



Q4 2022 Earnings

Prepared Remarks

February 15, 2023



Jeff Lawson, Co-founder and CEO

While I'm pleased that we exceeded our expectations for the fourth quarter, the story today is really about how we'll deliver profitable growth in the coming years – and the recent changes to the team and our operating model to achieve that.

First, I want to recap Q4: We delivered \$1.025 billion in revenue for year-over-year growth of 22%, and 21% growth on an organic basis. While there are challenges with the current environment, it's a big milestone to cross \$1 billion in quarterly revenue. And we delivered \$33 million in non-GAAP operating profit, or 3% non-GAAP operating margin. I'm happy with our Q4 revenue and profit performance versus our plan, but our dollar-based net expansion rate (DBNE) of 110% was a step down from our recent results. Our usage-based model is a more immediate reflection of macro economic factors than traditional bookings-based subscription revenue. Admittedly, that's an accelerated headwind during this part of the economic cycle, but can turn into a more accelerated tailwind when we see economic recovery. We can't control the broader environment, but we do control how we run the business through any cycle – so that's what I want to cover in the remainder of these remarks.

We're migrating from a growth company, to a *profitable* growth company. This week, we made four large changes to our business:

1. A new operating model consisting of two business units
2. A new leadership structure
3. A substantially accelerated path to GAAP profitability, including a 17% reduction in our workforce
4. A new capital allocation plan, including a \$1 billion stock buyback authorization

With the support of our Board of Directors, I made these changes to drive better focus, improve our ability to execute, and deliver an accelerated path to meaningful profitability. This has been our collective focus for the past several months. I want to walk through these changes in more detail.

1. A New Operating Model

Our long term plan is to create the leading Customer Engagement Platform: a set of software APIs and applications that enable companies to build unbreakable customer

relationships. But to realize this goal, we have to excel at two things in the short to medium term.

First, we're focused on establishing our large communications business as the major profit engine of the Company while we continue to scale and serve our customers well. Second, we need to continue to invest in our newer software products (Twilio Flex, Twilio Segment, and Twilio Engage) to drive growth, capture market share, and increase our gross margin. Both parts of our business are highly complementary for us and our customers, but they have different objectives given the state of the businesses. Because of that, we are creating two business units: Twilio Communications and Twilio Data & Applications (fka Software). With this new structure we can better execute on the dual objectives of profitability and growth, respectively.

In the Twilio Communications Business Unit, we are pivoting back to a more product-led growth strategy. This business generates over \$3 billion in revenue, with hundreds of thousands of active customer accounts, but has not yet generated consistent profit – so that is our focus. As part of this week's restructuring, we parted ways with many of our sales executives who primarily sold communications products. While I believe our talented sales team was serving our customers well, we need to return to a more efficient go-to-market strategy for Communications.

Our products can and should do more heavy lifting to onboard customers and make them successful. I am increasing my involvement in product leadership – with a focus on building additional self-service and product capabilities to fuel growth more efficiently. And we are taking a fresh look at our operations to streamline processes and address complexities that have crept in over time. Our north star is simplicity that drives better outcomes for customers, and a more efficient company. These are Twilio's roots and we are embracing them fully again.

As Khozema notes below, this year we expect to generate \$250 to \$350 million of non-GAAP operating profit, which is driven largely by these efficiencies in Communications.

In the Twilio Data & Applications Business Unit, our priority is to accelerate growth. We are working from a strong base, with \$441 million in 2022 revenue, tens of thousands of active customer accounts, and great innovative products. But it's still early in the secular shifts driving demand for our Data & Applications products: Segment, Flex, and Engage (which will include Marketing Campaigns going forward). We have taken the first steps towards dedicated resources to this business by separating our Communications and Data & Applications sales teams, and are seeing signs of

success. In Q4, we closed several new logos and landmark expansion deals for Segment, Flex, and Engage, a few of which we've highlighted at the end of these prepared remarks.

We will continue to invest in Data & Applications, and even be willing to lose some money in that business over the short to medium term, but it's the right decision for this phase of the business. With the gross margin profile of these products and clear markets to penetrate, these are responsible, high-ROI investments that will meaningfully improve our growth, profit, cash flow, and strategic positioning with customers over time.

So in the short to medium term, profits in Communications will be somewhat offset by losses in Data & Applications – and that's intentional.

