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# Drawing Capital

# Opportunities in Data Analytics


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# Opportunities in Data Analytics

Presented by:

Sagar Joshi and Sean van der Wal

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# About

Drawing Capital is an innovation-focused investment platform headquartered in Silicon Valley, CA.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enables us to participate in investment opportunities in public markets not captured by passive investing.

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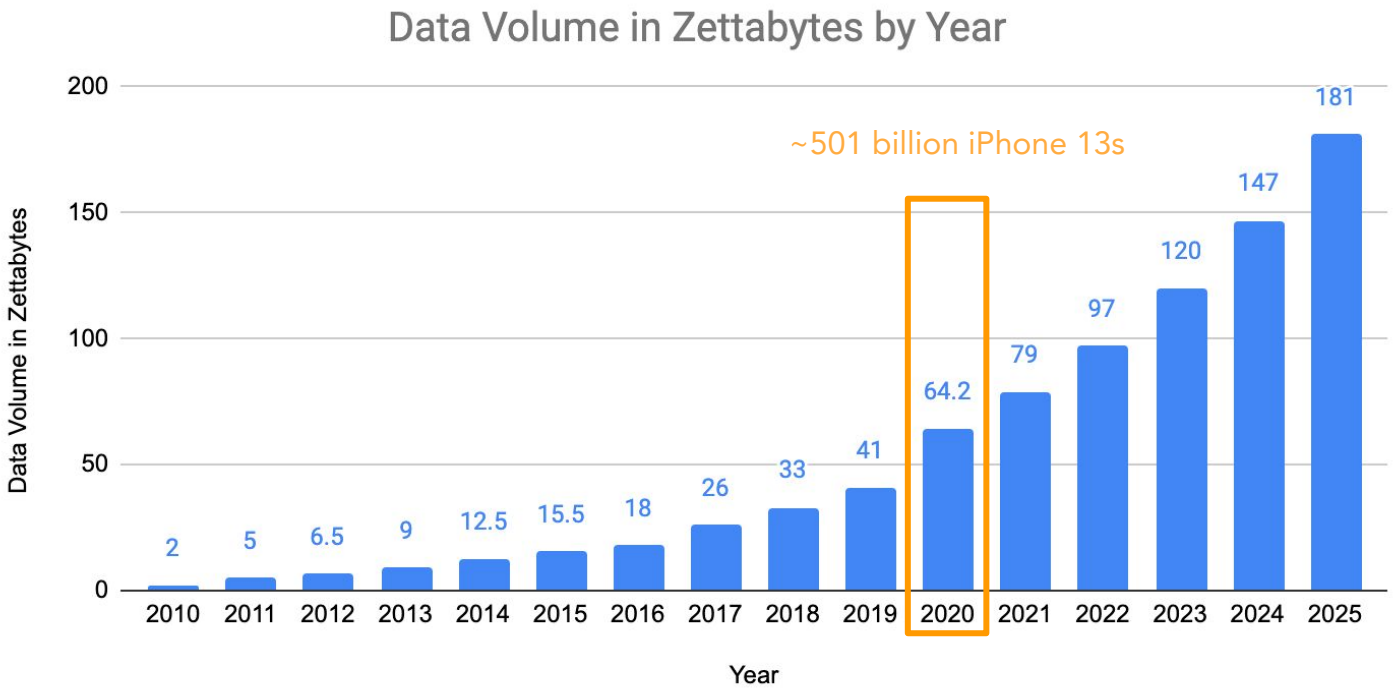
# Background & Historical Context

- In 2020 alone, 64.2 ZB of data was either created or replicated, which is equivalent of 500+ billion iPhone 13s.
- There is a secular mega-trend in Big Data, AI and ML, and Automation.

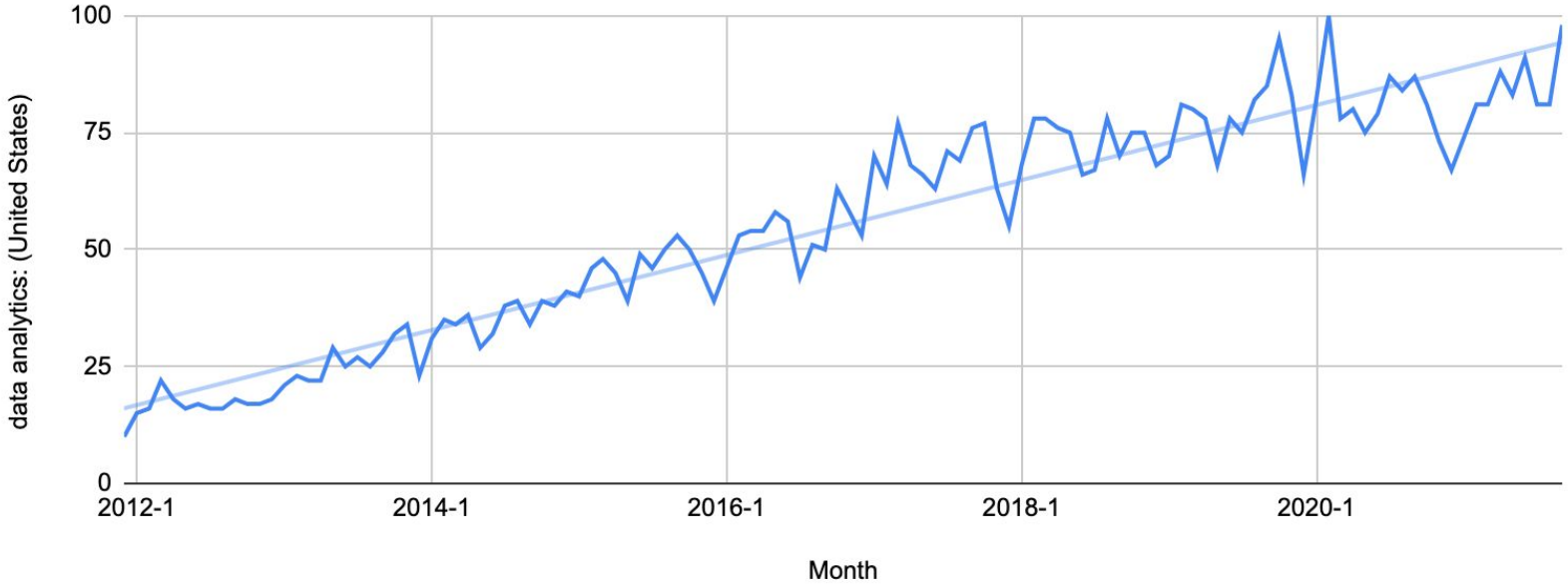
Source: Statista

# Growth in Data Volume Over Time is Creating Large Opportunities for Founders & Investors




Data Source: Statista.com; future estimations are based on the 5-year compound annual growth rate. Link: https://www.statista.com/statistics/871513/worldwide-data-created/

# Growth in Web Searches for the term “Data Analytics” Demonstrates Increasing Social Popularity in Data Analytics




Data Source: Google Trends, https://trends.google.com/trends/?geo=US

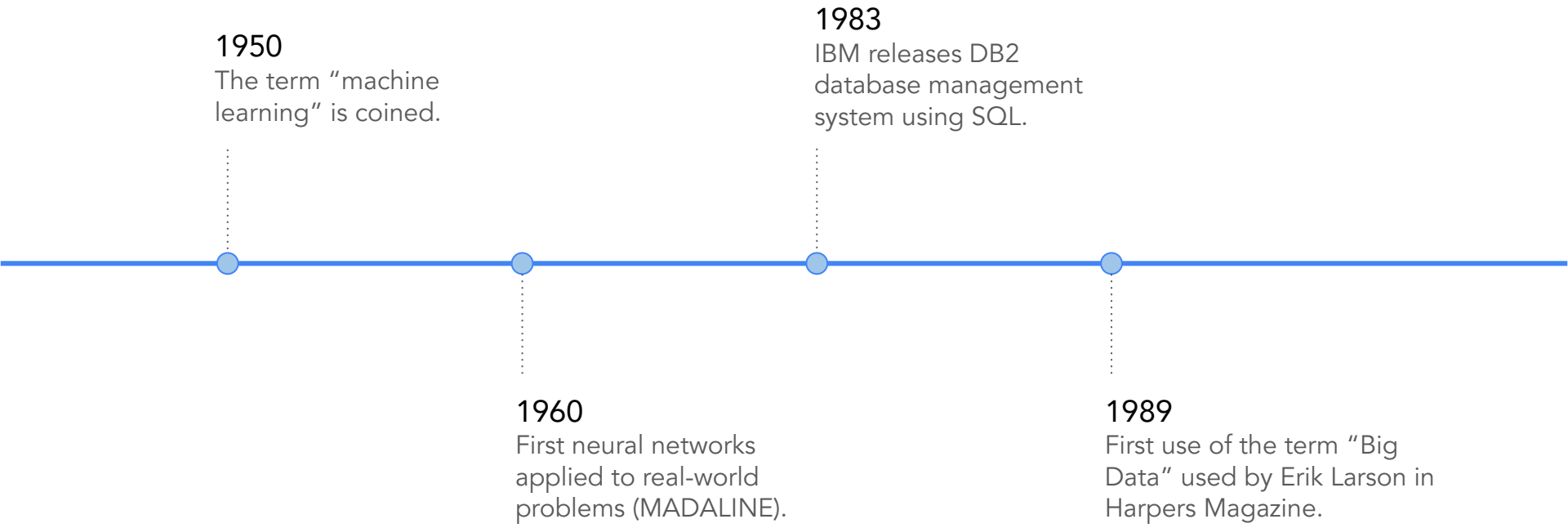
# More Data Positively Impacts Businesses

1. Allows companies to observe, manage, and generate insights from data to **improve customer experiences**, leading to increases in **revenues, customer retention,** and **better product quality**.

