



# Twitter Q3 2015 Quarterly Results Transcript

SAN FRANCISCO, CALIFORNIA

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## PRESENTATION

### **Krista Bessinger**

*Senior Director, Investor Relations*

Hi, everyone, and thanks for joining our Q3 Earnings Call Webcast and Periscope. We have with us today our CEO, Jack Dorsey; COO, Adam Bain; and CFO, Anthony Noto. We'll begin with approximately 20 minutes of prepared remarks followed by Q&A. During the Q&A, we'll take questions asked via Periscope and Twitter in addition to questions from conference call participants. Questions submitted via Twitter should be directed to @TwitterIR using the #TWTRearnings or the \$TWTR. We would also like to remind everyone that we'll be making forward-looking statements on this call such as our outlook for Q4 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. Also note that 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 are provided in the tables in our earnings press release on our Investor Relations website. Also note that these non-GAAP measures are not intended to be a substitute for our GAAP results. And finally, this call in its entirety is being webcast from our Investor Relations website and also being broadcast over Periscope. An audio replay of this call will also be available via Twitter on our Investor Relations website as well in a few hours. And with that, I'd like to go ahead and turn it over to Jack.

## **Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

Thank you, Krista, and thank you all for joining us on Periscope, on the Web, and on the phone. I'm pleased to be joined by Anthony and also by Adam, who will be joining us on these calls going forward.

Looking at the quarter from a high level, we saw strong financial performance with \$569 million in revenue and \$142 million in adjusted EBITDA. We continue to grow the number of people who use Twitter, now totaling 320 million monthly actives and 307 million excluding SMS Fast Followers. Together with our logged-out audience of over 500 million people, which is still growing sequentially, that's over 800 million people who use Twitter owned and operated properties every month. And that doesn't include the over one billion unique visits monthly to websites with embedded Tweets.

As we said on our last earnings call, our focus is on three things: a more disciplined execution, simplifying our services, and better communicating our value. We've made meaningful progress across all three.

First, let's talk about our execution. We've simplified our roadmap around a few big bets across Twitter, Periscope, and Vine that we believe represent our largest opportunities, assigned leads for each major product initiative, and fully staffed those teams. As part of this focus, we made a decision to reduce our workforce by about eight percent. While this decision was difficult, we strongly believe we can move faster with this new org structure and smaller, nimbler teams. Product, engineering and design still represent our largest group, and that's important, because as a technology company our services power everything we do. And we're still hiring and investing in talent in ways that specifically serve our priorities. Having Adam take on a broader role as our COO will bring his attention not just on our business, but across the entire company. Lastly, we're thrilled that Omid Kordestani has joined us as Executive Chairman. Omid's experience helping world-class teams grow and operate at scale is a tremendous asset for our board, our leadership, and our company.

Second, an update on our services: Twitter is getting easier to use every single week with a steady increase of launches. Since the last earnings call, we've launched some great improvements:

- Highlights on Android, which pushes to you the most interesting Tweets of the day, tailored just for you;
- Polls, a much easier way to gather opinions directly in a Tweet;
- 21 new features for our mobile development platform Fabric, including integrations that let anyone use Amazon Web Services, Optimizely, and Stripe without any additional work;



- New tools to help developers find, organize and syndicate Tweets in mobile apps and websites;
- Landscape view and web profiles for Periscope, which were two of our most-requested features;
- Music on Vine, making seamless audio looping easy and fun; and lastly,
- Moments, the best of what's happening on Twitter in an instant.

Launched just after the end of the quarter, Moments is the simplest way to see what's happening in the world, organized by topic. It's early and we're still collecting feedback, but we've already seen how Moments improves Twitter. I wanted to share a few of the most interesting Moments we've seen so far:

- The Toronto Blue Jays series-clinching win over the Texas Rangers during the Major League Baseball playoffs, which showed not just the best plays and commentary, but also the passion of Blue Jays fans after their go-ahead home run.
- The Washington Post's Paris Fashion Week Moment, putting people front row for all the hottest designs at one of fashion's biggest events; and
- Mashable's Moment of the South Carolina floods, which brought home in a very visceral way the extent of flood damage and how residents were coping.

You can find Moments in our app, on [twitter.com](https://twitter.com), and embedded on sites all over the web. Our focus with Moments now is making them easier to discover, getting people into them right when they open Twitter, and rolling curation out globally beyond the U.S. Moments is just the start of bolder simplification efforts you'll see on Twitter. I've challenged our teams to look beyond assumptions about what makes Twitter the best place to share what's happening. I'm confident our ideas will result in a service that's far easier to understand, and much more powerful.

Finally, our focus on better communicating Twitter's value. I'm happy with the strides we're making here as well. We've begun an integrated marketing campaign in the United States around Moments that will roll out over the rest of the year and into 2016. In fact, you'll see our TV ads tonight during the World Series. We're also doing a better job of leveraging events that demonstrate Twitter's value to our customers. We used last week's Flight conference to reaffirm our support of the developer community and improve our tools for them. Our standing-room-only #VideoNOW event for marketers earlier this month gave us a platform to show the full richness of video on Twitter, Periscope, and Vine. Finally, I have asked our General Counsel Vijaya Gadde to take on responsibility for our Communications team. She's pushing us to help tell great stories through the press and also use our own communication services more creatively and proactively.



