Twitter Q1 2016 Quarterly Results Transcript
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PRESENTATION

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Senior Director, Investor Relations
Hi, everyone, and welcome to our Q1 earnings Periscope. We have with us today, our CEO, Jack Dorsey; COO, Adam Bain; and CFO, Anthony Noto. We hope you had a chance to look at our shareholder letter, which we posted on our Investor Relations website shortly after the market closed.

Like last quarter, we'll begin with just a few prepared remarks before we open the call directly to your questions. During the Q&A, we'll take questions asked via Periscope and Twitter in addition to questions from conference call participants. To submit a question via Twitter, please direct it to @TwitterIR using the hashtag #TWTR.

We'd also like to remind everyone that we'll be making forward-looking statements on this call such as our outlook for Q2 and 2016 and our operational plans and strategies. Actual results could differ materially from those contemplated by our forward-looking statements, and reported results should not be considered as an indication of future performance. Please also take a look at our filings with the SEC for a discussion of the factors that could cause our results to differ materially. The forward-looking statements on this call are based on information available to us as of today's date, and we disclaim any obligation to update any forward-looking statements, except as required by law.

Also, during this call, we will discuss certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures can be found in the tables in our shareholder letter, and these non-GAAP measures are not intended to be a substitute for our GAAP results.

And finally, this call in its entirety is being broadcast over Periscope and being webcast from our Investor Relations website. And an audio replay of this call will also be available via Twitter and on our website in a few hours.

And with that, I would like to turn it over to Jack.

Jack Dorsey
Co-Founder, Chief Executive Officer and Director
Hi everyone, and thanks for joining us. A couple of things before we start with questions

This is our first quarterly update after laying out our long-term strategy and priorities. As we shared last quarter, our focus this year is on live.

Twitter has always been the best place to see what's happening now. Whether it's breaking news, entertainment, sports, or everyday topics, only Twitter lets you connect with people anywhere in the world with live conversation. Anything that happens, you see it first on Twitter.

Think of President Obama congratulating Elon Musk on the historic SpaceX landing. Or the world celebrating the legacy of the legendary artist Prince. Only Twitter lets you follow these historic moments, join in the conversation and share it with others.

We made a lot of progress on product innovation this quarter, particularly with live video and our refined timeline, and people love it — with less than 2% opting out. We remain focused on improving our service to make it fast, simple and easy to use.

We also announced a significant deal with the NFL a few weeks ago. As soon as we announced that deal, almost every league in the world contacted us, because they want to provide an even better experience for their fans.

With that, I'll pass it back to Krista now to take your questions.

QUESTION AND ANSWER

Anthony J. DiClemente, Nomura
One for Anthony and one for Adam. I know you don't give forward guidance on users or the active user trajectory, Anthony, but can you just give us or speak to trends that you're seeing in terms of new users added, resurrected users and retention? I think last quarter, you talked about users from performance-based marketing having higher retention rate. And obviously, if you want to give us guidance on users for next quarter, I think we'll take it. And then another one for Adam. Just in the shareholder letter, it talked about brand marketers not increasing spend as quickly in the first quarter. I realize that monetization is still growing, but in terms of the deceleration, are dollars shifting back to traditional media platforms, do you think? Are they shifting to other major online platforms? I guess just in your conversations with brand marketers, how are they looking at the strengths or weaknesses of the Twitter platform versus other major media platforms that brand marketers might pursue?

Anthony Noto
Thanks, Anthony. I'll take your first question. In terms of MAU growth, the primary drivers of MAU growth in the quarter were both seasonality and marketing initiatives. Of course, the continuous improvement in our product underlines the benefit in seasonality that we're seeing. It's just not large enough for us to break it out specifically, but as we talked about in the shareholder letter, there are contributions there. As it relates to the funnel dynamics, we benefited in the quarter from both improving the top of the funnel, as well as retention. And again, the retention improvements reflect the continuous improvement in the product starting to impact the ability to retain a larger top of the funnel this quarter. In terms of our outlook for Q2, we're not providing a Q2 MAU outlook. In the past, when we have provided an MAU outlook, it's because we felt there were some unusual underlying trends that we needed to point out, and that's not the case today.

Adam Bain
And, Anthony, I'll take your question around the advertising side. On the advertising side, overall, as we mentioned, brand spend didn't grow as quickly as we expected. In the quarter, video was strong, but

that was partially offset by some softness that we saw in older legacy brand products. So these are promoted products, for example, without video. In terms of the opportunity ahead, we see a clear opportunity ahead to increase our share of the brand advertising market, especially around video. Some of these new video opportunities will, we believe, grow budgets that we have access to. We also hear from marketers that there's nothing in the world like Twitter in terms of as a marketing platform. Twitter is that live connection to culture for marketers, and that's both unique and special in the brand universe. Live is where -- is what's most valuable in the ad business. So to make this even more powerful, we're working on some video tools. These are things like reach and frequency planning, demographic targeting and verification, which we'll roll out this coming fall to coincide with our NFL deal and our live streaming strategy.

Krista Bessinger
And the next question comes from Doug Anmuth at JPMorgan.

Cory Alan Carpenter, J.P. Morgan
This is Cory Carpenter for Doug Anmuth. Maybe just a quick question on the NFL deal, which I know you guys discussed in the letter. Could you maybe just talk through how you thought about it from a user acquisition or engagement perspective, and then maybe also how you're thinking about it in terms of monetization?

