Twitter Q2 2016 Quarterly Results Transcript
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PRESENTATION

Krista Bessinger
Senior Director, Investor Relations
Great. Thank you. Hi, everyone, and thanks for joining our Q2 earnings conference call. We have with us today our CEO, Jack Dorsey; COO, Adam Bain; and CFO, Anthony Noto. We hope you've had a chance to read our shareholder letter published on our Investor Relations website shortly after the market closed.

Like last quarter, we'll begin with just a few prepared remarks before opening the call directly to your questions. During the Q&A, we'll take questions asked via Twitter in addition to questions from conference call participants. Questions submitted via Twitter should be directed to @TwitterIR using the hashtag #TWTR.

We would also like to remind everyone that we will be making forward-looking statements on this call, such as our outlook for Q3 and the full year of 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 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 the 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 included in our shareholder letter. 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. 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

Thanks, Krista. Hi, everyone, and thank you for joining us. We're going audio-only for today's earnings call, and we'll spend some time on Periscope after this call to take a few questions.

We continue to see steady growth in both audience and engagement. What makes our audience growth this quarter notable is we can see directly the link between the product changes we made and our growth. We're making the right decisions in our product and it gives us a foundation for future growth. We're working every day to make Twitter faster, more intuitive and easier to use. You've already seen us take some big steps here, like the changes to the time line and the announced changes to the character count and reply rules. There's more changes like these on the way.

Continued growth also involves educating people about why to use Twitter: for the fastest way to see and share what's happening and comment on it. And that drives everything on our service, especially news and social commentary.

Seeing and sharing what's happening also includes live video. And we have some exciting momentum here with Periscope as well as with live streaming video on Twitter. People can now watch an event like the Republican or Democratic national conventions directly on Twitter and talk about it in the same experience. We're partnering with the providers of the world's most popular live content to bring more and more of those events on to Twitter together with a conversation.

All this work is planting seeds for meaningful contributions to our continued growth. With that, let me hand it back over to Krista for questions.

QUESTION AND ANSWER

Ross Sandler
Just 2 questions, one for Jack and one for Adam or Anthony. So Jack, on the improving engagement, can you parse for us the -- how much of that's being driven by the mix shift to video content and live video content that you're embarking on, and then how much is being driven by some of the product tweaks that you and your team are making? Little bit of color there would be helpful. And then, Adam and Anthony, can you talk about the economics of all these deals that you've been signing with the sports leagues of late? Should we assume these deals are rev share deals like the old TV Amplify? Or are there minimum guarantees involved? And should we expect these to be profitable right out of the gate? Or will they potentially initially weigh on margins and then pay off in the long-term? How do we think about that?

Anthony Noto
Thank you, Ross. It's Anthony. First on engagement, the improvement in engagement that we're seeing is driven by product changes not associated with the live premium content that we've launched. As you may know, we've only done 2 events and we're in the middle of our third since we announced the live streaming premium content initiative. We did a test with Wimbledon. Last week, we did the Republican National Convention, and we're in the middle of the Democratic National Convention today. And that's as it relates to the live premium content experience, which is what is think you're asking specifically about. Our engagement metrics did improve across a variety of different metrics that we look at. In the past, we've talked about the importance of daily active users and that grew. And the DAU to MAU ratio remains stable. We also saw an improvement in user active minutes, up double digits. We saw an improvement in tweet impressions, up double digits as well on a year-over-year basis. Searches also increased double digits year-over-year. And then last EMs increased at a double-digit rate year-over-year, so strong performance on engagement across all the metrics that we look at. As it relates to the economic deals, we're focused on live sports, live news and politics and live entertainment. And those deals economically build on the success of the program that Adam and our team built over the last 4 years in Amplify with 250 media partners. Those deals aligned economics through revenue splits. And

the deals we're currently doing reflect that type of arrangement and building on that success we've had with our partners, share economic interest on both sides of the equation. So it fits very nicely into our overall economic model and is a great way for us to bring our audience more of what they want.

Anthony J. DiClemente
I guess, Anthony, just to follow up on that. I think most people are wondering how do we explain the implied deceleration in third quarter revenue expectations in your guidance in light of the improvement in user engagement that you're just mentioning? And specifically, just wondering if you could give us a sense for some of the -- what's factored into your third quarter guidance in terms of user trends? Whether it'd be MAU trends, DAU trends? And then, what about these big events that we have coming up in the third quarter, the Olympics, presidential election, political spending and the new spending associated with those NFL deals? And I have a follow-up.