When amazing things happen in the world, we see them on Twitter, Periscope, and Vine. The last several months were no exception:

- With a single Tweet in August, Germany's immigration office sent a message about their acceptance of refugees that reverberated throughout Syria and the Middle East. It created a wave of migration that was documented for all the world to see, live.
- Pope Francis' historic visit to the United States was chronicled through all our platforms by everyone from congregants to the Pope himself. The Pope's use of Twitter to create global dialogue even earned a shout-out from President Obama.
- And the arrest of a Texas high schooler named Ahmed Mohamed sparked a worldwide dialogue around the hashtag #IStandWithAhmed. We were so moved by his story that we offered him an internship.

With that, let me hand it over to Adam for some additional comments on our business performance.

### **Adam Bain**

*Chief Operating Officer*

Thanks, Jack. And hi, everyone. I'm thrilled to be joining my first TWTR earnings call. I'm excited to be taking on my new role and working with Jack and Anthony to drive greater cross-functional alignment and execution at Twitter.

As Jack said, we had a strong Q3, with broad-based strength across all major verticals, channels and geographies, driven primarily by strength in our new video features. I'll talk about those in detail in a few minutes.

First, I wanted to spend time on our key advertising priorities and how we're executing against them.

We have three main initiatives for our ads business:

1. **Building** a rich canvas for marketers;
2. **Driving** marketer ROI with improved measurement, bidding, and relevance;
3. **Increasing** scale by leveraging Twitter's unique Total Audience.

Let's start with building a rich canvas for marketers. And that starts with the growth of video. We launched auto-play video on all devices midway through Q3, and the results have been terrific for people using Twitter – and for marketers. The volume of video consumption on Twitter has grown dramatically over the last six months, with native video views up 150X across Twitter, Periscope and



Vine. The entire ad industry has been engaged in a dialogue about high quality video views – something that’s lacking in most ad platforms. In response, we introduced the highest viewability standard in the industry: only charging marketers once the ad is 100% in-view for 3 seconds. After introducing auto-play video, marketers saw an 84% decrease in cost-per-video views on Twitter. Additionally, our marketers saw an average 7X increase in video completions. People on Twitter are not just watching more video – they find the content compelling enough to watch videos all the way to the end. These results demonstrate how changes to our video ad features are helping marketers drive higher ROI. To continue scaling our video business, we need to continue to improve the cost-per-video view, and we have a number of new launches coming up in the next few quarters designed to do just that.

Along those lines, in Q4 we will open up new video-focused inventory with the launch of Promoted Moments. Available in the US as a pilot for select advertisers, it’s designed to be a great platform for marketers to tell their stories – especially video-centric narratives. Last weekend, we launched the first Promoted Moment with MGM-Warner Brothers in partnership with their Agency, OMD, for the movie “CREED,” where the studio was able to generate awareness and anticipation for the movie opening by curating videos and Tweets in a compelling campaign. For Q4, our goal with Promoted Moments will be to learn along with marketers. Demand is strong, so we will be deliberate in our approach, with a limited series of Promoted Moments optimized for A quality consumer experience above all else. To be clear: as we test, consumers will not see a Promoted Moment every day.

Let me turn to our second advertising priority: driving advertiser ROI with improved measurement, bidding, and relevance. We’ve made a number of improvements here in Q3.

Let’s start with bidding enhancements. For performance marketers, we continued to introduce and improve new optimization and bidding enhancements like: cost-per-install (CPI) optimization and target cost-per-click (CPC) bidding. With cost-per-install optimization, we are now using install conversion data to make smarter recommendations about which mobile App download ads to show – and the marketer pays only when the campaign drives an install. This model lowered costs by 20 to 30% for our pilot customers. With target cost-per-click bidding, advertisers can specify a target or “average bid” rather than a “max bid,” meaning they see greater scale and more conversions at their desired cost-per-click.

In addition to the bidding work, in Q3 we also introduced a new targeting option, called Event Targeting, to capitalize on the live nature of the platform. This form of targeting makes it simple for a marketer to run an ad campaign around an event – versus hand-selecting all of the individual keywords and interests to reach the right audience. @MindShareUK has been using event targeting



actively with a number of their clients, and saw improvements in engagement rates with their ads ranging from +73% to +110%.

In order to bring these kind of results to more marketers, we're making investments in measurement and ad relevance. On the measurement side, Twitter expects to officially start our DoubleClick pilot at the end of Q4 to make measurement and attribution available to a small number of our joint customers. Let me give you some background on why this is important. Our partnership with DoubleClick is specifically designed to address two challenges:

- #1: Many third-party measurement systems were built in the desktop era, and have not accurately measured mobile in-app activity. This is important, as almost 90% of our ad revenue comes from mobile.
- #2: Existing measurement systems don't account for the powerful engagement actions on a Tweet — actions like Retweet or Follow — and the corresponding impact on downstream conversion. Marketers know there's a link, and they want to see it.

Our partnership with DoubleClick precisely addresses these two problems. Google and Twitter expect to stay in pilot through the end of Q1-2016 to tune the offering and account for Twitter's unique features. In addition to Measurement, we are also very focused on improving ad relevance. That's why in Q4 we will launch our Dynamic Ads Retargeting pilot, the first instance of using the TellApart technology on Twitter.

Let's shift to Twitter's Total Audience. Our third priority is increasing reach by leveraging Twitter's Unique Total Audience Platform. In Q3, we broadened the availability of our ad syndication efforts, so that marketers can — with just a single click — expand their ad campaigns from Twitter to a much broader audience. Through this program, marketers are able to use the same creative and targeting available on Twitter — but expand their reach to a wider audience of 700M people. This allows us to more directly compete for display ad budgets. As an example, @JBLaudio used the Twitter Audience Platform to drive an additional +70% incremental reach on their campaign with us, while achieving an engagement rate much higher than other display ad platforms.

