

Kaleyra Inc, NYSE: KLR

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Company Overview

Kaleyra Inc, NYSE: KLR



Business Description

- Kaleyra is a global Communications Platform as a Service (CPaaS) company that **bridges the communication gap** between businesses and their customers through its proprietary platform.
- Kaleyra **manages multi-channel integrated communication services** on an international scale, comprising of messages, push notifications, e-mail, instant messaging, voice services and chatbots.
- Kaleyra's technology today makes it possible to safely and securely manage billions of messages monthly, with a reach to thousands of mobile network operators across **over 190 countries**.
- Some of their biggest customers include:



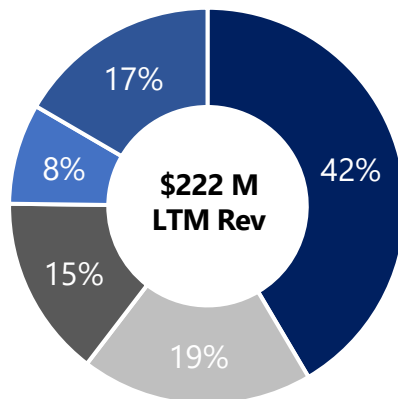
BNP PARIBAS



WeChat

Revenue Segmentation

- Financial Services
- E-Commerce
- Health, Travel, Education
- Tech
- Operators, CPaaS, OTT



Service Offerings

Messaging

Kaleyra's messaging platform allows for the processing and management of SMS. It is currently designed to handle 5000+ messages per second, with the capability to increase throughput via additional server power.

Voice

The voice platform offers features such as call masking, visual configuration of call routing, click to call, and natural language processing. In 2020, it serviced nearly 4 billion calls.

Numbers

All platform APIs include software and infrastructure that can process and configure telephone numbers and short code services across 50 countries.

Management Team



Name	Dario Calogero	Giacomo Dall'Aglio	Mauro Carobene	Nicola Jr Vitto
Position	CEO & Director	VP & CFO	CBO	CPO
Years Exp.	31	24	25	19
Previous Position	CEO at Ubiquity	VP Finance at Ubiquity	CRO at DigitalRoute	CTO at ShopFully

Company Overview

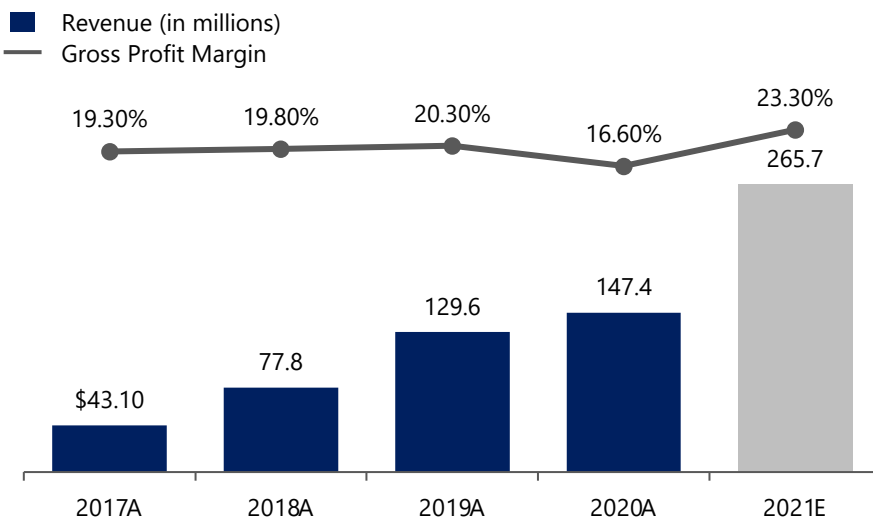
Kaleyra Inc, NYSE: KLR



Key Financial Data

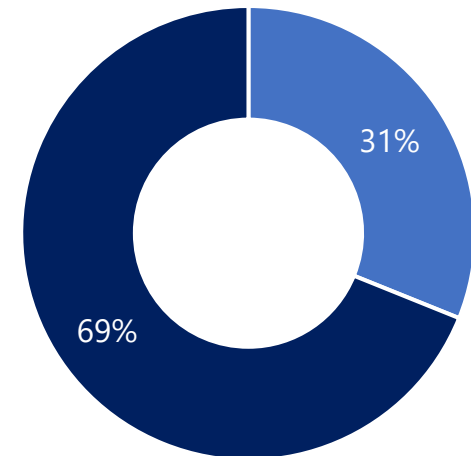
Ticker	NYSE: KLR
Share Price	\$12.94
Market Cap	\$539.48 million
Enterprise Value	\$649.90 million
52 Week Low-High	\$6.50 - \$20.76
LTM Revenue	\$222.0 million
EV/ Revenue	3.23x
Beta (52-Week)	1.45

