

# Buy Twilio

Rick Munarriz | January 25, 2017 | [Buy Recommendation](#)

CURRENT PRICE: [TWLO](#) \$ 216.52 ↑ \$ 4.35 (2.1%) CwàG! Ýr B~ÅÖG'Åm'Aññv ññù

**Invest Foolishly!** We recommend owning 15 or more stocks for at least three to five years. Begin with three [Starter Stocks](#). Once you're under way, then consider our monthly new ideas to help build out your Rule Breakers portfolio.

If you judge a company by the company it keeps, **Twilio** ([NYSE: TWLO](#)) is on the A list. Its broad range of voice, messaging, video, and authentication services is winning popularity among some of the tech world's biggest names and brightest up-and-comers.

**Amazon.com's** ([NASDAQ: AMZN](#)) Amazon Web Services and **Facebook's** ([NASDAQ: FB](#)) WhatsApp are two marquee customers. But lots of others are embedding Twilio's services in their products to make them more responsive. Twilio lets **Uber** update users in real time about their ride requests, and it lets drivers and riders call one another without sharing their phone numbers. **Netflix** ([NASDAQ: NFLX](#)) leans on Twilio to deliver text, push, and voice notifications for everything from speedy password resets to critical updates. Twilio provides live lead notifications for **Trulia**, two-factor authentication for **Box**, and even volunteer shift scheduling for the **American Red Cross**.

Twilio is making itself indispensable to the companies that are indispensable to us. We want to be a part of its rise — and we think you should, too.

## It's Been a Wild Rookie Season

Plenty of companies offer one or more of the services Twilio does. But Twilio saves its customers headaches — not to mention R&D dollars — by offering the whole gamut in a reliable and user-friendly package. So if you want to offer authentication today but you're dreaming up ways to use video tomorrow, Twilio's got you covered.

You'd expect a business like this to become an ever bigger part of its customers' operations, and Twilio is. The company had 34,457 active customer accounts at the end of September, 45% more than a year earlier. In that time, revenue climbed by 62%. This tells us Twilio is generating more money per client. In fact, Twilio's dollar-based net expansion rate (basically, how much additional revenue it's getting from base customers between one year and the next) is clocking in at a hearty 155%.

Twilio isn't necessarily jacking up its prices. Many of its customers just keep growing or adding more services. Last month, for instance, the stock began to percolate on reports that Amazon's AWS — already using Twilio for text-messaging delivery — was expanding its deal to include voice notifications. We think this versatility — plus the high switching costs associated with migrating these services to another provider — should keep customers coming back.

### WHAT IT DOES

Twilio arms developers with tools to embed communications features within their existing platforms and applications.

### WHY BUY

- Twilio's tools are proving popular with tech heavyweights, and its client base is closing on 35,000 accounts.
- The stock has had its ups and downs since going public at \$15 last summer, but it has still nearly doubled off of that starting line.
- Twilio exceeded expectations and boosted its guidance in its first quarter as a public company, something we like to see out of market debutantes.

### KEY DATA

- **Headquarters:** San Francisco, Calif.
- **Website:** [www.twilio.com](http://www.twilio.com)
- **Sign of a Breaker:** Top Dog / First Mover
- **Market Cap:** \$2.5 billion
- **Cash/Debt:** \$252.2 million / \$0
- **Revenue (TTM):** \$246.7 million
- **Earnings (TTM):** (\$37.0 million)
- **Revenue (2013/'14/'15):** \$49.9 million / \$88.8 million / \$166.9 million
- **Earnings (2013/'14/'15):** (\$26.9 million) / (\$26.8 million) / (\$35.5 million)
- **Recent Price:** \$28.38

### BUYERS GUIDE

- **Industry:** Software
- **Size:** Mid cap
- **Region:** U.S.
- **Risk:** 11 out of 25 ([see all our stocks here](#))
- **Crushability:** Coconut ([see the full scale here](#))
- **Most similar to:** Ellie Mae, Salesforce.com

It's important to note that growth is decelerating, though it's still running at a pace that would make most tech companies envious. Twilio's guidance for the recently concluded fourth quarter called for \$72.5 million to \$74.5 million in revenue, 41% to 45% ahead of its prior-year quarter. This will be the sixth consecutive quarter of decelerating top-line growth, a streak that started with 89% revenue growth a year and a half ago. We're not concerned, though. Twilio's product continues to gain traction, and it's natural for growth to slow to a more sustainable level as a speedster settles into a groove. It's also an encouraging sign that Twilio far exceeded its guidance during the third quarter — its first full period as a public company — and raised its outlook for the entire year.

Meanwhile, Twilio is making the most of its rapidly thickening Rolodex. This summer, it introduced the Twilio Enterprise Plan, a subscription-based product that offers advanced security, access management, and granular administration. It rolled out Voice Insights, an analytics product. And it made a media processing technology acquisition in its latest quarter that should help it beef up its programmable video communications offering.

The bottom line hasn't been nearly as impressive as the top. Twilio has been posting modest yet meaningful losses, and Wall Street pros don't see that changing until late 2018 at the earliest. Profitability down the road will be nice (and necessary), but for now this is the price investors pay for riding Twilio's booming popularity.

## Risks and When We'd Sell

Twilio's customer count is large and expanding, but its 10 largest accounts made up 31% of its business in its latest quarter. Its largest customer accounted for 15% of the revenue mix. There's no reason to think that its biggest accounts are going elsewhere, and Twilio's strong revenue retention rate bears that out. However, it will always be a potential concern in a niche where it competes with smaller and often cheaper options, including Plivo, Bandwidth.com, Nexmo, and Sinch.

Also: When will Twilio's quarterly deficits turn the corner? It's not easy for conventional investors to pin an earnings multiple on a company that lacks positive net income. Twilio currently fetches 9 times trailing revenue, a lofty multiple if it can't keep up with its heady top-line growth.

Finally, disruptors can be disrupted themselves, so naturally we'll keep an eye on anyone rolling out a potentially better mousetrap in Twilio's niche.

## The Foolish Bottom Line

Twilio went public at \$15 seven months ago, and it's been a wild ride. It nearly doubled on its first day of trading, and by late September it peaked north of \$70. It went on to lose most of those gains, and it's now trading around its initial closing price. So it goes when a hot IPO meets the public. But if you can tolerate some volatility, we think this is an opportunistic time to buy into a fast-growing Rule Breaker that's making all the right friends.



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*Financial data from S&P Global Market Intelligence.*

*Data as of Jan. 20, 2017.*



Market data provided by FactSet and Web Financial Group.