Anthony Noto
Sure. On the overall revenue growth, we have seen a slowdown in the year-over-year growth rate of our owned and operated revenue. We've broken that out since late last year. So you have a clear visibility into it given the rise in our off-network ad revenue. We've talked about that slowdown being driven from a transition from owned and operated ad revenue reflecting the growth in both number of advertisers as well as spend per advertiser. And as we've penetrated the largest spenders, or oldest and longest relationships spenders in DSO U.S. advertising, we've transitioned more to revenue being driven by average revenue per advertiser, moving from 2 drivers of growth to 1 driver of growth. And so that is one of the explanations behind the deceleration in the owned and operated ad revenue. As it relates to the guidance, I'd make a couple of points. Similar to our approach in the last 9 quarters, we're evaluating what's already happened in July through today obviously, how the quarter ended last quarter in June, and then factoring in what we have in bookings and what we anticipate happening from a number of different things in this quarter that are unique. A couple of those things are unique in that they're once in a while types of things like the election as well as the Olympics. But the quarter itself is also normally back-end loaded. And of course, we do have the live streaming product that we'll launch in a more considered way in September. I would note that the NFL live streaming deal, while we're really excited about it and we've achieved some success in the marketplace on the advertising business, we will only have 2 games in September, so 2 games in the entire quarter. And so the impact of that will be proportional to the total number of games that we have. And so we're giving you a view wide range frankly. And ultimately what we'll report, we'll be able to share with you the details behind it.

Anthony J. DiClemente
So, I guess, another follow-up there is maybe simplistic, but how do you reaccelerate advertising? You have -- I think in your shareholder letter, you talked about needing to take share of social marketing budgets in view of the competition out there, and then moving into premium video budgets, moving into performance. So the short question is, is how do you do that? And maybe it's a question for Adam. I know Adam's been working on tools for video ad buys and different things for marketers. So just want to hear how you guys can really reinvigorate the Twitter ad business from here?

Anthony Noto
There are number of factors on the supply side. I think your question is more tied to the demand side. So let me flip it over to Adam.

Adam Bain

Yes, Anthony. So in terms of reacceleration, I think we've been talking about 2 big opportunities that we see ahead of us, one in video and particularly in the online video space, online video budgets. And the second one is on DR and performance budgets. On the video side, we have become a video-centric platform. Video is now the #1 ad format in terms of revenue on Twitter. It's interesting because just a year ago, those set of products did not exist. So we've seen a continuation of some of these trends overall where promoted tweet advertisers were upgrading into video. There is a whole new set of video budgets out there today. These are these online video budgets. It's about a $10 billion marketplace in the U.S. These are video budgets that today we basically don't qualify for since the spend is going in other areas. There's a set of products and features that we're in development on to land those budgets. We have some good signs of early success around video, and especially around these online video budgets in terms of incrementality. The NFL and live streaming strategy that Anthony just talked about, we are seeing really strong demand for the NFL packages. We've already sold through a meaningful percent of the inventory that we control. And a good number of those advertisers are those premium advertisers have signed up people like Anheuser-Busch, Verizon, Sony and Nestlé. And what's most interesting to me about those deals are that the advertisers are funding the budgets from the online video part of their ledgers, so something that we hadn't gotten access to before which we're now getting some exposure to. On the direct response side of the business, this is a $130 billion or so marketplace. It's one again that we have a very little share of today. And we have a product-driven approach over a multiple set of quarters to improve the ROI in terms of better creative targeting measurement for DR advertisers. Both of those opportunities will get us out of just the social category into other large categories so we can compete.

Brian W. Wieser
I was curious how much did access to third-party inventory potentially impact your ad network revenue? And possibly relatedly, can you explain what might have caused the reduction in TAC there? And a separate question, I'd be curious to hear your thoughts on whether or not you think that disruption that probably will occur at Yahoo! over the next while and/or the combination of Verizon-Yahoo! will have any impact on your business.

