



Q3 2021 Earnings  
Prepared Remarks

October 27, 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 and investments, including the associated transactions, the impact of recent and future privacy changes on certain third party platforms on us and our customers, Twilio's outlook for the quarter ending December 31, 2021, our ability to achieve our targets for non-GAAP gross margin over time and annual growth rates over the next three years, 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 team delivered another quarter of excellent results as we continue to execute extremely well against the massive opportunity we are addressing. And while we are very pleased with the performance we have driven for the last several quarters, I am even more excited about what is ahead for Twilio. As I am known to say, it is truly Day One of our journey -- and today, it's more true than ever, after introducing the next evolution of the Twilio

Customer Engagement Platform at Signal last week.

Long time observers of Twilio may note that we changed our mission statement this year. Our mission is now to "Unlock the Imagination of Builders," which gets at the core of what drives Twilio. To us, every company needs to eventually build their future. And as daunting as that may be, great platforms like Twilio make it possible. In fact, that's the point of the whole API Economy. We've evolved past our old mission, to "Fuel the Future of Communications" because, while Twilio started in the realm of communications, our customers have continually led us to even bigger opportunities for how we can unlock their imaginations.

That's why you've seen us layer on top of our amazing communications business a new and, in some ways, even more exciting business -- customer engagement. To me, this represents the biggest, and most exciting, enterprise software opportunity of our time because I see multiple tailwinds at our back. Secular shifts, brought about by digital disruption, by the digital acceleration of COVID, and by societal changes in privacy are all pushing customers toward what Twilio has to offer.

Let me start by defining Customer Engagement:

Customer Engagement consists of the myriad ways that companies use communications with the ultimate strategic goal of building relationships across the many interactions they have with their customers. However, the communication layer is the last mile of customer engagement -- transmitting the message is just the last step. What you say, to whom, when, and on what channel -- that's the intelligence component, and it's incredibly hard to get right. That's the next phase for Twilio -- helping customers deliver more relevant and impactful messages, not just more of them.

At SIGNAL, I noted how nearly every company I talk to has seen their digital strategies accelerated by COVID. (In fact, the average was a [6 year acceleration!](#)) However, the digital acceleration has also made the "Digital Giants" -- Amazon, Google, Facebook, Netflix, etc. -- even more relevant than ever. Think about it -- you're probably buying more on Amazon and streaming more on Netflix than ever before. So while every company's digital plans have been accelerated, the Digital Giants have been even more so. And they are winning.

They are winning because they have so much first-party data, and they use that data to infuse relevance and personalization across every interaction. In a natural way, they use our clicks, our scrolls and likes, every purchase and every return to learn about us, and what we might like next from them. That's why my Amazon homepage and yours are completely different. That's why Netflix's recommendations are so good. It's the first party data that allows them to target and personalize at every step of the way and across every type of interaction. They infuse this personalization across their marketing, their web and mobile experience, their service interactions and more. And because of it, they're building a great digital relationship with us.

The Digital Giants have spent years and probably billions of dollars each building their own variant of what I would call "customer engagement platforms." It starts with the data: being able to ingest and process massive volumes of real-time data. Using that data, they build profiles of us, predicting what to promote next, and they personalize every interaction.

But when I talk to executives across nearly every kind of company, they're asking: should I be in the shadow of the Digital Giants? Can I let them sit between me and my customers? Should I have to pay a transaction fee to keep re-acquiring my own customers from the few Digital Giants who have all the relationships? Or...should I be building my own, deep, and unbreakable customer relationships? The answer, of course, is the latter. Every company wants to own their own customer relationships by acquiring a customer once, delighting them with their products, and earning the ability to continually expand that relationship. That's why the entire "Direct to Consumer" world is exploding.

Great businesses know that the key to winning is to own their data, own their customer relationships, and ultimately, own their future.

