

Twilio Inc. (TWLO)

\$120.34 (As of 01/13/20)

Price Target (6-12 Months): **\$125.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

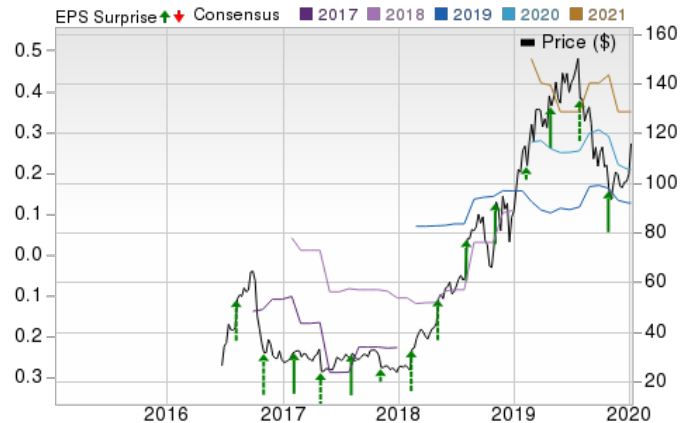
Growth: C

Momentum: F

Summary

Twilio is benefiting from increasing clientele and the Sendgrid buyout. Growing adoption of Twilio Flex is also a tailwind. 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. The company's core voice and messaging products as well as the recent addition of email are a tailwinds. However, robust political traffic coupled with the ramp of a large international customer is likely to induce a tough year-over-year comparison. Intensifying competition in the cloud telecommunications market is inducing pricing pressure for the company, which is an overhang on its profitability.

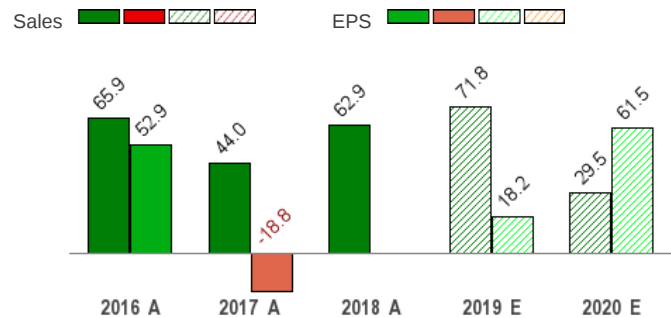
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$151.00 - \$89.81
20 Day Average Volume (sh)	2,331,119
Market Cap	\$16.5 B
YTD Price Change	22.5%
Beta	1.10
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	802.3
P/E F1	573.1
PEG F1	33.6
P/S TTM	16.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	327 E	350 E	369 E	395 E	1,446 E
2019	233 A	275 A	295 A	312 E	1,117 E
2018	129 A	148 A	169 A	204 A	650 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.02 E	\$0.03 E	\$0.05 E	\$0.08 E	\$0.21 E
2019	\$0.05 A	\$0.03 A	\$0.03 A	\$0.01 E	\$0.13 E
2018	-\$0.04 A	\$0.03 A	\$0.07 A	\$0.04 A	\$0.11 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 01/13/2020. The reports text is as of 01/14/2020.

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.

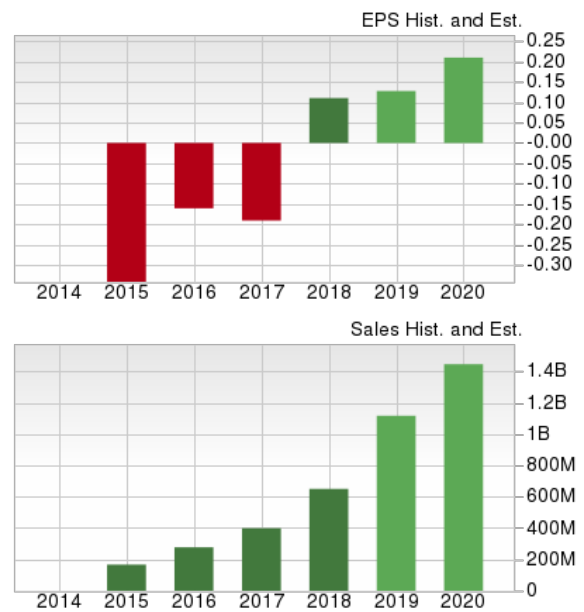
By using Twilio's software, companies can develop such embed communication applications and website that will help them better connect with end customers. The Super Network is a software layer which enables its customers' software to communicate with connected devices globally.

The company operates globally, with 27 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. As of Jun 30, 2019, the company had 161,869 Active Customer Accounts.

