Bandwidth Inc. (BAND)

$148.99 (As of 08/27/20)

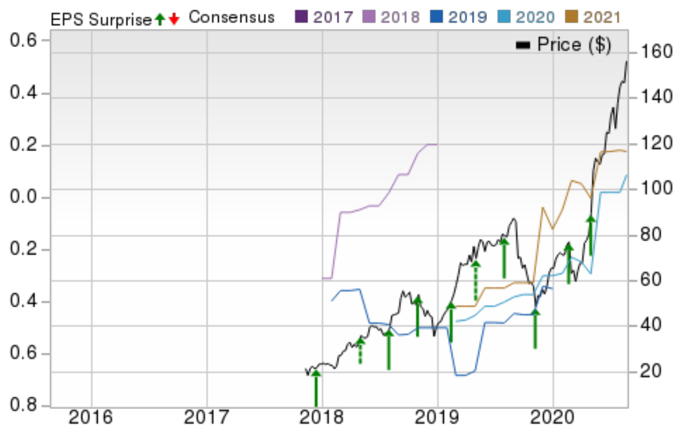
Price Target (6-12 Months): **$156.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/22/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: B | Momentum: A	

Summary

Bandwidth is well positioned to benefit from its cost-effective operations and a strong product portfolio. The CPaaS segment is considered to be the key drivers of its long-term growth strategy. It is the only API platform provider that owns a Tier 1 network with superior network capacity. Markedly, the company follows a usage-based revenue model. Bandwidth intends to bolster its international customer base on the back of a dynamic business model. However, the company operates in a highly competitive environment. Escalated R&D investments strain Bandwidth's margins. Dependency on third parties for billing purposes might lead to billing inconsistencies. Adverse economic impact from the COVID-19 pandemic is likely to dent the top line. Further, it faces concentration risks as revenues are focused in a limited number of enterprise customers.

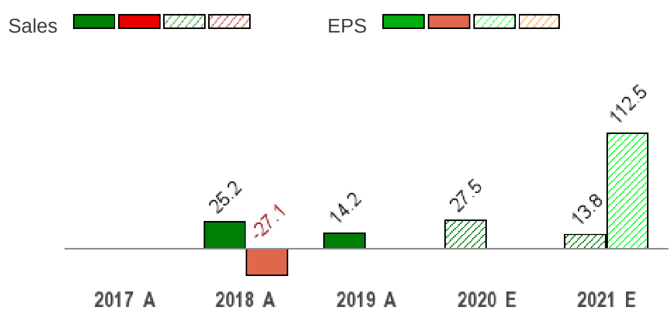
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$160.41 - $42.61**
20 Day Average Volume (sh)	**288,119**
Market Cap	**$3.6 B**
YTD Price Change	**132.6%**
Beta	**0.82**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Communication - Infrastructure**
Zacks Industry Rank	**Top 31% (78 out of 252)**
Last EPS Surprise	**162.5%**
Last Sales Surprise	**9.0%**
EPS F1 Est- 4 week change	**9.0%**
Expected Report Date	**11/04/2020**
Earnings ESP	**7.7%**
P/E TTM	**1,655.4**
P/E F1	**1,862.4**
PEG F1	**137.4**
P/S TTM	**13.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	78 E	82 E	87 E	90 E	338 E
2020	69 A	77 A	76 E	76 E	297 E
2019	53 A	57 A	60 A	62 A	233 A

EPS Estimates

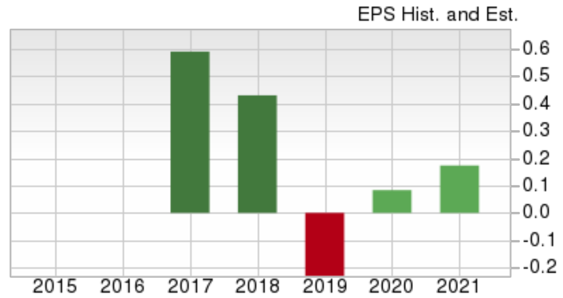
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.02 E	$0.06 E	$0.07 E	$0.07 E	$0.17 E
2020	$0.04 A	$0.13 A	-$0.02 E	-$0.07 E	$0.08 E
2019	-$0.12 A	-$0.04 A	-$0.06 A	-$0.02 A	-$0.23 A

