

# Quarterly Update: Cloud Computing

Challenging environment for cloud companies in Q2. Outlook remains positive



## Summary

- The Strategic Certificate on the Vontobel Cloud Computing Equity Index lost 26.8% in the second quarter.
- In the past 13 new positions were added, 14 companies were sold.
- The growth of the cloud market should amount to approx. 20% in 2022.

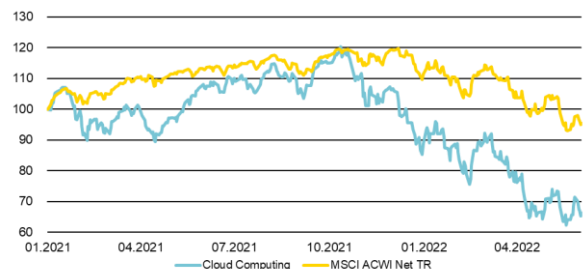
## Performance review Q2

	1M	3M	YTD	1Y	Issuance
Cloud Computing	-6.2%	-26.8%	-38.3%	-38.9%	-34.7%
MSCI ACWI Net TR	-8.4%	-15.7%	-20.2%	-15.7%	-5.0%

Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

The Strategic Certificate on the Vontobel Cloud Computing Equity Index lost 26.8% in the second quarter of the year in a difficult environment. The sell-off in growth stocks continued due to ongoing inflation concerns and higher interest rates. Macroeconomic uncertainties negatively impacted the outlook of some cloud companies. In particular, mid-cap and smaller-cap companies lost more than large-cap stocks.

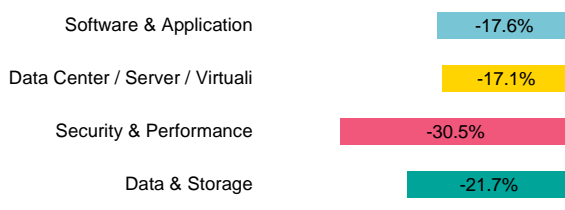
Graph 1: Net-Performance Vontobel Cloud Computing AMC vs. MSCI ACWI TR Index, in USD



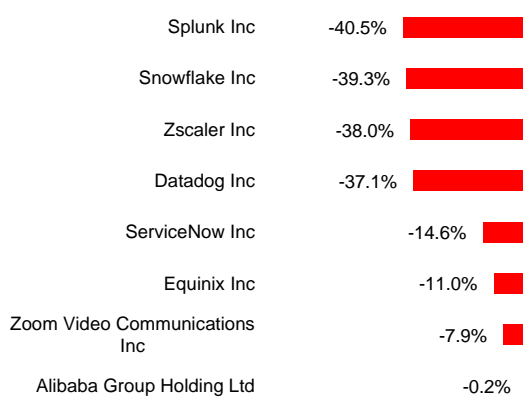
Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

The performance of companies in the cybersecurity and cloud performance monitoring space was weak in Q2 after a strong Q1. The high valuations in this space are vulnerable to rising interest rates, which led to a sell-off in companies such as CrowdStrike, Splunk, Datadog and Zscaler. On the positive side, companies in the data center components sector held up better. Data center company Equinix stood out positively, and semiconductor companies such as AMD reported solid demand for data center chips. Alibaba was the best individual stock in the quarter, but also showed a slightly negative performance. Zoom Video Communications could not buck the negative trend, but finished as one of the better stocks in the portfolio.

**Graph 2: Performance sub-themes in Q2 (in USD)**



**Graph 3: Quarterly top/bottom performers, in local currency**



Source: Bloomberg. Vontobel. Data as of 30.06.2022.