Anthony Noto
Sure, and thank you for the question. As Jack mentioned, Twitter has always been known for the place to go to see what's happening in the world right now. And we've been real time. And the reason we've been real time is because our tweets are publicly available for everyone to see, and they're broadly distributed. And live is the best manifestation of real time. We already have live connections, live conversations and live commentary on the platform. It's an opportunity for us to add live premium content to that -- those conversations and that commentary. And so yes, the NFL deal is important, and I'll talk about that in more detail, but we're focused on live premium content in all sports, news and politics, as well as entertainment, to bring together for our users what they're already talking about, what they already care about. As it relates to the NFL, we know that on Thursday nights during the 3-hour telecast of Thursday Night Football, we have millions of users looking at tweets about that game. And they're creating tens of millions of impressions that we know are very valuable to them and very valuable to our partners, both the NFL and, of course, our advertisers. And so being able to bring the live streaming game into the product with that live commentary, those live conversations is a complete solution. And it's a complete solution for those tens of millions that are already on our platform and care about the NFL, and the tens of millions of NFL fans that are not on the platform. And so we see it is a product that will be the same for logged in, logged out and syndicated users. It's the same video, the same ads, the same analytics. And we can deliver in an instant a very transparent way to tell people to come to Twitter and deliver on that instantly. We've talked about the importance of us clearly communicating our value and delivering on it instantly. Live sports, live premium content is a way to communicate something that's very familiar to people, something we know they want based on their interests on Twitter and to deliver that in an instant, not just with that live video but all of the great conversation and tweets that are attached to it and expose those who haven't used Twitter to that great content and those that are, a complete solution, so really excited about the opportunity to use that as a complete solution.

Adam Bain

On the advertising side, we control some of the inventory in the pregame, in the game and also postgame. This follows along a multiyear, 3-year history that we've had with the NFL of bringing premium content onto the platform and also bringing it out to Madison Avenue. The demand for this program has been incredibly strong for marketers. Only had it in market for about a week. We've already signed up 1 major sponsorship to the package. It's important to note that sponsorship actually was funded from video budgets instead of social media budgets. So it's a good example of how the live streaming strategy that we have, overall, is aiding our ability to go after these video budgets that we talked about that are coming this fall.

Jack Dorsey

And I want to point out that this watching with Twitter, watching a live event has been something we've seen for 9 years now. It's pretty phenomenal. And this is really about making sure that we make it even easier for people to see these games and to see these events and actually tweet about them. But more importantly, they get to see all the content on Twitter right away. So very easy way to get in, but they could see all the individual produced content, including the premium content as well.

Krista Bessinger

And the next question comes from Ross Sandler at Deutsche Bank.

Ross Sandler, Deutsche Bank

I just had one for Jack and then one follow-up for Adam. Jack, so there was a number of comments in the letter about increasing engagement. So I guess can you just parse that out a little bit for us? What kind of increases or impacts are you seeing from the new algorithmic time line? And given that you've made a bunch of different changes to the core time line product, what's the best way for us to measure the increases in engagement? Is DAU over MAU still the most important metric? And if so, how does that look compared to prior periods? And then the question for Adam, I guess, just a follow-up from the previous questions. How does the overall ad market look heading into 2Q? Do you expect the work that you guys have been doing around improving measurement and targeting, particularly on the DR side, to start to help the ad revenue growth? And if so, when should that happen this year?

Jack Dorsey

Thanks, Ross. The refined time line, we're really proud of. We're really proud of what it's been doing for the service and what it's been doing for people using Twitter. As you know, a lot of our folks spend the majority of their time in the time line. And the more technology we apply to this, while at the same time giving people control to tailor their experience, the better effects we see. We've seen increases in tweets, in replies, in retweets, and also likes, obviously. So we want to continue to make sure that we're refining that time line and making it better and better and better so when people come back to Twitter, they see what is meaningful and a quick pull to refresh and they go back to recent. I'll let Anthony take the second part of your question.

Anthony Noto

Sure. Ross, as it relates to engagement, we have a number of factors that we look at as it relates to engagement. The one that is probably the most important is daily active users. And it's one that we continue to focus on as well as a number of other factors, including searches and direct messages. So we'll continue to look at that metric as well as the others that we've talked about in the past.

Anthony Noto
And, Ross, to answer your question on the overall ad market, if we look across the board, we grew -- we had strong growth internationally, 46% on international growth ex FX and 39% growth here domestically. If we look internationally, we saw across Europe some marketers who held back spend in the first half, holding it back for the Olympics and things like the Champions League. There were some other areas like Brazil and some other major categories. Tech, QSR and retail are good examples of big categories that were a little bit softer than we expected. It [indiscernible] out a bit since the whole category hasn't reported yet to see how that's going to shape up across the board. To your point around Q2, we're going to continue to move our marketers from these legacy-promoted tweets into promoted video. Promoted video performs incredibly well. It's -- we've just recently gotten back a return on ad spend study for video during this past fall season. We saw a $6 return on ad spend for a major beverage manufacturer. So for every dollar that they put into Twitter, it returns $6 back to the register. They told us it was best in category. And so with that type of ROI, we're going to continue to move people through video. In terms of targeting creative and measurement on the direct response side of the house, we've got a lot underway there. One point that I'll make is around our dynamic product ads. When we last talked at earnings, DPAs had just been into an early Beta. We've now expanded the Beta. At that time, we were seeing a 2x lift in click-through rate. We're now seeing a sustained rate of 2x lift in click-through rate, and we're also seeing twice the conversion rate through the funnel. So those strong results mean that it's ready to open up even more. DPAs take a little bit of time for a marketer to implement. So in Q2, we're going to start opening it up through the ad's API, so partners can help onboard them as well. So we should be ready for the fall back-to-school season and the holiday in Q4 season.