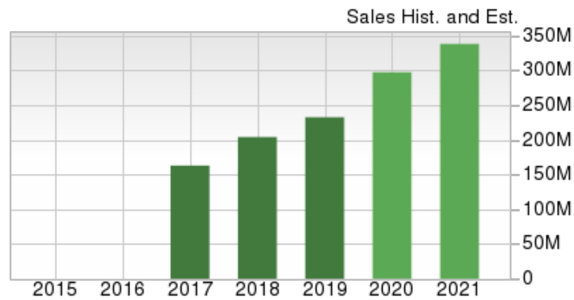
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

Overview

Headquartered in Raleigh, NC, Bandwidth operates as a Communications Platform as a Service (CPaaS) provider, offering avant-garde software application programming interfaces for voice and messaging services. It is the only API platform provider that owns a Tier 1 network with enhanced network capacity, primarily catering to business enterprises. With 8,800 on-net rate centers, it delivers unparalleled network quality and proactively monitors network operations 24/7 to resolve quality issues, capitalizing on an efficient cost structure for seamless connectivity and speed-to-market.





With an experience of two decades, Bandwidth is the sole CPaaS provider in the industry with a diversified customer base ranging from communications service providers to small and medium sized businesses. Technology companies like Microsoft, Cisco and Google leverages Bandwidth's API to embed voice, messaging and 911 access into software and applications. This helps the company to accelerate its top-line growth. It has its data centers in Los Angeles, CA; Raleigh, NC; Dallas, TX and Atlanta, GA. Although it does not directly serve any residential customers, Bandwidth provides a significant competitive advantage to business enterprises by deploying real-time communications solutions with greater scalability.

Bandwidth classifies its reporting segments into CPaaS (87.4% of total revenues in second-quarter 2020) and Other (12.6%).

CPaaS: This segment leverages cloud-based software platform for superior communications services. With a significant presence in the United States, CPaaS revenues are primarily derived from voice usage and messaging services. The segment is well poised to benefit from increasing demand of UCaaS services and Meeting Solutions.

Other: This segment derives revenues primarily from legacy services and indirect revenues. The company recently implemented the A2P messaging surcharges, which are expected to improve Bandwidth's indirect revenues in the near future. It includes costs such as Internet connectivity expense, regulatory fees, leased circuit costs paid to third-party providers as well as hardware and software maintenance fees.

Reasons To Buy:

> Bandwidth's cost-effective operations, accretive customer base and higher CPaaS revenues make it poised to generate positive cash flow for long-term growth.

- As a leading provider of a cloud-based communications platform, Bandwidth benefits from cost-effective operations. The company capitalizes on a variety of marketing channels to promote its products and services. This reinforces pricing flexibility and provides a significant competitive advantage to build a capital-efficient and customized networking infrastructure. Bandwidth follows a usage-based revenue model that enables it to simultaneously augment its top-line growth and increase subscriber base. Bandwidth generates a majority of its revenues from the CPaaS segment operating in the United States. The company believes that its evolving portfolio and accretive customer base are the cornerstones of long-term growth across a diverse set of markets.

- One of the primary assets of Bandwidth is the 911 communications services and Internet Protocol voice network which provide multiple benefits to the enterprise customers. Backed by an avant-garde software platform, the company monitors and resolves any network-related issues on a real-time basis. Bandwidth enables enterprises to rapidly scale communications functionalities to a vast range of applications and devices with its easy-to-use software APIs. It supports high user volumes without affecting deliverability and eliminates performance degradation in a cost-effective manner. Bandwidth's reduced capital expenditure requirements and lower marginal costs enable it to minimize total cost to customers. Continuous innovation on CPaaS offerings allows enterprise customers to have direct access to Bandwidth's comprehensive suite of products and services that cater to the networking requirements of large-scale Internet companies and cloud service providers based in the United States.