In addition to the three priorities I've outlined, I want to close by highlighting our growth in the number of marketers using Twitter Ads. In Q3 we crossed over an important milestone of 100,000 active advertisers, driven by our Small Business initiatives. After a major launch this past quarter, our SMB ads platform is now open in over 200 markets, giving small and medium-sized businesses a way to quickly Promote campaigns, and give them access to tools like Tweet Analytics.



In the quarters ahead, we have plans to help increase businesses' use of Twitter. We have identified close to 9M SMBs already on Twitter and it's a key priority for us to provide them with more customized tools and services.

If we succeed in delivering on all three of these objectives:

- building a rich and easy canvas for marketers;
- driving ROI with improved measurement, bidding, and relevance;
- and increasing scale leveraging Twitter's unique Total Audience,

We believe we'll see steady increases in both our revenue per advertiser and the total number of marketers on Twitter. With that, I'll turn it over to Anthony to talk more about our Q3 performance and outlook for the remainder of the year.

### **Anthony Noto**

*Chief Financial Officer*

Thank you Adam, and good afternoon everyone. I will discuss our financial and operating performance for Q3 and provide guidance for Q4.

Total revenue reached \$569 million, an increase of 58% year over year and \$9 million above the high end of our guidance range. On a constant currency basis, total revenue grew 64% year-over-year.

Total advertising revenue reached \$513 million, up 60% year over year as reported, and up 67% on a year-over-year basis using constant currency.

Twitter owned and operated advertising revenue was \$447M, up 42% year over year. Off-network advertising revenue reached \$66M, or 13% of ad revenue, up from 8% of ad revenue in Q2 2015 and 2% in Q3 2014.

Total ad revenue growth continues to be driven by strong growth in demand for our advertising products, as once again, we benefitted from significant growth in our advertiser base.

From an advertising products perspective, growth was primarily driven by video and website card features on both a year-over-year and quarter-over-quarter basis. We continue to improve the offerings for direct response advertisers, and this was the first full quarter of auto-play video ads.

By channel, SMB was again the fastest growing on a year-over-year basis, driven by growth in new customers. Year-over-year growth accelerated in Q3 vs. Q2 for our DSO channel, driven by demand



for auto-play video. DSO remains our largest overall contributor.

By region, International Ad Revenue grew 66%, and US Ad Revenue grew 57% on a year-over-year basis.

Turning to monetization metrics:

- Year over year ad revenue growth was driven by an increase in ad engagements, which grew 165%. This was primarily the result of our move to auto-play video in late Q2, as well as growth in our off-network business.
- Average CPE fell 39% year over year due entirely to the shift to auto-play video, as the cost per view of auto-play videos is dramatically lower than that of click-to-play, providing better value for advertisers.

And to round out total revenue, data licensing and other revenue contributed \$56 million in the quarter, an increase of 37% year over year.

Moving on to costs and EBITDA. In Q3, total non-GAAP expenses were \$494 million, an increase of 45% year over year.

- Total Cost of Revenue increased 79% year over year.
- Traffic acquisitions costs (TAC) were \$42 million in the period, up from \$4 million in the year-ago period. TAC was a meaningful driver of the increase both year over year and quarter over quarter, as we continue to grow our off network revenue.
- R&D costs were \$107 million in Q3. Growth in R&D spend is driven by increased headcount and related overhead costs, primarily from recent acquisitions. On a percent of revenue basis, R&D costs were 19% of revenue in the quarter, down from 25% of revenue in Q3 2014.
- Sales and Marketing expense was also a driver of year-over-year growth in expenses, totaling \$166 million. Growth in this line reflects continued global expansion of our sales efforts. As a percent of revenue, Sales and Marketing costs were 29% of revenue, vs. 33% in the prior year period.
- SBC expense came in below our expectations at \$166 million and is down approximately \$9 million vs. that in Q2, driven primarily by forfeitures.
- Capital expenditures totaled \$120 million in Q3.

Adjusted EBITDA totaled \$142 million, an increase of 108% year over year and also above the high end of our guidance range. A portion of the outperformance can be attributed to a shifting of certain expenses from Q3 2015 to Q4 2015. Adjusted EBITDA margin for Q3 was 25% vs. 19% in the prior year period and vs. 24% in Q2.





Non-GAAP net income was \$67 million in the quarter, up from \$7 million in the same period a year ago. Our GAAP net loss in Q3 was \$132 million. Non-GAAP diluted EPS was \$0.10 per share, while GAAP EPS was a loss of \$0.20 per share.

Turning now to our audience: Total Average Monthly Active Users reached 320 million for the quarter, reflecting year-over-year growth of 11%. As mentioned on our Q2 call, SMS Fast Follower user activations are not necessarily linear, as they are mostly dependent upon major events or signing new business development partnerships. MAUs, excluding SMS Fast Followers, reached 307 million in Q3, compared to 304 million MAUs in Q2, for a growth rate of 8% on a year-over-year basis.

Now, I will turn to our guidance. For Q4, we expect:

- Revenue to be in the range of \$695 to \$710 million, and
- Adjusted EBITDA to be \$155 to \$175 million.
- As a reminder, we announced a corporate restructuring two weeks ago. These actions are part of an overall plan to organize around our top product priorities and drive increased efficiencies throughout the company. We plan to reinvest the savings in our most important growth areas going forward.
- Q4 GAAP expenses will include the vast majority of the \$5 to \$15 million of total restructuring charges expected from our corporate restructuring. Please note that these charges are excluded from our adjusted EBITDA guidance for the fourth quarter. These charges are expected to be \$10-20 million in cash charges.
- We expect stock based compensation expense in the range of \$170 million to \$180 million in Q4.
- We expect the share count for Q4 to be approximately 682 million shares on a GAAP basis, and the fully diluted share count to be approximately 710 million shares on a non-GAAP basis.
- Capital expenditures for Q4 2015 will be no more than \$110M.

