

Twitter Inc.(TWTR)

\$37.54 (As of 07/24/20)

Price Target (6-12 Months): **\$39.00**

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:F

Value: D

Growth: D

Momentum: F

Summary

Twitter's second-quarter 2020 revenues declined year over year due to softness in advertising demand. While U.S. advertising revenues reflected brand spending pauses related to the coronavirus pandemic and civil unrest, international ad revenues declined due to business lockdown in APAC. This shows that lack of revenue diversification is the company's major downside. Notably, Twitter has withdrawn its full-year guidance. Shares have underperformed the industry on a year-to-date basis. Nonetheless, the company witnessed slight recovery in APAC driven by MAP campaigns, product launches, and slight return of economic activity. Initiatives to add features and focus on effectively tackling abuse issues helped it to expand monetized user base. Additionally, higher-coronavirus related chats and product improvement expanded user base.

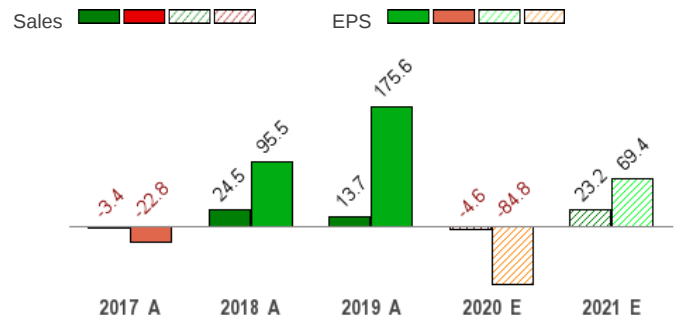
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.86 - \$20.00
20 Day Average Volume (sh)	29,768,300
Market Cap	\$29.5 B
YTD Price Change	17.1%
Beta	0.79
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 38% (97 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6,850.0%
Last Sales Surprise	-4.8%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	NA
Earnings ESP	-2.4%
P/E TTM	NA
P/E F1	104.3
PEG F1	4.4
P/S TTM	8.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	850 E	857 E	934 E	1,141 E	4,066 E
2020	808 A	683 A	765 E	1,014 E	3,299 E
2019	787 A	841 A	824 A	1,007 A	3,459 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.09 E	\$0.09 E	\$0.16 E	\$0.26 E	\$0.61 E
2020	\$0.11 A	-\$1.39 A	\$0.04 E	\$0.20 E	\$0.36 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 07/24/2020. The reports text is as of 07/27/2020.

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.

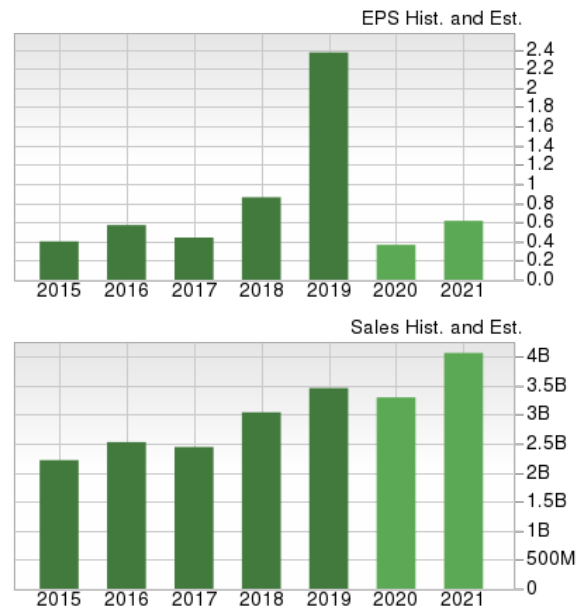
The company measures number of users through the monetizable daily active users (mDAU) metric. mDAU is defined as "Twitter users who logged in or were otherwise authenticated and accessed Twitter on any given day through Twitter.com or Twitter applications that are able to show ads. Average mDAU for 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 Jun 30, 2020, cash, cash equivalents and short-term investments in marketable securities totaled \$7.8 billion compared with \$7.7 billion as of Mar 31, 2020. Although total debt of \$4.12 billion on Jun 30, 2020 remained flat quarter over quarter, it should not be a bother for Twitter due to its solid cash balance.

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.
- ▼ 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's Q2 Earnings Miss, Advertising Revenues Weak

Twitter reported second-quarter 2020 adjusted loss of 16 cents per share that was much wider than the Zacks Consensus Estimate of a loss of 2 cents. The company had reported adjusted earnings of 5 cents per share in the year-ago quarter.

During the quarter, the company recognized a deferred tax asset valuation allowance of \$1.1 billion and a non-cash income tax expense based primarily on cumulative taxable losses attributed to the coronavirus (COVID-19) outbreak. As a result of the valuation allowance, Twitter incurred a net loss of \$1.2 billion in second-quarter 2020.

Revenues declined 19% year over year to \$683 million, which missed the Zacks Consensus Estimate by 3.8%.

User Details

Average monetizable daily active users (mDAU) were 186 million in the reported quarter compared with 139 million in the year-ago quarter and 166 million in the previous quarter.

