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PRESENTATION

Operator

Welcome to the Braze fiscal second-quarter 2025 earnings conference call. My name is Leila and I'll be your operator for today's call. (Operator Instructions)

I'll now turn the call over to Christopher Ferris, Head of Braze Investor Relations.

Christopher Ferris - *Braze Inc - Head - Investor Relations*

Thank you, operator. Good afternoon and thank you for joining us today to review Braze's results for the fiscal second quarter 2025. I'm joined by our Co-Founder and Chief Executive Officer, Bill Magnuson; and our Chief Financial Officer, Isabelle Winkles.

We announced our results in our press release issued after the market closed today. Please refer to the Investor Relations section of our website at investors.braze.com for more information and a supplemental presentation related to today's earnings announcement.

During this call, we will make statements related to our business that are forward-looking under federal securities laws and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding our financial outlook for the third quarter ended October 31, 2024, and the fiscal year ended January 31, 2025, the anticipated development, performance and benefits of our products and features, the potential impact and duration of current macroeconomic trends, our anticipated customer behaviors, including vendor consolidation or replacement trends and their impact on Braze, our potential market opportunity and our ability to effectively execute on such opportunity, the expected effects of our social impact initiatives and our long-term financial target goals.

These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations and reflect our views only as of today. We assume no obligation to update any such forward-looking statements. For a discussion of the material risks and uncertainties that could affect our actual results, please refer to the risks identified in today's press release and our SEC filings both available on the Investor Relations section of our website.

I'd also like to remind you that today's call will include certain non-GAAP financial measures used by management to evaluate our ongoing operations and to aid investors in further understanding the company's fiscal second quarter 2025 performance in addition to the impact these items have on the financial results.

Please refer to the reconciliations of our non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with US GAAP included in our earnings release under the Investor Relations section of our website. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with US GAAP.

And now I'd like to turn the call over to Bill.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Chris, and good afternoon, everyone. We were very pleased with our second quarter results, which again demonstrated the high ROI and long-term value of the Braze customer engagement platform, along with strong execution from our teams around the world. We were encouraged by the new business one in the quarter, the progress made in our product investments and the continued development of our AI initiatives.

We generated $145.5 million of revenue, up 26% year-over-year, while driving continued efficiency across our business. Non-GAAP gross margin was 70.9%, a rise of 90 basis points compared to the previous year, and we demonstrated strong operating leverage, realizing our first-ever quarter of non-GAAP operating income profitability and non-GAAP net income profitability.

We take pride in achieving these milestones and look forward to continuing to grow our business efficiently in the coming quarters and years, generating more meaningful non-GAAP operating income and free cash flow for shareholders while also thoughtfully reinvesting in our business.

We've highlighted the legacy vendor replacement cycle and point solution consolidation trends over the last few quarters, and we're excited to see those trends continue as marketers realize that the antiquated technology and silo architectures of the legacy marketing clouds and e-mail service providers are unsuited for modern engagement use cases.

Customer growth in the quarter was solid, with our customer count reaching 2,163, an increase of 61 during the quarter and 205 year-over-year. New business wins and upsells included Asiana Airlines, Bell Media, Gumtree, Loan Depot, N26, Papa John's Pizza, Strawberry Hotels, Supercell, TF1, Zalando and many others. Q2 also saw the diversification of our customer base on full display as we want new customers around the world and across a range of diverse industries, including a European hotel chain, an American professional sports franchise, a European advertising marketplace, a QSR chain in APAC, a major American media conglomerate, a European TV network and international food and beverage company, a German Neo Bank and an American home design company, among many others.

In the coming years, we believe the legacy replacement cycle and vendor consolidation trends will drive accrete share gains for Braze as brands put even greater emphasis on customer engagement strategies and seek to capitalize on new AI-driven advancements.

As marketers become increasingly skated and ambitious with their customer engagement efforts, we believe Braze will benefit. And through the growth of our customer community and the successful execution of our product road map and global expansion strategy, Braze can position itself as a global category leader in customer engagement, delivering increased relevance and personalization to consumers at scale.

Upsell was also strong this quarter, as existing customers continue to grow with Braze, adopting more channels, deploying more use cases, increasing their messaging volumes and adding new business units and geographies to their Braze deployments. This quarter, we also secured our second and third eight figure customers.

First, with the long-tenured global quick service restaurant group and next with a large conglomerate, the strong presence in the gaming space. The realization of continued expansion opportunities with long-term customers such as these is a strong testament to Braze's pace of product innovation, our performance, stability and reliability at scale and our leadership in the customer engagement category.

Enterprise remains a strength for Braze. With our $500,000 plus ARR customers growing to 222, up 28% year-over-year, estimate to the strong return on investment available to those brands who invest in first-party data and use sophisticated customer engagement strategies and advanced AI to enhance and enrich their customer relationships at scale.

With the macroeconomic environment continues to present challenges, we are effectively navigating them and staying focused on executing against our long-term product, operational and financial goals. We believe difficult environments present valuable opportunities to create long-term differentiation and separation from our competition, and we are committed to capitalizing on this period to cement our position as a global leader in customer trend. As such, we are investing in our brand and our business by strengthening our global teams, enhancing our channel offerings, improving system performance, smoothing the on-ramp into braces for new customers and elevating our AI offerings.

In July, Braze celebrated two important milestones as we observed our 13-year anniversary and introduced the Braze data platform to the world. With more than a decade of experience and focus on customer engagement, we deeply understand the importance of high-performance data activation and flexible governance in order to deliver sophisticated relevance and revenue optimization, especially as the challenge of modern customer engagement has spread across an increasingly ubiquitous set of customer touch points.

The Braze data platform is a comprehensive set of data capabilities and partner integrations designed to streamline data unification, activation and distribution. Built with flexibility, interoperability and modularity in mind, the Braze data platform helps brands easily integrate their data regardless of their preferred technologies and workflows.

With the Braze data platform, brands can simplify the process of collecting and bringing first-party data together from any source. Recent additions to the Braze data platform included an extension to cloud data ingestion, which allows customers to generate audience segments directly from data warehouse partners like Amazon Redshift, Databricks and Snowflake, giving brands the flexibility to use zero-copy technology whenever their use case is demanded.

And by utilizing existing capabilities such as data transformations, catalogs, our SDKs and our APIs, brands can strike the right balance of security, performance and architectural considerations while efficiently organizing their data and empowering marketers to bring their creative ideas to life more quickly while also reducing their dependence on expensive technical teams.

We also launched new data management capabilities and our highly flexible catalogs offering, the customers take advantage of recently integrated AI features while maintaining rapid time to value at a low total cost of ownership. Combining these data features with Braze AI and our robust partner community, helps customers test and deliver more personalized experiences to more customers in more places and do it with confidence.