**Transactions in Q2 2022**

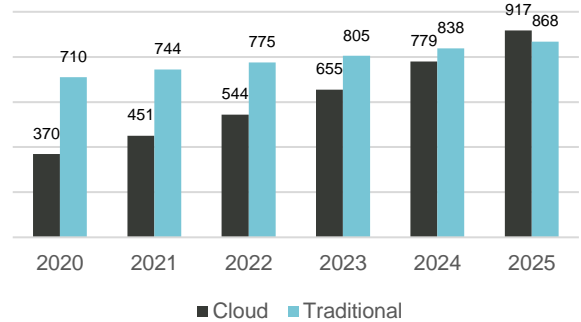
In total, 14 stocks were sold and 13 new stocks were added to the portfolio. We increased companies with higher balance sheet quality and larger market capitalization such as SAP, IBM, VMware or Analog Devices. Some smaller companies that are struggling in the current inflation environment and have a negative outlook have been removed from the portfolio. A detailed list is shown in the table at the end of the publication.

**Outlook Cloud Computing**

The global public cloud services market, including Infrastructure as a Service (IaaS), Platform as a Service (PaaS), Software as a Service System Infrastructure Software (SaaS - SIS), and Software as a Service Applications, grew 29% year-over-year in 2021 with total revenue of \$408.6 billion, according to International Data Corporation. The combined revenue of the top five public cloud service providers (Microsoft, Amazon Web Services, Salesforce Inc., Google and SAP) accounts for nearly 40% of total global revenue, growing 36.6% year-over-year. With offerings in all four categories, Microsoft takes the top spot in the overall public cloud services market with a 14.4% share in 2021, followed closely by Amazon Web Services with a 13.7% share. According to Gartner's latest forecast, global spending on public cloud services will increase by 20.4% in 2022. In 2023, spending is expected to reach more than USD 600 billion. Sub-areas such as cybersecurity or emerging technology such as hyperscale edge computing and secure access service edge (SASE) are gaining on older technologies and forming new product categories that create additional revenue streams for public cloud providers. We expect the software-as-a-service space to perform very well in niche areas. In times of rising costs, companies are looking for applications that increase business intelligence, improve operational efficiency, and enable better decision-making. We therefore expect software companies to be in demand in areas such as accounting, cost management, supply chain management and compliance.

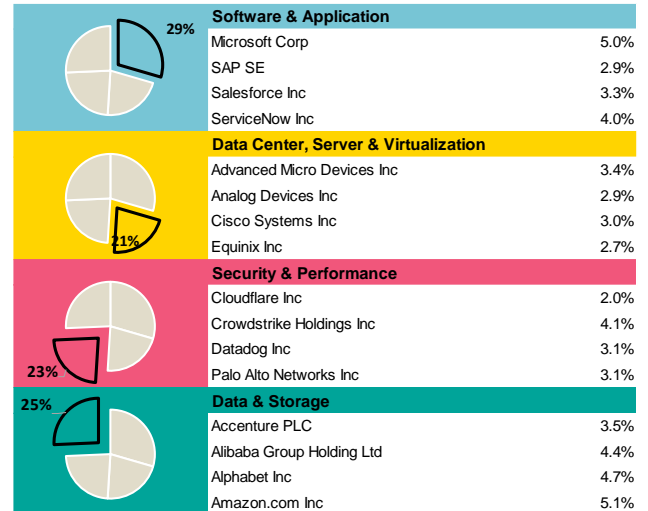
There should continue to be a positive outlook for cloud infrastructure and database companies that simplify complex multi-cloud structures.

**Graph 4: Cloud revenues worldwide (in bn. USD)**



Source: Gartner 2022


**Portfolio excerpt**




Source: Vontobel, Data as of 30.06.2022.

Strategic Certificate on the Vontobel Cloud Computing Index		
Reference Currency	ISIN	Index Fee
CHF	CH0581518138	1.25%
EUR	DE000VP9LZW4	1.25%
USD	CH0573916050	1.25%