Revenue & Margins

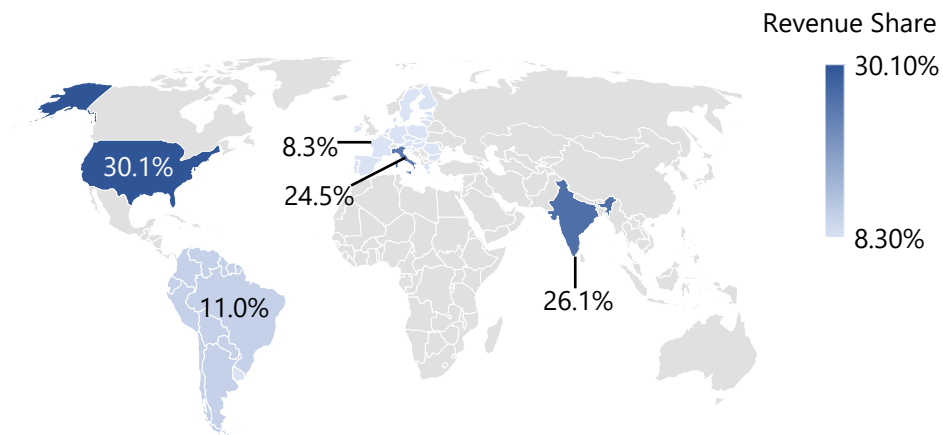


Large Insider Ownership

■ BOD Members
■ Implied Retail Float

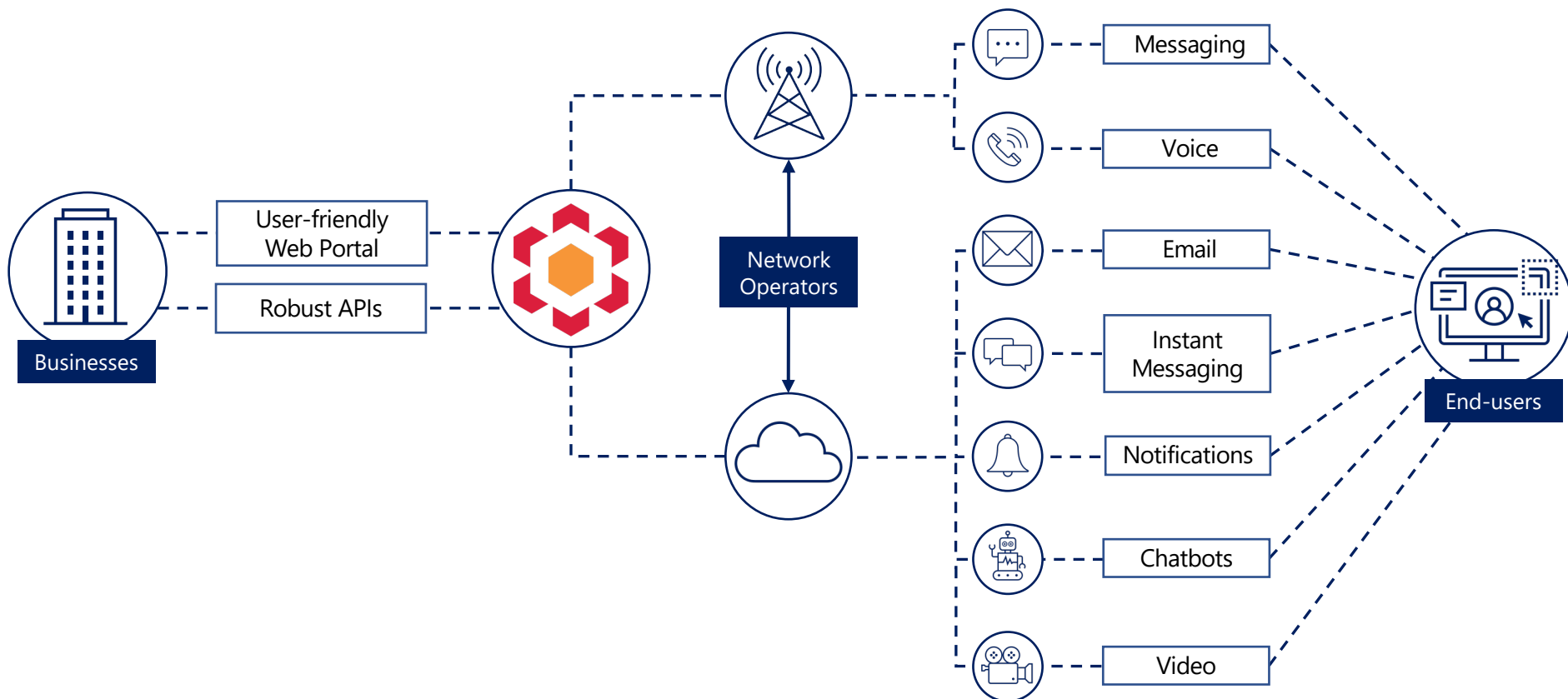


Geographic Segmentation



Business Model

A trusted CPaaS providing a secure, reliable customer communications platform to satisfy every business' needs



Businesses

- The demand for cloud communications is increasingly driven by the growing, and often mandated, need for enterprises to undertake a digital transformation that includes omnichannel interactive end-user customer communications.

Network Operators

- These communications are increasingly managed through network operators as the gateway to reach end-user consumers' interconnected devices.

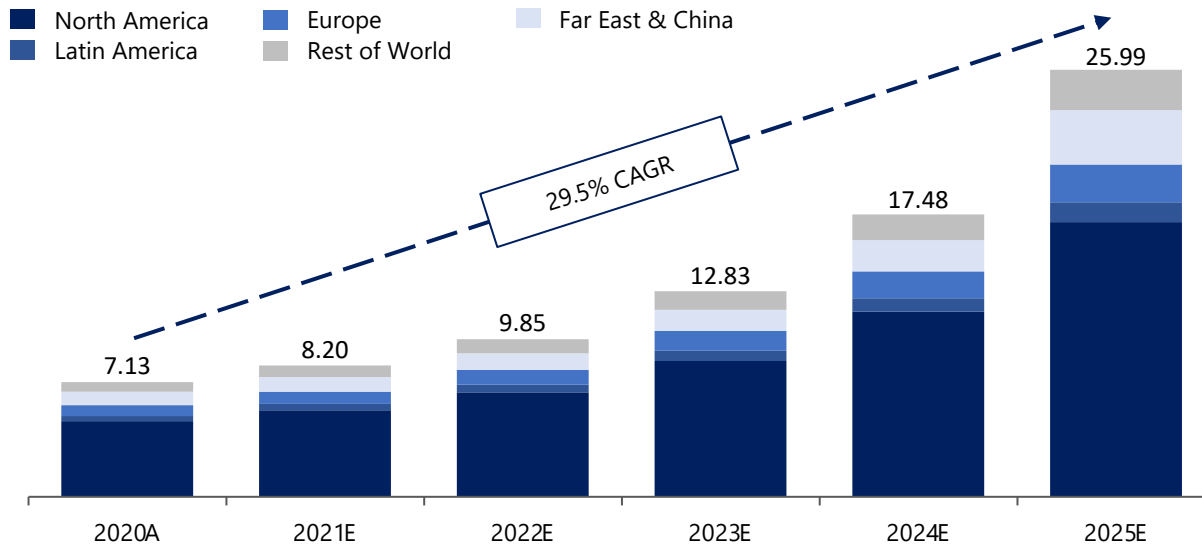
End-users

- Kaleyra's platform enables this by integrating communications and interactive capabilities to effectively reach and engage end-user customers.

