Twitter Q2 2017 Quarterly Results Transcript
SAN FRANCISCO, CALIFORNIA
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Krista Bessinger
Hi, everyone, and thanks for joining our Q2 earnings conference call. We have with us today our CEO, Jack Dorsey; and COO and CFO, Anthony Noto. Ned Segal, our newly announced CFO, officially starts in late August and will join us for our Q3 conference call. We hope you've had a chance to read our shareholder letter published on our Investor Relations website this morning. 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 2017, 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 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
Good early morning from San Francisco. Thank you for taking the time to join us. As always, we welcome this opportunity to speak directly to you, our shareholders. It shows your faith in Twitter as an open platform for what's happening in the world, and you drive us to do our best work. Profound thanks and gratitude to the people who use Twitter goes without saying, but I say it anyway. They inspire us every day. Aside from a third consecutive quarter of double-digit growth in daily actives, growth in video and accelerating year-over-year growth in our data revenue, I want to briefly underscore 5 highlights from this quarter in the areas of focus, growth, products, safety and leadership. You may recognize some of these statements from my first earnings call, back in 2015. I emphasize the connection only to illustrate how steadfast our team has been. In 2015, we mentioned the need to better communicate our value. Twitter is what's happening in the world and what people are talking about. Twitter's value is in focus now more than ever, with all functions aligned and marching to the same beat. In 2015, we said simplify our service to deliver Twitter's value faster. We have developed what we believe are simple, steady and sustainable engines of growth, which brings me to my third point. In 2015, we asserted the need to ensure a more disciplined execution. Our discipline in this regard is now robust. We're shipping products faster than ever, and this empowers us to build features that can enable strong future growth. People are reporting significantly less abuse on Twitter today than they were 6 months ago. We take action on 10x the abusive accounts daily compared to this time last year. Blocks after @ mentions from people you don't follow are down 40%. Strong progress here, but as always, there's more work to be done. This quarter, we brought in exceptional leadership. We introduced Bruce Falck, who heads our Revenue Products. We're proud to have Candi Castleberry-Singleton as our Head of Inclusion and Diversity, and Ned Segal will start as our new CFO. We look forward to having him on our next call. Finally, often described as Twitter's soul, it makes me happy to have my co-Founder, Biz Stone, back at Twitter full time, already making a big impact. And with that, I like to open up the call to questions.

Krista Bessinger
Great. Thank you. And looks like our first call -- our first question comes from Brian Fitzgerald at Jefferies.

Brian Patrick Fitzgerald
Live video growth continued with 22% growth, I think, in the number of unique viewers. What have you seen in terms of engagement from those viewers versus nonlive video viewers? Are they more likely to engage with Twitter on a daily basis? And what do you think has been the biggest driver of growth there? Is it unique niche events that you broadcast, better promotion? What do you think is driving that?

