Twilio, Inc. (TWLO)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>197 - 68</td>
<td>Q1: 0.05A</td>
<td>2019A: 0.05A</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>27,813</td>
<td>Q2: 0.03A</td>
<td>2020E: 0.03A</td>
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<tr>
<td>Shares Out (mil):</td>
<td>148.4</td>
<td>Q3: 0.03A</td>
<td>2021E: 0.03A</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>122.7</td>
<td>Q4: 0.04A</td>
<td>Speculative Risk</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>FY P/E: 175</td>
<td>2019A: 0.16A</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
<td>ROE: NA</td>
<td>2020E: 0.16A</td>
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</tbody>
</table>

Headquartered IPO/Founded

San Francisco, CA 2016/2008

Management

Jeffrey Lawson Chairman & CEO
Khozema Z. Shipchandler CFO

Company Description

Twilio is a cloud-based communication platform (CPaaS) that enables its customers to interlay messaging, video, voice, and email communications functionality into their applications, systems and services on a pay-as-you-go basis. Headquartered in San Francisco, Twilio was founded in 2008 and completed its IPO in June 2016.

Revenue Profile

Source: Company reports, Baird & Co. estimates

Competition

TWLO competes in the CPaaS market with Vonage's Nexmo as well as Bandwidth, traditional telcos and smaller private players.

Quick Summary

We rate TWLO Outperform driven by:

- Young, promising market. We are positive on the CPaaS (Communications Platform as a Service) market opportunity, which we believe is in early innings, driven by broadening and compelling use cases.
- CPaaS leader. Twilio is the clear leader in the young, growing and underpenetrated CPaaS industry, with Nexmo (now part of Vonage) a distant second.
- Strong growth. Twilio has grown revenue at an impressive clip, with 66.1% YOY growth in 2016, 43.9% in 2017, 62.9% in 2018 and 74.5% in 2019.
- Developer relationships a differentiator. Twilio has an early lead, with over 7 million developers on its platform, which positions it well to retain a leadership position in the market.

Investment Thesis

William V. Power, CFA
Sr. Research Analyst
wpower@rwbaird.com
214.220.3055

Charles Erlikh, CFA
Research Associate
cerlikh@rwbaird.com
312.609.2553
**Young, promising market.** We are positive on the CPaaS (Communications Platform as a Service) market opportunity, which we believe is in early innings, driven by broadening and compelling use cases.

**CPaaS leader.** Twilio is the clear leader in the young, growing and underpenetrated CPaaS industry, with Nexmo (now part of Vonage) a distant second.

**Strong growth.** Twilio has grown revenue at an impressive clip, with 66.1% YOY growth in 2016, 43.9% in 2017, 62.9% in 2018 and 74.5% in 2019.

**Solid gross margins.** Though public comps are limited, TWLO’s gross margins exceeded 53% in 2019, vs. Nexmo in the high 20s based on past disclosures.

**Developer relationships a differentiator.** Twilio has an early lead, with over 7 million developers on its platform, which positions it well to retain a leadership position in the market.

**Competition likely to intensify.** Given the market size opportunity, we expect competition from Vonage's Nexmo, Bandwidth and others to continue to increase.

**Customer concentration.** Twilio’s top 10 customers constituted 13.5% of total revenue in 2019, though that is down meaningfully from 18% in 2018 and 20% in 2017. Any change or disruption from any of these large customers could have a material impact on Twilio’s business.

**Lack of profitability.** Twilio turned its first profitable quarter in Q2’18, though we expect profitability to improve after its investments scale in 2020+.

**Valuation.** TWLO’s valuation has been highly volatile since its IPO, trading as high as nearly 18x forward EV/Rev before dropping down. Without a pure-play CPaaS comp in the market, fair valuation may be hard to gauge.

**Risks & Caveats**

**Young industry.** Twilio, as the clear leader, is paving the way in the young and unproven CPaaS industry.

**Competition likely to intensify.** Given the market size opportunity, we expect competition from Vonage's Nexmo, Cisco's Tropo, Bandwidth and others to continue to increase.

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**Supplemental Information**

TWLO is currently trading at 13.6x our 2021 revenue, vs. the high-growth SaaS cohort at ~17x, and the highest growers at ~20x.

Our $175 target price is based on 13x 2021 revenue, below the high-growth cohort at ~17x, reflecting strong revenue growth and a significant competitive moat offset by lower gross margins.
Appendix - Important Disclosures and Analyst Certification

Approved on 14 May 2020 16:14EDT/ Published on 14 May 2020 16:19EDT.

Rating and Price Target History for: Twilio, Inc. (TWLO) as of 05-13-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of TWLO.

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May 14, 2020

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