Q2 2023 Earnings

Prepared Remarks

August 8, 2023

Jeff Lawson, Co-founder and CEO

We closed out a strong second quarter, over delivering on both our revenue and profit targets, and generating record quarterly non-GAAP income from operations of $120 million. We begin the second half of the year energized by the progress we've made to date in Communications, confident that we've laid the foundation to reaccelerate growth in our Data & Applications business over time, and optimistic about AI's potential to be an accelerant for Twilio's vision. We also remain committed to continuing to deliver against our profitability targets in any financial environment.

We've made significant strides on our path to GAAP profitability and have substantially increased the operating margin profile of our business. In Q2, we reduced GAAP loss from operations by over 50% year-over-year, drove a continued reduction in stock-based compensation, and delivered $72 million of free cash flow in the quarter. We're executing well against our commitments, and as a result of our strong performance for the first half of the year, we're raising our full-year non-GAAP income from operations guidance to $350 million to $400 million.

A business transformation as big as what Twilio is taking on takes time. It requires tactical focus in the short term and a bold vision for what's possible in the long term. Twilio's Act 1, Communications, has been a success in terms of scale and efficiency. Our Communications business continues to deliver against the objectives we've set, driving efficient growth, while we target ongoing operating leverage in the coming years. And we're now building Act 2 based on our belief that Twilio's data asset, when combined with the power and reach of our Communications platform and accelerated by AI, can unlock value for businesses that we are uniquely positioned to deliver through our innovative combination of product offerings. While I don't expect the road ahead to be linear, we've embarked on a massive market opportunity – one that has the ability to transform the status quo for customer engagement.

Now, to where we are today:

In Communications, we delivered a strong quarter and are encouraged by continued signs of stabilization across our customer base. The efficiency actions we took have proven to be the right ones and the business is delivering with a more streamlined operating profile. Following our largest email deal in Q1, the team signed our largest ever messaging deal in Q2 - an exciting milestone for Twilio at this scale! As a part of our efforts to focus on doing fewer things better, we also recently completed the divestitures of Twilio's IoT and ValueFirst businesses. The usage-based nature of our Communications business makes it sensitive to macro conditions, so the team continues to manage towards gross profit growth and driving leverage. Khozema will share where the team is focused on driving further efficiencies, while capitalizing on our growth opportunities through the second half of the year and beyond.

In Data & Applications, we are continuing to focus on executing against our go-to-market rebuild efforts. We now have sales reps ramped in our most critical areas and we are optimistic that our bookings will improve towards the end of the year and that revenue growth will accelerate during 2024. Elena will share more about our progress here.

In June, we previewed our vision for CustomerAI, which we have designed to layer predictive and generative AI capabilities across our platform at every customer touchpoint. As I shared last quarter, I believe the real value unlock for artificial intelligence will be pairing large language models with first party data sets — we believe this is where Twilio is most differentiated through our data asset - Segment. Segment's Customer Profiles will become even more data rich with AI, accelerating our data and communications flywheel. By training large language models for customers with their data that lives inside Segment, Twilio will help customers enter the AI race multiple steps ahead of their peers. Twilio's ability to drive that level of differentiated customer value proposition has the potential to be a significant tailwind for our business.

We're also excited to be building an ecosystem of partners and integrations including Google, Databricks, FrameAI, and OpenAI to power some of CustomerAI's generative capabilities as well as AWS to power predictive AI use cases within Segment. I can't wait to showcase several of the products that will advance our CustomerAI vision at SIGNAL on August 23rd.

I'm proud of the team for navigating through a lot of change as we reoriented the company over the last several quarters. This is a team that has executed well against our plans, as evidenced by the speed in which they have adapted to the new structure of the business, driving greater efficiency and having delivered over $220 million of non-GAAP operating income through the first two quarters of 2023, exceeding our financial targets and building a foundation that sets us up to continue to achieve our goals and capitalize on the tremendous opportunity ahead. I remain confident we have the right team, plan and solutions to deliver meaningful value to our customers and look forward to sharing our progress today. Onwards!