Finally, as he also did at Square, we are fortunate to have Jack make a very generous contribution of approximately one third of his holdings in Twitter for the benefit of current and future employees. These approximately 7M shares will go back into the equity pool and will be used to attract and retain great talent, while limiting shareholder dilution. For modeling purposes, once approved by shareholders at the next annual meeting, the giveback will be treated as a capital contribution--with offsetting entries within stockholders equity. Subsequent distributions will be treated as normal stock based compensation expense.

With that, we would like to take your questions. Operator can you please poll for questions?



## QUESTION AND ANSWER

### **Krista Bessinger**

Our first question comes from Justin Post at Bank of America Merrill Lynch.

### **A. Justin Post**

*BofA Merrill Lynch, Research Division*

I believe the on- and off-network disclosures are new and kind of interesting. Could you talk about exactly what off-network advertising is and maybe the difference in margin characteristics?

### **Anthony Noto**

*Chief Financial Officer*

Adam and I will tag team this answer. So off-network advertising would be that advertising that's not on our owned and operated inventory. So TellApart would fall into that bucket. TapCommerce, a business that we bought over a year ago, would be in that bucket. And then also Adam mentioned the Twitter Audience Platform network would be into that bucket. That's a business that has traffic acquisition costs associated with it. We disclosed the traffic acquisition costs. That would give you a sense for the impact on a cost basis relative to the rest of our business. And I'll turn it over to Adam to talk about it more strategically.

### **Adam Bain**

*Chief Operating Officer*

Yes. So it's important to know when an advertiser comes to our ad UI, they now can, with a single click, expand their campaign from the Twitter on the owned-and-operated (O&O) audience to the now over 700 million audience across the MoPub network. The other interesting thing to know is that we're using the same targeting and the same creative, both on Twitter and also off of Twitter. One other thing to note, we also are monetizing logged-out users across the network. This is the first time that we've been doing that. It's going to come in handy as we also begin to run a pilot here in Q4 for on-Twitter logged-out monetization. So we're going to take some of that learnings and apply it back on Twitter logged-out ad products.

### **A. Justin Post**

*BofA Merrill Lynch, Research Division*

Great. Maybe one follow-up for Jack. I mean it's is a huge asset, the non-logged in users. How do you think about that value, and how do you reach those people?



**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

I think it's amazing in that it shows the real reach of Twitter and that you go to Twitter to say something to the world and you really reach the world. And that audience continues to increase, and that reach continues to increase in a really meaningful way. So from a perspective of someone who is tweeting at one place and you can reach the entire globe.

**Krista Bessinger**

And I think there was a question in there too about the monetization of those logged-out users? Adam, maybe you want to speak to that?

**Adam Bain**

*Chief Operating Officer*

Sure. From a monetization standpoint, we have some experience so far in monetizing logged out across the network. And what we've learned so far doesn't allow us to deviate from what we said previously in terms of what we think the opportunity exists in terms of logged-out users.

**Krista Bessinger**

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

**Ross Sandler**

*Deutsche Bank AG, Research Division*

One for Anthony or Adam, and then I guess one for Jack. So if I caught the figures correctly, this is same as the last question, the O&O revenue of \$447 million was up about somewhere in the high-40, call it 47% or so, ex FX in the quarter. That's well below last quarter's run rate. So just wondering if you can give us some more color on what's driving the deceleration in O&O. Is that something deliberate, or are advertisers choosing the syndication in the greater propensity in 3Q versus last quarter? And then what kind of O&O growth do you expect in the guidance in 4Q? And then a question for Jack, I guess, is just on Moments. We're only a few weeks in, but anything you can say in terms of what you're seeing from a DAU perspective or higher usage of new Twitter users who are experimenting with Moments, that'd be great.

**Anthony Noto**

*Chief Financial Officer*

Thanks, Ross. In terms of the owned and operated question, I'm going to give you a good sense of how we're approaching our business from channels and how it's happened and transpired over time that'll give you a sense for the slowdown and then turn it over to Adam to talk about the opportunity



that we have within those channels. So for those that aren't familiar with Twitter, we have 3 advertising channels, direct sales organization, which really focuses on big branded advertisers. We built our business on the back of those advertisers, unlike other Internet companies, really delivering great value to them. We also have the mid-market channel and the SMB channel. The SMB channel is our youngest channel, so to speak, and there's a significant opportunity there. Within the DSO channel, we have an international business and the U.S. business. The U.S. DSO business has historically been driven by 2 factors: the growth in advertisers and the growth in spend per advertiser. We are seeing less growth in advertisers now than we have in the past, given this tremendous penetration that we've driven. And the primary growth driver of the U.S. DSO businesses now average revenue per advertiser. The good news is there's significant opportunity for us to drive share of wallet with those advertisers. I'll flip it over to Adam in a second to talk about specifically how we're attacking that opportunity. As I mentioned on the call, our DSO business globally accelerated. That was driven by the two-pronged growth internationally of the international DSO business still benefiting from growth and penetration of advertisers and average spend per advertiser. And then I'd also point out to you our youngest channel, the SMB channel. Adam mentioned, we have over 100,000 SMB advertisers. Our goal is to get the millions of advertisers, like our competitive peers, not in the hundreds of thousands, but millions. And we're really focused on driving those key benefits across creative targeting and measurement that Adam talked about previously. So I'm going to flip it over to him to talk about the U.S. DSO ARPA opportunity.

