



**Q2 2021 Earnings  
Prepared Remarks**

July 29, 2021

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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, our expected business benefits and financial impacts from our acquisitions, including specifically Segment and Zipwhip and our partnerships, including the associated transactions, Twilio's outlook for the quarter ending September 30, 2021, 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**

Our strong momentum continued in the second quarter as our revenue growth accelerated at a run rate of more than \$2.6 billion. Companies across industries are accelerating their adoption of digital technologies to drive better customer engagement. We remain convinced that we are in the midst of a massive shift in the way companies engage with their customers, and this shift is driving a generational opportunity for Twilio.

The move to digital creates a virtuous circle for companies, whereby the more consumers engage over digital channels, the more data is available for companies to learn about how their customers are engaging with them. Companies can learn from this data, and continually make improvements to deliver highly personalized interactions, across any channel, at scale.

This is where Twilio's platform will play a significant role. We are enabling companies to build direct-to-consumer engagement across nearly every digital channel, and helping to leverage first-party data to develop a single view of the customer. There are billions of consumer records -- from website visits and in-store purchases to customer service requests and app interactions -- that companies have to sort through, trying to connect them to an individual across multiple systems, all with the goal of building a better understanding of who that customer is and what they like.

Our platform enables companies to navigate this complexity and build incredible B2C experiences that are highly personalized, at scale. We started with offering different channels, like messaging, voice and email, to help companies connect with their customers. Then, we built Flex, a contact center platform that allows companies to build a solution that fits their specific business needs, in turn driving a better customer experience. And we acquired Segment, adding an incredible data platform that can pull together data from hundreds of different systems to create a single view of the customer.

Twilio has always been a product-led company, focusing our efforts on providing a highly customizable platform that empowers developers to build. We are constantly iterating and adding new features to our platform to enable our customers to deliver the best customer engagement experience. We've been working on integrating Segment to



combine the leading customer data platform with our leading communications platform. And we've made progress in several areas.

Our product-led approach means our primary focus is on product innovation, and just a few weeks ago, we announced [Segment Journeys](#). Journeys empowers marketers to easily build sophisticated customer journeys and orchestrate personalization at scale, through every channel, leveraging real-time data on the leading customer data platform. Providing the ability to build this orchestration across all channels and the more than 300 tools in the Segment ecosystem makes Journeys an incredibly powerful and flexible solution to create specific experiences for different customers.

Back in November when we acquired Segment, we knew that combining the two platforms would provide a unique offering. Nine months later, and the demand from our customers has shown that the opportunity ahead is even bigger than we imagined. We are just scratching the surface of what this combination can bring to our customers, and we are more excited than ever to deliver the future of B2C engagement.

It is clear to us that our product strategy is working. Our core business continues to deliver strong growth as engagement over channels like messaging becomes increasingly mainstream. We recently strengthened our messaging product with the closing of our acquisition of Zipwhip, a leading provider of toll-free messaging in the United States. Zipwhip brings another affordable, trusted messaging channel option, as well as direct carrier connectivity to ensure that toll-free messaging remains a trusted, high-engagement channel. Together, we will be able to leverage our combined expertise across all channels to offer a robust suite of messaging offerings. We also recently announced that Twilio achieved full compliance with STIR/SHAKEN protocols, protecting end users against unwanted communications and bringing trust back to the phone call.

We're also seeing great adoption of our emerging products, and customers are extending these platforms into use cases beyond what we imagined when we launched them. We just recently launched Twilio Live, a cloud-based platform that enables businesses to deliver live and interactive audio and video experiences that custom fit their unique brand and community needs. These live interaction use cases are the next frontier of video, and we're making it easier for companies to adopt this as a new method of engagement across a range of applications. Twilio Live provides low latency at scale and the backing of Twilio's reliable and secure infrastructure, combined with a best-in-class developer experience.



The developer experience has always been at the heart of Twilio. Empowering developers to take our platform and build the solutions that fit their needs has been key to our success. Buying a one-size-fits-all, prepackaged solution doesn't work anymore, as customers expect highly customized, personalized, digital and physical experiences, and that's something our platform allows any company to build. We have a huge vision for what the customer engagement of the future will look like, and we'll be talking more about this at our annual SIGNAL developer and customer conference, taking place October 20-21, 2021.

Before I wrap up, I wanted to highlight that we recently launched our [2020 Diversity, Equity and Inclusion report](#). In this report, we discuss our belief that antiracism as a framework can effectively drive diversity, equity, and inclusion. We detail the early stages of our journey and how we will embed antiracism into everything we do. In fact, we set actionable company-wide business priorities and measures to further equity in our systems. We are early in our efforts, and we know that we'll make mistakes along the way. But we will examine our imperfections in an effort to reduce them—and we are committed to sharing what we learn in this report in future years.

