Q4 and FY 2021 Earnings

Prepared Remarks

February 9, 2022
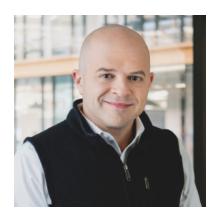
Jeff Lawson, co-founder and CEO

Our fourth quarter capped off a very strong year of results as we delivered more than $2.8 billion in revenue for the year, growing 61% year-over-year, and 42% on an organic basis. In late 2020, we stated our confidence in delivering 30%+ organic revenue growth over four years. After one year of exceeding that expectation and now generating revenue at a run rate of more than $3 billion, we reiterate that confidence for the next three years.

We have a large and growing customer base representing businesses around the world and across nearly every vertical and company maturity, and have demonstrated consistently strong dollar-based net expansion rate. Based on that success, we are confident that investing in the expansion of our core business while layering on our customer engagement solutions is the right path.

We've continued to invest over the last several years to fuel our ability to address the market opportunity ahead of us. We've consistently delivered strong top-line growth, and we are now starting to reap the benefits of our scale and investments. In that context, I'm excited that beginning in 2023, our goal is to deliver annual non-GAAP operating profitability consistently, in addition to the revenue growth we've committed. This aligns to the long term model we've talked about of achieving a 20% non-GAAP profit margin over time.

We accomplished a lot in 2021, and here are a few numbers that give you a sense of the scale of our platform: we processed nearly 1.7 **trillion** API requests on the Twilio platform, Twilio Segment processed over 10 **trillion** events, we delivered 1.3 **trillion** emails, including more than 13 **billion** on Black Friday and Cyber Monday, and we sent nearly 127 **billion** messages.

As I said at SIGNAL and as we kick off 2022, there are three mega trends that are pushing customers toward our platform and creating tailwinds for our business: the continued trend of digital transformation, the direct-to-consumer business model entering nearly every industry, and changes in the data privacy landscape. Digitization is not just a COVID beneficiary; it's a permanent shift in how businesses engage with their customers and it's what is driving our continued growth.

Every B2C brand is trying to build the best digital presence to engage with their customers and build direct, long-term relationships. This isn't easy and brands are losing market share and loyalty to digital giants like Amazon because they've built their own custom engagement cloud just for Amazon. The reality is that very few companies have billions of dollars and teams of data science engineers at their disposal, and the CRMs created 20 years ago are not designed for B2C companies in a digital world – but Twilio is.

Twilio has an unparalleled view into the customer journey as the leading cloud communications provider and IDC has ranked Twilio #1 for 2020 market share in worldwide Customer Data Platforms. This combination sets us up as *the company* who can deliver a single, unified customer engagement platform to help businesses better understand their customers and personalize every interaction because the brands that have the best, most differentiated customer experience will win in today's digital world. That's what we're on a journey to solve – to democratize customer engagement the way we've democratized communications over the last 13 years.

At the center of customer engagement is the customer data platform (CDP). It is the "brain" or "central nervous system" of our customer engagement platform powering the end customer experience. This is because CDPs collect, unify, clean and structure first-party customer data from any source, create unique individual profiles of each customer, and then send that data to any customer-facing or customer-related application. This means that whatever application or channel you are using to engage with customers, they are all working off the same, real-time data of customer interactions, creating a consistent customer experience.

With recent Apple IDFA changes, Google's planned deprecation of cookies, and increased global regulation of customer data, companies need to decrease their reliance on third-party data. Today Twilio Segment manages an enormous amount of first-party customer data but it's a de minimis fraction of the total customer data that's out there. IDC forecasts the CDP market to grow to over $3B by 2025, from an estimated $1.5B in 2021. The opportunity to improve how companies engage with their customers using data gets bigger every year as they continue to digitize and we're just getting started.

We're in the early stages of leveraging our APIs to provide a broad real-time customer engagement platform with a variety of marketing, sales, and customer support use cases that combines Twilio Flex for the contact center, Twilio Frontline for sales, and Twilio Engage for marketers into a single platform across the customer lifecycle/journey.

Our strategy to address this massive opportunity is simple: "in and up". It starts with us developing easy to use APIs that developers love, which leads us into companies of every shape and size. Our focus on and support of developers drive them to become our champions inside of companies. The key to great APIs is that they're easy to adopt, they're priced in a usage-based model, and they abstract great complexity so a developer can solve difficult problems with just a few lines of code.

It won't surprise most people to find out that our most scaled developer products are messaging and email, because email and messaging are so ubiquitous. Every developer needs them in their toolbox, which is why SendGrid was a great acquisition and why our messaging business continues to deliver such great results. That's the "in" motion and it's crucial. Customers typically leverage these APIs to solve some kind of business problem – usually for better marketing, better sales, better in-product experiences, or better service and support. And because our messaging business has been growing so fast, for so long, sometimes this "in" motion mixes down gross margins in the short term, which is a trade off we accept, because it allows us to add customer relationships at scale, that we can grow in the long term.