Average U.S. mDAU was 36 million compared with 29 million in the year-ago quarter and 33 million in the previous quarter. Moreover, average international mDAU was 150 million compared with 110 million in the year-ago quarter and 133 million in the previous quarter.

User growth was primarily driven by frequent discussions on the burning issue of coronavirus and an improved product experience. The company's success in providing relevant content to people's Home timelines and notifications contributed to mDAU growth.

Notably, the company expanded its Fleets experiment (rolled out in the first quarter in Brazil) to three more markets — Italy, India, and South Korea — to provide a new way to start conversations by sharing momentary thoughts through text, images and videos.. Fleets disappear after 24 hours and do not get Retweets, Likes, or public replies. Twitter also launched the ability to easily see all Retweets with comments for any Tweet.

Topics, launched in fourth-quarter 2019, also drove growth. Twitter stated that as of Jun 30, 2020, there were more than 4,100 Topics with more news and location-based topics and improved quality. The number of accounts following Topics reached 50 million by the end of the quarter.

Lists, which makes it easier for people to create and share timelines about the things that matter to them, improved engagement. In the second quarter, the company launched a set of features to help people discover Lists related to their interests.

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.

Moreover, the company collaborated with Global Citizen to live-stream the #TogetherAtHome concert that supported the World Health Organization, which featured performances from top musical artists, stories from frontline workers, and insights from health experts that generated over 10 million views and over 2.2 million Tweets.

Revenue Details

U.S. revenues (53% of revenues) decreased 20% year over year to \$364 million. International revenues (47% of revenues) decreased 18% to \$318.5 million.

Japan remained the company's second-largest market, contributing \$108 million or 15.8% of total revenues in the reported quarter.

Advertising revenues declined 23% to \$561.9 million. During the last three weeks of June, advertising revenues declined 15% year over year.

U.S. advertising revenues totaled \$283 million, down 25% year over year, reflecting brand spending pauses related to the pandemic and civil unrest. International ad revenues declined 20% to \$279 million due to coronavirus-led business lockdown in APAC.

Nonetheless, the company witnessed slight recovery in APAC during the quarter, driven by MAP campaigns, product launches, and slight return of economic activity contributing to revenues.

Ad engagements increased 3% year over year, resulting primarily from audience growth offset by a mix shift to ad formats with lower click-through rates.

Video ad formats declined year over year but continued to constitute the majority of ad revenues generated in the reported quarter. Twitter witnessed a mix shift in advertising demand from brand oriented ad formats to direct response products such as website clicks and MAP.

However, cost per engagement (CPE) decreased 25% year over year due to decline in price for like-for-like price feature across most ad formats and lower demand.

Data licensing and other revenues increased 6% from the year-ago quarter to \$121.4 million.

Twitter's total costs and expenses were \$807 million, up 5% on a year-over-year basis.

Adjusted EBITDA declined 53.5% year over year to \$132.7 million.

The company reported GAAP operating loss of \$124 million against GAAP operating income of \$76 million in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	-4.81%
EPS Surprise	-6,850.00%
Quarterly EPS	-1.39
Annual EPS (TTM)	-0.86

Balance Sheet

As of Jun 30, 2020, Twitter had \$7.8 billion in cash, cash equivalents and marketable securities compared with \$7.7 billion as of Mar 31, 2020.

In the second quarter, adjusted free cash flow was \$39 million compared with \$204 million in the year-ago quarter.

Recent News

On Jun 17, Twitter announced that users can add voice notes to their tweets. Each tweet captures 140 seconds of audio and a new voice note will start if you reach that limit. The feature is currently available to a limited number of users on Apple's iOS platform and expected to be rolled out for more iOS users gradually.

Per a Bloomberg report on Jun 11, Twitter will prompt some users to click on links to other websites before retweeting them in an effort to discourage the spread of misinformation and encourage more thoughtful communication on its social platform.

On Mar 23, Twitter announced withdrawal of its first-quarter 2020 revenue and operating income guidance due to the growing impact of the coronavirus (COVID-19) on advertiser demand. The company now expects its first-quarter 2020 revenues to slip from the year-ago reported figure. Earlier projection for total revenues was between \$825 million and \$885 million.

Twitter also expects to incur a GAAP operating loss.

However, management at Twitter stated that total monetizable DAU (mDAU), which gauges the number of users, has been gaining traction from the rising conversations on the topical coronavirus and an enhanced product experience. Quarter to date, average total mDAU reached approximately 164 million, up 23% from 134 million in first-quarter 2019 and up 8% from 152 million in fourth-quarter 2019.

Twitter also scrapped its 2020 guidance for expenses, stock-based compensation, headcount and capital expenditures.

Per a Bloomberg report on Mar 2, Elliott Management Corporation bought Twitter's shares worth more than \$1 billion. The investment amount is expected to have given Elliott Management nearly 4%–5% equity stake in the company. Additionally, Elliott intends to implement a number of strategic changes, including the replacement of Twitter CEO Jack Dorsey.

Valuation

Twitter shares are up 15.5% in the year-to-date period while down 10.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 49.2% and 13.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 32.5% and 21.6%, respectively.

