

Twitter Inc.(TWTR)

\$38.41 (As of 02/06/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

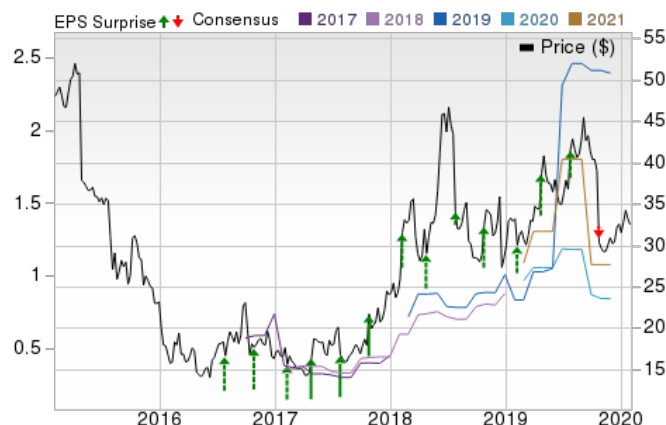
Growth: D

Momentum: B

Summary

Twitter's initiatives to add new features and focus on tackling abuse issues effectively are helping it expand the monetized user base in the fourth quarter. The company launched author-moderated replies globally during the reported quarter. Moreover, Twitter's improved ability to proactively identify and remove abusive content from the platform aided user engagement. The company has also unveiled new policies to ban political ads, which are expected to boost trustworthiness of the platform. Moreover, strong demand for video ad products like Video Website Cards and in-stream pre-roll continued to drive the top line. Shares have outperformed the industry in a year's time. However, the lack of revenue diversification is a major concern. Additionally, increasing competition for ad dollars from Facebook and Google is a headwind.

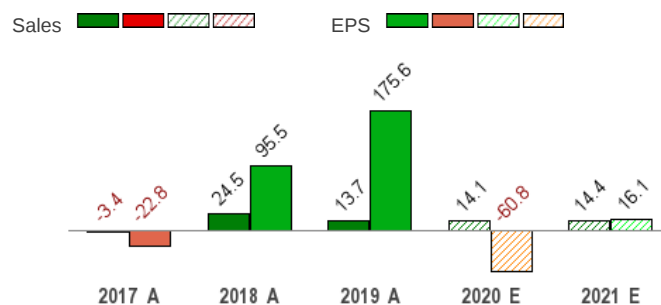
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.86 - \$28.63
20 Day Average Volume (sh)	16,486,632
Market Cap	\$29.8 B
YTD Price Change	19.8%
Beta	0.61
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 34% (87 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.7%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	26.9%
Expected Report Date	04/28/2020
Earnings ESP	-6.1%
P/E TTM	45.2
P/E F1	41.3
PEG F1	1.8
P/S TTM	8.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	955 E	975 E	1,050 E	1,250 E	4,515 E
2020	850 E	930 E	963 E	1,150 E	3,947 E
2019	787 A	841 A	824 A	1,007 A	3,459 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.23 E	\$0.24 E	\$0.29 E	\$0.42 E	\$1.08 E
2020	\$0.19 E	\$0.20 E	\$0.21 E	\$0.34 E	\$0.93 E
2019	\$0.21 A	\$0.22 A	\$0.17 A	\$0.25 A	\$2.37 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

Headquartered in San Francisco, CA, Twitter is a global platform that connects a user to a network of people, news, ideas, opinions and information. A user can tweet his/her take on any subject in real time, which can be retweeted by others. Tweets are limited to 280 characters.

Twitter uses an asymmetric follow model, which means that the relationships between users may not be reciprocal. A user can be followed by other users who may know him/her by name but not personally, such as celebrities and politicians. Twitter enables users to search and discover content in which they are interested including tweets that may have attachments like links, media, photos and other applications.

Twitter reported revenues of \$3.46 billion in 2019.