We're very excited to continue building the future of the Braze data platform in collaboration with the broader data ecosystem, including our Braze data platform launch partners, Amperity, Amplitude, Census, High-touch and Particle, Rottersac, Simon Data, Telium, Treasure Data and Twilio Segment.

As we work toward our goal of becoming the category leader in customer engagement, we will continue investing to expand the size and diversity of our customer community, aiming to establish Braves as both the premier skill set for customer engagement practitioners and as the reference architecture for the modern customer engagement technology stack.

Just yesterday, we announced two new initiatives to accelerate our customer community growth, while also making it easier for teams of all sizes to experience Braze's firsthand. The first is Braze for start-ups, which supports the next generation of VC-backed start-ups to power sustainable customer center growth from day one by providing them with exclusive access to the Braze's platform, services and community. The goal of the program is to win the business of the next generation of digital leaders driving long-term new business opportunities. Startups can grow in confidence in is the only customer engagement platform they'll ever need to buy.

Second, we announced a free trial program. Allowing brands to test the platform, including our dashboard and APIs for 14 days without charge. This will provide marketers with the opportunity to dive into special guided walk-throughs, test prebuilt campaigns and journey templates and preview Braze AI features seeing firsthand how they can drive meaningful engagement and business results. We believe this will help in more business across customer types and expand more quickly into new business units within existing customers.

Later this month, we'll be unveiling even more product innovation at our annual flagship customer conference, Forge, which takes place from September 23 to the 25 in Las Vegas. You'll hear more about our approach to investing in the Braze data platform, data unification, activation and distribution as well as enhancements to orchestration and AI capabilities designed to make experimentation and content generation easier and more effective at scale.

You'll also hear more about how we're increasing the depth and breadth of our channels and helping brands stay ahead of evolving consumer needs. We hope that many of you will join us at Forge to learn about these updates live, and also experienced exciting customer engagement innovations through live workshops and hear from some of our outstanding customers and partners.

We'll also be hosting an investor event on Monday, September 23 before Forge, during which we will share more of our product and market in as well as more details about our financial outlook.

Finally, I want to update you on our social initiatives. In July, we published our third annual ESG report, which summarizes our progress and initiatives related to environmental, social and governance topics and demonstrates our commitment to the accountability and transparency of our approach to social impact. We look forward to growing these ports through continued employee advocacy and participation over time.

I encourage all stakeholders to visit our newly launched ESG website for additional information on our efforts. I'll wrap my remarks by reiterating our commitment to driving long-term growth, efficiency and profitability in our business.

Thank you for your interest and support in Braze. And now I'll turn the call over to Isabelle.

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Thank you, Bill, and thank you, everyone, for joining us today. As Bill stated, we reported a solid second quarter with revenue increasing 26% year-over-year to $145.5 million, driven by a combination of existing customer contract expansions, renewals and new business. Subscription revenue remains the primary component of our total top line, contributing 96% of our second quarter revenue, while the remaining 4% represents a combination of recurring professional services and onetime configuration and onboarding fees.

Total customer count increased 10% year-over-year to 2,163 customers as of July 31, up 205 from the same period last year and up 61 from the prior quarter. Our total number of large numbers, which we define as those spending at least $500,000 annually, grew 28% year-over-year to 222. And as of July 31, contributed 61% to our total ARR. This compares to a 57% contribution as of the same quarter last year.

Measured across all customers, dollar-based net retention was 114%, while dollar-based net retention for our large customers was 117%. Expansion was again broadly distributed across industries and geographic regions. Revenue outside the US contributed 5% to our total revenue in the second quarter compared to 43% in the prior year quarter and 44% in the first quarter of fiscal 2025.

In the second quarter, our total remaining performance obligation was $690 million, up 32% year-over-year and up 5% sequentially. Current RPO was $438 million, up 24% year-over-year and up 4% sequentially. The year-over-year increases were driven by contract renewals and upsells and the signing of new customer contracts. Overall, our dollar-weighted contract length remains at just over two years.

Non-GAAP gross profit in the quarter was $103 million, representing a non-GAAP gross margin of 70.9%. This compares to a non-GAAP gross profit of $81 million and non-GAAP gross margin of 70% in the second quarter of last year. The year-over-year margin improvement was primarily driven by the continued cost optimization of our technology stack with additional benefits from personnel efficiencies.

Non-GAAP sales and marketing expenses were $58 million or 40% of revenue, compared to $52 million or 45% of revenue in the prior year quarter. While the dollar increase reflects our year-over-year investment in headcount to support our ongoing global growth and expansion, the improved efficiency reflects our disciplined investment approach to resource deployment across our go-to-market organization.

Non-GAAP R&D expense was $21 million or 15% of revenue, compared to $19 million or 16% of revenue in the prior year quarter. The dollar increase was primarily driven by increased headcount costs to support the expansion of our existing offerings as well as to develop new products and features to drive growth.

Non-GAAP G&A expense was $19 million or 13% of revenue, compared to $17 million or 15% of revenue in the prior year quarter. While the dollar increase was driven investments to support our overall company growth, the improved efficiency continues to reflect our disciplined approach to investment and resource deployment as we continue to scale.

Non-GAAP operating income was $4.2 million or 3% of revenue compared to a non-GAAP operating loss of $7.6 million or 7% of revenue in the prior year quarter. Non-GAAP net income attributable to Braze shareholders in the quarter was $9.1 million or $0.09 per share compared to a loss of $3.9 million or a loss of $0.04 per share in the prior year quarter.

Now turning to the balance sheet and cash flow statement. We ended the quarter with $504 million in cash, cash equivalents, restricted cash and marketable securities. Cash provided by operations during the quarter was $11.6 million compared to cash used of $17.5 million in the prior year quarter. This marks our third straight quarter of positive operating cash flow.

Including the impact of capitalized costs, free cash flow in the second quarter was approximately $7.2 million compared to negative free cash flow of $18.7 million in the prior year quarter. And as we have noted in the past, we expect our free cash flow to continue to fluctuate from quarter-to-quarter given the timing of customer and vendor payments.

Now turning to guidance. For the third quarter of fiscal 2025, we expect revenue to be in the range of $147.5 million to $148.5 million, which represents a year-over-year growth rate of approximately 19% at the midpoint. Third quarter non-GAAP operating loss is expected to be in the range of $3.5 million to $4.5 million. At the midpoint, this implies an operating margin of approximately negative 2.5%.

Third quarter operating income will be affected by the cost of Forge, our annual customer conference, as well as several global customer events scheduled during the quarter. Taken together, these events will impact the third quarter operating expenses by an estimated $5 million to $6 million.

