



**Q1 2021 Earnings
Prepared Remarks**

May 5, 2021

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This document contains forward-looking statements that are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results or outcomes to be materially different from any future results or outcomes expressed or implied by the forward-looking statements. In particular, our expected business benefits and financial impacts from the Segment and ValueFirst acquisitions and the Syniverse partnership, including the associated transactions, our expectations around the impact of the COVID-19 pandemic on our business, results of operations and financial condition and that of our customers and partners is subject to change, and our ability to manage changes in network service provider fees that we pay in connection with the delivery of communications on our platform and the impact of those fees on our gross margin are subject to change. Should any of these risks materialize, or should our assumptions prove to be incorrect, actual financial results could differ materially from our projections or those implied by these forward-looking statements. A description of these risks, uncertainties and assumptions and other factors that could affect our financial results are included in our SEC filings, including our most recent report on form 10-K and subsequent reports on form 10-Q. Forward-looking statements represent our beliefs and assumptions only as of the date such statements are made. We undertake no obligation to update any forward-looking statements made in this document or during the earnings call to reflect events or circumstances after today, or to reflect new information or the occurrence of unanticipated events, except as required by law.

This document also includes certain non-GAAP financial measures. Reconciliations between our GAAP and non-GAAP results and guidance can be found in our earnings press release.



Jeff Lawson, co-founder and CEO

Twilio delivered another quarter of outstanding growth in Q1, as companies across industries and around the world continue to turn to our customer engagement platform to drive their digital transformation. As we have worked with companies over the last year to build new solutions to adapt to the changing environment, one thing has been extremely clear: we are in the midst of a massive shift in the way companies engage with their customers that is driving a generational opportunity for Twilio.

Consumer expectations are constantly evolving. They are no longer tied to just one form of communication, and they expect companies to pull together disparate interactions to deliver increasingly personalized content based on what they're doing -- anytime, anywhere, and over their preferred channels. As a result, companies are accelerating their digital transformation efforts to adapt to these changing expectations.

This was evident in our annual [State of Customer Engagement Report](#), published in February. The study showed that digitizing customer engagement is key to staying relevant. To address the new demands of consumers, 95% of respondents reported plans to increase or maintain their current communication channel offerings, with companies looking to add an average of four new channels (think live chat, IVR, video, etc.). However, great digital experiences don't come prepackaged in a box, which is why 92% of C-level executives reported developers were crucial to solving business challenges brought on over the last year. Twilio has always been focused on empowering developers to build for the future using our customer engagement platform. However, even with the tremendous amount of transformation that took place in the last year, we are just scratching the surface of what is possible.

While the pandemic accelerated digital transformation for companies, governments, non-profits, and many others around the world, the focus is now shifting to getting people vaccinated and finding safe ways to reopen. With more people being vaccinated, companies are looking for platforms to help them build for the new normal and to create solutions to allow for a safe return to work. We're working with a Fortune 100 food and beverage company that is using Twilio to provide SMS notifications for all COVID-19 related communications to their more than 200,000 employees globally. This is just one example of many, and for companies who are searching for ways to get back to work



safely, Twilio is here to help. Perhaps more importantly, this type of customer relationship provides us with an opportunity to showcase our technology and help businesses understand more ways to use it. This is part of the reason why our dollar-based net expansion rate continues to be strong: generally speaking, neither companies nor their consumers go backwards once they've experienced new ways of engaging one another. When our customers use our tools to improve their relationships with employees and their own customers, it often provides an opening to a broader relationship with Twilio.

We hear from customers every day that they are looking to do even more with Twilio, and this trend aligns with the shift taking place in the market. The benefit of being a platform is that our technology is applicable in areas we never anticipated when we started the company. Whether it's healthcare companies adopting the permanent shift to mobile engagement and telemedicine, or travel and hospitality companies looking to reclaim customers and grow their business again, or retail companies around the world embracing e-commerce and curbside pickup, these experiences are here to stay and we are seeing incredible demand as these companies look to Twilio's customer engagement platform to build solutions for the future.

What gets me excited is how our product strategy is working. Our core business has never been stronger, as we're seeing tremendous demand in channels like messaging. We're also excited about the great traction within our emerging products, like Flex and Video, where we are building the next growth levers for the company. And finally, what I'm most excited about is that customers have given overwhelmingly positive feedback about where we are going with Twilio Segment, and we're seeing strong demand for Segment's Customer Data Platform to drive greater personalization based on real-time customer data.

Providing the tools for developers to build is core to who Twilio is. We spent the last 10+ years building the leading cloud communication platform, but our vision is about more than communication: it's about end-to-end customer engagement, ultimately providing businesses with the holy grail – a single, actionable view of the customer journey. The digital acceleration spurred by the last year reinforced how critical this is to our customers, and it's clear to us that there's a permanent shift happening. Companies are seeking to harness data from disparate systems to understand their customers, and then use the best digital channels to successfully engage them. The reason this is so powerful is because when done well, this results in more effective acquisition, higher satisfaction and longer retention of customers.