2. **Enables winner-take-most environment** through asymmetric information, increasing returns to scale, and platform-level technological advantages.

3. **Promotes positive network effects** by improving the product or service for all existing and new customers as the company gains more customers.

# These Technologies Have Been Around For Decades




Data Source: World Economic Forum, MobiDev.

# Why Now?

## Previous Bottlenecks Prevented Acceleration of These Trends, and Today, Many of These Roadblocks Have Been Reduced or Eliminated

1

Low-quantity, low-quality data

2

Cost-prohibitive infrastructure

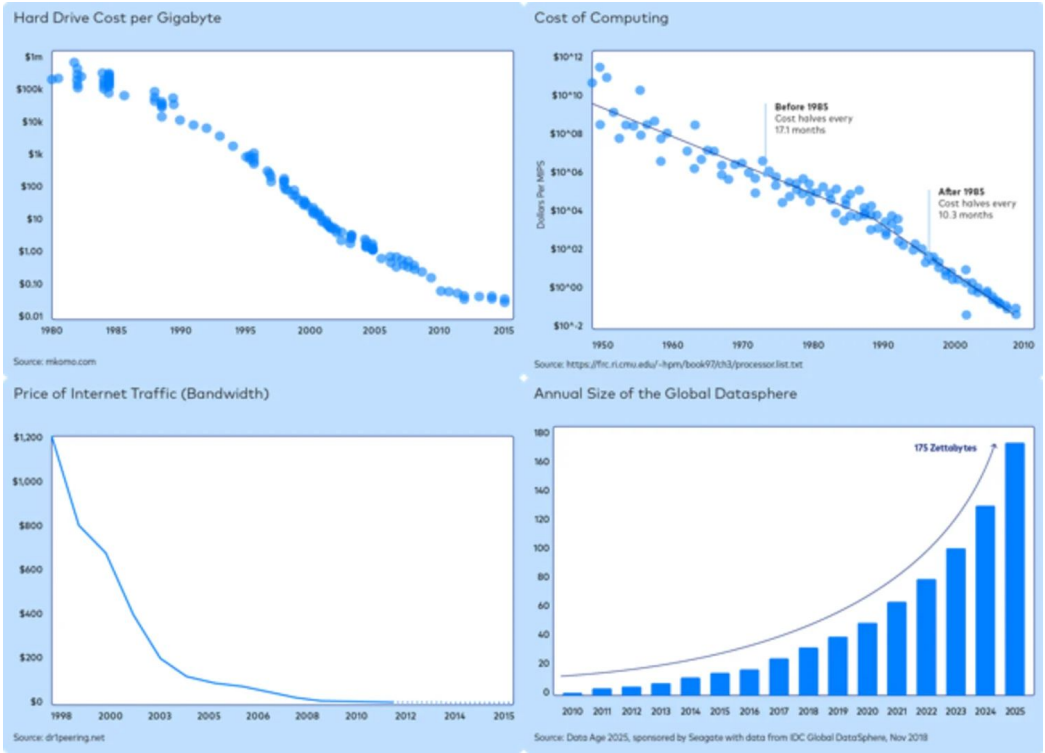
3

Large teams of technical experts

4

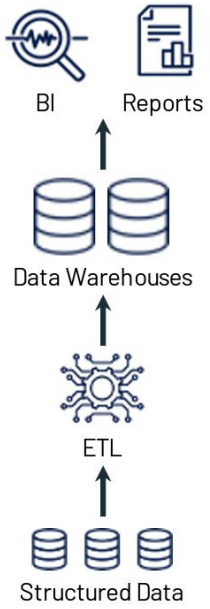
Inefficient collection and processing

# Technology Trends Toward Cloud Data Integration

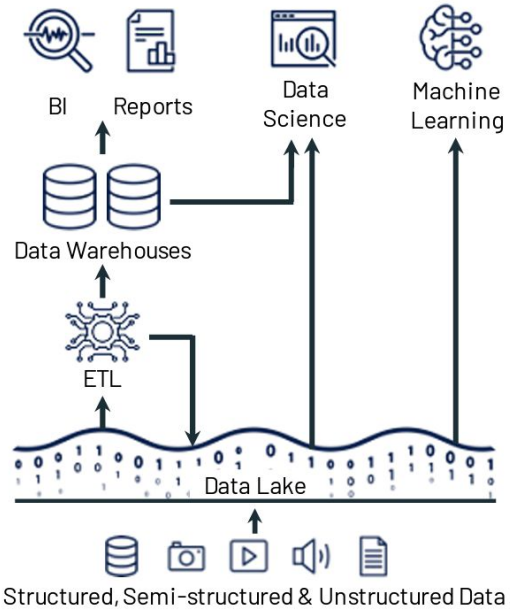



Source: Fivetran, https://fivetran.com/blog/etl-vs-elt

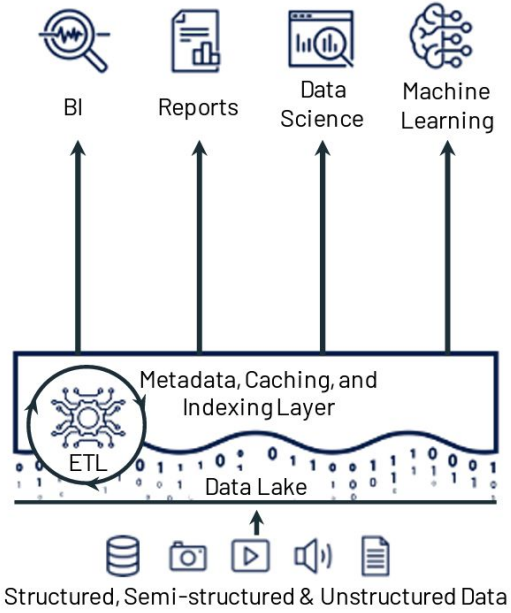
# Unlocking Efficiency: Data Warehouses, Data Lakes, & Data Lakehouses




**(a) First-generation platforms.**




**(b) Current two-tier architectures.**




**(c) Lakehouse platforms.**

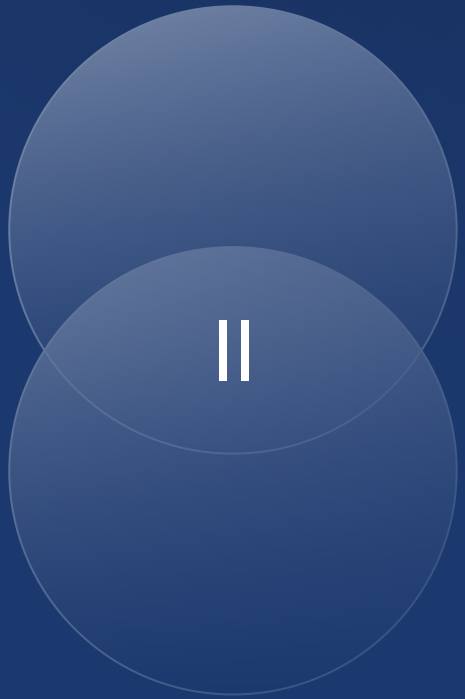
Souce: http://cidrdb.org/cidr2021/papers/cidr2021_paper17.pdf

# Data Warehouses, Lakes, and Lakehouses Lead To Widespread Benefits

1. Increased expansion of **total addressable markets**.
   > new solutions and new entrants

2. Enablement of **new tools and services**.
   > gave rise to the modern data stack

3. **Increased value-to-time** for market participants.
   > scalability of infrastructure

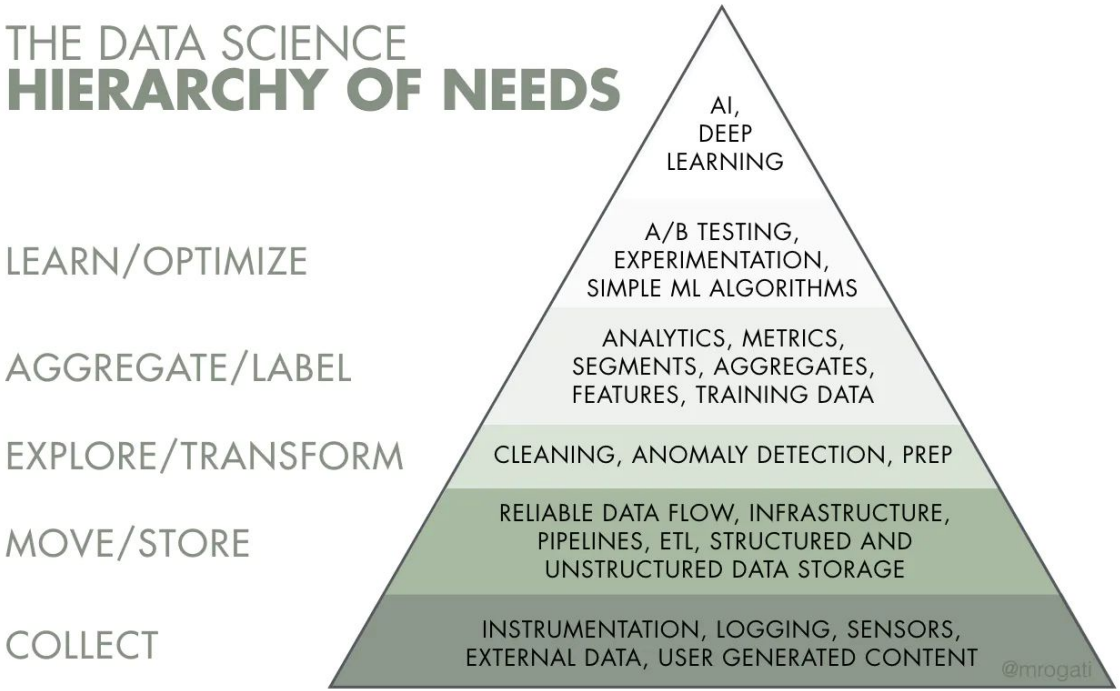


# Data Science Hierarchy of Needs

- Many companies want to implement AI or data science, but aren't ready.
- The Hierarchy of Needs lays out a roadmap for that implementation.
- The modern data stack involves cloud-enabled software infrastructure, analytics, and programmatic insights.