In addition, the back half of the year will be impacted by our midyear compensation and promotion cycle, for which comp increases were effective August 1. Third quarter non-GAAP net loss is expected to be $0.5 million to $1.5 million, and third quarter non-GAAP net loss per share in the range of zero cents to a loss of $0.01 per share based on approximately 102 million weighted average basic shares outstanding during the period.

For the full fiscal year 2025, we expect total revenue to be in the range of $582.5 million to $585.5 million, which represents a year-over-year growth rate of approximately 24% at the midpoint. Fiscal year 2025 non-GAAP operating loss is expected to be in the range of $7.5 million to $8.5 million.

At the midpoint, this implies a non-GAAP operating margin of approximately negative 1%, a roughly 750 basis point improvement versus fiscal year 2024. Non-GAAP net income for the same period is expected to be in the range of $6.5 million to $7.5 million. Fiscal year 2025 non-GAAP net income per share is expected to be $0.06 to $0.07 per share based on a full year weighted average diluted share count of approximately 108 million shares.

I'll end by reiterating Braze's commitment to providing world-class customer engagement solutions while effectively managing cost to its share profitability targets.

And with that, we'll now open the call for questions. Operator, please begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ryan MacWilliams, Barclays.

Ryan MacWilliams - *Barclays - Analyst*

Thanks for the taking the question. Bill, with Apple supporting RCS in iOS 18, have you seen any customer interest yet on RCS? And how could you see this as a channel for Braze since RCS seems more complex than SMS and it has the ability to be more personalized for individual users? Thanks.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yes. So first, we're excited for RCS and actively preparing full support, and we're excited to share more about that at Forge in just a few weeks. Some aspects of RCS are going to be strictly better than SMS sending even for text-only messages. And so I think that's something that will really help marketers work through some of the additional complexity is that they can just lift and shift prior SMS strategies. And then they're actually get access to authentication and branding as a sender, they're going to get richer analytics.

And then they'll also then be able to progressively leg into these new content types. And while there's got work to do on the Braze side both for ops because like SMS and carrier ops because of the carrier complexity, and on the go-to-market side, as we ingest what surely is going to be a dynamic pricing environment in the early innings of RCS's global rollout.

Most of the R&D needs to support things like composition, previewing, testing and reporting on RCS have already been done in some fashion, due to our support of WhatsApp, line or other Braze zone and operated channels like content cards and in product messaging. And similarly, for any customers that are already adopting richer content formats, even if they're just in push notifications, but obviously also with WhatsApp in line. The shift over to RCS a lot

And from an R&D perspective, it obviously increases the leverage that we get on that investment. And as a good reminder, the compounding benefits that Braze grants of channel support provides us as the consumer message sending landscape continues to grow more complex over time.

We're also well prepared for it with the launch of our more flexible credit model. So if you remember, until the end of Q1, we actually used to require that customers made commitments on a country-by-country basis for SMS and MMS sending separately.

Now any customer who's actually bought the credits from Braze starting at the end of Q1 and then into Q2 where we saw a great uptake on that, both for renewals as well as new business. We'll be able to use those same credits just with conversion ratios as RCS support becomes available.

So that's definitely something to look forward to as Braze continues to launch new channels into the future, including RCS, is that the go-to-market complexity and the ability for our existing customer base to adopt them quickly to be able to as any sort of stage that involves new contracting.

Ryan MacWilliams - *Barclays - Analyst*

Excellent. Appreciate the color. Then for Isabelle, how should we think about member retention for the rest of this year? Do you feel like we're at the right level at this point? And was there any impact to this metric based on the acquisition from a year ago? Thanks a lot.

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. So thanks for the question. So I've been asked this question over the last couple of quarters of sort of when can we see the bottom here. And I think we're not quite yet at the bottom. And as you think about how we're guiding. Think about the guide as embedding some element of kind of continued pressure on this metric.

So I don't think we are quite stabilizing here yet. We lagged out of sort of another quarter historically that had some stronger numbers. And so that's part of it, is continuing to leg out of some of these stronger historical quarters. Not a huge impact here from the acquisition, small percentage points, from the impact of having lapped the acquisition, but really more just lagging out of historically stronger quarters.

Ryan MacWilliams - *Barclays - Analyst*

Make sense. Appreciate the color, thanks.

Operator

Pinjalim Bora, JPMorgan.

Pinjalim Bora - *JPMorgan Chase & Co - Analyst*

Thanks for taking the question. Bill, maybe you touched on the legacy Marketing Cloud replacement cycle. Maybe talk about how often is AI or your road map around AI has been cited by customers in these deals as kind of a point of differentiation? And is the intensity there in terms of the displacement cycle? Are you seeing that increase recently or are people holding on more to their incumbent solution given the challenging macro?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So I think we're seeing both attitudes depending on the posture of the company that we're working with or selling to. In some places, there are especially driven by things like vendor consolidation as well as just a bit of breathing room from slower growth rates that companies are experiencing right now.

They're taking as an opportunity to go and shore up their prior foundations, embark transformation journeys, in other places because the teams are static or there's not new projects launching and such, they're sticking with the status quo. And so I think you're seeing both of them at play.

From an AI perspective, I think it continues to be a fully important part of every deal cycle. When you're going through a legacy replacement, you obviously want to make sure that the vendor that moving on to is going to be future-proofed as well, especially if you're a more traditional enterprise, it maybe only makes a change in their technology stack like this every 5 or 10 years.

And so there's a bit of a double-edged sword there in the sense that there's obviously still a lot of noise in the AI space, and it's an important part of every deal cycle, but customers are still in prospects still have a hard time getting full conviction behind it.

There's a lot of great product marketing around AI from the legacy clouds and being able to see what's real from what's noise. Still very difficult for a lot of prospects and we take that on to try to take a very pragmatic approach and a very transparent approach about what's possible, what's not, where our advantages are we work through that with customers.

And so I think it's a complicated landscape. But I think that when we look at the long-term legacy replacement cycle, what we're seeing is there's no meaningful new innovation or investment really going into any of these legacy Marketing Cloud offerings that compete specifically with Braze. Their eye seems to be off the ball on this from a marketing and customer engagement space, and they don't have the right foundations to be able to compete with us over the longer term.

We still see them leveraging things like their ecosystem relationships through places like the GSIs or with aggressive pricing tactics. But we feel really good about our position against legacy marketing cloud especially as -- we continue to look at the advantages that we have in AI adoption and AI development because of our stronger foundations around real-time capability, around our comprehensive data ingestion, governance and management that we have through the Braze data platform and also the comprehensive touch points that we have across all of our channel breadth in order to, and take the outcomes of those decisions that are being made with AI and bring them to life for the customer.