Elena Donio, President, Twilio Data & Applications

Twilio Data & Applications delivered $125 million in revenue in Q2, up 12% year-over-year, with a non-GAAP gross margin of 81.7%. During the quarter we continued to execute against our plan to mature our sales organization, invest in new AI-powered products and capabilities, and expand our pipeline in an environment where buyers are facing increased budget scrutiny. I'm pleased with our progress to date, but we have more work ahead.

Since last quarter we've announced several exciting partnerships and new product capabilities that reflect our unique position in the market. In July, IDC ranked Segment as the #1 CDP by worldwide market share in 2022[1]. We recently announced a partnership with Databricks to develop a bi-directional integration that will help Segment customers unlock even more value from their data. Additionally, we are partnering with Google to bring generative AI into Flex and transform how brands personalize their customer interactions. Finally, we unveiled CustomerAI, infusing generative and predictive AI capabilities into Segment, Engage, Flex, and Communications. Our Signal conference is two weeks away and we plan to showcase new innovation and an exciting roadmap built around our CustomerAI vision.

Our software products are resonating in the market as evidenced by multiple notable customer wins this quarter:

- A long-standing Communications customer that provides software solutions to health and wellness providers signed a deal in Q2 with Segment CDP to deliver personalized customer experiences, increase trial-to-paid subscription rates, and drive improved patient outcomes.
- Follett, a leading provider of education technology, will leverage our entire suite of Segment products, including Connections, Protocols, Audiences, Journeys, and Unify. We won this competitive deal because of Segment's faster time-to-value and ease of use in the future when the customer wants to leverage Segment's APIs to connect to additional tools.
- Fortune Media, the multinational media company, was a competitive win due to the flexibility of Segment Connections and the power of our Profile API, allowing Fortune Media to obtain a single view of their end users, furthering the ability to personalize and improve the overall engagement experience.

- A large financial services company based in Israel committed to a comprehensive contact center solution leveraging Flex and our Conversations API for a custom-built AI chatbot with seamless agent handoff, allowing them to scale while improving the customer experience.
- A Fortune 100 property and casualty insurance provider that we signed an eight-figure deal with in Q3’22 scaled to over 15,000 agents during the quarter by leveraging new capabilities in Flex allowing for enterprise scale. This Flex scale initiative, which was launched in limited availability in February, allows Flex to support customers scaling up to 30,000 agents concurrently in a single account.

As I mentioned last quarter, we’ve made good progress with our transition to a dedicated sales model for Segment and Flex, and have rebuilt a specialized sales motion with highly skilled reps. Training and enablement was a key focus area for Q2 and we delivered increased in-person training sessions and improved overall sales capacity across the board. I’m excited that for the first time in over a year, the majority of our Segment sales team has been in-seat for at least nine months. We’ve seen early signs of traction with these efforts, including a strong increase in pipeline generation within Flex and significant improvement in Segment pipeline conversion from Q1.

While I’m encouraged by our progress and some of these early signals, we continue to navigate a challenging macro, which has led to some instances of higher renewal contraction and lower expansion. Competitive churn has remained low and stable, but we are seeing instances of greater price sensitivity with some of our SMB customers. To address this, we are implementing initiatives designed to give customers, particularly small and mid-sized businesses, more flexibility to start small, deploy quickly, and expand to leverage more Segment capabilities as their business grows.

We feel good about the steps we’ve made to improve execution, but there is still more work ahead to get our Data & Applications performance back to where we believe it should be. Going forward, we’ll continue to focus on onboarding and ramping our teams, optimizing our marketing campaigns, and driving more top-of-funnel activity. We’ll also focus on giving our customers more accessible entry points to our products and delivering faster time to value. We believe we’re laying a solid foundation for long-term growth for the business, and I’m confident that this will lead to improved bookings towards the back-end of the year.

Khozema Shipchandler, President, Twilio Communications

Twilio Communications delivered $913 million in revenue in Q2, up 10% year-over-year, with a non-GAAP gross margin of 48.2%. As a team, we continue to focus on driving growth with a more streamlined cost structure, and generating meaningful profits. I'm pleased with our team's ability to quickly adapt to the organizational changes we made earlier this year, which is evidenced by the results we delivered in Q2.