Industry Analysis I

Rapidly growing and evolving market providing strong tailwinds for industry players

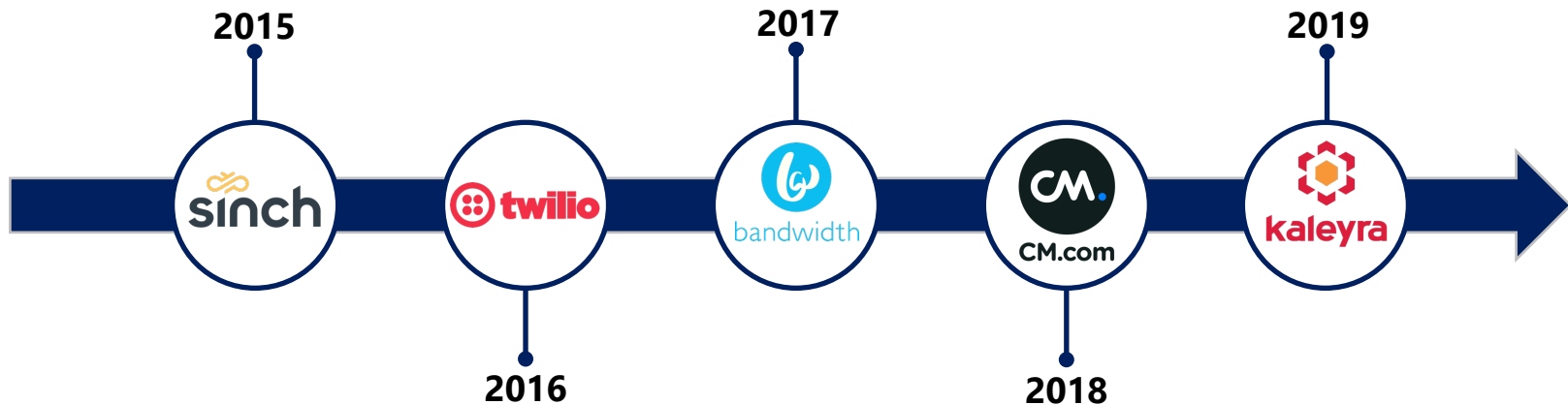
CPaaS Worldwide Revenues, by Region (USD \$B)



Industry Growth Commentary:

- The CPaaS market is expected to continue growing at a rapid rate as it matures and evolves to address rising demand for cloud communications across several industry verticals.
- An important trend to note is the even quicker growth rate in emerging markets as internet adoption and connectivity improve.
 - These regions are sure to be sound investments for CPaaS providers with established operations nearby.