Pinjalim Bora - *JPMorgan Chase & Co - Analyst*

Understood. Thank you very much. One question for Isabelle. And maybe you as well, Bill. Maybe talk about the macro environment tactically versus business last quarter. When I look at the numbers, it seems like NRR took a bigger step down this quarter sequentially. Some of the bookings numbers RPO-based, CRPO-based seems like slowed a bit. So wanted to hear if the macro environment, do you feel like it took a step down?

Or are there some other dynamics maybe Isabelle can talk about on the deferred revenue side, which kind of sequentially seems like it's more of a drag down this quarter than previous Q2?

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. Yeah, absolutely. So on the RPO, CRPO, the thing to keep in mind is we -- there having lapped the acquisition that is having an impact. So having lapped the North Star acquisition, you can see that in the RPO and CRPO. In addition, from a dollar-based net retention perspective, as I mentioned in the previous question that I answered, legged out of some sort of higher numbers that you're seeing from historical quarters that are rolling off.

And then from a billings perspective and in particular, the deferred revenue that you've specifically asked about, this metric is impacted by the contracting terms that we have with our customers, which is why it's a noisy metric, and we don't typically point people to it.

And so one quarter ago, we had a bit of a dip in the proportion of our net new business that was on annual upfront terms, which means the invoices that went out during Q2 are arguably smaller, not because the contract is necessarily smaller, but because it's more divided up into smaller increments. And so you're seeing that play out in the change in deferred revenue on the balance sheet.

Pinjalim Bora - *JPMorgan Chase & Co - Analyst*

Understood. Thank you.

Operator

Gabriela Borges, Goldman Sachs.

Gabriela Borges - *Goldman Sachs - Analyst*

Hi, good afternoon. Thank you. Maybe I'll ask the normalized growth question, which is let's assume we're in a similar macro environment. How do you think about some of the company-specific initiatives that you're introducing the start-ups in free trial? And then the sales and marketing productivity improvements you're making. If you think about everything in our gate, how do you think about the potential for the business to reaccelerate over, let's say, the next 12 to 18 months? Thank you.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah, thanks. Great question, and we're thinking a lot about the businesses, acquisition efficiency across the different sectors in what you're seeing in releases like the Braze for startups as well as broadly the building that we've been doing under the product-led growth umbrella, is really looking at the business over the long term and saying that we think we have a strong right to win in the commercial segments.

If you recall actually if you go back 12 months ago, we did do a reduction in the cyber sales team and a lot of that was focused on the SMB and the commercial side. We've since started to grow that capacity again. It's been a little bit more focused in the enterprise where we feel good about the acquisition efficiency that we've achieved there. And we obviously continue to lean into that, and that's why you're seeing the great operating income and net income results this quarter and the trajectory that we've been on there.

But when we look at the SMB and the commercial side, we think there's also a strong right to win in that market. And additionally achieving higher just sheer volume of customers as well as higher levels mind share and the two goals that I referenced in the prepared remarks about making Braze the premier skill set for customer engagement, and being the reference architecture from a technical perspective.

Those are both goals that we think will lead to category dominance for Braze. It leads to a lot of amazing positive feedback loops in terms our ecosystem, being able to support our future growth in a more efficient way, leading to more brand preference and skill set preference within the customer engagement practitioner community.

And so what you're seeing within those investments that we're making right now is that we're taking advantage of this time period, even though the demand environment is challenged even though the macro is in a challenging place, there's a lot of scrutiny on spend to really improve the efficiency in our foundations, and set the right stage to build those long-term competitive moats around our ecosystem, around the skill set and around our product advantage as well, obviously, as we continue to invest heavily in R&D.

And so we think that the ingredients are there across both places where we have Frontier investment. And you're seeing that frontier investment as we continue to push into both like literal frontiers with new geographies as well as penetrate more deeply various verticals, in particular, in the enterprise is we're focusing in places like travel and hospitality and financial services and looking at retail and commerce.

And so what you're seeing from Braze right now is a strong balancing of looking at the places that we have strength right now in order to drive efficient acquisition of new business, that allows us to simultaneously achieve our goals of growth and profitability while also making foundational investments to improve our future acquisition efficiency that will allow for us to achieve category dominance in customer engagement.

We know that now is not the right time to be drastically expanding an SMB sales team as an example, but being able to build out improved efficiency in that space through investments in product-led growth motions, the free trials have been super important.

And so you should expect to continue to see us balancing both the investment in foundational efficiency, the creation of new opportunities for us in the future through investment in various frontiers, whether those are geo product or vertical related as well as continuing to deepen our focus in the areas of existing strength that we have.

Gabriela Borges - *Goldman Sachs - Analyst*

Yeah. That makes a lot of sense. And Bill, maybe on the question up Frontiers, and specifically on product frontiers, remind us a little bit on how you're thinking about the next milestones on the product road map. Not just in your core market of marketing, but also maybe more broader than that. How do you think about your journey to being even more dominant across adjacent categories over the long run as well? Thank you.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So first, I'd say in the short term, I'm just going to give another preview that we're really looking forward to Forge in a few weeks to share a lot more about the product road map. At a high level, I'm really excited about our continued leadership in the customer engagement category. The compounding gains that we're achieving as we've simultaneously expanded and enhanced our channel offerings, while also increasing the sophistication and usability, higher up the stack.

And when we combine that with the Braves data platform and augment it with our partner ecosystem, I think this is continuing to deliver more capability to be more broadly integrated into our customers' technical ecosystem to be trusted for a more workloads.

Today, obviously, those continue to be focused within customer engagement. But customer engagement also very broad. And even in these customers that -- we've grown a big contract over the last couple of quarters we've talked about. Even within those customers, we still don't own every customer touch point.

And so I think there's a lot of room for us to continue to run when it comes to customer engagement. I think it's also important to remember that the definition of customer engagement as a category has grown and expanded each year of our history. It obviously didn't exist when we first started, and has continued to take on more and more responsibility, more aspects of the product journey, more aspects of -- obviously, there's the marketing journey looking at things like performance marketing.

And then just having data and optimization and the delivery of the experience and the brand promise stores and so continuing to build on the performance the stability and the reliability of Braze's underlying engine is exactly what it will take for us to have that right to expand into other aspects of enterprise workloads.

And we're really excited about what that means for our longer-term future potential. But we also have amazing line of sight to incredible growth, I think, still within customer engagement. We're very focused on establishing a dominant position.

Gabriela Borges - *Goldman Sachs - Analyst*

Excellent, thanks Will.

Operator

Arjun Bhatia, William Blair.

Arjun Bhatia - *William Blair - Analyst*

Yeah, can you hear me, hello?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah.

