Bandwidth.com Inc. (BAND)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

Price ($) (5/18/20): 110.90  
52WK H-L ($) : 120 - 43  
Market Cap (mil): 2,728  
Shares Out (mil): 24.6  
Avg. Daily Vol (mil): 0.47  
Dividend ($) : 0.00  
Yield (%): 0.0  

Rating: 
Outperform  
Speculative Risk: Q1  
Price Target ($) : 100  
L-Term Rev. Gr Rate Est: 20%  
L-Term EPS Gr Rate Est: 0%  
Debt/Cap: 49.8%  
ROE: 0.0%  

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FY Dec 2019A 2020E 2021E  
Revenue (Mil) 232.6 282.4 325.5  
% Growth 14.0% 21.4% 15.3%  
Operating Margin -0.9% 0.8% 1.4%  

Headquartered IPO/Founded  
Raleigh, NC 2017/1999  

CEO: David Morken  
CFO: Jeff Hoffman  

Company Description
Bandwidth is a cloud-based communications platform (CPaaS) that owns its own proprietary IP-based phone network. It enables its customers to interlay voice and messaging communications functionality into their applications, systems and services on a pay-as-you-go basis.

Revenue Profile

Source: Company reports, Baird & Co. estimates

Competition
Bandwidth competes against a wide range of competitors, including CPaaS providers like Twilio and Nexmo in addition to traditional ILEC and CLEC telcos like AT&T, Verizon and Level 3.

Quick Summary
We rate the stock Outperform based on the following factors:

- **CPaaS industry young and growing.** We are positive on the CPaaS market opportunity, which we believe is in early innings, driven by the increasing need for communications capabilities.

- **Enterprise customer focus.** Bandwidth's customers have historically been large enterprises, like Google and Microsoft, who are leading the voice-enabled communication push and who typically have more attractive retention characteristics.

- **Play on UCaaS, CCaaS, collaboration trends.** Powering the leading UCaaS, CCaaS and collaboration providers, BAND benefits from strong growth trends in those industries.

- **International upside opportunity.** BAND is in the early stages of expanding internationally, which could contribute meaningfully to revenue going forward.

- **Network ownership differentiation.** Bandwidth owns its own network in the U.S., which gives it a cost and control advantage over other CPaaS providers like Twilio.
Investment Thesis

**CPaaS industry young and growing.** We are positive on the CPaaS market opportunity, which we believe is in early innings, driven by the increasing need for communications capabilities.

**Enterprise customer focus.** Bandwidth's customers have historically been large enterprises, like Google and Microsoft, who are leading the voice-enabled communication push and who typically have more attractive retention characteristics.

**Rise of voice as an interface.** Lead by Amazon's Echo and Google's Home, voice is becoming more and more prevalent as an interface for search and communication, with 30% of all Google searches done by voice.

**Network ownership differentiation.** Bandwidth owns its own network in the U.S., which gives it a cost and control advantage over other CPaaS providers like Twilio.

Risks & Caveats

**Increasingly competitive market.** Bandwidth competes against a wide range of competitors, including CPaaS providers like Twilio and Nexmo in addition to traditional ILEC and CLEC telcos like AT&T and Verizon. Given the market opportunity, we expect competition to continue to intensify.

**Negative operating margins in near term.** The ramp in S&M and R&D, while driving strong revenue growth, results in negative operating margins near term.

**Lack of public company experience.** This is the CEO’s first public company.

**Ongoing price pressure.** Competition is likely to continue to drive down prices on its core business.

**Founder controlled.** CEO and Founder David Morken will maintain effective control of the company.

Supplemental Information

**BAND is currently trading at 9.5x our 2020 CPaaS revenue forecast and 8.1x 2021 vs. the SaaS group at roughly 13x 2021.**

Our $100 target price is based on 7x our 2021 CPaaS revenue forecast. That puts it below the UCaaS/CPaaS group at ~10x, reflecting a lower gross margin profile, though the revenue growth, including confidence in trends, stack up well.
Appendix – Important Disclosures and Analyst Certification

2 Robert W. Baird & Co. Incorporated and/or its affiliates managed or co-managed a public offering of securities of Bandwidth.com Inc. in the past 12 months.

3 Robert W. Baird & Co. Incorporated and/or its affiliates have received investment banking compensation from Bandwidth.com Inc. in the past 12 months.

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

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Risk Ratings: L - Lower Risk – Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. A - Average Risk – Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. H - Higher Risk – Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. S - Speculative Risk – High growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

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