

Twilio Inc. (TWLO)

\$265.02 (As of 08/26/20)

Price Target (6-12 Months): **\$278.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/16/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

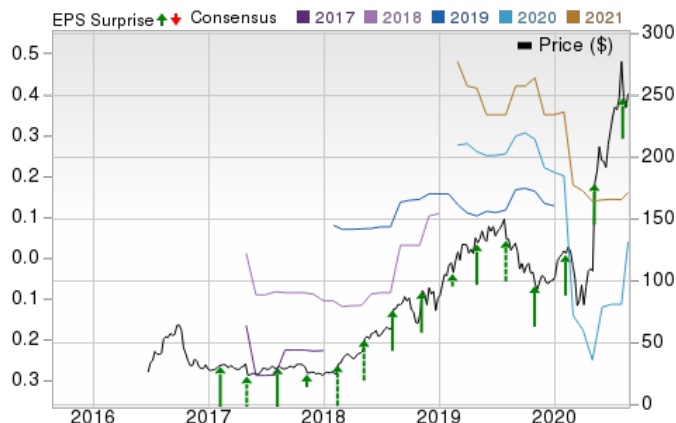
Growth: F

Momentum: B

Summary

Twilio is benefiting from strong demand from health care, education and crisis management organizations along with accelerated digital transformation by companies amid coronavirus crisis. 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. The stock has outperformed the industry over the past year. However, intensifying competition in the cloud telecommunications market is inducing pricing pressure for Twilio, which is an overhang on its profitability. Also increased investments in its systems and infrastructure, R&D, go-to-market team and Flex are likely to dent bottom-line.

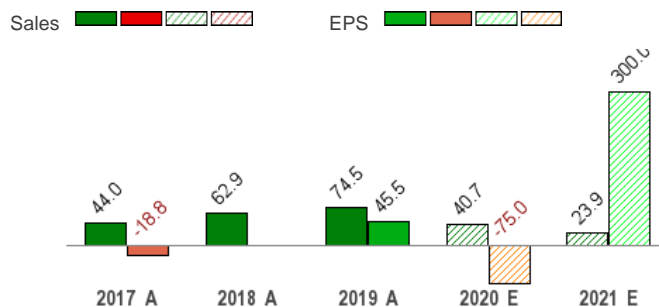
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$288.81 - \$68.06
20 Day Average Volume (sh)	3,257,350
Market Cap	\$37.9 B
YTD Price Change	169.7%
Beta	1.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 47% (119 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	9.1%
EPS F1 Est- 4 week change	8.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	1,204.6
P/E F1	6,625.5
PEG F1	388.1
P/S TTM	27.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	446 E	480 E	510 E	544 E	1,978 E
2020	365 A	401 A	404 E	426 E	1,596 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	\$0.07 E	\$0.08 E	\$0.16 E
2020	\$0.06 A	\$0.09 A	-\$0.06 E	-\$0.01 E	\$0.04 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 08/26/2020. The reports text is as of 08/27/2020.

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.



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 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 Jun 30, 2020, the company had cash and cash equivalents of \$1.9 billion while long-term debt (including current maturities) was \$668 million. Also, its total debt-to-capital ratio of 0.14 is much lower than the industry average of 0.37. 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.

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 Application to Person or A2P fees. The company's non-GAAP gross margin contracted 300 basis points (bps) to 56% in second-quarter 2020, mainly due to a 100 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.

Last Earnings Report

Twilio Q2 Earnings and Revenues Top Estimates, Up Y/Y

Twilio reported better-than-expected second-quarter 2020 results and issued an upbeat guidance for the third quarter.

The company posted non-GAAP earnings of 9 cents per share for the June-end quarter, while the Zacks Consensus Estimate was pegged at a loss of 9 cents.

The non-GAAP bottom-line figure also soared 200% from the year-ago quarter's 3 cents. This year-over-year upsurge was mainly driven by stellar revenue growth and efficient cost management.

Twilio's quarterly revenues surged 46% year over year to \$400.8 million and also surpassed the Zacks Consensus Estimate of \$367.6 million on increase in clientele and the Sendgrid buyout. The growing adoption of Twilio Flex is also a tailwind.

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

Additionally, Twilio is benefiting from the accelerated digital-transformation projects across many industries in the wake of the 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, flat sequentially, and up from the prior-year quarter's 13%. WhatsApp represented approximately 7% of revenues during the second quarter.

The company's dollar-based net expansion rate was 132% in the reported quarter, down from the prior-year period's 141%.

The company's active customer accounts increased to more than 200,000 as of Mar 31, 2020 from 190,000 as of Jun 30, 2019. In the second quarter, Twilio added more than 10,000 active customer.

Operating Results

Non-GAAP gross profit climbed 36.9% year over year to \$224 million. However, gross margin contracted 300 basis points (bps) to 56% mainly due to a 100-basis point negative impact from Application to Person or A2P fees.

Twilio's second-quarter non-GAAP operating income witnessed a five-fold jump to \$9.5 million from the year-ago quarter's \$1.5 million. Non-GAAP operating 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 \$1.9 billion, up sequentially from \$1.84 billion.

During the first half of 2020, the company generated \$13.9 million of cash from operational activities.

Outlook

Twilio issued an encouraging guidance for the September-end quarter.

For the quarter, the company anticipates revenues between \$401 million and \$406 million. It estimates non-GAAP operation loss in the range of \$10 million to \$15 million. The company also forecasts non-GAAP loss per share between 5 cents and 9 cents.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	9.05%
EPS Surprise	200.00%
Quarterly EPS	0.09
Annual EPS (TTM)	0.22

Recent News

On Aug 7, Twilio announced the pricing of an underwritten public offering of 5,060,729 shares of its Class A common stock at a price to the public of \$247 per share.