Importantly, these relationships also allow us to move "up" – up in strategic value, up in contract value, and up the org-chart. It allows us to move up to software, where we offer Flex, Frontline, Segment, and soon, Engage. These are the software products that are often adopted by business decision makers like the head of support, the head of marketing, or the head of sales. While all of these products generate less revenue than messaging today, collectively they are growing faster than organic messaging, and over time, they will drive improvements in gross margins, as well. The software products also tend to be "sticky" as business leaders find these capabilities indispensable to the customer experience they are trying to cultivate.

Now companies already have many of these apps – for contact centers, marketing automation, sales automation and more. The problem is that the legacy apps don't work together. We are building a cohesive platform that brings together all of this functionality. A platform where each of these apps is built upon the same communications infrastructure and customer data infrastructure. One view of the customer. One set of conversations. We can do this for any company, whether they are looking to fully rip and replace their legacy applications, or they want to augment their existing solutions. Bringing customer data and communications together across all of these touchpoints will help Twilio become *the* underlying platform that helps companies tie their customer engagement communications together.

That's our "in and up" strategy – bring in customers through messaging and email, then build on those relationships to grow our footprint with broader adoption and higher value products. We are executing well on this strategy and seeing great results across our customer base. Our messaging business plays a critical role in this strategy as its wide-spread adoption and scale gets our foot in the door, generates high amounts of gross profit dollars that we can reinvest or drop to the bottom line. Over time, we will build upon these relationships to develop opportunities to expand with our broader set of customer engagement products, including Segment, Flex, Frontline and soon, Engage, which will increasingly be the focus of our business.

We've made meaningful strides in the past year, from growing our active customer base from 221,000 to 256,000, beginning with the integration of Segment, growing the number of active agents on Flex by more than 90% year-over-year, to announcing Engage - our growth marketing platform built upon Segment. I'm incredibly excited for 2022 and for the next year of executing this very focused "in and up" strategy around customer engagement.

Before I wrap up, I wanted to discuss some management changes over the last few quarters. Like many businesses at this stage of growth, we have seen some great leaders depart and others arrive. I feel confident and excited about how the team is coming together to drive Twilio forward. We've promoted several internal leaders, including Khozema and Marc, and we've added some great new leaders from outside of Twilio, including Eyal Manor, our new Chief Product Officer, and Dana Wagner, our new Chief Legal Officer. The leadership team is energized, focused and collaborative, and I'm extremely confident in our ongoing execution.

Twilio is addressing a tremendous opportunity. The combination of our leading cloud communications platform with Twilio Segment's #1 customer data platform gives Twilio an unparalleled view into the customer journey, setting us up as *the company* that can deliver a true customer engagement platform.

Onward!

Marc Boroditsky, CRO

Our team delivered our best quarter on record across all of our major internal sales metrics, closing out an incredibly strong year as our customer engagement vision is resonating across industries and around the world. The investments we've been making are continuing to drive great results, and we are set up well as we look to continue our momentum in 2022 and beyond.

In recent discussions with customers, from small businesses to large enterprises, we are hearing consistently that supporting customer engagement over the customer's preferred channel across the full arc of the customer journey is no longer an option – it's an imperative. In nearly every vertical, the bar has been raised to support highly personalized, natural engagement from initial interaction through the life of the customer.

Our platform can be used by all types of companies, small or large, local or global, and in nearly any industry. We're continuing to put energy to drive further adoption in the enterprise, enabling our international growth, and of course, our emerging products like Flex and Segment.

In the enterprise, we are driving adoption and growing our footprint with the largest companies in the world, and our conversations with these companies are becoming more and more strategic as we help them modernize their customer engagement. In fact, we ended the year with 36% of the Global 2000 as customers – a great sign of our traction in the largest enterprises which provides us a great opportunity to expand to our full Customer Engagement Platform.

As our growth continues, our consulting partners are proving to be an important extension of our sales efforts as they help customers customize and implement their Twilio solutions. For the full year, we saw a 119% increase in consulting partner influenced deals from the prior year, and we ended the year with more than 500 consulting partners in our ecosystem to help expand our reach.

Internationally, we continue to build our presence around the world to support customers of all sizes, including those in the Global 2000. Our regional teams continue

to deliver great results, with each team coming in ahead of plan in the fourth quarter. In Latin America, we expanded our relationship with Mercado Libre, the leading e-commerce and fintech platform in Latin America and a Global 2000 company, who was looking to enhance their customer service workflows with buyers. They selected Programmable Voice to implement click-to-call because of the flexibility it provided to easily customize workflows and the global scale of our platform.

