



Q1 2022 Earnings

Prepared Remarks

May 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, statements about Twilio's outlook for the quarter ending June 30, 2022, Twilio's annual revenue run rate based on first 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 our products and solutions, including the demand for our products and solutions based on macroeconomic trends and survey results, Twilio's expectations regarding business benefits and financial impacts from our acquisitions and our partnerships and investments, including the associated transactions, our expectations regarding the impact of recent and future privacy changes on certain third party platforms on Twilio and our customers, and our ability to manage changes in network service provider fees that we pay in connection with the delivery of communications on our platform and the impact of those fees on our gross margin are subject to change.

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. 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 and subsequent reports on form 10-Q. 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 delivered a strong quarter of results, with \$875 million in revenue, growing 48% year-over-year. We're continuing to execute against our long-term strategy and are delivering robust top-line growth at scale as we address the tremendous opportunity ahead of us. We remain confident that we will deliver 30%+ annual organic revenue growth through 2024 and beginning with full year

2023 results, our goal is to deliver annual non-GAAP operating profitability consistently going forward.

With the leading cloud communications platform, and Twilio Segment, the [#1 customer data platform in worldwide market share](#), Twilio has an unparalleled view into the customer lifecycle setting us up as *the company* who can deliver a single, unified customer engagement platform to enable one-on-one personalization at global scale. To get there, we must execute at speed and scale while delivering on our growth and profitability targets. In order to deliver on this, we're excited to announce that Elena Donio will become Twilio's President of Revenue. Elena has resigned from Twilio's Board of Directors and, effective today, assumed responsibility for all go-to-market functions. She will report to me and join Twilio's E-Team.

I had reached out to Elena to ask her to consider this role as I realized that her strategic and operational skills were an excellent fit for Twilio. In addition to having been a remarkable public company executive leader, Elena's insights on our Board have been instrumental at every stage of Twilio's growth over the last six years. I was delighted that Elena agreed to take on this role as a key member of our executive team.

Elena's career spans 25 years at multiple tech companies with a track record of product innovation and enterprise GTM leadership at global scale. At SAP Concur, in her role as President, Elena oversaw all of go-to-market, product and engineering. Elena drove sustained growth for Concur over the years across markets, channels, and geographies and assumed the President role when Concur was acquired by SAP for more than \$8B. During her time as CEO of Axiom, revenue doubled as the business further penetrated the Fortune 1,000 across several key industries. Elena is ready to hit the ground running as our new go-to-market leader. She loves our company culture and believes strongly in Twilio's incredible market opportunity.

Marc Boroditsky has decided to step down from his role as CRO, effective today. We are grateful to Marc for his enormous contributions to Twilio over the past seven years. Under Marc's leadership, our revenue and market penetration saw impressive growth from \$277M and over 36,000 customers in 2016 to \$2.8B and more than 256,000 customers in 2021.

We continue to improve and scale the fundamentals of our customer engagement platform by investing in our cloud communications infrastructure and channels such as messaging, voice, email and video while pouring energy and resources into our newer data and engagement layers such as Segment, Flex, Frontline, and Engage. Notably this quarter, we announced that Twilio Frontline, our programmable mobile-first solution for sales and relationship managers, is now generally available, including new features such as native voice calling, HIPAA-eligibility and a web interface.

As we build the next chapter of Twilio to offer the leading customer engagement platform trusted by developers, companies, and now marketers globally, I'm energized by the demand we're seeing across industries and around the world. Our continued growth further demonstrates the breadth and scale of the Twilio platform and use cases as businesses everywhere are reimagining the way they work, think, do business and engage. That said, as I mentioned in my remarks last quarter, I'd like to provide further context on three macro trends that are creating tailwinds for Twilio.

The first trend is continued digital transformation, which impacts how companies acquire, retain, and drive revenue growth in a digital world. Clearly one of the biggest changes spurred by the pandemic has been the immediate and massive shift to digital. Our 2022 [State of Customer Engagement Report](#), which surveyed 3,450 leading B2C decision makers across industries and 4,500 consumers globally, found that companies expect their investment in digital customer engagement to nearly double by 2025. Interestingly, the companies that invested the most in digital customer engagement have reaped substantial benefits and have seen revenue growth of 70% on average. Because Twilio typically sits in the front-of-house for our customers, we're a part of their growth strategy, which is a major area of continued investment.