Krista Bessinger
We'll take the next -- the next question from Twitter comes from the Twitter account of Arvind Bhatia. And he asks, "Is there a way to quantify how much Twitter's advertising revenue will benefit from the election this year?"

Adam Bain
Arvind, so while we're not going to get into the quantification of the elections, I think as we think about whether it's the Olympics or the elections or things like the Euro League championship, there's a huge opportunity for consumers on Twitter to see really relevant content now, and certainly marketers and content partners to have access to new products and features that they didn't have the last time each one of these events happened. During these events, it's really when Twitter shines for marketers. These live audiences and the connection that marketers can have to them are rare in the online ad space. And so we stand out from the rest of the market around these events. And when you think about the elections, direct response part of election cycles, which is around fund-raising, marketers can now bring tailored audiences to bear. In the Olympics, we're going to see a lot more video and video advertising being used. So we think there's going to be great opportunities to showcase how far we've come since the last time around.

Krista Bessinger
Great. Thank you. And the next question comes from Heath Terry at Goldman Sachs.

Heath P. Terry, Goldman Sachs
Great. You mentioned the increase in ad load during the quarter. I was wondering if you could give us a sense how much of the slowdown in growth that you're projecting for Q2 is from a more limited ability to

increase ad load. And as we start to think more and more about the network opportunity off of Twitter, how do you think about the opportunities there from an ad load perspective?

Anthony Noto
Thanks, Heath. In terms of ad load, ad load in Q1 was down sequentially from the fourth quarter, so no inventory issue in Q1. As we look through the rest of 2016 and beyond, the areas that have the most incremental growth in monetization would include international home time line and international nonhome time line, U.S. nonhome time line, logged out and syndication. We also have a significant opportunity to increase the yield of the current inventory that we're selling, improve its monetization. And that's from a number of factors, continuing to scale our advertisers. Our goal long-term is to have millions of advertisers like our competitive peers. And that's a big driver of continued improvement of the yield and of our current inventory that we're selling, in addition to the fact that we're focused on targeting creative and measurement that will also drive yield. So those are the biggest opportunities as we look forward.

Adam Bain
Heath, on the top side, what we're seeing from a strategy standpoint is that direct response advertisers are really responding well to the new inventory that exists across Twitter Audience Platform. We're seeing actually advertisers that are testing -- DR advertisers that are testing into those new areas of inventory actually grow budget with us, so that we're off to a good start with a good sign-up.

Krista Bessinger
Thanks, and our next question comes from Eric Sheridan at UBS.

Eric James Sheridan, UBS
On the EBITDA margin, obviously you showed a tremendous amount of leverage in the model in Q1 on the EBITDA line. Want to understand a little bit better what drove that leverage in Q1. And then also on the flipside on stock-based compensation, that continues to run a little bit higher than what we thought in some of the future periods. Maybe you can give investors some sense of how stock-based compensation might traject longer term?

Anthony Noto
Sure. We had a very strong quarter on the profitability front, EBITDA margins on a gross GAAP revenue of 30%, even higher on a net revenue basis excluding TAC. The quarter really reinforces our belief of the opportunity to drive long-term margin of 40% to 45% on a EBITDA basis relative to net revenue. In fact, our R&D expense and our G&A expense as a percent of our revenue are already where we would like them to be in the long term to support that EBITDA margin as a percent of net revenue of 40% to 45%. The efficiencies we have in the quarter are directly related to employee expenses, infrastructure expenses and software development. As we think about the longer term, we are going to balance improvements in profitability with the growth opportunities we see in front of us. We want to make sure we're capturing those growth opportunities and investing in them appropriately to maximize shareholder value over the long term, but we want to do that in a disciplined way, so continued improvement in profitability, but not sacrificing those growth opportunities. Q1 happened to be a quarter which we did less investment compared to Q2. And ultimately, our margins for the full year reflect the level of investment that we plan on making, with some lumpiness by quarter depending on the magnitude of the investment. As it relates to stock-based compensation, I'd make a couple of points. It's our goal to get

our stock-based compensation as a percent of revenue down to the high single digits as a percent of revenue, comparable to our competitive peers in the technology sector and consumer Internet in particular. We've continued to manage our net and gross dilution on an annual basis to be equivalent to where they are. And ultimately, the scale in revenue against largely fixed costs or declining costs will allow us to get there over the next couple of years.

Krista Bessinger
And we'll take the next question from Periscope. The question is, why not monetize Periscope and Vine?

Adam Bain
I'll take that one. We actually are monetizing Periscope and Vine by bringing that creative canvas into Twitter and allowing marketers to bring that canvas into Twitter and do targeting campaigns and measurement through the tools that we have available on the platform. We plan to expand the promoted video with Periscope option for marketers this quarter by bringing in the Android platform as well. Up until now, it's just been available on iPhone. We've seen incredible creativity as well recently with marketers taking advantage of the Periscope option in Twitter. Two great examples of this were DORITOS that went live during the Super Bowl and promoted the Periscope on Twitter; and also Kohl's, the department store, who went live during the Oscars and brought a behind-the-scenes red carpet live on Twitter through the promoted tweet with Periscope.

Krista Bessinger
Great, thanks. And the next question comes from the line of Brian Wieser at Pivotal Research.

Brian W. Wieser, Pivotal Research
First, just wanted to dive a little bit deeper into the brand spend in the quarter. I was wondering, to what degree do you think that negativity out there in terms of sentiment that the press or otherwise might impacted how brands are thinking about it? And part of that is to the extent that potentially this rebounds, that might contribute to some upswing. A separate question around the dynamic product ads. Is what you're indicating that you're suggesting that there could be acceleration in the second half from direct response advertisers? And do you think that would generally benefit own and operate? Or would it impact network inventory more so?