Arjun Bhatia - *William Blair - Analyst*

Okay, perfect. Hi. Thank you. Bill, for you. Can you touch on the Braze data platform and the role you think it might end up playing in just delivering additional value to customers? And how you might end up monetizing that and for customers that have existing cloud data warehouses? Is this meant to be a replacement? Is it complementary to that? Like what role does it frame the overarching data stack for your customers?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yes. So we launched the Braze data platform to serve as a platform for continued development of both our in-house data capabilities and the partner ecosystem that enhances them. And so the goal is to ensure that all data relevant to the targeting orchestration, personalization or measurement of customer messaging can get to Braze quickly, completely and with a low total customer ownership.

And so those three things quickly, completely low total cost of ownership have driven our decision-making around what we build in-house, where we go to the partner ecosystem, and then how we kind of interact with the architectures of our customers, which includes like data warehouses, CDPs, reverse ETL providers, product analytics companies, et cetera. And you can see examples of partners across all those categories within the data platform launch.

Now in order to achieve those goals across a wide range of customers requires a data platform that's simultaneously flexible and powerful while also being comprehensive and well integrated. And so I think that when you look at the data platform today, it's not only comprehensive. It's been growing very quickly. It's been adapting really well to changes to the privacy and the security and the governance ecosystem.

It's also been growing and developing as we continue to see things like the rise of the data science teams and the closer integrations that they have with customer engagement teams, moving far beyond just an analyst looking at basic reporting, which you would have expected, something like a Marketing Cloud to deliver years ago and really moving into teams where there's full on data science teams that are working with advanced statistical and machine learning models in order to enhance outcomes and continue to drive better personalization or better audience building or what have you.

But that ultimately, when we look at Braze's position in that value stack, we know that value is generated the interactions with the customers. And that's where we're going to continue to focus our pricing as we share in the value that we create for the brands that we work with when they improve the value of their customer relationships.

And so I think that we broadly see the data platform is in service to the customer engagement outcomes that we are driving for our customers. And there are aspects of it that obviously get charged for, things like our product catalogs and the advanced AI features that we're building on top of that through things like our predictive churn models, as well as item recommendations that build on top of the product catalogs.

But a really big goal of the data platform is to make sure that you can get data into Braze quickly completely and with the low total cost of ownership. And when that happens, customers adopt new use cases in Braze more quickly, they expanded new channels more comprehensively, and that continues to drive increases in their lifetime contract value and increases their stickiness with Braze.

Arjun Bhatia - *William Blair - Analyst*

Okay. Helpful. And then when I look at your results, I think it seems like the enterprise is doing very well. We're getting more and more eight figure customers, your primary care customers are going up and there seem to be maybe some headwinds out in the business.

When you just think about it internally from a resource allocation perspective, as it relates particularly the go-to-market, are you making any changes to maybe lean in one place over another to maybe few on the fire on the FI side? Like how are you thinking about that internally to maximize your growth potential in this macro environment?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So I just spoke about this about that balance of pre-existing acquisition efficiency with investing into new frontiers that will give us new opportunities and strong depth and new opportunities as we move into future years, as well as investments that will foundationally, we think, improve the acquisition and see in other places.

Now acquisition efficiency has historically been stronger in our enterprise business. And while we've obviously been investing to make further improvements in that sector, and you see that in our improvements in profitability, we also think that there's a function changes and efficiency that are available to us on the lower end, and we're excited about that for our future. We've actually had a year-long focus area in product around product-led growth efforts.

And you've heard me reference things like usability improvements and customer education, you obviously saw the launch of the trial. And while we're still far from something like a self-serve credit card sign-up offering, we are making incremental steps that are compatible with our existing go-to-market engine we think are going to provide structural improvements to our efficiency there.

I also wanted to just call out that while the kind of free trial environment has an obvious benefit in the SMB side, that it's also important to remember the existence of something like a sandbox or a trial environment are increasingly table stakes for evaluations with technical stakeholders.

And so if you go to that second goal I mentioned before for category dominance of being the reference architecture from a technical perspective for customer engagement, as well as understanding that those technical stakeholders are almost always involved in enterprise buying cycles, and that has an important interplay with the current demand environment.

You've heard us mention many times that deal scrutiny is higher in this macro, there's more stakeholders. And frequently, what that means is that they're technical stakeholders. Similarly, in order to win something where you have a vendor consolidation play or a legacy replacement cycle that also involves those technical stakeholders. And they're simply not interested in sticking to the legacy enterprise sales model that disallowed kicking the tires before a contract was signed.

And so Braze's product historically has not made that available. And in many ways, the legacy marketing clouds do not either. But we know that Braze's product has the technical excellence to satisfy those stakeholders. But we historically haven't had a great way to prove that to them and now we do.

So we're excited about what that means to our ability to differentiate in sales cycles against copycat competitors who've created shallow copies of us. And that ability to go deeper than the demo and slide decks, we think, is a really great advantage for us. Because we've always lived by the adage of doing what you say you're going to do.

And we think that the speed, the reliability and the performance that Braze delivers is -- we do what it says on the tin, if you will, pick your analogy, I think that we're just reliable, and we have got a lot of integrity in what we sell and how we position it. And this is something that will only help us when we both look at it from a multiple stakeholder buying cycle in the enterprise as well as that volume play on the lower end and achieving structural improvement and acquisition efficiency within the commercial segments.

Arjun Bhatia - *William Blair - Analyst*

All right. That’s it. Thank you.

Operator

DJ Hynes, Canaccord.

DJ Hynes - *Canaccord Genuity - Analyst*

Hey, guys. Thanks for taking the question. A couple of follow-ups, actually, Bill, to some of the answers you just gave As I think about kind of the positioning for Braze, like in many ways, I think of you guys is acting a lot like a CDP for customers, right? Just kind of obviates the need for a third-party vendor to be in there. But then I hear the list of like the launch partners for the data platform, and there are a number of CDP guys in there.

Can you just help me anything like when a customer might need a CDP? When they might not like what dictates that difference? I mean, I would think that CDP what might be one of those point solutions that you guys could consolidate. So just help me think through that?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So I think that it's important to realize how when thinking through that, how diversified Braze's customer base is and that applies across verticals, across geos, across levels of position, but also across the technical ecosystems that we integrate into. And if you take a step back from the use case of a CDP. In many cases, what it's trying to do is clean up the complexity of a data ecosystem.

And there's a lot of places where that complexity can come from. Maybe people are trying to sync together a lot of third-party data sources that are coming in with less than deterministic identity. They're trying to bring in audience and cookie data, maybe they've got holistic-based matching or other of data science and machine learning groups that are doing probabilistic targeting and things like that. And those are all kind of data signals that can, in many ways, pollute a first-party data set, and it's helpful to have a separate to be able to keep those things managed and separated.

Similarly, if you look at within the retail space or within QSR, a lot of times, there might be kind of legacy deployments of old POS systems that are not going to be upgraded for a very long time. Maybe there's old part of a data warehousing ecosystem or a lot of heterogeneity across technology choices being made across the multinational, those are all places where complexity can come into a data ecosystem.

