



klaviyo[®]

Q4 2024 / FY 2024
Earnings Transcript

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Andrew Bialecki, Co-Founder and CEO

Thanks, Zilli and thanks to everyone for joining us today.

At Klaviyo, we empower more than 167,000 brands around the world to leverage their data to build personalized, lasting, and valuable consumer relationships across multiple channels.

Our 2024 financial performance is a clear indication of our importance in driving revenue for our customers. We had a very strong finish to the year, with \$270 million in Q4 revenue, up 34% year-over-year – crossing a \$1 billion revenue run rate as we delivered our strongest Black Friday Cyber Monday yet. For the full year, we grew our revenue by 34% to \$937 million, while driving nearly \$150 million in free cash flow. I want to thank our partners and Klaviyos around the world for supporting our customers throughout the year, and thanks to all of our customers for choosing Klaviyo to help grow your business.

Before sharing highlights from the year, I want to touch on three defining themes for Klaviyo:

First, we are a growth company and we are executing well on our strategy to deliver sustainable, efficient, long-term growth by moving up market, expanding internationally, adding more customers, and growing with our existing customers.

Second, our approach to data with the powerful Klaviyo Data Platform is a core differentiator - and the backbone of our vertically integrated, omnichannel platform that positions Klaviyo as the single source of truth for customers.

And, third, consumer expectations are shifting and our data-first approach puts Klaviyo in an exceptional position to redefine the next era of consumer engagement.

Now, turning to 2024 highlights.

We continued to innovate and expand the capabilities of our platform, and our pace of innovation is a key driver of why companies continue to choose Klaviyo. Across the company, our teams delivered more than 200 new features to help make our customers more successful and set Klaviyo apart in the market.

On our marketing automation platform, we made it easier for marketers to get their jobs done faster with “scheduled flows” and “automated campaign follow-ups.” We launched Campaigns Library and expanded our suite of AI functionality with features like Text AI and Email AI to inspire creativity and make it easier to create content. And we made SMS audience acquisition more effective by using one-time codes with SMS Smart Opt-In Forms. And speaking of SMS,



we now have SMS coverage in 19 countries – great progress in helping our customers reach their consumers around the globe.

We also enhanced our platform's next generation analytics capabilities with tools like Product Analysis, to empower marketers with real-time insights that optimize merchandising strategies and post-purchase outreach. We launched the RFM Action Center, which uses recency, frequency and monetary value analysis to provide actionable recommendations for retention, repeat purchases, and loyalty. These expanded analytics capabilities help customers address the challenges of fragmented data and disconnected tools and more efficiently put their data to work.

Growing our presence internationally remains a top priority for Klaviyo, and we made great progress in 2024. We made our platform and customer help center available in six additional languages, while launching local language websites and marketing efforts in certain regions. We hosted our Klaviyo London event, continued expanding our team in Europe, and recently opened up a new Dublin office, where we will build out a larger presence going forward.

Ecosystem-led growth through strong partners and integrations is key to our success, and our partnership team continues to drive great results. We launched a number of new integrations – with companies like Canva, Pinterest, Toast and others – and added features like the Universal Content API to make it even easier for partners to work with Klaviyo. We also held our first in-person Partner Advisory Council, bringing together leaders from across our partner ecosystem to discuss and gather feedback on our 2025 strategy, evolution as a platform, and roadmap to take us forward. And, as we announced a few weeks ago we signed a great partnership with Woo, making Klaviyo the preferred marketing automation partner for WooCommerce, replacing an older newsletter software. With Klaviyo's built-in data platform and WooCommerce's flexibility, our joint customers have everything they need to build direct connections with their consumers and thrive in a competitive commerce landscape. This partnership represents an important step in our expansion internationally, into new markets in retail and beyond retail to support a diverse range of businesses, from content creators to web developers, who are fostering communities and delivering value in unique ways.

Companies of all sizes are coming to Klaviyo – whether a brand new business or large, established brands needing to modernize and consolidate their tech stack – because our platform is vertically integrated, easy to use, flexible, and capable of handling even the most difficult use cases.

Having a unified view of the consumer is important to customers of all sizes, especially in the higher end of the market. [Clarks](#), the iconic British shoe brand, chose Klaviyo to consolidate their tech stack with our vertically integrated platform, with help from our new partner, Absolute Labs. They were using multiple vendors that required batch processing every 24 hours, making it difficult to build real-time segmentation and marketing campaigns. With Klaviyo, they are combining data across channels, including point-of-sale and eCommerce data, allowing them to leverage segmentation, omnichannel personalization, and cutting edge AI capabilities.



[Grunt Style](#), a national patriotic apparel brand, moved to Klaviyo in the fourth quarter due to our fully integrated platform. Despite being one of the largest customers for their prior vendor, they were unable to run the analytics they needed, and even debated building their own CDP. Instead, they chose Klaviyo, enabling them to centralize their consumer data, run advanced analytics, and leverage the insights into omnichannel engagement.

Omnichannel campaigns are extremely important as companies need to reach consumers over their preferred channels. [Everyman Jack](#), a men's personal care and grooming company, added Klaviyo SMS, moving away from their prior vendor ahead of Black Friday Cyber Monday. Everyman Jack saw the value in leveraging a single data platform to power their omnichannel communications, allowing them to build more personal digital relationships and a more efficient marketing strategy.

We continue to expand across verticals and regions, and customers with complex business models choose Klaviyo to further their digital strategy. [Paramatta Eels](#), a rugby team in Australia, switched to Klaviyo to find a trusted data and marketing solution that was easy to use for their small marketing team, allowing them to drive more engaging and relevant personalized communications.