These two business units can execute toward their respective financial goals with more focus and independence – but they are also highly complementary. Our Data & Applications business benefits from our underlying communications platform and our substantial installed base. Our success in Data & Applications also drives more intelligence for our Communications products. Together, they address adjacent buyers and related problems that our customers have.

2. A New Leadership Structure

I want to highlight a number of changes to our leadership structure that enable our new operating model:

- To lead our Communications business, I picked our COO Khozema Shipchandler – a financially-oriented, operational leader with deep knowledge of this business. I want Khozema and his team to wake up every day to drive more operating discipline, simplicity, and greater efficiencies in Communications.
- To lead our Data & Applications business, I chose Elena Donio – a seasoned SaaS executive who joined us as President of Revenue last year. Elena and her team will wake up every day asking how to grow and win with Segment, Flex, and Engage.
- Aidan Viggiano is being promoted to Chief Financial Officer, and will report to me. Aidan joined Twilio in 2019 and has led our FP&A function for the past 1.5 years. She is a world-class leader and executive.

- Dana Wagner, our Chief Legal Officer, is also becoming a direct report of mine, after previously reporting to Khozema as COO.

- Eyal Manor has decided to leave Twilio and will be stepping down from his position as Chief Product Officer later this month after helping with our transition to the business unit structure. I want to thank him for driving our R&D efforts forward, and his impact will be felt for a long time to come.

3. An Accelerated Path to GAAP Profitability

We are making substantial changes to drive the company, and particularly the Communications business, to meaningful profitability. This week, we reduced our headcount by 17%. The majority of the reductions came from our Communications business and thus will increase its contribution profit quickly. Across the company, we've reduced layers of management in certain areas and curtailed activities that aren't core to our business. We're also reducing many employee perks, and are sunsetting our employee sabbatical program. We'll be further reducing our real estate footprint in the coming months.

I want to emphasize that the changes we announced today should not be taken in a vacuum. These are the continuation of changes made throughout the last year as we migrate toward a profitable growth company. My leadership team has evolved significantly over the past year, both in structure and in people. We've been busy realigning our sales teams for the past two quarters. In September, we performed an 11% headcount reduction. Together with this week's restructuring, we are 26% fewer employees than we were in Q3. All told, these actions represent substantial changes in how we are running the company – but changes that set us up well to deliver on our strategy.

We've meaningfully accelerated our path toward GAAP profitability. Like many young technology companies, we'd historically focused on driving high levels of revenue growth. We're taking the actions that put us on a path to attractive levels of growth, non-GAAP operating profits, and GAAP profitability. With a particular focus on reducing stock-based compensation, we are targeting GAAP profitability for fiscal year 2027. Khozema will walk through the details, including the historic line items that will roll through our financials in the coming years that take us to GAAP profit.

4. A New Capital Allocation Plan

In the context of these actions, we also revisited our capital allocation strategy. The Board has authorized a share repurchase program of up to \$1.0 billion, and we intend to

purchase up to \$500 million in the next six months. Ordinarily, I wouldn't consider a buyback the best use of our balance sheet. But this program reflects our confidence in the business and our belief that our current share price undervalues our position in the market today and the long-term opportunity ahead, while still leaving us with a strong balance sheet to execute our strategy.

I will also be personally buying approximately \$10 million of Twilio equity in the open market when the trading window opens.

In closing – the decisions we've made over the past year, and those we've announced this week, are not easy. Especially the decisions that impact our colleagues in an environment as tough as this one. To our departing teammates, I am deeply grateful for what you've brought to Twilio. You've shown up every day to serve our customers, and have built something to be proud of. To our customers, I want to assure you that we've made these decisions with you in mind. We can better serve you going forward as a more efficient and profitable company. To our investors, know that we take your feedback seriously.

The actions we've announced this week – the organizational change to business units, the leadership changes, the accelerated path to profitability, and our capital allocation strategy – all are in service of driving better focus, improving our ability to execute, and delivering an accelerated path to meaningful profitability and enhanced shareholder value.

I am proud of what we've built over the first 15 years of Twilio's existence. Now it's time to wholeheartedly put our customer focus, our spirit of innovation, and Twilio Magic toward the next phase. That's the plan we've laid out here, and now it's time to execute.