Anthony Noto
As it relates to the third-party ad business, I'll talk specifically to the TAC, which the improvement was from an improvement in each of the elements of TAC as opposed to just the mix shift. And then, as you probably have already done the calculation on, our third-party ad revenue was 10% of total ad revenue in the quarter. It was down from 12% in the prior quarter. So it was down sequentially and that was tied to a number of factors though. We'll put it over to Adams to talk about.

Adam Bain
Sure. We saw actual strength in our third-party ad business for the DR objectives -- the web DR objectives, people that are advertisers that are going after website clicks and conversion. So while that grew, it was offset by weakness that we saw in the mobile app install business. We had some infrastructure issues that affected reporting -- ad reporting in the mobile app business for the quarter, issues that we've largely resolved. But we still have a lot of work to do for advertisers to improve ROI both on the owned and operated and across the network. In terms, Brian, of your other question on the Yahoo!-Verizon overall impacting the ad business, I think overall, we continue to see these 2 huge opportunities ahead of us, both on the video budgets and online video in particular. This is money that both have moved off of TV and money that's coming in from traditional display, and then also overall DR. We've laid out pretty cohesive plan on the product side and the go-to-market side for how we're going

to approach landing those budgets. And I think ultimately, that's what is going to impact our business, our ability to continue to grow share in those ways.

Eric James Sheridan
Maybe just 2, one for Adam. Maybe we can get a sense as you roll out -- continue to roll out sort of audience measurement and audience platform tools for advertisers, what sort of feedback you're getting on advertising, not only just on Twitter, but off Twitter, and how they're thinking about that Twitter audience of 800 million visitors in terms of calculating ROI or reach? And then maybe for Anthony, in the first and second quarter of the year, we saw pretty sizable beats on the EBITDA line, 29%, 30% type adjusted EBITDA margins. And yet you kept the adjusted EBITDA guide for the year in the 26% to 27% range. Just wanted to understand a little bit of the thought process around that given half the year behind us, and maybe calling out some of the investments that might put pressure on the margins?

Adam Bain
Eric, let me try and give you an update on the audience measurement side for what we're seeing both on Twitter and off Twitter. Largely, a big chunk of our work has been focused around direct response measurement overall. We've seen some good progress with inside of the quarter. One of the things that we've done towards the end of this past quarter is auto opt-in any DR objective to expand out into the Twitter Audience Platform. What we've seen from those campaigns that have run so far is that those advertisers are seeing a larger scale and also equal to or lower cost per acquisition. So the ROI is looking strong there, but we still have work to do obviously to scale it. Overall, one of the other big initiatives that we have on measurement is with the DoubleClick deal. We saw more of the same of what we talked about this past quarter. In general, the -- on the measurement side, we've run now 65 advertisers through the DoubleClick beta. Revenue from those advertisers grew at a faster rate than our overall advertising growth. And of the advertisers that ran in the quarter, 1/3 increased their spend, so a good nod to ROI. However, we still have work to do overall. And then what we've seen is that when we're measuring desktop, impressions on Twitter to desktop conversions, that the data look for Twitter looks accurate and strong. However, about 90% of our impressions are on mobile. And so measuring mobile impressions on Twitter to desktop conversions, this type of cross-device measurement, in general as an industry needs more work and it needs work to look more accurate to what we know to be true in terms of what we drive for results for advertisers. So that's one of the things that we're focused on, along with Google, is to help improve this cross-device measurement for marketers.

Anthony Noto
Hey Eric, it's Anthony. As it relates to EBITDA margins, we're really encouraged by our ability to manage our costs intraquarter to exceed expectations both in Q1 and Q2 on EBITDA and absolute dollars and on margin. In the beginning of the year, we set out a guidance for the full year, a range for EBITDA margin of 25% to 27%. And so with the outperformance in the first half of the year, we actually raised that guidance to 26% to 27%. And ultimately, as we manage through the year, we'll see where it comes out. I will tell you when we set the guidance range, we set it for the full year and allocate the spending across a number of different initiatives and manage the full year number as to just a quarterly number. The third quarter will have slightly lower EBITDA margins, reflecting higher headcount coming into the quarter coming out of Q2. That flows through the rest of the year. And we're also making infrastructure investments in Q3 where revenue against those investments won't be realized until Q4 or in 2017. So we're taking the opportunity to make that allocation now and building for growth into the future from some of the initiatives we have in live.

