



Q2 2022 Earnings

Prepared Remarks

August 4, 2022

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This document contains forward-looking statements that are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results or outcomes to be materially different from any future results or outcomes expressed or implied by the forward-looking statements. In particular, Twilio's statements regarding the following expectations are subject to change: Twilio's outlook for the quarter ending September 30, 2022; Twilio's annual revenue run rate based on second quarter results; Twilio's goals regarding delivering non-GAAP operating profitability beginning in 2023 and meeting annual growth rates and long-term non-GAAP gross margin targets; Twilio's expectations regarding products and solutions, including the demand for products and solutions based on macro trends and survey results; Twilio's expectations regarding retention of customer data platforms like Twilio by organizations in times of macro uncertainty; Twilio's expectations regarding business benefits and financial impacts from acquisitions and partnerships and investments, including noted transactions; Twilio's expectations regarding the impact of recent and future privacy changes on certain third party platforms on Twilio and our customers; and Twilio's ability to manage changes in network service provider fees that it pays in connection with the delivery of communications on its platform and the impact of those fees on gross margin. You should not rely upon forward-looking statements as predictions of future events.

Should any of the outlined 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. A description of these risks, uncertainties and assumptions and other factors that could affect our financial results are included in our SEC filings, including our most recent report on form 10-K, subsequent reports on form 10-Q, and any amendments to any of the foregoing. Forward-looking statements represent our 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 during the earnings call to reflect events or circumstances after today, or to reflect new information or the occurrence of unanticipated events, except as required by law.

This document also includes certain non-GAAP financial measures. Reconciliations between our GAAP and non-GAAP results and further information related to guidance can be found in our earnings press release.



Jeff Lawson, Co-founder and CEO

We closed a strong second quarter, delivering \$943 million in revenue for year-over-year growth of 41%, and 33% growth on an organic basis. Closing the quarter with more than 275,000 active customer accounts and 123% dollar-based net expansion rate, we continue to have a diverse and global customer base across nearly every vertical and company size.

Based on our results and what we're currently seeing, we remain confident in our growth trajectory and our profitability goals for 2023 and beyond. Investing in direct and unbreakable customer relationships is a priority for most companies, especially in times of uncertainty. That said, we are closely following the various factors impacting the macro environment and we are not immune to some of those factors. We are taking proactive steps to prepare Twilio for a worsening macro environment, and remain laser focused on our customers and our top priorities.

The broad reach of Twilio's platform and strength in foundational technologies like messaging, voice, and email continue to enable Twilio to invest and go deeper on other customer engagement needs. Our platform approach serves as a critical foot in the door with our customers in order to execute on our strategy, provide more operating leverage over time and add more value with our software products as we focus our go-to-market resources on accelerating Segment and Flex.

In fact, Twilio signed its largest Flex deal ever in the second quarter – an eight figure deal with a Fortune 100 retailer to completely reimagine their customer experience with Twilio Flex! This multinational organization expanded its existing relationship with Twilio to rebuild the connection between its brick and mortar and virtual store with Twilio Flex, video, chat and messaging. This data driven, cross-channel customer engagement platform will create a single view of the customer across the organization to provide a seamless, personalized and memorable customer experience across marketing, sales and customer support.

Customers come to us to solve communications problems, implementing our messaging, voice, email and other APIs. But communication is only part of the solution. Ultimately, our customers are leveraging our platform to build relationships across the customer lifecycle. By leveraging Twilio to engage with their customers, they've given us

a unique view into these problems – and into how we can vastly improve the customer experience. For example, one problem was helping them leverage their customer data to better understand and serve their customers. Therefore, we bought Segment. Another problem was standing up modern, flexible, digital-first contact centers – so we developed Flex. Another need was to enable secure, privacy-respecting, compliant conversations between frontline staff and customers – so we built Frontline. And most recently, the need to leverage customer data to deliver more efficient and effective marketing campaigns – which we’ll solve when Twilio Engage becomes generally available later this year. Each of our product moves in the customer engagement space is directly informed by how our customers are using Twilio – and how we can make them even more successful, more quickly.