Once again, Twilio was named a leader in IDC's recent 2023 CPaaS MarketScape report[2]. Leveraging this leadership position, our go-to-market team has been focused on proactively driving cross-sell opportunities across our broad portfolio of Communications products, and we're seeing meaningful traction. As an example, last quarter we highlighted our largest email deal in Twilio history, and this quarter we signed our largest messaging deal ever with the same leading marketing automation company, bringing their total commitment to Twilio to more than $100 million. Additionally, a Fortune 500 entertainment customer that has been using our messaging, account security and voice APIs, recently chose Twilio to exclusively power a critical customer onboarding initiative, increasing their ongoing messaging spend with Twilio by $1 million a month.

We continue to see an exciting runway for efficient growth in our Communications business against a $50+ billion TAM, and we believe our innovations in AI can help accelerate market share gains in the coming years. We are bringing AI/ML capabilities to life in our core Communications products, including the release of Fraud Guard for Verify. In Q2 we signed an expansion deal with a leading employment company to enhance their multi-channel, high-touch customer relationship model via our messaging, voice, and email APIs. Fraud Guard was an instrumental component of this deal. We also piloted SMS Pumping Protection in the second quarter, which leverages AI to automatically detect and block artificially inflated SMS traffic via our messaging API. This product prevented meaningful losses on behalf of our pilot customers and as a result of the successful pilot, we've recently moved it into private beta. We also released Twilio Voice Intelligence into public beta, an AI-powered capability allowing our customers to extract data insights from their call recordings, unlocking process automation and data-driven decision making at scale. A global financial services institution and a longstanding Programmable Voice customer is one of our first major customers to adopt this product. Leveraging Voice Intelligence has proven to continually increase the quality of their customer service and ensure robust compliance.

We're also continuing to focus on our sales assisted product-led growth motion, and in Q2 we made great strides in returning to our self-service roots. During the quarter we rolled out several updates to drive greater pricing transparency. We also implemented a decentralized solutions engineering team, removed layers of leadership and specialist teams, and arranged our international go-to-market team to be centrally managed. We are thoughtfully deploying our go-to-market resources to spend time on our largest existing and prospective customers to drive greater efficiencies and customer wins in the coming quarters.

We are encouraged by our growth trajectory in Q2, but still see a choppy macro, which also means we have less visibility in this environment. We're seeing volume growth across a number of our verticals, but we are still experiencing volume weakness in a few verticals including Social & Messaging and Crypto. On balance, we remain hopeful about Q3 and beyond, and believe we have a good setup to continue to drive operating leverage and growth moving forward with a much more efficient go-to-market model.

It's worth noting that we have made a commitment to our carrier partners to block unregistered U.S.-bound 10DLC SMS and MMS traffic as of August 31, 2023. We expect this will have a modest negative impact on revenue growth in Q3 of up to 100 basis points, and it could yield a potential headwind of 200-300 basis points on growth in Q4. While the majority of our traffic is already registered, we are actively working with customers who are not yet compliant to get their traffic registered in advance of the deadline.

I'm excited by the progress we made during the first half of the year as the team successfully navigated the operational and organizational changes we implemented, together with a challenging external environment. We're executing well, and as volume stabilization continues, we believe we're in a strong position to leverage our scale, large customer base and leading set of Communications products to continue to win new business everywhere we can, while driving further efficiencies, and we are confident revenue growth will reaccelerate over time.

Aidan Viggiano, Chief Financial Officer

We continue to execute on our plans to drive greater efficiencies across our business and establish an accelerated path to profitability. We've made solid progress against our targets, delivering record quarterly non-GAAP income from operations in Q2 and continuing on our path towards GAAP profitability. While we have more to accomplish, I'm pleased with the traction we've achieved to date and the results our team delivered in the quarter.

Second quarter revenue was $1.038 billion, up 10% year-over-year on both a reported and organic basis:

- Communications revenue was $913 million, up 10% year-over-year;
- Data & Applications revenue was $125 million, up 12% year-over-year; and
- IoT and ValueFirst revenue was $25 million and is included in our Communications revenue for Q2; adjusting for these recent divestitures, total Q2 revenue would have been $1.013 billion, up 11% year-over-year.