The second trend is consumer privacy. Third-party cookies, which are now blocked by Firefox and Safari, will also be blocked by Google Chrome by the end of 2023. Brands are being forced to completely rethink their customer and revenue growth strategies in the face of this digital advertising privacy shake-up. As the #1 CDP in market share, Twilio Segment is helping customers drive efficiency and effectiveness of advertising campaigns that can no longer rely on third-party cookies. And most companies are still

just getting started. Over half of businesses we surveyed aren't ready and over 80% are still reliant on third-party cookies. Moving to first-party data enables companies to continue to grow their customer base and revenue, while complying with new regulations, laws, and platform policies – all driven by consumers' desire for privacy. Our communications APIs then provide effective ways to engage customers outside of ads.

The third trend driving customers to Twilio is the direct-to-consumer model (DTC). The DTC movement enables businesses to build direct, personal and memorable relationships with their customers versus renting their customers from intermediaries in the supply chain like advertisers, retailers, wholesalers and distributors. DTC is not only disrupting how brands engage, interact with and market to customers, but it's critical to driving loyalty and increasing profit margins traditionally paid in fees to intermediaries. As businesses continue to digitize and consumers go online for everyday interactions and purchases, it's opened doors for any company to leverage technology and data to understand their customers and build brand loyalty. This is not just startups. It's also global corporations, reinventing themselves to prevent disruption. Major brands like [Allergan](#) have successfully implemented the DTC model atop Segment as a way to drive new growth and revenue streams. When they go on this journey, they need a CDP and direct communications channels such as messaging.

At the core of these three trends is **data**. That's why we've seen such growth across the Segment platform. By the end of 2021, Segment processed over a trillion events per month, and we expect these volumes to continue to grow substantially. Data is the currency of the digital era, and we're in the midst of a battle over who owns it and what it's worth as companies shift from relying on third-party to first-party data. Companies owning and activating their own first-party data is how companies are going to win.

This is why I have so much conviction in the future of Twilio and the vision to become the world's leading customer engagement platform trusted by developers, companies and marketers globally. As the leading cloud communications platform and customer data platform, Twilio has an unparalleled view into the customer lifecycle setting us up as *the company* who can deliver a single, unified customer engagement platform to enable one-on-one personalization at global scale. We're on a journey to democratize customer engagement the way we democratized cloud communications and Segment democratized customer data and we're just getting started!



Elena Donio, President of Revenue

I am excited to be joining Twilio to lead our go-to-market efforts, as we continue our journey to become the world's leading customer engagement platform. As a Twilio Board member since 2016, I've had regular discussions with customers, investors and Twilio employees, and I'm convinced that we're on a trajectory to dramatically alter the landscape of how businesses interact with their customers to create lifelong, unbreakable relationships of

mutual value.

We have a solid foundation to build from, as evidenced by our continued momentum in the first quarter. Our go-to-market team delivered a great start to the year and celebrated a number of wins, as our customers are continuing to rely on Twilio to help put digital customer engagement at the forefront of their businesses. Our investment priorities – software solutions, enterprise growth, international expansion, and building out our partner ecosystem – are producing great results, and put us in a strong position to continue to drive elevated levels of growth going forward. Even as a Board member, I've been so impressed by our GTM team here at Twilio, and I'm excited to be leading this amazing group now and to share some of their recent successes with you here.

The first quarter saw a return to in-person events, which enabled our teams to spend more time in the field meeting with customers, discussing how Twilio can help redefine their customer engagement initiatives. Based on these discussions, and my own conversations with customers over the years, it's clear that Twilio's focus on helping our customers leverage their first-party data to build trusted, lifelong relationships with their customers, continues to resonate and is becoming a key focal point for all businesses. As the leading provider of communications APIs, supported by Twilio Segment's leading customer data platform, we're providing the key ingredients to help our customers use communications and data to add intelligence to every step of the customer journey.

Twilio Segment continues to be a key topic in many of our customer conversations, as companies are struggling to navigate privacy changes such as Apple's IDFA updates and Google's planned deprecation of cookies. Going forward, companies will need to rely on their own first-party data to build one-to-one relationships with their customers, and increasingly, they're looking to Twilio Segment as the foundation of their customer engagement strategies. That's why a significant physical and online commerce business recently selected Twilio Segment as their CDP. The retailer has long had

issues with manual data collection and unifying a single view of the customer. Through Twilio Segment, they will now be able to integrate all customer touchpoints into a unified profile and activate real-time one-to-one customer journeys across email, social and web platforms. We also extended our relationship with Vivid Seats, who's leveraging Twilio Segment to develop a rich, 360-degree view of their individual ticket buyers to drive personalized marketing experiences, connecting fans to the live events, artists and teams they love. We also expanded our relationship with one of the world's largest consumer goods companies. They wanted to create a single view of the customer across their different brands and selected Twilio Segment to create brand specific audiences based on historical customer data to optimize their return on marketing spend.