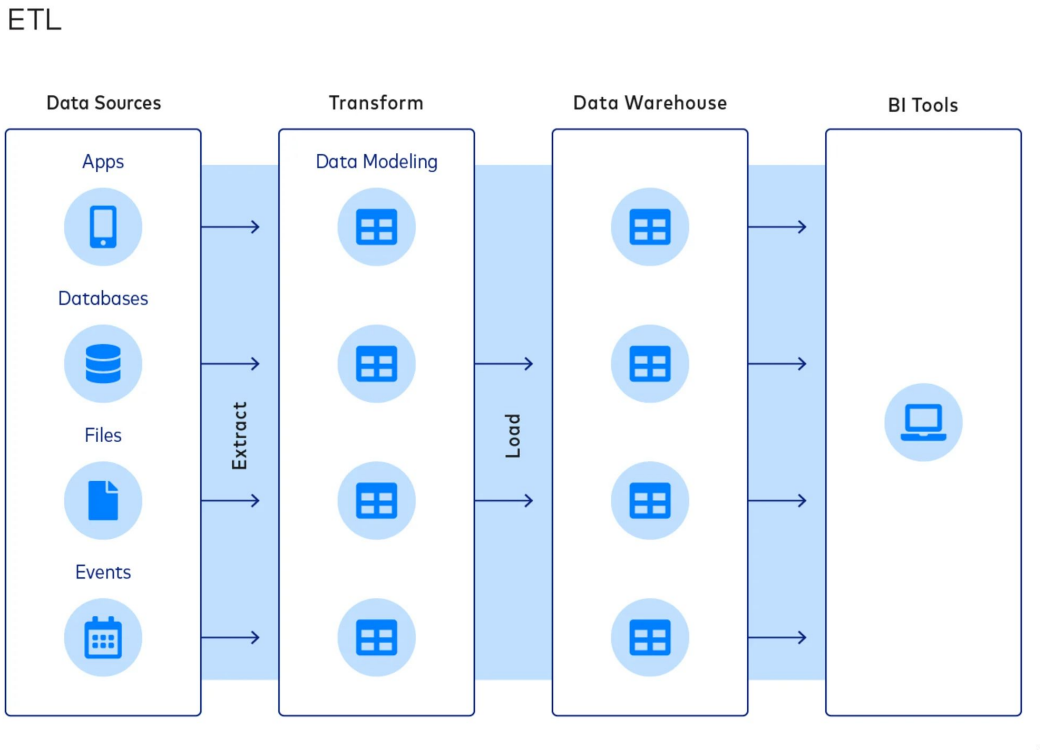
> Self-actualization is great. But first, you need food, shelter, and water.
> *Data literacy, collection, and infrastructure*.
>
> - Monica Rogati

# The Data Science Hierarchy of Needs




Source: Monica Rogati, https://medium.com/hackernoon/the-ai-hierarchy-of-needs-18f111fcc007

# 2nd Layer Innovations: ETL vs. ELT




Source: Fivetran, https://fivetran.com/blog/etl-vs-elt

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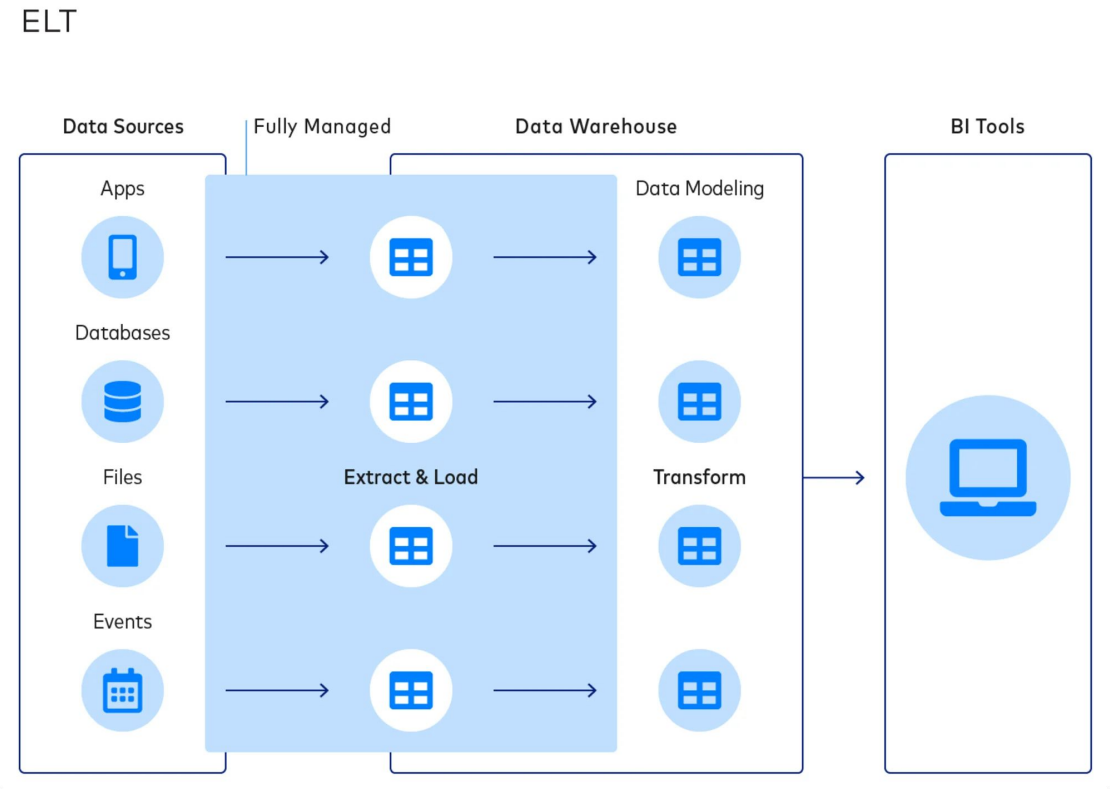
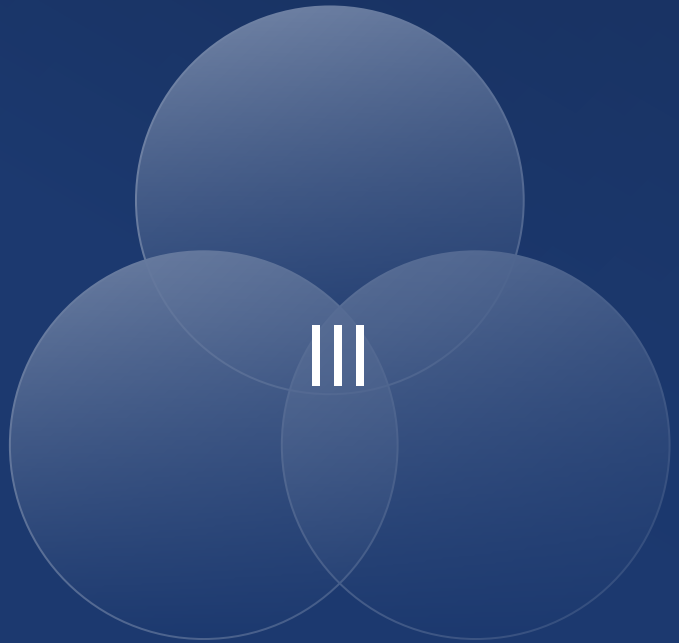