While the market remains dynamic, we saw continued stabilization of volumes across our usage-based products throughout the quarter, which helped drive our revenue beat. As we referenced during our Q1 earnings call, our Q2 revenue growth rate was negatively impacted by headwinds from customers in the crypto industry. Total Q2 organic revenue growth excluding crypto customers was 14% year-over-year. We anticipate similar headwinds in Q3, after which the impact will start to moderate.

Our Q2 Dollar-Based Net Expansion Rate was 103%. This is directly correlated to the overall growth trends we're experiencing across the business. Dollar-Based Net Expansion Rates for the Communications and Data & Applications business units were 103% and 99%, respectively.

Q2 non-GAAP gross profit grew 13% over last year, representing a non-GAAP gross margin of 52.2%. This is up 130 basis points year-over-year and down 10 basis points quarter-over-quarter, driven predominantly by product mix. Non-GAAP gross margins for our Communications and Data & Applications business were 48.2% and 81.7% respectively.

Q2 non-GAAP income from operations was $120 million, representing a non-GAAP operating margin of 11.6%. This was significantly ahead of expectations, primarily due to the revenue beat and our ongoing efforts to maintain cost discipline across the business.

Q2 GAAP loss from operations was $142 million, which includes expenses associated with the February restructuring action, a loss associated with our ValueFirst divestiture, and real estate impairment charges, all-in totaling $55 million. Stock-based compensation as a percentage of revenue was 14.7% in Q2 excluding approximately $0.3 million of restructuring costs, down 120 basis points quarter-over-quarter. Lastly, for Q2 we generated $72 million in free cash flow, and this is an area of focus for us as we drive greater profitability in the business.

We're delivering against the plans that we outlined in February, and the progress that we demonstrated in Q2 shows that the changes we've made in the business are yielding the intended efficiency gains and profitability results. We've also continued to execute against our $1 billion share repurchase program that we commenced in February. We completed the first $500 million of repurchases in early July, ahead of our original six month target. We intend to continue to make progress against the balance of our share repurchase authorization moving forward.

While we feel confident about the strength of our competitive positioning and market opportunity, we're continuing to plan and run the business prudently given the dynamic external environment. For Q3 guidance, we're initiating a revenue target of $980 million to $990 million, representing year-over-year reported revenue growth of 0%-1% and 3%-4% on an organic basis. The organic growth rate excludes our ValueFirst and IoT businesses, both of which were recently divested. Also, as mentioned above, these growth rates reflect a few hundred basis point headwind from crypto customers, as well as the potential one hundred basis point headwind associated with 10DLC registration changes that Khozema highlighted.

We expect Q3 non-GAAP income from operations of $75 million to $85 million. This takes into account approximately $10 million of expenses for our SIGNAL conference, which will take place this month. Given our strong first half performance, we're raising our full-year non-GAAP income from operations guidance to $350 million to $400 million.

We've made meaningful progress over the first half of the year, but there is still more work to be done. I'm confident that we are taking the right set of actions that will enable us to continue to drive focused execution and deliver increased value to our shareholders in the quarters to come.

APPENDIX

Footnotes

[1] IDC Worldwide Customer Data Platform Applications Software Market Shares, 2022: Continued CDP Growth to $2.7 Billion Proves Value of Unified Data for CX and Digital Business, June 2023, IDC #US50861023.

[2] IDC MarketScape: Worldwide Communications Platform as a Service 2023 Vendor Assessment, May 2023, IDC #US50607923.