Companies are increasingly requiring highly flexible, omnichannel customer service solutions to power critical touchpoints with their customers, and that's why we're so excited about Flex. We entered into a new relationship with Compass, a real estate technology company that provides an end-to-end platform that empowers residential real estate agents to deliver exceptional service to home buyers and sellers. Compass was looking for a way to support and track the variety of requests coming in from their brokerage business - a network of 26,000+ real estate agents. They selected Flex to power their internal service desk because it provided them with the flexibility and programmability they needed to design a unique experience for their internal support teams and real estate agents. In EMEA, Galileo Global Education, one of the biggest private education groups in the world, has integrated Flex with Salesforce and created customized workflows to help their agents improve conversion rates and waiting time. In LATAM, we closed a Flex expansion deal at Nubank, the largest fintech company in Latin America and one of the most innovative companies in the world, which continues to place their trust in Twilio to power their customer engagement.

Our core communications products continue to benefit from significant global demand, with Messaging, Voice and Account Security all delivering a number of impressive wins in the quarter. We expanded our relationship with a Fortune 500 financial services company who is using Twilio Conversations for multichannel customer engagement and group chat, so that financial advisors and their extended teams can interact directly with their clients. In Japan, we extended our relationship with FIXER Inc., a leading cloud service vendor that is using Programmable Voice to make outbound calls to home caregivers multiple times a day to check on the condition of patients.

Twilio's partner ecosystem is a crucial component of our go-to-market strategy. We recently partnered with the California Department of Public Health on the Vaccinate ALL

58 Campaign - a campaign focused on delivering high-quality outreach and education to Californians and combating COVID-19 misinformation. Twilio worked closely with our platform partner Meta on the backend technology using the WhatsApp Business API, and in turn, the State of California partnered with Accenture to integrate and implement the full stack including Twilio. Thanks to this partnership, California is the first state in the country to launch a tool of this kind.

We recently announced an expansion of the partnership between Google Cloud, Sabio, and Twilio, enabling customers to rapidly build, deploy, and iterate Google Cloud Contact Center AI capabilities with the programmable power of Twilio Flex. Deploying this solution enables customers to deliver key enhancements using conversational virtual agents across all channels, with real-time assistance for agents, all via a single agent desktop and using CCAI insights to drive continuous improvements. The strengthened partnership enables a single cloud platform capable of delivering highly personalized and intelligent contact center capabilities that effectively engage customers.

The last six years on the Twilio Board have been an enormously rewarding ride – watching Twilio grow, scale, create career moments for unbelievably talented people, launch new products and delight customers – while doing our part as a Board to encourage bold goals and responsible plans. When Jeff approached me about this role, I told him that his was the only call I'd answer for an operating role because Twilio is the only place I'd be willing to pour more of myself into. And the reasons aren't so different from why I joined the Board. Limitless opportunity, amazing people, and a role in which I believe I can be useful.

Forever a student, I'm studying Twilio through a new lens now. What I know is that there is no company better poised to *lead* through the next stage of digital evolution and there is no company better positioned to *listen* to what our customers and the world's end users, the people that experience the brands that we support, need from our industry. Customer experiences can be better, and faster, with less friction, and more personalization. The world's developers are the ones dreaming about what those experiences can look like. And the world's developers turn to Twilio.

Our principles in go-to-market will always evolve to meet the demands of our customers. Twilio started with developer love as the heart of the company. It's been the core of what we've built, how we've built, how we've sold, and how we've grown. You make different decisions when the developer is at the center. You build great scaffolding, but you allow them to paint the fresco. You don't try to answer all of the

questions about what they might need. You build a framework for exploration and experimentation. You help uncover the powerful data that builders can put to work.

But you also recognize that there are multiple doors into every organization. And it's incumbent upon us to open those unique doors – whether developers, line-of-business owners or executives. CMOs, CROs, CIOs, call center leaders and more are presiding over a set of opportunities, problems, clients and teams. We will meet them where they are, at *their* front doors, to help them build their future for customer engagement.