Twilio Segment continues to be top of mind for customers, as shifting customer behaviors and changes in the broader privacy landscape related to IDFA and third-party cookies are driving companies to embrace first-party data and CDPs. First-party data is key to unlocking the best relationship with customers, and when Engage is generally available, companies will be able to leverage that first-party data to build amazing engagement experiences with their customers. As a reminder, we fully integrated the Segment and Twilio sales teams on January 1 of this year and I'm excited to have the full power of Twilio behind Segment and Engage as we address the massive customer engagement market. We believe that leveraging first-party data will be key for companies as they build for the future of customer engagement, and we're seeing this play out across companies of all sizes and industries. In the fourth quarter, we expanded our relationship with a Fortune 100 financial services company that selected Segment to power the transmission of all consumer data coming from multiple touchpoints into a single reporting suite. Similarly, Gympass, who has been launching a live online fitness offering, is implementing Segment to personalize engagement and build audiences relying on a single real-time 360 degree view of customers.

We also expanded our relationship with Vertu Motors, the UK automotive retailer with a network of more than 150 sales outlets across the UK, who was looking to replace their existing contact center solution and improve their overall customer experience. They built a game-changing solution combining Flex and Segment, where Segment's CDP provides Flex agents a complete customer profile before the call is even transferred. For example, when a customer calls the sales team, reps can see who is calling, the details of the car they currently own if they are an existing customer, the residual value of that car for trade-in, and the last cars that they were considering online before they called in. This is a great use case showing the benefits of Twilio Segment's first-party data combined with the power of Flex to drive a better customer experience.

Discussions about customer engagement inevitably lead to discussions about the contact center, which is a critical touchpoint with customers. We consistently hear from companies that their legacy solutions can't provide the flexibility and channels that are needed to address today's digital world. This is why we remain excited about the

progress we've seen with Flex and the opportunity ahead. In Q4, we expanded our relationship with Stripe, a global technology company that builds economic infrastructure for the internet. They wanted to create a unified and streamlined contact center solution for their agents, and selected Flex for its flexible agent user interface and tailored it to their business. Flex's speed of deployment has similarly provided a critical foot in the door for customers who have shown initial interest.

We expanded our relationship with Align Technology, a medical device company that designs, manufactures, and offers the Invisalign system, the most advanced clear aligner system in the world, iTero intraoral scanners and services, and more. Align selected Twilio Flex as a new contact center solution and stood up a new Flex instance in production in four hours with just one developer. Within 3 days, they replicated a large portion of their preexisting call center environment.

Importantly, Flex is not an all or nothing solution. Oftentimes, we are able to get our foot in the door with a new channel that a customer wants to offer for customer service and engagement, and due to the low friction of working with Twilio, we chip away at the legacy installation over time. We saw this happen repeatedly in Q4, as we expanded Flex implementations with a global 2000 financial services company, a global 2000 auto maker, Nubank, and many others. We saw the same kind of progress with our Digital Customer Experience partner HGS, who saw accelerated expansion of more than 20 customers who had deployed Flex, including many leading enterprise and consumer brands. HGS has also recently packaged a Flex and Segment Digital CX Offer. This package simplifies the process for companies to move to the cloud and accelerate their time to value. This is yet another great example of how Twilio consulting partners are innovating in the digital customer experience space. and proof that our customers are finding value in using Flex to solve their contact center needs as they continue to grow and scale their usage of our platform.

As Jeff discussed, our messaging business is a critical component of our "in and up" strategy, and it continues to deliver elevated growth at scale. This quarter, we signed our largest deal ever with an international telecommunications company. They were looking for a global messaging provider to utilize for one of their large banking customers and selected Twilio to replace their own messaging connectivity because of our global reach, scale, resiliency, and reliability.

I'm excited about the strong finish to the year, and our setup for 2022 as we tackle the massive customer engagement opportunity ahead of us. I'd like to thank our customers

for trusting us with your customer engagement needs, our partners for their support, and our team for everything they do to make our customers successful every day.

Khozema Shipchandler, COO

We finished a great year with very strong growth in the fourth quarter and we are extremely proud of our results across the board. We are continuing to become more strategic to our customers, and that is driving consistently strong growth at scale that we are confident will continue for the next several years.

Revenue for the fourth quarter grew 54% year-over-year to $843 million. The following items are included in this result:

- $57 million from Twilio Segment;
- $32 million from Zipwhip, including $14 million in 10DLC A2P fees;
- $28 million from all other acquisitions closed after November 1, 2020, excluding Segment and Zipwhip; and,
- $41 million from U.S. 10DLC A2P fees within the core Twilio messaging business, excluding Zipwhip, consisting of approximately $29 million from AT&T and T-Mobile and $12 million from Verizon.

Excluding the items listed above, fourth quarter organic revenue growth was 34% year-over-year. When excluding political traffic revenue from both periods to normalize year-over-year comparisons, current quarter organic revenue growth was 39%. We are extremely pleased with these results in the face of a difficult comparison to last year.