Source: Fivetran, https://fivetran.com/blog/etl-vs-elt

# The Modern Data Stack & Categorization of Software Companies

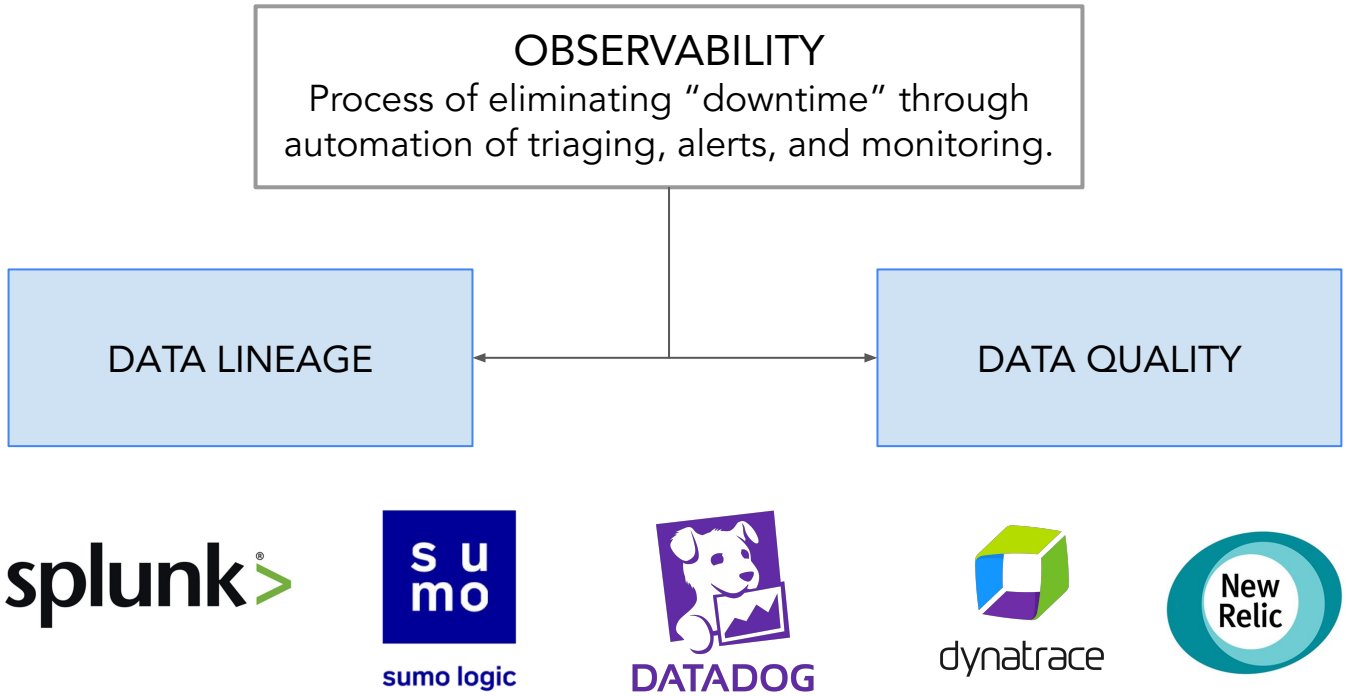


# Innovation in Data Infrastructure

- In the first half of 2021, $31 billion was invested into AI-focused startups and 42 artificial intelligence companies reached $1B+ valuations.
- Innovation highlights: Data Observability, Real-Time Analytics, and Data Mesh.

Source: CB Insights

# Data Observability

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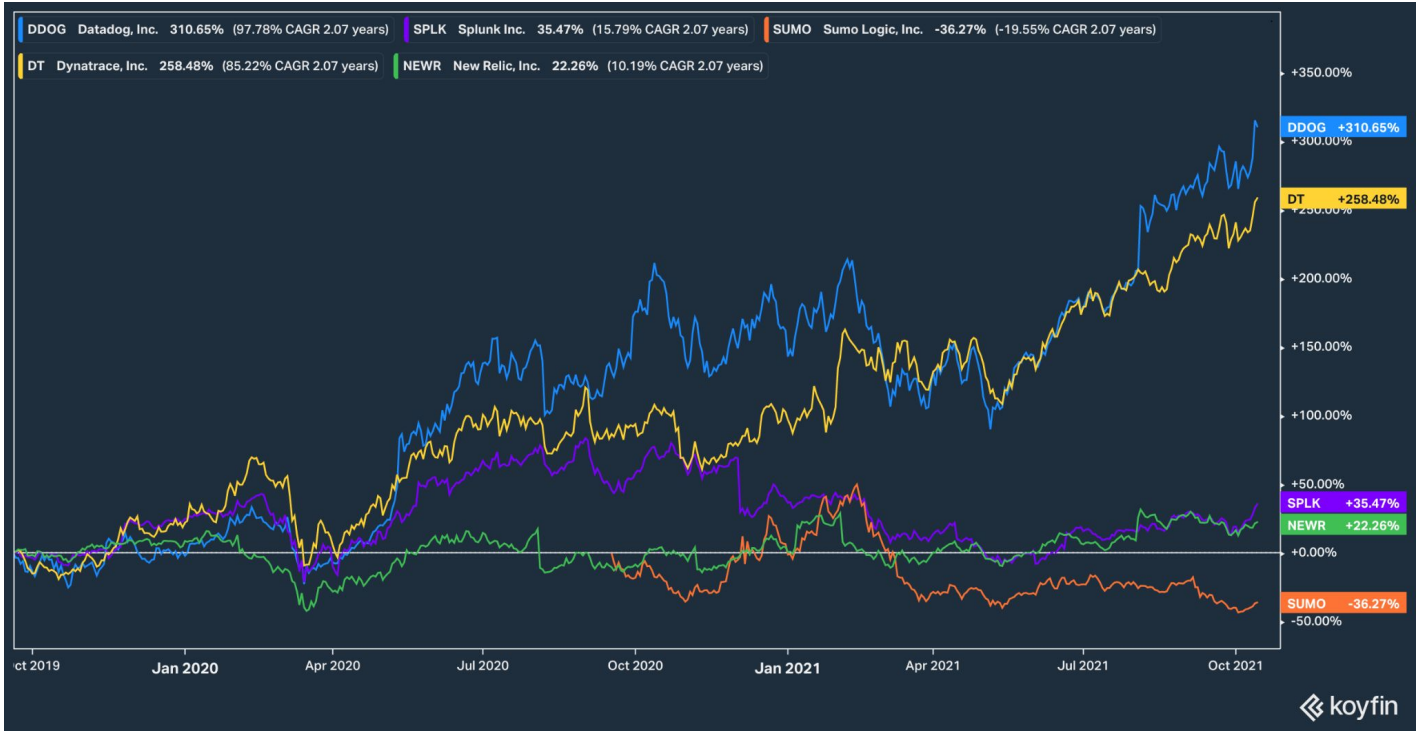
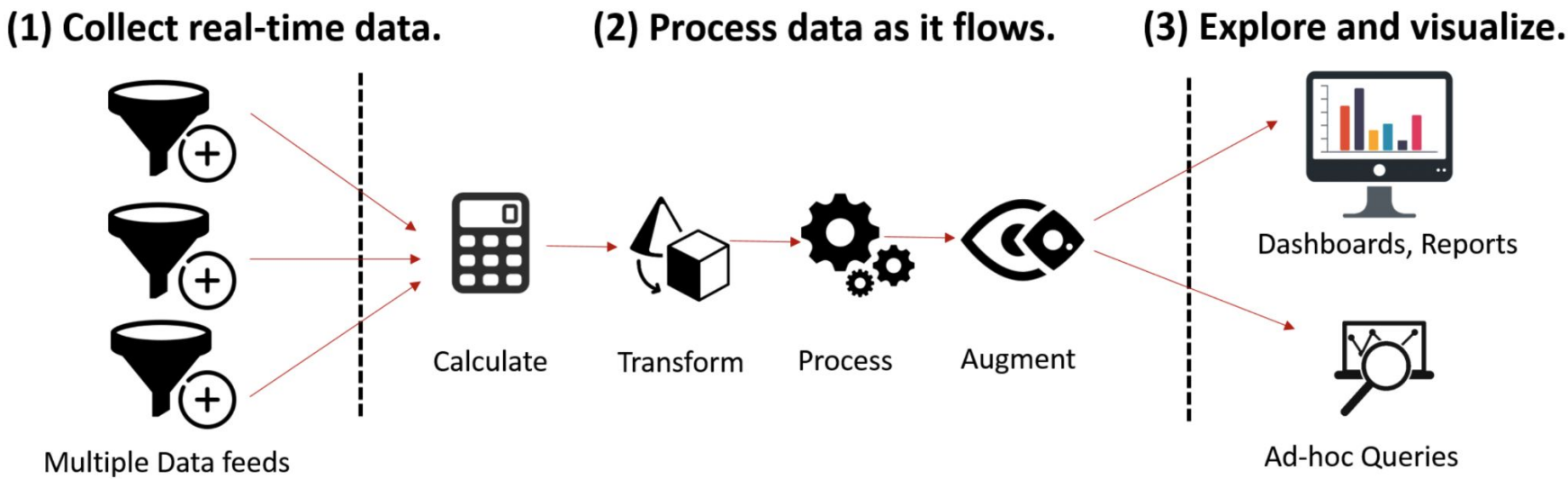
# Historical Performance of Data Observability Stocks




