Q1 2023 Earnings

Prepared Remarks

May 9, 2023

Jeff Lawson, Co-founder and CEO

We closed a solid first quarter, over delivering on our commitment to profitable growth. In February, I made several difficult, yet necessary decisions to drive better focus, improve our ability to execute, and deliver an accelerated path to meaningful profitability. We announced a new operating model consisting of two business units, a new leadership structure, a reduction in headcount and a revised capital allocation plan that included a $1 billion share repurchase program. With each week that passes, we are starting to yield more results from these operational and organizational shifts and I am more confident than ever that these decisions were the right ones for the long-term health of the business.

Our Q1 results show that our plan to drive profitable growth is working and that the teams are executing against the plans we laid out last quarter. In Q1, Twilio achieved $104 million in non-GAAP income from operations on $1.007 billion in revenue, representing a non-GAAP operating margin of 10%. There is no question that we continue to experience a tough macro backdrop, as evidenced by our year-over-year revenue growth of 15% on both a reported and organic basis. Our revenue guide for Q2 of 4%-5% year-over-year growth is reflective of these headwinds. Aidan will detail our guidance below. I expect that with focused execution, we will achieve the targets we have set for 2023 and beyond, delivering significant value to our customers and to our shareholders. As we've shared before, we've structured the business with the aim of enabling Twilio to operate profitably in any financial climate. While I don't expect the path to be linear, Q1 is a strong signal of our ability to drive that profitability.

We've spent the past few months reorganizing into two business units led by Khozema and Elena – each with a different area of focus. In Twilio Communications, we are orienting ourselves towards profit first, then growth, given the scale and maturity of the business. In Twilio Data & Applications, we are primarily focused on growth, market capture and investment, given the early state of the markets we're serving with Flex, Segment and Engage.

We're seeing signs that it's working. Our goal with Communications is to lead with product-led growth and when humans are involved, make that a truly consultative experience. We've made steady progress on realigning our teams' focus on product-led growth, while also closing our largest Email and one of our largest Verify deals in Twilio's history last quarter!

In the Data & Applications business, we closed notable Segment deals with Cricket Wireless, Sanofi (one of the largest healthcare companies in the world), and MongoDB. We also booked a big Flex win with a major global financial services company – a deal that I was heavily involved in myself. While we continue to experience macro headwinds in our Data & Applications business, we are focused on building a foundation for accelerated growth in the future. In the quarter, our GTM team prioritized optimizing our pipelines and sharpening our campaign messaging. We also shipped Twilio Unify, a real time identity resolution solution that extends Segment's powerful Golden Profiles to the data warehouse.

Our Communications and Data & Applications businesses are highly complementary – both critical to our customer engagement strategy. We are building for a world where we can close the loop for our customers – using data to show which customer touches are working, and which are not. In the fullness of time, I believe we can show which sales, service, marketing, and product interactions are creating customer lifetime value, and which are destroying it. And then, of course, we can help companies expand their value-generating activities, while curtailing the value-losing ones, all powered by real-time data and insights. We are here to help every company build unbreakable digital relationships by understanding their customers through data and communicating with them over every digital channel.

With Khozema and Elena's time laser focused on execution, my time has been freed up to spend more time with strategic customers, to dive more deeply into the AI shift, and broadly, to devote more time to the long-term opportunity for Twilio. The emergence of generative AI has the ability to reshape every industry and how businesses deliver value to their customers, and Twilio is no different. The power of artificial intelligence is directly correlated to the accuracy and relevance of the data powering its models. It's fairly obvious to assume that artificial intelligence can be used to power automated conversations with customers – particularly for support and service use cases. But I believe the real value unlock for artificial intelligence will be pairing large language models with proprietary data sets. And Twilio Segment provides the ideal set of first party data that will help empower our customers to deliver truly personalized customer experiences at scale – giving Twilio a unique competitive advantage as the industry, our peers and most importantly, our customers look to adopt AI. There is a massive opportunity ahead – one I am working closely with our product teams to deliver on. I firmly believe artificial intelligence will be a material accelerant over time for Twilio's business.

We've navigated Twilio through a lot of change in recent months and I'm pleased with the way the teams and our leaders have stepped up to execute towards the opportunity ahead. We have a lot of work to do, but the focus I am seeing day-to-day from our teams reinforces that we have the right structure in place.

