Q4 2023 Earnings

Prepared Remarks

February 14, 2024

Khozema Shipchandler, Chief Executive Officer

Thank you, Bryan. Good afternoon everyone and thank you for joining us today. Twilio had a terrific fourth quarter to close out a strong 2023. We exceeded our revenue and non-GAAP income from operations targets for the quarter, delivering nearly $1.1 billion in revenue, $173 million in non-GAAP income from operations, and $211 million in free cash flow.

Before jumping into the results of the quarter, I wanted to start this call - my first as Twilio's CEO - by sharing that it is a privilege to be leading this company into its next chapter. I believe there is an incredible opportunity to unlock increased value for customers and shareholders. As we continue to innovate, we're focused on combining the power of communications, data and AI to make every interaction more personalized and intelligent. Our vision to become the leading customer engagement platform is unchanged, and we are executing on this from a solid operational foundation and a fundamentally strong competitive and financial position. We have a great set of products and hundreds of thousands of customers who are committed to Twilio because we are bringing tremendous value to their businesses.

Over the last year, we took significant steps to enhance our focus and execution, while optimizing our capital allocation strategy. We also took meaningful actions to streamline our cost structure, accelerate our path to profitability, and deliver durable growth. Our teams delivered on these objectives in 2023, and the numbers underscore this. During 2023, we generated $4.2 billion in revenue, improved our non-GAAP operating results from a non-GAAP operating loss of $4 million in 2022 to non-GAAP operating income of $533 million, delivered $364 million in free-cash flow, and reduced our stock-based compensation excluding restructuring expense as a percent of revenue by 450 basis points year-over-year. All of this hard work enabled us to take significant strides on our path to GAAP profitability. Our product teams have worked to infuse AI capabilities into our CustomerAI solutions, enabling us to continue on our promise of more intelligent communications for our customers. Our Twilio Communications business continues to demonstrate meaningful leverage, which helped to drive the impressive financial performance that Twilio delivered for the year, and we will build upon this momentum in 2024. At the same time, Twilio Segment is not performing at the level it needs to and I've already begun to take a closer look at this business to see how we can deliver improved performance. I'll touch on this a bit later.

Our **Twilio Communications business**, which drove 93% of Twilio's revenue in 2023, had a very strong fourth quarter with revenue of $1.001 billion; and, for the full-year, it generated revenue of $3.859 billion and grew 11% year-over-year on an organic basis.

I had the privilege of leading Twilio Communications over the last year and I am extremely proud of what the team accomplished in terms of increasing both operational efficiency and product innovation. Throughout the year we undertook a number of actions to drive increased operating leverage and further streamline our go-to-market activity. We continued these efforts in Q4, by moving both Flex and Marketing Campaigns into Communications and the results we are reporting today reflect this shift. With these changes, we're better aligning how our customers want to buy our products and also taking advantage of natural upsell and cross-sell opportunities.

We also delivered on aggressive product roadmaps, and saw early signs of success with CustomerAI. In Q4, Twilio Voice Intelligence, an AI-powered capability that enables our customers to extract data insights from their call recordings, was released in beta and customers have already used it to analyze over 42 million call minutes. Our Traffic Optimization Engine and the Traffic Shaping algorithm are examples of innovations we introduced to drive greater flexibility and increased performance in our messaging products. Our products also set new records by sending over 4 billion messages and 64 billion emails during Cyber Week, with 100% uptime across core messaging and email, a testament to the scale and reliability of our platform. Our innovations are also getting recognized externally, as we maintained our position in the CPaaS industry as evidenced by the fact that Twilio is named a Leader in the 2023 Gartner® Magic Quadrant for CPaaS[2] and a Leader in the Omdia Universe: Customer Engagement Platforms 2023-2024.[4]

We're continuing to deliver impressive customer wins. In Q4, we signed our largest messaging deal to date, a nine-figure commitment with a leading cloud communications software company. We're also leveraging our network of ISVs and partners to accelerate our ability to reach new customers and expand our geographic footprint. For example, we signed a three-year, eight-figure deal with Airship. Airship's mobile app experience platform powers trillions of interactions for thousands of global brands, and they will become an important partner where our customers will be able to leverage a fully integrated cross-channel orchestration solution for both messaging and email channels. Our partner channel is certainly proving to be an area of opportunity for us, and one we will continue to focus on this year.