Source: Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

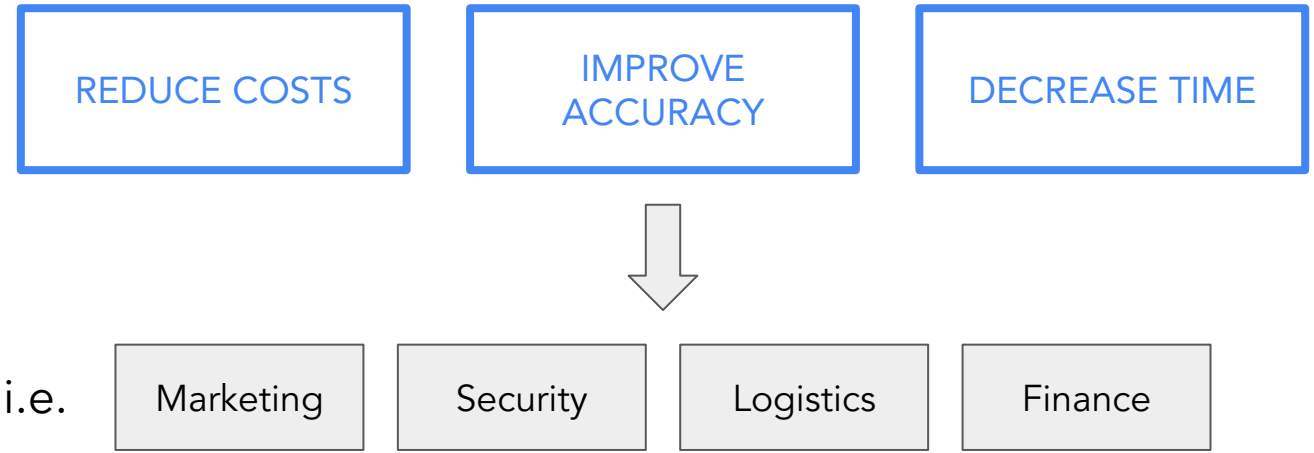
# Real-Time Analytics



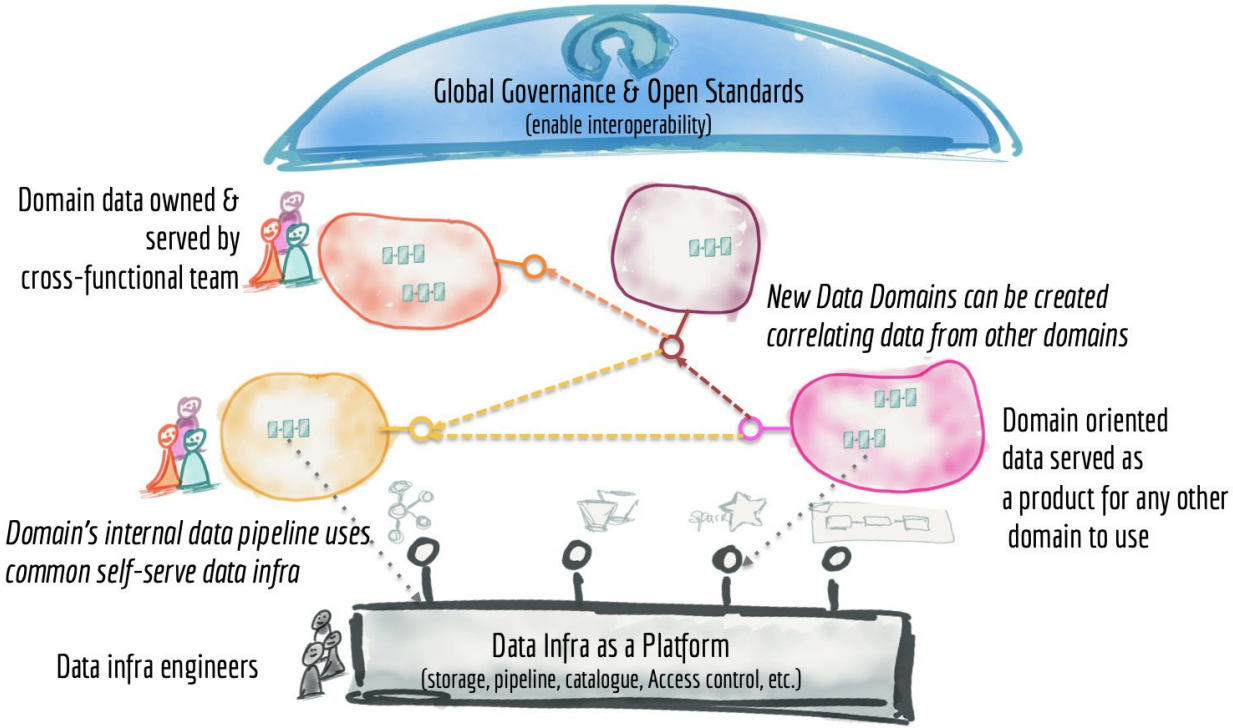

Source: KPI Partners, https://www.kpipartners.com/services/big-data/real-time-analytics

# Real-Time Analytics Benefits

Immediately process and query new data as it is created to inform decisions in the moment and guide business decision making.



# Data Mesh




Source: James Serra's Big Data & Data Warehousing Blog, https://www.jamesserra.com/archive/2021/02/data-mesh/

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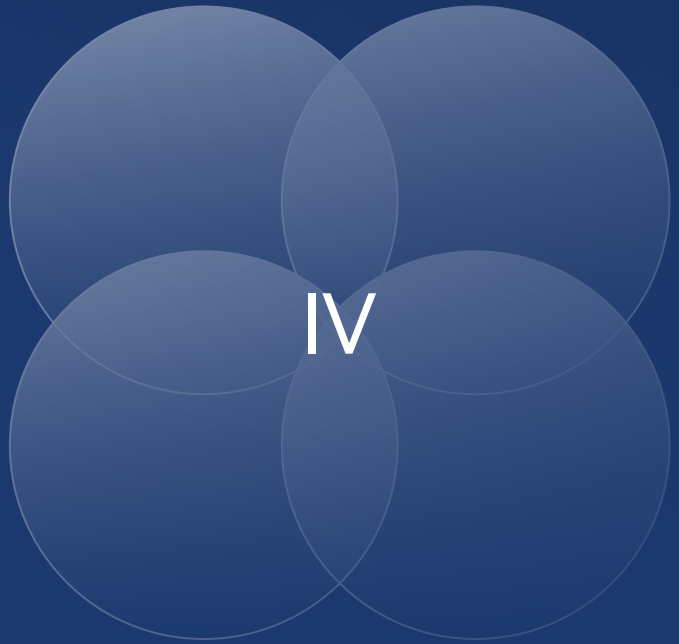
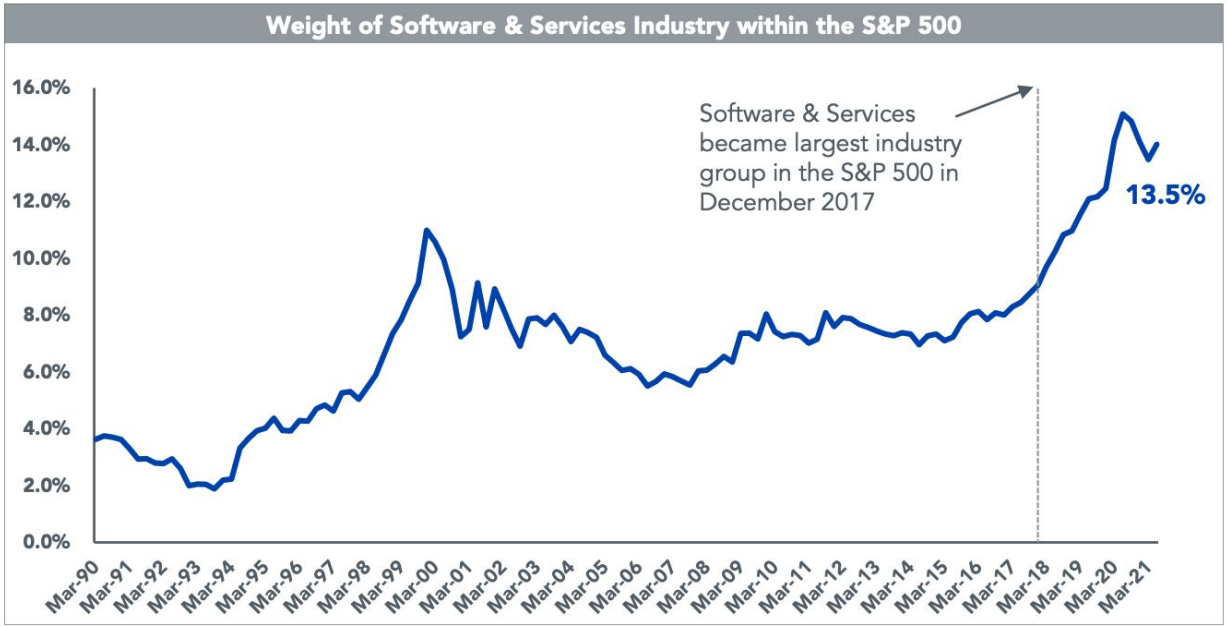



# Company Comps & Key Metrics

- Corporate budgets towards software continue to increase from 4.9% in 2021 to 5.2% in 2022, according to CIO surveys.
- These increases are notable given that 2021 had already seen a ~6% upward revision.
- We discuss leading software companies' multiples, growth, margins, and other financial metrics.

Souce: Morgan Stanley.

# Software Industry is Becoming a Greater % Share of the S&P 500 Index




Source: WisdomTree. As of 6/30/2021. Subject to change
[1]The weight of the Software & Services industry within the S&P 500 Index is currently 13.5% of the index's total weight. You cannot invest directly in an index.