Adam Bain
Right, let me take the first one. I don't believe that sentiment affected the brand spend. And we see a couple different proof points on that. Probably the biggest proof point is that in Q1, we go through and do strategic upfront deals. These are our relationships, similar to TV, upfront relationships with our largest advertisers and also agency holding companies. So in Q1, we re-signed 3 of our global agency holding company deals. These are centered around video, and these are all up collectively 40% year-on-year. On the individual upfronts that we do with large customers, we also have -- are up over 40% year-on-year with them as well, which indicates some back half opportunity to the year, especially around video. To your point around DPA, the DPA technology is using the TellApart technology. So this is the first real example that we have of bringing TellApart's technology onto Twitter's owned and operated platform. It's exposing us to new budgets, these remarketing budgets that we've never had before. The signs are good in terms of the lift, both the click-through rates and the conversions, which show that it's performing for marketers all the way through the funnel. What we need to do next now is bring those remarketing budgets on to the platform in -- at scale. In order to do that, we're lining up these API

partners and other third parties to help bring that quicker to the platform. Will it work? It should work for the Twitter Audience Platform in a big way, but it also will work for Twitter owned and operated, both logged in and also logged out, since remarketing budgets can take advantage of the targeting that's available for logged-out users.

Krista Bessinger
Thank you. And the next question comes from Brian Nowak at Morgan Stanley.

Brian Nowak, Morgan Stanley
Questions, I have 2. There's a lot of focus on live events and kind of live audiences. I know in the first quarter, we had the Super Bowl. Could you just talk about the Twitter live audience around the Super Bowl, kind of what you saw in 2016 versus 2015? How has it changed year-on-year, bigger, smaller, et cetera? And then the second thing. In the investor note, it sounds like you're pretty focused on specific plans to go after new online video ad budgets. Can you just talk to some of the changes you see that are being made to the video ad product to go after more dollars?

Anthony Noto
Sure. In terms of the Super Bowl in particular, we haven't called out the specific performance of that. Overall, the NFL for the full season performed very strongly on a tweet impression basis in addition to the live audience that was watching tweets while also the telecast window was open. And so those are 2 things that we analyze and 2 of the reasons why we're so aggressive in trying to create relationship with the National Football League in our fourth year that's really extending what we've already had for 3 years on Amplify. And so the NFL season was a real success on tweet impressions and that live audience measurement. Let me turn it over to Adam on the online budgets.

Adam Bain
Yes, so on the online budgets, these are a set of budgets that we don't have exposure to today because they require a certain set of features that we're working on right now. These are features like demographic targeting and validation, GRP and TRP, targeting and reporting. So it's a function of putting these features in place. We believe that we can tap into incremental video budgets when we put those features in place. The features are actually in -- or in development right now and are going to be timed to launch with our NFL deal on our live streaming strategy for this fall. And as I mentioned, we're already seeing good response from the market by the fact that advertisers are funding, for example, the NFL deal with the video side of the house instead of where we typically pull money from on the online ad budget.

Krista Bessinger
Okay, thanks. And the next question we'll take will be from Periscope. The question is, will you incorporate Periscope during the NFL games?

Anthony Noto
Thank you for the question. The great thing about Twitter and the 3 brands we have is they can all work together as it relates to video. And part of our relationship with the National Football League does include Periscope content, shoulder programming pregame and behind-the-scenes. And that was part of the deal that we struck with them. And it's part of the other deal that we're working on with other live sports, live entertainment and live news and politics opportunities. So we're really excited about

leveraging all 3 elements of it. And it's one of the unique things about Twitter that we think can position us to capture our fair share of these opportunities.

Krista Bessinger
Thank you. And the next question we'll take is from Mark Mahaney at RBC Capital Markets.

Andrew Bruckner, RBC
This is Andrew on for Mark. Just a quick question. With the addition of the board seats and Leslie Berland coming on, I'm wondering what other holes you're looking to fill in your team. And then with regard to Leslie Berland, if you can talk about your changed marketing strategy, if at all, or any updates on the marketing strategy?

Jack Dorsey
Yes, I'll take the first part. Thank you, Andrew. We're continuing to look for new board members, and you'll see more additions this year. We're really proud of the additions of Hugh and Martha to our board, gives us a lot of guidance and accountability to what we need to do as a service. My focus is a lot on recruiting this year and specifically into engineering and into products. So we're looking for a whole lot more leadership there.

Anthony Noto
And then as relates to marketing strategy, about a year ago, we talked about the need and opportunity for Twitter to clearly communicate our value and deliver in an instant. And we talked about that for the first time. We talked about the importance of product, content and marketing all working together synchronously to maximize the impact to be able to do that. Leslie has come in and joined the team and has already had an impact. She's integrated both our advertising, cross-functional groups, marketing cross-functional groups, so those focused on advertisers and those focused on consumers, into one cohesive cross-function. And they're developing first principles. They're developing integrated marketing plans. But ultimately, it ties back to that overall strategy of combining product, content and marketing to deliver integrated experience for our users, both logged in, logged out and syndicated, so that we can clearly communicate that value and deliver it in an instant. So we're real excited about having her on the team, which has already had an impact.

Krista Bessinger
Great. And our next question comes from James Cakmak at Monness, Crespi and Hardt.

James Cakmak, Monness, Crespi and Hardt
Adam, just wanted to talk about the Google relationship. I understand DCM is going into alpha test here in the coming weeks. Can you just talk about what we should expect and how accretive this relationship can actually be, as we look into the second half of this year? And then, I guess, Jack or Anthony, on the users, this is obviously something that gets a lot of scrutiny. But you had the DAUs, the MAUs, but at the same time, you talk about 800 million on and off platform. Is users even the right way to think about it? Just how do you guys think about it internally? And is there some metric that we should continue to want to see?