Our **Twilio Segment[1] business** (formerly Twilio Data & Applications), while still strategically important to Twilio, continues to underperform. Although we drove sequential bookings improvement in Q4, growth is not yet accelerating up to our expectations. We need to execute better and I believe we can. Over the past five weeks, I've been working with the team to conduct an extensive operational review of Segment, and this work is ongoing. We plan to do a read out of these results in March at which time I'll be ready to share our findings, path forward, and any changes to Twilio's financial framework as a result.

That said, the Segment product teams are laser-focused on shipping updates to customers and we're seeing a great response to our CustomerAI innovations. Since becoming publicly available in Q3 2023, CustomerAI Predictions has been adopted by over 150 customers. And, our CustomerAI Recommendations tool, which helps determine the products that are most likely to drive purchases and engagement for each unique customer, went live in a private beta in Q4. Staples Canada, a leading provider of services, tech and other merchandise solutions for work, and school life, was able to leverage CustomerAI Recommendations in its effort to provide more personalized recommendations to sell excess inventory and improve their cross-selling efforts. It's abundantly clear that Segment is a powerful product that is driving meaningful value for customers and demonstrating market leadership, as evidenced by IDC's most recent reports where Twilio is in the Leaders category in the 2023 IDC MarketScape on customer data platforms for the financial services industry[3] and the #1 CDP for 2022 market share.[5]

We continue to see strong traction with customers recognizing the unique value proposition of combining our communications and data capabilities.

In the fourth quarter we signed a competitive, multi-year, eight-figure deal with a leading US financial services company whose usage of our platform spans both Communications and Segment. They chose Twilio to meet their needs both internally and externally with their customers. Internally, they're deploying Segment so they can get a real-time and personalized view of their end users across multiple business units. They will leverage Segment's Zero Copy Architecture to query their data warehouse directly to efficiently and securely enrich Segment profiles. Externally, they're deploying Verify so that the millions of customers who rely on them get a seamless and secure authentication process when logging in.

We also signed a seven-figure deal with an international salon management software company. With Twilio, this company moved away from the incumbent providers and now relies solely on Twilio Messaging for all of its 1:1 messaging with customers; and, the company already deployed Segment for its B2B business so that they are able to have a better customer view of those purchasing beauty products directly from them.

These customers are leveraging Twilio to not just bring their communications and data together, but to help them personalize and build lasting loyalty with their customers.

Our team enters 2024 focused on making balanced and intentional decisions that will help us to deliver durable, profitable growth. Our priorities for the year are clear. First, we need to continue running our business with better sales execution and we will continue to look for areas where we can accelerate growth. Second, we need to wrap up our business review of Segment and determine the best path forward that will position Twilio for long-term success, while advancing our objective of optimizing profitable growth. And third, we remain extremely bullish on AI and our ability to innovate across our portfolio, with several incredible examples in both our product roadmaps and in private beta.

For the past 15 years, our co-founder Jeff Lawson did a remarkable job of leading this company from a disruptive startup to the admired company that it is today. I truly believe that we're set up for success to build for the next phase of our journey and I'm grateful to follow in Jeff's footsteps. I also want to express my gratitude for the thousands of Twilions who make this company such a special place. Our employees have undergone a lot of change this past year, yet through it all they've remained committed to building a great company that's focused on delivering for our customers.

We will continue to run a financially sound and extremely innovative business. I'm continually impressed with the progress the team has made and how we've positioned the business to optimize for profitable growth moving forward. That said, we have more work to do and I look forward to leading Twilio in this next phase.

And with that, I'll turn it over to Aidan.

Aidan Viggiano, Chief Financial Officer

Thank you, Khozema. Twilio finished the year with a strong fourth quarter. We exceeded our guidance and delivered another record quarter of revenue, non-GAAP income from operations and free cash flow. For the full year, we generated $4.154 billion in revenue, 10% organic revenue growth, $533 million in non-GAAP income from operations, and $364 million in free cash flow.

These results demonstrate the significant progress we've made over the last year - from a business that was roughly breakeven on a non-GAAP basis and generated negative free cash flow in 2022, to one that is now generating meaningful levels of non-GAAP income from operations and free cash flow while delivering double-digit organic growth. We came into 2023 committed to this outcome and we exceeded what we said we were going to do.

