

## Twitter Inc.(TWTR)

**\$31.60** (As of 05/28/20)

Price Target (6-12 Months): **\$33.00**

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

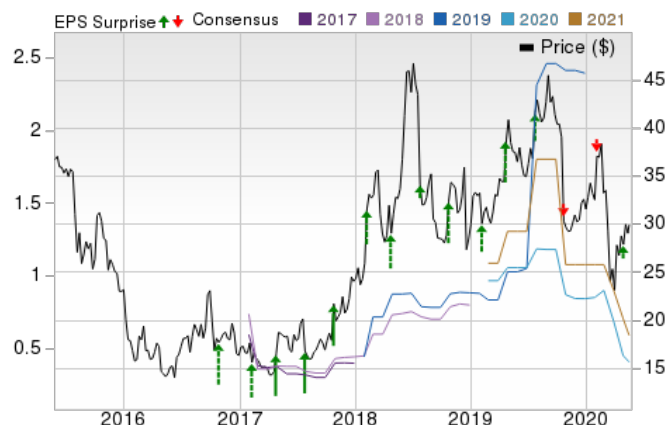
Growth: F

Momentum: C

## Summary

Twitter' first-quarter 2020 revenues increased year over year. Initiatives to add features and focus on effectively tackling abuse issues helped it to expand monetized user base. Twitter launched a Fleets icon as an experiment in Brazil during the reported quarter. Additionally, higher-coronavirus related chats and product improvement expanded user base. Moreover, strong demand for video ad products like Video Website Cards and in-stream pre-roll is a key driver. However, Twitter has withdrawn its full-year guidance due to the coronavirus impact on advertiser demand. Moreover, decreasing international advertising revenues due to coronavirus-led business lockdown in APAC is an overhang. This shows that lack of revenue diversification is the company's major downside. Shares have underperformed the industry on a year-to-date basis.

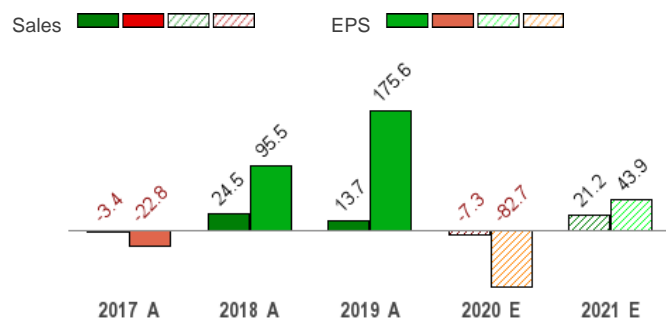
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$45.86 - \$20.00</b>
20 Day Average Volume (sh)	<b>18,509,876</b>
Market Cap	<b>\$24.8 B</b>
YTD Price Change	<b>-1.4%</b>
Beta	<b>0.78</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Internet - Software</a></b>
Zacks Industry Rank	<b>Top 12% (30 out of 254)</b>

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



Last EPS Surprise	<b>10.0%</b>
Last Sales Surprise	<b>4.5%</b>
EPS F1 Est- 4 week change	<b>-184.6%</b>
Expected Report Date	<b>07/24/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>42.1</b>
P/E F1	<b>77.1</b>
PEG F1	<b>3.3</b>
P/S TTM	<b>7.1</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	827 E	839 E	900 E	1,117 E	3,886 E
2020	808 A	682 E	739 E	1,005 E	3,206 E
2019	787 A	841 A	824 A	1,007 A	3,459 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.06 E	\$0.06 E	\$0.11 E	\$0.24 E	\$0.59 E
2020	\$0.11 A	\$0.00 E	\$0.04 E	\$0.19 E	\$0.41 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 05/28/2020. The reports text is as of 05/29/2020.

## 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.

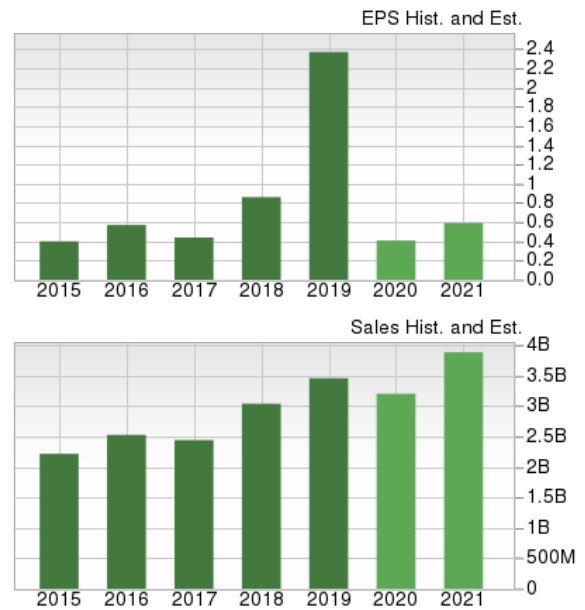
The company measures number of users through the monetizable daily active users (mDAU) metric. mDAU is defined as "Twitter users who logged in or were otherwise authenticated and accessed Twitter on any given day through Twitter.com or Twitter applications that are able to show ads. Average mDAU for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