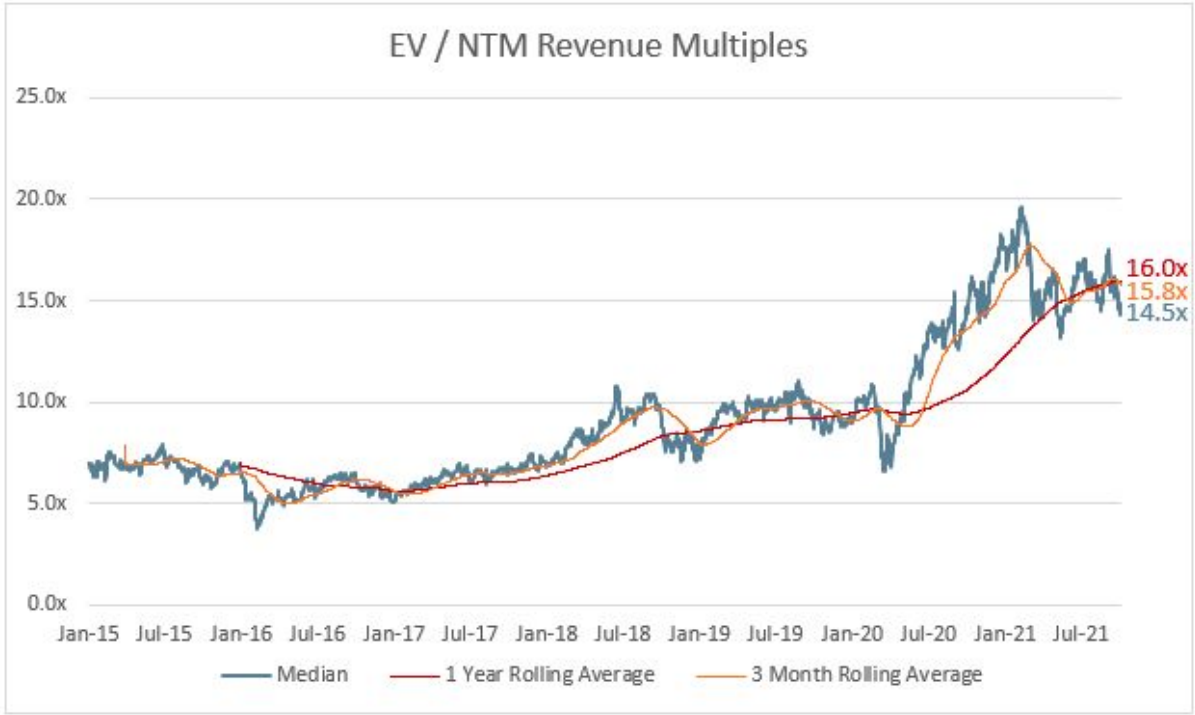
Data Source: WisdomTree. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.
Source Link: https://www.wisdomtree.com/-/media/us-media-files/documents/resource-library/presentations/wisdomtree_wcld_presentation.pdf

# Financial Comps of Leading Cloud Software Companies

| | Company | EV / NTM Rev | NTM Rev Growth | Gross Margin | Operating Margin | FCF Margin |
|---|---|---|---|---|---|---|
| 1 | Snowflake | 62.8x | 73% | 59% | (91%) | (3%) |
| 2 | Cloudflare | 57.6x | 38% | 77% | (20%) | (7%) |
| 3 | Bill.com | 57.2x | 102% | 74% | (48%) | (6%) |
| 4 | SentinelOne | 54.2x | 79% | 55% | (142%) | (86%) |
| 5 | Asana | 47.8x | 42% | 89% | (76%) | (49%) |
| 6 | Monday.com | 43.2x | 50% | 86% | (75%) | (12%) |
| 7 | Confluent | 41.4x | 34% | 68% | (102%) | (32%) |
| 8 | Datadog | 39.2x | 45% | 77% | (5%) | 21% |
| 9 | Zscaler | 39.0x | 41% | 78% | (31%) | 23% |
| 10 | Atlassian | 38.8x | 21% | 84% | 5% | 41% |
| Average | | 48.1x | 53% | 75% | (59%) | (11%) |
| Median | | 45.5x | 43% | 77% | (62%) | (7%) |

Data Source: Clouded Judgement Newsletter by Altimeter Capital Partner Jamin Ball. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

# Cloud Software Multiples (EV/ NTM Revenue)

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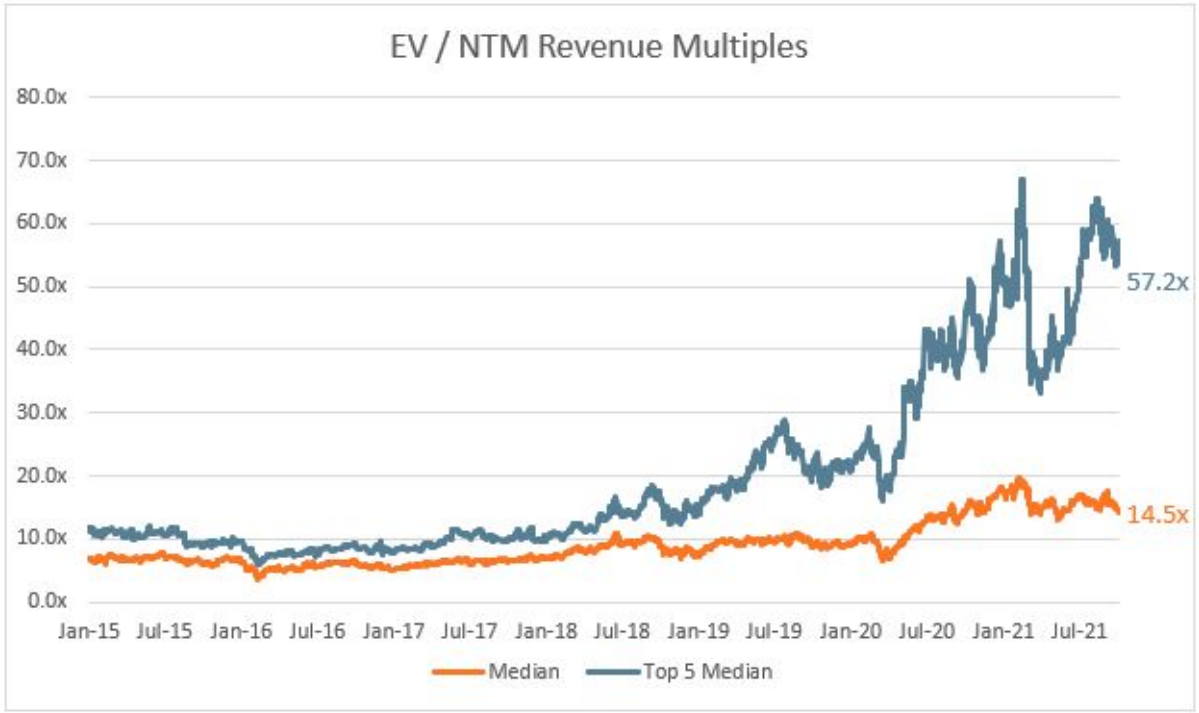


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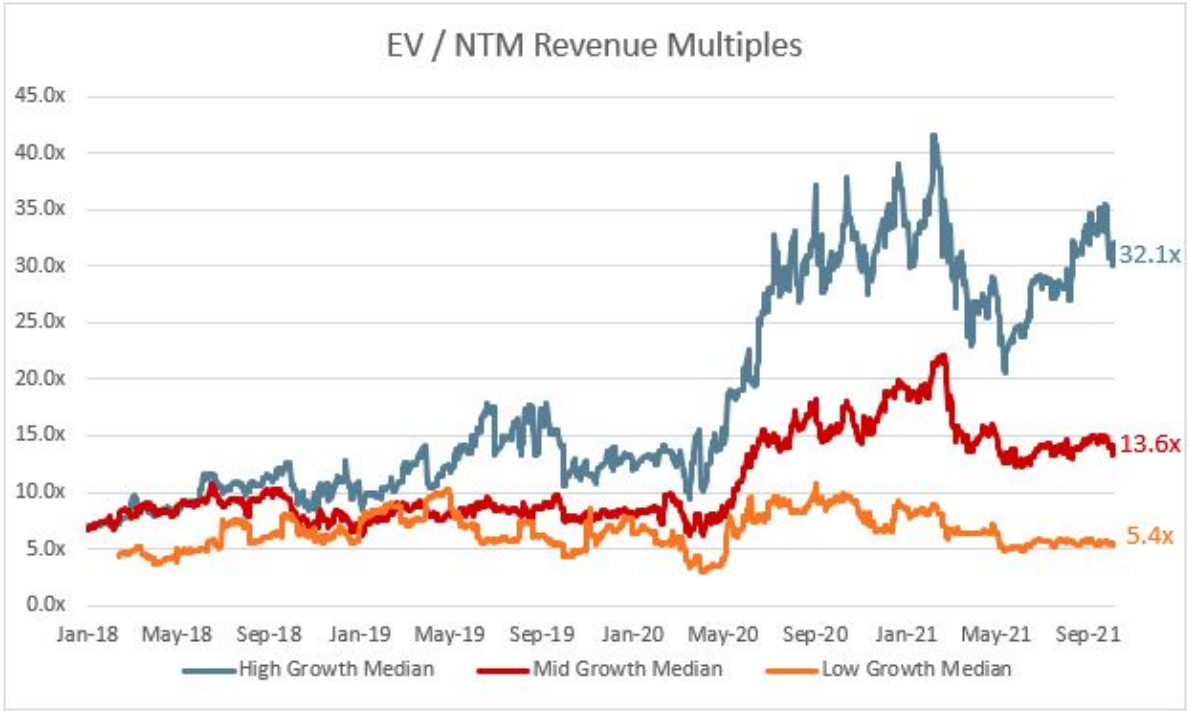