Fourth quarter revenue was $1.076 billion, up 5% reported and 8% organic year-over-year.

- Communications revenue was $1.001 billion, up 5% reported and 8% organic year-over-year
- Segment revenue was $75 million, up 4% year-over-year

As a result of the operational changes Khozema highlighted regarding Flex and Marketing Campaigns, these products are now reported as part of our Communications business. For Q4, this represented $54 million of revenue that would have previously been allocated to Data & Applications. We have also renamed Data & Applications to Twilio Segment, which includes both our Segment and Engage products. As a result of these changes, all segment-level results and metrics have been recast accordingly.

We continued to see stabilization in volumes across our usage-based products throughout the quarter, as well as strong seasonal activity around the holidays, which helped to drive our revenue beat in Q4. Similar to the last two quarters, our Q4 revenue growth rate was negatively impacted by headwinds from customers in the crypto industry. Total Q4 organic revenue growth excluding crypto customers was 10% year-over-year and for the full-year 2023, total organic revenue growth excluding crypto customers was 13% year-over-year. We expect Q1 headwinds from crypto to be roughly in line with Q4, after which we will have lapped the vast majority of the crypto impact.

Our Q4 Dollar-Based Net Expansion Rate was 102%. Our Dollar-Based Net Expansion Rate for Communications was 102%, or 104% excluding crypto customers. Dollar-Based Net Expansion Rate for Segment was 96%, driven primarily by elevated churn and contraction, though we did see a modest improvement in churn and contraction versus Q3.

We delivered Q4 non-GAAP gross profit of $564 million, growing 9% year-over-year and representing a non-GAAP gross margin of 52.4%. This was up 180 basis points year-over-year and down 110 basis points quarter-over-quarter. The decline quarter-over-quarter was primarily driven by lower 10DLC campaign registration fees and international messaging. Q4 non-GAAP gross margins for our Communications and Segment business units were 50.7% and 74.4%, respectively.

Q4 non-GAAP income from operations came in meaningfully ahead of expectations at $173 million, representing a non-GAAP operating margin of 16.0%. This was primarily driven by better than expected revenue and ongoing cost discipline, though we also benefited from savings related to our December restructuring and recognized a one-time $6 million gain from our settlement with the City of San Francisco.

As we continue to evolve our disclosures in support of our commitment to provide greater transparency on business performance and in response to investor feedback, going forward we intend to report quarterly non-GAAP income and loss from operations by business unit. Q4 non-GAAP income from operations for our Communications business was $248 million, and Q4 non-GAAP loss from operations for our Segment business was $18 million. As Khozema mentioned, we are undergoing an operational review of the Segment business in order to identify the appropriate path forward for improved execution and profitable growth. We’ll provide more details on the outcome of this review upon its completion in March.

As a result of Segment’s business performance, we completed an impairment test on the intangible assets we acquired as part of our Segment acquisition. The test resulted in a $286 million impairment of our developed technology and customer relationship intangible assets. No impairment of our Segment reporting unit goodwill was identified. Segment carried approximately $300 million in goodwill at year-end.

Q4 GAAP loss from operations was $362 million, which includes $25 million of expenses associated with restructuring charges and the aforementioned $286 million intangible asset impairment charge related to Segment. Stock-based compensation as a percentage of revenue was 15.3% in Q4 excluding approximately $1.9 million of restructuring costs, down 260 basis points quarter-over-quarter and 360 basis points year-over-year.

In Q4 we generated free cash flow of $211 million, driven primarily by strong non-GAAP profitability, as well as heightened collections and an $18 million one-time cash benefit related to our settlement with the City of San Francisco. While we expect free cash flow to vary quarter to quarter, free cash flow remains a focus for us as we drive greater profitability in the business. Lastly, we continued to execute against the $1 billion share repurchase program that we announced in February 2023, and have now completed over $730 million of repurchases to date.

Moving to guidance, for Q1 we're initiating a revenue target of $1.025 billion to $1.035 billion, representing year-over-year growth of 2%-3% on a reported basis and 5%-6% on an organic basis. The expected sequential decline in revenue is due in part to elevated seasonal activity on our platform in Q4, which we do not expect to recur in Q1. This is a similar dynamic to what we saw last year. We continue to see volume stabilization across our Communications products, though we're planning prudently given the usage-based nature of our business. We do expect year-over-year growth through the balance of the year.

