

## Twilio

# CEO departs; 4Q results to beat rev and OpInc guide

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 73.25 USD

## CEO departure raises activist profile

We maintain our Underperform rating and \$55 PO on Twilio after another executive departure. This morning, the company announced that Jeff Lawson resigned as CEO, member of the Board of Directors, and Board Chair. Mr. Lawson's departure follows several rounds of headcount reductions and the Nov'23 resignation of Elena Donio (President of Twilio's Data & Applications segment). The positive stock reaction (+6% today) suggests expectations for a greater willingness to address activist concerns following Mr. Lawson's departure. As noted in our report [Breaking down the bull case](#), press reports suggest activists met with Twilio's management and board of directors several times in 2023 to discuss 1) improved financial disclosures, 2) a board refreshment and additional focus on management accountability, 3) further cost structure optimization (we believe including additional headcount reductions in Communications), and 4) potential strategic alternatives/divestitures.

## Shipchandler (former Comms President) taking the reins

The Board appointed Khozema Shipchandler (President of Twilio Communications) as CEO and as a member of the Board, effective immediately. Mr. Shipchandler has served as Twilio's President of Twilio Communications since March 2023. Previously, Mr. Shipchandler served as Twilio's Chief Operating Officer from 2021-2023, and Chief Financial Officer from 2018-2021. From 2015-2018, Mr. Shipchandler served as Chief Financial Officer and Executive Vice President of Corporate Development at GE Digital, an operational technology and infrastructure software company that is a division of General Electric.

## Pre-announces rev and OpInc above prior guide

Twilio also announced that it expects to report revenue and non-GAAP income from operations for 4Q23 above its previously provided guidance ranges. This suggests management expects 4Q23 revenue and non-GAAP operating income to exceed \$1.04bn (consensus \$1.038bn) and \$125mn (consensus \$122.7mn), respectively. While Twilio's pre-announcement should assuage investor concerns surrounding near-term performance, questions remain surrounding the timing and magnitude of a topline reacceleration, in our view. Maintain Underperform.

08 January 2024

### Equity

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### Stock Data

|                                 |                       |
|---------------------------------|-----------------------|
| Price                           | 73.25 USD             |
| Price Objective                 | 55.00 USD             |
| Date Established                | 9-May-2023            |
| Investment Opinion              | C-3-9                 |
| 52-Week Range                   | 45.02 USD - 79.70 USD |
| Mrkt Val (mn) / Shares Out (mn) | 13,481 USD / 184.0    |
| Free Float                      | 95.7%                 |
| Average Daily Value (mn)        | 183.84 USD            |
| BofA Ticker / Exchange          | TWLO / NYS            |
| Bloomberg / Reuters             | TWLO US / TWLO.N      |
| ROE (2023E)                     | 4.1%                  |
| Net Dbt to Eqty (Dec-2022A)     | -3.9%                 |
| ESGMeter™                       | Medium                |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

## Price objective basis & risk

### Twilio (TWLO)

Our \$55 PO is based on 1.7x EV/C24eRev (EV/Rev/G multiple of 0.3x). Our multiple is a discount to the communication software comp group trading at 2.5x. We believe a discount is justified based on TWLO's lower expected usage, potential margin pressure, and intensifying competition.

Upside risks to our PO are 1) faster-than-expected reacceleration of organic revenue growth, 2) macro recovery driving better-than-expected usage rates, and 3) higher-than-expected revenue mix of software versus core messaging, voice and email.

Downside risks to our PO are 1) increased competition from larger platform vendors, 2) possible price pressure, 3) deterioration in the macro economy, 4) decrease in ability to monetize the platform via developers, 5) deterioration in gross margins, 6) missteps causing growth to dip below management's targets, 7) major network and product issues.

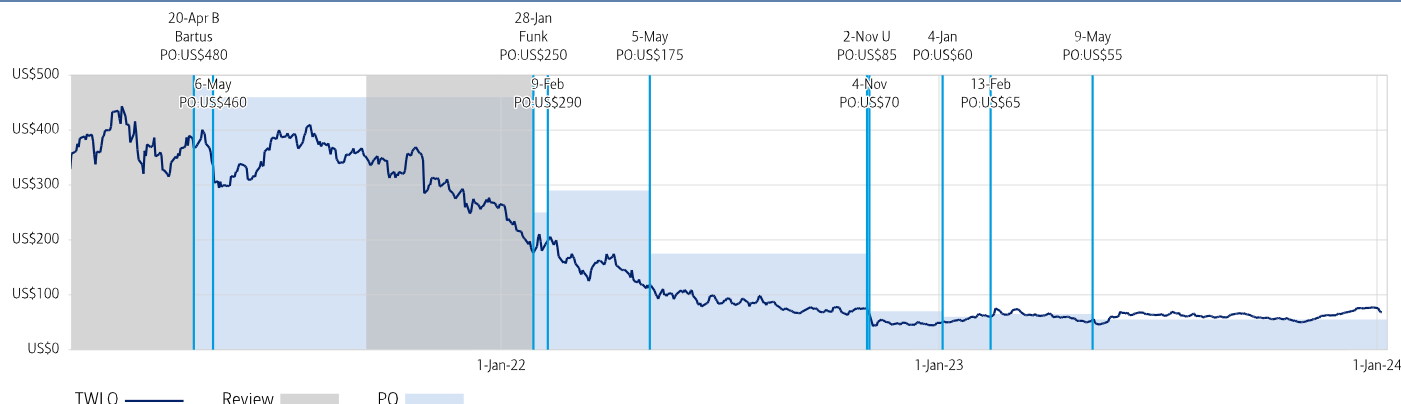
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### Twilio (TWLO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 215   | 53.09%  | Buy                                      | 111   | 51.63%  |
| Hold              | 97    | 23.95%  | Hold                                     | 45    | 46.39%  |
| Sell              | 93    | 22.96%  | Sell                                     | 24    | 25.81%  |

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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