And a CDP, whether it's one off the shelf and one of the ones that we've highlighted as partners or it's something that a company would call a CDP and build on their own on top of AWS services or on top of data warehouses like Snowflake or Databricks or what have you, at the end of the day, what it's trying to do is kind of manage and clean up complexity.

And so there's a lot that the Braves data platform can do to help manage that complexity within the customer engagement sphere. But there's also a lot of other operations and kind of responsibilities that exist across products and customers support and across other areas of performance marketing and such, where the Braze data platform doesn't aim to kind of fully integrate in all those places as well as just the simple reality that a lot of these -- a lot of the data ecosystem has a high level of stickiness.

And in many cases, it's better to be able to adapt and connect to those so that we can get data into Braze completely reliably, low total cost of ownership. I went back to those goals. We want to make sure that those things are accomplished, so that can deliver messages to customers and so that they can be well personalized.

And so that they can be highly responsive to new user actions or changes in the context around them, changes in inventory or what have you, we want to be able to just get that data into Braze, as it's generated, as it changes so that we can act on those insights.

And so what you're seeing in the Braze data platform is really us being in control, vertically integrating a lot of aspects of this, but still also understanding that there's a lot of sources of complexity out there. At the end of the day, what we want to do is deliver great customer experiences and be able to really own this customer engagement space. And that data platform is a very important aspect of that, but so is the partner ecosystem.

DJ Hynes - *Canaccord Genuity - Analyst*

Yeah. Okay. That makes a ton of sense. That's a helpful explanation. And then just going back to the free trial, like can you give me some color on the depth of platform capabilities that a trial customer might be realized in 14 days? I mean it's a narrow window. When you talk about technical decision makers, just trying to think about the potential effectiveness of that program?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So we've already been seeing this actually because we had -- before the launch of the free trial what we refer to as a guided sandbox experience, which has allowed for technical teams to go in and build implementations against our APIs, ensure that our SDKs are going to work within their product, be able to just send test messages and test things end to end. I think this is a competitive space where there's a lot of noise, there's a lot of copycats out there. It's easy to copy product marketing. And there's just not a lot of trust for technical teams buying marketing software.

And so what this is, is we're really just saying, hey, we stand behind that this product does what we say it's going to do. And that there's strong integrity and reliability and high performance available. It's pretty easy for people to say that something is real time. And when we look at the definition of real time across the environment, it varies from milliseconds to 24 hours. In terms of what people say, and a lot of times a lot of our competition have a totally different latency depending on what part of the product you're using as an example.

And I think that all buyers have just had a hard time getting conviction, especially when you have a premium price product like Braze does. And other people can easily kind of clone our messaging that just letting the product stand on its own has really benefited in particular, those technical stakeholders are evaluating the product.

And it's not that you need to run a long-running campaign over the course of 60 days and prove to yourself that SMS marketing works or something like that as an example. I think that customers, in general, understand the value of these channels, it's really about through the noise that's in the competitive marketplace and us being able to really just show it to them instead of needing to do these things that are higher lips with our solutions consultants or with things like guided sandboxes and what have you, we're really just letting the product shine on its own.

DJ Hynes - *Canaccord Genuity - Analyst*

Yeah. Very clear. Okay, great. Thanks, guys.

Operator

(Operator Instructions)

Tyler Radke, Citi.

Ashley Kim - *Citigroup - Analyst*

Hi, thank you. This is Ashley Kim on for Tyler. Maybe a question for Isabelle. On the gross margins, apart from the personnel and tech stack efficiencies, would there be anything call-out? And do you see that level of improvement being sustainable through the balance of the year?

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. Thanks for the question. So if we rewind the clock to Q1, we had mentioned that we were experiencing a bit of a low for the year in Q1 related primarily to some concentration of premium message volume that was happening during that quarter. So what I would say is the achievement that we had in Q2 in terms of I think we definitely overachieved even on sort of our own internal expectations, and we're very, very pleased with how quickly we were able to capitalize on some of the efficiencies that we put in. So what I mentioned in Q1 is look for us to kind of increase quarter-over-quarter.

I think that the achievement that we have in Q2 here has surpassed that. And so while we believe that everything that we've put into place is sustainable, I would not look for that number to continue to increase certainly at the same clip that we experienced sequentially from Q1 to Q2. So I definitely think about that in the context of the models that you put into place. But we're very pleased with the results that we had vis-a-vis the margin improvement between Q1 and Q2.

Ashley Kim - *Citigroup - Analyst*

All right, thank you. I'll go back in the queue. Thank you.

Operator

Scott Berg, Needham & Company.

Scott Berg - *Needham & Company - Analyst*

Hi, everyone. Nice quarter here. Bill, you mentioned very briefly, I think it was to Ryan's question about your new credit strategy within premium messaging platforms. It's only been a couple of months since you made that change. I guess what are you seeing across buyer behavior in trying to buy and hopefully expand channel usage into different countries so far with the new strategy?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. I would say that other than some of the noise that you would expect just in the early innings of it as we had some deal cycles where people were already projecting their country volumes, then we showed up with a new credit model to be able to sell them, and the training that we had to do for our go-to-market organization and such that those -- that little bit of noise, notwithstanding that it's just been great to well received by customers.

I think it's a win-win-win change for us, and I've been really happy that we've been able to deploy more quickly. Even more excited about the fact that as we launch new channels moving into the future, and I mentioned RCS, WhatsApp is obviously going to be changing. We talked a lot about that on the last quarter's call, the bringing line into general availability.

We've got active centers doing that sending line messages in Japan and beta right now, and so we're excited for that to launch. All these things just get easier launch. They're easier to sell as we move into the flexible credits model.

We also think that it's going to be beneficial from an unused entitlements perspective, we've spoken the last few quarters about how one of the sources turn that we've seen is that a lot of the contracts, particularly those that were signed during the zero interest rate environment included entitlements that were purchased with very optimistic or like kind of aggressive purchasing of entitlements that people have been rightsizing.

And with the flexible credit model, we think that customers are going to be able to purchase more closely to what they're going to buy because they don't need to make those predictions with margins of error on every individual channel.

But also over the course of a contract length, we will even if there -- this change or they ended up purchasing more, they didn't grow as much as they expected. We will be progressively adding more and more ways for them to use those credits over the course of the contract length. And so we think it's just going to be much healthier position as we continue to move into the future.

Scott Berg - *Needham & Company - Analyst*

Very helpful. Thank you for taking the question.

Operator

Brent Bracelin, Piper Sandler.