Adam Bain
James, I'll take your first one. So the DoubleClick side, as you recall, there's 2 parts of the DoubleClick deal: DCM, as you mentioned, which is around measurement; and DBM, which is around ad buying. So let me start with the DCM piece measurement. In the quarter, we expanded the Beta over a dozen advertisers, and we've run hundreds of campaigns now through DCM. We have seen 2 things. One, when measuring desktop impressions to desktop conversions, the data looks accurate through DCM and the results for Twitter for these campaigns looks strong. So that's good news. When on the other edge -- on the other side of the house, when you look at mobile impressions that are measured through DCM that are measuring desktop conversions, so this cross-device measurement, what we saw through the measurement period is that something that the industry overall needs to address, which is that this type of cross-device measurement overall needs work from an industry standpoint. This is something that we're working with Google together on. It's part of the reason why we did the DoubleClick deal in the first place is to help solve some of this cross-device measurement for the overall industry. This hits us particularly in an acute way because 90% of our impressions, our ad impressions, are on mobile. So cross-device for us is a really important part. On the DBM side, Google engineers and Twitter engineers are working on the buying piece for integration. We believe it will be in Beta in Q3.

Anthony Noto
As it relates to your question on users, we like to refer to it as the world's best connected audience. We're focused on driving repeat usage of that connected audience. And I don't want to confuse anyone. When we say connected, we mean connected to each other, not just connected to a digital platform. And the value of having that connected audience allows us to be the place to find out what's happening in world right now because conversations are live, commentary is live and it travels around instantly because of our syndicated partners and both our logged-out and logged-in experiences. So we are still absolutely focused on total audience, but we want to emphasize the point that we wanted to be the best connected audience, which really reflects our point of difference to all of those audiences.

Krista Bessinger
Great. Thank you. And the next question we'll take from Twitter, comes from the Twitter account of echo2all and he or she asks, "Can you talk about the progress that you're making on developer relations?"

Adam Bain
Sure. So we recently announced with Fabric that we've crossed over an important milestone, which is Fabric is now touching over 2 billion devices, which is a really important milestone and it shows that Fabric is indispensable for developers across the board. The other piece of our developer relations is moving Fabric customers also through monetization to the degree that they're looking for help. For monetization, we saw strong growth in the quarter for MoPub. The amount that we paid to publishers grew 80% year-on-year for MoPub, so more ahead, I think, there.

Krista Bessinger
Great. And the next question comes from the line of Dan Salmon at BMO.

Daniel Salmon, BMO
A couple of initiatives you mentioned were especially, I think, Adam, to help the video business who are expanding demographic and verification. Might that be something that merely piggybacks on your relationships with Nielsen and Moat? Or are there new things to be added there? And then maybe just

one follow-up on the renewal of the holding company upfront relationships. Just interested to hear how much of the uptick in spend from them and other large brand advertisers through that process was centered around football? And maybe if there's a way to help us gauge maybe what a same-store sales type of number might be for that?

Adam Bain
Sure. So on the first one, Dan, on the demographic targeting and also verification of audiences, it is going to be an expansion of our Nielsen and Moat relationship, so that we can bring some of the things that video advertisers are looking to measure onto Twitter that hasn't been available before in mass. And that's one of the things we're teed up on for Q3, as we open up our video platform in a major way to also coincide with our NFL deal. In terms of the renewal of the holding company upfronts, we did those before we announced the NFL deal. And as I mentioned, they're up 40% year-on-year, which indicates the back half opportunity. Those upfronts are centered, however, around video. And so the work that we've done with marketers over the last couple of quarters has shown great response. And so I think the agencies are looking at that and having enough confidence to invest in Twitter going forward, especially around video.

Krista Bessinger
Thank you. And the next question comes from the Line of Peter Stabler at Wells Fargo.

Peter Stabler, Wells Fargo
Wanted to go to the guidance. Could you help me reconcile a couple of things here? So we're hearing pretty strong commentary regarding ROI, new advertising, products, measurement, et cetera. Yet a sequential guide is a bit perplexing to us, as even mature media companies growing 3% to 5% a year can put up sequential gains in Q2. So I guess, is there a suggestion here that current advertisers are pulling back spending as you add new advertisers? Or if you could just provide a little bit more color here, that would be helpful.

Anthony Noto
Sure. In terms of the guidance, it reflects a couple of factors. First, the results in Q1 were at the low end of our expected range. That underperformance relative to the high end of the expected range or even the midpoint reflected a weak March, and that's the month of the quarter that underperformed. Obviously, we've gotten through April and have a sense for where April is. And the next 2 months are really critical to achieving the full quarter outlook that we provided or exceeding it. And so we're providing you the near-term update that we have. I think as relates to advertiser health and the state of demand for the platform, Adam can talk to this in more -- in some more detail. But I would just tell you the same thing we talked about last quarter. We have a number of different channels, a number of different geographies. And our largest channel and our largest geography is now about driving share of wallet, and that's our direct sales organization in the U.S. And so the penetration growth of those advertisers has largely run its course, and we're focused on driving greater share of wallet. And so some of the slowdown that you see is a reflection of the fact that we're moving from 2 dimensions of growth for that largest group of advertiser -- largest dollar spend of advertisers to 1 dimension of growth.