Khozema Shipchandler, COO

As Jeff detailed, we've undertaken a number of significant actions in our business to drive better focus, improve execution, and reduce costs. These changes will significantly improve our operating expense profile, while also preserving our ability to pursue the significant growth opportunity ahead of us. This will in turn drive more non-GAAP operating profitability sooner, as well as help us deliver GAAP profitability for fiscal year 2027. As a result, we've updated the financial framework that we originally provided to you at last November's Investor Day to reflect an accelerated path to meaningful profitability. I will walk you through the changes in more detail, but first, let me provide a quick summary of our Q4 results.

I'm pleased that we were able to deliver stronger results in Q4 than we originally anticipated, as we continued to navigate a dynamic macro environment, worked to reaccelerate software sales, and achieved more operating leverage across our business. Fourth quarter revenue was \$1.025 billion, up 22% year-over-year in total and 21% on an organic basis. Fourth quarter Data & Applications (fka Software) revenue was \$118 million, up 25% year-over-year. For the full year, we delivered \$3.83 billion in total revenue, up 35% year-over-year, and on an organic basis, revenue grew 30%. Data & Applications revenue for the full year was \$441 million, up 35% year-over-year. Please refer to our Q4 Earnings Presentation for additional financial metrics.

Our Q4 DBNE rate was 110%, which is a step down from previous quarters, as we continued to see the impact of the broader macro environment on our business throughout the quarter. As Jeff mentioned, given the majority of our revenue is usage based, we see more immediate impacts, upward and downward, based on economic conditions. For the full year, DBNE was 121%.

Fourth quarter non-GAAP gross profit grew 20% over last year, and non-GAAP gross margin was 50.5%, slightly down from last quarter. Reported Non-GAAP operating profit was \$33 million in Q4, for non-GAAP operating margin of 3% – meaningfully ahead of expectations primarily due to the revenue beat this quarter, further realization of lower headcount through a deliberate slowdown in hiring, and general program spend favorability.

While our results were ahead of expectations for Q4, we've continued to look for opportunities to drive more operating leverage across the business in an effort to deliver attractive levels of both growth and profitability over time. The continued uncertainty in the macro environment and the feedback we have received in engagement with our investors has further reinforced the importance of this focus. And as Jeff noted, we've made a number of changes to our operating model and organizational structure, which we believe will enable us to fully capitalize on the customer engagement opportunity, while accelerating our path to meaningful profitability and generating attractive levels of returns for our shareholders. Summarizing the changes that Jeff highlighted:

- 1. Restructuring:** We've made the decision to reduce our workforce by an additional 17%. Decisions like these are difficult, however we believe this change was necessary and will enable us to be more lean, agile and focused on execution. The goal is to do fewer things better. While this impacts all organizations across Twilio, we made significant reductions within our go-to-market team, as we believe we can continue to be materially more efficient in how we bring our Communications products to market. To that end, as Jeff mentioned, we are shifting the Communications sales model from one that is reliant on sellers to one that leverages self-service and product-led growth. We believe that this will significantly improve the profitability of our Communications business, contributing to materially improved operating margins as well, and enabling us to reinvest some of those profits back into reaccelerating the growth of our high margin Data & Applications business. We also announced a workforce reduction of 11% last September, so on a cumulative basis we've actioned a reduction of 26% of our total headcount number from Q3 of last year.
- 2. Expense Rationalization:** We're continuing to rationalize all discretionary spend across the business and as a result, we cut back on a number of employee perks, including the sabbatical program that we announced last year. We also plan to further reduce our global real estate footprint over the next few months. We're focused on running a more effective and efficient company, where we prioritize our spend on the areas most critical to achieving our long-term strategic goals.
- 3. Operating Model:** We're shifting our operating model to a Business Unit structure. This strategic realignment enables us to better execute on the key priorities for each business – driving efficiencies for Communications and reaccelerating growth for Data & Applications – while taking into consideration each Business Unit's unique economic, customer, and product needs. We

already have a market-leading Communications business, which we intend to run much more profitably and efficiently. We also have an attractive portfolio of high margin Data & Applications products that are well-positioned in the marketplace. With more focus and dedication, we believe we can mindfully and efficiently grow our Data & Applications business faster in the coming years, which will drive natural improvement in gross margin and operating margin as Data & Applications represents a larger share of overall revenue.