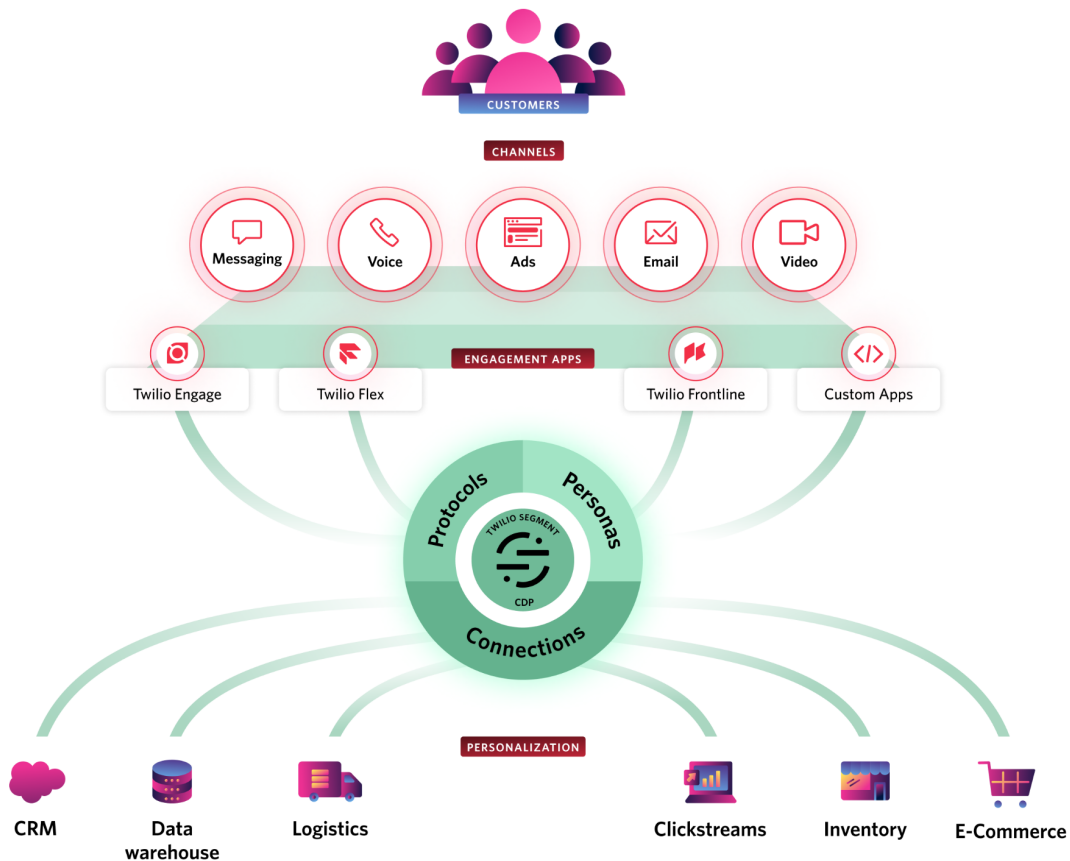
They have to use data as effectively as the Digital Giants to build relevance across all the interactions. But executives also realize how hard, expensive, and time-consuming it is to build a customer engagement platform as extensive as the Digital Giants have

built. And why should every company have to build this themselves? Companies should build the parts that they need for their business -- and build it upon a platform that takes care of the hard parts for them. That's the role of great platforms.

That's the insight that drove us to build the Twilio Customer Engagement Platform. Our job is to provide every company with the kind of capabilities that they need to compete in the modern digital economy, when they may not have the time or budget to do it entirely on their own.

I'm often asked whether this is a new kind of CRM. The answer is: yes and no. CRM in the traditional sense was designed for B2B, where your "source of truth" about customers is what the sales person enters as notes into a sales automation system. The salesperson has a call or completes an email exchange, maybe they enter a note. Maybe a few times a week, the record gets updated. Contrast that with B2C businesses: there is no salesperson typing notes, nor is there a "source of truth" about the customer. The sum of all the data points the company can see is the emergent source of truth. Existing marketing systems have a bit of that data. Commerce systems have another part. The website, mobile app, and contact center each see small portions. Yet all of these interactions, on the whole, represent their customer. In B2C, the Customer Data Platform (CDP) is essentially the CRM. That's why Segment, the #1 CDP, is such an important foundation for Twilio's Customer Engagement Platform.