Before I close, I'd like to welcome Charlie Bell to Twilio's Board of Directors. Charlie has had a historic career at Amazon and now Microsoft and brings deep cybersecurity expertise and experience running infrastructure technology businesses to the Board. Welcome, Charlie!

Elena Donio, President, Twilio Data & Applications

Twilio Data & Applications delivered $120 million in revenue in Q1, up 19% year-over-year. Our focus lies in driving growth, capturing and investing in the future of the company, supported by a maturing sales organization and an exciting product portfolio. In a moment when businesses need to drive greater efficiencies and establish meaningful ROI, Twilio is in a strong position to deliver unique value to our customers with the combination of our market share leading CDP[1] and customer engagement applications.

Despite a challenging macro, we continued to make progress in Q1, further enabling our teams, working to ensure we are a part of every customer conversation around customer data platforms and engagement applications, and fueling our innovation engine through new products and capabilities. While there is still more work to be done, I believe we're taking the right actions to re-accelerate the business, and our progress thus far was borne out in some key customer wins in Q1.

We signed a multi-year commitment with Cricket Wireless, an existing Twilio Communications customer using SMS and email, who is now rounding out their commitment to the Twilio platform with Segment and Engage. This was a highly competitive deal that we ultimately won by showcasing that by using Engage Premier paired with Segment CDP, Cricket Wireless could activate customer insights from their data warehouse without developer support and get a complete view of the user, reduce churn by precisely identifying where customers fell off during the onboarding journey, and drive growth through personalized campaigns with customized offers.

With Flex, we signed Webhelp, a business process outsourcing company, transitioning them from legacy contact center solutions into Flex so they can implement digital channels like WhatsApp and offer more automation and self-service options for their customers. Webhelp expects a 30% increase in agent productivity and 20% customer growth by using Flex. We also closed a deal with a large global financial services organization that will be using Flex as a key lever to disrupt their region's top banks by delivering a new digital-first, omni-channel contact center and customer engagement solution.

During Q1, we also launched Segment Unify, a real-time identity resolution solution that allows businesses to merge the complete history of each customer into a single profile and freely sync it to and from their data warehouse using reverse extract, transform and load (“ETL”). Sanofi, one of the world’s largest healthcare companies, is using Segment Unify to provide better treatment options for patients. Before using Unify, it took three-plus days to activate customer data; now it takes under three hours. MongoDB, a popular developer data platform with 40,000+ customers in 100+ countries, is using Unify to launch campaigns that bring in more qualified leads, and in one example, they used the Profile API to boost event-registration rates by over 100x.

We also launched Flex Unify into private beta. Flex Unify natively brings Segment's rich customer profile data and identity resolution capabilities into the agent experience, which enables them to offer end customers a more personalized interaction. One of the largest nonprofit health insurers in the U.S. is now using this connector to immediately deploy a robust contact center and engagement solution that improves productivity by 250% across 3,500 agents.

We’re seeing the impact from the macro on our current growth rate, as buyers continue to be more budget conscious and scrutinize all areas of spend. We’ve also experienced instances of renewal contraction and lower ASPs with some customers who are also impacted by the current environment. In addition, current growth is also being impacted by some of the GTM execution issues from early 2022 that we’ve previously highlighted and have since addressed. We’ve taken the necessary steps, moving to a dedicated sales model for Segment and Flex, shifting roles and hiring new talent where necessary to build an elite team of specialist sellers. While we’re making solid progress, many reps are lower in Twilio tenure and still ramping. I’m confident we are making the right moves, and I’m excited by the caliber of the team we now have in place. As we continue to enable and train these specialist sellers, we expect productivity gains throughout 2023.

We will continue to execute on our plans, capitalize on the strength of our people and products, and play through the macro environment. In Q2 we’ll further hone our lead generation engine to fuel a strong pipeline and invest in our innovation engine with our customers at the center of everything we do. In terms of innovation, I believe that the developments around AI will be a tailwind for our business, and I’m excited about the work our teams are doing and Twilio’s unique opportunity here. I’m confident that we’re making the right organizational changes and with a continued focus on execution, enablement, and product innovation, we’ll be in a strong position to re-accelerate bookings later this year and achieve our Medium Term[2] targets.