We also signed new or expansion deals in Q4 with [DKNY](#), [Ted Baker](#), [BarkBox](#), [Corepower Yoga](#), [Intro Travel](#), [Motor Culture](#), [Reebok](#), [Champion](#) and more.

These customers represent different products and services, but they come to Klaviyo with the same challenges. They're struggling to meet rising consumer demand, while using disconnected systems and channel-first tools. Small marketing teams are under pressure to deliver personalized experiences at scale. Siloed data makes it hard to create smart segmentation, measure what's working and automate easily.

There are software solutions built for B2B businesses – designed for human powered and slower sales motions. But no solution has truly tackled the challenges facing consumer businesses. No CRM platform has delivered the power needed to manage millions of fast-moving consumer interactions across multiple channels, in one place. Until now.

Klaviyo started as a database, a place for brands to understand and activate their data. We transformed email marketing from batch-and-blast to data-driven campaigns. Over the last 13 years, we've expanded our marketing automation suite, solidifying Klaviyo as the leading platform for powering digital relationships. But we've always planned to extend what we did for marketing to other surfaces and aspects of the customer journey.

The most successful consumer businesses today are creating personalized experiences by unifying their channels and data across every touchpoint. This new standard for consumer engagement requires integrated marketing, built on an embedded data platform, powered by AI and analytics. Klaviyo is uniquely positioned to drive this new era of consumer engagement.



As we look ahead, our vision is to expand our scope to power and improve even more of the consumer journey, helping brands deliver omnichannel experiences that fuel growth. In fact, our customers are already asking for us to play a bigger role in how they engage with their consumers.

Built for the speed and scale of the consumer world, Klaviyo's data-first approach gives us the distinct advantage to meet the demands of this market and category in marketing and beyond.

Tomorrow afternoon we'll be hosting a Built for B2C event, which will be livestreamed starting at 4pm Eastern. Head to klaviyo.com to register for the event and tune in to learn more about how Klaviyo is powering the next era of consumer engagement.

I'm extremely proud of the progress we made in 2024. Our vertically integrated, data-centric platform is a key differentiator that positions Klaviyo to redefine consumer engagement. The products and platform we are delivering sets the stage for our growth not only in 2025, but for the next several years as we continue to execute on our growth levers and deliver the best platform for our customers. Thanks to the over 2000 Klaviyos for their relentless focus on our customers in 2024.

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



Amanda Whalen, CFO

Thanks, Andrew.

Klaviyo delivered another quarter of strong financial performance in Q4 to close out a great year as we continue to deliver efficient growth at scale. In the fourth quarter, revenue grew 34% year-over-year to \$270 million, non-GAAP operating margin was 6%, and free cash flow was \$54 million, up 57% year-over-year.

For the full year, we delivered revenue of \$937 million, up 34% year-over-year, with a non-GAAP operating margin of 12% – delivering well above the rule of 40. We're very proud of these results as we continue to deliver both growth and profitability at scale.

Andrew discussed several key themes earlier, and these results are evidence that our data-first approach is resonating and we are executing well on our growth strategy. We are adding new customers, growing in the mid-market, expanding with existing customers, and expanding internationally.

In Q4, we added over 10,000 new customers, and we now have more than 167,000 customers – up 17% year-over-year. We continued to see strength in the low- and high-end of the market, and notably, we started to see some stabilization in the SMB space, as the number of new SMB customers improved quarter over quarter. We acknowledge that this may be partially driven by the heightened demand during the holiday season, but it is an encouraging sign nonetheless.

Our Q4 revenue came in stronger than expected driven by the continued high value our customers realize from our platform during the holiday shopping season. The pricing changes we made back in April related to prorated billing also benefitted revenue in the mid-single digit millions of dollars, though a majority of that was included in our guidance.

Our investments to move up market continue to show success, as we ended Q4 with 2,850 customers generating over \$50,000 in ARR – up 46% year-over-year. We had another strong quarter of adding new customers in this cohort, continuing the trend of landing larger customers from day one.

We continue to drive expansion with our existing customers as they grow their usage and add new products, as can be seen in our dollar-based net revenue retention rate, or NRR, which was 108% for the quarter. Notably, our in-period NRR stabilized from Q3 to Q4, so while I don't want to call a floor based on two data points, it's good to see some stability in that NRR metric.

Our cross-sell motion continues to deliver strong results, especially with email customers adding SMS. As of year end, Klaviyo SMS is used by more than 18% of our total customers, and more



than 26% of our combined SMB and mid-market customers. Going forward, we will only be disclosing the combined SMB and mid-market SMS attach rate, as we believe that is a better indication of our traction in this product. We'll continue to provide this update on an annual basis.

As you heard from Andrew, we made tremendous progress this year in our international expansion, on both the go-to-market and product fronts. In Q4, EMEA revenue growth accelerated to 49% year-over-year – with notable strength in France, Germany and the Nordics – while our combined international revenue grew 42% year-over-year.

Moving on, fourth quarter non-GAAP gross margin was 74% – down approximately 5 points year-over-year, primarily due to increased infrastructure costs in support of the holiday season, continued growth of our SMS product, and to a lesser extent, our new employee bonus program. For the full year, non-GAAP gross margin was 77%, down about 1 point from last year.

Turning to non-GAAP operating expenses: each line item increased as a percentage of revenue from Q3 as a result of the impact of the full-year accrual related to the new employee bonus program that was recognized in Q4. Aside from that impact, R&D was slightly higher as a result of additional expenses to support our Black Friday Cyber Monday infrastructure. In G&A, we had an additional international tax related reserve release, similar to prior quarters, that offset some of the employee bonus impact. Going forward, we do not expect any additional tax related reserve releases that would have a material impact on our G&A line.