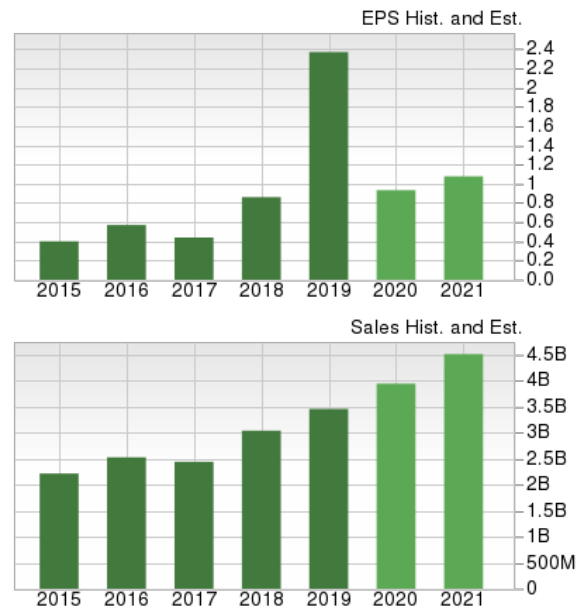
The company measures number of users through the monetizable daily active users (mDAU) metric. mDAU is defined as "Twitter users who logged in or were otherwise authenticated and accessed Twitter on any given day through Twitter.com or Twitter applications that are able to show ads. Average mDAU for a period represents the number of mDAU on each day of such period divided by the number of days for such period."

Average mDAUs were 152 million in fourth-quarter 2019.

Twitter reports revenues in two segments — Advertising Services (86.5% of 2019 revenues) and Data Licensing (13.5%). The company earned most of its revenues from advertisers using its Promoted Products (promoted tweets, accounts and trends). Advertisers can also run short video ads, such as In-Stream video ads, either before or along premium video content. Such content include live premium videos from publishing partners or clips from a variety of interest categories such as news, sports and entertainment.

Twitter's expanding database helps marketers to target audiences on the basis of interest and gender, geography, keyword, television conversation and device. The company also provides mobile advertising exchange services through its MoPub exchange. The mobile ad exchange enables buyers and sellers to purchase and sell advertising inventory, and matches buyers and sellers.

Twitter faces significant competition from the likes of Facebook, Google, Microsoft and Sina Weibo.



Reasons To Buy:

- ▲ Twitter's unique open platform is attractive due to its openness, real-time content, conversational format and distribution ability. The platform's greatest strength is its simplicity. Increased character limits are helping users express more in a tweet. The company also does not impose restrictions on whom a user can follow, which greatly enhances the breadth and depth of available content and allows users to discover the content they care about most. Further, users can be followed by thousands of other users without requiring a reciprocal relationship. Moreover, users can now directly broadcast live video on its app through just a tweet. Additionally, Twitter has revamped the app, including the latest timeline switch, to improve user experience.
- ▲ Twitter is focusing on "live" and is expanding into sports live streaming. The live streaming deals with the likes of Turner Sports, WarnerMedia, FOX Sports and NBA expand live-streaming sports offerings for users. The company is also expected to benefit from an expanding live-streaming content portfolio, owing to partnerships with the likes of Viacom, Live Nation, the NFL, ESPN, Bleacher Report, MLS, Activision Blizzard, The Wall Street Journal and TIME. Live streaming has also resulted in an increase in tweet impressions. Moreover, growing adoption of video ad products like Video Website Cards and in-stream pre-roll will continue to drive Twitter's top-line growth.
- ▲ Twitter continues to ramp up its effort to safeguard its platform and to boost trustworthiness. The company continues to remove accounts and fake pages to make the platform more secure and improve quality of conversation. Moreover, Twitter has been focusing on reducing abuse on its platform. The company has launched author-moderated replies in the United States, Canada and Japan, which give authors the ability to "hide" replies in their conversation thread. The company also improved its ability to proactively identify and remove abusive content on the platform. A safe platform will definitely boost user engagement over the long run.
- ▲ Acquisitions have played a key role in Twitter's growth trajectory. The company has acquired over 50 companies that not only expanded its product portfolio and infrastructure but also improved its software developer talent base. In addition, it is looking to expand in emerging markets.
- ▲ Twitter's improved liquidity makes the stock attractive to investors. As of Dec 31, 2019 cash, cash equivalents and short-term investments in marketable securities totaled \$6.64 billion compared with \$5.82 billion as of Sep 30, 2019. The improved liquidity will help Twitter easily meet its working capital requirements..