**Adam Bain**

*Chief Operating Officer*

Yes, so Ross, as we think about the advertiser opportunity, video in particular this past quarter was a huge driver in the amount and size of budgets for us. To your point about the network, we've seen so far that those budgets are actually incremental and not fighting against the owned and operated. So the marketer, especially in a couple of the other product areas, the objective areas, are looking to scale budgets in that way. And then I think at the macro level, what we're looking to do is look at this overall secular shift that's happening with inside of the display advertising business, the bunch of money in underperforming display. And what we've seen is that this money is starting to move overall into higher-performing categories like those on Twitter. And so as we look ahead in Q4 and beyond, we think we're really well set up with the network in particular. We also have a number of areas, as I mentioned, that we're opening up into a pilot here in Q4. Promoted Moments is one. I just mentioned the logged-out monetization on Twitter is another, and then certainly, continuing to scale the Twitter Audience Platform.



**Anthony Noto**

*Chief Financial Officer*

And then as it relates to the question on Moments and what we have achieved so far, let me answer the question directly on metrics and then turn over to Jack to talk about the product in a bigger perspective that we have on it. We're really excited about the launch of Moments and the potential it brings to Twitter as a service. And the reason why we're excited about the launch, it's the first time we had a fully integrated launch across all cross-functions, which we've said we need to do in order to capture the next cohort of users to use Twitter. Specifically, we will launch it not just with engineering product and design, but also an integrated team across the marketing, comms, content and media. As Jack mentioned, our first advertising commercial national will be on air tonight during the World Series. If you've been online or on mobile, you'll see our digital video ads, you'll see our paid search ads, you'll see our display ads and more to come on the marketing and content media front. So we're excited about all of those things and opportunity Moments brings to simplify our product and make it much easier to communicate our marketing. It's only been 3 weeks. We're really focused on audience and engagement, as you'd imagine. From a metrics standpoint, we have nothing to report yet on those 2 metrics, because it's very early. We're encouraged by the signs that we've seen so far, but we still have opportunities to optimize across marketing channels and content quality and our choice and selection on content. The one other thing I would just point out from a metric standpoint, and I want to make sure investors really appreciate this point, is Moments by itself is simplifying our product. But there are many features within Moments that leverage the strength of Twitter, the social aspects of Twitter and the strength of our open communication network. So the retweet, the share and the favorite. You can retweet, you can share, and you can favorite within Moments. And what that does is it provides content back to all your followers in their home timelines, enhancing their experience. So Moments is about driving adoption without a decrease in engagement, but it's also about reinforcing the quality and strength of every node in our network. And so we're also focused on those things. Jack?

**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

And Ross, thank you for the question. Moments represents a real fundamental shift in our thinking. And the reason why is there's lot of Twitter is organized by reverse chronological timeline. We made people do a bunch of work to find the right accounts to follow. And then they actually see the world through those accounts. What Moments does is you can open it up, you can actually see everything that's happened in the world that is most meaningful. It's organized by topic, so you see topics first. You tap into each one of those Moments, and you can actually see really unique insights and commentary on the particular event that you're interested in. So it questions the reverse chronological timeline. It provides a chronological narrative, a complete story that is human-curated.



So it gives you much deeper insight. And at the same time, you don't have to do any of the work to find and follow accounts. You're actually following topics. And you can actually follow topics as well, and you can follow them live. So as you see the World Series tonight, you can follow the World Series Moment. It actually appears in your timeline as well. So you see it as one source, one conversation piece that makes all of Twitter better. And that's just one initiative around making Twitter easy to understand. There'll be many, many more to come over the year.

**Krista Bessinger**

Great. And we'll take our next question from Ben Schachter at Macquarie.

**Benjamin A. Schachter**

*Macquarie Research*

A few questions. High-level, jack, thinking out a few years from now, how do you view the revenue potential of products such as Periscope and Vine? I mean, do you see these things generating more than, I don't know, 20%, 30% of revenue? Or are they still going to be relatively small a few years out from now? And then separately, Anthony, you talked about the growing the number of SMB advertisers. Do you have to do that organically, or could you partner with others to have that ramp more quickly?

**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

I won't talk about the total revenue mix, but one of the things that we're really focused on for both Vine and Periscope is to make sure that we have some of the best experiences within both those products. I think those are both stellar brands. I think they are great stand-alone brands. They speak for something very specific in terms of a really creative ability and entertainment network, in the Vine case, and live streaming, the best implementation of live streaming out there in the Periscope case. So we're right now focused on making sure the end-to-end experience around both products is stellar and making sure we're giving creators a whole lot more tools to express themselves better in a more creative way. And as I mentioned in prepared remarks, Vine, we just added Music. Periscope has a really significant and really exciting roadmap coming up, which really stretches the boundary of what it means to see an event live and to see that unfold. And of course, we'll be looking to turn both of those into businesses, and they will complement Twitter in the right way at the right time.

**Anthony Noto**

*Chief Financial Officer*

On the SMB front, Ben, I would point out a couple of things and then have Adam add a few things. We have 9 million small businesses on our platform. They're already on our platform that we've



identified by their activity. And so it's a great organic pool for us to recruit and to convert them into advertisers, not just consumers and not just content creators. The other thing I'd mention is we've announced a number of partnerships broadly that also are a form of partnering. To think about third-party attribution, we've announced the Google deal, the DoubleClick deal. There will be other deals like that, that allow us to get access to SMBs and to allow them to get data on our platform. Many small businesses are using DR, and they're using that data to measure attribution not on Twitter. And once we're in that pool of measurement, we'll have a better ability to compete day in and day out on the ROI, which we're doing such a great job on already.