In combination, these changes will result in an estimated \$300 million of annualized cost savings, before taking into consideration some incremental operating expense investments as detailed below. We believe this is an aggressive set of actions that will enable us to be more focused and drive better execution as a company, while providing us with the right setup to deliver greater value to our customers and our shareholders in both the short and long term. We recently enlisted the support of AlixPartners, a global leader in helping businesses improve performance and accelerate transformation, to challenge our efficiency targets. They've been pressure testing our plans and helping us to take a holistic approach to maximizing the levers that we can pull to accelerate our path to profitability, without materially impacting the growth opportunities ahead.

As Jeff also mentioned, our Board has authorized a share repurchase program of up to \$1.0 billion and we intend to execute up to \$500 million of this in the next six months, subject to legal requirements, price, and economic market conditions. We have a strong balance sheet that continues to provide us with flexibility to allocate capital to those uses that will drive the most shareholder value.

In light of these actions, we're updating the financial framework that we provided during our Investor Day last November. With the additional cost savings recognized through the restructuring and our ongoing efforts to drive further efficiencies across the business, we're targeting more non-GAAP operating profit in 2023, as well as more meaningful annual margin improvements.

For 2023, we're expecting non-GAAP operating profit of \$250 to \$350 million, inclusive of an estimated \$150 million of incremental operating expense, the majority of which is associated with two main drivers. First, we are starting to transition some of our employee compensation away from stock-based compensation, and toward cash. This will reduce stock-based compensation and dilution over time, but of course, increases our non-GAAP operating expense. Second, we are continuing to invest in the growth of our high margin Data & Applications business. These are responsible, high-ROI investments that we believe will meaningfully improve our growth, profitability, and

strategic positioning with customers over time. We feel confident in our ability to deliver within our 2023 non-GAAP operating profit range despite the difficult macro environment, and if we see improvement in the macro, we see an opportunity to deliver at the higher end of this range.

We are increasing our annual non-GAAP operating margin improvement targets to 300-400 basis points in the Medium Term and we are reiterating our 20%+ non-GAAP operating margin target in the Long Term. If we execute at the higher end of our range, we have line of sight to 20%+ in the Medium Term. We define the Medium Term as being fiscal years 2025-2027. We are also taking steps to accelerate our path to GAAP profitability, which we expect to achieve for the fiscal year 2027. In addition to the actions we're taking that will drive increasing levels of non-GAAP operating profit, we are also addressing stock-based compensation. We're making a concerted effort to reduce this over time, and we're now targeting that this will be lower as a percent of revenue in 2023 than 2022, and will decline to 10%-12% of revenue for 2027.

To be clear, the actions we are taking today on stock-based compensation will drive a future reduction in GAAP expenses. However, our path from non-GAAP to GAAP profitability will take several years – which is primarily a function of the lagging accounting nature of our prior stock-based compensation and our prior M&A activity. Let me explain why that's the case. First, per accounting rules, stock-based compensation expenses are valued at the time of grant date so movements in Twilio's share price do not impact the current or future expenses associated with existing grants. Second, our new hire equity grants vest over four years and historically we've also provided smaller refresh grants on an annual basis, which means that for the first four years of an employee's tenure with the company, their equity expense profile builds up. It's not until after year four that we start to see leverage. So we will still see elevated levels of stock-based compensation in the short term as the new hire grants from our hiring efforts over the last few years fully vest. Going forward, we expect to operate with a significantly reduced headcount and also intend to replace some of our employees' compensation with cash, so as the accounting charges for the current grants run off, we believe we will see a significant reduction in stock-based compensation as a percent of revenue. In addition, we also expect a run-off of amortization of intangibles from prior acquisitions that will decline by approximately 65% through 2027, assuming no impairments and also excluding any potential future M&A. Both of these items are material to how we get from non-GAAP to GAAP profitability, so I wanted to take the time to provide more color.