- Equipped with a dynamic business model, the company has been keen on developing its international offerings. It is undertaking the necessary steps to pursue international expansion opportunities, thereby strengthening its enterprise customer base overseas. Bandwidth established two data centers in Frankfurt and London in 2019 and has been permitted to operate in 13 European countries, which includes 11 members of the European Union, the United Kingdom and Switzerland. With an aim to fortify its communications platform, acquisitions and strategic investments in businesses and technology are believed to be the preferred modes for enhancing profitability in the long run.

- As of Jun 30, 2020, Bandwidth had $523 million in cash and equivalents with $273 million of long-term debt compared with the respective tallies of $518 million and $268 million at the end of the previous quarter. The company currently has a debt-to-capital ratio of 0.47 compared with 0.95 of the sub-industry. The times interest earned (TIE) ratio is 6.9 compared with -1.1 of the sub-industry. It is to be seen whether Bandwidth can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 crisis.

Reasons To Sell:

- Bandwidth operates in a highly competitive environment, wherein it is required to maintain profitable relationships with other companies to have a strong foothold in the global market. The principal competitive factors in the market include credibility with enterprises, ease of integration, platform scalability, product features, and security and performance with utmost reliability. Also, some of the competitors have more established customer relationships with greater recognition. As a result, they enjoy sufficient operating flexibility to respond to evolving technological changes and bundle competing products and services at little or no incremental cost. Currently, Bandwidth operates in the United States with limited services in Canada whereas its competitors have already developed solutions that are available internationally as well as domestically. This has impaired the growth potential of the company to some extent.

High customer concentration, dependency on third-parties and intense competition are major headwinds for Bandwidth's operations. The faulty pricing model is likely to hurt its margins in the near future.

- As the market for some of Bandwidth's platform and services are new and unproven, the company is susceptible to several risks. For instance, the utilization of software APIs by developers to integrate communications functionality into applications is still relatively new and organizations may not recognize the need for such services and platform. As a result, the company is required to focus on educating enterprise customers about the benefits of its services to expand its functionality and introduce new technologies to increase market acceptance. This often increases operating costs and strains margins. Bandwidth's pricing and billing systems are complex to develop and challenging to implement. It is heavily dependent on third parties to avail key software and services required for billing purposes, which can further lead to billing inconsistencies. Moreover, it faces high concentration risks as revenues are concentrated in a limited number of enterprise customers.

- Efforts to build resilient infrastructure facilities to withstand natural catastrophes such as hurricanes and floods add to operating costs. In addition, latent tension between the United States and China relating to trade restrictions imposed on the sale of communication equipment to Chinese firms and the origin of the coronavirus pandemic has dented the industry's credibility and will likely lead to a loss of business. An adverse economic impact from the coronavirus pandemic is likely to dent the company's revenues. The Communication Infrastructure industry, of which Bandwidth is a subset, might not be able to tide over the potential broader challenges in the near term. Hence, it may not be a good idea to bet on this space at the moment.

Last Earnings Report

Bandwidth's Q2 Earnings & Revenues Surpass Estimates

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	9.02%
EPS Surprise	162.50%
Quarterly EPS	0.13
Annual EPS (TTM)	0.09

Bandwidth reported impressive second-quarter 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Higher CPaaS revenues and accretive subscriber base backed by strong business model bolstered Bandwidth's financial performance.

Bottom Line

On an adjusted basis, quarterly net income was $3.1 million or 13 cents per share against net loss of $0.9 million or a loss of 4 cents per share in the year-ago quarter. The year-over-year improvement can be primarily attributed to adjustments due to income tax expenses in the reported quarter. The bottom line beat the consensus estimate by 13 cents.

On a GAAP basis, net loss in the June quarter came in at $20.6 million or a loss of 86 cents per share against net income of $3.5 million or 14 cents per share in the prior-year quarter. The drastic year-over-year decline was caused by higher operating expenses.

Revenues

Quarterly revenues came in at $76.8 million compared with $56.8 million in the year-ago quarter. The 35.2% year-over-year increase was primarily due to higher CPaaS revenues. The top line surpassed the consensus estimate of $70 million.