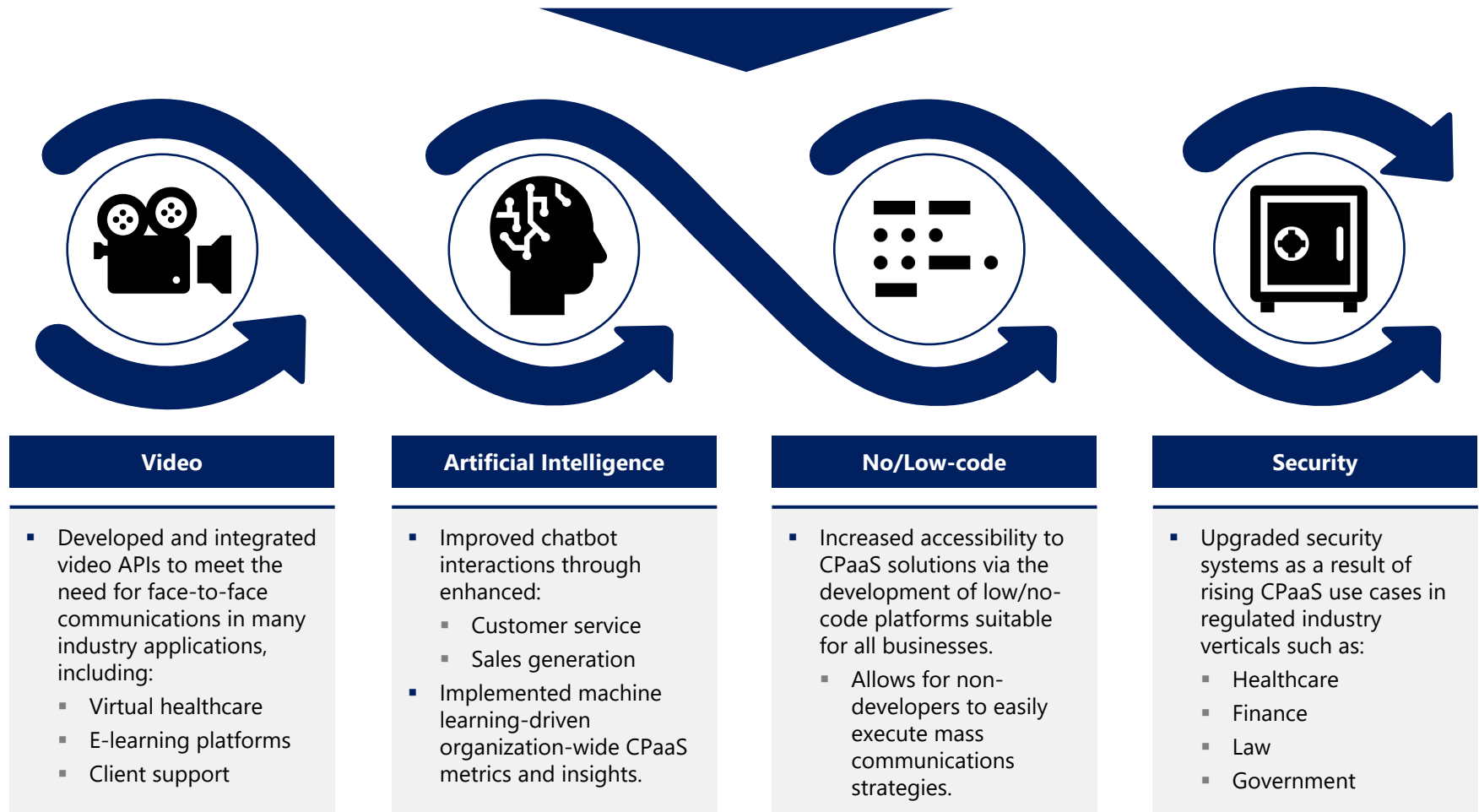
Listing Frenzy



The CPaaS industry is still relatively young and developing; hence, the recent frenzy of companies entering the market.

Pandemic Impact

Similar to other markets, the COVID-19 pandemic has completely transformed the CPaaS industry, allowing it to cross a major threshold by shifting the primary CPaaS userbase from early niche adopters to mainstream blue chip companies—thus making it an enterprise standard. Consequently, this major transformation has served as a catalyst to drive rapid acceleration across several key industry trends:



Timeline of M&A Activity



All deals serve two broad purposes:

1. Increase Kaleyra's product offerings.
2. Expand its geographic reach and market penetration.

Kaleyra's M&A activity has further allowed the company to achieve impressive inorganic growth owing to the following factors:

Acquisition of Entrenched Clients

- Difficulty switching between providers is common in CPaaS space.
 - While good for churn, this complicates efforts to attract customers utilizing other providers, and therefore dampens organic growth.
- Kaleyra's solution is to strategically acquire competitors with complementary offerings and low customer overlap.

This allows Kaleyra to:



Attain entrenched high value clients with long established relationships.



Prevent competitors from securing said clients via acquisition.



Implement cross-selling strategies for both current clients through the acquisition target's services, and new clients through Kaleyra's pre-existing solutions.

Higher Margins Through Improved Product Suite & Cost Synergies

- Kaleyra has traditionally operated on a low margin messaging model; however, it is working to change this through acquisitions that:
 - Operate in higher margin communication platform services such as chatbots, voice, and video.
 - Posses complementary offerings that allow for key cost synergies.

Main cost synergies realized:



Economies of Scale - Lower per unit communication costs due to increased volume.



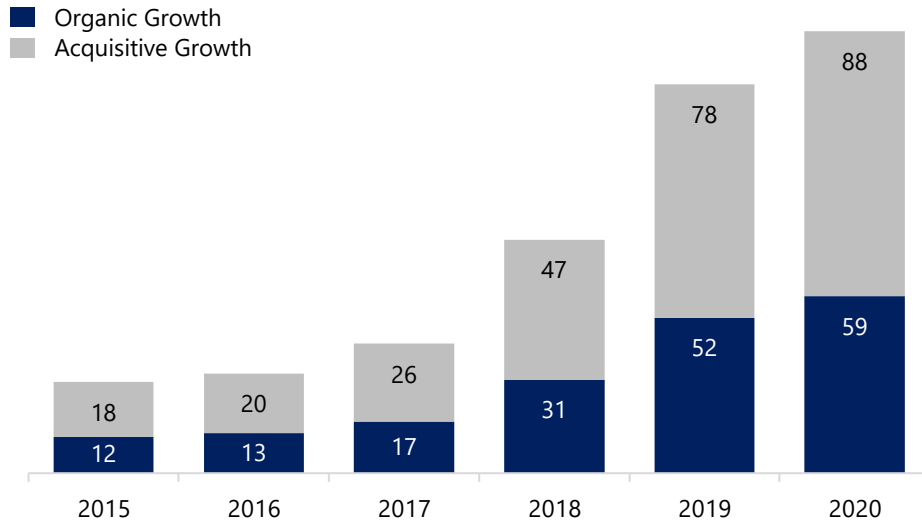
Reduced Hiring Need - Owing to similarity of services provided, employees obtained through acquisition allow Kaleyra to avoid costly hiring processes.



Research and Development - Again, owing to complementary offerings, Kaleyra, in combination with acquisition targets, achieves R&D cost synergies.