## Transactions in Q2 2022

STOCKS BOUGHT 	
Analog Devices	<ul style="list-style-type: none"> <li>Leader in analog, mixed-signal and RF semiconductor products.</li> <li>Diversified across end markets, new solutions in high performance CPU / GPU, next-gen memory, optical systems.</li> <li>Recent strong quarterly results. Strong margin / CFF profile.</li> </ul>
Booz Allen Hamilton	<ul style="list-style-type: none"> <li>Technology consulting with core competencies in areas of digital transformation.</li> <li>Strong focus on US government and military consulting.</li> <li>Expected revenue growth of 5-8% p.a., strong order book.</li> </ul>
CANCOM SE	<ul style="list-style-type: none"> <li>Hybrid IT service provider with focus on cloud transformation.</li> <li>Focus on customers in Germany and EU, where digital transformation is lagging.</li> <li>Stock trades at 50% discount to own 5-year average based on EV/EBITDA..</li> </ul>
IBM	<ul style="list-style-type: none"> <li>Turnaround company with focus on hybrid clouds.</li> <li>50% of revenue is recurring, hence low risk of earnings revisions.</li> <li>Defensive stock with good margin profile, high cash flows and moderate valuation.</li> </ul>
Kingsoft	<ul style="list-style-type: none"> <li>Chinese public cloud solutions provider.</li> </ul>
Keysight Technologies	<ul style="list-style-type: none"> <li>Testing solutions for data center networks support more efficient cloud processes such as migration, security and performance.</li> </ul>
MongoDB	<ul style="list-style-type: none"> <li>NoSQL database solutions for migration of different cloud providers such as AWS, Google, Microsoft, etc.</li> </ul>
Cloudflare	<ul style="list-style-type: none"> <li>Global cloud services provider whose network acts as a scalable, easy-to-use, unified layer of control for security, safety, performance and reliability for on-premise, hybrid, cloud and SaaS applications.</li> </ul>
NICE	<ul style="list-style-type: none"> <li>Israeli provider for digital self-service, call center automation, customer analytics, compliance, etc.</li> <li>Significant valuation discount (approx. 30%) to 3-year average. &gt;30% EBITDA margin.</li> </ul>
Palo Alto Networks	<ul style="list-style-type: none"> <li>Palo Alto Networks develops and sells network security solutions ranging from appliance form factor solutions to software and cloud-based solutions.</li> <li>Strong software revenue performance with 70% recurring business.</li> </ul>
SAP SE	<ul style="list-style-type: none"> <li>Positive development in S/4 HANA Cloud.</li> <li>Robust FCF generation and higher margins due to cloud transition.</li> </ul>
Atlassian	<ul style="list-style-type: none"> <li>Project and collaboration software.</li> </ul>
VMware	<ul style="list-style-type: none"> <li>Server virtualization company with solid cash flows.</li> </ul>

STOCKS SOLD 	
TE Connectivity	<ul style="list-style-type: none"> <li>Currency risks.</li> </ul>
KnowBe4	<ul style="list-style-type: none"> <li>Current valuation at 8x sales relatively high.</li> </ul>
Elastic	<ul style="list-style-type: none"> <li>Break-even not expected before 2024.</li> </ul>
Adobe	<ul style="list-style-type: none"> <li>Increasing competition in marketing cloud, especially from freeware Canva.</li> </ul>
Twilio	<ul style="list-style-type: none"> <li>Currently not profitable, risky acquisitions.</li> </ul>
Couchbase	<ul style="list-style-type: none"> <li>We see higher potential in competitor MongoDB.</li> </ul>
Smartsheet	<ul style="list-style-type: none"> <li>Management sees headwinds from the economic environment for the coming quarters.</li> </ul>
Rapid7	<ul style="list-style-type: none"> <li>Good revenue growth but no improvement in margins recently.</li> </ul>
RingCentral	<ul style="list-style-type: none"> <li>Competitive situation in cloud communications intensified during pandemic. Zoom offers better solution and more favorable valuation.</li> </ul>
Bandwith	<ul style="list-style-type: none"> <li>Low free cash flow margin and high leverage ratio plus cyber attack problems.</li> </ul>
Tenable	<ul style="list-style-type: none"> <li>Solid cybersecurity company, but valuation higher than peers.</li> </ul>
Coupa Software	<ul style="list-style-type: none"> <li>Weak order intake, turnaround point might not be until Q4.</li> </ul>
Five9	<ul style="list-style-type: none"> <li>We prefer competitor NICE.</li> </ul>
DocuSign	<ul style="list-style-type: none"> <li>Two weak quarters in a row with significant deviation from expectations raise questions about management.</li> </ul>

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