The macro environment continues to be dynamic, and some of the headwinds that we've highlighted over the last couple of quarters still persist in our business. As a result, in the short term we will run and plan conservatively. While we remain confident in our ability to deliver on the Medium Term revenue growth targets from our financial framework, we're orienting the business towards achieving greater levels of non-GAAP operating profitability, regardless of the macro environment. We will continue to provide quarterly guidance following a similar methodology to last year. In that context, for Q1 2023, we're initiating revenue guidance of \$995 million to \$1.005 billion, representing year-over-year reported revenue growth of 14%-15% and 13%-14% organic growth. We expect Q1 non-GAAP operating profit of \$45 million to \$55 million, which includes an estimated \$10 million one-time, non-cash benefit for the termination of our employee sabbatical program. As a result of the headcount reduction that we announced on Monday, we expect to incur \$100 million to \$135 million in charges associated with cash expenditures for employee transition, notice period and severance payments, employee benefits, and related facilitation costs. We expect the majority of these restructuring charges will be incurred during Q1 2023. For clarity, these restructuring charges will impact our GAAP earnings, but are not included in the \$45 million to \$55 million range above for Q1 non-GAAP operating profit.

We are operating in an uncertain market. However, we remain extremely excited by the opportunities ahead of us and we are focused on making the right strategic choices today that will position us to succeed in the market and drive attractive, profitable growth. While we announced a number of hard decisions this week, we firmly believe the steps we have undertaken were necessary to best position Twilio for long-term future success. I want to add my thanks to our team who has been hard at work over the past few months conducting our operational review and planning for the evolution of our business, and my deep appreciation to the Twilio team that got us here, especially those who are moving on, plus those who will help drive our business forward and help our customers succeed. I also want to thank our shareholders for their constructive feedback over the last several months, which provided us an important input into the leadership team's and the Board's decision-making process.

Representative Customer Wins from the Quarter

Segment and Engage:

- JP Morgan Chase & Co. is one of Segment's predominant global customers. This expansion moves JP Morgan Chase & Co. beyond a sole CDP use case to incorporate Engage into their Consumer & Community Banking and across other parts of the company. JPMC is excited about the potential of the Segment platform to give customers timely, personalized experiences tailored to their needs.
- Box, Inc., the leading Content Cloud and a current Segment customer, signed a three-year deal to significantly expand their use case with Twilio. Box leverages Segment to engage and activate data in real time enabling them to drive insights to action at scale. With Segment, they no longer have to manually reconcile data with disparate teams and systems before activating on it. With their addition of Twilio Engage, they will now be able to orchestrate journeys and personalized experiences where, when and how Box customers want with native email.
- A leading e-commerce company uses Segment to optimize their ad spend and personalize content to turn one-time buyers into habitual users. They wanted to know how Twilio could help them stay ahead of changing privacy policies and the death of third-party cookies. They signed a renewal with Twilio to increase the expected volume of their ad-targeting efforts from third-party to first-party data. With effective ad-targeting and hyper-relevant content, they will further differentiate themselves from other retailers and drive meaningful long-term customer engagements.

Flex:

- StubHub, the leading global marketplace for fans to buy and sell tickets to live events around the world, chose Flex as a contact center solution to help meet the company's scalability requirements with speed and flexibility. This platform has consolidated reporting, routing, and configuration and has improved StubHub's ability to innovate and deliver better experiences for their customers.
- Wave Mobile Money – an emerging disruptive FinTech company in Africa – was an established Twilio messaging customer that expanded their use case after realizing Flex outperformed their internally built contact center solution and provided consumers the ability to reach out leveraging WhatsApp, a highly used channel in Africa. With Flex, Wave's engineers are adding new contact center

features with dramatically less effort and expertise than previously needed, resulting in a more engaging, streamlined experience for customers on their preferred channel.

- Union Bank of the Philippines saw the opportunity for improved agent-handling time and call resolutions as it faced challenges in call flows and integration with systems of record. The Bank signed on a collaboration with Twilio Flex to modernize its contact center and provide faster, more robust customer service and offerings.

Communications:

- OpenAI was an existing customer of Twilio's Account Security products when they launched their groundbreaking model ChatGPT in November, an AI system which interacts in a conversational way. They experienced an immediate surge in site traffic, sign-ups, and global attention, and Twilio Verify worked flawlessly to keep up with the influx of users while delivering an impressive conversion rate. After delivering when OpenAI needed reliability and protection from fraud and abuse, Twilio earned a scaled commitment.
- A large insurance company in Brazil grew significantly during the pandemic and strived to keep the cost of customer interactions down while improving and scaling the quality of those engagements. They will now use Twilio's WhatsApp offering to reduce customer interaction costs by a third and provide higher-quality, more round-the-clock service. They'll run multiple millions of messages over Twilio's network per month and signed a seven-figure commitment.
- A Fortune 500 company signed a seven-figure deal to leverage Twilio Account Security products to help mitigate fraud costs across their global business. The customer will now be able to seamlessly build and integrate a secure login and authentication process for their end users. With the use of Twilio's Identity suite of products, the customer will now have a scalable secure solution to prevent fraud while also helping them save on SMS costs.