Krista Bessinger
Okay, and the next question comes from Twitter. It comes from the Twitter account of Ken Sena at Evercore. And he asks, "Twitter, you've struck high, major high-profile deals in live streaming. Can you speak to the exclusivity of the content you've obtained?"

Adam Bain
So on the live deals that we're doing, I think it's important to sort of solidify the philosophy of our approach. As I mentioned, we're going after 3 specific vertical categories. And initially, our focus is on acquiring rights to nationally and globally recognized content, to build awareness of this great experience of Twitter of bringing live video together with the conversations already happening on Twitter in the connected audience, connected to each other. As we build that awareness, we will also build awareness of underserved content that we'll acquire as well as news and analysis. In order for us to deliver on our brand promises of being the place to come to see what's happening, we need that complete portfolio of content, both live games, live commentary as well as live news analysis. And ultimately, we want to also serve underserved content and under-distributed content. Each of these deals is different. Some of the content is exclusive: as an example, The Rally, which is a 2-hour show Monday through Friday, from 9 to 11 Eastern. That is an all-sports highlights, news and analysis show that is exclusive to Twitter. Some of the other content is nonexclusive generally, but it could be exclusive that it's only free to Twitter, i.e. you don't have to authenticate and you don't need a paywall. So it's deal by deal, but also we're trying to create a portfolio approach of free content, no authentication, no paywall, to really deliver on the connected audience's desire. It's already expressed in what they're talking about on Twitter.

Douglas Anmuth
I just wanted to ask 2. First, you talked about in the letter your CPE. And I know you've talked about the advertising business a lot, but I was just hoping to drill down there specifically. And can you talk about how do you get CPE down basically to make the platform more attractive? And do you think it's more a function of scale, targeting, quality of the audience or something else? And then secondly, just on live streaming, can you talk about your confidence in the architecture and the site technology that's just needed to support potentially heavy live streaming, and then also how Magic Pony plays into that?

Anthony Noto
Sure. Thank you, Doug. On CPE, the decline of 21% sequentially is due primarily to increasing mix of video, autoplay video, but also impacted by declines in like-for-like CPE for certain ad products. Some of the changes in CPE are due to measurement changes we're making that are designed to improve advertiser ROI and bring our CPU more in line with that of our competitive peers. As an example, we've changed the MRC definition from 3 seconds to 2 seconds and 100% view to 50% view. And that was done to make our product more competitive with our industry peers that are driving lower prices at greater scale, and we've had the same benefit. For other ad types, we also are able to both increase supply and improve predicted click rates, both of which negatively impacted CPE. We'll do more in the area in Q3, as Adam alluded to, but ultimately, it's all about driving more demand and driving ROI for our advertisers.

Jack Dorsey
Doug, this is Jack. So we are making sure that first and foremost that we focus on quality of the experience and that experience stays up. So we're putting a lot of thought and effort into our architecture and infrastructure around live streaming. We're doing a lot of this both on the individual side

with Periscope, but also on the premium content side. So we're getting more and more confident about our abilities here because we're really measuring and making sure that we're being thoughtful about how to develop that. Magic Pony is a fascinating technology that we're really excited about. And what this enables us to do is really open the aperture of how many people can see this and to see and experience that is live with low latency. This technology allows us to digitally reconstruct the stream in real time, independent of network or device. And that's really cool because it doesn't matter where you are. You can watch that experience on Twitter, and it's going to be the most live with the highest quality. So we're really excited about this technology, also complementing all the other deep learning and machine learning that we have in the company that we've been applying most recently around our core experience, onboarding, the time line, notifications and also tweeting. So this is a technology, a deep learning that we're building a lot more strength in. We want to be a leader here because it provides a great lever for every experience that we want to provide in the world.

Brian Nowak
Anthony, I think you mentioned the DAU to MAU ratio is stable. Could you just help us understand what -- roughly in the U.S., what percentage of your MAUs or your mobile MAUs are DAUs? Just any color there at all would be helpful. And then secondly, could you talk a little bit about the ad load in the quarter, the number of ads shown per mobile user per day? Was that up, down, stable, just a little help on the ad delivery?