Strong organic growth due to adoption of CPaaS solutions

Organic Growth Revenue Relative to Acquisitive Growth Revenue



Kaleyra's Steady Organic Growth Through Internal Innovation

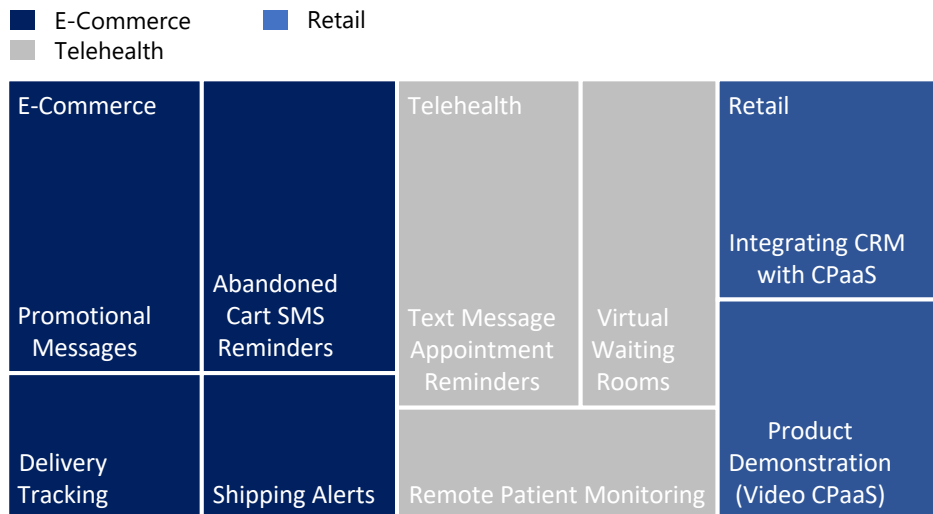
Global CPaaS Market:

- Past 2020: \$7.1B
- Past 2021: \$8.20B
- Expected 2026: \$25.99B

Market Trends:

- Sophisticated capabilities for messaging and voice software;
- Beyond basic APIs and shifting towards the future focus on innovation.

Adoption of CPaaS in New Vertical Markets



The Need for Kaleyra's Product Offering is Growing Horizontally

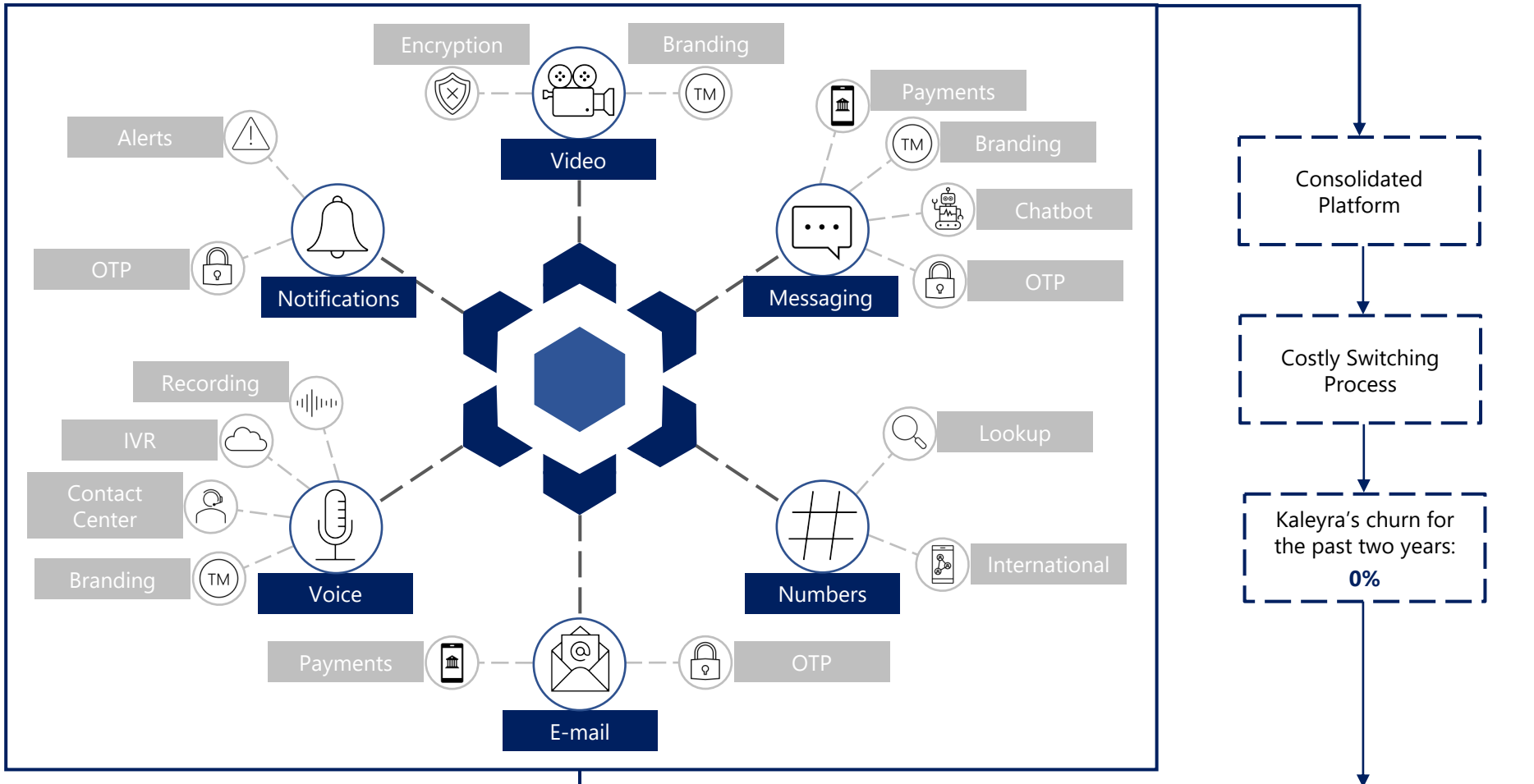
Playing on Industry Growth:

- Cross-selling to exploit potential opportunities from recent acquisitions;
- Growing their product teams;
- Accelerating their joint product management;
- Expanding key technology integrations with independent software vendors.

Product Evolution:

- Geographic expansion by entering new markets such as Southeast Asia and Latin America.

Kaleyra's Omnichannel Ecosystem



How Kaleyra's Ecosystem Leads to Low Churn:

Kaleyra has significantly invested in continuous product evolution and development in order to position itself as a one-stop-shop omnichannel platform.