Adam Bain
Yes, and, Peter, I'd just add on top of what Anthony just mentioned. In our largest most mature brand channels, we actually actual saw growth in Q1 on a year-on-year basis. And we expect that to continue. Essentially what we expect in Q2, however, is that more of these advertisers will trade up from these

legacy brand promoted tweets into promoted video products. Again, we think this is a great thing for the platform since video consumes less inventory. It's a great thing for those marketers. They see great ROI when they use video versus traditional promoted tweet product. And it's also better for consumers. Consumers report enjoying the video ad experience even to a greater degree than what we see in traditional promoted tweets.

Krista Bessinger
Thanks. And the next question we'll take is from Twitter. It comes from the Twitter account of Neil Cameron. And he asks, "Does artificial intelligence have a major part to play in your vision for customer service on Twitter?"

Jack Dorsey
That's a great question. We're really excited about machine learning and deep learning and all the advances in technology to make the experience better. And it's best when they're applied in a very, very thoughtful way. Twitter has always been phenomenal for the past 9 years around customer support. We've had people come on to the platform to talk about their service, to talk about a brand, to talk about a product they just bought. And the brands actually have a conversation with them. And just a few months ago, we released an update to that experience where any brand, any company can take a customer service tweet private and actually handle the situation with a customer privately and direct messaging and also give them feedback on the experience, so a company can know how well it's doing. We think that's a great way to start, but we're always looking for new technologies to apply to make that easier for companies to address all of the tweets and to address all the customers that they see on the platform on a daily basis.

Krista Bessinger
Thank you. And the next question comes from the Line of Youssef Squali at Cantor Fitzgerald.

Youssef H. Squali, Cantor Fitzgerald
Two questions, please. First, starting with Adam. Given the focus on video and promoted video, can you just help us, one, understand how you actually price video on the platform, and maybe the differential, if there is one, in pricing between promoted video and the promoted tweets, considering the migration you just spoke about? And then, Anthony, I think on the MAU issue, you talked about the major drivers being seasonality and marketing initiatives. Can you help us just parse out a little bit what these marketing initiatives that had an impact from the quarter were? And then when you say no unusual trends you've seen in Q2, which is the reason you're not necessarily guiding to MAU, are we to understand by that, that we're back to kind of normal seasonality on that -- for that metric?

Adam Bain
Yes, great. I'll take the first one. So in terms of how we price our video products, they're priced on a cost per video view basis versus these older legacy brand promoted tweets are priced on a cost per engagement. We've seen video be a more effective ad unit for marketers, especially when measuring either the mind or the wallet. We've seen video now is a doubling of ad recall versus traditional promoted tweets. Marketers that moved into video also saw almost a 30% lift in message association or ad association versus traditional promoted tweets, and then lastly, an 18% lift in awareness. So ultimately, it's helping drive all aspects of a marketer's campaign and objectives, and video is just performing much better.

Anthony Noto
Youssef, on your question as relates to marketing initiatives, a couple of factors. The marketing initiatives that impacted the MAU growth are really about digital marketing, and it falls into 3 buckets: performance-based marketing; digital video ads; as well as direct marketing. Starting in August of 2014, we started to build an internal team that could do digital and performance-based marketing at scale. We've slowly built the expertise, the data and the learning. We feel do that at really effective rate relative to lifetime value. And so that's what we're referring to when we say marketing initiatives. As relates to MAU guidance, there's not much other color for me to provide you other than in the past quarters, there have been some type of underlying trend that was unusual that we needed to point out. And we're just saying there's not an unusual underlying trend that was necessary for us to point out for this quarter.

Krista Bessinger
Thanks. And the next question comes from the line of Brian Pitz at Jefferies.

Brian J. Pitz, Jefferies
Earlier this month, 2 new board members were appointed. I think Jack also hinted that there are more additions to come soon. Any color on what other skill sets you're looking for to complete the team, or any insights on what you're looking for?

Jack Dorsey
Thanks for the question, Brian. We're continuing to look for public company experience, for global international policy experience, media experience, more of the voice of the person on the platform that we find, so that we can continue to build the right product and get the right guidance and perspective from the board. And we're continuing to look for more diversity on our board as well.

Krista Bessinger
Thanks. And the next question we'll take is from Twitter. It comes from the Twitter account of Neil Doshi. And he asks, "Can you discuss the SMB opportunity? How is traction? And what are some of the challenges?"

Adam Bain
Sure. On the SMB side, we were up on a year-on-year basis overall in active advertisers, and it was driven by our SMB initiatives. SMB for us is an exciting opportunity because we've identified close to 9 million businesses who have set up shop on Twitter and are using it organically. Our goal is to move those 9 million businesses through the funnel to become active advertisers on the platform. As we think about sort of the road ahead in SMB, we see the SMB efforts mirroring our efforts in direct response. As we've seen so far, a lot of the spend from our SMB customers are into things like our website card objective, so our DR objective. So as we make improvements to targeting measurement and also exposing those DR advertisers to Twitter's total audience, we think the SMB business will grow right along with it.

Krista Bessinger
Great. Thank you. And the next question comes from the line of Ken Sena at Evercore.

Kenneth Michael Sena, Evercore
You showed a nice EBITDA leverage in the quarter, but I noticed that overall R&D spend is down about 8% year-on-year. So just given the size of the opportunities that you cite in the letter and the

investments that are being made by your competitors, do you feel you're investing enough? And then we may have missed it, but we didn't see an off-network revenue or TAC disclosure. And so maybe you could provide that as well, that'd be great.