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 and our guidance; our expectations regarding profitability, including 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 reductions, the shift in our segment reporting structure, and our plans to achieve profitability, increase operating leverage and decrease discretionary expenses, including reducing our global office footprint and our stock-based compensation expense; our expectations regarding the impact of our divestitures of our IoT and ValueFirst businesses on our business as a whole; our expectations regarding our Data & Applications business, including our sales pipeline and bookings, new product releases, increased investment and go-to-market focus to capture market share, increased revenue growth, and when revenue growth will accelerate; 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 artificial intelligence (“AI”) and machine learning (“ML”) and develop and deliver products that incorporate generative AI and ML; 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 Annual Report on Form 10-K and subsequent Quarterly Reports 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 income (loss) from operations, organic revenue, organic revenue growth, non-GAAP stock-based compensation expense and free cash flow. 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 believe organic revenue and organic revenue growth are useful in understanding the ongoing results of our operations. We believe free cash flow provides useful supplemental information to help investors understand underlying trends in our business and our liquidity. 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 business and 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 and (ii) revenue from each divested business beginning in the quarter of the closing date of such divestiture; provided that (a) if an acquisition 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 the initial date such fees were charged, and (b) if a divestiture closes on the last day of a quarter, such revenue will be included in organic revenue for that quarter. 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. Communications organic revenue is calculated using the same methodology, but using (and excluding, as applicable) only revenue attributable to the Communications segment.

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 or excluded in organic revenue in the period presented, then revenue from the same acquisitions, divestitures and A2P 10DLC fees is included or excluded 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. Communications organic revenue growth is calculated using the same methodology, but using (and excluding, as applicable) only revenue attributable to the Communications segment.

Free Cash Flow. For the periods presented, we calculate free cash flow as net cash provided by operating activities, excluding capitalized software development costs and purchases of long-lived and intangible assets.

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. Communications Active Customer Accounts and Data & Applications Active Customer Accounts are calculated using the same methodology, but using only revenue recognized from accounts in the respective segment. Because an individual Active Customer Account may be counted as both a Communications Active Customer Account and a Data & Applications Active Customer Account, the sum of the segment-level Active Customer Accounts may exceed our total company Active Customer Accounts.

We believe that the number of Active Customer Accounts, on an aggregate basis and at the segment level, 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 June 30, 2023, our Dollar-Based Net Expansion Rate excludes the contributions from acquisitions made after April 1, 2022. Revenue from divestitures does not impact the Dollar-Based Net Expansion Rate calculation beginning in the quarter the divestiture closed, unless the divestiture closing date is the last day of a quarter. As a result, for the quarter ended June 30, 2023, our Dollar-Based Net Expansion Rate excludes the contributions from divestitures made after June 30, 2022. Communications Dollar-Based Net Expansion Rate and Data & Applications Dollar-Based Net Expansion Rate are calculated using the same methodology, but using only revenue attributable to the respective segment and Active Customer Accounts for that respective segment.

We believe that measuring Dollar-Based Net Expansion Rate, on an aggregate basis and at the segment level, 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.

Non-GAAP Financial Measures Reconciliation

(In thousands, unaudited)

	Three Months Ended		
	June 30, 2022	March 31, 2023	June 30, 2023
Revenue	$ 943,354	$ 1,006,564	$ 1,037,761
GAAP gross profit	$ 445,289	$ 490,690	$ 505,755
GAAP gross margin	47%	49%	49%
Non-GAAP adjustments:			
Stock-based compensation	3,996	5,290	6,334
Amortization of acquired intangibles	31,236	29,961	29,669
Payroll taxes related to stock-based compensation	242	195	123
Non-GAAP gross profit	$ 480,763	$ 526,136	$ 541,881
Non-GAAP gross margin	51.0%	52.3%	52.2%

	Three Months Ended	
	March 31, 2023	June 30, 2023
Revenue	$ 1,006,564	$ 1,037,761
Stock-based compensation	$ 170,799	$ 153,094
Adjustments:		
Stock-based compensation reflected in restructuring costs	(10,333)	(296)
Non-GAAP stock-based compensation expense	$ 160,466	$ 152,798
Non-GAAP stock-based compensation expense, as a percent of revenue	16%	15%

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Non-GAAP Financial Measures Reconciliation

(In thousands, unaudited)