- These efforts serve to draw in customers who seek streamlined communications solutions for efficient campaign management.
- They also lead to trapping clients within the Kaleyra ecosystem, and therefore make switching a far too costly and tedious process.

Discounted Cash Flow Analysis

Base Case Scenario



- Discounted cash flow analysis with an assumed WACC of 13.8%.
- Terminal value based on perpetuity growth methodology with an assumed growth rate of 2.0%.

Cash Flow Summary	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26-32E
Revenue	\$147	\$342	\$474	\$603	\$767	\$975	\$17,224
Revenue Growth %	13.7%	132.2%	38.4%	27.2%	27.2%	27.2%	n/a
EBITDA	\$3	(\$36)	(\$7)	(\$9)	\$10	\$22	\$1066
EBITDA Margin %	1.9%	(10.5%)	(1.4%)	(1.6%)	1.4%	2.3%	n/a
EBIT	-	(39)	(9)	(12)	8	20	988
Less: Taxes	-	\$2	\$0	\$1	(\$0)	(\$1)	(\$49.4)
NOPAT	-	(37)	(9)	(11)	7	19	938
Add: Amortization	3	3	3	3	3	3	\$19
Less: Capital Expenditures	(3)	5	7	9	12	15	258
Less: Change in NWC	4	(3)	(4)	(5)	(7)	(9)	(152)
Unlevered FCF	\$4	(\$32)	(\$3)	(\$5)	\$15	\$27	\$1064
Discount Period		1	2	3	4	5	6 to 12
Discount Factor		0.88	0.77	0.68	0.60	0.53	0.46 to 0.21
PV of Unlevered FCF		(\$28)	(\$3)	(\$3)	\$9	\$14	\$307

Terminal Value & Implied Share Price	
Terminal EBITDA	\$250
Terminal Multiple	13.0x
Terminal Value	\$3,247
Discount Factor	0.14
PV of Terminal Value	\$609
PV of UFCF	296
Implied TEV	\$904
(-) Debt	(233)
(+) Cash	124
Implied Equity Value	\$795
FD Shares Outstanding	41.7
Implied Equity Value Per Share	\$19.07

IMPLIED TERMINAL MULTIPLE SENSITIVITY

		WACC				
		11.8%	12.8%	13.8%	14.8%	15.8%
Terminal Multiple	12.0x	\$22.81	\$20.24	\$17.94	\$15.90	\$14.08
	12.5x	\$23.51	\$20.86	\$18.51	\$16.40	\$14.53
	13.0x	\$24.22	\$21.49	\$19.07	\$16.90	\$14.97
	13.5x	\$24.93	\$22.12	\$19.63	\$17.41	\$15.42
	14.0x	\$25.63	\$22.75	\$20.19	\$17.91	\$15.87

IMPLIED PERPETUAL GROWTH RATE SENSITIVITY

		WACC				
		11.8%	12.8%	13.8%	14.8%	15.8%
Perpetual Growth Rate	1.0%	\$21.64	\$18.11	\$15.24	\$12.87	\$10.89
	1.5%	\$22.49	\$18.75	\$15.73	\$13.25	\$11.19
	2.0%	\$23.43	\$19.46	\$16.27	\$13.67	\$11.52
	2.5%	\$24.47	\$20.23	\$16.85	\$14.12	\$11.87
	3.0%	\$25.63	\$21.08	\$17.49	\$14.60	\$12.25

Strong industry tailwinds and a calculated acquisition strategy serve to fuel Kaleyra’s growth prospects; however, it must tread at a manageable pace.

Risks

Data Breaches

In the event Kaleyra’s networks, systems, or service providers are breached, the integrity of its products, platform and data will be compromised, thus resulting in significant harm.

Large Indebtedness

Kaleyra’s acquisition strategy relies on significant debt financing. This substantial indebtedness may adversely affect the company if it cannot generate the cash flows required to service its debt.

Regulations

Kaleyra’s business is highly dependent on the regulations of the countries it operates in. There is a risk that it will not be able to obtain and maintain the licenses required to provide its services.

Catalysts

Unrealized Acquisition Synergies

Given that the majority of Kaleyra’s acquisitions were so recent, the full potential synergies of the deals haven’t been reflected in the company’s financials, and subsequently, share price.

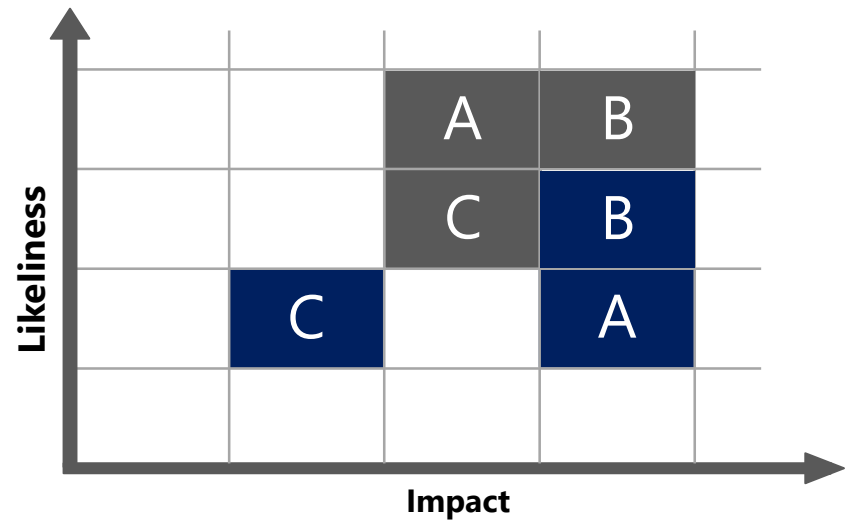
Geographic Expansion

Kaleyra’s recent expansion into emerging markets like Southeast Asia and Latin America well positions the company to reap the benefits of the rapidly growing CPaaS industries in these regions.