For the fourth quarter our non-GAAP operating income was \$15 million, representing a non-GAAP operating margin of 5.6%. This was better than expected, primarily as a result of the revenue upside we saw in the quarter. For the full year, non-GAAP operating income was \$113 million, for a non-GAAP operating margin of 12%. We generated free cash flow of \$54 million during the quarter, up 57% year-over-year, and \$149 million for the year, up 35% from the prior year due to both higher operating income and interest income.

Before I get to guidance, let me discuss some pricing updates that went live yesterday. Klaviyo introduced new pricing features that our customers have been asking for, including auto-downgrade and flexible sending options. In addition, we are recommitting to our original pricing intent to enforce pricing based on active profiles, because we believe in the value of the consumer profile and the power of the data it contains. Customers who are out of compliance will be moved to a compliant plan, and, in the spirit of being customer friendly, we are limiting price increases to a maximum of 25%. Importantly, most customers are not expected to see a pricing increase as a result of these changes. That said, we do anticipate some incremental churn which may impact customer count in Q1. These changes are expected to generate minimal benefit to full-year revenue. Very importantly, though, they will reduce pricing friction for our customers, and better position us for the future.

As we move to 2025, our priorities as a growth company remain consistent. We will continue to invest behind adding new customers, expanding internationally, moving up-market, and



expanding with existing customers. Our investments in 2025 will largely be aligned with these priorities. In addition, we are planning incremental investments in supporting our expansion into new products, as well as new verticals. From a capital allocation perspective, we anticipate 2025 will be similar to 2024. As growth is our top priority, we are confident that the investments we're making today will support our efforts to drive long-term, sustainable growth.

Now, turning to guidance, for Q1, we expect revenue of \$265 to \$269 million, representing year-over-year growth of 26% to 28%, driven by continued strength up market and internationally. This guidance also takes into account the seasonality of our business from Q4 to Q1, as well as our expectations for a smaller benefit from the prorated billing changes than we saw in Q4.

We expect first quarter non-GAAP operating income of \$25.5 to \$28.5 million, representing a non-GAAP operating margin of 10% to 11%. This guidance includes an expected increase in our Q1 marketing spend, including our product event tomorrow and additional demand generation investments that will take place earlier in the year. Additionally, you'll recall that we accrued the entire 2024 employee bonus expense in Q4, but going forward, it will be accrued in each quarter. As a result, you should expect non-GAAP operating margin to be down mid-single digits year-over-year for each of the first three quarters, and up year-over-year in the fourth quarter.

While we don't provide guidance for gross margin or cash flow, I want to highlight a few items that will impact our Q1 performance.

First, we plan to make additional infrastructure investments to support our growing cohort of larger customers. While these investments will scale over time, we expect it will result in Q1 gross margin coming in slightly below our 2024 gross margin of 77%.

Second, regarding Q1 cash flow, as you build your models there are two factors to consider. One is that the payment related to our employee bonus program will go out in Q1. In addition, we'll see the seasonal reset of some payroll related items, such as social security tax, which typically have a greater impact in the first half of the year. As a result, we expect our Q1 free cash flow will be negative.

As we look to the full year, we are taking into account not only the trends in our own business – some of which are starting to stabilize – but also the broader environment. We are cautiously optimistic about the improving external small business sentiment, but we are not yet assuming meaningful improvement in our guidance until we see a sustained change in purchasing behavior.

With that said, for the full year 2025 we are initiating revenue guidance of \$1.156 billion to \$1.164 billion, for year-over-year growth of 23% to 24% – consistent with the expectations we set on our Q3 call. We expect non-GAAP operating income of \$130 to \$136 million, representing a non-GAAP operating margin of 11% to 12%. Because of the impact of the bonus accrual as well as timing of marketing spending, we expect this year's operating income linearity to look



different from last year, with our annual operating income lighter in the first three quarters, and more heavily weighted in Q4. As we discussed on our Q3 call, our non-GAAP operating margin is roughly consistent to where we ended 2024, primarily driven by continued investments in the growth drivers I discussed previously.

In closing, 2024 was a great year for Klaviyo. We are executing our growth strategy, continue to differentiate ourselves in the market with our vertically integrated Klaviyo Data Platform, and we're excited to expand our scope to power and improve even more of the customer journey, helping brands deliver omnichannel experiences that fuel growth. We are well positioned to continue delivering growth and profitability, at scale, as we continue to drive success for our customers.

And with that, I'll open the call up for Q&A. Operator?



Question and Answer

Operator

[Operator Instructions] We'll take our first question from Gabriela Borges at Goldman Sachs.

Gabriela Borges, *Goldman Sachs Group, Inc., Research Division*

AB and Amanda, I wanted to kick at a little bit more color on your mid-market pipeline. And thinking about the call that you've pretty consistently provided over the last year about the opportunity you see there, could you give us maybe a little more qualification -- how is the mid-market pipeline growing?

And when I look at your own data on customers greater than \$50,000, that number has obviously been growing really nicely for a while. So how sustainable do you think the growth in that cohort is? And any other qualitative or quantitative commentary you're willing to provide would be helpful.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Great. Thanks, Gabriela. Yes, happy to talk about that. First off, we're very happy with both the results in terms of customer adds and revenue as well as the pipeline and forward-looking demand that we're building in the mid-market segment, and now increasingly, also starting to give that enterprise segment as well.

The value prop that we have for our mid-market and enterprise customers is very clear. We provide a data platform that allows them to pull all of their customer data in one place. It connects with all of their systems and allows them to put that data to work in our marketing platform and other applications that they're using to deliver the customer experience. And the fact that there's more complexity actually plays to our advantage. We can handle the scale, their security requirements. But we also have the flexibility through our API-first design to support a lot of the use cases that those larger businesses have.

