

## Twitter Inc.(TWTR)

**\$34.19** (As of 01/16/20)

Price Target (6-12 Months): **\$36.00**

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

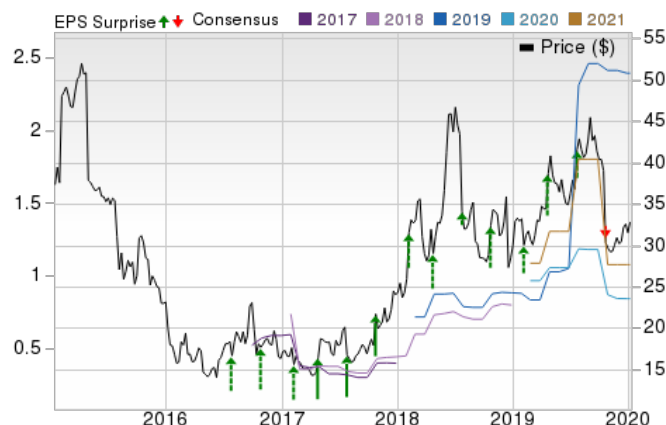
Growth: D

Momentum: A

## Summary

Twitter's initiatives to add new features and focus on tackling abuse issues effectively are helping it expand the monetized user base. Strong demand for video ad products like Video Website Cards and in-stream pre-roll is a positive. The company has launched author-moderated replies in the United States, Canada and Japan to reduce abuse on the platform. Twitter has also improved its ability to proactively identify and remove abusive content from the platform. The company has also unveiled new policies to ban political ads, which are expected to boost trustworthiness of the platform. However, Twitter's top line is expected to decline due to glitches in its ad platform and higher-than-expected seasonality. Shares have underperformed the industry in a year's time.

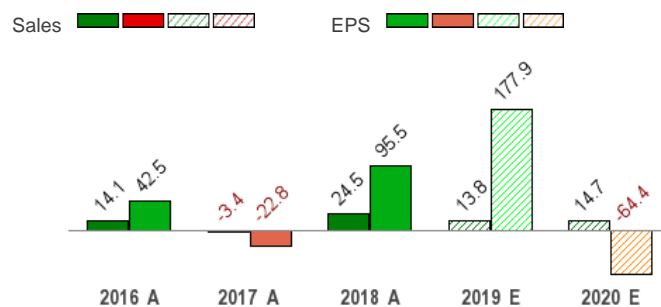
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$45.86 - \$28.63</b>
20 Day Average Volume (sh)	<b>11,060,654</b>
Market Cap	<b>\$26.5 B</b>
YTD Price Change	<b>6.7%</b>
Beta	<b>0.57</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<a href="#">Internet - Software</a>
Zacks Industry Rank	<b>Top 46% (116 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-15.0%</b>
Last Sales Surprise	<b>-6.0%</b>
EPS F1 Est- 4 week change	<b>2.0%</b>
Expected Report Date	<b>02/06/2020</b>
Earnings ESP	<b>0.0%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	876 E	928 E	960 E	1,145 E	3,969 E
2019	787 A	841 A	824 A	997 E	3,461 E
2018	665 A	711 A	758 A	909 A	3,042 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.19 E	\$0.20 E	\$0.21 E	\$0.33 E	\$0.85 E
2019	\$0.21 A	\$0.22 A	\$0.17 A	\$0.28 E	\$2.39 E
2018	\$0.16 A	\$0.17 A	\$0.21 A	\$0.31 A	\$0.86 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>37.6</b>
P/E F1	<b>40.2</b>
PEG F1	<b>1.7</b>
P/S TTM	<b>7.9</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## 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 \$3.04 billion in 2018, which jumped 24.6% from 2017.

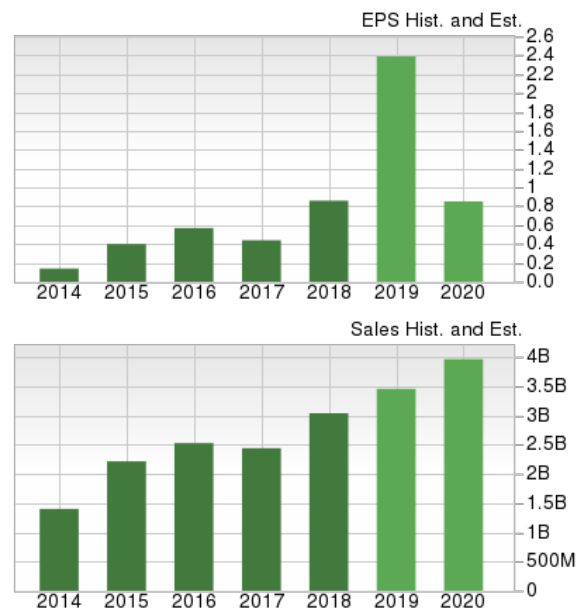
The company reports revenues in two segments: Advertising Services (86% of 2018 revenues) and Data Licensing (14%). The company earned most of its revenues from advertisers using its Promoted Products (promoted tweets, accounts and trends). Advertisers can also run short video ads, such as In-Stream video ads, either before or along premium video content. Such content includes 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.