Twilio reported total revenues of \$650.1 million in 2018, up 63% from 2017. The company generates majority of its revenues from customers located in the U.S. In 2018, these customers accounted for 75% of Twilio's total revenue, while the remaining 25% was contributed by customers located outside the country.

Its 10 largest customers generated approximately 18% of 2018 total revenue, of them Facebook's WhatsApp accounted for 7%. In 2018, revenue from Active Customer Accounts represented over 99% of total revenue.



Reasons To Buy:

- ▲ 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. The report also suggests that during the period 2017–2025, global SMS volume will increase at a CAGR of 4.2% and reach 2,3539 billion. We believe that with sustained focus on developing products, along with global expansion plan, the company is well poised to grab this opportunity.

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.

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.
- ▼ 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 A2P fee. Although higher margin revenues from Twilio SendGrid are a tailwind, the company's rising investment in lower-margin international regions might drain its profitability.

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.

Last Earnings Report

Twilio Reports Q3 Results

Twilio reported third-quarter 2019 non-GAAP earnings of 3 cents per share, which topped the Zacks Consensus Estimate of a penny. However, the bottom line was lower than the year-ago figure of 7 cents.

Meanwhile, the company's third-quarter revenues soared 75% year over year to \$295.1 million and also surpassed the Zacks Consensus Estimate of \$287 million, driven by increasing clientele and the Sendgrid buyout. Growing adoption of Twilio Flex is also a tailwind.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	2.55%
EPS Surprise	200.00%
Quarterly EPS	0.03
Annual EPS (TTM)	0.15

Quarterly Details

The company's base revenues jumped 79% year over year to \$275.5 million. However, the figure was lower than expected. Management mentioned errors in the company's billing processes compelled the company to issue onetime credits of around \$5 million to customers.

Organic base revenues of \$227 million soared 47% year over year. While SendGrid revenues of \$49 million grew 31% year over year.

Twilio's top 10 active customer accounts contributed to 13% of its total revenues, down from 18% in the year-ago period. On a sequential basis, the figure was flat.

The company's dollar-based net expansion rate was 132% in the reported quarter, down from 145% in the prior-year period.

The company's active customer accounts increased to 172,092 as of Sep 30, 2019 from 61,153 on Sep 30, 2018. Alone in the third quarter, Twilio added 10,223 active customer accounts.

Operating Results

Non-GAAP gross profit skyrocketed approximately 84.3% year over year to \$172.4 million. Further, gross margin expanded 300 basis points (bps) to 58%.

As a percentage of revenues, non-GAAP sales and marketing expenses plus research and development expenses escalated 200 bps to 26% and 500 bps to 23%, respectively, while general and administrative costs declined 100 bps to 10%.

The company reported non-GAAP operating loss of \$3.6 million against operating income of \$4.3 million in the prior-year quarter, primarily due to the company's annual user and developer conference, SIGNAL, held in August.

Balance Sheet

The company exited the quarter under review with cash and cash equivalents plus short-term marketable securities of \$1.88 billion, which came in flat sequentially.

During the first nine months ending Sep 30, 2019, the company generated \$2.02 million of cash from operational activities compared with \$12.8 million of cash generated in the year-ago period.

Outlook

For 2019, Twilio now expects revenues in the range of \$1.114-\$1.117 billion compared with \$1.113-\$1.119 billion projected earlier.

For the full year, base revenues are estimated within \$1.053-\$1.055 billion, down from the previous prediction of \$1.064-\$1.068 billion.

The company projects non-GAAP earnings per share in the band of 16-17 cents compared with 17-18 cents envisioned earlier.

For the fourth quarter of 2019, Twilio anticipates revenues between \$311 million and \$314 million. Base revenues are predicted within \$300-\$302 million

Moreover, the company forecasts non-GAAP earnings per share to be 1-2 cents.

Robust political traffic coupled with the ramp of a large international customer, which led to a 10% growth in the fourth quarter of 2018, is likely to induce a tough year-over-year comparison.

Recent News

On Oct 29, 2019, Twilio announced that it has joined the Alliance for Telecommunications Industry Solutions (ATIS) board of directors.

Valuation

Shares of Twilio have declined 17.3% in the past six months and gained 19.8% over the trailing 12-month period. Stocks in the Zacks sub-industry declined 5.4% and the Zacks Technology sector are up 13% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 17.4% and 32.1%, respectively.

The S&P 500 Index has risen 9% in the past six months and 24.8% in the past year.