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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. 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 Mar 31, 2020, cash, cash equivalents and short-term investments in marketable securities totaled \$7.7 billion compared with \$6.64 billion as of Dec 31, 2019. Although total debt of \$4.12 billion on Mar 31, 2020 increased from \$3.27 billion as of Dec 31, 2019, it should not be a bother for Twitter due to the solid cash balance. Additionally, total debt-to-capital stands at 31.9%, lower than the industry's 33.9%. Moreover, times interest earned is 3.1X much higher than industry's 1.8X as of Mar 31, 2020.

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 Q1 Earnings Beat, User Growth Aids Top Line

Twitter reported first-quarter 2020 non-GAAP earnings of 11 cents per share that beat the Zacks Consensus Estimate by 10%. However, the figure decreased 70.3% year over year.

Revenues grew 2.6% year over year to \$807.6 million, which beat the Zacks Consensus Estimate by 4.5%.

Shares were up more than 4.9% in pre-market trading.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	4.53%
EPS Surprise	10.00%
Quarterly EPS	0.11
Annual EPS (TTM)	0.75

### User Details

Average monetizable daily active users (mDAU) were 166 million in the reported quarter compared with 134 million in the year-ago quarter and 152 million in the previous quarter.

Average U.S. mDAU was 33 million compared with 28 million in the year-ago quarter and 31 million in the previous quarter. Moreover, average international mDAU was 133 million compared with 105 million in the year-ago quarter and 121 million in the previous quarter.

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

The company launched a Fleets button as an experiment in Brazil to provide a new way to start conversations by sharing momentary thoughts. Fleets disappear after 24 hours and do not get Retweets, Likes, or public replies.

Topics, launched in the fourth quarter, 2019 also drove growth. Twitter stated that as of Mar 31, 2020, there were more than 2,200 Topics that people could follow in six languages with new Topics being added every week compared with 1,700 topics available in the previous quarter.

Lists, which makes it easier for people to create and share timelines about the things that matter to them, improved engagement. In the first quarter, the company made it easier to connect to interests on Twitter by allowing users to see a ranked version of most relevant Tweets in a List. Previously the Tweets in a List were only viewable in reverse chronological order.

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. The company has removed more than 1,100 misleading and potentially damaging tweets since Mar 18.

Additionally, Twitter updated its strategy for monitoring tweets during the outbreak, which includes reviewing the rules and considering the ways in which it may need to evolve to account for new account behavior during the quarter, which is likely to have reduced abuse on the platform.

Moreover, the company also launched over 30 Health updates to help people in finding credible information on its platform in an effort to reduce abuse, eliminate misinformation and protect the integrity of election-related conversations on the social platform.

### Revenue Details

U.S. revenues (57.9% of revenues) increased 8% year over year to \$468 million. International revenues (42.1% of revenues) decreased 4% to \$339 million due to earlier impact in the quarter from coronavirus outbreak in Asia Pacific (APAC).

Japan remained the company's second-largest market, contributing \$131 million or 16.2% of total revenues in the reported quarter.

Advertising revenues improved 0.4% to \$682.19 million. U.S. advertising revenues totaled \$381 million, up 5% year over year.

International ad revenues declined 5% to \$301 million due to coronavirus-led business lockdown in APAC. Nonetheless, the company witnessed slight recovery in APAC at the end of the quarter, particularly in performance-based ad campaigns.

Ad engagements increased 25% 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, First View, and Promoted Trends ad formats.

However, cost per engagement (CPE) decreased 19% year over year due to decrease in price for like-for-like price feature across most ad formats and lower demand in March.

Data licensing and other revenues increased 17% from the year-ago quarter to \$125 million.

Twitter's total costs and expenses were \$815 million, up 18% on a year-over-year basis.

Adjusted EBITDA declined 27.4% year over year to \$211.1 million.

The company reported GAAP operating loss of \$7.4 million against GAAP operating income of \$93.9 million in the year-ago quarter.

### Balance Sheet

As of Mar 31, 2020, Twitter had \$7.7 billion in cash, cash equivalents and marketable securities. This includes gross proceeds of \$1 billion from a convertible note issuance in March related to Twitter's recent partnership with Silver Lake, which the company will use in part to finance a stock repurchase of up to \$2 billion over time.

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In the first quarter, adjusted free cash flow was \$126 million compared with \$271 million in the year-ago quarter.

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## Recent News

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 down 1.4% in the year-to-date period and 15% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 28.1% and 2.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.7% and 20.5%, respectively.