Anthony Noto
Sure, I'll take the second question first. Our TAC was 57%, and that will be provided in the detailed disclosures that are available on our IR website. As relates to R&D expense, we went through restructuring last year to rightsize the organization so we could focus on delivering the product road map that the team has built. We feel like we have the right organization behind that. We're always looking for great talent and retaining great talent, and we'll continue to focus on that. Interestingly enough, despite the change in R&D expense, the number of software projects that are being worked on in the first quarter of this year that were started, doubled relative to what they were in the fourth quarter. And in the third quarter, we had very few because we're in the transition time period. So we have a very sizable engineering product and design team. The work is focused on our product road map. It's a great alignment. And that's best reflected in the fact that we had such an increase in software development projects in Q1.

Krista Bessinger
Thanks. And the next question comes from the line of John Blackledge at Cowen.

John Ryan Blackledge, Cowen
2 questions. For the DoubleClick partnerships, will either the DCM or DM -- or DBM pieces be out of Beta in 2016? Or are we looking at kind of a 2017 event at this point? And then the second question would be, have you said what percent of ad revenue is traditional promoted tweets? And what was the rate of change for that ad revenue on a year-over-year basis in 1Q?

Adam Bain
Yes, so on the DoubleClick side, DCM is in Beta right now. As I mentioned, we've expanded it beyond a dozen clients and hundreds of campaigns. We're going to continue to expand the Beta out, but we're going to watch the cross-device measurement piece very carefully, as I mentioned. For us, we want to make sure when a marketer, especially direct response marketer, runs with us through DCM, is that they fully understand that their mobile impressions that they're running on Twitter, of which 90% usually of their impressions are on mobile, will map to the conversions and they're able to do the math correctly to get to the conversion number. On the DBM side, engineering is happening right now to get the DBM pipes in place. So we anticipate a Beta of that in Q3. And then as marketers see good ROI, we'll open it up from there.

Anthony Noto
As relates to the -- as it relates to the legacy promoted tweet, both revenue in terms of year-over-year growth rate, what I'd say is it's still a very valuable format for advertising partners. It's just becoming -- their spending is becoming more diversified, and we're seeing a move away from that to these higher performing autoplay video ads, which are equally valuable. And so there's a little bit of a mix shift. But that overall pie is under pressure, and it's still a sizable piece of our revenue. And so to Adam's point, we're excited about the product road map we have on the revenue product side. We hope to see that deliver over the course of the year. But that one legacy promoted pie is under pressure.

Krista Bessinger
Thanks. And the next question we'll take is from Twitter. It comes from the account of Rich Greenfield. And he asks, "Your strategy and focus is really centered on live. How does Facebook's desire to own live impact Twitter?"

Jack Dorsey
Thanks, Rich. We've been doing live for 10 years, and we have -- we believe we have a leadership potential in it. We have a leadership position in it. But it's not just about showing a live event. It's also about hosting a conversation around a live event. Twitter has always been the best place to see what's happening immediately, to see what's happening instantly and to bring people together around a particular shared experience. And as we talked about last time, we think the easiest way to get what Twitter is, is really to show a live event. Show people the great accounts who are providing insight that you can't find anywhere else, you can't find in your address book but you actually meet on Twitter through that experience, to connect them through a follow and also to encourage them in a conversation. And that is exactly what we're focused on, making sure that we continue to do. Because we are public and because we are distributed and because we are simple, we are the fastest way to see that event, but it also can go everywhere. So it can say a 100 million audience that we continue to grow and continue to focus on. And then we're working on making sure that we have the best experience out there and using technology appropriately to increase that experience and the enjoyment of the experience. Periscope is a great example of this where we think we do have a significant leadership position in live streaming video. And we want to make sure that it's the best, not only for broadcasters, but for their fans and their fan base that watch those periscopes.

Krista Bessinger
And so the next question comes from the line of Mark May at Citigroup.

Mark May, Citigroup
Just had one quick question. Regarding your comments in the letter that you saw softness during the quarter from some of the large brand advertisers, would you say that, that is kind of a reflection of what's happening at the macro level? Or it's more company-specific, for instance related to the promoted tweets transition that you've referenced?

Adam Bain
Yes, I think for us it really is around this transition from traditional legacy brand promoted tweets into promoted video. Essentially, what we see the advertisers doing is testing into these higher performing units. They haven't grown the spend yet. We believe that new budget will be added when some of the other features that we have in place that I talked about like the GRP buying or some of the demographic targeting and verification. In terms of the economy, I talked a little bit about it.

Anthony Noto
What I'd add to that is obviously we want to see all of our peers report and see ultimately what the results are. When we look at our top 10 vertical categories, QSR, quick serve restaurants, as well as retail were 2 categories that performed decidedly lower than the rest of the overall business, which are macro-driven categories. So to the extent it impacted everyone, we'll have to wait and see, but that's the only evidence that we have in our results.

Krista Bessinger
Thanks. And the next question comes from the line of Ron Josey at JMP Securities.

Ronald V. Josey, JMP
I think you mentioned, Jack, earlier that post the NFL announcement of other leagues and live events reached out to you all, I was just wondering, can you talk about how Twitter's viewing sponsored content versus promoting the content that users are generating via Moments and other tools?

Anthony Noto
Sure. Why don't I hop in there? I'm not exactly sure what you mean by sponsored content. We obviously have an ad model that monetizes incredibly well. It will work seamlessly with the live sports, live politics and news, as well as a live entertainment product, both in the format that we already have as well as autoplay video. And so the opportunity to create economic value for our partners really falls into a few buckets. First, we can help them reach a younger audience that's hard to reach. A large percentage of our users are the male demographic. We can reach a global audience, and we can reach a mobile audience and really extend the reach. We can also help drive tune in to those that do have linear television and are away from home or are not aware of the programming being on. And then of course, we can also help them generate more revenue, both directly and indirectly and that value proposition, in addition to the things that Jack talked about in terms of the interest graph and knowing who is actually interested in that content, specifically because they're following those types of account and looking at that specific type of tweet is really powerful for us to deliver them a complete solution.