Khozema Shipchandler, President, Twilio Communications

I'm pleased with the performance of the Communications business in the first quarter, delivering revenue growth of 14% year-over-year to $847 million. As a team, we are laser focused on driving operating excellence, recognizing improved efficiencies, and generating meaningful profits, while continuing to serve our customers and still demonstrably grow the top line. I believe we have the right products, people and structure in place to achieve these goals, and the recent restructurings give us the appropriate cost structure to execute. The progress we have made to date shows that we're on the right track and delivering on our commitments.

Twilio continues to be a CPaaS leader[3], and in the quarter, we signed several large deals, including our largest email deal ever, with a marketing automation company who will embed Twilio's leading email APIs into their platform. And speaking of email, we recently crossed 7 trillion emails sent since inception – a huge milestone for the team. We also signed our largest Silent Network Authentication deal to date with a Fortune 100 entertainment company, providing them a more streamlined user authentication experience for their customers. This is great traction, having only launched the product at our most recent SIGNAL. In addition, we signed a seven-figure deal with Datascore, an innovative AI company which operates a predictive analytics platform for data-driven marketers, who significantly expanded their programmable voice use case in Q1, which in turn led to increasing their customers' ROI by 24%+.

We also signed a seven-figure Verify deal with a leading AI company, who will be using Verify exclusively for their global user authentication. Verify is a product I'm extremely excited about as it provides customers with a way to validate users, over SMS or other preferred channels, using a fully-managed API. In fact, our product team recently delivered an enhanced Fraud Guard model for Verify, which can identify fraudulent activity and block it from being sent without any human interaction.

This type of innovation is at the heart of Twilio, and as I look towards the rest of the year, our team will continue to drive incremental efficiencies, while also continuing to innovate in Communications. We've talked about returning to our roots of self-service and product-led growth, and those are two of the primary areas in which we're working to drive continued growth and efficiency going forward. We are enabling an easier, compliant self-service on-boarding process for our customers that creates a better customer experience, accelerates time to value, while reducing the need for high-touch human interaction. Doing so will enable our sales team to focus their efforts on providing an extraordinary consultative experience with our largest and most strategic customers. While we still have work to do here, I'm excited about the progress we've made.

The macro remains challenging, but it's important to remember that crypto peaked during 2022, which makes for a difficult comparison year-over-year, given the significant volumes generated by those companies. We continue to focus on winning new business, maintaining our market share and executing despite material reductions in our workforce, which principally impacted our Communications business. I feel confident in the road ahead and am cautiously optimistic we can re-accelerate growth as the year progresses.

We'll continue to drive more efficiencies in Communications in service of achieving our consolidated profitability goals and I'm pleased with the performance of the team thus far. The first quarter was a strong start to the year.

Aidan Viggiano, Chief Financial Officer

We undertook a number of actions during Q1 to improve focus, drive better execution and reduce costs, and we are pleased with the results we achieved for the quarter. We're executing our plans and are committed to delivering on our profitability targets regardless of the external environment. I'll provide a brief update on our efforts, but first let me start with the Q1 results.

First quarter revenue was $1.007 billion, up 15% year-over-year on both a reported and organic basis:

- Communications revenue was $847 million, up 14% year-over-year;
- Data & Applications revenue was $120 million, up 19% year-over-year; and,
- Other revenue[4] (enterprise and support plans, professional services, IoT/wireless and other smaller products) was $40 million, up 26% year-over-year.

Our Q1 Dollar-Based Net Expansion Rate was 106%, a step down from the prior quarter, and is directly correlated to the overall growth trends we're experiencing across the business. While we have a highly diversified customer base, we continued to see impacts from the macro environment, consistent with what we've referenced previously.

First quarter non-GAAP gross profit grew 14% over last year and non-GAAP gross margin was 52.3%, up 170 bps from last quarter driven predominantly by product mix.

Non-GAAP income from operations was $104 million in Q1, for a non-GAAP operating margin of 10%. We over-delivered on profit expectations primarily driven by our improved gross margin, lower spend in areas such as marketing and travel and entertainment (T&E) as the teams settled into the new structure, plus timing of accruals associated with the transition of some employees' compensation from equity to cash. And as a reminder, Q1 non-GAAP income from operations also benefited from a $12 million one-time, non-cash accrual reversal related to the sunsetting of the employee sabbatical program, which will not recur in Q2 or subsequent quarters.