The S&P 500 index is down 5.9% in the year-to-date period while up 8.4% in the past year.

The stock is currently trading at 7.12X forward 12-month sales, which compares to 7.47X for the Zacks sub-industry, 3.67X for the Zacks sector and 3.42X 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 \$33 price target reflects 7.48X 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	7.12	7.47	3.67	3.42
	5-Year High	11.37	15.62	3.67	3.44
	5-Year Low	3	3.07	2.32	2.53
	5-Year Median	6.29	5.28	3.1	3.01
P/B TTM	Current	2.82	7.89	5.18	4.14
	5-Year High	6.76	8.23	5.38	4.56
	5-Year Low	1.96	2.3	3.16	2.83
	5-Year Median	3.31	5.18	4.31	3.65
EV/Sales TTM	Current	5.29	8.27	4.15	2.96
	5-Year High	13	11.54	4.43	3.46
	5-Year Low	2.61	3.05	2.59	2.14
	5-Year Median	5.62	6	3.58	2.82

As of 05/28/2020

## Industry Analysis Zacks Industry Rank: Top 12% (30 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Pinterest, Inc. (PINS)	Outperform	2
Sina Corporation (SINA)	Outperform	2
Tencent Holding Ltd. (TCEHY)	Outperform	1
Baidu, Inc. (BIDU)	Neutral	4
Facebook, Inc. (FB)	Neutral	3
Momo Inc. (MOMO)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	2
Snap Inc. (SNAP)	Neutral	3

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	2
VGM Score	F	-	-	F	B	B
Market Cap	24.79 B	691.54 M	21.49 B	36.77 B	642.36 B	1,375.64 B
# of Analysts	9	6	14	2	12	14
Dividend Yield	0.00%	0.00%	1.98%	0.00%	0.00%	1.12%
Value Score	D	-	-	D	C	C
Cash/Price	0.30	0.11	0.06	0.58	0.09	0.10
EV/EBITDA	19.06	-0.53	12.50	7.81	19.36	22.53
PEG Ratio	3.22	3.22	2.87	2.34	1.63	2.47
Price/Book (P/B)	2.82	6.28	2.95	1.53	6.10	12.01
Price/Cash Flow (P/CF)	11.47	24.44	11.81	7.94	26.54	28.55
P/E (F1)	75.66	53.18	21.33	16.36	31.03	31.91
Price/Sales (P/S)	7.12	4.16	2.28	2.44	8.76	9.92
Earnings Yield	1.30%	0.30%	4.50%	6.11%	3.22%	3.14%
Debt/Equity	0.45	0.14	0.76	0.35	0.09	0.61
Cash Flow (\$/share)	2.76	-0.00	6.96	13.39	8.49	6.35
Growth Score	F	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	NA%	16.26%	10.87%	7.34%	48.20%	18.74%
Proj. EPS Growth (F1/F0)	-82.75%	-3.61%	-10.48%	-13.10%	13.00%	19.70%
Curr. Cash Flow Growth	123.58%	2.99%	5.39%	-9.22%	-8.33%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	55.36%	19.03%	8.55%	10.85%	38.21%	11.99%
Current Ratio	11.93	1.50	1.29	2.95	4.60	2.90
Debt/Capital	31.16%	20.69%	44.54%	26.26%	8.28%	37.98%
Net Margin	36.39%	-15.54%	10.59%	2.49%	28.57%	33.36%
Return on Equity	3.22%	-15.70%	16.26%	8.69%	21.54%	40.37%
Sales/Assets	0.28	0.62	0.55	0.35	0.57	0.49
Proj. Sales Growth (F1/F0)	-7.32%	6.82%	-2.53%	2.20%	8.18%	12.46%
Momentum Score	C	-	-	F	A	B
Daily Price Chg	-4.45%	0.00%	-0.65%	-1.76%	-1.61%	-0.23%
1 Week Price Chg	12.48%	3.51%	4.99%	3.46%	11.40%	0.19%
4 Week Price Chg	10.18%	8.88%	4.28%	5.34%	10.14%	1.22%
12 Week Price Chg	-9.64%	6.84%	-3.05%	-10.08%	21.76%	9.10%
52 Week Price Chg	-14.92%	-2.54%	0.01%	-4.92%	23.19%	44.28%
20 Day Average Volume	18,509,876	629,449	2,425,602	5,720,220	24,315,716	32,340,662
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-184.64%	0.00%	-1.70%	-32.15%	0.97%	2.42%
(F1) EPS Est 12 week change	-112.92%	-6.59%	-16.00%	-40.26%	-21.96%	1.13%
(Q1) EPS Est Mthly Chg	-64.63%	0.00%	-3.25%	-4.65%	-1.27%	1.56%



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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	<b>D</b>
Growth Score	<b>F</b>
Momentum Score	<b>C</b>
VGM Score	<b>F</b>

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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