Segment Results

CPaaS revenues rose 39.8% to $67.1 million from $48 million in the year-ago quarter. Accounting 87.4% of total revenues, the improvement was primarily bolstered by higher demand for work-from-home connectivity solutions amid coronavirus-induced lockdown. Backed by a robust business model, the segment witnessed 29.5% surge in CPaaS customers during the reported quarter. Markedly, the dollar-based net retention rate was 133% compared with 113% in the prior-year quarter.

Adjusted CPaaS gross profit came in at $32.1 million from $ 23.1 million in the year-ago quarter with respective margins of 48%. Notably, Bandwidth ended the quarter with 1,900 active CPaaS customers.

Contributing 12.6% to total revenues, Other revenues increased 10.2% to $9.7 million from $8.8 million in the year-ago quarter.

Other Details

Total operating expenses were $35 million compared with $30.5 million in the prior-year quarter, primarily due to higher R&D and general & administrative expenses. Operating loss improved to $0.3 million from a loss of $3.8 million. Adjusted gross profit in the quarter improved 31.2% to $37.1 million from $28.2 million in the prior-year quarter with respective margins of 48% and 50%. Adjusted EBITDA totaled $5.5 million compared with $0.02 million in the year-ago quarter.

Cash Flow & Liquidity

In the first six months of 2020, Bandwidth utilized $0.3 million of net cash in operating activities compared with utilization of $5.4 million in the year-ago period. The company witnessed a negative free cash flow of $9.4 million in the first half of the year compared with a negative $14.9 million in the prior-year period. As of Jun 30, the company had $291 million in cash and equivalents with total current liabilities of $48.7 million.

Q3 & 2020 Guidance

Bandwidth provided the outlook for third-quarter and full-year 2020. For the third quarter, revenues are expected in the range of $76-$76.5 million. Adjusted EPS is anticipated to be a loss of 3 cents per share to a loss of 1 cent per share. CPaaS revenues are projected to be in the band of $67.1-$67.6 million.

For 2020, revenues are anticipated to be in the range of $296.8-$298.3 million. Adjusted EPS is anticipated to be in the range of 5 cents per share to 11 cents per share. CPaaS revenues are projected to be in the band of $260.3-$261.8 million.

Recent News

On Aug 18, 2020, Bandwidth announced that it has partnered with North Carolina State University's research study of robocalling campaigns.

On Aug 4, 2020, Bandwidth announced that it has partnered with Comcast for the delivery of authenticated calls between their networks with adherence to the Secure Telephone Identity Revisited (STIR) and Signature-based Handling of Asserted Information Using toKENs (SHAKEN) framework.

Valuation

Bandwidth shares are up 71.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 42.6% over the past year, and stocks in the Zacks Computer and Technology sector are up 43.2% in the same period.

The S&P 500 Index is up 19.5% in the past year.

The stock is currently trading at 11.51X trailing 12-month book value, which compares to 11.24X for the Zacks sub-industry, 5.85X for the Zacks sector and 4.71X for the S&P 500 Index.

Over the past two years, the stock has traded as high as 12.36X and as low as 4.13X, with a 2-year median of 6.73X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $156 price target reflects 13.55X trailing 12-month book value.

The table below shows summary valuation data for BAND

Valuation Multiples - BAND

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	11.51	11.24	5.85	4.71
	2-Year High	12.36	11.51	5.85	4.71
	2-Year Low	4.13	1.75	3.59	3.03
	2-Year Median	6.73	2.65	4.7	4.02
P/S F12M	Current	11.11	0.62	4.34	3.81
	2-Year High	12.06	1.11	4.34	3.81
	2-Year Low	3.04	0.33	2.62	2.76
	2-Year Median	6.11	0.51	3.22	3.19
EV/Sales F12M	Current	10.02	1.64	4.33	3.38
	2-Year High	10.02	2.63	4.33	3.52
	2-Year Low	2.74	1.1	2.74	2.35
	2-Year Median	5.11	1.45	3.39	3.02