During the quarter we incurred $122 million in severance and other expenses associated with the headcount reduction that was initiated in February and a further $22 million in lease impairment charges related to office closures. We also took a $46 million, non-cash impairment charge associated with an investment from 2021. These charges impacted our GAAP results in Q1, but are not included in our non-GAAP results. Stock-based compensation as a percentage of revenue was 15.9% in Q1 excluding amounts reflected in restructuring costs, down 290 basis points quarter-over-quarter, primarily driven by our reduced headcount. Please refer to our Q1 Earnings Presentation for additional financial metrics.

In February, we announced a number of operational and organizational changes as we transition from a growth to a profitable growth company, and we've made solid progress over the past few months. We've largely completed the 17% headcount reduction that was initiated in February, and our headcount is down 25% since our first workforce reduction in September 2022. We've also taken a number of concerted actions to rationalize our cost base and reduce overall operating expenses, including the closure of several offices. We have aligned our teams to a business unit structure, which will enable us to better execute on our key priorities. And to date, we've completed approximately 25% of the $1 billion share repurchase program that we commenced in February, putting us well on track to achieving our previously announced intention to buy back up to $500 million of shares during the first six months of the program. We believe the combination of these actions will improve execution, while accelerating our ability to deliver meaningful levels of profitability and generate attractive returns for our shareholders.

While we remain confident in our ability to deliver on our Medium Term[2] revenue growth targets, we've incorporated the impact from the dynamic macro environment into our guidance for Q2. We're initiating revenue guidance of $980 million to $990 million, for year-over-year growth of 4%-5%. Additionally, this guidance assumes that the sale of our IoT business, announced in March, closes as expected in Q2.

We expect Q2 non-GAAP income from operations of $65 million to $75 million. Given this is a step-down from our Q1 results, let me walk through the primary drivers:

- The $12 million one-time, non-cash accrual reversal from sunsetting our employee sabbatical program that benefitted Q1 will not recur.
- We've guided to lower quarter-over-quarter revenue in Q2, which directly impacts our non-GAAP income from operations.
- We expect incremental payroll expenses associated with our standard merit increases that always go into effect in Q2, moving some of our employees to cash bonuses from equity-based awards, and from changes to our Communications sales incentive structure to better align with Twilio's profitability

goals, which will result in less deferral of these commissions payments going forward.

- We expect more normalized levels of marketing and T&E spend in Q2, and throughout the rest of the year.

The items listed above are expected to be partially offset by the increased quarter-over-quarter benefit from our February restructuring actions that commenced in the middle of Q1.

With our strong non-GAAP operating performance in Q1, we're raising the low end of our full-year non-GAAP income from operations guidance, and now expect 2023 non-GAAP income from operations to be $275 million to $350 million. We're also reaffirming the Medium Term[2] targets from our Financial Framework that we updated last quarter, as detailed in our Q1 Earnings Presentation.

For the remainder of the year, we expect to incur approximately $20 million in restructuring charges as we complete the headcount reductions announced in February, and we also anticipate a further $10 million to $20 million in lease impairment costs associated with announced office closures. For clarity, these charges will impact our GAAP results, but will not impact our targeted non-GAAP income from operations range for the year.

We made a lot of progress across the business in Q1, and our focus on driving greater efficiencies to achieve an accelerated path to meaningful profitability is starting to show results. While there is still more work to be done, I'm confident that the actions we initiated over the last several months position us well moving forward, and will enable us to successfully navigate the current environment, while delivering greater value to our customers and our shareholders in the quarters to come.

APPENDIX

Footnotes

[1] IDC Worldwide Customer Data Platform Market Shares, 2021 Stellar CDP Growth Proves Value of Unified Data for CX - 2022, July 2022, IDC #US49493722.
[2] Medium Term is defined as fiscal years 2025-2027.
[3] Twilio is a leading CPaaS for 2021 market share per IDC #US49493722.
[4] As part of our expected shift to two operating segments in 2023, “Other” revenue will be allocated to our two business units—Communications and Data & Applications—and in such future periods each business unit will include revenue that was not included in such business unit in the current quarter or in prior periods. Upon finalizing the shift to two operating segments, prior periods presented for purposes of comparison will be recast accordingly.