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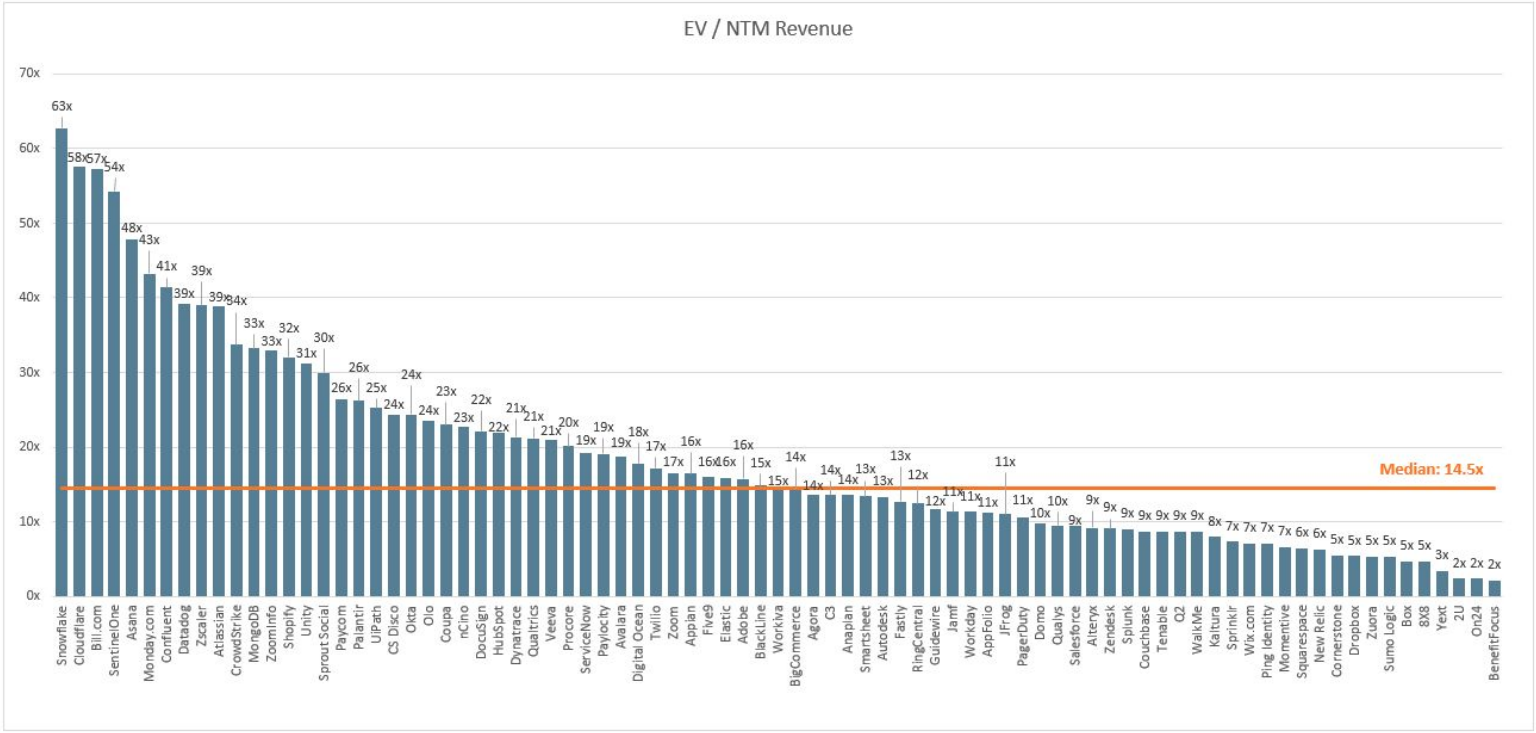


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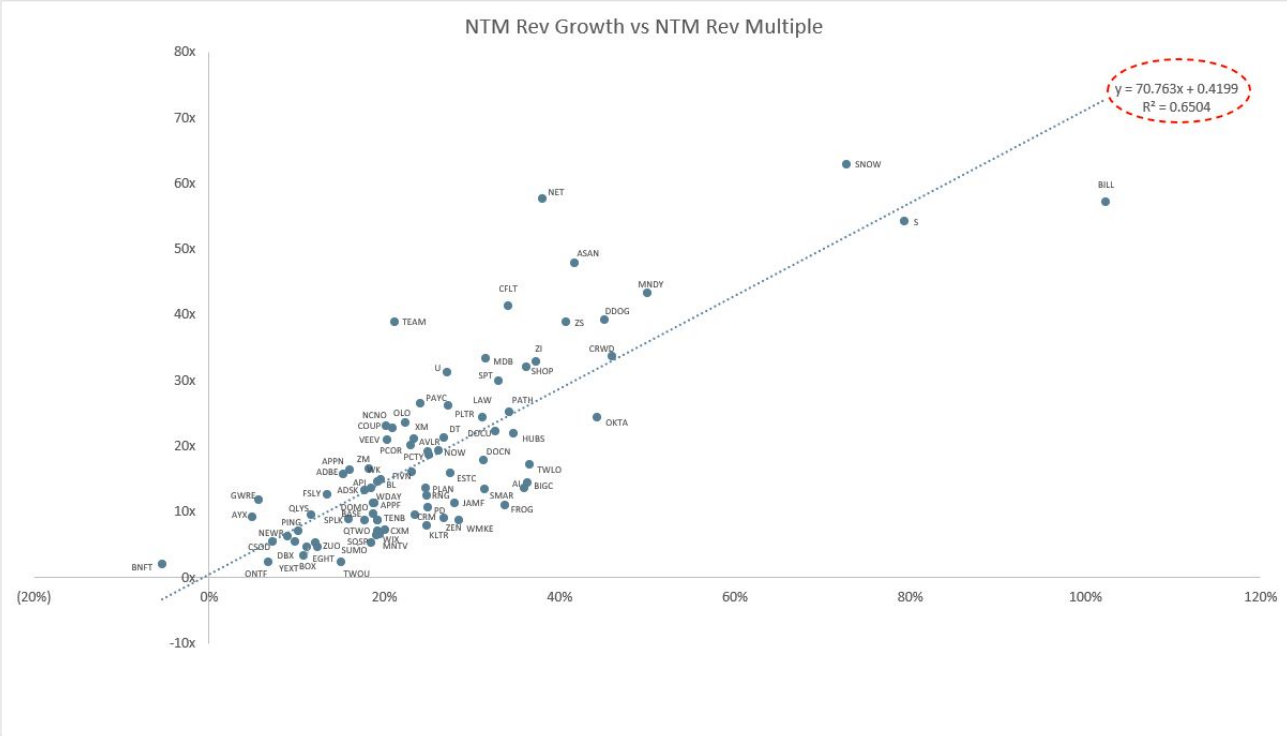
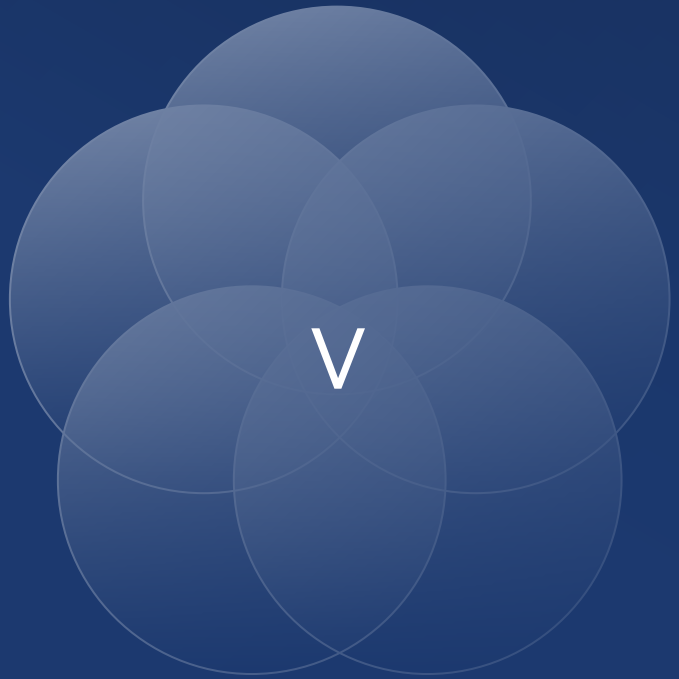



Data Source: Clouded Judgement Newsletter by Altimeter Capital Partner Jamin Ball. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

# 6 Key Metrics for Software Companies

*(not exhaustive)*

| | |
|---|---|
| Revenue Growth Rate | = (Revenue in T2 / Revenue in T1) - 1 |
| Gross Margin | = (Revenue - COGS) / Revenue |
| Growth Endurance | = (T1 Revenue Growth Rate) / (T0 Revenue Growth Rate) |
| Net Dollar Retention | = Cohort Value Today / Cohort Value Last Year |
| Rule of 40 | = Revenue Growth Rate + FCF Margin |
| Contribution Margin | = (Revenue - Variable Costs) / Revenue |