**Adam Bain**

*Chief Operating Officer*

Yes I think on the SMB side, just this last quarter alone, we really started opening up the amount of tools and analytics that are available to these SMBs. And it proved to be a great conversion funnel for those small businesses. So we think we've got a bunch of opportunities to open up further the conversion funnel. And ultimately, when I talked about expanding the canvas for marketers, that also comes into play in a really massive way, I think, for the small business segment, bringing together things like analytics and ads, actions like customer service into one tight neat little bundle.

**Krista Bessinger**

Great. So we'll take our next question from Twitter. It comes from the account of Jason Mosher. And he asks, given early challenges with direct response, can you talk about your progress on DR, learnings, goals and partnerships?

**Adam Bain**

*Chief Operating Officer*

Yes, so it's important to know that 5 years ago, we started actually by building the brand business. So just in the last year, we really started rolling out direct response tools and products for that marketer base. It's about 60% of digital display advertising, so there is a huge opportunity for us there. The biggest opportunity in the near term, I believe, is on the measurement side. For 5 years, we just haven't had any third-party measurement and attribution. I talked a little bit about some of the reasons why. It was hard for or almost impossible for third-party measurement attribution systems to measure mobile in app activity accurately and connect it downstream to the conversion. And then also on Twitter, we've got this really wide canvas of all these actions that take place, the clicks but also retweets and follows and the like. And we want to be able to show the connection between that on Twitter engagement all the way downstream. So I believe that the measurement deal with Google will help marketers better see and attribute value to that. We also have launched even in this quarter alone a number of tools and improvements in targeting and management. We just launched our own



conversion lift reports, for example, which in an automated way allows an advertiser to run an A-B test and run, based on their targeting date selected on Twitter, match that to their own conversion pixel. So a lot left to go for us, and we really feel like we're getting started on our DR products.

**Krista Bessinger**

Great. And our next question comes from Brian Nowak at Morgan Stanley.

**Brian Nowak**

*Morgan Stanley, Research Division*

I have 2 for Adam. The first one, I guess, is on the slowing O&O revenue growth. I was wondering, Adam, could you just talk about your agency and advertiser conversations and what you think is the biggest hurdle Twitter has to overcome to really improve shared ad budgets moving on to the O&O platform into 2016? Then the second one is kind of a follow-up. I was wondering how you think about the O&O ad load per user per day now and how you think about managing that over time?

**Adam Bain**

*Chief Operating Officer*

So I'll take the first one, and I'll let Anthony take the ad load question. Our conversations with agencies and also with CMOs have never been stronger. They also look at us as the strategic partner and not just a media partner, and that's really important, whereas other people just come in and talk about ad inventory or their scale. We can come in and talk about that and certainly now showing in audience size, both on Twitter and across the network, of over 700 million people. But we also come with analytics and insights, things around customer service or comms and PR, all these things that feed into the marketing engines at each one of these companies. The overall in terms of where our focus that's coming from the agencies are the exact focus that I outlined, which is around measurement and ROI. There is a large demand out there for underperforming display to shift. And so we think that's a great near-term opportunity, and that will come with improved measurement, improved attribution. Just to give you a flavor of what that looks like, the CEO of Datalogix who is -- Datalogix is probably the industry standard now in connecting online to offline behavior, like in-store purchases, recently was on stage at an industry event and said, Twitter's ROI is twice that of traditional display. So we're excited about the start that we have there in terms of measurement attribution, and we're even more excited about the road ahead.

**Anthony Noto**

*Chief Financial Officer*

And then Brian, in terms of your question on ad load, just to update, if you go back to Q2, we said that our ad load was that 1/3 of our long-term opportunity. We grew our advertising revenue





sequentially 13% this quarter. Our ad load is roughly flat, really benefiting from autoplay video, which uses less inventory on a monetization basis, which really helps our business, as we see a mix shift toward that. So our ad load is roughly where it was in the second quarter, which means we still have 3x the opportunity ahead of us. The other point I'd make is those measurements do not include stuff we're not monetizing. So it does not include logged out. It doesn't include the profile pages that are logged out. It's doesn't include single Tweet detail pages that are logged out. It does not include Vine or Periscope, and it doesn't include Moments. And there are other areas that we'll continue to build on that drive consumption and audience aggregation inventory for us. But that just gives you a sense of where you are and what we're monetizing today in some areas that we haven't started to monetize yet.

**Krista Bessinger**

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

**James Cakmak**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

It seems like you guys are making a pretty rapid integration on the tools for advertisers, but not as fast, I would say, on the product side. I mean Moments, I think, is a very innovative feature. But Jack, at a high level, can you just talk about how we can expect the product experience to evolve? Is it going to be building on Moments, or is it going to evolve into something more? And how should we think about the product iterations there? And then secondly, as you become more of a platform and then syndicate the content across third-party sites, I guess, where is the emphasis philosophically for Twitter? Is it to become a platform, or is it increasingly to become a destination by being a place where people go for everything real-time?