Forward-Looking Statements

This document and the accompanying conference call contain forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “can,” “will,” “would,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “forecasts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this document and the accompanying conference call include, but are not limited to, statements about: our future financial performance, including our expected financial results, our guidance, and our Financial Framework and related commentary; our expectations regarding when we will become profitable on GAAP and non-GAAP bases; our anticipated strategies and business plans, including the expected costs and benefits of changes to our operating model and organizational structure, our September and February 2023 workforce reduction, and our plans to achieve profitability, increase operating leverage and decrease discretionary expenses, including reducing our global office footprint and stock-based compensation expense; our expectations regarding the impact of our divestiture of our IoT business on our business as a whole; our expectations regarding our Data & Applications business, including increased investment and go-to-market focus to capture market share, increase revenue growth and our expectations regarding our sales pipeline and bookings; our expectations regarding our Communications business, including anticipated cash flows and strategy for streamlining the customer experience, including increased focus on self-service capabilities; our expectations regarding our ability to leverage generative AI; our expectations regarding share repurchases, including the timing and amount of repurchases and impact on our balance sheet; and our expectations regarding the impact of macroeconomic and industry conditions, the impact of such conditions on our customers, and our ability to operate in such conditions. You should not rely upon forward-looking statements as predictions of future events.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to differ materially from those described in the forward-looking statements, including, among other things: our ability to successfully implement our cost-saving initiatives and to capture expected efficiencies; our ability to realize the anticipated benefits of changes to our operating model and organizational structure; the impact of macroeconomic uncertainties and market volatility; our financial performance, including expectations regarding our results of operations and the assumptions underlying such expectations and ability to achieve and sustain profitability; our ability to attract and retain customers; our ability to compete effectively in an intensely competitive market; our ability to comply with modified or new industry standards, laws and regulations applying to our business, and increased costs associated with regulatory compliance; our ability to manage changes in network service provider fees and optimize our network service provider coverage and connectivity; our ability to form and expand partnerships; and our ability to successfully enter into new markets and manage our international expansion.

The forward-looking statements contained in this document and the accompanying conference call are also subject to additional risks, uncertainties, and factors, including those more fully described in our most recent filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and our forthcoming Quarterly Report on Form 10-Q. Should any of these risks materialize, or should our assumptions prove to be incorrect, actual financial results could differ materially from our projections or those implied by these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks and uncertainties may emerge that could have an impact on the forward-looking statements contained in this document and the accompanying conference call.

Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made. We undertake no obligation to update any forward-looking statements made in this document or the accompanying conference call to reflect events or circumstances after the date of this document or to reflect new information or the occurrence of unanticipated events, except as required by law.

Non-GAAP Financial Measures

In addition to financial information presented in accordance with U.S. generally accepted accounting principles ("GAAP"), this document and the accompanying conference call include certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating margin, non-GAAP (loss) income from operations (which is often referred to as "non-GAAP operating profit" or "non-GAAP profit from operations") and organic revenue growth. We use these non-GAAP financial measures to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that these non-GAAP financial measures may be helpful to investors because they provide consistency and comparability with past financial performance, facilitate period-to-period comparisons of results of operations and assist in comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. We have included organic revenue growth because we believe it is useful in understanding the ongoing results of our operations. These non-GAAP financial measures are presented for supplemental informational purposes only, should not be considered substitutes for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation of these measures to the most directly comparable GAAP measures is included at the end of these prepared remarks. We have not provided the forward-looking GAAP equivalents for certain forward-looking non-GAAP measures presented in the accompanying conference call, or a GAAP reconciliation, as a result of the uncertainty regarding, and the potential variability of, reconciling items such as stock-based compensation expense. Accordingly, a reconciliation of these non-GAAP guidance metrics to their corresponding forward-looking GAAP equivalents is not available without unreasonable effort. However, it is important to note that material changes to reconciling items could have a significant effect on future GAAP results.

Non-GAAP Gross Profit and Non-GAAP Gross Margin. For the periods presented, we define non-GAAP gross profit and non-GAAP gross margin as GAAP gross profit and GAAP gross margin, respectively, adjusted to exclude stock-based compensation, amortization of acquired intangibles and payroll taxes related to stock-based compensation.