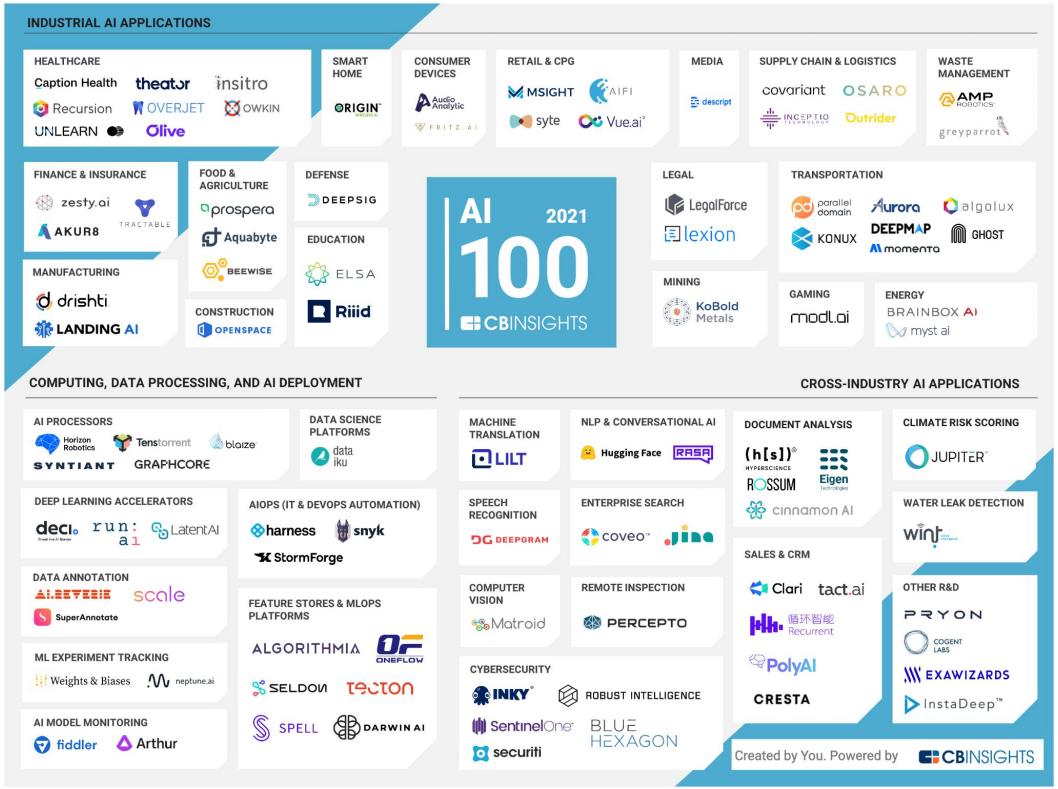



# Allocating to the Opportunity

- There are several ways to gain access to Data companies' stock depending on risk tolerance, time horizon, and expertise (e.g. individual stocks, ETFs, private funds, or venture platforms).
- The opportunity & landscape are vast, and much of the opportunity for wealth creation is in private markets.

All information on this slide are opinions of Drawing Capital.

# Artificial Intelligence Landscape

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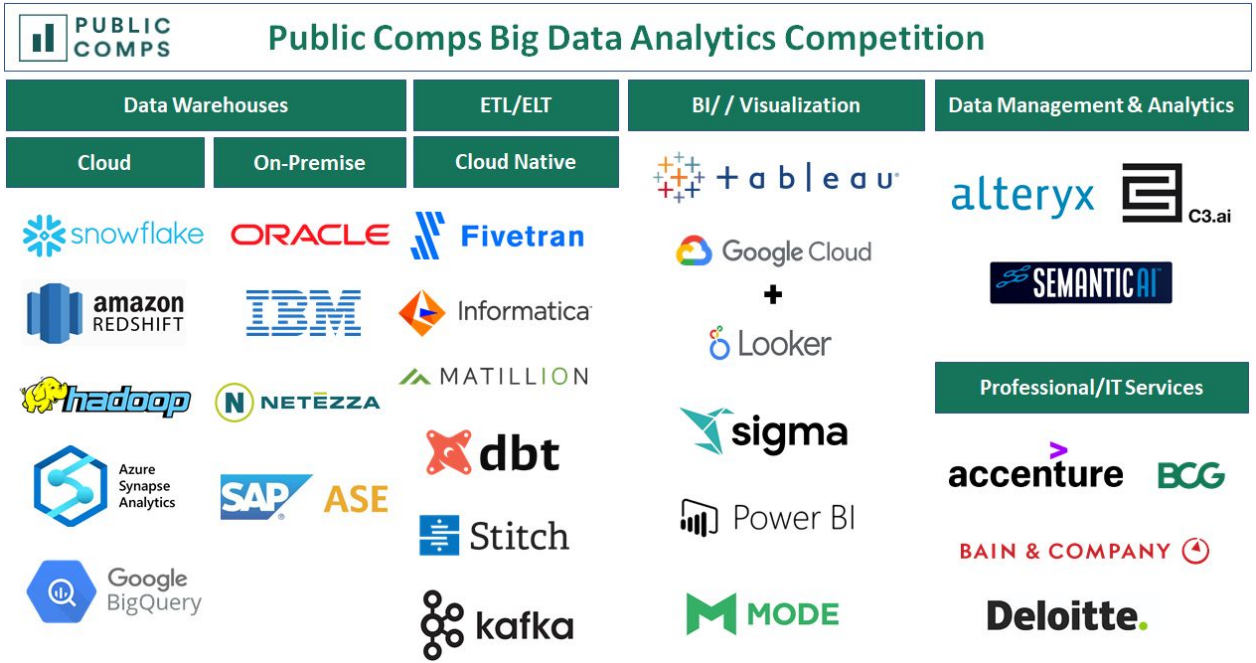
# Landscape for Big Data Analytics

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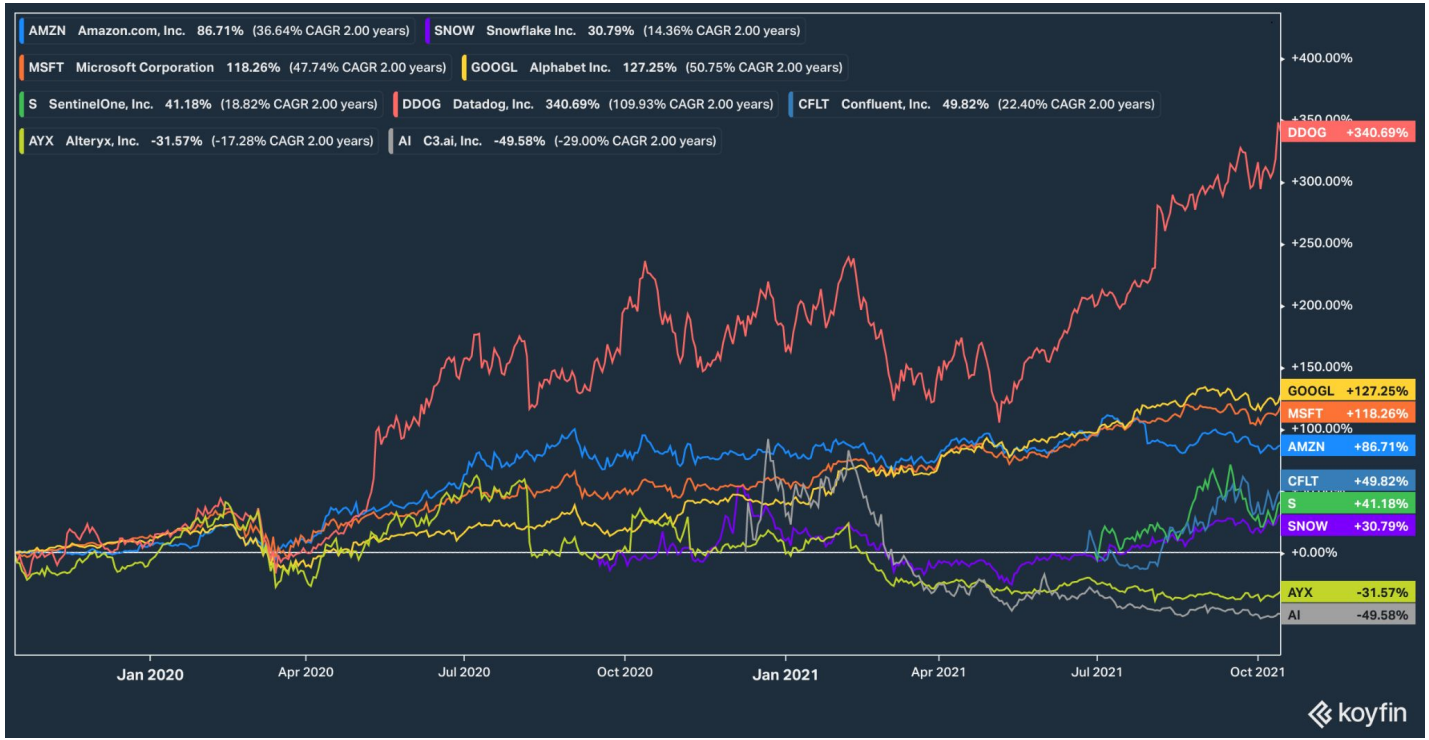
# 2-Yr Stock Performance of Select Companies




Source: Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

# 2-Yr Stock Performance of Select ETFs

Source: Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

# Summary

1. As every company not only becomes a software company, but a data company, category-leading businesses in the modern data stack and data science hierarchy will represent a tremendous opportunity for wealth creation.

2. As many of the fastest-growing data infrastructure companies are still private, inclusion of venture capital as an asset class will be essential for achieving above-market returns in the years to come.

3. Declining costs for data storage and cloud computing, coupled with the exponential growth of available data, will provide significant tailwinds for cloud-based data companies.

4. While the health and growth of a business is important, money is made and lost on the entry and exit of positions. It is important to have a tested investment framework that incorporates key metrics for software companies (e.g. Gross Margin, Contribution Margin, Net Dollar Retention, and Rule of 40).

5. Artificial Intelligence is frequently used as a buzzword by companies. Many companies are often not ready to implement AI or other data science practices. Adhering to the Data Science Hierarchy of Needs is a great way to de-risk the implementation of new technologies and drive long-term success of data analytics.

All information on this slide are opinions of Drawing Capital.

# Resources

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