So we're very excited about, like the growth that we've seen, businesses like Clarks, Grunt Style, Reebok, Champion and others, all joined us in Q4. Like you commented on, we're very excited about the growth we've seen in a number of customers in that 50,000 cohort.

And then one other thing that we're really excited about, we're seeing more of our mid-market customers adopt more of the Klaviyo product suite. So our average revenue per customer in Q4 was up 15% year-over-year, which is another very strong indicator to us that there's good [indiscernible] market depth. So that's something we're going to be investing in this year, always with an eye towards strong unit economics. And we think that's a very durable growth driver in 2025 and the next few years.

Operator

We'll move next to Terry Tillman at Truist.

Terrell Frederick Tillman, *Truist Securities, Inc., Research Division*

It might be a multi-parter, so just beware. About the upmarket opportunity here, what I'm curious about is as Steve and the teams are kind of building out the infrastructure, I'm curious about like



how much you're able to leverage PLG and kind of word-of-mouth as opposed to having to be heavy outbound? And the second part is, like how ramped is the sales team? And is there any kind of natural ceiling right now upmarket in terms of the size of the customer?

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Sure. Thanks, Terry. So first, on the PLG motion, that's -- it's very -- it's how we build products. So while we find that a lot of our mid-market enterprise customers, they still want -- they have a conversation with us before actually buying. The fact -- the way that we designed Klaviyo that it's so easy to pull data in, ingest it, it's easy to start to build out use cases, it actually makes that evaluation process a lot faster and a lot smoother. So that in that sense, that PLG motion for us is lowering the cost of acquisition

And certainly, as we build out more social proof, more brands, we're also finding that there's a lot of mid-market enterprise businesses that are starting maybe with one brand and then spreading Klaviyo across their entire portfolio.

And then on the ramp on the sales team, this is something that we've been very thoughtful about. We've built up the demand in mid-market and now in enterprise. And we've grown the sales team actually a little bit behind that demand to make sure that we're matching the demand with sales capacity. So we did start to build sales capacity, especially in the U.S., in 2024 for the mid-market segment. And we're pleased with how that's going.

And we mentioned, we've also had some strong growth internationally. We're seeing actually increased demand in the mid-market and enterprise internationally, especially in Europe. And that's a place that we're also planning to expand and grow sales capacity this year because now that we've internationalized the product and we've done some of the front marketing, we think that's another area where we can grow the mid-market business.

Amanda Whalen, *Chief Financial Officer*

And Terry, just building a little bit on what AB said, as you look to 2025, we've made good progress with the sales team that we hired in 2024. And therefore, we're going to continue to invest behind growing that quota-carrying capacity, so hiring sales teams who have a track record of strong success with mid-market and enterprise customers, investing in training behind them and really evolving the way that we sell and continuing to expand our partnering business from there as well.

And then to the last part of your question about what is the size of those customers, what is that looking like, consistent with what we've spoken about before, these customers can be quite large. In the top 10, the average of our top 10 customers is north of \$1.5million of ARR, so certainly growing into some very significant relationships with these larger brands.

Operator

We'll go next to DJ Hynes at Canaccord.

David E. Hynes, *Canaccord Genuity Corp., Research Division*

Congrats on a nice quarter. AB, I was wondering if you could update us on ARR overlap with the Shopify ecosystem, how that partnership is progressing from a lead flow perspective. And then you mentioned WooCommerce, but I'm curious if there are any other B2C ecosystem opportunities that seem promising as you guys kind of continue to diversify away from Shopify.



Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Yes. Sure. Okay. So let me take that in 3 parts. The first, Shopify. We've had a great experience working with Shopify. We really love working with the Shopify team. That obviously started with our product and the integration there. We've done a lot of work on that in the last year to make data flowing back and forth between folks that run on Klaviyo and Shopify easier. And as Shopify has converted more businesses to their platform, we found that those customers are also coming to Klaviyo.

And interestingly, we actually have a number of brands that have chosen to move to Klaviyo first and then it followed on by moving their e-commerce stack to Shopify. So our relationship there is very strong. I was going to give a model for how we should work with other technology and software platforms. So with WooCommerce, I think that offers a slightly different profile of customer. The WooCommerce customer base is over 4 million merchants using WooCommerce. It's more international. It's also the use cases are a little bit more varied. It's a little bit -- you can customize -- because WooCommerce is open source, you can customize the WooCommerce platform more easily. So there's -- that actually helps us spread outside of, say, pure-play e-commerce.

And then finally, when it comes to new verticals and alternative use cases, we added a number of new integrations in 2024, but again, are modeled off of our partnerships with Shopify and others, integrations with Zenoti, Olo, OpenTable, Toast. And these are all meant to help Klaviyo -- we really have -- we've got good market fit with other use cases connecting to those other services. I mean, one, it helps us on the go-to-market side. From a product perspective, it means that now that transaction data, say, for that restaurant or that yoga studio, it's actually -- it's easy for them to think their data to Klaviyo. And we're finding is good growth there.

So it's -- we think we've got a couple of features for folks that have non-e-commerce use cases that we'll be releasing this year that we're excited about. We think we're going to grow organically with new verticals. It's not one of our top growth levers, but we're excited about the progress that we're making.

Amanda Whalen, *Chief Financial Officer*

Just building a little bit on what AB was talking about, about the progress that we're making with Shopify and how we co-sell with them. We've been working on unifying our messaging, our account mapping, our enablement. And some of the evidence that, that is working and that we are going to market together, many of the large enterprise customers who Shopify has been speaking about are also strong Klaviyo customers as well. That's brands like Reebok and Champion and BarkBox. And so we're really excited to partner with them as we each continue to move into the mid-market and enterprise and beyond.

Operator

We'll take our next question from Rob Oliver at Baird.

