

## Twilio Inc. (TWLO)

**\$243.61** (As of 07/08/20)

Price Target (6-12 Months): **\$256.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/16/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**2-Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

### Summary

Twilio is benefiting from strong demand from health care, education and crisis management organizations along with accelerated digital transformation by companies amid coronavirus-led global lockdown. SendGrid acquisition and growing adoption of Twilio Flex are also tailwinds. The company is not only gaining traction from a solid expansion of its existing clientele but is also aided by the first-time deals with the new customers, courtesy of its firm focus on introducing products and the go-to-market sales strategy. However, intensifying competition in the cloud telecommunications market is inducing pricing pressure for Twilio, which is an overhang on its profitability. The company is also stepping up investments in its systems and infrastructure, R&D, go-to-market team and Flex, which is likely to dent bottom-line.

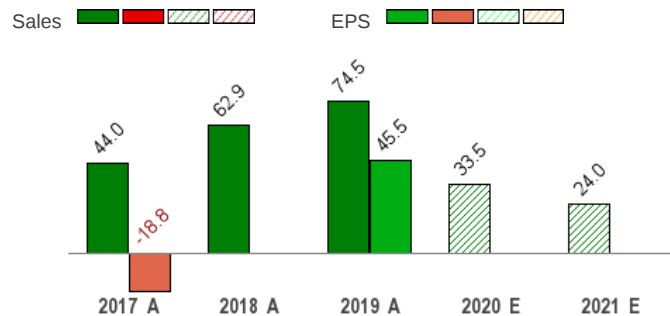
### Price, Consensus & Surprise



### Data Overview

|                            |                                     |
|----------------------------|-------------------------------------|
| 52 Week High-Low           | \$244.99 - \$68.06                  |
| 20 Day Average Volume (sh) | 2,899,425                           |
| Market Cap                 | \$34.1 B                            |
| YTD Price Change           | 147.9%                              |
| Beta                       | 1.66                                |
| Dividend / Div Yld         | \$0.00 / 0.0%                       |
| Industry                   | <a href="#">Internet - Software</a> |
| Zacks Industry Rank        | Top 19% (48 out of 251)             |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 154.6%     |
| Last Sales Surprise       | 11.2%      |
| EPS F1 Est- 4 week change | 0.0%       |
| Expected Report Date      | 07/29/2020 |
| Earnings ESP              | 12.9%      |
| P/E TTM                   | 1,522.6    |
| P/E F1                    | NA         |
| PEG F1                    | NA         |
| P/S TTM                   | 27.0       |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 430 E | 457 E | 480 E | 517 E | 1,877 E |
| 2020 | 365 A | 368 E | 375 E | 405 E | 1,514 E |
| 2019 | 233 A | 275 A | 295 A | 331 A | 1,134 A |

### EPS Estimates

|      | Q1       | Q2        | Q3        | Q4        | Annual*   |
|------|----------|-----------|-----------|-----------|-----------|
| 2021 | \$0.00 E | \$0.03 E  | \$0.05 E  | \$0.09 E  | \$0.14 E  |
| 2020 | \$0.06 A | -\$0.09 E | -\$0.07 E | -\$0.01 E | -\$0.11 E |
| 2019 | \$0.05 A | \$0.03 A  | \$0.03 A  | \$0.04 A  | \$0.16 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 07/08/2020. The reports text is as of 07/09/2020.

## Overview

Headquartered in San Francisco, Twilio Inc. was founded in 2007 and got listed on the NYSE in Jun 2016. Twilio provides Cloud Communications Platform-as-a-Service. The company enables developers to build, scale and operate real-time communications within software applications. The company's platform consists of three layers, Engagement Cloud, Programmable Communications Cloud and Super Network.

Twilio's Programmable Communications Cloud software allows developers to embed voice, messaging, video and authentication capabilities. The company runs a cloud-based Application Programming Interfaces or API, which allows software developers to programmatically make and receive phone calls, text messages and video chats. The advantage of this is that now small app developers can add rich communications features to their apps at a very low cost.

By using Twilio's software, companies can develop such embed communication applications and website that will help them better connect with end customers. The Super Network is a software layer which enables its customers' software to communicate with connected devices globally.

The company operates globally, with 22 data centers across nine regions. Twilio uses Amazon Web Service (AWS) to host its platform. Notably, Amazon had invested during Twilio's Series E round funding in 2015.

The company boasts a strong clientele which includes the likes of Uber, Facebook, Home Depot, Nordstrom, Netflix, Salesforce and Twitter among others. The company ended 2019 with more than 179,000 active customers.