The S&P 500 Index has returned 0.0% in the year-to-date period in contrast to 6.9% increase in the year-ago period.

The stock is currently trading at 7.88X forward 12-month sales, which compares to 8.36X for the Zacks sub-industry, 3.88X 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 11.37X and as low as 3X, with a 5-year median of 6.29X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$39 price target reflects 8.27X 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	7.88	8.36	3.88	3.55
	5-Year High	11.37	8.51	3.88	3.55
	5-Year Low	3	3.01	2.32	2.53
	5-Year Median	6.29	5.23	3.14	3.02
P/B TTM	Current	3.77	10	5.9	4.4
	5-Year High	6.76	10.67	6.11	4.56
	5-Year Low	1.96	2.28	3.16	2.83
	5-Year Median	3.2	5.25	4.39	3.71
EV/Sales TTM	Current	6.91	9.86	4.51	3.15
	5-Year High	11.18	11.18	4.51	3.45
	5-Year Low	3.03	3.03	2.59	2.14
	5-Year Median	5.97	5.97	3.65	2.84

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Baidu, Inc. (BIDU)	Neutral	4
Facebook, Inc. (FB)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Pinterest, Inc. (PINS)	Neutral	3
Sina Corporation (SINA)	Neutral	3
Snap Inc. (SNAP)	Neutral	3
Tencent Holding Ltd. (TCEHY)	Neutral	3
Momo Inc. (MOMO)	Underperform	5

Industry Comparison Industry: Internet - Software				Industry Peers		
	TWTR	X Industry	S&P 500	BIDU	FB	MSFT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	F	-	-	D	A	B
Market Cap	29.45 B	841.30 M	22.16 B	41.16 B	657.32 B	1,526.55 B
# of Analysts	9	5	14	2	12	14
Dividend Yield	0.00%	0.00%	1.81%	0.00%	0.00%	1.01%
Value Score	D	-	-	D	C	D
Cash/Price	0.27	0.10	0.06	0.49	0.09	0.09
EV/EBITDA	23.28	-0.60	13.07	9.21	19.85	25.08
PEG Ratio	4.39	3.93	3.03	2.66	1.65	2.27
Price/Book (P/B)	3.77	6.78	3.11	1.72	6.25	12.90
Price/Cash Flow (P/CF)	13.62	24.94	12.27	8.89	27.16	26.75
P/E (F1)	103.06	73.17	21.88	18.60	31.33	31.66
Price/Sales (P/S)	8.87	4.48	2.38	2.73	8.96	10.67
Earnings Yield	0.96%	0.30%	4.34%	5.38%	3.19%	3.16%
Debt/Equity	0.51	0.14	0.76	0.35	0.09	0.57
Cash Flow (\$/share)	2.76	-0.00	7.01	13.39	8.49	7.53
Growth Score	D	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	NA%	16.26%	10.82%	7.34%	48.20%	18.74%
Proj. EPS Growth (F1/F0)	-84.62%	-4.33%	-9.01%	-14.44%	14.51%	10.38%
Curr. Cash Flow Growth	123.58%	4.17%	5.47%	-9.22%	-8.33%	17.66%
Hist. Cash Flow Growth (3-5 yrs)	55.36%	19.20%	8.55%	10.85%	38.21%	11.99%
Current Ratio	12.29	1.47	1.31	2.95	4.60	2.52
Debt/Capital	33.81%	20.11%	44.41%	26.26%	8.28%	36.24%
Net Margin	-32.54%	-17.36%	10.46%	2.49%	28.57%	30.96%
Return on Equity	-12.11%	-14.52%	15.13%	8.69%	21.54%	39.45%
Sales/Assets	0.26	0.61	0.54	0.35	0.57	0.50
Proj. Sales Growth (F1/F0)	-4.62%	5.97%	-2.06%	1.22%	10.04%	8.52%
Momentum Score	F	-	-	A	A	A
Daily Price Chg	-2.34%	-0.79%	-0.65%	-1.72%	-0.81%	-0.61%
1 Week Price Chg	1.16%	-1.55%	3.82%	-7.22%	-1.24%	-5.05%
4 Week Price Chg	19.67%	0.00%	4.96%	-3.81%	-2.11%	0.48%
12 Week Price Chg	30.89%	21.43%	9.30%	17.92%	12.70%	12.33%
52 Week Price Chg	-1.52%	0.00%	-2.82%	3.97%	14.95%	43.59%
20 Day Average Volume	29,768,300	585,255	2,026,477	2,854,794	27,676,832	34,849,564
(F1) EPS Est 1 week change	-2.90%	0.00%	0.00%	0.00%	0.00%	1.95%
(F1) EPS Est 4 week change	-2.90%	0.00%	0.15%	0.00%	1.34%	1.95%
(F1) EPS Est 12 week change	-239.22%	0.00%	-3.24%	-32.15%	2.57%	3.03%
(Q1) EPS Est Mthly Chg	30.00%	0.00%	0.00%	-0.75%	0.89%	3.11%

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.

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	F
VGM Score	F

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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