That's one of the many reasons why Omdia, a leading research and analyst firm in the technology space, [ranked](#) Twilio as a “Customer Engagement Platform” leader, with the highest ranking when it comes to “Customer Experience” for our Customer Engagement Platform offering. As the leading cloud communication platform and a leading customer data platform, Twilio has a unique view into the customer lifecycle setting us up as *the company* that can deliver a single Customer Engagement Platform for companies to leverage real-time, consumer-scale data to deliver real-time, personalized and memorable customer interactions.

As we continue to move up the software stack, we've begun to show customers how Twilio's platform can enable both lower customer acquisition costs, as well as greater lifetime value. These are the two factors that help companies grow efficiently – and Twilio’s Customer Engagement Platform can help address both sides of the equation through better customer data, more effective marketing campaigns, more personalization, and greater automation in their service center – leading to increased engagement throughout the customer lifecycle. From my conversations, this is what's on executives' minds and that’s what Twilio intends to deliver. I’d like to thank our customers, our investors and our employees for coming along for the ride as we build this incredible company and take on this massive opportunity!

Before I close, I’d like to welcome Miyuki Suzuki to Twilio’s Board of Directors. Miyuki brings more than four decades of global technology leadership and board member experience in the B2B and B2C segments, extensive knowledge of the APAC market which is a key growth area for Twilio and expertise across telecommunications, hosting and managed services, networking and collaboration and cyber-security. Miyuki is joining the Twilio Board at a critical time in the company’s growth as it doubles down on software sales growth, operating leverage and continued international expansion. Welcome, Miyuki, to Twilio!



Elena Donio, President of Revenue

Our team delivered another quarter of solid results, as companies are turning to Twilio to help them solve their businesses' most pressing customer engagement challenges. There are a lot of wins to celebrate this quarter, and I am excited and energized about our ability to help our customers continue to deliver incredible customer experiences using Twilio.

Over the past few months I've had the opportunity to spend significant time with Twilio's executive team, product teams, customers, and of course the go-to-market team, identifying areas of focus and opportunity across the business. Our attention is on unlocking our vast opportunity in software as we leverage our strength in messaging, our fantastic customer relationships, and a moment in which we know the stakes are high for our customers as they look to engage their customers and prospects more efficiently. We are operating in an environment where customers expect personal engagement *and* privacy; efficient *and* high-quality interactions; partners that understand them *and* allow them to build. We lean into this moment while we simultaneously work to drive efficiency and operating leverage in our own business and in my organization specifically.

It's clear from all of my discussions that Twilio is providing the right set of solutions at the right time. The combination of our data and software products, integrated with our leading communications APIs, enables us to help our customers add intelligence to every step of the customer journey. We continue to see strong demand for our portfolio of products that make up our customer engagement platform, and overall our business has remained resilient, though we have seen some limited, recent softness in areas such as crypto, consumer on-demand and social, plus some instances of longer sales cycles. Given our diverse customer base, use cases, and verticals served, this has not had a material impact on our overall business, and we're seeing increased demand in other areas such as Financial Services and Information Technology. As our customers work to navigate the current macro environment, we're providing them the basis to grow, to save, to connect, and to transform. This works well in good economic times, but in challenging times, it becomes even more essential.

We continue to see momentum with Twilio Segment, and in June we hosted our CDP Week: Summer Edition, our semi-annual virtual event where leading companies learn new ways to create outstanding customer experiences with customer data. With over 3,500 live attendees and continuing viewership from thousands more, a key topic of conversation was the deprecation of third-party cookies, which is causing companies to rethink their customer acquisition strategies. Twilio Segment's capabilities are critical here, as our customers seek ways to leverage their first party data to optimize their sales and marketing dollars to the highest efficacy outcomes and build deeper relationships with their customers. In the second quarter we finalized an exciting multi-year deal with a Fortune 500 financial services company, who is using Twilio Segment to drive higher levels of personalization for customer retention and cross-sell. Leveraging Twilio Segment, the company is able to collect all of the unique signals generated in their financial products, develop a more trusted view of their customers, and then personalize the marketing experience to drive adoption of other financial products. We also expanded our relationship with PlayOn! Sports, the leading high school sports media company in the United States that streams more live sports events than any other company in the world. After merging with GoFan earlier this year, the Company was looking for a way to grow their audience and drive viewership through greater personalization. Leveraging Segment, they're now able to collect and organize viewer data and build out custom audiences at scale, enabling them to personalize their marketing initiatives to drive more paid subscriptions and viewers, leading to increased advertising revenue.