Twilio delivered revenues of \$1.13 billion, up 75% from full-year 2018. The company generates majority of its revenues from customers located in the U.S. In 2019, these customers accounted for 71% of Twilio's total revenue, while the remaining 29% was contributed by customers located outside the country.

Its 10 largest customers generated approximately 13% of 2019 total revenue, of them Facebook's WhatsApp accounted for 5%. In 2019, revenue from Active Customer Accounts represented over 99% of total revenue.



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## Reasons To Buy:

▲ Twilio is benefiting from accelerated digital transformation projects across many industries in the wake of coronavirus-led global lockdown. Organizations are reconfiguring their set-up for a work from home operational environment and trying to make nearly 100% ecommerce a reality. The company witnessed waning demand from ride-sharing, hospitality and travel industries, which have been hit hard by the coronavirus-led global lockdown, during the first quarter. However, increased demand from health care, education, retail and crisis management organizations more than offsets the negative impact from aforementioned factors.

Twilio's key initiatives, which include product innovation, global expansion and acquisitions, are helping it in gaining customers, which bodes well for long-term growth.

▲ Twilio's efforts toward expanding global footprint are commendable. The company has been continuously making investments to meet the requirements of a broader range of global developers and enterprises. Furthermore, it is making strategic alliances, as well as has employed more employees outside the U.S. office to enhance international operations. In an effort to fortify its platform, Twilio has made a number of selective acquisitions and strategic investments in businesses and technologies. With the latest acquisition of SendGrid, Twilio aims to strengthen its omnichannel communications capabilities by enhancing its Programmable Communications Cloud software.

▲ Twilio has been witnessing tremendous demand for its programmable voice and messaging products, which is favoring its top-line performance. Furthermore, Twilio's consistent efforts in developing innovative use case products will continue to boost its revenues in the long run. A sturdy uptick in Twilio's Engagement Cloud offerings as well as email with the inclusion of SendGrid is a key catalyst. Strong uptake of Flex is likely to be a significant contributor to the company's revenue stream gradually. Twilio's new product line comprising Twilio Pay and Autopilot, which is also witnessing a solid acceptance, will help the company expand its market share going forward.

▲ Twilio is striving to gain more and more Enterprise customers, as they bring in more stable revenues for the long term. The company mainly generates sales through online model, but in order to grab more market share, it has increased its investment on building traditional sales team. Furthermore, Twilio has rolled out a plan for enterprise customers with more compliance, administrative and security features – Enterprise Plan – which, we believe, will drive its enterprise customer growth. Being a provider of cloud communications platforms to corporations, Twilio is the missing link between businesses and the cloud. Additionally, as more and more companies are making a switch to the cloud, Twilio looks poised to ride the growth trend over the long run.

▲ The market in which Twilio operates has a huge growth potential. The company's main business, Programmable messaging, is likely to witness tremendous growth as the global Application-to-person (A2P) SMS market is anticipated to reach \$86.53 billion by 2025, representing a CAGR of 4.2%, according to a report by Transparency Market Research. We believe that with sustained focus on developing products, along with global expansion plan, the company is well poised to grab this opportunity.

▲ Twilio is a cash-rich company with a strong balance sheet. Well-off companies not only guarantee protection but are also likely to reward shareholders from its heavy cash registers. As of Mar 31, 2020, the company had cash and cash equivalents of \$1.84 billion while long-term debt (including current maturities) was \$642 million. Also, its total debt-to-capital ratio of 0.13 is much lower than the industry average of 0.34. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

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## Reasons To Sell:

▼ Uber's strategy on utilizing communication services is an overhang on Twilio's overall prospects. Uber uses Twilio for a variety of use cases, such as driver and rider communication, driver marketing and several others. Till 2016, Uber used Twilio's platforms in most of its geographical operations. However, since second-quarter 2017, Uber is "optimizing by use case and by geography" and is planning to "move communications for some use cases in-app." This means that Uber is now trying to operate its messaging services internally. Looking at the development in its biggest customer's strategy on communication services, we are concerned and opine that this will restrain Twilio's overall growth in near-term.

Twilio's contracting gross margin due to unfavorable international traffic mix and reduced revenue contribution from Uber is a major concern for the company's bottom-line.