APPENDIX

Forward-Looking Statements

This document and the accompanying conference call contain forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “can,” “will,” “would,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “forecasts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this document and the accompanying conference call include, but are not limited to, statements about: our future financial performance, including our expected financial results, our guidance, and our Financial Framework and related commentary; our expectations regarding when we will become profitable on GAAP and non-GAAP bases; our anticipated strategies and business plans, including the expected costs and benefits of changes to our operating model and organizational structure, our recently announced workforce reduction, and our plans to achieve profitability, increase operating leverage and decrease discretionary expenses, including reducing our global office footprint; our expectations regarding our Data & Applications business, including increased investment and go-to-market focus to capture market share and increase revenue growth; our expectations regarding our Communications business, including anticipated cash flows and strategy for streamlining the customer experience, including increased focus on self-serve capabilities; our expectations regarding share repurchases, including the timing and amount of repurchases and impact on our balance sheet; and our expectations regarding the impact of macroeconomic and industry conditions. You should not rely upon forward-looking statements as predictions of future events.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to differ materially from those described in the forward-looking statements, including, among other things: our ability to successfully implement our cost-saving initiatives and to capture expected efficiencies; our ability to realize the anticipated benefits of changes to our operating model and organizational structure; the impact of macroeconomic uncertainties and market volatility; our financial performance, including expectations regarding our results of operations and the assumptions underlying such expectations and ability to achieve and sustain profitability; our ability to attract and retain customers; our ability to compete effectively in an intensely competitive market; our ability to comply with modified or new industry standards, laws and regulations applying to our business, and increased costs associated with regulatory compliance; our ability to manage changes in network service provider fees and optimize our network service provider coverage and connectivity; our ability to form and expand partnerships; and our ability to successfully enter into new markets and manage our international expansion.

The forward-looking statements contained in this document and the accompanying conference call are also subject to additional risks, uncertainties, and factors, including those more fully described in our most recent filings with the Securities and Exchange Commission, including our most recent report on Form 10-Q, subsequent reports on Form 10-K and Form 10-Q, and any amendments to any of the foregoing. 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. Moreover, we operate in a very competitive and rapidly changing environment, and new risks and uncertainties may emerge that could have an impact on the forward-looking statements contained in this document and the accompanying conference call.

Forward-looking statements represent our management's 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 the accompanying conference call to reflect events or circumstances after the date of this document or to reflect new information or the occurrence of unanticipated events, except as required by law.

Non-GAAP Financial Measures

In addition to financial information presented in accordance with U.S. generally accepted accounting principles ("GAAP"), this document and the accompanying conference call include certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating margin, non-GAAP (loss) income from operations (which is often referred to as "non-GAAP operating profit" or "non-GAAP profit from operations") and organic revenue growth. We use these non-GAAP financial measures to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that these non-GAAP financial measures may be helpful to investors because they provide consistency and comparability with past financial performance, facilitate period-to-period comparisons of results of operations and assist in comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. We have included organic revenue growth because we believe it is useful in understanding the ongoing results of our operations. These non-GAAP financial measures are presented for supplemental informational purposes only, should not be considered substitutes for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation of these measures to the most directly comparable GAAP measures is included at the end of these prepared remarks. We have not provided the forward-looking GAAP equivalents for certain forward-looking non-GAAP measures presented in the accompanying conference call, or a GAAP reconciliation, as a result of the uncertainty regarding, and the potential variability of, reconciling items such as stock-based compensation expense. Accordingly, a reconciliation of these non-GAAP guidance metrics to their corresponding GAAP equivalents is not available without unreasonable effort. However, it is important to note that material changes to reconciling items could have a significant effect on future GAAP results.

Non-GAAP Gross Profit and Non-GAAP Gross Margin. For the periods presented, we define non-GAAP gross profit and non-GAAP gross margin as GAAP gross profit and GAAP gross margin, respectively, adjusted to exclude stock-based compensation, amortization of acquired intangibles and payroll taxes related to stock-based compensation.

