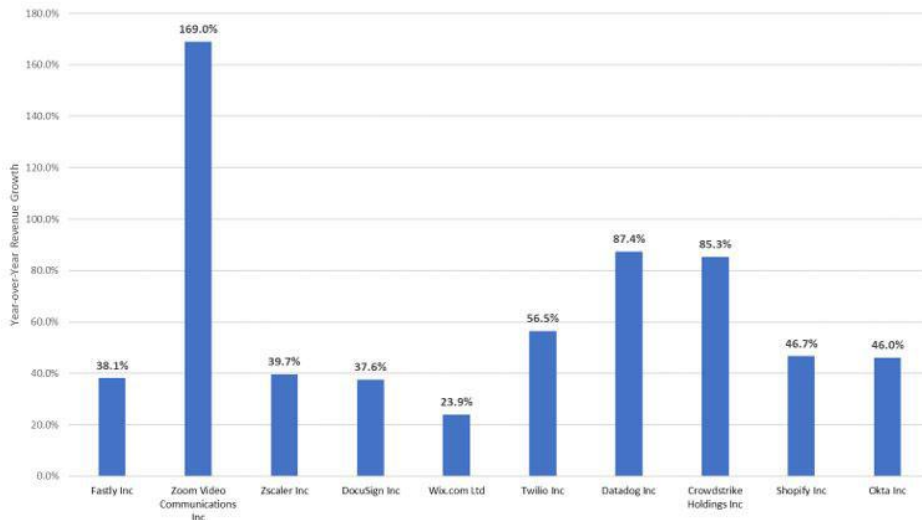
Behaviourally speaking, it's much easier to go after the more positive announcements, even if companies able to make more positive announcements would usually tend to have higher valuations. This may be an example of what is happening within cloud computing companies presently².

Amidst the Covid-19 pandemic, cloud computing companies are delivering strong revenue growth

Within Figure 1, we look at the top 10 companies from within the BVP Nasdaq Emerging Cloud Index and take the most recent reported year-over-year growth in revenue. A few things were immediately clear:

- Zoom Video Communications stands out. The company reported earnings results on 2nd June 2020 and highlighted year on year growth in revenue from \$122 million to \$328 million³, or 169%.
- Datadog and CrowdStrike, while not having the overall brand recognition of Zoom in the current period, delivered year over year growth in revenues in the 80-90% range.
- Within this chart, it's important to keep in mind that what looks like lower year over year revenue growth, is actually still in the 20-40% range. Zoom is so high that it repositions the vertical scale, but to be clear all of these firms have grown revenues strongly through their most recent announcements.

Figure 1: Year-over-Year Revenue Growth for Top 10 Emerging Cloud Companies



Source: Bloomberg, with the 10 companies selected being those with the 10 highest weights within the BVP Nasdaq Emerging Cloud Index as of 2 June 2020.

Historical performance is not an indication of future performance and any investments may go down in value. You cannot invest directly in an index.

Cloud company services have been in-demand

These companies are in fact representative of providing services that have seen demand rising during the Covid-19 Pandemic.

- Fastly, Datadog and Zscaler, broadly speaking, are involved with helping networks deal with spikes in traffic and security in different ways. The pandemic has placed a premium on network data transmission and cybersecurity, as many employees needed to be able to work from anywhere quite quickly.
- Zoom has generated a lot of attention when people are forced to connect virtually, suddenly the demand for reliable video conferencing increases substantially. Twilio also operates in the communications space.
- Shopify has made a name helping businesses jump into e-commerce efficiently. Wix.com specialises in helping users more easily develop presences on the web.
- Docusign takes a formerly physical action, signing a piece of paper, into the virtual world. 2U is helping universities undertake a transition to providing more and more of their services online.
- Okta provides an extremely useful service in a world that places more importance on using applications, since it seeks to improve security and helps people store passwords to multiple different web pages, among other things.

We don't know exactly how the Covid-19 pandemic will influence the future of how

business is done or how humans interact, but it's becoming clear that the services of these types of companies may have become more important for the foreseeable future.

Unless otherwise stated, the data source is Bloomberg data source as of 2 June 2020.

¹ As of 02 June 2020

² As of 02 June 2020

³ Zoom Reports First Quarter Results for Fiscal Year 2021, <https://investors.zoom.us/news-releases/news-release-details/zoom-reports-first-quarter-results-fiscal-year-2021>

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