**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

Thank you, James. So when I came back into the company, one of the first things that we did was really look at the roadmap and look at what we are building. And we made some decisions to say no to some things, so we could focus on most meaningful product initiatives that we thought would bring the greatest potential for growth and usage. Moments is one of those bold new experiences that I think does question a bunch of our fundamentals around making Twitter a whole lot easier to understand. And the goal here, so that you open up the service whether you're on twitter.com, whether you see it on a website that is not owned by us, but is actually embedded, or whether you open up the app and immediately you see what's going on and it's the best of Twitter in one place. And it's done in a very curated story, chronological narrative way that makes sense and gives you insight into an event that you just would not be able to see elsewhere. So on the roadmap going



forward, we have a number of iterations that continue to make Twitter easier to understand and make it far more approachable than it has been in the past. And then we're also looking at some more bold rethinking and some more bold experiences that really speak to some patterns that we've seen on Twitter from day 1. An example of this is we have a huge number of communities on Twitter from people who are interested in very niche topics to actually larger movements like #BlackLivesMatter that we can actually take an opportunity and connect people to immediately, so they can start conversing and talking and sharing whatever they find and whatever they find the most meaningful. Second, we've always seen a huge appetite for customer service, whether that be praising brands or complaining about a particular service, where a brand can actually turn around a conversation completely. We think there's a lot of potential to make this a whole lot easier. And that's within our app and within our service, but also extending out to our platform. As we said at Flight last week, we do think that the platform, the network aspect of our service is fundamental to both us and to the world, and developers make all that possible and we will continue to build great tools to extend the power of all of our developers, but also to extend the reach of Twitter. So we will focus a lot of our energy on a very simple, easy, straightforward experience when people download the app or they go to twitter.com, but at the same time, whenever someone tweet or uses our platform to share that it goes out to the farthest reaches of the world. And that's why the network is important in building more and more experiences into Twitter, but also being able to show more of our tweets everywhere. So it's a balance of both.

**Krista Bessinger**

Great. And our next question comes from Periscope. And the question is, when is Twitter Moments coming to U.K. and the rest of the world?

**Adam Bain**

*Chief Operating Officer*

So we have an international rollout strategy for the product, and we don't want to preannounce any markets or preannounce any product releases. We want to get it to everyone in the world in their hands as quick as we can. And what I will tell you is that we want to build on the learnings from our launch in the U.S. and do it in an integrated way, the way we have in the U.S., in each one of those markets. So more to come.

**Krista Bessinger**

And our next question comes from Anthony DiClemente at Nomura.



**Anthony J. DiClemente**

*Nomura Securities Co. Ltd., Research Division*

I have a couple for Anthony on the metrics and then one for Jack. Anthony, I apologize if I missed it, but what are you expecting in terms of overall fourth quarter MAU trends? And then in the second quarter, you gave us engagement as defined by DAUs divided by MAUs. I think it was 44%. Can you please give us that metric for the third quarter? And what do you expect it to be in the fourth quarter? And then Jack, as you look ahead into 2016 and beyond, it seems to us that Twitter as a second screen should continue to be a big opportunity. We see Twitter partnering with media companies like CBS for big events like the debate. You mentioned the Mets tonight. Does partnership with big media around events remain a big opportunity for you, or do you look at those types of agreements more so as incremental from here?

**Anthony Noto**

*Chief Financial Officer*

Thank you, Anthony. First, on your question on monthly active users, we don't give guidance on monthly active users. But I do want to give you total a perspective on total audience and on -- and how we think about that relative to the opportunity and give you a perspective on where we see things today. First, I think it's really important that everyone understands that we're focused on the total audience opportunity. And we really benefit from over 90% global brand awareness in our most important global markets. We have less than 30% penetration in monthly active users in those markets, obviously higher when you include logged-out and syndicated audience. But just on a monthly active user basis, it's less than 30%. And it's our opportunity to turn those numbers of the monthly active users into where our awareness is. And we said in the second quarter that we have to simplify the product. We have to have a very clear communication of value. And we have to execute discipline to bring that all together. And ultimately, our products need to change in a fundamental way to appeal to that next cohort. Moments is the first of other product changes that we're making that are fundamental to attracting that next cohort and simplifying the product. But it's only been 3 weeks. And so there's no change in the monthly active user outlook, given this product is very soon in its development. As it relates to your question on DAU to MAU, we gave that metric to give you an update on where we were since we announced that at the Analyst Day in our top 20 markets. It's not a metric that we are prepared to keep reporting every quarter. What we will do, which is our responsibility, is that when we see a significant deviation to the top 20 DAU to MAU change, we'll be sure to disclose that to you. Thank you.



**Adam Bain**

*Chief Operating Officer*

I think part of the answer on second screen piece, we've seen a great traction in terms of historically when people are watching TV, they also are tuning into Twitter, sometimes exclusively into Twitter. When people are having a conversation about a TV program, it will increase the chance that people turn into the linear television. We've made a number of improvements to the core products and also to the content that's coming out of the platform to coincide. This past quarter, we announced the deal with the National Football League for our Amplify program, the program that brings about 100 video clips a week from the NFL on to the platform. Twitter actually controls the sales process there as well, so there's an added benefit. This quarter, we also, in New York, announced our Open Amplify program. It's signed up over 40 television and content partners, people like Fox Sports, MTV, National Geographic, Weather Channel, WWE and a whole bunch more. Essentially, what that platform allows them to do is to bring their content into Twitter and have a way to take advantage of Twitter's ad sale and ad serving functionality so that when clips are going live on TV, they also are coming on to Twitter in real time.

**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

And every event we've seen is always better with Twitter. Baseball Twitter is a great Twitter. Election Twitter is great Twitter. So hope you follow on tonight with the World Series.

**Krista Bessinger**

Great. And our next question will come from Eric Sheridan at UBS.