Anthony Noto
Sure. On ad load, ad load increased both on a quarter-over-quarter and a year-over-year basis, similar to what we've talked about in the past. I think it's also important and implied in your question is what's the upside in ad load and so I want to hit on a couple of key points. The first point I'd make is that the areas of most incremental growth as it relates to ad load would include international, U.S. nonhome time line, the live data experience. But I think it's also important to note that for the U.S. home time line, while the incremental benefits from the ad load itself are more limited given where we're at, there is a significant opportunity to increase yield over time by driving improvements in targeting creative and measurement that Adam talked about. And the other point I'd also note is as we grow audience and grow engagement, we'll create more advertising inventory that's not dependent on ad load, but obviously is incremental. And the last point I'd make is that as we move further and further down the road in our live streaming content initiative, we'll create new forms of advertising that are not dependent on ad load at all. For example, what we're doing throughout the fall with the 8 deals that we've announced, those live streams will include either mid-roll advertising or preroll advertising, again video live advertising that's in 6-second, 15-second or 30-second pods as opposed to being driven by ad load. As it relates to our U.S. DAU to MAU ratio, we haven't provided that. And we'll give you an update when we think there's a reason to provide some insight into it. But overall, our DAU to MAU ratio as an aggregate company and for our top 20 markets is relatively stable.

Mark S. Mahaney
I just wanted to follow up on Doug's question about the premium CPEs that you're seeing. Do you think there are any structural factors that are causing that or causing -- yes? And then how much further down do you think the CPEs need to come down in order to be competitive with what else is out there in the market?

Adam Bain

Mark, it's Adam. I'll take the question on CPEs. I think, overall, as we look at it, there certainly is increased competition for social marketing budgets. And we are effectively priced at a premium in terms of the CPE. We're doing a bunch of work to help bring both prices down and improve ROI for those advertisers. Ultimately, it comes to hitting that ROI target. There are some advertisers though that just look at price. There are more sophisticated advertisers that look at value and the price-to-value exchange. We do think that while we have a premium, that premium is justified overall in marketplace -- in the market. We have a quality set of audience, quality content. That quality of content has just gotten better with the announcement of our live streaming strategy. And overall, that quality, we believe, is -- translates to a premium in marketplace. But we're working over multiple quarters with those advertisers to help prove the ROI there. Ultimately, there's other things that we're working on to help the yield on that inventory, new formats, better measurement, obviously exposing those audiences -- or exposing those advertisers to new audiences, or any combination of those.

Krista Bessinger
Great. And we'll take our next question from Twitter. A number of people have asked about recent developments regarding safety and whether our approach to freedom of expression on the platform has changed. Can you please comment?

Jack Dorsey
This is Jack. This is really, really important to me and to everyone at the company. So I want to address both freedom of expression and safety together here, since the 2 intertwine. We are not and never will be a platform that shows people only part of what's happening or part of what's being said. We are the place for news and social commentary. And at its best, the nature of our platform empowers people to reach across divides and to build connections to share ideas and to challenge accepted norms. As part of that, we hope and we also recognize it's a high hope to elevate civil discourse. And I emphasize civil discourse there. Abuse is not part of civil discourse. It shuts down conversation and prevents us from understanding each other. The freedom of expression means little if we allow voices to be silenced because of fear of harassment if they speak up. No one deserves to be the target of abuse online and it has no place on Twitter. We haven't been good enough at ensuring that's the case, and we must do better. That means building new technology solutions, making sure our policies and enforcement are consistent and educating people about both. We made improvements in the first half of the year and we're going to make more. We named safety as one of our top 5 priorities for this year. And recent events have only confirmed that this is truly one of the most important things for us to improve and has motivated us to improve even faster.

Michael Graham
I just wanted to ask about the products road map for the core Twitter use case. The road map that we see looks a little bit sort of incremental. And I think a couple of quarters ago, we were focused on making the core product easier to use and driving conversion and just sort of more mainstream. And I think all the video stuff is going to be impactful. But can you just talk about the -- how the core Twitter use case is going to look, say, a year or 2 from now? Do big changes need to happen? Or is the product road map that you've mentioned in the shareholder letter sort of what we should expect to see?