Robert Cooney Oliver, *Robert W. Baird & Co. Incorporated, Research Division*

On international and, AB, you touched on this a little bit in response to DJ's question. But I'd be curious to get an update from you guys on what you've seen on the ground in some of the geographies, such as France and others, that you've enabled in the back half of '24.



And then if you could just take a moment to update us on what the road map is in terms of additional either geos or languages for '25 and how the Woo relationship may have either accelerated or changed that in any way.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Sure. So 2024 was a great year for international. Our full year international revenue grew 42%, and we're very happy with that. And kind of like you alluded to, we've tried to lay a lot of the foundation for growth internationally over the next couple of years. We expanded Klaviyo from being in one language, English, to now 7. We also took SMS, a product where we have to work with local regulators and telcos. We've expanded that now to 19 countries. And that actually gives us an enormous amount of coverage of the European market and growing parts of Asia.

So built on top of that, we're now -- we're focused on building out teams that are localized to those countries. Germany, France, Spain, Italy are all places where we're going to hire local language-speaking sales and support to help us support growth there. We're also working on partnerships that are more regionally oriented. So folks like Prestashop, Think Digital, Oz and others are helping us expand our partner-led motion outside of the U.S.

So you add all that up, I think we don't feel that we need to introduce more languages or increase our coverage of SMS dramatically this year to support accelerated growth international. Now we'll continue to evaluate those as we see opportunities. But I think we've done a lot of the heavy lifting on the product side in 2024, which is going to help support accelerated growth or large growth in 2025.

Operator

We'll take our next question from Elizabeth Porter at Morgan Stanley.

Elizabeth Mary Elliott Porter, *Morgan Stanley, Research Division*

I wanted to touch on the NRR, where you mentioned seeing some stabilization in the in-quarter metric. And I understand it's just too early to call a bottom. Would love to better understand just the behavior that you're seeing. Sounds like gross retention has been strong for a while. So any sort of incremental clarity on where you're seeing the improvements, either cross-sell or expansion? And then when we should think about the point in time that we start to lap some easier compares?

Amanda Whalen, *Chief Financial Officer*

Thanks, Elizabeth. Yes, as we mentioned in the prepared remarks, we did see stabilization in the in-period NRR from Q3 to Q4, which is encouraging. Now we're not ready to draw too many conclusions from 2 data points at this point. But as I said, we're cautiously optimistic as we look forward to 2025.

Breaking down NRR into its individual components. As you said, gross retention remains consistent and strong. Once customers are on the Klaviyo platform and they see the value and the ROI and the revenue that we are driving for their business, the platform is incredibly sticky. On stabilization, we -- or sorry, on expansion, we are seeing some stabilization in the expansion trends. And then we're continuing to make good progress on cross-sell efforts. And you can see that in that progress in the growth in the number of customers that we have who are using SMS.

And then also as a reminder, this is the first full quarter that we've had without any impact from the 2022 pricing changes that have impacted NRR for the last couple of years. And so certainly



lapping that contributes to the stabilization as well. But overall, we're confident that as we continue to add tremendous value to companies and we continue to expand our product portfolio, customers are going to continue to expand their business in turn with us. And so our focus remains on delivering value for our customers, making it easier for them to put Klaviyo to work in driving revenue and building those lasting consumer relationships.

Operator

Next question comes from Arjun Bhatia at William Blair.

Arjun Rohit Bhatia, *William Blair & Company L.L.C., Research Division*

Congrats there on the nice fourth quarter. Maybe if I can come back to you, just on the product side, you talked quite a bit about where the platform might expand to next. You clearly have kind of the foundational data layer built out and you've built on top of it, obviously, with marketing. But as you're thinking of product evolution, what are you prioritizing? And is that something that we should expect this year? Or is that kind of the longer-term more kind of ambitious product road map that you've laid out?

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Yes. That's great. So let me touch on 3 things that we're focused on when it comes to our products. The first is embedding artificial intelligence across the different layers of the Klaviyo stack. Now we've talked about the data platform that Klaviyo is built on and this being the central source of truth for all your consumer data, pulling that in from all different stores and then making that data actionable.

We've done a great job of building artificial intelligence there in terms of predictive capabilities about what each consumer is going to do next. You think about this as product recommendations, predicting next action. And we're now extending that to other parts to Klaviyo platform, including like, hey, what kind of marketing campaigns should you run next, not just on an individual basis but also in aggregate.

So what we're doing with AI is we think we can embed it across our data platform as well as inside of our marketing application and other products. And that's going to be -- that's really going to help our customers accelerate their revenue growth with Klaviyo, what we call KAV. And that's going to provide a lot of additional value, which in the future we can look to monetize. So that's number one for us.

Number two is doubling down on being the source of truth for our customers. We've built out a lot of scale in our data platform. We're increasing the network connectors. We mentioned some of the other integrations, the other data sets that we're incorporating. We're also building more tooling to allow people to manipulate and use that data outside of Klaviyo. I'm very excited about this. I think every consumer business is going to need a data platform that is their real-time source of truth on what consumers are up to and can connect to every application that helps create and deliver customer experiences. So we're building that kind of core infrastructure, and we're excited about the trajectory there.

And then finally, when it comes to the applications that sit on top of this data platform, we obviously started with marketing, and we're very excited about the progress we're making there, across e-mail, SMS and now mobile. We have a point of view that we're going to make the data and AI embedded in each of those applications, in each of those channels. But also, we want to build best-in-class creative tools. Sometimes there are tools for our users to use. Sometimes



they're through generative AI, best-in-class content creation, best-in-class deliverability. And we're actually now starting a marketing to build products or features that will help you work across channels.