The company is using monetizable Daily Active Users (mDAU) metric to measure its user base. 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 mDAU were 145 million at the end of third-quarter 2019. The company discontinued reporting Monthly Active Users (MAUs) from second-quarter 2019.

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



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## 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. Notably, more than 50% of the tweets removed for abusive content during the quarter were taken down without a bystander or first-person report. This was an improvement from 43% in the second quarter and 38% in the first quarter. 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 Sep 30, 2019 cash, cash equivalents and short-term investments in marketable securities totaled \$5.82 billion compared with \$6.69 billion as of Jun 30, 2019. Additionally, the company has a revolving unsecured credit facility available with a limit of up to \$500 million. Moreover, cash provided by operating activities increased to \$1.03 billion in the nine months ended Sep 30, 2019, compared with \$1 billion in the nine months ended Sep 30, 2018. 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.

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## 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 Q3 Earnings Miss, User Growth Aids Top Line

Twitter reported third-quarter 2019 non-GAAP earnings of 17 cents per share that missed the Zacks Consensus Estimate by three cents and down 19% year over year.

Revenues grew 9% year over year to \$823.7 million that lagged the Zacks Consensus Estimate of \$876 million.

Twitter stated that the top line was weaker than expectation due to product issues and higher-than-expected seasonality. Issues related to its legacy Mobile Application Promotion (MAP) product and problems with certain personalization and data settings affected revenues by more than 3%.

Moreover, July and August were significantly weak due to a relatively lighter slate of big events and launches. This negatively impacted advertising revenues. However, year-over-year advertising revenue bounced back to double-digit growth globally in September.

#### User Details

Average monetizable daily active users (mDAU) were 145 million in the reported quarter compared with 124 million in the year-ago quarter and 139 million in the previous quarter.

Average U.S. mDAU was 30 million compared with 26 million in the year-ago quarter and 29 million in the previous quarter. Moreover, average international mDAU was 115 million compared with 98 million in the year-ago quarter and 110 million in the previous quarter.

Twitter has been focusing on reducing abuse on its platform. During the quarter, the company launched author-moderated replies in the United States, Canada and Japan. Notably, author-moderated replies 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. Notably, more than 50% of the tweets removed for abusive content during the quarter was taken down without a bystander or first-person report. This was an improvement from 43% in the second quarter and 38% in the first quarter.

#### Revenue Details

U.S. revenues (57% of revenues) increased 10% year over year to \$465.4 million. International revenues (43% of revenues) were up 7% to \$358.3 million.

Japan remained the company's second-largest market, contributing \$129 million, or 16% of total revenues in the reported quarter.

Advertising revenues increased 8% to \$702.3 million. U.S. advertising revenues totaled \$384.5 million, up 11% year over year. International ad revenues grew 5% to \$317.7 million.

Ad engagements increased 23% 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 decreased 12% 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 12% from the year-ago quarter to \$121.5 million driven by solid performance of data enterprise solutions (DES).

Twitter's total costs and expenses were \$780 million, up 17% on a year-over-year basis.

Adjusted EBITDA decreased 11% to \$262.8 million. GAAP operating income dropped 51.9% from the year-ago quarter to \$44.1 million.

#### Guidance

For fourth-quarter 2019, total revenues are expected between \$940 million and \$1.01 billion. Moreover, operating income is expected between \$130 million and \$170 million.

For fiscal 2019, capital expenditures are expected to be at or near the low end of the company's previous guidance of \$550-\$600 million.

Twitter also expects full-year headcount growth to be slightly above 20%.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-6.00%
EPS Surprise	-15.00%
Quarterly EPS	0.17
Annual EPS (TTM)	0.91

## 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.

Per a Reuters report on Aug 23, the U.S. President Donald Trump has challenged a federal appeals court decision. The court had ruled against Trump for violating the U.S. Constitution by blocking people whose views he disliked from his Twitter account. Trump has more than 63 million followers on Twitter.

Per a Bloomberg report on Aug 19, Twitter deleted 936 accounts that originated from China. Per the company, these fake accounts aimed at destabilizing the Hong Kong protest movement.

Moreover, according to MarketWatch, Twitter suspended more than 200,000 accounts used by the China government to target the protest movement in Hong Kong. The company also said that it will ban ads from state-backed media companies.