Non-GAAP (Loss) Income from Operations and Non-GAAP Operating Margin. For the periods presented, we define non-GAAP (loss) income from operations (which is often referred to as "non-GAAP operating profit" or "non-GAAP profit from operations") and non-GAAP operating margin as GAAP loss from operations and GAAP operating margin, respectively, adjusted to exclude stock-based compensation, amortization of acquired intangibles, acquisition related expenses, payroll taxes related to stock-based compensation, charitable contributions, restructuring costs, and impairment of long-lived assets.

Organic Revenue. For the periods presented, we define organic revenue as GAAP revenue, excluding (i) revenue from each acquired business and (ii) revenue from application-to-person (“A2P”) 10DLC fees imposed by major U.S. carriers on our core messaging business, in each case until the beginning of the first full quarter following the one-year anniversary of the closing date of such acquisition or the initial date such fees were charged; provided that if an acquisition closes or such fees are initially charged on the first day of a quarter, such revenue will be included in organic revenue beginning on the one-year anniversary of the closing date of such acquisition or the initial date such fees were charged. A2P 10DLC fees are fees imposed by U.S. mobile carriers for A2P SMS messages delivered to its subscribers and we pass these fees to our messaging customers at cost.

Organic Revenue Y/Y Growth. For the periods presented, we calculate organic revenue Y/Y growth by dividing (i) organic revenue for the period presented less organic revenue in the corresponding period in the prior year by (ii) organic revenue in the corresponding period in the prior year. If revenue from certain acquisitions or A2P 10DLC fees is included in organic revenue in the period presented, then revenue from the same acquisitions and A2P 10DLC fees is included in organic revenue in the corresponding period in the prior year for purposes of the denominator in the organic revenue Y/Y growth calculation. As a result, the denominator used in this calculation will not always equal the organic revenue reported for the prior period.

Key Business Metrics

We review a number of operational and financial metrics, including Active Customer Accounts and Dollar-Based Net Expansion Rate, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions.

Our key metrics are not based on any standardized industry methodology and are not necessarily calculated in the same manner or comparable to similarly titled measures presented by other companies. Similarly, our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. The numbers that we use to calculate Active Customer Accounts and Dollar-Based Net Expansion Rate are based on internal data. While these numbers are based on what we believe to be reasonable judgments and estimates for the applicable period of measurement, there are inherent challenges in measuring usage. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition would be harmed.

Active Customer Accounts

We define an Active Customer Account at the end of any period as an individual account, as identified by a unique account identifier, for which we have recognized at least \$5 of revenue in the last month of the period. A single organization may constitute multiple unique Active Customer Accounts if it has multiple account identifiers, each of which is treated as a separate Active Customer Account.

We believe that the number of Active Customer Accounts is an important indicator of the growth of our business, the market acceptance of our platform and future revenue trends. We believe that use of our

platform by customers at or above the \$5 per month threshold is a stronger indicator of potential future engagement than trial usage of our platform or usage at levels below \$5 per month.

Dollar-Based Net Expansion Rate

Our Dollar-Based Net Expansion Rate compares the revenue from all Active Customer Accounts in a quarter to the same quarter in the prior year. To calculate the Dollar-Based Net Expansion Rate, we first identify the cohort of Active Customer Accounts that were Active Customer Accounts in the same quarter of the prior year. The Dollar-Based Net Expansion Rate is the quotient obtained by dividing the revenue generated from that cohort in a quarter, by the revenue generated from that same cohort in the corresponding quarter in the prior year. When we calculate Dollar-Based Net Expansion Rate for periods longer than one quarter, we use the average of the applicable quarterly Dollar-Based Net Expansion Rates for each of the quarters in such period. Revenue from acquisitions does not impact the Dollar-Based Net Expansion Rate calculation until the quarter following the one-year anniversary of the applicable acquisition, unless the acquisition closing date is the first day of a quarter.