Twitter has been benefiting from the platform's simplicity, increased character limits, live streaming deals and focus on fostering healthy conversation on the platform.

Reasons To Sell:

- ▼ Lack of revenue diversification is a major concern for Twitter. Brand marketing is one of the primary contributors to the company's revenues. We have always maintained that Twitter's ability to attract advertising revenues amid significant competition from the likes of Facebook and Alphabet will be a key factor determining its growth, considering the fact that investment in product development needs to continue. With troubles emanating from this area, we are more than ever cautious about what lies ahead for this social media company. Also, sluggish user growth can hurt the platform's ability to attract ad dollars.
- ▼ As Twitter's revenue growth is highly dependent on the size of its user base and user engagement levels, increasing competition from the likes of Facebook, Snapchat, Weibo, and Pinterest pose a threat. In fact, Facebook has witnessed an increase in its user base driven by strong growth across mobile and international users. Additionally, the company has been focused on revamping its other platforms like Messenger, Instagram and WhatsApp which are proving a headwind for Twitter. Moreover, though Snapchat and Weibo are much smaller than Facebook, they pose significant competition for Twitter especially in attracting young demography.
- ▼ Since Twitter is a social media platform, user growth is of primary importance. In order to boost user growth, the company is investing more in the development of new and innovative customer-centric products, which can keep margins under pressure in the near term. Twitter's continuing investments on product development, international expansion, security measures and marketing & sales is expected to negatively impact profitability in the near term. Management expects operating expenses to grow 20% in 2019.
- ▼ Twitter faced criticism for increasing abuse on its platform. The company has been removing accounts that are abusive, spammy, fake or malicious. Although this initiative is expected to foster healthy conversation over the long term, it can hurt user base growth at least in the near term. Moreover, post the implementation of General Data Protection Regulation (GDPR) in May 2018, the company is facing significant regulation in Europe. Along with other social media companies, Twitter is also facing increased scrutiny over its data handling practices and privacy issues. The increasing demand for social media regulation is expected to hurt the company's ability to attract users, which doesn't bode well for its growth prospects.

Sluggish user growth amid increasing competition, lack of revenue diversification, higher expenses related to product development and increasing social media regulations are major concerns.

Last Earnings Report

Twitter Q4 Earnings Miss, User Growth Aids Top Line

Twitter reported fourth-quarter 2019 non-GAAP earnings of 25 cents per share that missed the Zacks Consensus Estimate by 10.7% and decreased 19.4% year over year.

Revenues grew 10.8% year over year to \$1 billion, which beat the Zacks Consensus Estimate by 0.4%.

User Details

Average monetizable daily active users (mDAU) were 152 million in the reported quarter compared with 126 million in the year-ago quarter and 145 million in the previous quarter.

Average U.S. mDAU was 31 million compared with 27 million in the year-ago quarter and 30 million in the previous quarter. Moreover, average international mDAU was 121 million compared with 99 million in the year-ago quarter and 115 million in the previous quarter.

User growth was primarily driven by product improvements. The company's success in providing relevant content to people's Home timelines and notifications contributed to mDAU growth. Notably, mDAU growth was broad-based, with double-digit increases in all of Twitter's top 10 markets.

Topics, launched in the fourth quarter, also drove growth. Twitter stated that as of Dec 31, 2019, there were more than 1,700 Topics that people could follow in six languages, with new Topics being added every week.