So now deciding, hey, does this consumer to this message? Does it make sense to send over e-mail, over SMS, over mobile, in the future, other channels like WhatsApp or other messaging platforms? We've built the intelligence, we're building the intelligence to do that automatically to drive ROI.

And then as part of extending beyond our channels, we're also thinking about other parts of the customer experience that Klaviyo can have an impact on. I mentioned tomorrow, we've got a bunch of product releases come in, so I won't steal all the news from that. But I think if you think about the entire customer experience, marketing is just one piece of that. And when we think about what it means to drive the customer experience, be the complete CRM and data platform for the businesses we're serving, I think there are use cases beyond just marketing that Klaviyo can help power. And we're excited to -- we're building a lot of product and excited to invest there as well.

Operator

We'll move next to Brent Bracelin at Piper Sandler.

Brent Alan Bracelin, Piper Sandler & Co., Research Division

AB, Amanda, wanted to double-click into the customer logo growth. It accelerated to 17% for the first time in a couple of years. Could you walk through the puts and takes on customer growth expectations in the coming year? I think, Amanda, you talked about new simplified pricing potentially driving some churn.

On the other hand, you have this new WooCommerce partnership in international going strong that could possibly offset that. So are we thinking about mid-teens logo growth? Or could simplified pricing be a bigger impact on the entrepreneur part of the business, and we should be thinking closer to low teens growth for customers? Any color there would be helpful.

Amanda Whalen, Chief Financial Officer

Thanks, Brent. Yes, we're very proud that we added over 10,000 net new customers in Q4. And what we saw in Q4 was strength across all of our customer cohorts. So now as you recall, the largest number of our customer adds tends to come from our entrepreneur customers. And in that group, we saw strong results coming from our marketing team's efforts to really target those and bring them into the Klaviyo family.

On the high end, we had a near-record high number of new lands in our greater than 50,000 cohort. And then also in the middle, as we mentioned on the call, we also saw a strong quarter-on-quarter growth in SMB net adds as well. The key driver for it is that we continue to drive great value for our customers. And so as a result, the Klaviyo platform is really being seen as the standard for B2C businesses.

Now customer adds is not necessarily a number that we guide to specifically. But maybe as you think about some of the puts and takes for the year and how the linearity might play out in Q1, based on the seasonality of the business, we typically see lighter Q1 customer adds in general. And then additionally, as I mentioned in my remarks, we are expecting a modest increase in churn as a result of the new pricing enforcement. And so that may impact our total customer



count in Q1. But over time, we continue to see adding new customers as a key lever for our growth, along with expanding existing customers growing in the mid-market and growing internationally.

Operator

We'll go next to Raimo Lenschow at Barclays.

Raimo Lenschow, *Barclays Bank PLC, Research Division*

Congrats from me as well. First question on -- going back to WooCommerce. If you think about it, like the strategy was a little bit moving upmarket over last few quarters. WooCommerce looks -- is more like downmarket, in my view. Like how do we have to think about it? Is this is like a new path now? Is that just broadening of the strategy? How should we think about it? And then I have one follow up for Amanda.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Sure. So let me comment on that. The reality is we've already -- we had a preexisting partnership with the WooCommerce team. We already have over 15,000 brands that are using Klaviyo and WooCommerce together. And we think there's an opportunity for that to be much larger. So I think we're being very -- we're opportunistic here where we've got good product market fit, and I think we've worked with the Woo team. I think we think there's -- our 2 products can work really well together. We can help those WooCommerce businesses be even more successful.

And look, I think it's a little bit of a nod to what we've done -- what Klaviyo has done for e-commerce businesses worldwide both for entrepreneurs and in the enterprise. I think we're starting to reach a kind of default status. And so we're very -- I think this kind of proves that. And we ultimately think that we can serve folks from when they're just starting out to when they're scaling to be one of the iconic brands of our time. So yes, I think we can do both at the same time. We're very excited about this partnership.

Raimo Lenschow, *Barclays Bank PLC, Research Division*

Okay. Perfect. And then for Amanda, like can you talk a little bit about the new offer -- or the decision to offer at auto downgrade for customers? Can you provide some color on the [indiscernible] here and how that might impact Q4, Q1 numbers as well?

Amanda Whalen, *Chief Financial Officer*

Thanks, Raimo. Yes, as we shared in the remarks, we made a few changes to pricing that were effective yesterday, including flexible spending for e-mail and SMS and an auto downgrade option. And what that auto downgrade option does is it checks whether a customer's profile count qualifies them for a lower plan. And if it does, then it moves them down automatically. Those were features that our customers had been requesting for a while. We are committed to removing friction in the process so that our customers have Klaviyo be as easy to buy as it is easy to use. And so adding those 2 new features was an important part of being responsive to customers and making sure that we're just removing that friction from the process for them.

The other change that we made is recommitting to our pricing intent to enforce pricing based on active profiles because customers drive value from the data that they store with Klaviyo. And so



pricing based on profiles and making sure that we're consistent in how we enforce on that is an important part of committing to that value that our customers are driving from Klaviyo.

Now a couple of things to note on it. One is that I mentioned that the majority of customers are not expected to see a pricing change because of any of these changes because they're already on a plan that is appropriate for the number of profiles that they're storing with us. And then for those customers who do see a change, regardless of how many profiles they're storing with us, in the spirit of being customer-friendly, we're limiting price increases to a maximum of 25%.

We did see a slight uptick in churn in January after this was announced. That was expected based on our experience with pricing pilots that we ran leading up to these changes. And so if you think about what is the impact for this for the full year, if you take into account all of these factors, the uplift from pricing enforcement, offset by a small amount of churn and then as well as some expansion impact that comes from the introduction of auto downgrades and flex pricing, overall, we are assuming a minimal overall revenue benefit for the year.