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Revenue	$ 1,037,761	$ 2,044,325
GAAP gross profit	$ 505,755	$ 996,445
Non-GAAP adjustments:		
Stock-based compensation	6,334	11,624
Amortization of acquired intangibles	29,669	59,630
Payroll taxes related to stock-based compensation	123	318
Non-GAAP gross profit	$ 541,881	$ 1,068,017
Non-GAAP gross margin	52.2%	52.2%
GAAP operating expenses	$ 647,582	$ 1,402,356
Non-GAAP adjustments:		
Stock-based compensation	(146,464)	(301,640)
Amortization of acquired intangibles	(20,521)	(41,334)
Acquisition and divestiture related expenses	(3,097)	(5,332)
Loss on divestiture	(28,453)	(32,277)
Payroll taxes related to stock-based compensation	(2,032)	(7,084)
Charitable contributions	(1,047)	(2,646)
Restructuring costs	(14,902)	(136,844)
Impairment of long-lived assets	(9,332)	(31,116)
Non-GAAP operating expenses	$ 421,734	$ 844,083
GAAP loss from operations	$ (141,827)	$ (405,911)
GAAP operating margin	-14%	-20%
Non-GAAP adjustments:		
Stock-based compensation	152,798	313,264
Amortization of acquired intangibles	50,190	100,964
Acquisition and divestiture related expenses	3,097	5,332
Loss on divestiture	28,453	32,277
Payroll taxes related to stock-based compensation	2,155	7,402
Charitable contributions	1,047	2,646
Restructuring costs	14,902	136,844
Impairment of long-lived assets	9,332	31,116
Non-GAAP income from operations	$ 120,147	$ 223,934
Non-GAAP operating margin	11.6%	11.0%

Non-GAAP Financial Measures Reconciliation

(In thousands, unaudited)

		Three Months Ended June 30, 2023
Total Revenue	**$**	**1,037,761**
Divestiture revenue		(6,142)
Organic Revenue	**$**	**1,031,619**
Revenue Y/Y Growth		10%
Organic Revenue Y/Y Growth		10%[1]

[1] Organic revenue for the three months ended June 30, 2022, when used as the denominator for Y/Y growth for the three months ended June 30, 2023, excludes $7.3 million of divestiture revenue. Revenue for the three months ended June 30, 2022 was $943.4 million.

	Three Months Ended			
		June 30, 2022		June 30, 2023
Total Revenue	**$**	**943,354**	**$**	**1,037,761**
Divestiture revenue		(7,334)		(6,142)
Crypto industry revenue		(38,511)		(9,533)
Organic Revenue excluding Crypto industry	**$**	**897,509**	**$**	**1,022,086**
Revenue Y/Y Growth		41%		10%
Organic Revenue excluding Crypto Industry Y/Y Growth				14%

	Three Months Ended			
		June 30, 2022		June 30, 2023
Revenue	$	943,354	$	1,037,761
ValueFirst and IoT revenue		(27,806)		(24,824)
Total revenue excluding ValueFirst and IoT	$	915,548	$	1,012,937
Revenue excluding ValueFirst and IoT Y/Y Growth				11%

Non-GAAP Financial Measures Reconciliation

(In thousands, unaudited)

	Three Months Ended June 30, 2023
Net cash provided by operating activities	$ 83,646
Capitalized software development costs	(10,215)
Purchases of long-lived and intangible assets	(1,503)
Free cash flow	$ 71,928

Segment Operating Results

(In thousands, unaudited)

The following table provides selected financial data for our reportable segments for the periods indicated:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023
Revenue		
Communications	$ 832,305	$ 913,135
Data & Applications	111,049	124,626
Total	$ 943,354	$ 1,037,761
Non-GAAP gross profit		
Communications	387,294	440,071
Data & Applications	93,469	101,810
Total	$ 480,763	$ 541,881
Reconciliation of non-GAAP gross profit to gross profit:		
Total non-GAAP gross profit	$ 480,763	$ 541,881
Stock-based compensation	(3,996)	(6,334)
Amortization of acquired intangibles	(31,236)	(29,669)
Payroll taxes related to stock-based compensation	(242)	(123)
Gross profit	445,289	505,755
Operating expenses	(757,225)	(647,582)
Other expenses, net	(8,239)	(23,616)
Loss before provision for income taxes	$ (320,175)	$ (165,443)