As of 08/27/2020

Industry Analysis **Zacks Industry Rank:** Top 31% (78 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Acacia Communications, Inc. **(ACIA)**	Outperform	2
Calix, Inc **(CALX)**	Outperform	2
EXFO Inc **(EXFO)**	Outperform	2
ADTRAN, Inc. **(ADTN)**	Neutral	2
Arista Networks, Inc. **(ANET)**	Neutral	3
pdvWireless, Inc. **(ATEX)**	Neutral	4
CommScope Holding Company, Inc. **(COMM)**	Neutral	3
Juniper Networks, Inc. **(JNPR)**	Neutral	3

Industry Comparison Industry: Communication - Infrastructure

	BAND	X Industry	S&P 500	ADTN	CALX	COMM
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	C	-	-	D	C	A
Market Cap	3.60 B	540.97 M	23.67 B	540.97 M	1.19 B	2.02 B
# of Analysts	6	3	14	3	3	5
Dividend Yield	0.00%	0.00%	1.64%	3.19%	0.00%	0.00%
Value Score	F	-	-	D	D	A
Cash/Price	0.14	0.15	0.07	0.14	0.04	0.40
EV/EBITDA	-764.06	-10.71	13.33	-70.01	-218.77	40.65
PEG Ratio	141.73	63.94	3.05	NA	NA	2.84
Price/Book (P/B)	11.51	3.70	3.18	1.49	7.47	6.74
Price/Cash Flow (P/CF)	1,158.37	23.83	12.81	31.93	482.78	1.69
P/E (F1)	1,787.88	84.84	21.68	130.15	39.52	7.67
Price/Sales (P/S)	13.45	1.14	2.50	1.14	2.61	0.23
Earnings Yield	0.05%	0.80%	4.43%	0.80%	2.55%	13.06%
Debt/Equity	0.87	0.08	0.74	0.00	0.08	33.18
Cash Flow ($/share)	0.13	0.06	6.94	0.35	0.04	6.09
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	NA%	-6.25%	10.41%	-11.15%	NA	-6.25%
Proj. EPS Growth (F1/F0)	136.23%	47.21%	-4.94%	-13.33%	761.12%	-37.77%
Curr. Cash Flow Growth	-75.39%	-13.00%	5.22%	-355.40%	-129.31%	53.52%
Hist. Cash Flow Growth (3-5 yrs)	NA%	-8.30%	8.50%	-23.50%	-38.82%	11.92%
Current Ratio	11.85	2.20	1.35	2.94	1.35	1.75
Debt/Capital	46.58%	16.72%	43.86%	0.00%	7.54%	97.34%
Net Margin	-9.21%	-10.70%	10.25%	-14.37%	-3.08%	-12.19%
Return on Equity	-1.42%	-2.38%	14.66%	-3.33%	1.81%	33.85%
Sales/Assets	0.54	0.75	0.50	0.88	1.42	0.61
Proj. Sales Growth (F1/F0)	27.87%	0.00%	-1.43%	-5.27%	14.05%	1.88%
Momentum Score	A	-	-	A	D	C
Daily Price Chg	-4.39%	0.00%	0.43%	-3.47%	0.25%	-0.48%
1 Week Price Chg	6.52%	-2.31%	-1.45%	-5.01%	-5.91%	-2.31%
4 Week Price Chg	0.00%	2.62%	3.75%	-7.92%	-3.91%	13.00%
12 Week Price Chg	31.38%	0.73%	3.95%	-1.40%	43.70%	-0.19%
52 Week Price Chg	71.51%	0.00%	2.75%	7.43%	240.90%	-5.61%
20 Day Average Volume	288,119	288,119	1,887,168	272,457	862,651	3,873,471
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	9.04%	9.04%	0.79%	111.90%	0.00%	23.46%
(F1) EPS Est 12 week change	9.04%	9.04%	3.43%	111.90%	2,175.00%	-13.30%
(Q1) EPS Est Mthly Chg	-10.91%	-9.57%	0.00%	200.00%	0.00%	-9.57%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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