But most importantly, what these changes do is they reduce friction for our customers. They anchor our pricing in the unique value that Klaviyo drives through data, and both of these changes tee us up well for the future.

Operator

We'll move next to Derrick Wood at TD Cowen.

James Derrick Wood, *TD Cowen, Research Division*

Congrats on a great quarter. AB, it sounds like you've made great strides in expanding the number of countries you can deliver SMS in. Just how should we think about the revenue unlock? I mean, is there a lot of pent-up demand? So quickly after you turn this on in new countries, you'll see some incremental revenue conversion? Or is this something that now you start a new sales cycle and start looking to cross-sell in these new countries and expect dividends to come down the pipe over the next 6 to 9, 12 months? Just curious about the go-to-market now that you've expanded the countries.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Sure. I think it's probably a mix of both. What we found actually as we've expanded SMS coverage, it's a number of predominantly European markets. We have done a lot of customers that were actually kind of waiting for Klaviyo to have support for the countries and regions they care about. And so I do think there's sort of an initial kind of uptick in SMS demand from customers from that.

At the same time, sometimes folks have existing SMS programs and it takes them some time to migrate off. Maybe they're waiting for a contract to renew. So I do think there also will be a long-term benefit to this. And with SMS in our country strategy, what we

focus on is -- take Europe as an example. As we grow internationally, we're finding a lot more of the businesses we're working with, they're cross-border, they're multi-region, multi-country businesses. And so having SMS support that spans a large percentage of their customer base, it's not 100% hot, is very high, makes a big difference. Because when folks want to invest in an SMS program, they typically want to do it in a way that is comprehensive.

And I think the SMS coverage plus some of the other things that we're building for international customers, capabilities that make it easier to send campaigns and do marketing in multiple



languages without a lot of extra work, work with product catalogs, inventory that's cross-border where pricing may be different, we've built a lot of that functionality directly into Klaviyo. I think you add that all up, and that's giving us the opportunity to both go after more businesses that they want to expand their SMS program, but also just want to use Klaviyo generally. And now we can help support them as they market globally, right, across the entire region or even around the world. So very excited about the opportunity that unlocks.

That's one of the reasons that I called out in the mid-market enterprise, we're actually seeing an increased demand internationally because a lot of those businesses, I mean, they tend to be multi-country. And we think we've gotten -- we've really done some good work to get better product market fit for those customers.

Operator

We'll take our next question from Scott Berg at Needham.

Scott Randolph Berg, *Needham & Company, LLC, Research Division*

I just wanted to follow up on the WooCommerce partnership on the press release on it and the commentary. Didn't hear anything along the lines of, I don't know, maybe any financial incentives or any sort of terms of, I guess, engagement, how you all are working together. [Preferred] partnership can mean a lot of things. But maybe help us understand what the commitment level of both companies are, whether it's on a financial basis or maybe it's something else, maybe from, I don't know, a technology perspective.

Amanda Whalen, *Chief Financial Officer*

Yes. Thanks for the question, Scott. So in terms of the financial arrangements of the partnership, as you would expect, there's a venue share component to it. We are disclosing the specific details to it, but it's typical for these types of agreements to come with a venue share agreement. There is no equity associated with the partnership. So that's an important part to note there.

In terms of overall, we're really excited to be named their preferred marketing automation provider. So now when brands join WooCommerce or for existing brands, we are their recommended partner, saying that Klaviyo is a company that we believe in who can help brands continue to grow and expand their customer base and build those ongoing strong relationships with their customers.

We think that together, we can provide a better experience for our joint customers. And there are 4 million merchant brands who use WooCommerce around the globe, not only in retail, but as Andrew mentioned earlier, in services and in content. And so we're really excited about the opportunity that partnership opens up for local growth and then also for international and new vertical growth as well.

Operator

Next, we'll go to Mark Zgutowicz at Cantor Fitzgerald -- I apologize, with Benchmark.

Mark John Zgutowicz, *The Benchmark Company, LLC, Research Division*

Maybe just a macro question, if I could. A lot of good fundamental questions have already been asked. Curious on the tariff front, kind of a fluid situation right now. I'm curious if you've



anticipated any downstream impacts or have heard anything from any of your customers in terms of any disruption there.

Amanda Whalen, *Chief Financial Officer*

Thanks for the question. We are monitoring the geopolitical landscape as everyone is these days. But as of now, we don't expect the tariffs would impact us directly. As you spoke about downstream implications, some of our customers may be impacted. But if they are, we're confident that they're going to continue to use Klaviyo because what our platform does is we help them efficiently drive revenue and build lasting relationships with their consumers through all economic cycles.

Operator

We'll move next to Brett Knoblauch at Cantor Fitzgerald.

Brett Anthony Knoblauch, *Cantor Fitzgerald & Co., Research Division*

Maybe to start, as you look at maybe the SMS adoption or increased adoption throughout the year going from 16 to 18.2, is that about what you would have expected going into the year? Did you overachieve, meet, underachieved expectations with regarding to that?

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Yes. I can take this. Look, we'd always like to grow that faster. I think probably the -- we're very happy with the adoption rate we've seen. One thing that we want to reiterate is, I think that aggregate metric is useful. But going forward, we're going to be disclosing the attach rate for SMS with our SMB customers and above. And that was 26% in Q4. And we feel that, that SMB is up rather than the segment that we call entrepreneurs as sort of the small-/medium-sized businesses, it's actually more indicative of our success.

What we found is that for a lot of business when they're just getting started, SMS isn't relevant right away or not for all of those businesses. So we want every business to connect with consumers over the channels that are relevant for that -- those consumers who are interested in that business wants to provide. What we found for a lot of the smallest businesses, as they're getting going, there's so much going on that until their SMS becomes entirely automated, it actually makes sense to just focus on the core channel, which typically ends up being e-mail.

