

Twilio

Operational review complete; Segment here to stay

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 56.90 USD

Operational review doesn't leave a lot for bulls

Twilio announced the results of its operational review, updated financial targets and established a new \$2bn share repurchase program. The results are negative for the bull case for acceleration in growth and/or divestiture of the Segment business. Management has concluded that Communications is "by far" the core driver of Twilio's performance (a departure from expectations that Segment would lead the way back to mid-teens growth).

No Segment divestiture, SOTP bull cased dinged

Following an operational review of its Segment business, Twilio concluded that a sale of Segment – with its current growth and profitability profile – is unlikely to result in value exceeding the risk-adjusted value of the business to Twilio. In our [4Q23 Wrap](#) note, we argued that the sale of Segment was unlikely based on investments potential strategic partners have made in CDP and the operational profile of the business. The review also found that Twilio had invested in Segment ahead of growth and a recalibration of investments is required.

Revised financial framework in line with BofA bear case

Twilio updated its medium-term financial framework, targeting consolidated GAAP operating profitability by 4Q25 (previously targeting GAAP profitability for FY27), and breakeven non-GAAP income from operations for Segment by 2Q25. This updated financial framework removes medium-term (FY25-FY27) guidance for 1) organic revenue growth of 15-25%, 2) Data & Applications (now re-segmented) growth of 30%+, and 3) annual non-GAAP OpM improvement of 300-400bps. The revised framework is in line with our expectation that the magnitude of TWLO's growth reacceleration exiting the macro would be weaker than Street estimates detailed in our [Breaking down the bull case](#) note.

1Q24 guidance reiterated and 2024 forecast in-line

Twilio affirmed its guidance for 1Q24 originally provided at 4Q23 earnings for \$1.030bn in revenue and \$125mn in non-GAAP Op Income. The company introduced FY24 guidance for 5-10% organic Y/Y revenue growth and \$550mn-\$600mn in non-GAAP Op Income, in line with the Street at 6% and \$578mn.

05 March 2024

Equity

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Stock Data

Price	56.90 USD
Price Objective	55.00 USD
Date Established	9-May-2023
Investment Opinion	C-3-9
52-Week Range	45.02 USD - 78.16 USD
Mrkt Val (mn) / Shares Out (mn)	10,548 USD / 185.4
Free Float	95.7%
Average Daily Value (mn)	234.99 USD
BofA Ticker / Exchange	TWLO / NYS
Bloomberg / Reuters	TWLO US / TWLO.N
ROE (2024E)	5.8%
Net Dbt to Eqty (Dec-2023A)	-4.9%
ESGMeter™	Medium

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Timestamp: 05 March 2024 12:17PM EST

Price objective basis & risk

Twilio (TWLO)

Our \$55 PO is based on 2.2x EV/C25eRev (EV/Rev/G multiple of 0.2x). Our multiple is a discount to the communication software comp group trading at 2.6x. 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.

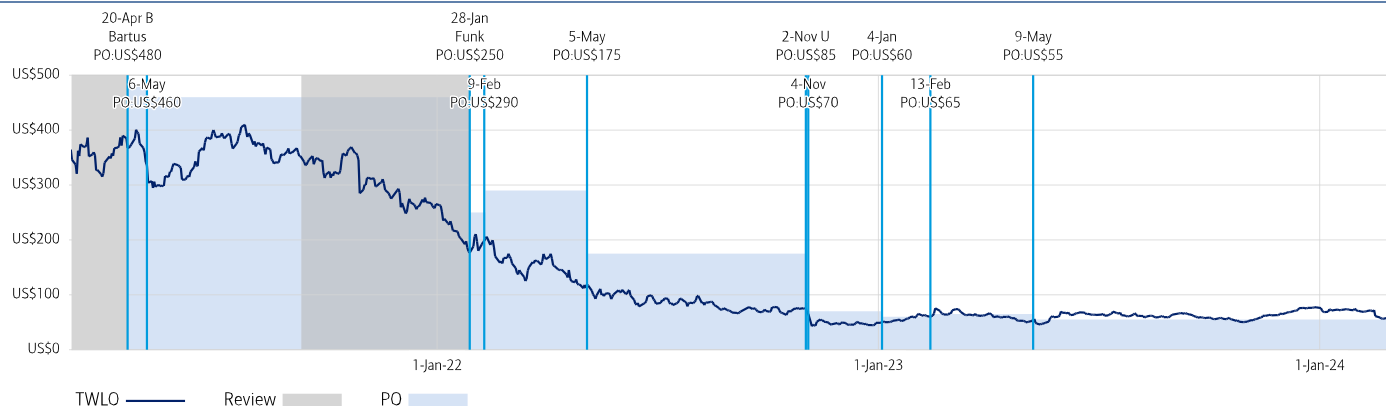
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Twilio (TWLO) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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