We have exciting work ahead, we have a terrific team, we have customers that trust us, and we have a great opportunity to win the customer engagement space. I can't wait to get to work.



Khozema Shipchandler, COO

Twilio delivered another strong quarter of results in Q1. We are pleased with our ability to continue to provide elevated growth at scale as we achieved a \$3.5B annual revenue run rate in the quarter.

Revenue for the first quarter grew 48% year-over-year to \$875 million, coming in slightly ahead of our guidance. As we mentioned last quarter, we refined our guidance approach to provide guidance that is more consistent with actual results and that played out this quarter. The following items are included in Q1 revenue:

- \$32 million from Zipwhip, including \$14 million in 10DLC A2P fees;
- \$21 million from all other acquisitions closed after January 1, 2021, excluding Zipwhip; and,
- \$42 million from U.S. 10DLC A2P fees within the core Twilio messaging business, excluding Zipwhip, consisting of approximately \$30 million from AT&T and T-Mobile and \$12 million from Verizon.

Excluding the items listed above, first quarter organic revenue growth was 35% year-over-year. We are pleased with the growth of the business at this scale, especially when considering the difficult comparisons we are facing in the first half of this year.

The dollar-based net expansion (DBNE) rate was 127%, as we continue to see strength across existing customers on our platform. As a reminder, Zipwhip and all other acquisitions closed after January 1, 2021 are not included in our DBNE this quarter.

Revenue from our top 10 active customer accounts represented 11% of revenue in Q1, compared to 12% last quarter and 12% in the first quarter of 2021. We're continuing to see elevated growth in our international business on the back of the investments we've been making, and this remains a massive opportunity moving forward. In Q1, international revenue was 35% of total revenue, compared to 34% last quarter and 29% in Q1 2021. During our closing process for Q1, we identified a misclassification of a subset of domestic customers for Q4 2021, which caused the international revenue mix to be overstated and the domestic revenue mix to be understated in that quarter. We have updated the revenue mix in the earnings presentation to reflect this change, and

the 34% that I referenced for Q4 2021 is the revised international revenue mix number. Note that total revenue was unchanged.

As noted last quarter, we saw some friction from the 10DLC A2P registration process, which continued to moderate domestic growth in Q1. With the March 1, 2022 registration deadline behind us and the majority of our traffic having completed the initial process, we expect our domestic messaging business to normalize through the remainder of the year.

First quarter non-GAAP gross profit grew 41% over last year, and non-GAAP gross margin was 52.6%, up approximately 130 bps from last quarter. U.S. 10DLC carrier fees reduced gross margin by approximately 350 basis points in Q1. While we are pleased with the improvement in non-GAAP gross margin sequentially, we continue to have a very robust messaging business that is the main driver of gross margin in the short term, and as a result, we expect to see continued fluctuation in our gross margins in the near term. Messaging is a very effective entry point into customers and a critical channel for customer engagement. It provides a tremendous opportunity for us to generate long-term value as we look to cross-sell our software products over time.

First quarter non-GAAP operating profit came in at \$5 million, ahead of our guidance primarily due to an uptick in attrition we have experienced recently, consistent with what has been reflected in the market more broadly. That being said, we continue to see strength in our offer acceptance rates as we attract great new talent into the business.

Moving to guidance, for Q2 we expect total revenue of \$912 million to \$922 million, for year-over-year growth of 36% to 38%. We expect second quarter organic revenue growth of 27% to 29%, which excludes revenue from acquisitions made after April 1, 2021, as well as estimated revenue from U.S. 10DLC A2P carrier fees. As a reminder, our 30%+ organic growth target through 2024 is on an annual basis and we remain confident in achieving this target. For 2022, the setup in the second half of the year provides for a more favorable comparison.

We expect a second quarter non-GAAP operating loss of \$35 million to \$40 million. While we're continuing to make certain investments, primarily in headcount, we remain on track and committed to delivering annual non-GAAP operating profit in 2023 and beyond - exclusive of potential future M&A. To reinforce our commitment to annual non-GAAP operating profit in 2023 and 30%+ annual organic growth through 2024, the Twilio Board recently granted performance-based equity awards to our executive team that are directly tied to these metrics.

Overall, we delivered solid results in the first quarter, and we are excited about the remainder of 2022 and beyond, as we help companies around the world develop more meaningful relationships with their customers. And I'm especially enthusiastic about the addition of Elena to our management team to help us become the world's leading customer engagement platform.