Turning to our profitability outlook for Q1. We expect non-GAAP income from operations of $120 million to $130 million, down sequentially quarter-over-quarter primarily due to our lower revenue guide and an estimated $20 million of incremental expenses associated with a new cash bonus program. This new program will allow us to reduce go-forward equity grants as a proportion of total compensation and is part of our continued efforts to transition employee compensation from equity towards cash in order to reduce stock-based compensation expenses. We're continuing to focus on driving operating leverage, and we remain committed to reducing stock-based compensation on our path to GAAP profitability.

Given the Segment operational review currently underway, it's premature to provide full-year 2024 non-GAAP income from operations guidance at this stage, but at a minimum we expect to exceed our 2023 non-GAAP income from operations, even after taking into account an estimated $90 million of incremental annual expenses for the new cash bonus program. We intend to provide a full-year 2024 non-GAAP income from operations outlook and any updates to our financial framework following the completion of the Segment operational review in March.

We've made significant strides over the last year in driving meaningful non-GAAP profitability and free cash flow generation in our business. We have strengthened our financial foundation and set ourselves up well to deliver durable, efficient growth in 2024 and beyond. I'm proud of everything our teams accomplished in 2023, and I'm excited for the opportunities ahead. With that, we'll open it up for questions.

Representative Customer Wins from the Quarter

Communications & Segment:

- We signed a competitive, multi-year, eight-figure deal with a leading US financial services company whose usage spans both Communications and Segment. They chose Twilio to meet their needs both internally and externally with their customers. Internally, they're deploying Segment so they can get a real-time and personalized view of their end users across multiple business units. They will leverage Segment's Zero Copy Architecture to query their data warehouse directly to efficiently and securely enrich Segment profiles. Externally, they're deploying Verify so that the millions of customers who rely on them get a seamless and secure authentication process when logging in.

- We landed a seven-figure deal with an international salon management software company. With Twilio, this company moved away from the incumbent providers and now relies solely on Twilio Messaging for all of its 1:1 messaging with customers; and, the company already deployed Segment for it's B2B business so that they are able to have a better customer view of those purchasing beauty products directly from them.

Communications:

- We signed our largest messaging deal to date with a leading cloud communications software company. This deal represents a 9-figure commitment.

- We signed a three-year exclusive and competitive deal with Airship, bringing in total an eight-figure commitment. Airship, a mobile app experience company that has powered trillions of mobile app interactions for thousands of global brands, is a new marketing technology customer to Twilio and will become an important partner where our customers will be able to leverage a fully integrated cross-channel orchestration solution for both messaging and email channels.

- We signed a seven-figure deal with a globally scalable platform that combines smart grid management and customer operations for B2C energy suppliers. The company will leverage Twilio APIs to communicate to their 54 million users via messaging, email and voice channels.

- A leading healthcare company chose Flex in a competitive win as the customer was looking for an omnichannel solution that could scale internationally, easily integrate within their CRM system and embed customizations around functionalities such as click to call.

- We closed a seven-figure Messaging deal with an online fashion retailer in APAC to support their seasonal uplift in user traffic.

Segment:

- Staples CA, a leading provider of services, tech and other merchandise solutions for work, and school life, was able to leverage CustomerAI Recommendations in its effort to provide more personalized recommendations to sell excess inventory and improve their cross-selling efforts.

- We signed a multi-year deal with Weber Grills, the global leader in high-performance, quality outdoor cooking technology and products. The company is focused on driving revenue growth and expanding their product footprint with their user base. Weber turned to Twilio Segment to create a unified view of their consumers and create personalized touchpoints, ultimately looking to drive better engagement and create a higher ROI with their own broad product offering.

- We landed a competitive win with a leading international music experience platform. The company turned to Twilio Segment as it wanted a one-stop CDP to help them reduce churn and increase satisfaction amongst their users.

APPENDIX

Footnotes

[1] As a result of moving Flex and Marketing Campaigns into our Communications business segment, we have renamed Twilio Data & Applications to Twilio Segment, which includes our Segment and Engage products.