Lists, which makes it easier for people to create and share great timelines about the things that matter to them, improved engagement. In the fourth quarter, the company allowed users to share Lists on both iOS and Android.

Twitter has been focusing on reducing abuse on its platform. The company has improved its ability to proactively identify and remove abusive content from the platform, which resulted in a 27% decline in bystander reports on Tweets that violate the company's terms of service in the reported quarter.

Moreover, the company launched author-moderated replies globally in the reported quarter.

Revenue Details

U.S. revenues (59% of revenues) increased 17% year over year to \$591.1 million. International revenues (41% of revenues) were up 3% to \$416.3 million.

Japan remained the company's second-largest market, contributing \$139 million or 14% of total revenues in the reported quarter.

Advertising revenues rose 12% to \$884.5 million. U.S. advertising revenues totaled \$509.2 million, up 20% year over year. International ad revenues grew 3% to \$375.4 million.

Ad engagements increased 29% year over year, primarily benefiting from increased ad impressions driven by audience growth and improved clickthrough rates (CTR) across most ad formats.

Video ad formats continued to show strength, particularly the company's Video Website Card and In-Stream Video Ads.

However, cost per engagement (CPE) decreased 13% year over year due to unfavorable mix shift from MAP to video ad formats (which have lower CPEs) and price decreases across most ad formats.

Data licensing and other revenues increased 5% from the year-ago quarter to \$122.8 million.

Twitter's total costs and expenses were \$749.1 million, up 21.2% on a year-over-year basis.

Adjusted EBITDA declined 6.5% year over year to \$370.7 million.

GAAP operating income plunged 26.1% from the year-ago quarter to \$152.9 million.

Balance Sheet

As of Dec 31, 2019, Twitter had \$6.64 billion in cash, cash equivalents and marketable securities. This includes net proceeds of \$692 million in new long-term debt, which the company issued in December 2019 for general corporate purposes.

In the fourth quarter, adjusted free cash flow was \$127 million compared with \$263 million in the year-ago quarter.

Guidance

For first-quarter 2020, total revenues are expected between \$825 million and \$885 million. Moreover, operating income is expected between breakeven and \$30 million.

For 2020, capital expenditures are expected between \$775 million and \$825 million, weighted toward the second half of the year.

Twitter expects full-year headcount growth of more than 20%, especially in engineering, product, design and research. Management anticipates

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	1.00%
EPS Surprise	-10.71%
Quarterly EPS	0.25
Annual EPS (TTM)	0.85

total costs and expenses to grow 20% in 2020.

The company's investments also include building a new data center in 2020 to add capacity to support audience and revenue growth.

Recent News

On Nov 11, Twitter launched Topics. The company stated that Topic suggestions will appear in a user's timeline and in search based on what the user tend to look for and already follow on Twitter.

Valuation

Twitter shares are down 8.7% in the past six-month period but up 28% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 1.6% and 19.7 in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 13.3% and 30.1%, respectively.

The S&P 500 index is up 14.3% in the past six-month period and 22.5% in the past year.

The stock is currently trading at 7.42X forward 12-month sales, which compares to 6.51X for the Zacks sub-industry, 3.74X for the Zacks sector and 3.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.85X and as low as 3X, with a 5-year median of 6.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$40 price target reflects 7.72X forward 12-month sales.

The table below shows summary valuation data for TWTR

Valuation Multiples - TWTR					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.42	6.51	3.74	3.55
	5-Year High	12.85	15.61	3.74	3.55
	5-Year Low	3	3.06	2.3	2.54
	5-Year Median	6.42	5.31	3.02	3
P/B TTM	Current	3.54	7.16	5.66	4.56
	5-Year High	9.38	8.23	5.66	4.56
	5-Year Low	2.19	2.29	3.13	2.85
	5-Year Median	3.51	5.2	4.23	3.62
EV/Sales TTM	Current	7.08	7.28	4.44	3.36
	5-Year High	20.7	11.57	4.44	3.36
	5-Year Low	2.61	3.04	2.57	2.12
	5-Year Median	5.86	6.03	3.48	2.79