▼ The enterprise communications market is highly competitive. The space, under which Twilio operates, has several well established players, and due to low barriers to entry, more and more new companies have made their presence. Most of these companies have more resources to bring technically superior products to the market. The company classifies its competitors under four categories – legacy on-premise vendors, such as Avaya and Cisco; regional network service providers that offer limited developer functionality on top of their own physical infrastructure; smaller software companies that compete with portions of Twilio's product line; and SaaS companies which offer prepackaged applications for a narrow set of use cases.

▼ Twilio operates as a facilities-based provider of a range of integrated communications services. The demand for its products and services depends substantially upon the continued development and expansion of the internet as a communications medium and marketplace for the distribution and consumption of data and video by large enterprises and government organizations. Therefore, fluctuations in the global macro economy could have an adverse impact on the company's business, results of operations and financial condition.

▼ Twilio's gross margins are likely to be impacted by the implementation of Verizon's Application to Person or A2P fees. The company's non-GAAP gross margin contracted 100 basis points (bps) to 57% in first-quarter 2020, mainly due to a 70 bps negative impact from A2P fees. Although higher margin revenues from Twilio SendGrid are a tailwind, the company's rising investment in lower-margin international regions might drain its profitability.

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## Last Earnings Report

### Twilio Q1 Result

Twilio reported better-than-expected first-quarter 2020 results and issued an upbeat guidance for the second quarter. The company posted first-quarter non-GAAP earnings of 6 cents per share, while the Zacks Consensus Estimate was pegged at a loss of 11 cents.

The non-GAAP bottom-line figure also climbed 20% from the year-ago quarter's 5 cents. The year-over-year surge was mainly driven by stellar revenue growth and efficient cost management.

Twilio's quarterly revenues surged 57% year over year to \$364.9 million and also surpassed the Zacks Consensus Estimate of \$328 million on increase in clientele and the Sendgrid buyout. Growing adoption of Twilio Flex is also a tailwind.

During the quarter, the company witnessed waning demand from ride-sharing, hospitality and travel industries, which have been hit hard by the coronavirus-led global lockdown. However, increased demand from health care, education, retail and crisis management organizations more than offset the negative impact of the aforementioned factors.

Additionally, Twilio is benefiting from the accelerated digital-transformation projects across many industries in the wake of coronavirus-led global lockdown. Organizations are reconfiguring their set-up for a work-from-home operational environment and making nearly 100% e-commerce a reality.

### Quarterly Details

Twilio's top 10 active customer accounts contributed to 15% of its total revenues compared with the 14% for the last quarter as well as the first quarter of 2019. WhatsApp represented approximately 7% of revenues in the quarter.

The company's dollar-based net expansion rate was 143% in the reported quarter, up from the prior-year period's 142%.

The company's active customer accounts increased to 190,000 as of Mar 31, 2020 from 154,797 on Mar 31, 2019. In the first quarter, Twilio added 11,000 active customer accounts, which included AB InBev and Standard Chartered Bank.

### Operating Results

Non-GAAP gross profit soared 52.4% year over year to \$207.8 million. However, gross margin contracted 100 basis points (bps) to 57% mainly due to a 70-basis point negative impact from Application to Person or A2P fees.

The company's non-GAAP operating expenses soared 51.6% year over year to \$201.7 million. Nonetheless, as a percentage of revenues, non-GAAP operating expenses shrunk 200 bps to 55%.

As a result, Twilio's first-quarter operating income jumped 81% year over year to \$6.1 million, while margin expanded 100 bps to 2%.

### Balance Sheet

The company exited the reported quarter with cash and cash equivalents plus short-term marketable securities of \$1.84 billion, down from \$1.85 billion sequentially.

During the March-end quarter, the company generated \$15.5 million of cash from operational activities.

### Outlook

Twilio believes with more than \$1.84 billion in cash and marketable securities, it is well positioned to weather the coronavirus crisis. However, citing uncertainties surrounding the impact of COVID-19, it withdrew the full-year 2020 guidance.

For 2020, the company had earlier projected revenues at \$1.475-\$1.479 billion, indicating year-over-year growth of 30-31%. Twilio was expecting gross margins to continue to be in the mid-to-high 50s. Moreover, it had anticipated reporting non-GAAP loss per share in the 20-14 cents band this year.

Nevertheless, Twilio has issued an encouraging guidance for the June-end quarter. For the quarter, the company anticipates revenues between \$365 million and \$370 million. It projects reporting non-GAAP operation loss in the range of \$15 million to \$20 million. The company also forecasts non-GAAP loss per share between 8 cents and 11 cents.

| Quarter Ending 03/2020 |              |
|------------------------|--------------|
| Report Date            | May 06, 2020 |
| Sales Surprise         | 11.16%       |
| EPS Surprise           | 154.55%      |
| Quarterly EPS          | 0.06         |
| Annual EPS (TTM)       | 0.16         |

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## Recent News

On May 22, Twilio announced that it will power the communications for New York City's contact tracing initiative.