Jack Dorsey
Thank you, Mike. This is Jack. We've been focused on 4 areas in the core products. And we believe there is a lot more room within these 4 areas to really build a lot of strength. All of this falls under the line of 2 of the most important use cases that we want to focus on, which is news. And we think Twitter is

better at real-time news and live news than anyone else in the platform and in the world, I should say. And also social commentary, anyone can comment about what's happening now and share their thoughts and sometimes those go into the conversations. So that's what we want to make stronger and also easier. So 4 areas that we've been focused on there, #1 is around onboarding. We've been applying a lot more machine learning and deep learning to our onboarding, so we can match people faster to their interest. And we believe that, that interest drive is really important to us and unique to us. Two is the time line where people spend the majority of their time. We've made a number of refinements over the past few months to make sure we're showing what's most important and what really matters, and enabling people to quickly get back to everything and to recency. Notifications is another area where we think we can do a much better job, especially around breaking news. And not that we just push you into a tweet that dead ends, but we can enable you to further explore topics around that tweet and that interest; and then tweeting itself. We've announced some changes so that we're giving people the full 140 characters. We're making it easier for people to mention folks, which we believe helps encourage a lot more commentary and more conversation. So we believe there's a lot more room to go in this and really making sure that we strengthen the news and the social commentary use cases around that. And on the other side, we believe that we can make these experiences a lot better through live video. So we've been focusing energy on Periscope in particular and integrating that deeper into the Twitter experience so you can go live from Twitter -- from the tweet compose right away, and also that you can see a Periscope in a tweet. Anywhere a tweet can live and be embedded, you can actually see a live Periscope. On the Periscope side, we're really excited about a recent announcement we made around highlights. Not everyone can catch a Periscope in the moment when it's actually live. Highlights allows you to see the most important aspects of that. And all that comes from our investment and machine learning and deep learning. So we're looking at a lot of these technologies to make sure that we can provide the best experiences and the best use cases around delivering news faster than anyone else, and providing a good sense of the social commentary that's happening on the platform.

A. Justin Post
Two questions. First, thinking about all the streaming content you're adding over the year, the next year, I'm just wondering about your competitive advantages to win that content, what unique things does Twitter bring? And are you getting maybe preferred deals that would be interesting to us? And then second thing on the U.S. revenues, down sequentially 2 straight quarters. Has there been a big competitive shift? Or is there a specially weak ad format that's kind of hitting Twitter? Just trying to understand the dynamics around the U.S. revenues.

Adam Bain
Thanks, Justin. As it relates to our ability to go out and win deals with partners, I would say a couple of things. We started having conversations with media partners in the beginning of the year. And our value proposition to them is really embedded with a couple of the key differentiators of Twitter. First and foremost, we have a very large global audience. We have obviously over 300 million logged-in users. We just reported 313 million. We have more than 500 million-plus logged-out users. And then, we have a very large syndicated audience. And so when we sit down with media partners and brands and content owners, we're able to articulate to them the scale of that audience. And the reason why all 3 audiences matter is because the live premium streaming content product is the same in all 3 use cases. The video player that sits in the logged-in experience on the app is the same exact experience you'll get in logged out without having to log in, and under syndicated partners' properties as well as connected TV partners. And because of that, we can actually sell in an audience that's quite large relative to other offerings. What's more important than that is that we know our users' interests. Those logged-in users

explicitly express their interests, what they care about if they're Red Sox fan, if they're a Jets fan, if they're a Republican or a Democrat based on who they're following. And therefore, we can tell the content that we're delivering to them based on their specific interests. And that delivers a higher quality audience, not just a scaled audience. And higher-quality audiences reinforce what's already happening on Twitter. And that's a great conversation. There are already people talking about the National Football League and looking at tweets without any video -- live video on Thursday nights. We can now deliver to that audience the live video combined with a curated time line like we're doing for the Democratic National Convention right now in one complete solution. And that's a connected audience, not just connected digitally, but connected to each other. And so you can experience the live event with the live video and the conversation and benefit from both. Importantly, there's a few other characteristics about our platform that we communicate to our partners. 80% of our users are outside the United States. 80% of them are on mobile. And a significant proportion of them are 18 to 34-year-olds, those that are hard to find, those that may not be on pay television. So our value proposition is quite clear. We can help them reach people in different places that aren't necessarily that's reaching today in a younger demo and extend the reach. And what that ends up doing is delivering a bigger audience for them, better economics for them and benefits for us. And the -- one of the biggest things about our conversations with them is, who we're looking to be their partner, who we're looking to be additive. We're not just replicating the experience that's on television. We're combining it with this great time line and many of the other social features. Connected audiences drive virality and they drive popularity. And when something happens on Twitter now in live video, that can be pushed out and shared with many others to make the audience even bigger at that -- in that in-moment in that experience. And that's allowed us to win a lot of these deals. The other thing I'd say is you really have to understand what the partners' goals are. These aren't deals that are sitting on the shelf waiting for someone to come in to buy. These are deals that we're creating based on understanding their goals and what we can deliver. And so that's how we've differentiated ourselves.