This new approach to customer engagement is happening faster than ever before. To learn more about how leading organizations are using Twilio's customer engagement platform to build for the future, mark your calendars for our annual SIGNAL developer and customer conference, taking place October 20-21, 2021.

We also announced today that we've decided to reorganize our R&D group to better serve our growing market and customer base. Instead of one R&D organization, we will have three units all reporting directly to me. These consist of the Twilio Communications Platform, the Twilio Data Platform, and the Twilio Core Platform. Simon Khalaf, currently the GM of Twilio's Messaging Business, is being promoted to SVP & GM of our overall Communications Platform, and Peter Reinhardt, CEO of Twilio Segment, is also taking on expanded responsibilities overseeing the Twilio Data Platform. As a result of this change, our Chief Product Officer, Chee Chew, has decided to leave Twilio as of May 17. Over the last two years, Chee has played an important role in helping Twilio scale our products and infrastructure to keep up with the demand in the market. I'd like to thank Chee for everything he did for Twilio during his tenure, and wish him the best in his future endeavors.

I'm pleased to note that for the first time, Twilio was named one of the Fortune 100 Best Companies to Work For®! We are proud to be recognized for our efforts to build a consistent employee experience for all Twilions and for the effective programs we created to support our employees, customers, and communities in response to the COVID-19 pandemic.

I'd like to thank all Twilions for making Twilio a great place to work, for bringing the Twilio Magic to life, and for supporting our customers through their digital transformation efforts. The first quarter was a great start to the year, and I'm excited for the future as we address this generational opportunity.



George Hu, COO

Our team delivered a great start to the year in the first quarter as we continued to help our customers build for the future with our customer engagement platform. Our focus on developers, expanding our enterprise presence, international expansion, and growing our partner ecosystem continues to deliver great returns while setting us up for the future.

Our marketing team continued to host several virtual events, including an Engage Everywhere event focused on healthcare, where Jeff spoke with Dr. Sanjay Gupta and discussed the changes that the last year brought to the healthcare landscape. Our Developer Relations team hit a new milestone as over 2 million developers have learned how to build with Twilio through content from our Twilio Voices program -- where we empower developers in the community to code and write high quality technical tutorials that they publish on our blog.

We also hosted our largest enterprise hackathon to date with Deloitte, as 13 teams from across multiple continents deployed Twilio's technology to build apps that helped to address business challenges in healthcare, financial services and customer engagement. This hackathon is an example of how our alliance with Deloitte is focused on helping companies accelerate digital transformation, operational flexibility and growth.

Our investments in the enterprise space continue to make us more strategic to the world's largest companies. In fact, Twilio was recently named number one in the enterprise category by Fast Company in its [2021 Most Innovative Companies](#) list -- proof that our efforts to drive enterprise success are paying off. We signed some great enterprise deals in Q1, including a new relationship with Ford Motor Company, who is now using Twilio SMS.

We also entered a new relationship with Omnicell, a leading provider of medication management solutions and adherence tools for health systems and pharmacies. Omnicell's patient engagement division EnlivenHealth™ is using Twilio to streamline pharmacy workflows and automate repetitive tasks for pharmacists, who are among the most trusted healthcare professionals. The omnichannel solution, powered by Twilio IVR, programmable voice, SMS and more, will free up pharmacists' time to provide



higher value services like COVID-19 vaccinations, and improve overall patient engagement, leading to better health outcomes.

We expanded our relationship with Carbon Health, a technology-enabled healthcare provider. In addition to leveraging Twilio to power vaccine communications for customers like City of LA's vaccine rollout, they have also built and launched the first HIPAA-compliant digital vaccine card, called Health Pass, that patients receive a link to via Twilio SMS following their vaccine.

We expanded our relationship with a Fortune 1000 luxury retailer that was looking to replace their existing contact center solution due to the cost and complexity to maintain the system. Working with one of our partners, they selected Flex to bring together voice and digital channels in one place, allowing them to further their goal of understanding their customer and improving their overall customer experience.

Internationally, we continue to expand our presence in key markets, and we're seeing great returns from those investments. We expanded our relationship with NatWest Group, a Global 2000 Tier 1 bank based in the United Kingdom. They were looking for a messaging solution that was compliant with regulatory requirements and could perform at scale. NatWest selected Twilio to power their SMS notifications because of our performance at scale and the real-time nature of our API.

We also signed a deal with HSBC, the largest bank in Europe and a Global 500 company. HSBC's peer-to-peer payment app, PayMe, has more than 2 million users and they needed a scalable email API to expand their usage. They selected Twilio SendGrid to provide the scale they required and because our customer engagement platform will allow them to expand to other channels to engage with their users over time.

We continue to be extremely excited about the combination of Twilio and Segment, as companies around the world are validating our vision for the most complete customer engagement platform. In Q1, Twilio Segment expanded its relationship with British retailer Frasers Group, which owns brands including Sports Direct, Jack Wills and Flannels. They were looking for a customer data platform to unify their data across online and in-store and chose Segment because of its ability to support Frasers' future growth strategy.