I am also excited to share that we recently expanded our partnership with IBM, who announced a new native integration with Twilio Segment. This integration combines the breadth of Segment with the powerful AI of IBM Watson Assistant — gathering data generated by millions of daily conversations between customers and virtual agents and vastly simplifying analysis of Watson Assistant data. Through Segment, enterprises can now unlock insights and deliver an end-to-end and personalized solution with virtual assistants powered by Watson — while remaining easy to implement and scale.

Twilio Flex continues to demonstrate strong momentum, as businesses look for cost effective solutions to improve their customer service. And, as of last month, Flex is now HIPAA eligible, opening up more exciting opportunities to transform the patient and provider experience in healthcare so clinicians can focus their time on driving better health outcomes. Flex is really resonating with customers, and as Jeff mentioned, we were excited to sign our largest Flex deal ever during the quarter, with a Fortune 100 retailer! This was one of a number of great wins for Flex in Q2.

And our momentum with Flex is global. In Latin America, we strengthened our relationship with Kavak, an online platform for buying and selling second-hand cars, and one of the top five highest-valued startups in Latin America. Kavak continues to experience hypergrowth, and was looking for a global partner that could help scale their contact center efforts and drive improved customer service. After the successful implementation of an omnichannel Twilio Flex call center in Argentina last year, Kavak is expanding Flex across all of their regions, including Mexico and Brazil, for sales, post-sales and customer support. We also signed a deal with Bosch Siemens Hausgeräte (B/S/H), the largest manufacturer of home appliances in Europe. B/S/H is revamping its entire digital infrastructure within their customer service organization and chose Twilio Flex for better customer and service agent experiences. Deloitte Spain is working as a trusted consulting partner and advisor for this project and together with B/S/H, will roll out Twilio Flex in several regions, tightly integrating the cloud-based service solution within their global customer care journey.

We continue to be amazed by the unique and innovative use cases that our customers develop using Twilio's core APIs, and this quarter was no exception. During the quarter, our public sector team closed an exciting tailored messaging deal with the Office of the Secretary of State of Washington to improve communication with the state's voters around registration and ballot tracking. We do so much work with purpose, and helping our customers serve citizens and make participation in democracy more accessible is a super inspiring story to me. In Account Security, we extended our relationship with Wise, a leading London-based fintech company that helps millions of people and businesses manage their money internationally more cheaply, quickly, and transparently. Wise implemented multi-channel verification leveraging Twilio Verify to drive better conversion rates across the different geographies in which they operate and reduce support calls from customers.

We made a lot of great progress over the quarter, but there is more work to be done. We will continue to focus on growing our software business and fueling our Flex and Segment teams with talent and customer opportunities. We'll also continue planning for the future, while building on our foundation in messaging, by optimizing our time, talent and funding to focus on the highest value outcomes. Overall, we'll continue to look for opportunities to create more operating leverage in our model - from marketing to partnerships to pricing, process and tooling. We have a fantastic set of products, a terrific team, and customers who are looking to Twilio to help them redefine their customer engagement strategies.



Khozema Shipchandler, COO

Twilio delivered another quarter of strong financial performance in Q2. We feel good about our continued growth at scale and the traction we're seeing across our portfolio of products. The business has remained durable in the current macro environment and we're continuing to focus our efforts on accelerating software sales, while driving operating leverage across the business.

Revenue for the second quarter grew 41% year-over-year to \$943 million. The following items are included in Q2 revenue:

- \$34 million from Zipwhip, including \$16 million in 10DLC A2P fees;
- \$3 million from all other acquisitions closed after April 1, 2021; and,
- \$44 million from U.S. 10DLC A2P fees within the core Twilio messaging business, excluding Zipwhip, consisting of approximately \$32 million from AT&T and T-Mobile and \$13 million from Verizon.