**Eric James Sheridan**

*UBS Investment Bank, Research Division*

Maybe one for Anthony and one bigger picture question. Anthony, in terms of the way you're thinking about -- you guided to Q4 on the EBITDA side. Maybe we could understand some of the puts and takes involved in the guidance there on the cost side of the equation, just so we understand sort of the velocity, the numbers as we exit the year. And bigger picture question, you talked earlier about the partnerships with Google. I wanted to understand what you've seen so far from public tweets appearing in search results, what that means for traffic coming back to the platform as well as any color you can give about inventory going into the DoubleClick exchange.



**Anthony Noto***Chief Financial Officer*

Sure, I'll take the first 2 and then flip it to Adam on the DoubleClick exchange. On our EBITDA guidance for Q4, I would note a couple of things. One, we did have some costs that we anticipated in Q3 that will now occur in Q4. Additionally, I said in the past, we really want to balance 2 things, our investment and the growth opportunity in front of us and not under-invest in that opportunity, but not invest blindly that we don't have constraint. And so we're managing to a profitability level that gives us some constraints, but makes sure that we're investing in the business to maximize its value in the long term. And that's the philosophy we were taking in the fourth quarter and will continue to take into the future, balance an important measurement. The other thing I'd say about the fourth quarter is a big part of the fourth quarter is the revenue in December is a very important element to it. Last year, our December month actually accelerated to over 110% year-over-year growth versus October and November that had high 80% year-over-year growth. That can provide a lot of operating leverage when you get to that month, but that's really hard to forecast in your guidance. And so the level of revenue in the December month will also have an impact on ultimate level of EBITDA. But it's really about investing, but we did invest in the third quarter, continue to invest in the huge opportunities we have in front of us, and then ultimately, where revenue comes in for the fourth quarter. As it relates to the Google relationship, there's really 3 elements to this. I'm going to talk specifically to the search element. The other 2 elements are the ad attribution deal and then the DoubleClick deal, which Adam can talk with you. As it relates to the Google search deal, we're really positive about the deal. It's been a great partnership. Every week, the iteration with the partnership at Google has continued to improve. We've reached a point now where we have billions of impressions of our tweets on Google's platforms every day, and that provides a great source of traffic back to Twitter that we can monetize in the logged-out state that we can gradually onboard into logged-in state. But the other important element of the Google search deal is it expands our reach and reinforces the flywheel we have with this total audience strategy. It gives those people that contribute to Twitter our brands and our partners, media partners and individuals, another reason to tweet. It gives them an ability to reach more of the world, as Jack mentioned. And so there's multiple facets to the Google search deal, and we're really encouraged about what we've achieved so far and look forward to more to come.

**Adam Bain***Chief Operating Officer*

On the search side, when we talk to CMOs and show them the search integration, they get very excited, because as Anthony mentioned, it gives the brand yet another reason to tweet. It not just helps their Twitter activity, but also helps the organic search activity as well. And then on the DoubleClick side, as Anthony mentioned, there's really 2 parts of DoubleClick. There's the ads



measurement side, and then there's an ads API or DBM, DoubleClick Bid Manager side. Demand is strong for both. On the measurement side, we're going to get started in -- at the end of Q4 in our first set of pilot partners together with DoubleClick. So we're excited about the opportunity there, because like I mentioned before, we've gone 5 years without any third-party measurement attribution. And then on the DBM side, there are a set of advertisers who only will spend with inside of DoubleClick. And so we're excited to get integrated into there as well, because there'll be a set of active advertisers that we just currently don't touch today.

**Krista Bessinger**

Great. And we'll take our next question from Twitter. It comes from the Twitter account of Rich Greenfield at BTIG. And he asks, World Series ads are expensive plus ongoing TV ad campaigns. How do you think about marketing spend in 2016?

**Anthony Noto**

*Chief Financial Officer*

What I'd say is what I've said in the past, we want to invest in the opportunity in front of us and make sure we maximize that for shareholders without having no constraint for responsibility as it relates to profitability. So that's really the philosophy we will take towards it. We have 3.5 months before we report the fourth quarter. And share with you our perspective on 2016, when we get to that, we'll give you more details.

**Krista Bessinger**

Great. And I think we have time now for just one last question, and our final question will come from Brian Pitz at Jefferies.

**Brian J. Pitz**

*Jefferies LLC, Research Division*

Congratulations to Omid coming on as Executive Chairman. Jack, maybe some comments on your current vision and approach compared with that of the company historically? And any additional insights on the roadmap and when we may see the largest impact to engagement going forward.

**Jack Dorsey**

*Co-Founder, Chief Executive Officer and Director*

Thanks, Brian. We're not going to get into the details of the roadmap in particular. But what you'll see from us is against 2 themes, and this is going forward, which is really how do we make Twitter even easier to understand for more people so that we continue to see more of that usage people can bring it up and see everything that's happening in the world immediately, but also how do we



get more power to people who are using it to tweet. And that's not just Twitter, but also our properties like Vine and Periscope, how we're giving creators more tools to be more creative and to express themselves in a different way and giving the folks on Periscope even more reach in order to share what's happening around them in a very interesting and unique way, which is live streaming. So again, we have a number of things on the roadmap, which are iterations, which continue to make Twitter easier. And then we have some things that we think are pretty bold in terms of really speaking to patterns that we've seen throughout our history, having to do with communities and running people to those communities much faster, but also with customer service and making all of those activities a whole lot easier on Twitter, so that anyone can pick it up and use it, use it immediately. And we'll continue to increase our pace of execution and ship faster and ship more meaningful things as we continue to really simplify what we're working on and really making sure that we have a small, nimble team focused on the right things.

**Krista Bessinger**

Great. Thanks everyone on the phone for joining us. We appreciate your time, and we look forward to speaking with you again next quarter. Thank you.

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