Brent Bracelin - *Piper Sandler - Analyst*

Thank you. Good afternoon. Isabelle, I don't want to overlook the first quarter profitability here 6 months ahead of our model, fantastic to see. My question really is around new customer activity. It sounds robust even in a tough macro.

How is the vendor consolidation appetite impacted the size of land? I know historically, you'd land may be smaller with a large brand and then gain share over time. Is that starting to change now? Are you seeing maybe larger land opportunities show up in pipeline just given the legacy replacement narrative you're talking about? Thanks.

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. I mean it continues to be a bit of a mix, and our lands are -- we're definitely incentivizing our sales force just to land. And so there's no incentive to kind of make the land as big as possible. We certainly don't want to try to force product down to our buyers. We want to make sure that we're allowing the buyers to kind of grow naturally and have them put together product sets that make sense for them over the long term. But I wouldn't necessarily say that there's been any directional trend that is sustained or meaningful to kind of change that.

Brent Bracelin - *Piper Sandler - Analyst*

Sounds good. Great to see profitability. Thanks.

Operator

Derrick Wood, TD Cowen.

Derrick Wood - *TD Cowen - Analyst*

Great. Thanks. I guess, either one of you guys, just -- could you touch on the relative strength across verticals, which ones are healthier, which ones maybe seeing more pressure or just any notable change in demand across any particular vertical? And then it seems like international growth has been a bit stronger than US. Could you kind of compare and contrast domestic versus international and why international may be on a bit of a stronger trend?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So a few things there. First a more expansionary investments into new geos globally, and so we would expect to see that picking up. And you've seen it kind of ticking up a percentage point at a time here or there, and a lot of that just reflects us moving into markets that we weren't in before and being able to kind of rapidly grow those at faster rates than the more core business.

You also do see that in reflection in some other places, like for instance, you may have seen in Salesforce's results, they actually saw faster growth across EMEA than they have in the United States faster growth in Japan.

We're seeing some similar geographic trends there. There are not big differences from place to place. I think broadly, the macro is under pressure everywhere. But we are seeing some pockets of strength, and we're investing accordingly in terms of both our event strategy as well as our go-to-market resource deployment there.

Within the Braze's customer base, things like consumables and CPG have been on the rise for us. I mentioned that a little bit before. We've also seen good increased penetration into financial services and travel and hospitality, as we continue to move through the adoption cycle there. We've obviously had great progress from a financial services perspective for many years with a lot of the startups in the FinTech world, but starting to break into more traditional banks and insurance companies and credit unions and other parts of that mental services universe has been great for us.

I think that's less a reflection of the relative strengths of those verticals and really more of how we've been prioritizing our own go-to-market, and you should continue to expect to see a very diversified expansion in Braze's customer base.

Going back to that acquisition efficiency point that I spoke about earlier, we are being very choiceful about where we are investing our efforts in places where we're developing new frontiers. It's obviously more expensive to get those first reference customers in a given new vertical or a given new geo, than it is to leverage those reference customers to go deeper, penetrate more deeply into a vertical where we already have the proof points and the case studies.

And so what we've been doing is just making sure that we've got a good healthy balance of that so that we're taking advantage of those preexisting areas of strength in order to grow efficiently. We'll also reinvesting into those frontiers, whether those are geo or vertical or use case oriented.

Derrick Wood - *TD Cowen - Analyst*

Understood. Thank you.

Operator

Our next question comes from Nick Altmann with Scotiabank.

Nick Altmann - *Scotiabank - Analyst*

Awesome. Thanks, guys. Just to build last question on international. Is there any meaningful difference in the land versus the expand side international versus domestic? And then when you look at sort of the international customers, how does sort of their buying propensity compared to the US market in terms of the willingness to replace legacy systems? Thanks.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah, a few things there. First, I think that the land and expand is more correlated with the customer size. You're much more likely to land at a use case in the enterprise just because of the complexity of those organizations and a lot of the kind of the incumbent advantages and just simple things like corporate politics and what have you, whereas in a smaller company, it's more available to come in and just kind of fully transform an organization all at once.

When we look at the individual markets, there are some changes in behavior that result from just the adoption of different channels in those places. It tends to be the case of the developing world, as an example, is less reliant on e-mail, and they use things like WhatsApp and other sorts of text-based messaging a lot more reliably. When you look at markets like the US and Europe, obviously, those are places that have very mature e-mail markets and a big part of that is because consumers adopt and use e-mail, and it's just a very effective channel.

From an enterprise perspective as well, we definitely see things where I think the west -- it tends to kind of start in the West Coast of the United States and move east when you look at things like willingness to adopt new technology, and that includes kind of hopping over the Atlantic. And some of the buyer trends that we saw in Silicon Valley tech companies several years ago, we're now starting to see in more conservative industries and more kind of conservative parts of the world.

And we do a great job, I think, of transferring the learnings across verticals and across time horizons depending on where different parts of the economy are in terms of their transformation or to a there was a hint out customer engagement. It also sometimes literally includes like humans and their skill sets and their ways of working and their ways of structuring team, moving from startups to enterprises from some geos to another from one vertical that tends to be more innovative to moving into places that are more in a from competition and move more slowly.

And so get a lot of benefit out of seeing simultaneously a lot of different parts of the economy across those splits and they behave in different ways. But we try to make that a strength because we've seen those movies play out before. And if we can effectively bring those learnings into new areas we're able to leverage our global footprint as a massive competitive strength in order to be more efficient in those places.

Nick Altmann - *Scotiabank - Analyst*

Great. Thank you.

Operator

Brian Peterson, Raymond James.

Brian Peterson - *Raymond James - Analyst*

Sorry, guys. I got caught by that view button again. So Bill, great to see the expansion of the eight figure customers. I'm curious if there's any commonality in what drove that in terms of volume, channels, new geos, any perspective there would be helpful. Thanks, guys.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Across the three of them actually, different stories in each place. One of them, primarily driven by geo-expansion, and another one driven by expansion into new parts of the business and the third really driven by more channel expansion and the growth of existing kind of existing new projects. And so I think even within that, without going into a tremendous amount of detail you see a great example of the diversification of races opportunities.

And within all three of them, there's actually still a lot of room to run. So I think we're excited about them, both as a testament to the comprehensiveness of Braze's offering and the value that we deliver as well as the opportunity that still lies ahead of us.

Brian Peterson - *Raymond James - Analyst*

Great to hear. Thanks, Bill

Operator

Matt VanVliet, BTIG.