All of this is why I am so excited that at SIGNAL last week, we announced Twilio Engage, the next pillar of our customer engagement platform, built natively on Twilio's SMS and email APIs, and powered by Segment's CDP. Twilio Engage is a growth platform that empowers marketers to build and optimize hyper-personalized marketing campaigns on every channel for customer acquisition, conversion and retention. Twilio Engage will allow marketers the ability to directly design and deliver SMS and email messages on the Segment platform, leverage Segment Destinations to connect to other channels, and utilize analytics dashboards to track not only opens and clicks, but also custom events like order purchases or subscription starts. The combined power of this offering gives marketers more insights across the entire funnel to build better engagement experiences across channels.



This digital engagement experience goes beyond marketing, which is why we also announced Twilio Messaging X, our next generation platform for messaging, built on trust, quality and choice. We focused on trust to protect consumers from the growing dangers of spam and security; on quality, to ensure we can deliver every message quickly and reliably; and, choice, by innovating in new channels and customer experiences. When we launched our SMS product, it was about sending 160 characters. Now we live in a new world of rich media, pictures, videos, payments, and more. Twilio Messaging X is our single platform to access SMS, MMS, Facebook, WhatsApp, and as we announced at SIGNAL, Google Business Messages. We also announced a new Content API, allowing customers to easily build their cross-platform messaging content in one place, allowing Twilio to customize those messages and tailor them for the channel.

The importance of companies using modern, high visibility communication channels like messaging -- powered by the rich intelligence of first-party data -- has never been more critical in a somewhat non-obvious way. Let me explain:

The recent changes in privacy -- such as Apple's deprecation of the Identifier for Advertisers, or IDFA-- are upending the world of digital marketing. Some companies are seeing their advertising disrupted because it is getting harder and harder to engage a customer base through performance advertising, due to the lack of an advertising identifier. This creates an opportunity, and the necessity, for companies to use first-party data and so-called "earned media" to reach their customers. Unlike buying ads on a third party platform, powered by cookies and other low-privacy schemes, companies "earn" the right to talk to their own customers when they engage them directly -- and these channels are cheap compared to participating in advertising auctions. But if their messages are too broad or irrelevant, then customers unsubscribe and you've lost the earned channel.

We believe that messaging is such a cost-effective channel, that when used wisely with good targeting, has the opportunity to displace ad spend in general and re-targeting and re-engagement in particular. That's why as carrier fees have actually increased the price of these channels, demand has not abated. Rather, it's continued to grow at a healthy pace. Our launching of Twilio Engage -- to allow marketers to use data to create highly targeted and personalized campaigns over email, messaging AND ads -- allows marketers to combine earned and paid media all in one tool, and to drive effective earned media campaigns on Twilio. Even without the IDFA deprecation and other recent privacy changes, Twilio Engage is an incredibly compelling value proposition. But now that their usual customer acquisition and growth channels are getting disrupted, Twilio Engage is an even greater opportunity to win over marketers, and their budgets as they experiment with moving from traditional paid media to more aggressive investments in earned media -- such as messaging.

While we know the world is moving to digital channels, voice isn't going anywhere. Some of the most complex customer conversations need a live human touch over the phone. Until now, companies have had minimal insights into those conversations, which is why we announced Twilio Intelligence for Voice -- a new intelligence layer that turns voice conversations into structured, actionable information by leveraging machine learning. We are seeing the most impact with our pilot customers in their contact centers, helping teams better understand what customers need.

Speaking of contact centers, we continue to see great traction with Twilio Flex. We built Flex to be a fully customizable contact center solution, putting companies in the driver's seat to build a solution that empowers their team to provide an exceptional experience. With the explosion of digital channels, it can be difficult for companies to support SMS, voice, WhatsApp, email, chat and more. To help solve this problem, we announced Flex

One: one single API to enable any digital channel for any customer-facing teams to engage with customers; one view of the customer with all of the context the team needs to provide a personalized experience; and, all in one place that is completely customizable for any team -- sales, service, marketing and more -- to engage with customers on a one-to-one basis.

I was also thrilled to welcome Bill McDermott to the SIGNAL stage to announce a new partnership between ServiceNow and Twilio. Leveraging our platform, ServiceNow is launching the ServiceNow Messaging Service, allowing organizations to purchase SMS and WhatsApp directly from ServiceNow, making it easier to quickly integrate popular messaging platforms with ServiceNow workflows. This new offering gives organizations another channel to engage with customers and employees, regardless of location. This is an expansion of Twilio and ServiceNow's ongoing and evolving partnership, as we have worked together since 2019 to make messaging a core part of how businesses interact with their key stakeholders.