[2] Magic Quadrant for Communications Platform as a Service, Gartner, September 2023, ID G00784989

[3] IDC MarketScape: Worldwide Customer Data Platforms Focused on the Financial Services Industry 2023 Vendor Assessment, September 2023, #US51211923e

[4] Omdia Universe: CPaaS Platform Providers, 2023–24

[5] IDC Worldwide Customer Data Platform Applications Software Market Shares, 2022: Continued CDP Growth to $2.7 Billion Proves Value of Unified Data for CX and Digital Business, June 2023, IDC #US50861023

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 and our guidance; our expectations regarding profitability, including when we will become profitable on GAAP and non-GAAP bases; our anticipated strategies and business plans, including future strategic partnerships; our expectations regarding the operational review of Segment; the ongoing effects of our recent workforce reductions and other cost-saving measures; our expectations regarding compensation programs; the reorganization of our business and the shift in our segment reporting structure; our expectations regarding our sales pipeline, the benefits to us of recently signed deals, new product releases, increased investment and go-to-market focus to capture market share, revenue growth, profit potential, anticipated cash flows, and our strategy for streamlining the customer experience, including the effects of registering certain messaging traffic on our results of operations; our ability to develop products related to generative artificial intelligence and machine learning, including CustomerAI and its use cases; our ability to deliver on our product roadmap; our expectations regarding share repurchases; and our expectations regarding the impact of macroeconomic and industry conditions, the impact of such conditions on our customers, and our ability to operate in such 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 Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q. 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 and non-GAAP gross profit growth, non-GAAP gross margin, non-GAAP operating margin, non-GAAP net income (loss) per share attributable to common stockholders, basic and diluted (which we refer to as non-GAAP diluted earnings per share), non-GAAP income (loss) from operations, organic revenue and organic revenue growth, organic revenue and organic revenue growth adjusted to exclude revenue from crypto customers, Communications organic revenue and Communications organic revenue growth, non-GAAP stock-based compensation expense, non-GAAP stock-based compensation expense as a percentage of revenue, and free cash flow. 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 believe organic revenue, organic revenue growth, Communications organic revenue and Communications organic revenue growth are useful in understanding the ongoing results of our operations. We believe free cash flow provides useful supplemental information to help investors understand underlying trends in our business and our liquidity. 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 forward-looking 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. Segment-level non-GAAP gross profit and non-GAAP gross margin are calculated using the same methodology, but using (and excluding, as applicable) only revenue and expenses attributable to the applicable segment.

Non-GAAP Gross Profit Growth. For the periods presented, we calculate non-GAAP gross profit growth by dividing (i) non-GAAP gross profit for the period presented less non-GAAP gross profit in the comparative period by (ii) non-GAAP gross profit in the comparative period.

Non-GAAP Income (Loss) from Operations and *Non-GAAP Operating Margin.* For the periods presented, we define non-GAAP income (loss) from operations and non-GAAP operating margin as GAAP loss from operations and GAAP operating margin, respectively, adjusted to exclude, as applicable, stock-based compensation, amortization of acquired intangibles, loss on net assets divested, acquisition and divestiture related expenses, payroll taxes related to stock-based compensation, charitable contributions, restructuring costs, and impairment of long-lived assets. Segment-level non-GAAP income (loss) from operations and non-GAAP operating margin are calculated using the same methodology, but using (and excluding, as applicable) only revenue and expenses attributable to the applicable segment.

Non-GAAP Stock-Based Compensation Expense and *Non-GAAP Stock-Based Compensation Expense as a Percentage of Revenue.* For the periods presented, we define non-GAAP stock-based compensation expense as GAAP stock-based compensation expense, adjusted to exclude stock-based compensation reflected in restructuring costs.

Non-GAAP Net Income (Loss) Attributable to Common Stockholders and *Non-GAAP Net Income (Loss) Per Share Attributable to Common Stockholders*. For the periods presented, we define non-GAAP net income (loss) attributable to common stockholders and non-GAAP net income (loss) per share attributable to common stockholders, diluted (which is often referred to as “non-GAAP diluted earnings per share”) as GAAP net loss attributable to common stockholders and GAAP net loss per share attributable to common stockholders, basic and diluted, respectively, adjusted to exclude share-based compensation, amortization of acquired intangibles, loss on net assets divested, acquisition and divestiture related expenses, payroll taxes related to stock-based compensation, amortization of debt discount and issuance costs, income tax benefit related to acquisitions, charitable contributions, share of losses from equity method investment, restructuring costs, impairment of long-lived assets and impairment of strategic investments.