Anthony Noto
Justin, on the U.S. ad revenue, the U.S. is where our biggest brand advertising relationships historically have been. These are advertisers who primarily have been spending over the years on promoted -- traditional promoted tweets. And so essentially, what we're seeing is that we've had a couple of quarters now where they move from traditional promoted tweets into our video ad products. In general, we view the shift into video as a good thing, but it's a multi-quarter approach. We believe specific to video, but also on the performance side, there is incremental budgets that we currently aren't exposed to on either side, both based on features and some of the ROI pieces. They're both significant opportunities, and we're working hard to land those budgets on Twitter.

James Cakmak
Anthony, appreciate the color in your content strategy. What I would say is when we think about the differentiating factors, how exactly are you planning on communicating that and making that aware, especially when we think about the nonexclusive, nationally recognized brand content that you guys are rolling out? And do you see a scenario where you potentially need to invest in more premium exclusive content? And then secondly, just, Jack, at a high level, I don't think that there's really any doubt in appreciating Twitter as a global and critically important asset. But just when you think about the challenges in obtaining certain budgets, the user growth and the content investment, strategically, can you just help us understand why it makes sense to operate Twitter independently rather than as part of a larger organization?

Anthony Noto
So as it relates to the economic deals that we're striking and as well as the quantity of the content that we have on the platform, for us to really deliver on the brand promise of what's happening now in live sports, live entertainment, live news and politics, we have to, first and foremost, be live. And that means live games and live commentary. We also have to be dependable. We have to be a place that when people come, we have that live content and we have a broad selection, if they have access to it, and it's direct from the source. And then last, we want to have conversation around it. And so our portfolio purge will allow us to deliver on those 3 reasons to believe our brand promise of what's happening now. The economic model that we've been able to deploy up until this point aligns our interests. So we don't have significant liabilities if for some reason we don't achieve certain audience sizes or other economic gains. And we're fortunate in that we understand why audiences are on our platform. And we can communicate that to our partners. They have a good sense for what's deliverable, without us having to take on a huge economic risk.

Jack Dorsey
Thank you, James. The Board -- our Board of Directors have a fiduciary responsible to always consider that question and I think our focus on that is appropriate and we presented our 2016 plan and getting ready for our 2017 plan. They're going to hold us accountable for executing that. As CEO, I'm -- I've just seen a lot of the benefit of our focus and our disciplined execution over the past year. And the changes we're making to the product focused on the use cases that we believe are important, that real-time live news and social commentary are actually increasing retention and engagement. And I think there's just so much farther to go in terms of our strength, as not only a service of importance, but also a company and business of importance. And we're focused right now on what matters most and what we need to fix. And we're seeing really healthy signs that are pointing us in the right direction in terms of what we need to continue to do. So I have a lot of confidence in the ability and also that our 5 priorities are the right ones to drive sustained growth over time.

Krista Bessinger
So we'll take the next question from Twitter. It comes from the Twitter account of Rich Greenfield, and he asks, "How can you not give DAU specifics, given that they are the most important metrics? Others give it. Why not Twitter?"

Anthony Noto
Rich, each year, we reevaluate the metrics that we're going to provide as well as our approach to the guidance. In each of the last 2 years in 2000 -- January of '15 and '16, we reassessed that. And then when we reported fourth quarter results, we gave an updated view on what metrics we'd provide and what guidance. We'll do the same thing at the end of this year. DAU is an important metric and one that we'll consider. We will give you color along the way to make sure you have a good sense for how we're doing on DAU. I think I'd make a couple of very important points. First, our monthly active user growth this quarter was driven by a combination of both product and organic benefits, combined with marketing benefits. And that's really important because the first time in several quarters that we've seen the combination of those 2 things working together, and we're really encouraged by that. The second point I'd make is that we also saw growth in daily active users commensurate with the growth in monthly active users. So the overall DAU to MAU ratio was relatively stable. And that also applies to the U.S., which is also a specific question that somebody asked. So we'll provide you the updates as we go. And then in terms of making a permanent change to the metrics that we report, we'll review those again at the end of the year.