We are extremely excited about these product announcements and the many others we made during SIGNAL last week. The customer journey is a conversation, from when a customer first meets a company, all the way through becoming a customer, buying, repeat buying, returning, getting support or whatever else the customer needs. All of that is one conversation between the customer and the company. Our platform provides the tools for companies to manage every part of that journey, with Twilio Engage, Frontline, Messaging X, Flex and more. One conversation on one platform to unlock endless possibilities. That's the Twilio customer engagement platform.

Before closing, I want to provide an update on our leadership team. We announced today that George Hu, our COO, is resigning from his COO role, effective today, and will remain with the company through the end of the year as a strategic advisor. After doing an amazing job scaling Twilio from a run rate of \$300 million to nearly \$3 billion, and building an incredible go-to-market team that can take Twilio far into the future, George has decided that now is the right moment to hand the reins for Twilio go-to-market over to our amazing CRO Marc Boroditsky, effective today. George and I have had an open dialogue about his desire to eventually move beyond a COO role -- something that he is absolutely ready for. George will take a well deserved break before pursuing that next step in his career. I wish him the absolute best and I can't wait to see what he does next.

George has done a great job preparing Marc for this expanded role, and I am fully confident that we will continue the strong go-to-market execution we've delivered for the last several quarters. For those of you who do not know Marc, he has been the one



driving our revenue organization to exceed expectations quarter after quarter now for the last four years. Marc will now report to me and assume responsibility for all of our customer- and partner-facing teams.

I am also excited to announce that as part of this transition, Khozema Shipchandler will become COO, effective today, to help me scale and operate Twilio at the next level. His responsibilities previously included finance, corporate development, information technology, cyber security, sourcing, real estate and business operations, and he will now also oversee the legal function. Khozema will continue to serve as the principal financial officer for the company.

Between now and the end of the year, we are focused on delivering a fantastic Q4 and finalizing these transitions so we start 2022 strong. I am extremely confident that these changes will set the company up well for the years to come.

To wrap up, I would like to thank all of our customers for trusting Twilio to power your customer engagement solutions. Thank you to our partners and our more than 7,300 Twilions around the world for your dedication to making our customers successful. With this new vision for digital first customer engagement, I am extremely excited about what the future holds for Twilio as we address the generational opportunity ahead.



## **George Hu, outgoing COO**

Nearly five years ago, I joined Twilio to help transform the company into a multi-billion dollar leader in customer engagement. Jeff and I talked then about creating a world-class team, operating model, and culture, elevating Twilio from a communications provider into one of the world's great software companies. With the progress we've made across these areas, it's a natural time for me to hand the reins to Marc. While there is never a good

time to leave such a great company, with the transition to a new year coming up and a strong leadership team in place, I firmly believe that transitioning on this timeline will set the Twilio team up best for success in 2022 and beyond. I will be taking some time off to spend with my family and then pursue what's next.

I am glad to be leaving the go-to-market function under Marc's leadership. I have long believed Marc would eventually run all of Twilio go-to-market, and I have been working with Jeff to prepare him for this day by expanding his responsibilities over time. Marc has been an amazing partner to me and I could not be happier for him. I have absolute confidence in Marc and the broader GTM leadership team to bring Twilio and its customers into a wildly successful future.

I want to thank Jeff for this very special opportunity, and for being a leader and CEO that I have learned so much from over these past four plus years. I also want to thank the broader Twilio leadership team for being great partners and inspirational leaders. I will be cheering Twilio on from the sidelines, and I can't wait to see what the company builds.



**Marc Boroditsky, CRO**

Before discussing the quarter, I would like to thank George for his leadership over the last several years. I have worked closely with him since he joined Twilio and I truly appreciate the partnership we have had as we built the go-to-market team into the world-class organization it is today. I am extremely excited to take on this expanded role to drive Twilio forward as the leading customer engagement platform.

Now, on to our results. Our team delivered another quarter of strong execution around the world as companies continue to choose Twilio to power their customer engagement. The investments we have made over the last 18 months are paying off as we grow our presence internationally, expand in the enterprise space, and extend our partner ecosystem.