On May 13, Twilio announced that Twilio Programmable Video will power Zocdoc's new free, HIPAA-compliant telehealth video solution.

On Apr 8, Twilio announced that it has launched an initiative to authenticate enterprise calls on Twilio's platform to help ensure that end users receive calls coming from trusted sources.

On Apr 7, Twilio announced appointing Christy Lake as the company's Chief People Officer.

On Mar 4, Twilio announced appointing Steve Pugh as the company's new Chief Security Officer and Glenn Weinstein as Chief Customer Officer.

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## Valuation

Shares of Twilio have gained 147.8% in the year-to-date (YTD) period and 67.5% over the trailing 12-month period. Stocks in the Zacks sub-industry have gained 54% YTD, while the Zacks Computer & Technology sector increased 13.9%. Over the past year, the Zacks sub-industry and the sector gained 35.5% and 25.3%, respectively.

The S&P 500 Index has declined 2.2% YTD while has increased 5.6% in the past year.

The stock is currently trading at 20.04X forward 12-month sales, which compares to 8.86X for the Zacks sub-industry, 3.9X for the Zacks sector and 3.5X for the S&P 500 Index.

Over the past three years, the stock has traded as high 20.04X and as low as 4.61X with a 3-year median of 10.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$256 price target reflects 21.04X forward 12-month sales.

The table below shows summary valuation data for TWLO

| Valuation Multiples - TWLO |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 20.04 | 8.86         | 3.90   | 3.50    |
|                            | 3-Year High   | 20.04 | 8.86         | 3.90   | 3.50    |
|                            | 3-Year Low    | 4.61  | 4.86         | 2.59   | 2.74    |
|                            | 3-Year Median | 10.21 | 5.94         | 3.22   | 3.16    |
| P/B TTM                    | Current       | 8.02  | 10.37        | 5.89   | 4.31    |
|                            | 3-Year High   | 30.98 | 10.37        | 5.94   | 4.65    |
|                            | 3-Year Low    | 2.32  | 4.28         | 3.51   | 3.09    |
|                            | 3-Year Median | 7.08  | 6.40         | 4.50   | 3.91    |
| EV/Sales TTM               | Current       | 25.60 | 10.24        | 4.53   | 3.13    |
|                            | 3-Year High   | 25.60 | 10.24        | 4.53   | 3.35    |
|                            | 3-Year Low    | 4.83  | 4.56         | 2.99   | 2.14    |
|                            | 3-Year Median | 12.16 | 6.22         | 3.74   | 2.98    |

As of 07/08/2020

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## Industry Analysis Zacks Industry Rank: Top 19% (48 out of 251)



## Top Peers

| Company (Ticker)                                  | Rec        | Rank |
|---------------------------------------------------|------------|------|
| Nice Ltd. (NICE)                                  | Outperform | 1    |
| Amazon.com, Inc. (AMZN)                           | Neutral    | 2    |
| Avaya Holdings Corp. (AVYA)                       | Neutral    | 2    |
| Cisco Systems, Inc. (CSCO)                        | Neutral    | 3    |
| International Business Machines Corporation (IBM) | Neutral    | 3    |
| LivePerson, Inc. (LPSN)                           | Neutral    | 3    |
| Microsoft Corporation (MSFT)                      | Neutral    | 3    |
| Vonage Holdings Corp. (VG)                        | Neutral    | 3    |

