

Twilio Inc. (TWLO)

\$127.74 (As of 02/17/20)

Price Target (6-12 Months): **\$134.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

Twilio's fourth-quarter 2019 results reflected increase in clientele and gain from 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, intensifying competition in the cloud telecommunications market is inducing pricing pressure for the company, which is an overhang on its profitability. The company is also stepping up investments in its systems and infrastructure, go-to-market team and Flex, as well as in R&D, which is likely to dent bottom line.

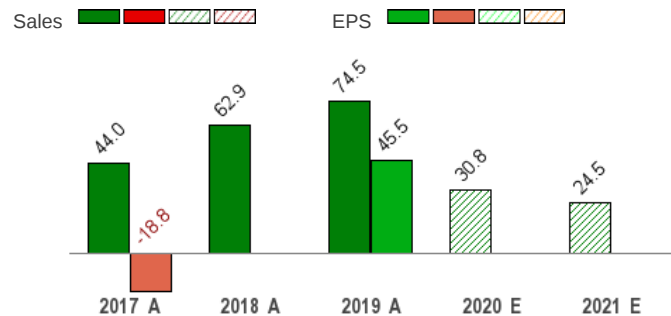
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$151.00 - \$89.81
20 Day Average Volume (sh)	3,549,568
Market Cap	\$17.5 B
YTD Price Change	30.0%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 39% (99 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	300.0%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	-39.5%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	851.6
P/E F1	NA
PEG F1	NA
P/S TTM	15.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	419 E	447 E	470 E	518 E	1,847 E
2020	337 E	360 E	378 E	414 E	1,483 E
2019	233 A	275 A	295 A	331 A	1,134 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.01 E	\$0.01 E	\$0.07 E	\$0.11 E	\$0.18 E
2020	-\$0.10 E	-\$0.10 E	-\$0.01 E	\$0.03 E	-\$0.14 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 02/17/2020. The reports text is as of 02/18/2020.

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.

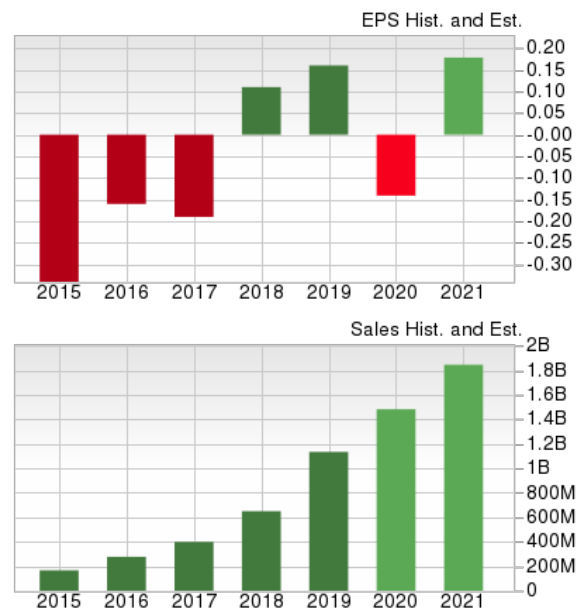
By using Twilio's software, companies can develop such embed communication applications and website that will help them better connect with end customers. The Super Network is a software layer which enables its customers' software to communicate with connected devices globally.

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. 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 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.

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 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.

Last Earnings Report

Twilio Reports Q4 Results

Twilio reported fourth-quarter 2019 non-GAAP earnings of 4 cents per share, which topped the Zacks Consensus Estimate of a penny and was in line with the year-ago figure.

Meanwhile, the company's fourth-quarter revenues soared 62% year over year to \$331.2 million and also surpassed the Zacks Consensus Estimate of \$315 million, driven by increase in clientele and the Sendgrid buyout. Growing adoption of Twilio Flex is also a tailwind.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	6.01%
EPS Surprise	300.00%
Quarterly EPS	0.04
Annual EPS (TTM)	0.15

Quarterly Details

The company's base revenues jumped 65% year over year to \$306.6 million.

Organic base revenues of \$253 million soared 36% year over year. SendGrid revenues of \$54 million grew 30% year over year.

Twilio's top 10 active customer accounts contributed to 14% of its total revenues, down from 20% in the year-ago period but up from 13% sequentially. WhatsApp represented approximately 6% of revenues in the quarter.

The company's dollar-based net expansion rate was 124% in the reported quarter, down from 147% in the prior-year period.

The company's active customer accounts increased to 179,000 as of Dec 31, 2019 from 64,286 on Dec 31, 2018. In the fourth quarter, Twilio added 6,908 active customer accounts.

During the quarter, PayPal, which has more than 300 million customers, selected Twilio as its SMS delivery platform. The company also entered into new deals as well as expanded relations with many other customers.

Operating Results

Non-GAAP gross profit skyrocketed approximately 71.5% year over year to \$189.1 million. Further, gross margin expanded 300 basis points (bps) to 57%. However, it was down sequentially due to some increased international usage, customer, product and country mix, carrier fees, FX and others.

Non-GAAP research and development as a percentage of revenues expanded 500 bps to 23%.

The company reported non-GAAP operating loss of \$3.01 million against operating income of \$2.37 million in the prior-year quarter.

Balance Sheet

The company exited the reported quarter with cash and cash equivalents plus short-term marketable securities of \$1.85 billion, down from \$1.88 billion sequentially.

