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Two key trends which indicate the rise of cloud-based tech has further to run

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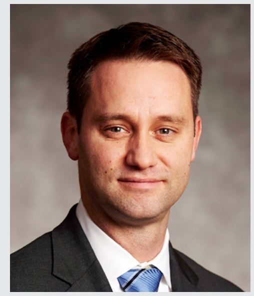
Featuring



Jason White
Artisan Partners Growth Team

One of the enduring investment themes over the past decade has been the rise of software-as-a-service (SaaS) and cloud-based computing platforms.

The trend has extended to Australian markets, with a number of ASX-listed success stories which have posted huge gains in that time.

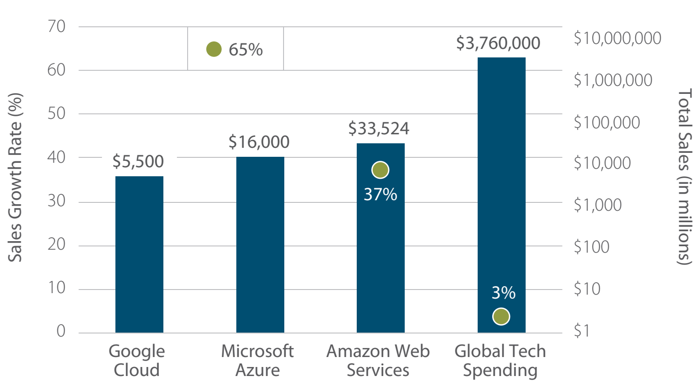
That growth has given rise to some differing points of view about whether valuations look stretched or the investment thesis has further to run.

But for Jason White, managing director at US-based investment manager Artisan Partners, the sector still presents a compelling medium-term use case.

Speaking at last month's JANA investment conference in Melbourne, White backed up his view with some interesting data points that illustrate the broader trends taking place.

For starters, he pointed to this chart which shows cloud sales by the major providers and their respective growth rates relative to global tech spending:

Cloud Sales vs Global Tech Spending[1,2]



Source: Courtesy J.P. Morgan Chase & Co., Copyright 2019; JP Morgan CIO Survey 2018; Artisan Partners. [1]Google Cloud growth data is not disclosed by the company. [2]Microsoft Azure Sales, Google Cloud Sales and Microsoft Azure growth rates are Artisan estimates

There are some big numbers involved — gross cloud sales by Google, Microsoft and Amazon amounted to around $US50 billion last year, led by Amazon with $US33.5 billion.

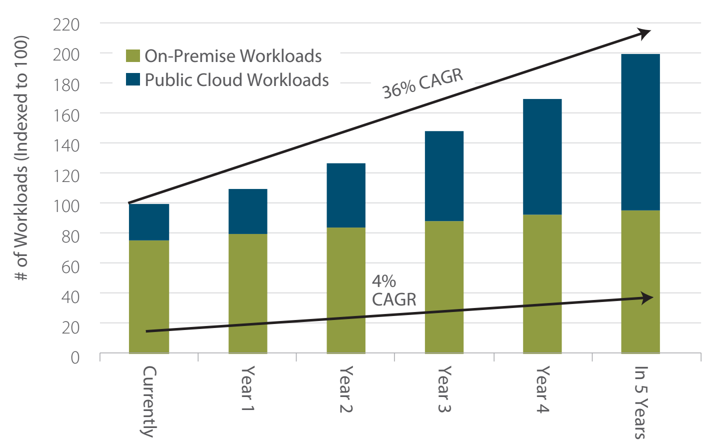
And despite those huge top-line figures, combined annual sales growth for Microsoft and Amazon is still tracking at around 50 per cent. The second takeaway is that they still make up just one per cent of global tech spending of $US3.76 trillion.

"I think with software, the key point we all hear about is the growth of cloud computing. But the data indicates we're going to be talking about the duration of that trend for at least another couple of years," White told Stockhead.

"Not all of that $US3.8 trillion is accessible, but a big chunk of it is. And in that context and with those types of growth rates, I think it's hard to say we're late in the trend. There are still compelling reasons why organizations are adopting this."

The second chart White highlighted was derived from the recent JP Morgan survey of global Chief Information Officers (CIOs) — compiled from the largest 2,000 companies in the world:

Workload Mix Changing Over Time[1]



Source: Courtesy J.P. Morgan Chase & Co., Copyright 2019; JP Morgan CIO Survey 2018; Artisan Partners. [1]Chart represents J.P. Morgan estimates

The data shows around 80 per cent of respondents still manage their data using on-site storage technology, as opposed to an external cloud-based service.

But based on the results of the survey, that framework is likely to change. In fact, over a five-year time frame the world's biggest companies will shift towards the cloud.

"You've got respondents saying they're going to increase spending materially over the next five years. It's not an absolute 'yes or no' guide, but it's another indicator that we're still relatively early in this trend," White said.