Product Evolution

Kaleyra’s efforts to be a one-stop-shop omnichannel platform through continuous product evolution serves as a unique draw for enterprise clients—many of whom currently operate using fragmented solutions that hinder customer experience.

Risks & Catalyst Matrix



- Risks

 - A Data Breaches
 - B Large Indebtedness
 - C Regulations
- Catalysts

 - A Unrealized Acquisition Synergies
 - B Geographic Expansion
 - C Product Evolution

Recommendation: BUY

Kaleyra Inc, NYSE: KLR



Select Analyst Ratings



Implied Value

Analysis	Price	Weights
Discounted Cash Flow Analysis	\$19.07	80%
Analyst Targets	\$27.75	10%
Comparable Company Analysis	\$56.07	10%
Target Price	\$23.64	100%
Current Price (11/10/2021)	\$12.94	
Implied Return	82.6%	

Conclusion

- Given the size of the company, Kaleyra does not receive a lot of attention from the street; therefore, analyst price targets are primarily sourced from boutique firms.
- Important note to mention is that the majority of analyst ratings were released last year or early this year. Therefore, they may not be the most accurate reflection of the company's performance given that in recent quarters Kaleyra significantly amplified operations.
- Further, owing to the inherent risk profiles associated with small cap companies, Investa opted to price in some of said uncertainty into its valuation model. This resulted in a lower price target than the street average, and is not indicative of the true potential of Kaleyra's valuation in the event all anticipated financial events transpire.

We used both a Discounted Cash Flow and a Comparable Company Analysis to value Kaleyra: landing on a price target of **\$23.64**. Therefore, we recommend a **BUY** with an implied upside of **82.6%** above the current share price.