Non-GAAP Income (Loss) from Operations and Non-GAAP Operating Margin. For the periods presented, Twilio defines non-GAAP income (loss) from operations and non-GAAP operating margin as GAAP loss from operations and GAAP operating margin, respectively, adjusted to exclude, as applicable, stock-based compensation, amortization of acquired intangibles, loss on divestiture, acquisition and divestiture related expenses, payroll taxes related to stock-based compensation, charitable contributions, restructuring costs, and impairment of long-lived assets.

Organic Revenue. For the periods presented, we define organic revenue as GAAP revenue, excluding (i) revenue from each acquired or divested business and (ii) revenue from application-to-person ("A2P") 10DLC fees imposed by major U.S. carriers on our core messaging business, in each case until the beginning of the first full quarter following the one-year anniversary of the closing date of such acquisition or divestiture or the initial date such fees were charged; provided that if an acquisition or divestiture closes or such fees are initially charged on the first day of a quarter, such revenue will be included in organic revenue beginning on the one-year anniversary of the closing date of such acquisition or divestiture or the initial date such fees were charged. A2P 10DLC fees are fees imposed by U.S. mobile carriers for A2P SMS messages delivered to its subscribers, and we pass these fees to our messaging customers at cost.

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Organic Revenue Y/Y Growth. For the periods presented, we calculate organic revenue growth by dividing (i) organic revenue for the period presented less organic revenue in the corresponding period in the prior year by (ii) organic revenue in the corresponding period in the prior year. If revenue from certain acquisitions, divestitures or A2P 10DLC fees is included in organic revenue in the period presented, then revenue from the same acquisitions, divestitures and A2P 10DLC fees is included in organic revenue in the corresponding period in the prior year for purposes of the denominator in the organic revenue growth calculation. As a result, the denominator used in this calculation will not always equal the organic revenue reported for the prior period.

Key Business Metrics

We review a number of operational and financial metrics, including Active Customer Accounts and Dollar-Based Net Expansion Rate, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions.

Our key metrics are not based on any standardized industry methodology and are not necessarily calculated in the same manner or comparable to similarly titled measures presented by other companies.

Similarly, our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. The numbers that we use to calculate Active Customer Accounts and Dollar-Based Net Expansion Rate are based on internal data. While these numbers are based on what we believe to be reasonable judgments and estimates for the applicable period of measurement, there are inherent challenges in measuring usage. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition would be harmed.

Active Customer Accounts

We define an Active Customer Account at the end of any period as an individual account, as identified by a unique account identifier, for which we have recognized at least $5 of revenue in the last month of the period. A single organization may constitute multiple unique Active Customer Accounts if it has multiple account identifiers, each of which is treated as a separate Active Customer Account. Active Customer Accounts excludes customer accounts from Zipwhip, Inc.

We believe that the number of Active Customer Accounts is an important indicator of the growth of our business, the market acceptance of our platform and future revenue trends. We believe that use of our platform by customers at or above the $5 per month threshold is a stronger indicator of potential future engagement than trial usage of our platform or usage at levels below $5 per month.

Dollar-Based Net Expansion Rate

Our Dollar-Based Net Expansion Rate compares the revenue from all Active Customer Accounts in a quarter to the same quarter in the prior year. To calculate the Dollar-Based Net Expansion Rate, we first identify the cohort of Active Customer Accounts that were Active Customer Accounts in the same quarter of the prior year. The Dollar-Based Net Expansion Rate is the quotient obtained by dividing the revenue generated from that cohort in a quarter, by the revenue generated from that same cohort in the corresponding quarter in the prior year. When we calculate Dollar-Based Net Expansion Rate for periods longer than one quarter, we use the average of the applicable quarterly Dollar-Based Net Expansion Rates for each of the quarters in such period. Revenue from acquisitions does not impact the Dollar-Based Net Expansion Rate calculation until the quarter following the one-year anniversary of the applicable acquisition, unless the acquisition closing date is the first day of a quarter. As a result, for the quarter ended March 31, 2023, our Dollar-Based Net Expansion Rate excludes the contributions from acquisitions made after January 1, 2022.