Adam Bain
And, Ron, one other thing I'd mention is in terms of overall sponsored video content, we had another successful quarter of Amplify. We now are over 300 Amplify video partners. So this is premium video content that partners are bringing on to the platform, sometimes exclusively onto Twitter. And it's available now in 25 countries, so truly a global offering. Overall, we ran hundred -- hundreds of campaigns in the quarter and we saw great campaigns around March Madness, the Grammys and Super Bowl. As we think about the year ahead, certainly there's a bunch of interesting events coming up, but there's also a bunch of always-on opportunity for Amplify partners to speak directly to their audiences and then also to create a win-win with them for our monetization.

Krista Bessinger
Okay. We'll take the next 2 questions together. They're actually one from Periscope, one from Twitter from the account of tmcmill81, but they're very related. So question from Periscope is, "Are you guys planning any acquisitions a la Periscope?" And the question from Twitter is around plans to use the $3.5 billion in cash?

Anthony Noto
Sure, they are definitely related. The first point I'd make is that acquisitions have been critical in creating value for the Internet sector, consumer Internet sector over the last 2 decades. Many of our competitive peers have bought assets at the very early stages that have resulted in billions of dollars of value, and Twitter has been the same. The acquisition of Vine, the acquisition of Periscope, of Fabric are foundational acquisitions that are allowing us to create value for shareholders both now and into the future. And so the fact that we have the amount of cash on our balance sheet of over $3.5 billion, leaves us with the strategic optionality to look for those assets that are game-changing the way Periscope is and the way Fabric is, as well as some of our other acquisitions. And we're focused not just on

consumer capture devices, but we're also focusing on other opportunities that have scaled audience to leverage our great monetization vehicle. And we are also focused on ad technology to continue to build out our ad text stock. At the end of the day, our goal is to be a one-stop shop for advertising. And having both owned and operated inventory, third-party inventory and ad text stock that can serve both of those constituencies is really critical.

Krista Bessinger
Thank you. And the next question comes from the line of Aaron Kessler at Raymond James.

Aaron M. Kessler, Raymond James
Couple of questions. First, can you just give us an update on the logged-out user monetization? I believe that was in Beta last quarter. Is that still in Beta? What's the performance there and maybe timing taking that out of Beta? And just if you can provide an update on kind of the UI changes that we -- in terms of fixing the broken parts you referred to last quarter, maybe specifically like the @name syntax @reply as well.

Adam Bain
Aaron, I'll take the first part, which is around the logged out monetization update. We continue to expand the Beta across Q1. We are encouraged by the performance. When you look at cost per click rates, for example, one of the DR objectives that we have, the CPCs are nearly identical for logged in and logged out from a sustained basis across the quarter, which is a good indication from advertisers that they're seeing good value from logged out experiences. In order to make that opportunity or realize that opportunity, we realize that we need to invest more to increase the amount of logged-out impressions and overall scale the offering.

Jack Dorsey
And on the broken windows and the user expense in particular, we're looking a lot at conversations. Conversations is a huge part of the platform, and that's where a lot of the confusing aspects of Twitter are that we know is inhibiting more usage. And you should expect to see a lot more updates to the conversation modules over this year. And we're really excited to push them up because they clarify a whole lot. And we're making conversation on the platform a lot easier, a lot more expressive as well. We've focused a lot of our energy recently on the onboarding experience, and we've seen some pretty meaningful gains here. We saw over 48% increase in follows and 56% increase in mutual follows. Mutual follows are really, really important to retention because you're getting that constant feedback and you can have conversation on the platform around it. So what we're doing around onboarding into the flow is working, and we're going to continue to strengthen that.

Krista Bessinger
Great. Thank you. And we have time for just one last question. The question comes from the line of James Lee at CLSA.

James Lee, CLSA
This is a question for Adam, specifically. With video ads ramping, I assume age and gender targeting will become more important. I was wondering how do you address that challenge when your login data is a little bit more implicit? And just give a sense of how accurate you are in terms of predicting both factors. And also, video advertising, Adam, how much of your TV video campaign right now is companion to TV versus stand-alone on your platform?

Adam Bain
So on the first one, in terms of video, to do age and gender, we do ask Twitter users now to input their birthday. There's a special feature on the platform where they get birthday balloons. That data has been useful in terms of targeting. Gender, we actually are highly predictive on a user's gender, but just based on the accounts they follow and some other feature set. What we're working on in terms of video is making sure that our data asset matches the validation services like Nielsen's DAR. And on the second one, is that a question more about our consumer marketing or some other thing?

James Lee
No, it's more of video advertising. When you talk to advertisers in general, are they doing parallel campaigns on their TV and also on your platform at the same time? So as a companion platform or is this a stand-alone platform?

Adam Bain
I see. Yes, great question, James. Yes, we are seeing marketers line up campaigns together. This has historically been an opportunity for us in general. What's interesting though is, we still see a ton of underperforming display advertising out in the world and so what we see happening is money is moving out of display advertising -- traditional display advertising into categories like this. And so marketers ultimately are lining up their Twitter spend with their TV spend. Essentially what we've done now is we've proven that we already know there's great Twitter ROI when you do that, but there's also now a proven great TV ROI and we've done a bunch of research across multiple categories, whether it be auto or consumer packaged goods, to show when advertisers line up their buys in that way, it actually led to, in some cases, over a 10% lift in their TV ROI.

Jack Dorsey
All right, that's all for now. Thank you all for joining us, and we look forward to talking with you next quarter.

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