Matt VanVliet - *BTIG - Analyst*

Great. Thanks for taking the question. I guess, around the free trials, any impact that you're expecting to have on overall deal sizes for new customers? And then maybe more importantly, on the expansionary capabilities within existing customers. Do you think this speeds things up or just maybe gets into other areas and use cases that maybe were a little hesitant to spend budget when they can get their hands on the product immediately and then make a decision?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So I think we're not expecting it to have any sort of material change in average sale prices because as I mentioned before, things like our sandbox environment have actually been more utilized in enterprise deal cycles than they were in commercial deal cycles. And over the longer term, maybe that puts some downward pressure on it as we see more volume kind of come into the commercial side. But we're not anticipating or expecting any sort of big change there.

And then I think within other organizations, yes, we've seen some great proof points of this so far as we've moved product-led growth motions into some other parts of the product. So as we've allowed things like -- we have a freemium model on our product catalogs offering. We have a trial option for content cards that allows for customers to -- existing customers to test that out.

And so we've already seen some great examples where being able to trial new parts of the product allows for a customer to be -- allows for us to be able to expand into an existing customer more efficiently and more quickly. And so we're certainly expecting a lot of those same things to be at play with the overall free trial.

And then also, I think there's a lot of ancillary benefits to the work that gets done around this. The usability, the kind of self-serve onboarding, there's a bunch of requirements to be able to build a great free trial environment. That are also going to just make our integration and onboarding more efficient. We think it's going to improve customer satisfaction. It's going to speed up those integrations, so that customers get up and running more quickly, more easily. We think that will also benefit our partner ecosystem as well.

Remember that a lot of our integrations and onboardings are delivered by the partner ecosystem. And when those agencies are going to be able to focus more on new campaign ideas and building out new content rather than the kind of early ramp of the onboarding and of the product that a customer will be able to do in a more self-serve manner. That just helps all boats rise from that perspective.

Matt VanVliet - *BTIG - Analyst*

Thank you.

Operator

Michael Berg, Wells Fargo.

Michael Berg - *Wells Fargo - Analyst*

Hey, thanks for taking my question. A quick one for either one of you guys here. How do you expand more data capabilities and with your platform being entrenched in data? We refer to notes of you winning some deals within enterprises data budgets or data initiatives. Is that something you're seeing a trend? Or are those more one-offs? Or how can we think about potentially winning deals via data budgets?

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So when I talk about the total cost of ownership of the kind of data footprint that is an important part of it. And while these things are maybe bifurcated in certain organizations. When you look at that end goal of -- I need to talk to my customers, I want to deliver great customer engagement to them. That includes purchasing in order to get data into Braze, as well as being able to actually deliver those messages. And so I think that those budgets are usually pretty co-located. But you're also seeing in that anecdote and in that evidence, you're also seeing the importance of the technical stakeholders and a lot of these buying decisions.

Not only are they involved in them as stakeholders, sometimes the budgets are coming out of product groups are coming out of engineering group. And that's why we've been talking about the free trials a lot, but there's a lot that we've done in order make sure that we are kind of speaking to and delivering to those technical buyers, whether they're data engineering or product over the last several years, we think it's a really big advantage that Braze will have in the long term. And it's one that's frankly very hard to catch up on.

As everyone is aware, we've got very noise on competitive landscape. And I think that Braze stands alone in terms of the stability and the performance at scale that we can deliver, the comprehensiveness of the APIs, the different abstraction layers that we expose up and down our stack to technical groups to be able to build with Braze instead of kind of starting on a versus decision that a lot of companies grapple with.

We really have leaned into that build with Braze's message over the years, and it's been highly effective in the organizations where technical stakeholders are engaged. And so I would take that as a really positive sign. When you're seeing that, that engineering stakeholders are opening their wallets in order to buy Braze that happened with bidding technology, software very often. And the fact that you're seeing that with Braze is just a strong testament to what we can deliver those organizations.

Michael Berg - *Wells Fargo - Analyst*

Helpful. Thank you.

Operator

Yun Kim, Loop Capital.

Yun Kim - *Loop Capital Markets - Analyst*

Okay. Any noticeable change in the channel mix that you're seeing out there or you're expecting in the second half as the international channels or international business continues to grow faster? And also, is the macro driving the channel mix back towards more lower-priced channels like e-mail? Thanks.

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. I mean, obviously, WhatsApp is a channel that we introduced in the last couple of quarters. So we're seeing healthy uptake there of that channel. I think overall, across the channel mix, we're not seeing sort of meaningful shift among them. You'll continue to see more volumes across the marginally lower cost channels with then kind of personally lower volumes as the cost structure increases. I don't anticipate that, that would change over time. But as we introduce new channels, of course, you will see those start to mix into the totals.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

Yeah. And I do think to your question about marginal cost of different channels. We have seen across the board a lot of customers just rationalizing what channels they're using and what places. I think it's a little bit less of a concern around marketing use cases because the marginal cost of e-mail or SMS compared to performance advertising, as an example. They're both a lot lower than performance marketing.

And I think where you're seeing optimizations like that happen more often on more utility volumes like a two-factor of code, definitely, a brand would rather send that to you over e-mail or in their app rather than delivering it over SMS, which costs them a lot more. But remember that we don't have a lot of those utility volumes in our customer base already because we really tried to stay upmarket and the more premium use cases where we're really delivering value to the enhancement of the customer relationship.

Yun Kim - *Loop Capital Markets - Analyst*

Okay, great. Thank you so much.

Operator

Jeffichy (Operator Instructions).

Taylor McGinnis - *UBS - Analyst*

Perfect, thank you. This is Taylor McGinnis. Isabelle the NRR number you report is on a trailing 12-month basis, it's tough to get insight into what might have happened in the quarter. So can you provide more color in terms of the in-period NRR that you might have seen? And if there were any changes in gross churn? And then as that relates to the renewal base in the quarter, were there any larger optimizations or slower net upsells to flag that might have weighed on that? Thanks.

Isabelle Winkles - *Braze Inc - Chief Financial Officer*

Yeah. So as I mentioned in some of the questions that I answered earlier, some of what you're seeing is the roll off. You correctly identified the trailing 12-month basis. So some of it is the roll-off of sort of that prior quarter we lost in the four-quarter trailing.

I would say that from a gross churn perspective, there was not anything unexpected in Q2. Churn does continue to remain at a level that is more elevated than we would like from a sustained basis. So I would say the continued compounding of that is mixing into the subsequent quarters and then we're obviously losing some of the historically stronger quarters.

So I think that's what you're seeing in Q2. Nothing abnormal versus what we were expecting or had embedded in our own guide that happened in Q2.

Taylor McGinnis - *UBS - Analyst*

Great. Thank you.

Operator

There are no more questions in the queue. So I will now pass the call back to Bill for closing remarks.

William Magnuson - *Braze Inc - Chairman of the Board, Chief Executive Officer*

All right. Yeah. Thank you to everyone for joining the call today. We appreciate your continued interest and support, and we're looking forward to seeing you at a conference or on the road soon or at our Forge Investor Day in just a few weeks.