## Valuation

Twitter shares are down 9.2% in the six-months period while up 2.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.1% while the Zacks Computer & Technology sector is up 14.6% in the six-months period, respectively. Over the past year, the Zacks sub-industry and the sector are up 15% and 30.3%, respectively.

The S&P 500 index is up 10.5% in the six-months period and 22.2% in the past year.

The stock is currently trading at 6.65X forward 12-month sales, which compares to 6.42X for the Zacks sub-industry, 3.68X for the Zacks sector and 3.53X 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 6.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 7X 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	6.65	6.42	3.68	3.53
	5-Year High	12.85	15.61	3.68	3.53
	5-Year Low	3	3.03	2.3	2.54
	5-Year Median	6.44	5.31	3.01	3
P/B TTM	Current	3.15	7.16	5.51	4.5
	5-Year High	9.38	8.17	5.54	4.5
	5-Year Low	2.19	2.28	3.13	2.85
	5-Year Median	3.54	5.16	4.22	3.61
EV/Sales TTM	Current	6.34	6.96	4.33	3.29
	5-Year High	20.7	11.57	4.33	3.3
	5-Year Low	2.61	3.01	2.56	2.16
	5-Year Median	5.89	5.99	3.45	2.8

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Top 46% (116 out of 254)



## Top Peers

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

Industry Comparison Industry: Internet - Software				Industry Peers		
	TWTR Neutral	X Industry	S&P 500	BIDU Neutral	FB Neutral	MSFT Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>B</b>	<b>C</b>
Market Cap	26.54 B	686.55 M	24.61 B	48.73 B	632.43 B	1,267.68 B
# of Analysts	7	5	13	3	12	14
Dividend Yield	0.00%	0.00%	1.74%	0.00%	0.00%	1.23%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Cash/Price	0.23	0.11	0.04	0.38	0.08	0.11
EV/EBITDA	21.25	-2.02	14.24	5.73	19.83	20.74
PEG Ratio	1.71	2.58	2.07	7.29	1.18	2.60
Price/Book (P/B)	3.15	5.44	3.38	2.07	6.73	11.95
Price/Cash Flow (P/CF)	27.19	35.86	13.75	9.56	23.95	26.15
P/E (F1)	40.11	57.88	19.09	16.51	24.47	31.01
Price/Sales (P/S)	7.90	4.43	2.68	3.18	9.51	9.77
Earnings Yield	2.49%	0.75%	5.24%	6.06%	4.09%	3.23%
Debt/Equity	0.28	0.10	0.72	0.35	0.09	0.69
Cash Flow (\$/share)	1.26	-0.01	6.94	14.60	9.26	6.35
<b>Growth Score</b>	<b>D</b>	-	-	<b>F</b>	<b>A</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	NA%	16.72%	10.56%	6.67%	58.03%	16.25%
Proj. EPS Growth (F1/F0)	-64.36%	14.74%	7.57%	51.29%	42.20%	12.80%
Curr. Cash Flow Growth	83.06%	3.33%	14.73%	10.46%	24.75%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	30.79%	14.22%	9.00%	18.79%	60.23%	11.99%
Current Ratio	8.69	1.55	1.24	2.59	4.66	2.85
Debt/Capital	22.04%	19.79%	42.99%	26.40%	8.16%	40.81%
Net Margin	47.67%	-14.19%	11.14%	-1.87%	27.08%	31.66%
Return on Equity	6.07%	-12.09%	17.16%	4.80%	20.39%	39.14%
Sales/Assets	0.30	0.66	0.55	0.35	0.59	0.48
Proj. Sales Growth (F1/F0)	14.69%	17.63%	4.16%	10.63%	21.45%	11.33%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>B</b>	<b>D</b>	<b>A</b>
Daily Price Chg	2.89%	0.03%	0.89%	0.06%	0.28%	1.83%
1 Week Price Chg	4.00%	2.63%	0.39%	8.00%	4.50%	1.71%
4 Week Price Chg	6.74%	7.63%	2.65%	8.92%	7.62%	6.72%
12 Week Price Chg	11.19%	9.65%	7.55%	34.53%	18.99%	18.74%
52 Week Price Chg	4.08%	2.92%	22.12%	-17.03%	49.54%	56.59%
20 Day Average Volume	11,060,654	258,976	1,536,375	3,702,769	11,374,349	19,738,548
(F1) EPS Est 1 week change	2.30%	0.00%	0.00%	0.00%	0.03%	0.00%
(F1) EPS Est 4 week change	2.04%	0.00%	0.00%	0.00%	-0.10%	0.12%
(F1) EPS Est 12 week change	-44.13%	-0.29%	-0.40%	38.53%	-5.02%	2.80%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.22%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	A
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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