Krista Bessinger
We'll take one more question from Twitter. It comes from the Twitter account of Victor Anthony and he asks, "Specifically between marketing initiatives, organic growth and product changes, which have the greatest impact on driving user growth?"

Anthony Noto
I -- so it was evenly split between, in one bucket -- product and organic are in one bucket, and the other bucket is marketing. It was split 50-50 between those 2 buckets. And as I mentioned, this is something that we're very happy to see. In the past, we've talked about at prime -- our growth in MAU primarily being driven by marketing, and while we had statistically positive results from some of our product changes, it hadn't actually driven a -- an impact that was obvious in the absolute number and this is the first quarter that's happened, so an important inflection point for us as a company.

Peter Stabler
One for Jack and one for Adam. Jack, wondering if you could give us any color around what you've seen from your Wimbledon initiative, any metrics or just levels of engagement in that event as well as the RNC, DNC conventions? And then a quick follow-up for Adam.

Jack Dorsey
Thank you, Peter. I'll start by saying that this is -- we're really early into the experience. So we're still in a learning phase around these experiences. What gives me a lot of confidence is this is an activity that we've seen on the platform for quite some time. And we just asked a very simple question of like if we were to bring this all together into one screen, what experiences are we able to enable? And people are naturally commenting on what's happening within Wimbledon. Elections have always been huge for Twitter, and definitely a source of engagement for us in conversation. And it's super early, but we're seeing some really, really good signs and using all that to improve the quality, first and foremost, of the experience and then eventually the reach of it.

Adam Bain
Sure. As Jack mentioned, our priority in August, it's important to remember that we want to first focus on quality. And that's both the quality of the video, the latency of the video, as well as the quality and relevancy of the curated time line. I think one of the things that's really important is that our live streaming premium content strategy will allow us to leverage something that's very familiar for users. It's very simple to tell people why to use Twitter now, watch the Democratic National Convention. That's something they understand. That's something they're familiar with, and when they get to Twitter, it's all there for them, the best tweets that go with the live video. They don't have to understand follows, they don't have to understand what accounts to look for, they don't have to understand hashtags or ad signs. So it's one complete solution. And what we're really focused on today is the quality of video and the quality of that time line. Incrementally, throughout August going into September, you'll see us start to test different mechanisms to drive audience to that experience as well as marketing, and we want to first migrate through organic initiatives to understand how much traffic we can bring through to different things, like the time line itself, like search as well as trends, and then as we move further along that learning curve, we'll start to add in some marketing initiatives, ultimately building the muscle that will drive the discovery as well as a large-scale audience to these experiences that we know they're looking for. So far, the quality has been great. And we couldn't be prouder of our team that has built this product

and set it up in a matter of months, while we've gotten these deals done. So we're really encouraged by the success so far, focus first on quality though.

Peter Stabler

And then if I could, a quick one for Adam. Safety issues also apply to advertisers, of course. And on occasion, we've seen brands face some challenges from users. Have you experienced any advertiser hesitation due to this issue? And if so, does live video present any incremental risk for marketers?

Adam Bain

Thanks, Peter. Actually, the live premium video strategy that we have provides, we think, incremental value for those marketers. It's a premium environment, it's programming that they know and in many cases love, things like National Football League, college sports, baseball, et cetera. So I think it's content that they are very familiar with in terms of the programming schedule and the like. The difference is now all of a sudden, it's available on Twitter. Each one of these deals are on a deal-by-deal basis in terms of how much ad inventory we receive. Obviously, we'd like to get as much ad control as we possibly can, but each deal is different. We've only brought the NFL package so far out to the marketplace. It moved very quickly, in a matter of weeks, in terms of our ability to take in the demand that we saw. We have not brought out the next set of content, but we've already seen tremendous amount of strong interest from advertisers on content outside of the NFL. So it's early yet, because we don't have the content as of actually launched yet with ads, but I'd say, I'm pleased so far with the demand that we're seeing. And the demand that we're seeing is unique in that it's coming from these online video parts of the house, on the advertiser side and the agency side, versus just the traditional social media budgets that we're exposed to.

Krista Bessinger

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

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