Organic Revenue. For the periods presented, we define organic revenue as GAAP revenue, excluding (i) revenue from each acquired business and 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 and (ii) revenue from each divested business beginning in the quarter of the closing date of such divestiture; provided that (a) 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, and (b) if a divestiture closes on the last day of a quarter, such revenue will be included in organic revenue for that quarter. 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. Communications organic revenue is calculated using the same methodology, but using (and excluding, as applicable) only revenue attributable to the Communications segment.

Organic Revenue Growth. For the periods presented, we calculate organic revenue growth by dividing (i) organic revenue for the period presented less organic revenue in the comparative period by (ii) organic revenue in the comparative period. If revenue from certain acquisitions, divestitures or A2P 10DLC fees is included or excluded in organic revenue in the period presented, then revenue from the same acquisitions, divestitures and A2P 10DLC fees is included or excluded in organic revenue in the comparative period for purposes of the denominator in the organic revenue growth calculation. As a result, the denominator used in this calculation will not always equal the organic revenue reported for the comparative period. Communications organic revenue growth is calculated using the same methodology, but using (and excluding, as applicable) only revenue attributable to the Communications segment.

Free Cash Flow. For the periods presented, we calculate free cash flow as net cash provided by operating activities, excluding capitalized software development costs and purchases of long-lived and intangible assets.

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. Active Customer Accounts excludes customer accounts from Zipwhip, Inc. Communications Active Customer Accounts and Segment Active Customer Accounts are calculated using the same methodology, but using only revenue recognized from accounts in the respective segment. The number of consolidated and Communications Active Customer Accounts is rounded down to the nearest thousand. The number of Segment Active Customer Accounts is rounded down to the nearest hundred.

We believe that the number of Active Customer Accounts, on an aggregate basis and at the segment level, 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 and customer accounts from Zipwhip, Inc. 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 and customer accounts from Zipwhip, Inc. that were Active Customer Accounts or customer accounts from Zipwhip, Inc. 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. As a result, for the quarter ended December 31, 2023, our Dollar-Based Net Expansion Rate excludes the contributions from acquisitions made after October 1, 2022. Revenue from divestitures does not impact the Dollar-Based Net Expansion Rate calculation beginning in the quarter the divestiture closed, unless the divestiture closing date is the last day of a quarter. As a result, for the quarter ended December 31, 2023, our Dollar-Based Net Expansion Rate excludes the contributions from divestitures made after December 31, 2022. Communications Dollar-Based Net Expansion Rate and Segment Dollar-Based Net Expansion Rate are calculated using the same methodology, but using only revenue attributable to the respective segment and Active Customer Accounts and customer accounts from Zipwhip, Inc. for that respective segment. Dollar-Based Net Expansion Rate excluding crypto customers is calculated using the same methodology described above, but excluding revenue attributable to customers that operate in the cryptocurrency space in each respective period. Revenue from customer accounts from Zipwhip, Inc., which we acquired on July 14, 2021, has been included in our Dollar-Based Net Expansion Rate beginning in the quarter ended December 31, 2022.

We believe that measuring Dollar-Based Net Expansion Rate, on an aggregate basis and at the segment level, provides an important 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.

Non-GAAP Financial Measures Reconciliation

(in thousands, unaudited)

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2023	Three Months Ended December 31, 2023
Non-GAAP gross margin reconciliation			
Revenue	$ 1,024,574	$ 1,033,670	$ 1,075,950
GAAP gross profit	481,142	516,319	531,166
GAAP gross profit growth (Y/Y)			10 %
GAAP gross margin	47.0 %	50.0 %	49.4 %
Non-GAAP adjustments:			
Stock-based compensation	6,505	7,053	7,666
Amortization of acquired intangibles	30,052	29,045	24,591
Payroll taxes related to stock-based compensation	82	181	200
Non-GAAP gross profit	$ 517,781	$ 552,598	$ 563,623
Non-GAAP gross profit growth (Y/Y)			9 %
Non-GAAP gross margin	50.5 %	53.5 %	52.4 %