Our marketing team just completed our biggest and best SIGNAL conference yet, with more than 40,000 registrants joining an immersive virtual experience. We highlighted some great customers, like ServiceNow, Peloton, Intuit and more, and welcomed more than 100 of our top VIP customers for the Creator Summit to discuss everything from digital acceleration to consumer trust. And of course, SIGNAL is a developer conference, so we hosted a Superclass for our developer community, with deep-dives into a wide range of products from Flex to Segment to Video. It was an incredible event and it was great to connect with so many companies looking to build the future of customer engagement.

Our investments in the enterprise space continue to deliver great results, as we grow our footprint with the world's largest companies. In fact, we had a record quarter of new business in the enterprise in Q3 -- a testament to our great team and the platform we've built. In the quarter, we expanded our relationship with a Fortune 500 retailer who was looking to up level their customer engagement and communication, while also ensuring security around the communications. They selected Twilio Frontline to enable their employees with a secure, omnichannel solution to engage with their end customers and provide a virtual experience consistent with their leading in-store experience.

We expanded our relationship with a leading apparel retailer and Global 2000 company that was looking for a way to enhance their in-store pick-up experience for purchases made online. They selected Twilio's IVR solution because of the flexibility it offered in

providing a shared system that enabled customers to call a local number and select whether they wanted to speak with a call center agent to get product information or an onsite employee because they were in front of the store to pick up their order.

We expanded our relationship with a Fortune 500 financial services company who was looking to create a more robust solution to reduce account fraud on their websites, portals, and applications. They selected Twilio Verify to deliver a multi-channel 2-factor authentication solution because of the platform's reliability, flexibility and global reach to serve their customers in North America, Asia, UK, and other parts of the world.

Flex continued on its strong growth trajectory, as delivering personalized customer service experiences is driving demand for our highly customizable platform. We entered into a new relationship with UnionBank of the Philippines, one of the top universal banks in the region. UnionBank of the Philippines needed to undergo a tech refresh as their current contact center platform has reached its end of life. They saw the potential of Flex, which allows them to own their contact center strategy and deliver a unique, customized customer experience with easy integrations and an effective omni-channel customer engagement.

Segment continues to deliver great results, and we are extremely excited about the launch of Twilio Engage, following the launch of Twilio Journeys in Q2. The combination of our two platforms is driving incredible amounts of interest from companies who are trying to manage and understand the massive amount of data from their digital journeys. Last quarter, we also announced our co-selling motion would go live as of July 1, and we saw great traction in the first quarter of the program. We expanded our relationship with RE/MAX, one of the world's leading franchisors of real estate brokerage services. To complement their existing Twilio products, RE/MAX chose Segment to ensure their product teams have access to clear, actionable data about how consumers interact with their agents to identify high impact opportunities for cross-platform campaigns. Segment's data-first stance will support their mission of becoming the world's leading real estate technology company.

We are so excited about the opportunity with Twilio and Segment that as of January 1, we will be fully integrating the two sales organizations.

Our partner team continues to build the Twilio ecosystem with partners around the world. At SIGNAL, we announced a new strategic alliance with PwC as part of Twilio's Build Partner Program. Through this new agreement, we will have the opportunity to jointly pursue sales and co-marketing activities, as well as co-create products that

embed Twilio services. They join an expanding list of Global System Integrators in our ecosystem as we expand our reach with companies around the world.

As we discussed last quarter, we have launched a program with Waterfield Technologies, who is building pre-built plugins and specialized solutions for customers. We're seeing great traction with this approach already, signing several deals in the quarter that leveraged this partnership to accelerate adoption of Flex at companies that need help with building the solution they need. This is just the beginning, and at SIGNAL we announced Flextensions, a new set of solutions that are pre-built by partners, and verified by Twilio product teams, to further accelerate Flex adoption.

I am extremely proud of the team's performance in the third quarter, and coming off of SIGNAL, I am even more excited about what is ahead for Twilio. I am thrilled to be taking on this expanded role and I am looking forward to closing the year strong, and giving us a great start to 2022 to address the huge opportunity ahead of us.