So we're happy with that. I think that percentage will continue to grow. We've done a lot of work. I mentioned some of the work we've done on SMS to expand internationally coverage. We're also doing a lot of work on the SMS product side, very proud of our team for all of the product features we released around SMS this year. And we've actually got a lot more coming even in the next few months to make our SMS product really best-in-class.

And the last thing I'll say is, I think SMS as a channel is going to get more interesting over the next 12, 24 months as SMS gets upgraded to a new standard called RCS that actually allows for a lot richer type of experiences being delivered through text message through mobile messaging. And we're very excited about some of the work that we're doing to allow our customers to use that new technology and get in front of this. And we think that's going to have a positive impact on customer engagement, which should additionally help drive more adoption.

Amanda Whalen, *Chief Financial Officer*



And just building a little bit on what AB said, one of the reasons that we're so upbeat about SMS is that we see the benefit it drives for our customers. So when an e-mail customer adds SMS, not only do they get the additional KAV, that Klaviyo Attributed Value and revenue from SMS, but they also see a direct uplift in their e-mail-specific KAV. So it shows that these 2 channels are better together. And in fact, Klaviyo customers who added SMS to their marketing strategy during Black Friday Cyber Monday this year experienced a 20% increase in their e-commerce revenue year-on-year.

And one of our favorite examples, a customer who came to us for SMS this past quarter is CorePower Yoga. They were a prior customer of ours, a nationwide yoga studio with over 200 locations. They're a great customer, and they expanded with us in SMS because they are facing challenges with as many of our customers experienced a broken tech stack. They were batching and blasting anyone who signed up for their marketing, which led to a high number of unsubscribes. And so we are now partnering together. And with Klaviyo, they're going to be able to leverage detailed customer data to make smarter spending decisions, which will reduce unsubscribes and help enhance their brand growth.

Operator

We'll go next to Michael Berg at Wells Fargo.

Michael H. Berg, *Wells Fargo Securities, LLC, Research Division*

I'll ask a quick one here for Amanda. Just double-clicking on the pricing mechanism changes, have you worked through most of the installed base already by giving this monthly contracts and you announced it about a month or so ago? And just from a functional standpoint, how do you think about how that works from a how the customer finds out if they're in compliance versus not? And maybe just squeeze one more in there, longer term, philosophically, how do you think about pricing here given the competitive end market, but obviously a highly value-added product?

Amanda Whalen, *Chief Financial Officer*

Sure. I'll start with the how does it wind its way through our customer base. So we announced this to our customer base a month ago to give everyone a heads-up that this change was coming. And then the pricing change and all of these changes went into effect yesterday. And so customers who are on monthly billing cycles, it will go into effect for each of them at the point where their monthly billing cycle renews. So that will happen over the course of the next month.

As part of the announcement a month ago, we did let customers know here's where your profiles are today, here's the plan that you're on and how those 2 compare and what the implication for you personally would be based on the appropriate pricing tier for you to be on as well as the appreciation discount that we are giving, which limits any pricing change for an individual customer to no more than 25%.

And then importantly, as AB said, part of what we're doing through this is also educating and working with our customers on what are the profiles who they want to keep in their database? Who are those engaged customers? How do they keep them appropriately engaged? And then if customers are becoming unengaged, what's the right way to manage their profile list? And we've put in place tools to make it easy for our customers to manage their profile list on an ongoing basis.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*



And let me just add on the philosophy side. Look, we very much believe in building best-in-class premium products, but having a pricing model that's very approachable for our customers. So as we iterate on pricing is always with that in mind. We want to make our products easy to adopt, easy to use more of. And we try to align our pricing axis to whatever that value metric is for the specific products. So for both e-mail and SMS, we're -- I think we're making some very positive changes for our customers here better in response to a lot of the feedback that we've had from them over the last couple of months and even the last year or 2.

Operator

We'll take our final question today from Nick Altmann at Scotiabank.

Nicholas William Altmann, *Scotiabank Global Banking and Markets, Research Division*

AB, you mentioned you held your first in-person Partner Advisory Council for strategizing around 2025. So I wanted to ask a follow-up there. But can you maybe just give us a sense as to how much of the business is being driven from the channel today, what the overarching message to partners is around 2025? And maybe just talk about the channel internationally and where that sort of fits into those expansion plans.

Andrew Bialecki, *Co-Founder, CEO & Chairperson*

Yes. Sure. Look, our partners are what have made Klaviyo the success it is today. We have a couple of different types. On the technology side, we mentioned a bunch of software and technology platform that Klaviyo integrates with and partners with both on the product side and on the go-to-market side. We also have a vibrant ecosystem of developers that are building applications on top of the Klaviyo data platform to make it more useful to our customers.

Aside -- next to our technology partners, we also have a lot of service partners, both marketing agencies and now as we move up into the mid-market enterprise, increasingly, we're expanding our relationships with system integrators and SIs. And all of these different types of -- we think about -- they really surround our customers to help make them successful and help amplify the value of our products.

So as we -- we've always had this approach of product-led and partner-led. So as we mentioned, we're growing internationally. A big part of our motion is as we get product market fit, we're also immediately look to the local partners both on the technology side and on

the service side who know our customers can help tell us whether we're doing a good job, help introduce us and drive demand. And so we're very excited about that.

We've made a lot of changes to our partner program in the last year to further incentivize and work better with our partner ecosystem. And this year, I'm very excited for both to expand the number of agency and SI releases we have as well as really double down on the developer community that's starting to build around Klaviyo. So I think that's going to help accelerate growth internationally. But frankly, in the U.S., it's just going to help all aspects of our business.

Operator

And this concludes today's conference call. Thank you for your participation. You may now disconnect.