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2023	Three Months Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2023
Stock-based compensation, net of amounts recognized in restructuring costs					
Revenue	$ 1,024,574	$ 1,033,670	$ 1,075,950	$ 3,826,321	$ 4,153,945
Stock-based compensation	192,300	185,474	166,490	798,560	675,857
Stock-based compensation as a percent of revenue	18.8 %	17.9 %	15.5 %	20.9 %	16.3 %
Adjustments:					
Stock-based compensation recognized in restructuring costs	999	(467)	(1,919)	(14,275)	(13,015)
Stock-based compensation, net of amounts recognized in restructuring costs	$ 193,299	$ 185,007	$ 164,571	$ 784,285	$ 662,842
Stock-based compensation, net of amounts recognized in restructuring costs as a percent of revenue	18.9 %	17.9 %	15.3 %	20.5 %	16.0 %

Non-GAAP Financial Measures Reconciliation

(in thousands, unaudited)

	Three Months Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2023
Non-GAAP operating margin			
Revenue	$ 1,075,950	$ 3,826,321	$ 4,153,945
GAAP gross profit	$ 531,166	$ 1,813,577	$ 2,043,930
Non-GAAP adjustments:			
Stock-based compensation	7,666	21,136	26,343
Amortization of acquired intangibles	24,591	122,653	113,266
Payroll taxes related to stock-based compensation	200	539	699
Non-GAAP gross profit	$ 563,623	$ 1,957,905	$ 2,184,238
Non-GAAP gross margin	52.4%	51.2%	52.6%
GAAP operating expenses	$ 892,893	$ 3,018,885	$ 2,920,471
Non-GAAP adjustments:			
Stock-based compensation	(156,905)	(763,149)	(636,499)
Amortization of acquired intangibles	(17,880)	(83,528)	(79,041)
Acquisition and divestiture related expenses	(40)	(2,621)	(5,555)
Loss on divestiture	—		(32,277)
Payroll taxes related to stock-based compensation	(2,046)	(23,293)	(12,286)
Charitable contributions	(13,361)	(9,541)	(17,346)
Restructuring costs	(25,452)	(76,636)	(165,733)
Impairment of long-lived assets	(286,226)	(97,722)	(320,504)
Non-GAAP operating expenses	$ 390,983	$ 1,962,395	$ 1,651,230
GAAP loss from operations	$ (361,727)	$ (1,205,308)	$ (876,541)
GAAP operating margin	(33.6)%	(31.5)%	(21.1)%
Non-GAAP adjustments:			
Stock-based compensation	164,571	784,285	662,842
Amortization of acquired intangibles	42,471	206,181	192,307
Acquisition and divestiture related expenses	40	2,621	5,555
Loss on divestiture	—		32,277
Payroll taxes related to stock-based compensation	2,246	23,832	12,985
Charitable contributions	13,361	9,541	17,346
Restructuring costs	25,452	76,636	165,733
Impairment of long-lived assets	286,226	97,722	320,504
Non-GAAP income (loss) from operations	$ 172,640	$ (4,490)	$ 533,008
Non-GAAP operating margin	16.0%	—%	12.8%

Non-GAAP Financial Measures Reconciliation

(in thousands, unaudited)

	Three Months Ended December 31, 2023	Year Ended December 31, 2023
Organic revenue		
Total Revenue	$ 1,075,950	$ 4,153,945
Acquisition revenue	—	(2,088)
Divestiture revenue	—	(6,142)
Organic revenue	$ 1,075,950	$ 4,145,715
Revenue growth	5 %	9 %
Organic revenue growth	8%[1]	10%[2]

[1] Q4'22 organic revenue, when used as the denominator for Q4'23 Organic Revenue Growth, excludes $30 million of divestiture revenue. Q4'22 revenue was $1,025 million.
[2] FY'22 organic revenue, when used as the denominator for FY'23 Organic Revenue Growth, excludes $1 million of acquisition revenue and $66 million of divestiture revenue. FY'22 revenue was $3,826 million.

	Three Months Ended December 31, 2023	Year Ended December 31, 2023
Communications organic revenue		
Communications revenue	$ 1,000,920	$ 3,858,693
Acquisition revenue	—	(2,088)
Divestiture revenue	—	(6,142)
Communications organic revenue	$ 1,000,920	$ 3,850,463
Communications revenue growth	5 %	9 %
Communications organic revenue growth	8%[1]	11%[2]

[1] Q4'22 Communications organic revenue, when used as the denominator for Q4'23 Communications Organic Revenue Growth, excludes $30 million of divestiture revenue. Q4'22 Communications revenue was $953 million.
[2] FY'22 Communications organic revenue, when used as the denominator for FY'23 Communications Organic Revenue Growth, excludes $1 million of acquisition revenue and $66 million of divestiture revenue. FY'22 Communications revenue was $3,550 million.