We believe that measuring Dollar-Based Net Expansion Rate provides an indication of the performance of our efforts to increase revenue from existing customers. Our ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with existing Active Customer Accounts and to increase their use of the platform. An important way in which we have historically tracked performance in this area is by measuring the Dollar-Based Net Expansion Rate for Active Customer Accounts. Our Dollar-Based Net Expansion Rate increases when such Active Customer Accounts increase their usage of a product, extend their usage of a product to new applications or adopt a new product. Our Dollar-Based Net Expansion Rate decreases when such Active Customer Accounts cease or reduce their usage of a product or when we lower usage prices on a product. As our customers grow their businesses and extend the use of our platform, they sometimes create multiple customer accounts with us for operational or other reasons. As such, when we identify a significant customer organization (defined as a single customer organization generating more than 1% of revenue in a quarterly reporting period) that has created a new Active Customer Account, this new Active Customer Account is tied to, and revenue from this new Active Customer Account is included with, the original Active Customer Account for the purposes of calculating this metric.

TWILIO INC. *Reconciliation to Non-GAAP Financial Measures*			
(In thousands)	**Three Months Ended**		
	March 31, 2022	**December 31, 2022**	**March 31, 2023**
Revenue	$ 875,363	$ 1,024,574	$ 1,006,564
GAAP gross profit	$ 425,071	$ 481,142	$ 490,690
GAAP gross margin	49%	47%	49%
Non-GAAP adjustments:			
Stock-based compensation	4,521	6,505	5,290
Amortization of acquired intangibles	30,636	30,052	29,961
Payroll taxes related to stock-based compensation	-	82	195
Non-GAAP gross profit	$ 460,228	$ 517,781	$ 526,136
Non-GAAP gross margin	53%	51%	52%

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TWILIO INC. *Reconciliation* **(In thousands)**	**Three Months Ended**	
	December 31, 2022	**March 31, 2023**
Revenue	$ 1,024,574	$ 1,006,564
Stock-based compensation	$ 192,300	$ 170,799
Adjustments:		
Stock based compensation reflected in restructuring costs	999	(10,333)
Stock-based compensation, net of amounts recognized in restructuring costs	$ 193,299	$ 160,466
Stock-based compensation, net of amounts recognized in restructuring costs as a percent of revenue	18.9%	15.9%

TWILIO INC. *Reconciliation to Non-GAAP Financial Measures*		
(In thousands)	**Three Months Ended March 31, 2023**	
Revenue	$	1,006,564
GAAP gross profit	$	490,690
GAAP gross margin		49%
Non-GAAP adjustments:		
Stock-based compensation		5,290
Amortization of acquired intangibles		29,961
Payroll taxes related to stock-based compensation		195
Non-GAAP gross profit	$	526,136
Non-GAAP gross margin		52%
GAAP operating expenses	$	754,774
Non-GAAP adjustments:		
Stock-based compensation		(155,176)
Amortization of acquired intangibles		(20,813)
Acquisition and divestiture related expenses		(2,235)
Loss on divestiture		(3,824)
Payroll taxes related to stock-based compensation		(5,052)
Charitable contributions		(1,599)
Restructuring costs		(121,942)
Impairment of long-lived assets		(21,784)
Non-GAAP operating expenses	$	422,349
GAAP loss from operations	$	(264,084)
GAAP operating margin		-26%
Non-GAAP adjustments:		
Stock-based compensation		160,466
Amortization of acquired intangibles		50,774
Acquisition and divestiture related expenses		2,235
Loss on divestiture		3,824
Payroll taxes related to stock-based compensation		5,247
Charitable contributions		1,599
Restructuring costs		121,942
Impairment of long-lived assets		21,784
Non-GAAP income from operations	$	103,787
Non-GAAP operating margin		10%

twilio

TWILIO INC *Reconciliation to non-GAAP Financial Metrics*		
(in thousands)	**Three Months Ended March 31, 2023**	
Revenue	**$**	**1,006,564**
Acquisition revenue	$	(2,088)
Organic revenue	**$**	**1,004,476**
Revenue Y/Y Growth		15%
Organic Revenue Y/Y Growth		15%[1]

[1] Organic revenue for the three months ended March 31, 2022, when used as the denominator for Y/Y growth for the three months ended March 31, 2023, excludes $0.6 million of acquisition revenue. Revenue for the three months ended March 31, 2022 was $875.4 million.