## **Khozema Shipchandler, COO**

Twilio once again delivered elevated growth at scale in the third quarter, driven by strength across the platform. We are very excited about the outsized opportunity ahead of us and continue to invest for long-term growth.

Revenue for the third quarter grew 65% year-over-year to \$740 million, including approximately \$52 million from Twilio Segment and \$24 million from Zipwhip. Excluding Segment and Zipwhip, all other acquisitions closed after November 1, 2020 contributed approximately \$20 million in the quarter. 10DLC A2P fees within the core Twilio messaging business, excluding M&A, contributed \$39 million in the quarter. This includes approximately \$27 million in the recently implemented fees from AT&T and T-Mobile and \$11 million in fees from Verizon. Zipwhip's business also incurs 10DLC A2P fees, which contributed an additional \$10 million, and are gross profit dollar neutral.

As you can see in slide 6 of the [earnings presentation](#), organic revenue growth this quarter was 38% year-over-year excluding all acquisition revenue from November 1, 2020 onward and 10DLC A2P fees from major U.S. carriers.

Twilio Segment performed very well in the third quarter, delivering \$52 million in revenue, up 12% sequentially. This marks a significant milestone for the business as it exceeded a \$200 million annual revenue run rate. We are very pleased with the progress we have made in our integration efforts. As we mentioned last quarter, we accelerated our GTM integration plans and began our co-selling effort on July 1, and we plan to fully integrate the sales teams on January 1. Segment continues to drive a great deal of excitement from our customer base and we have seen extremely strong traction in the combined selling efforts to date. On the product front, Jeff mentioned the launch of Twilio Engage, which is yet another example of what is possible when we combine the data capabilities of Twilio Segment with our world-class customer engagement platform. We remain extremely excited about the opportunity ahead with the combined businesses.

Our dollar-based net expansion (DBNE) rate remained very strong at 131%, as we continue to drive use case expansion and new product adoption across existing customers on our platform. Going forward, we are implementing a new practice for integrating acquisitions into our metrics such that for any acquisitions that close beyond the first day of a quarter, we will begin including them into our metrics in the quarter

following the anniversary of the acquisition. In that context, Segment will be included in DBNE and organic revenue metrics starting in the first quarter of 2022.

Revenue from our top 10 active customer accounts represented 11% of revenue in Q3, compared to 12% last quarter and 14% in the third quarter of 2020. International revenue was 33% of total revenue in Q3, compared to 32% last quarter and 27% in Q3 2020.

As we have previously discussed, today we are focused on driving gross profit dollar growth, and in the third quarter, non-GAAP gross profit grew 63% over last year -- a great result as we continue to drive elevated gross profit growth as we scale. Non-GAAP gross margin was 54%, up slightly from last quarter.

Total 10DLC A2P fees contributed approximately \$48 million to revenue in the third quarter, including Zipwhip. As shown in slide 11 of the [earnings presentation](#), these fees reduced gross margin by approximately 390 basis points. We remain confident in our ability to deliver 60%+ non-GAAP gross margin over time, especially as we continue to drive great results in our emerging businesses like Segment and application services, which are gross margin accretive.

Non-GAAP operating income came in at \$8 million, ahead of our guidance primarily due to the revenue beat that for the most part fell through to profit.

Moving to guidance, for Q4 we expect total revenue of \$760 million to \$770 million, including Zipwhip, for year-over-year growth of 39% to 40%. As a reminder and to help normalize year-over-year comparisons, fourth quarter 2020 revenue included approximately \$23 million from political traffic. Excluding that contribution from last year, our Q4 revenue growth is expected to be 45% to 47%. We expect a fourth quarter non-GAAP operating loss in the range of \$40 million to \$45 million. As a reminder, SIGNAL, our annual user conference, was held in mid-October and will increase operating expenses by approximately \$10 million in the quarter. Our fourth quarter revenue guidance implies a full year growth rate of 57%, which is incredibly strong for a company of our size and scale. When we look to 2022 and beyond, we remain very confident about our ability to deliver 30%+ annual revenue growth over the next three years.

Overall, we delivered very strong results in the third quarter, and we are well positioned for a strong close to the year. We're excited about the large opportunity ahead as we continue to help companies around the world and across industries reimagine their customer engagement.