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 255)



Top Peers

Microsoft Corporation (MSFT)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Baidu, Inc. (BIDU)	Neutral
Facebook, Inc. (FB)	Neutral
j2 Global, Inc. (JCOM)	Neutral
Netflix, Inc. (NFLX)	Neutral
Workday, Inc. (WDAY)	Neutral
F5 Networks, Inc. (FFIV)	Underperform

Industry Comparison Industry: Internet - Software				Industry Peers		
	TWTR Neutral	X Industry	S&P 500	BIDU Neutral	FB Neutral	MSFT Outperform
VGM Score	D	-	-	C	C	C
Market Cap	29.82 B	606.01 M	24.40 B	46.52 B	601.02 B	1,396.70 B
# of Analysts	11	5	13	3	16	14
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	1.11%
Value Score	D	-	-	C	C	D
Cash/Price	0.23	0.11	0.04	0.45	0.10	0.10
EV/EBITDA	24.94	-1.88	14.17	5.39	18.19	22.96
PEG Ratio	1.70	2.50	2.05	2.12	1.26	2.46
Price/Book (P/B)	3.43	5.28	3.31	1.98	5.95	12.69
Price/Cash Flow (P/CF)	13.94	34.84	13.63	9.12	24.82	28.90
P/E (F1)	39.87	52.28	19.08	15.37	22.72	32.56
Price/Sales (P/S)	8.62	4.23	2.67	3.04	8.50	10.40
Earnings Yield	2.42%	0.80%	5.24%	6.50%	4.40%	3.07%
Debt/Equity	0.36	0.10	0.71	0.35	0.09	0.64
Cash Flow (\$/share)	2.76	-0.02	6.89	14.60	8.49	6.35
Growth Score	D	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	NA%	16.72%	10.80%	6.67%	53.35%	17.68%
Proj. EPS Growth (F1/F0)	-60.64%	14.30%	7.23%	41.48%	44.32%	18.72%
Curr. Cash Flow Growth	123.58%	1.28%	9.51%	10.46%	-8.33%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	30.79%	14.22%	8.55%	18.79%	38.21%	11.99%
Current Ratio	9.15	1.56	1.20	2.59	4.40	2.80
Debt/Capital	26.38%	15.07%	42.90%	26.40%	8.61%	39.05%
Net Margin	42.37%	-14.82%	11.76%	-1.87%	26.15%	33.02%
Return on Equity	4.87%	-15.51%	16.98%	4.80%	19.97%	40.41%
Sales/Assets	0.29	0.66	0.54	0.35	0.58	0.48
Proj. Sales Growth (F1/F0)	14.11%	17.78%	4.15%	11.32%	21.12%	13.10%
Momentum Score	B	-	-	A	D	D
Daily Price Chg	15.03%	0.00%	-0.11%	1.84%	0.35%	2.07%
1 Week Price Chg	-2.14%	-1.69%	-2.60%	-4.95%	-7.36%	3.14%
4 Week Price Chg	15.62%	0.00%	1.51%	-5.47%	-3.41%	13.29%
12 Week Price Chg	32.95%	5.13%	5.63%	12.66%	9.16%	24.02%
52 Week Price Chg	24.71%	0.00%	17.01%	-22.39%	26.73%	74.44%
20 Day Average Volume	16,486,632	312,012	1,961,054	4,198,027	16,233,181	27,855,164
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.67%	-0.16%	0.92%
(F1) EPS Est 4 week change	26.85%	0.00%	-0.00%	5.58%	2.43%	5.38%
(F1) EPS Est 12 week change	18.01%	0.00%	-0.16%	32.03%	2.04%	5.49%
(Q1) EPS Est Mthly Chg	-1.67%	0.00%	0.00%	5.00%	1.81%	7.31%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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