Excluding the items listed above, second quarter organic revenue growth was 33% year-over-year. We are pleased with our results, especially given the current market conditions and in the face of a difficult comparison to Q2 of last year.

Our second quarter dollar-based net expansion (DBNE) rate was 123%, as our customers continue to leverage our products to unlock new opportunities to build more meaningful experiences for their customers. As a reminder, Zipwhip and all other acquisitions closed after April 1, 2021 are not included in our DBNE this quarter.

Revenue from our top 10 active customer accounts represented 12% of revenue in Q2, compared to 11% last quarter, and 12% in the second quarter of 2021. International revenue was 35% of total revenue in Q2, compared to 35% last quarter and 32% in Q2 2021.

Second quarter non-GAAP gross profit grew 33% over last year, and non-GAAP gross margin was 51.0%, down approximately 160 bps from last quarter. This decline was primarily driven by the strength of our international messaging business. U.S. 10DLC carrier fees reduced gross margin by approximately 330 basis points in Q2. The

continued success of our messaging business often serves as a critical foot in the door with our customers, opening up opportunities to add more value with our higher margin software products over time. We believe this will ultimately drive higher gross margins, allowing us to achieve our long-term non-GAAP gross margin target of 60%+.

Second quarter non-GAAP operating loss came in at \$7 million, better than expected primarily due to the revenue beat in the quarter and hiring prioritization that we'll discuss in more detail below.

Overall, we delivered solid results in Q2, and we are well positioned for the second half of the year. Based on what we see today, we remain optimistic about our 30%+ annual growth target. We've analyzed the business across a number of dimensions, including use case, customer size, and industry vertical and we're well diversified across our product portfolio and the broad range of customers we serve. We believe that companies will continue to prioritize investments responsible for driving revenue or providing greater efficiency, both of which our solutions solve for. That said, our optimism has shifted to cautious optimism given the external environment. As Elena mentioned, our business has remained resilient, and while we've seen some isolated areas of recent softness, overall we're not yet seeing material signs of a slowdown. However, we're mindful of the uncertainties that the current macro environment presents, and we are proactively taking actions to ensure we're well prepared in the event of a prolonged economic downturn.

We will continue to execute against our two primary priorities - accelerating software sales and delivering on our commitment to non-GAAP operating profit starting in 2023. To this end, we're focusing our hiring efforts on areas that we believe will unlock significant value and present strong opportunities for continued growth such as Segment, Engage and Flex, and we've frozen the vast majority of new hires and backfills outside of these areas. And, we're shifting more of our selling capacity to software, while looking to leverage more of our self-service capability for customers that don't need direct account coverage. We also announced our decision to become a "remote-first company" and made a significant reduction in our real estate footprint. We'll continue to closely monitor the returns on our investments, and make adjustments as needed, in an effort to recognize further efficiencies as we scale.

Moving to guidance, for Q3 we expect total revenue of \$965 million to \$975 million, for year-over-year growth of 30% to 32%. We expect third quarter organic revenue growth of 29% to 30%, which now includes estimated revenue from U.S. 10DLC A2P carrier fees, but excludes all revenue from Zipwhip and all other acquisitions that closed after

July 1, 2021. We expect a third quarter non-GAAP operating loss of \$60 million to \$70 million, which includes an estimated \$35M non-cash accrual for the adoption of a new sabbatical program for tenured employees. In the quarters subsequent to the adoption, the impact from this program is not expected to be significant to our results of operations. With the significant reduction in our real estate footprint, we expect that our Q3 GAAP results will also reflect an estimated \$90 million to \$110 million non-cash, one-time impairment associated with the closure of several offices. For clarity, the one-time, non-cash impairment associated with office closures will impact our GAAP earnings, but is not included in the \$60 million to \$70 million range above for Q3 non-GAAP operating loss.

In closing, we're pleased with our results in the second quarter, and the continued elevated growth that we're delivering. Despite the current macro environment, we remain very optimistic about our long-term opportunity as we continue to help companies develop more meaningful relationships with their customers.