Appendix I: Annotated Stock Price Chart

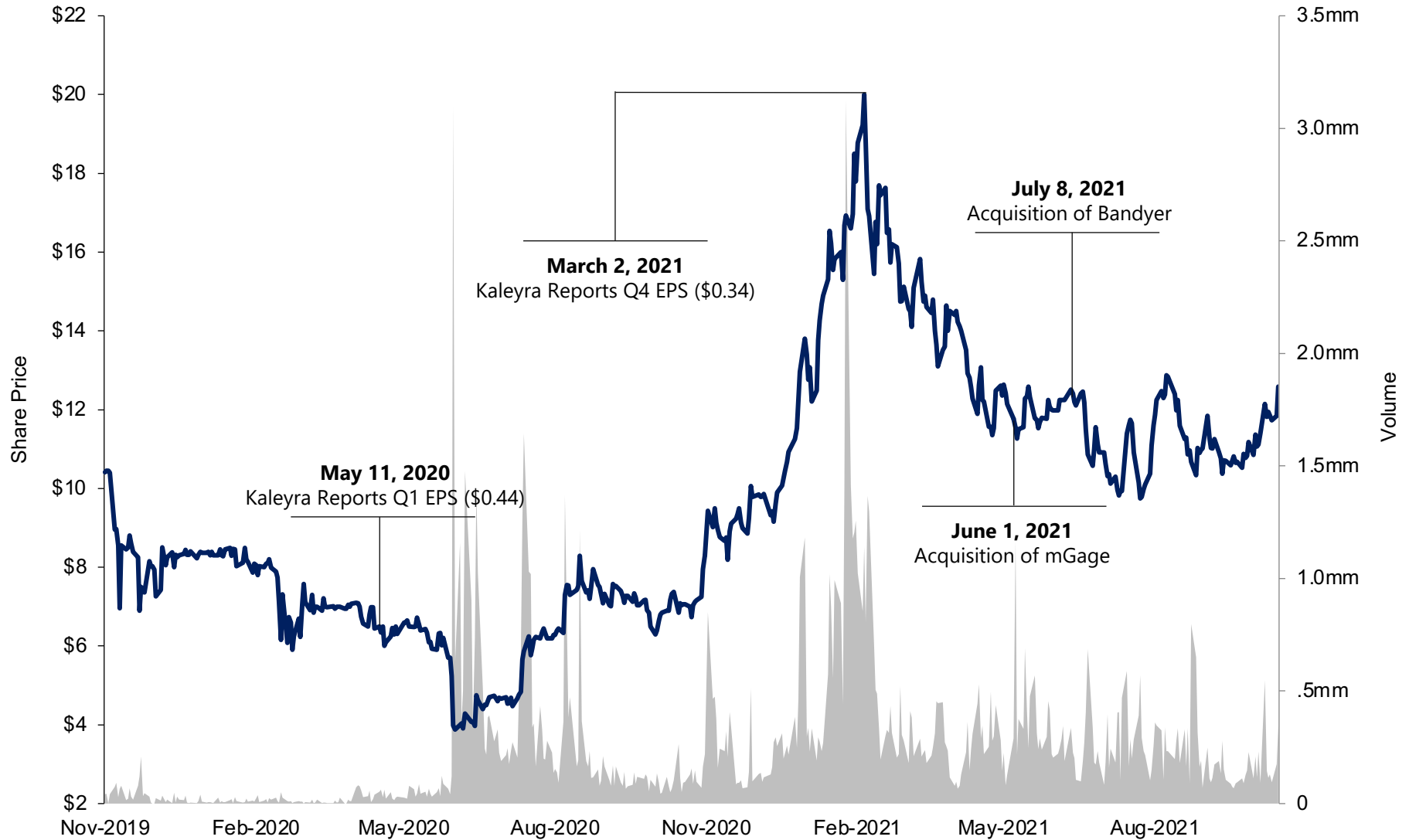
Appendix II: Valuation Summary

Appendix III: Comparable Company Analysis

Appendix I: Annotated Stock Price Chart

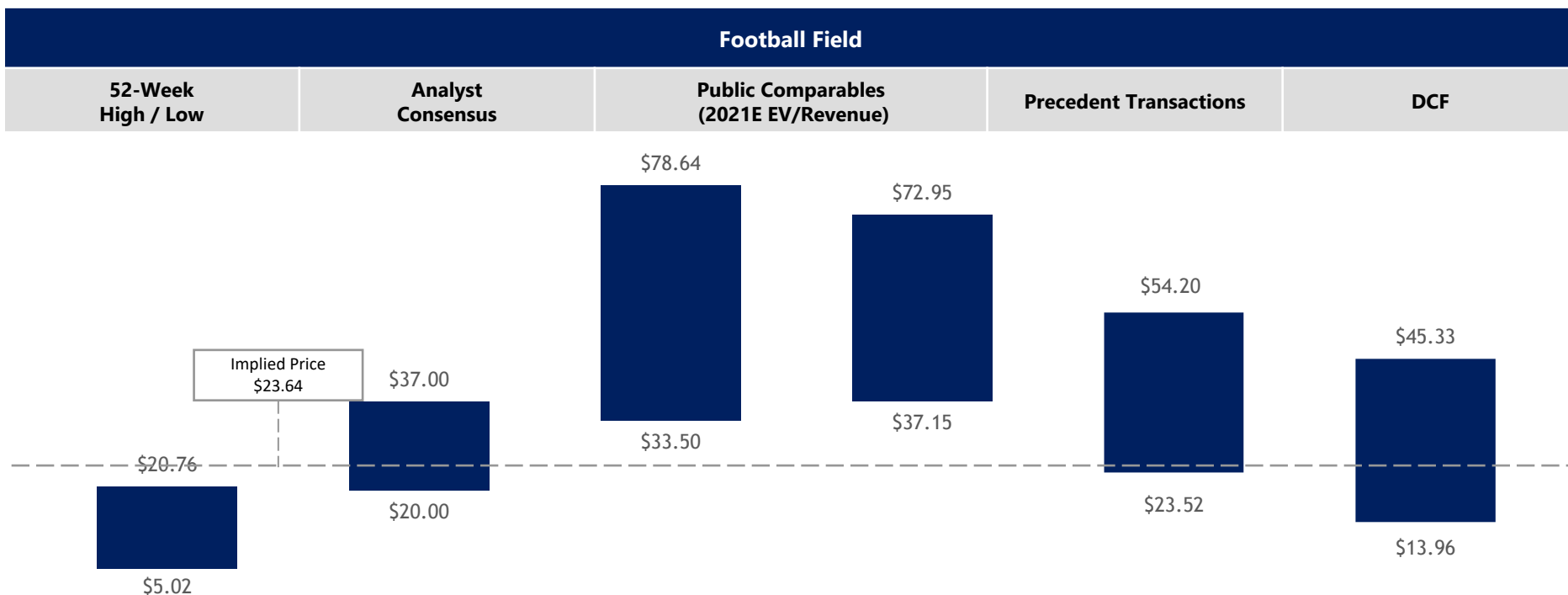
KLR's stock is up 37% since going public as a result of the company's increasing financial performance and strong industry outlook

Kaleyra, Inc. (NYSE: KLR)



Appendix II: Valuation Summary

CPaaS Industry



Football Field Commentary

- Comps & Precedent Transaction
 - Kaleyra is a small-cap company that is currently trading below their competitors' multiples. Based on these multiples, certain factors are not priced in and that is why the DCF is weighed heavier than RV.
- Model
 - Drivers for the model are based on the geographic expansion of Kaleyra, which will help increase margins.
 - Acquisition of mGage increases the presence of Kaleyra, and since America is a market with higher margins, the increase in top line will also boost the bottom line.

Appendix III: Comparable Company Analysis

CPaaS Industry



Peers	Price	Market Cap	Enterprise Value	EV / EBITDA		EV / Revenue		Revenue Growth		EBITDA Margin		Net Debt / LTM EBITDA
	10-Nov-21			2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	
CPaaS Companies												
Vonage Holdings Corp. (NasdaqGS:VG)	\$17.35	\$253.60	\$4,380.40	34.8x	23.0x	3.4x	3.2x	12.7%	10.6%	14.0%	13.5%	3.3x
Bandwidth Inc. (NasdaqGS:BAND)	\$84.75	\$91.50	\$21,422.50	61.0x	41.0x	4.8x	4.4x	47.5%	40.8%	10.0%	9.5%	4.3x
RingCentral, Inc. (NYSE:RNG)	\$234.10	\$91.50	\$10,646.30	98.0x	78.0x	14.0x	8.7x	33.6%	22.6%	13.7%	14.2%	NM
Twilio Inc. (NYSE:TWLO)	\$310.60	\$181.40	\$990.60	205.0x	169x	18.5x	14.1x	57.1%	31.1%	9.0%	8.6%	NM
Sinch AB (publ) (OM:SINCH)	\$14.24	\$747.50	\$55,388.90	71.0x	33x	5.2x	3.5x	90.9%	54.6%	7.3%	12.9%	NM
8x8, Inc. (NYSE:EGHT)	\$22.58	\$113.90	\$10,646.30	NM	320.0x	5.8x	4.6x	19.3%	15.4%	-24.0%	3.6%	NM
CM.com N.V. (ENXTAM:CMCOM)	14.24	747.5	\$2,128.10	NM	90.0x	4.0x	3.5x	66.5%	31.4%	0.2%	3.3%	NM
Global Average				93.0x	110.4x	8.0x	6.0x	47%	29%	4%	9%	3.8x
Global Median				66.0x	78.0x	5.2x	78.0x	48%	31%	9%	10%	3.8x
Kaleyra Inc (NYSE:KLR)	\$12.58	\$525	\$650	48.0x	19.9x	2.5x	2.0x	78.0%	53.2%	5.2%	9.1%	NM

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