To all of our customers, thank you for continuing to trust us with supporting your customer engagement needs. And thank you to our more than 6,300 Twilions for always wearing the customer's shoes and focusing on their success. I'm extremely excited for the future as we address the generational opportunity ahead.



**George Hu, COO**

Our team continued its strong execution in the second quarter as the demand for our customer engagement platform continues to grow. Our investments in and focus on developers, expanding our enterprise presence, international expansion, and growing our partner ecosystem are driving our momentum and positioning us well for the future.

Our marketing team continued to promote the Twilio brand in new ways, including launching The Current -- a new digital magazine for customer engagement. It highlights best-in-class lessons from our own experts, sharing the lessons we're learning along the way as we build the leading customer engagement platform. We also continued our Twilio Engage events, hosting customers from around the world and discussing how Twilio can power the future of customer engagement.

Our Developer Relations team had an extremely busy quarter. In North America, they launched the inaugural "Relay Developer Conference", showcasing our community of Twilio builders, tech founders and interactive coding experiences, and aiming to customize developer programs and events unique to each region. In addition, across support, documentation, and blogs, they prepared developers for the changes created by US A2P 10DLC. The team held nearly 30,000 sessions on documentation to help developers navigate this ecosystem change.

The demand for Twilio at the enterprise level continues to be extremely strong, and the investments we've made in that area over the last several quarters have positioned us well to support the world's largest companies. In the second quarter, we expanded our relationship with a Fortune 500 global healthcare company that was looking for a solution to enable their field reps to interact with customers via messaging in a secure, compliant manner. They selected Frontline to help their sales, legal, compliance and operations teams manage customer consents, enable keyword detection and provide rich reporting for more than 12,000 sales reps around the world.

We expanded our relationship with a Fortune 500 airline that is looking to provide cross-channel messaging experiences for flight delays, gate change, check in reminders, baggage tracking, and more. To start this journey, they selected Twilio SMS



for our global scale, security, and omni-channel platform that offers the features and functionality to meet their needs today and in the future.

We expanded our relationship with a leading Fortune 500 energy company. In an effort to provide more proactive communications to their customers, they selected Twilio Conversations, SMS and Email to "be where their customers are" and provide a top tier experience across channels.

We are continuing to see great demand for Flex in the market as companies look to build solutions that power the next generation of customer engagement. We signed several Fortune 2000 Flex deals in Q2, including with a leading retailer, who is leveraging Flex, Conversations, Video and more to build a virtual store. Customers will be able to initiate a messaging or video chat while looking at a specific product online or in a physical store, and get connected with an advisor who has specific product expertise. This solution will help provide the customers a better experience while converting more digital sales.

Internationally, we entered into a new relationship with TK Elevator, one of the world's leading elevator companies. As a part of their digital solutions, they offer video and chat functionalities to their elevator cabins. Now, if a passenger pushes the help button, Twilio will power the voice connection to the TK Elevator Service Center, will provide a view inside the elevator cabin through Twilio Video for the TK Elevator help agent, and our Chat API will be used to show messages on displays inside an elevator cabin.

These are just a few of the many use cases that we never could have imagined when we launched these platforms, and that's the power of providing the developers of the world the tools to build the solutions they need.

Segment is driving tremendous amounts of excitement from our customers, and in Q2, we expanded our relationship with AB InBev, the world's largest brewer and a Fortune 500 company, through their proprietary B2B platform BEES. BEES is focused on transforming the traditional CPG sales model by putting customers at its heart and using technology to turn customer problems into growth opportunities to help them thrive. AB InBev/BEES chose Segment to create a unified data structure allowing for more robust global insights and activation strategy, enabling them to build a single view of their customer and drive engagement.

We're continuing our Segment integration efforts on the go-to-market side, and as of July 1, we have started our co-selling efforts, combining the strength of both teams to



work together to better serve our customers. With the new go-to-market efforts combined with the product innovation and integration, I'm extremely excited about what's ahead.

Our partner team continues to build the Twilio ecosystem with partners around the world. At the end of Q2, we had nine Global System Integrators in our ecosystem as we continue to expand our reach with companies around the world. And the number of Twilio certified resources in the ecosystem grew 160% year-over-year.

At Twilio we believe that the best customer experiences are built, not bought. And we know that sometimes companies need some help. Partners have always been a key part of our strategy and we have a brand new partner initiative for our contact center platform, Flex, that will harness the power of our SI and GSI partners to leverage their expertise to build pre-built plugins and specialized solutions. We've been piloting this program with Waterfield Technologies, an SI partner with over 30 years of contact center experience and we've just launched the first pre-built solution, Xcelerate, to kick off this partner initiative. We believe this will be a game-changer for our partner ecosystem, and our customers.