Non-GAAP Financial Measures Reconciliation

(in thousands, unaudited)

	Three Months Ended December 31, 2023	Year Ended December 31, 2023
Free cash flow		
Net cash provided by operating activities	$ 222,545	$ 414,752
Capitalized software development costs	(9,399)	(39,925)
Purchase of long-lived and intangible assets	(2,291)	(11,310)
Free cash flow	$ 210,855	$ 363,517

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2023
Organic revenue excluding Crypto industry				
Total Revenue	$ 1,024,574	$ 1,075,950	$ 3,826,321	$ 4,153,945
Acquisition revenue	(2,152)	—	(128,619)	(2,088)
Divestiture revenue	—	—	—	(6,142)
10DLC A2P revenue	—	—	(86,338)	—
Crypto industry revenue	(23,324)	(7,683)	(123,154)	(41,576)
Organic revenue excluding Crypto industry	$ 999,098	$ 1,068,267	$ 3,488,210	$ 4,104,139
Revenue growth	22 %	5 %	35 %	9 %
Organic revenue excluding Crypto industry growth		10%[1]		13%[2]

[1] Q4'22 organic revenue excluding Crypto industry, when used as the denominator for Q4'23 organic revenue excluding Crypto industry growth, excludes $30 million of divestiture revenue.
[2] FY'22 organic revenue excluding Crypto industry, when used as the denominator for FY'23 organic revenue excluding Crypto industry growth, excludes $1 million of acquisition revenue and $66 million of divestiture revenue.

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Non-GAAP Financial Measures Reconciliation

(in thousands, unaudited)

	Three Months Ended December 31, 2023
Communications Non-GAAP gross profit and gross margin	
Revenue	$ 1,000,920
Communications GAAP gross profit	486,464
Communications GAAP gross margin	48.6%
Non-GAAP adjustments:	
Stock-based compensation	6,040
Amortization of acquired intangibles	15,117
Payroll taxes related to stock-based compensation	176
Communications Non-GAAP gross profit	$ 507,797
Communications Non-GAAP gross margin	50.7%

	Three Months Ended December 31, 2023
Segment Non-GAAP gross profit and gross margin	
Revenue	$ 75,030
Segment GAAP gross profit	44,702
Segment GAAP gross margin	59.6%
Non-GAAP adjustments:	
Stock-based compensation	1,626
Amortization of acquired intangibles	9,474
Payroll taxes related to stock-based compensation	24
Segment Non-GAAP gross profit	$ 55,826
Segment Non-GAAP gross margin	74.4%

Segment Operating Results

(in thousands, unaudited)

	Three Months Ended December 31, 2023	Year Ended December 31, 2023
Revenue:		
Communications	$ 1,000,920	$ 3,858,693
Segment	75,030	295,252
Total	$ 1,075,950	$ 4,153,945
Non-GAAP income (loss) from operations:		
Communications	$ 248,391	$ 841,990
Segment	(18,493)	(72,430)
Corporate costs	(57,258)	(236,552)
Total	$ 172,640	$ 533,008
Non-GAAP operating margin:		
Communications	24.8%	21.8%
Segment	(24.6)%	(24.5)%
Reconciliation of non-GAAP income (loss) from operations to loss from operations:		
Total non-GAAP income (loss) from operations	$ 172,640	$ 533,008
Stock-based compensation	(164,571)	(662,842)
Amortization of acquired intangibles	(42,471)	(192,307)
Acquisition and divestiture related expenses	(40)	(5,555)
Loss on net assets divested	—	(32,277)
Payroll taxes related to stock-based compensation	(2,246)	(12,985)
Charitable contributions	(13,361)	(17,346)
Restructuring costs	(25,452)	(165,733)
Impairment of long-lived assets	(286,226)	(320,504)
Loss from operations	(361,727)	(876,541)
Other expenses, net	2,073	(120,188)
Loss before provision for income taxes	$ (359,654)	$ (996,729)