We believe that measuring Dollar-Based Net Expansion Rate provides an indication of the performance of our efforts to increase revenue from existing customers. Our ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with existing Active Customer Accounts and to increase their use of the platform. An important way in which we have historically tracked performance in this area is by measuring the Dollar-Based Net Expansion Rate for Active Customer Accounts. Our Dollar-Based Net Expansion Rate increases when such Active Customer Accounts increase their usage of a product, extend their usage of a product to new applications or adopt a new product. Our Dollar-Based Net Expansion Rate decreases when such Active Customer Accounts cease or reduce their usage of a product or when we lower usage prices on a product. As our customers grow their businesses and extend the use of our platform, they sometimes create multiple customer accounts with us for operational or other reasons. As such, when we identify a significant customer organization (defined as a single customer organization generating more than 1% of revenue in a quarterly reporting period) that has created a new Active Customer Account, this new Active Customer Account is tied to, and revenue from this new Active Customer Account is included with, the original Active Customer Account for the purposes of calculating this metric.

TWILIO INC.
Reconciliation to Non-GAAP Financial Measures
(In thousands)

	Three Months Ended	
	December 31, 2021	December 31, 2022
Revenue	\$ 842,744	\$ 1,024,574
GAAP gross profit	\$ 396,547	\$ 481,142
GAAP gross margin	47%	47%
Non-GAAP adjustments:		
Stock-based compensation	4,613	6,505
Amortization of acquired intangibles	30,792	30,052
Payroll taxes related to stock-based compensation	-	82
Non-GAAP gross profit	<u>\$ 431,952</u>	<u>\$ 517,781</u>
Non-GAAP gross margin	51.3%	50.5%
GAAP operating expenses	\$ 680,173	\$ 699,709
Non-GAAP adjustments:		
Stock-based compensation	(182,306)	(186,794)
Amortization of acquired intangibles	(21,726)	(20,849)
Acquisition related expenses	(229)	-
Payroll taxes related to stock-based compensation	(10,183)	(1,941)
Charitable contributions	(6,586)	(1,025)
Restructuring costs	-	(4,185)
Non-GAAP operating expenses	<u>\$ 459,143</u>	<u>\$ 484,915</u>
GAAP loss from operations	\$ (283,626)	\$ (218,567)
GAAP operating margin	-34%	-21%
Non-GAAP adjustments:		
Stock-based compensation	186,919	193,299
Amortization of acquired intangibles	52,518	50,901
Acquisition related expenses	229	-
Payroll taxes related to stock-based compensation	10,183	2,023
Charitable contributions	6,586	1,025
Restructuring costs	-	4,185
Non-GAAP (loss)/income from operations	<u>\$ (27,191)</u>	<u>\$ 32,866</u>
Non-GAAP operating margin	(3%)	3%

TWILIO INC
Reconciliation to non-GAAP Financial Metrics

(in thousands)	Three Months Ended		Year Ended	
	December 31, 2022		December 31, 2022	
Revenue	\$	1,024,574	\$	3,826,321
Less: Acquisition revenue	\$	2,152	\$	128,619
Less: A2P 10DLC revenue	\$	-	\$	86,338
Organic revenue	\$	1,022,422	\$	3,611,364
Revenue Y/Y Growth		22%		35%
Organic Revenue Y/Y Growth		21% ¹		30% ²

We calculate Organic Revenue Y/Y Growth by dividing (i) organic revenue for the period presented less organic revenue in the corresponding period in the prior year by (ii) organic revenue in the corresponding period in the prior year. If revenue from certain acquisitions or A2P 10DLC fees is included in organic revenue in the period presented, then revenue from the same acquisitions and A2P 10DLC fees is included in organic revenue in the corresponding period in the prior year for purposes of the denominator in the Organic Revenue Y/Y Growth calculation. As a result, the denominator used in this calculation will not always equal the organic revenue reported for the prior period. As noted in the definition of organic revenue, revenue from certain transactions and A2P 10DLC fees will eventually become organic revenue after the passage of time. Once revenue is included in organic revenue in the period presented, revenue from those acquisitions and A2P 10DLC fees is also included in organic revenue for purposes of the denominator in the growth calculation to enable period to period comparisons.

¹ Q4'21 organic revenue, when used as the denominator for Q4'22 Y/Y growth, is equal to reported revenue. Q4'21 revenue was \$843 million.

² FY'21 organic revenue, when used as the denominator for FY'22 Y/Y growth, excludes \$26 million of acquisition revenue and \$31 million of A2P 10DLC fee revenue. FY'21 revenue was \$2,842 million.