As of Dec 31, 2019, the company generated \$14.05 million of cash from operational activities.

Outlook

Twilio is looking forward to expand its enterprise and international reach and continue to build out partner ecosystem. As a result, the company is stepping up investments in its systems and infrastructure, go-to-market team and Flex, as well as in R&D, which is likely to remain an overhang on profitability in the near term.

Although the Verizon A2P program went live, the company's guidance does not include any revenue benefit or margin impact from A2P fees.

For 2020, Twilio expects revenues in the range of \$1.475-\$1.479 billion, indicating growth of 30-31% driven by strength in core products and constant development of newer products like email and Flex.

The company projects non-GAAP loss per share in the band of 20-14 cents.

For 2020, the company expects gross margins to continue to be in the mid-to-high 50s.

For the first quarter of 2020, Twilio anticipates revenues between \$335 million and \$338 million.

Moreover, the company forecasts non-GAAP loss per share to be 11-9 cents.

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 grown 1.7% in the past six months and gained 19.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 6.7% and 22.4%, respectively. Over the past year, while the Zacks sub-industry has increased 14.1%, the sector gained 29.6%.

The S&P 500 Index has risen 16.1% in the past six months and 20.9% in the past year.

The stock is currently trading at 11.41X forward 12-month sales, which compares to 6.77X for the Zacks sub-industry, 3.79X for the Zacks sector and 3.58X 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 9.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$134 price target reflects 11.98X 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	11.41	6.77	3.79	3.58
	3-Year High	16.43	6.77	3.79	3.58
	3-Year Low	4.61	3.32	2.62	2.76
	3-Year Median	9.55	5.72	3.19	3.16
P/B TTM	Current	4.09	7.78	5.76	4.68
	3-Year High	30.98	8.17	5.76	4.68
	3-Year Low	2.91	3.14	3.56	3.36
	3-Year Median	7.69	6.07	4.53	3.91
EV/Sales TTM	Current	13.9	7.61	4.51	3.32
	3-Year High	23.01	7.66	4.51	3.32
	3-Year Low	4.83	3.4	3.05	2.46
	3-Year Median	11.42	6.12	3.73	2.95

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 255)



Top Peers

Microsoft Corporation (MSFT)	Outperform
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
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 Outperform
VGM Score	F	-	-	B	A	C
Market Cap	17.52 B	678.23 M	24.61 B	1.28 B	199.26 B	1,409.78 B
# of Analysts	12	5	13	2	12	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	2.98%	1.10%
Value Score	F	-	-	B	B	D
Cash/Price	0.11	0.11	0.04	0.56	0.14	0.10
EV/EBITDA	-200.02	-2.01	14.06	103.09	10.72	23.19
PEG Ratio	NA	2.64	2.09	NA	2.47	2.49
Price/Book (P/B)	4.09	5.63	3.29	1.15	5.79	12.80
Price/Cash Flow (P/CF)	NA	35.32	13.65	1.65	13.65	29.17
P/E (F1)	NA	53.65	19.21	3.83	14.45	32.87
Price/Sales (P/S)	15.44	4.58	2.70	0.45	3.87	10.50
Earnings Yield	-0.11%	0.71%	5.19%	26.04%	6.92%	3.04%
Debt/Equity	0.14	0.10	0.71	2.58	0.42	0.64
Cash Flow (\$/share)	-0.47	-0.03	6.92	8.10	3.44	6.35
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	NA%	16.72%	10.85%	NA	8.00%	17.68%
Proj. EPS Growth (F1/F0)	-188.02%	12.55%	7.17%	-10.61%	4.84%	18.72%
Curr. Cash Flow Growth	-7.47%	1.28%	8.56%	-75.62%	6.95%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	-28.03%	14.22%	8.36%	NA	3.53%	11.99%
Current Ratio	9.57	1.57	1.23	1.41	1.70	2.80
Debt/Capital	12.20%	15.66%	42.91%	72.96%	29.63%	39.05%
Net Margin	-27.07%	-14.43%	11.81%	-25.63%	21.44%	33.02%
Return on Equity	-5.50%	-13.19%	16.86%	13.29%	36.56%	40.41%
Sales/Assets	0.24	0.64	0.54	0.40	0.54	0.48
Proj. Sales Growth (F1/F0)	31.21%	18.67%	3.85%	-1.46%	-1.81%	13.11%
Momentum Score	F	-	-	D	A	C
Daily Price Chg	-0.72%	0.00%	0.06%	-0.96%	-0.74%	0.89%
1 Week Price Chg	-1.71%	0.64%	2.47%	-4.62%	4.35%	8.02%
4 Week Price Chg	6.82%	0.00%	0.59%	3.32%	-4.24%	11.54%
12 Week Price Chg	23.38%	9.75%	6.98%	16.12%	4.75%	24.00%
52 Week Price Chg	19.08%	0.00%	16.62%	-15.14%	-2.95%	73.39%
20 Day Average Volume	3,549,568	306,488	2,020,569	3,095,403	18,637,720	32,541,760
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.75%	0.00%	0.00%
(F1) EPS Est 4 week change	-39.45%	0.00%	-0.05%	5.75%	0.00%	5.25%
(F1) EPS Est 12 week change	-27.73%	-0.49%	-0.17%	16.02%	0.00%	5.49%
(Q1) EPS Est Mthly Chg	-50.60%	0.00%	-0.24%	-12.19%	0.95%	7.07%

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.

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