On Jul 23, Twilio announced appointing Michelle Grover as the company's first chief information officer.

On Jul 9, Twilio announced that Doximity Dialer Video — which provides simple, secure and reliable telemedicine tool that enables video call between physicians and patients from the former's smartphone— is leveraging Twilio Programmable Video.

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.

Valuation

Shares of Twilio have gained 169.7% in the year-to-date (YTD) period and 102.5% over the trailing 12-month period. Stocks in the Zacks sub-industry have gained 67.5% YTD, while the Zacks Computer & Technology sector increased 28.6%. Over the past year, the Zacks sub-industry and the sector gained 54.4% and 46.6%, respectively.

The S&P 500 Index has increased 8.1% YTD and 20.9% in the past year.

The stock is currently trading at 20.55X forward 12-month sales, which compares to 8.89X for the Zacks sub-industry, 4.34X for the Zacks sector and 3.77X for the S&P 500 Index.

Over the past three years, the stock has traded as high 23.7X and as low as 4.61X with a 3-year median of 10.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$278 price target reflects 21.58X 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	20.55	8.89	4.34	3.77
	3-Year High	23.70	8.89	4.34	3.77
	3-Year Low	4.61	4.86	2.62	2.76
	3-Year Median	10.60	5.84	3.23	3.19
P/B TTM	Current	8.78	10.51	5.85	4.66
	3-Year High	30.98	10.51	5.85	4.66
	3-Year Low	2.32	4.44	3.59	3.03
	3-Year Median	7.08	6.48	4.64	3.97
EV/Sales TTM	Current	26.01	10.73	5.05	3.42
	3-Year High	28.20	10.73	5.05	3.46
	3-Year Low	4.83	4.52	3.05	2.24
	3-Year Median	12.68	6.41	3.84	3.04

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 47% (119 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Avaya Holdings Corp. (AVYA)	Neutral	2
Cisco Systems, Inc. (CSCO)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
LivePerson, Inc. (LPSN)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Nice Ltd. (NICE)	Neutral	4
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)	3	-	-	2	3	3
VGM Score	F	-	-	A	C	B
Market Cap	37.93 B	939.65 M	23.69 B	1.29 B	178.39 B	1,673.59 B
# of Analysts	12	3	14	3	12	13
Dividend Yield	0.00%	0.00%	1.65%	0.00%	3.41%	0.92%
Value Score	F	-	-	A	C	D
Cash/Price	0.05	0.10	0.07	0.56	0.16	0.08
EV/EBITDA	-157.72	-0.87	13.37	104.23	9.81	23.45
PEG Ratio	387.51	5.14	3.04	NA	2.52	2.52
Price/Book (P/B)	8.78	7.24	3.17	6.12	4.70	14.15
Price/Cash Flow (P/CF)	NA	28.61	12.78	1.93	12.55	29.32
P/E (F1)	6,766.47	92.12	21.63	4.00	13.59	34.57
Price/Sales (P/S)	27.25	4.97	2.50	0.46	3.62	11.70
Earnings Yield	0.02%	0.21%	4.44%	25.02%	7.36%	2.89%
Debt/Equity	0.15	0.13	0.75	13.69	0.31	0.57
Cash Flow (\$/share)	-0.77	-0.00	6.94	8.10	3.37	7.54
Growth Score	F	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	15.48%	10.41%	NA	9.17%	19.44%
Proj. EPS Growth (F1/F0)	-75.52%	-0.65%	-4.92%	-0.26%	-3.14%	11.07%
Curr. Cash Flow Growth	119.87%	5.16%	5.22%	-75.62%	-2.66%	17.66%
Hist. Cash Flow Growth (3-5 yrs)	NA%	21.83%	8.50%	NA	2.34%	10.19%
Current Ratio	7.29	1.56	1.34	1.26	1.72	2.52
Debt/Capital	13.13%	24.65%	44.18%	93.46%	23.39%	36.24%
Net Margin	-26.77%	-17.37%	10.25%	-26.43%	22.75%	30.96%
Return on Equity	-5.04%	-14.72%	14.66%	7.78%	34.75%	39.45%
Sales/Assets	0.27	0.59	0.50	0.43	0.53	0.50
Proj. Sales Growth (F1/F0)	40.66%	5.69%	-1.45%	-1.44%	-2.14%	8.57%
Momentum Score	B	-	-	B	F	B
Daily Price Chg	6.22%	0.46%	-0.18%	-0.57%	0.69%	2.16%
1 Week Price Chg	4.67%	0.00%	-1.45%	-3.23%	-0.59%	1.97%
4 Week Price Chg	0.15%	2.40%	2.10%	24.92%	-9.55%	8.38%
12 Week Price Chg	31.98%	7.95%	3.61%	9.48%	-9.99%	19.31%
52 Week Price Chg	102.44%	13.33%	3.61%	12.24%	-9.86%	63.14%
20 Day Average Volume	3,257,350	588,515	1,883,291	1,741,245	22,711,308	32,802,540
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.97%	0.76%	0.93%	24.20%	-0.80%	0.08%
(F1) EPS Est 12 week change	7.97%	3.88%	3.41%	24.20%	-0.63%	2.76%
(Q1) EPS Est Mthly Chg	-5.34%	0.00%	0.00%	33.23%	-7.03%	0.01%

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	F
Momentum Score	B
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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