| Industry Comparison Industry: Internet - Software |           |            |           | Industry Peers |            |            |
|---------------------------------------------------|-----------|------------|-----------|----------------|------------|------------|
|                                                   | TWLO      | X Industry | S&P 500   | AVYA           | CSCO       | MSFT       |
| Zacks Recommendation (Long Term)                  | Neutral   | -          | -         | Neutral        | Neutral    | Neutral    |
| Zacks Rank (Short Term)                           | 2         | -          | -         | 2              | 3          | 3          |
| VGM Score                                         | D         | -          | -         | A              | A          | B          |
| Market Cap                                        | 34.12 B   | 772.20 M   | 21.57 B   | 1.03 B         | 193.42 B   | 1,613.98 B |
| # of Analysts                                     | 12        | 5          | 14        | 4              | 12         | 15         |
| Dividend Yield                                    | 0.00%     | 0.00%      | 1.94%     | 0.00%          | 3.14%      | 0.96%      |
| Value Score                                       | F         | -          | -         | A              | B          | C          |
| Cash/Price                                        | 0.06      | 0.09       | 0.07      | 0.52           | 0.15       | 0.09       |
| EV/EBITDA                                         | -141.39   | -0.80      | 12.68     | 101.91         | 10.18      | 26.64      |
| PEG Ratio                                         | NA        | 4.01       | 2.88      | NA             | 2.70       | 2.45       |
| Price/Book (P/B)                                  | 8.01      | 7.34       | 3.03      | 5.83           | 5.42       | 14.10      |
| Price/Cash Flow (P/CF)                            | NA        | 24.40      | 11.62     | 1.54           | 13.31      | 33.50      |
| P/E (F1)                                          | NA        | 71.19      | 21.12     | 3.97           | 14.56      | 34.13      |
| Price/Sales (P/S)                                 | 26.95     | 4.70       | 2.27      | 0.36           | 3.82       | 11.64      |
| Earnings Yield                                    | -0.05%    | 0.29%      | 4.44%     | 25.16%         | 6.88%      | 2.93%      |
| Debt/Equity                                       | 0.14      | 0.14       | 0.76      | 14.13          | 0.32       | 0.61       |
| Cash Flow (\$/share)                              | -0.77     | -0.00      | 6.94      | 8.10           | 3.44       | 6.35       |
| Growth Score                                      | B         | -          | -         | B              | B          | B          |
| Hist. EPS Growth (3-5 yrs)                        | NA%       | 16.26%     | 10.90%    | NA             | 9.03%      | 18.74%     |
| Proj. EPS Growth (F1/F0)                          | -170.83%  | -4.04%     | -9.99%    | -19.69%        | 1.48%      | 9.35%      |
| Curr. Cash Flow Growth                            | 119.87%   | 3.27%      | 5.51%     | -75.62%        | 6.95%      | 19.70%     |
| Hist. Cash Flow Growth (3-5 yrs)                  | NA%       | 17.49%     | 8.55%     | NA             | 3.53%      | 11.99%     |
| Current Ratio                                     | 7.50      | 1.48       | 1.30      | 1.23           | 1.59       | 2.90       |
| Debt/Capital                                      | 12.57%    | 20.69%     | 44.46%    | 93.65%         | 24.49%     | 37.98%     |
| Net Margin                                        | -28.85%   | -15.97%    | 10.62%    | -49.10%        | 21.32%     | 33.36%     |
| Return on Equity                                  | -5.07%    | -14.52%    | 15.75%    | 7.05%          | 36.47%     | 40.37%     |
| Sales/Assets                                      | 0.25      | 0.61       | 0.55      | 0.42           | 0.54       | 0.49       |
| Proj. Sales Growth (F1/F0)                        | 33.44%    | 5.32%      | -2.57%    | -4.05%         | -5.13%     | 9.85%      |
| Momentum Score                                    | D         | -          | -         | F              | B          | B          |
| Daily Price Chg                                   | 4.42%     | 0.95%      | 0.23%     | 1.79%          | 0.39%      | 2.20%      |
| 1 Week Price Chg                                  | 5.06%     | 2.51%      | 3.66%     | 0.47%          | -1.47%     | 5.06%      |
| 4 Week Price Chg                                  | 19.96%    | 4.05%      | -4.65%    | -12.54%        | -3.40%     | 8.12%      |
| 12 Week Price Chg                                 | 141.63%   | 36.07%     | 11.62%    | 42.96%         | 10.33%     | 23.83%     |
| 52 Week Price Chg                                 | 67.50%    | 0.00%      | -7.46%    | 12.84%         | -19.81%    | 54.39%     |
| 20 Day Average Volume                             | 2,899,425 | 784,067    | 2,368,260 | 1,901,125      | 25,564,488 | 33,454,016 |
| (F1) EPS Est 1 week change                        | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%      | 0.00%      |
| (F1) EPS Est 4 week change                        | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.04%      | 0.23%      |
| (F1) EPS Est 12 week change                       | -10.09%   | 0.00%      | -7.67%    | 12.01%         | 3.17%      | 0.39%      |
| (Q1) EPS Est Mthly Chg                            | -0.77%    | 0.00%      | 0.00%     | 0.00%          | 0.00%      | 0.00%      |

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## 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.

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### 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 | D |
| VGM Score      | D |

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.

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### Disclosures

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