Twilio Segment performed very well in the fourth quarter, delivering $57 million in revenue, up 10% sequentially. It has been a little over a year since the acquisition, and we are extremely happy with the performance of the team, and we remain confident in our ability to continue to execute on the CDP and marketing opportunity.

For the full year, we delivered $2.8 billion in total revenue, up 61% year-over-year. On an organic basis, revenue grew 42%, and 44% when excluding political traffic revenue from 2021 and 2020. Twilio Segment delivered $201 million in revenue for the year.

Our fourth quarter dollar-based net expansion (DBNE) rate was 126%, as we continue to drive use case expansion and new product adoption across existing customers on our platform. When excluding revenue from political traffic from both periods to

normalize year-over-year comparisons, current quarter DBNE was 130%. For the full year, DBNE was 131% which is world class by any standard, especially at our scale and revenue run rate. Excluding political traffic revenue, full year DBNE was 133%. As a reminder, any acquisitions that close beyond the first day of a quarter will be included in our metrics in the quarter following the anniversary of the acquisition. In that context, Segment, Zipwhip and the other acquisitions excluded from organic revenue are not included in our DBNE this quarter, but Segment will be included in our DBNE and organic revenue metrics starting in the first quarter of 2022.

Revenue from our top 10 active customer accounts represented 12% of revenue in Q4, compared to 11% last quarter and 13% in the fourth quarter of 2020.

Fourth quarter non-GAAP gross profit grew 41% over last year, and non-GAAP gross margin was 51.3%, down approximately 280 bps from last quarter. This decline was due to strength in our messaging business in Q4, with international customers generating especially high volumes. U.S. 10DLC carrier fees reduced gross margin by approximately 350 basis points in Q4.

As Jeff mentioned, messaging serves as an efficient "in" to new customers and generates significant gross profits to reinvest, while mixing gross margins down today. This dynamic allows us to execute on the "in and up" strategy, especially within G2K customers, which then yields expansion opportunities for us. Taking on new messaging business - so long as it generates gross profits above our internal hurdle thresholds - is an active decision we make everyday. At the same time, our emerging businesses like Segment and those included in Application Services continue to grow at elevated rates and are gross margin accretive. As you can see in our presentation, full year organic messaging growth was 52%, while application services grew 66%. Over time, the revenue mix will shift to these higher margin products, which gives us confidence in our ability to deliver 60%+ non-GAAP gross margins.

Fourth quarter non-GAAP operating losses came in at $27 million, ahead of our guidance primarily due to the revenue beat. As a reminder, our annual SIGNAL conference took place in the fourth quarter, and increased our operating expenses by approximately $12 million.

Moving to guidance: As you are aware, we primarily operate a usage based model, which we believe best aligns the interests of our customers with the interests of the company. However, this model can also lead to some variability, at times creating significant differences between forecasts and actual results. With every year, we have

more information to fine tune both our near- and long-term forecasting models. As we look to Q1, we are refining our guidance approach to provide guidance that we believe will ultimately be more consistent with actuals.

With that context, we expect first quarter revenue of $855 million to $865 million, for year-over-year growth of 45% to 47%. We expect first quarter organic revenue growth of 32% to 34%, which includes Segment, but excludes revenue from acquisitions made after January 1, 2021, as well as estimated revenue from U.S. 10DLC A2P carrier fees. We expect a first quarter non-GAAP operating loss of $27 million to $32 million.

Growth remains our top priority as we address the massive customer engagement opportunity ahead. While our focus on growth has not changed, we also believe we can create economies of scale. For the last few years, we have made focused investments on Flex, enterprise and international go-to-market, and core infrastructure areas. Those investments have been geared towards gaining market share and generating elevated growth plus leverage over time. Accordingly, we reiterate our confidence in our ability to deliver 30%-plus organic revenue growth for at least the next three years.

Additionally, I'm pleased to say that we expect that 2022 will be our last year of generating a non-GAAP operating loss. Beginning with the full year 2023, we plan to deliver annual non-GAAP operating profitability, with consistent improvement in the years beyond – exclusive of potential future M&A. While growth remains our focus, we expect that our investments from the past couple of years and the scale we have reached will enable us to recognize more efficiencies to drive leverage across the business.

Our long-term framework is unchanged: elevated organic growth, which we have pegged at 30%+ over the next three years; 60%+ non-GAAP gross margins, which we will deliver through faster growing Application Services and software over time; and, 20%+ non-GAAP operating margins, the path to which starts with non-GAAP operating profitability in 2023.

I'm excited to help lead Twilio on this next phase of elevated growth balanced with non-GAAP profitability while we continue to capitalize on the outsized opportunity ahead of us as we help companies around the world develop more meaningful relationships with their customers.