

Led by ZS, CRWD, and OKTA; Cyber Security Momentum Gaining Steam on Cloud Shift

Dan Ives | ETFMG Cloud Technology Expert | December 3, 2020

We view last night's blow out earnings from the trifecta of Zscaler, CrowdStrike, and Okta as another seminal moment in this cloud transformation underway and put more fuel into this rally in cyber security names across the board. With blowout earnings across the board from these three next generation software leaders that surprised even the biggest bulls given the strength, we believe this is another key data point speaking to the cloud and digital transformation that is still in the early days of playing out. Many CIOs and key IT decision makers have aggressively moved into a digital transformation phase in their purchasing decisions as more data and applications moves to the cloud with protecting these workloads becomes the highest priority. To this point, we have seen a number of larger cyber security deals in the field get accelerated heading into year-end and green lighted by C-level decision makers as more enterprises need to protect stepped up cloud deployments and security architecture in this unprecedented environment. Overall with 33% of workloads currently on the cloud moving to 55% by 2022 based on our analysis, we believe the digital transformation shift to cloud for both enterprises and governments is being accelerated by up to 12 to 18 months with Microsoft and AWS leading the way and Google's GCP also showing up in a number of cloud deployments. While WFH applications such as Zoom, Slack, Docusign, and Citrix remain front and center, the exploding endpoints and volume of data being accessed from remote employees have caught CIOs flat-footed to protect this next step of the cloud shift with cyber security names playing a vital role in this strategic endeavor over the coming year.

Cybersecurity continues to be a ripe area for enterprise investment. As data volumes explode, the threat landscape evolves rapidly, and the perimeter becomes amorphous, customers are looking to free up tight budget dollars and allocate additional budget to next-generation technologies in the cyber security space. In our opinion we are still in the early days of the move to cloud architectures across the enterprise world, which has clearly been accelerated over the past 9 months in this COVID-19 backdrop as more CIOs and CISOs face the new reality of a heavy remote workforce for the foreseeable future. We believe there is a \$100 billion-dollar growth opportunity in cloud security "up for grabs" over the next five years for those vendors that have the solution sets to protect critical cloud deployments and seamlessly work with on premise and public/hybrid workloads through a unified and deep solution set.

Continue to be bullish on cyber security and cloud stocks. While tech valuations and bubble fears continue to be a major debate on the Street, we believe the fundamental drivers and sweet spot of cloud demand continue to give us high conviction in owning the secular winners in the cyber security sector. As seen last night by these robust prints, this cloud story is still in the early days of playing out and bodes well for cyber names heading into 2021. While the barbell approach to owning the sector has been our playbook since March, the names that continue to stick out above all else remains ZS, SAIL, and TENB given the secular shifts heading into the next year. On the overall cloud front we believe this market is still in the early days of playing out with our expectations for strong growth for the sector into 2021 led by deployments across the US and China as enterprise adoption ramps.

Meet the Expert



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World renowned software and technology analyst with 20+ years experience educating on cloud computing, cyber security, big data and the mobile landscape. His vision behind the ETF stems from an investor demand for global exposure to the “cloud enabler” companies he has been covering for decades.

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