Our partners play a key role in helping customers build with Twilio, and in Q2, we worked closely with Tata Consultancy Services, or TCS, a global leader in IT services. In partnership with TCS, we signed a deal with Philippine Airlines, or PAL. PAL was looking to move off of their existing setup to a cloud-based contact center, and selected Twilio Flex, as it offered the programmability and channels that PAL was looking to use.

Coming out of the first half of the year, it's clear to me that the demand for our platform is extremely strong as companies across industries and around the world leverage Twilio to reimagine their customer engagement. We are well positioned to address the huge opportunity ahead of us.





**Khozema Shipchandler, CFO**

The business continued to perform well in the second quarter showing strength across industries, use cases and products. This is a result of the power of Twilio's customer engagement platform: as consumer preferences continue to shift to digital, Twilio is helping businesses reach their customers on the channels they desire.

We continue to make progress with the Segment integration across all three levels of the business -- product, go-to-market and G&A. On the product front, Jeff mentioned Segment Journeys, an amazing example of combining Twilio's customer engagement platform with Segment's data capabilities to enable marketers to create a more personalized customer experience. For go-to-market, we began co-selling Twilio and Segment on July 1, accelerating our timeline by approximately six months, due to the excitement from businesses wanting to leverage the technologies from our combined offering. Lastly, the integration of the back office and G&A functions is mostly complete. We expect to finish this portion of the integration by the end of the year. We are very much on track and excited about what we can do together.

We discussed in prior quarters that 2021 would be a year of investment in systems and processes, and we're making good progress. Specifically, our new ERP implementation remains on schedule, we're enhancing our quote-to-cash and procure-to-pay processes, and we're building a more robust business intelligence platform. We are also enhancing data privacy due to new global regulatory frameworks like SCHREMS II in Europe.

Total revenue for the second quarter grew 67% year-over-year to \$669 million, including approximately \$47 million from Twilio Segment. The new 10DLC fees implemented by AT&T and T-Mobile contributed approximately \$9 million, which represents the fees for two months beginning May 1. As a reminder, Twilio absorbed the costs for AT&T in April to help support customers during this industry transition. Twilio organic revenue, excluding all M&A from November 1, 2020 onward, grew 52% year-over-year.

The dollar-based net expansion rate was 135%, as we continued to see broad based strength across the business. Segment will not impact dollar-based net expansion until we lap the anniversary of the acquisition in the fourth quarter of 2021.



Revenue from our top 10 active customer accounts represented 12% of revenue in Q2, compared to 12% last quarter and 15% in the second quarter of 2020. International revenue was 32% of total revenue in Q2, compared to 29% last quarter and 27% in Q2 2020.

We continue to see increasing usage in the travel, hospitality and rideshare industries that were negatively impacted in 2020, with all of them near or above their pre-COVID levels. We are also seeing continued strength in the use cases that have been positively impacted, further validating the durability of these use cases. As the economy continues to reopen, and given the negatively impacted industries represent a small amount of revenue for Twilio, we no longer intend to discuss the impact to specific verticals.

Second quarter non-GAAP gross margin was approximately 54%. This was down slightly from Q1 on continued strength in our messaging product as well as from international mix. The new 10DLC fees were passed through to customers as of May 1. For the quarter, the negative impact to our gross margin resulted in approximately 120 basis points headwind.

Non-GAAP operating profit came in at \$4 million, stronger than originally forecasted predominantly driven by stronger than forecasted revenue.

Moving to guidance, for Q3 we expect total revenue of \$670 million to \$680 million, including Twilio Segment and all A2P fees, for year-over-year growth of 50% to 52%. As a reminder and to help normalize year over year comparisons, our third quarter last year included approximately \$10 million of revenue from political traffic. We expect a third quarter non-GAAP operating loss in the range of (\$30) million to (\$25) million. As we have just recently closed the acquisition of Zipwhip and are still working through purchase accounting, we are not including any contribution from Zipwhip in our guidance.

With regards to our operating loss guidance for the third quarter, we are continuing the investments we've discussed for the last few quarters, largely centered on enterprise sales, Flex and new growth products, plus core systems and infrastructure. As of the end of Q2, we have largely caught up on the hiring related to these investments, which will generate losses in the short term while allowing us to grow at elevated levels, and sets us up well to scale in the long term.



Overall, we delivered very strong results in the second quarter, and we are excited about the remainder of 2021 and the years beyond as we continue to help companies around the world and across industries reimagine their customer engagement.