We also continue to invest in and grow our partner ecosystem, and ended the quarter with more than 400 consulting partners, extending our reach around the world. These



partners are expanding their capacity to support Twilio, growing nearly 400% year-over-year as they add new Twilio certified resources. All of this drove an increase of more than 100% in partner influenced revenue year-over-year.

Overall, I am very pleased with the strong start to the year that our team delivered. We are continuing to invest in our key focus areas to ensure we are well prepared to address the huge opportunity ahead of us.



Khozema Shipchandler, CFO

Twilio performed very well in Q1 as we continued to see broad based strength across the business and many of the use cases resulting from the last year persist as the shift to digital continues as the new normal. We're also thrilled to see the progress with vaccine distribution and Twilio playing a role in assisting many government and healthcare organizations in this effort.

The value proposition of a combined Twilio, the leading customer engagement platform, and Segment, the leading customer data platform, continues to resonate with customers. Our integration efforts are on track, as we've already combined certain G&A functions such as our Accounting, Legal, and People organizations, providing Segment access to Twilio's global reach for talent acquisition. We've also established strong collaboration models between non-integrated functions, such as Marketing, focused on driving cross-product awareness to our respective customer bases. Finally, we continue to make progress on product integration, including allowing customers to create more personalized SMS campaigns and to power more intelligent live chat functionality using both Twilio and Segment. There's obviously more to come, but we are even more excited about this acquisition today than when we announced the deal.

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

We expanded our international efforts in India by acquiring ValueFirst, a leading communication-as-a-platform provider with over 350 employees. This acquisition will help accelerate our business in an important developer and customer market by solidifying our local presence and connectivity with mobile operators while strengthening our relationship with customers.

In 2020, Verizon was the first U.S. carrier to implement application-to-person fees, or A2P, and we expected the other carriers to follow suit. In March of this year, AT&T implemented a U.S. A2P 10-digit long code (A2P 10DLC) messaging fee to help



support the growing ecosystem of businesses texting their customers, while protecting end users from unwanted messages. Customer trust is vital to Twilio and we are investing in resources to simplify the onboarding experience as businesses make this migration. Ultimately, these changes will lead to improved deliverability, increased throughput of messages and a more transparent ecosystem. The financial implications of this new fee structure are described below.

Total revenue for the first quarter grew 62% year-over-year to \$590 million, including approximately \$45 million from Twilio Segment. Excluding Segment, revenue grew 49% year-over-year. The dollar-based net expansion rate was 133%, as we continued to see broad based strength across the business. Keep in mind that Segment will not impact dollar-based net expansion until we lap the anniversary of the acquisition in the fourth quarter of 2021. Additionally, there was no revenue impact from AT&T 10DLC in Q1, as Twilio absorbed the costs for March and April to help support our customers with this industry transition.

Revenue from our top 10 active customer accounts represented 12% of revenue in Q1, compared to 13% last quarter and 15% in the first quarter of 2020. International revenue was 29% of total revenue in Q1, compared to 27% last quarter and 28% in Q1 2020.

We continue to see stable or increased usage in the industries most impacted by COVID, including travel, hospitality and ridesharing. While this is a great sign of the broader reopening, keep in mind that these industries represent a small amount of revenue for Twilio given our growth and broad industry reach.

First quarter non-GAAP gross margin was approximately 55%. This was down slightly from Q4 2020 on continued strength in our messaging product as well as from international mix. The impact from Verizon's A2P fee was consistent with prior quarters relative to usage but, as mentioned during our Q4'20 earnings call, we will no longer quantify the impact.

AT&T's 10DLC fee, which went live March 1, resulted in a 35 basis point headwind to gross margin. T-Mobile also went live with fees for registered traffic as of April 1. On May 1, we started passing both the AT&T and T-Mobile fees through to our customers. We will quantify the impact on our financials when we report our second quarter results. As with Verizon, the A2P fees for both AT&T and T-Mobile are gross profit neutral.



Non-GAAP operating profit came in at \$17 million, stronger than originally forecasted primarily driven by stronger revenue, as well as the timing of some hiring and project specific spend.

Moving to guidance, for Q2 we expect total revenue of \$591 million to \$601 million, including Twilio Segment, but excluding new A2P fees, for year-over-year growth of 47% to 50%, and we expect a second quarter non-GAAP operating loss in the range of (\$27) million to (\$22) million.

With regards to our operating loss guidance for the second quarter, as we have previously discussed, some of the investments we planned on making last year did not materialize as we had originally forecast due to COVID. Those investments are largely centered on enterprise sales, Flex and new growth products, plus core systems and infrastructure. As of the end of Q1, we have largely caught up on the hiring related to these investments, which will generate losses in the short term while allowing us to grow at elevated levels, and sets us up well to scale in the long term.

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