The stock is currently trading at 11.33X forward 12-month sales, which compares to 6.41X for the Zacks sub-industry, 3.59X for the Zacks sector and 3.5X for the S&P 500 Index.

Over the past three years, the stock has traded as high 16.43X and as low as 4.61X with a 5-year median of 9.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$125 price target reflects 12X 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	11.33	6.41	3.59	3.5
	3-Year High	16.43	6.61	3.59	3.5
	3-Year Low	4.61	3.2	2.3	2.54
	3-Year Median	9.34	5.08	3.01	3
P/B TTM	Current	3.15	5.83	5.47	4.46
	3-Year High	30.98	8.02	5.48	4.47
	3-Year Low	2.91	2.87	3.13	2.85
	3-Year Median	8.19	5.59	4.22	3.61
EV/Sales TTM	Current	11.65	5.72	4.19	3.23
	3-Year High	23.01	7.5	4.2	3.3
	3-Year Low	4.83	3.06	2.56	2.16
	3-Year Median	10.47	5.83	3.44	2.8

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Avaya Holdings Corp. (AVYA)	Neutral
Cisco Systems, Inc. (CSCO)	Neutral
International Business Machines Corporation (IBM)	Neutral
LivePerson, Inc. (LPSN)	Neutral
Microsoft Corporation (MSFT)	Neutral
Nice Ltd. (NICE)	Neutral
Vonage Holdings Corp. (VG)	Underperform

Industry Comparison Industry: Internet - Software				Industry Peers		
	TWLO Neutral	X Industry	S&P 500	AVYA Neutral	CSCO Neutral	MSFT Neutral
VGM Score	F	-	-	D	C	C
Market Cap	16.50 B	641.31 M	24.31 B	1.36 B	203.50 B	1,245.63 B
# of Analysts	11	5	13	3	12	14
Dividend Yield	0.00%	0.00%	1.76%	0.00%	2.92%	1.25%
Value Score	F	-	-	C	C	D
Cash/Price	0.12	0.11	0.04	0.54	0.14	0.11
EV/EBITDA	-187.52	-1.98	14.12	112.12	10.96	20.36
PEG Ratio	33.39	2.54	2.05	NA	2.52	2.56
Price/Book (P/B)	3.85	5.43	3.34	1.05	5.91	11.74
Price/Cash Flow (P/CF)	NA	34.84	13.66	1.51	13.94	25.70
P/E (F1)	569.95	57.54	18.82	3.61	14.76	30.48
Price/Sales (P/S)	16.38	4.42	2.64	0.47	3.91	9.60
Earnings Yield	0.17%	0.74%	5.29%	27.67%	6.78%	3.28%
Debt/Equity	0.14	0.09	0.72	2.38	0.42	0.69
Cash Flow (\$/share)	-0.47	-0.01	6.94	8.10	3.44	6.35
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	NA%	16.72%	10.56%	NA	8.00%	16.25%
Proj. EPS Growth (F1/F0)	64.29%	14.57%	7.49%	-13.30%	4.86%	12.80%
Curr. Cash Flow Growth	-7.47%	4.03%	14.83%	-75.62%	6.95%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	-28.03%	14.52%	9.00%	NA	3.53%	11.99%
Current Ratio	9.57	1.53	1.23	1.41	1.70	2.85
Debt/Capital	12.20%	18.02%	42.99%	70.39%	29.63%	40.81%
Net Margin	-26.20%	-14.19%	11.08%	-23.24%	21.15%	31.66%
Return on Equity	-6.02%	-12.09%	17.16%	14.49%	35.01%	39.14%
Sales/Assets	0.26	0.66	0.55	0.39	0.53	0.48
Proj. Sales Growth (F1/F0)	29.44%	17.63%	4.23%	-1.49%	-1.63%	11.39%
Momentum Score	F	-	-	C	B	A
Daily Price Chg	3.97%	0.62%	0.73%	-1.76%	1.78%	1.20%
1 Week Price Chg	11.80%	2.63%	0.39%	-0.40%	-1.05%	1.71%
4 Week Price Chg	21.74%	5.11%	1.84%	2.77%	4.33%	4.98%
12 Week Price Chg	14.02%	7.13%	6.48%	-1.45%	1.22%	17.95%
52 Week Price Chg	23.10%	2.35%	23.15%	-21.37%	11.02%	60.00%
20 Day Average Volume	2,331,119	274,005	1,578,594	2,272,036	17,523,710	20,068,832
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.12%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.11%
(F1) EPS Est 12 week change	-43.37%	-1.09%	-0.48%	9.71%	-3.29%	2.80%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.22%

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	C
Momentum Score	F
VGM Score	F

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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