Anthony Noto
Thank you, Brian. I think to answer your question, it's important to start off with why are we in Live and how are we differentiated, and then drill down into the specific results that we've been able to achieve in the most recent quarter. For more than a decade, people have been on Twitter talking about events as they're live, whether they're live on television, they're just occurring in a local park, or it's a concert. And these conversations are happening across many, many different time lines. Twitter is obviously the place where we want to continue be the best at showing you what's happening in the world and what's being talked about. And we have to really improve on 4 things to do that. We need to be better at breaking news. We have to continue to have comprehensive selection. We want to drive more discussion and social interaction, and we want to personalize it. By taking the video and bringing it onto the platform that people are talking about, and curating below that video a time line of the best tweets that are occurring across hundreds of time lines into an experience that makes the individual feel like they're actually at that event, is an incredibly power -- it's an incredibly powerful differentiator for us that delivers on what I just laid out. From a strategic standpoint, we want to leverage nationally and globally recognized content to build awareness of underserved content that our passionate audiences care about. We're focused on sports, entertainment, news and politics and e-sports. And we've been able to really ramp the live streaming capabilities to all 4 of those verticals, reaching 1,200 hours of Live premium video in the last quarter. And that's up from 600 hours in our first quarter and Q4, and it's across 625 events and it has 55 million unique viewers. That's an increase of 22%. We are actually seeing evidence, on a like-for-like basis, when events are happening with the video on Twitter with the curated time line compared to the events happening without the video without the curated time line. We have a deal with Live Nation. That's a great example of that. When we have the video on Twitter, and we curate a great time line below that and the discussions there, so that the individuals feel like they're at the concert hall, the number of tweets increased 70% with the video and the curated time line compared to not having the video. The number of authors increased 50% and the number of tweets seen increased 4.4 fold. We saw similar trends when we had Thursday Night Football, and we didn't have Thursday Night Football in video on the platform. So we're really encouraged by the progress that we've made. We announced on May 1 that we're going to launch a significant amount of increased programming in the fall, including a 24/7 sports network called Stadium, which we're currently testing with, as well as our partnership with Bloomberg, which will be a 24/7 global news network. Ultimately, the value that we're going to drive is not just the head content and the premium content, but it's serving these audiences that are incredibly passionate at Twitter, combining the conversation below that video in areas where they're being underserved and driving real engagement. Some of our more recent programs have done very well in that regard, including the WNBA. We signed deals with the Women's National Hockey League as well as Canadian Football League. And so we'll continue to have this mix of globally nationally recognized content, and then underserved content that we can deliver to passionate audiences on Twitter in a very differentiated way. So we're encouraged by those trends. From an advertising perspective, we've got great momentum coming out of our Digital NewFronts on May 1. And we have advertisers committed to all of the verticals that we are focused on. I'll highlight a couple for you. Within e-sports, we have 6 sponsors, including HP, Intel, Bud Light and Sony Pictures. Within entertainment, Wendy's has come onboard after the BuzzFeed morning show, in addition to Toyota that's come onboard for that show as well as on Propagate's WhatsHappening. So we're really encouraged by both the content that we're delivering, the audience we're aggregating and

the engagement as well as the advertising that is delivering unique value to our advertisers compared to other competitors.

Krista Bessinger
Great. Thank you. And our next question comes from Colin Sebastian at R.W. Baird.

Colin Alan Sebastian
Obviously, good results with the efforts to drive engagement and daily usage. Wondering if there's a shift in focus at some point back towards the top of the funnel, perhaps bringing in the more occasional monthly users. And then, on data licensing, given the acceleration there, I was hoping you can provide a bit more color on specifically which elements of the service you're gaining traction with customers, and if there are any specific verticals or industries worth calling out.

Anthony Noto
Thank you, Colin. Let me put into context your question about audience, so it's framed relative to our results and what we're focused on. We couldn't be more pleased that our DAU growth, as Jack mentioned, of 12% was our third consecutive quarter of double-digit growth, and I'd note the second-highest growth quarter in more than 8 quarters. The growth was broad based with double-digit growth increases for DAU in 5 of our top 10 markets, as well as those markets outside of the top 10 also grew double digits. Average monthly users that we reported were 328 million for the quarter. That was a 5% year-over-year increase compared to a 6% year-over-year increase in Q1. It was flat quarter-over-quarter. The most important point that we would make is that product contributions that we're making to the platform are contributing to our audience growth in Q2, and we expect those product contributions to continue to contribute to our growth on a year-over-year basis in the future quarters. We'd note the positive contributions to MAU growth from product improvements in Q2 were offset by lower seasonal benefits and other factors, resulting in the flat quarter-over-quarter trend. Obviously, our focus has been on daily active usage. We believe we have content that's relevant to everyone in the world, and it's relevant every day. And so we have elevated the importance of daily active users as a key driver of overall growth, both from an audience standpoint, engagement standpoint and also from an advertising standpoint. In terms of your second question, in the late fall, October, November time period, we took a look at all the growth opportunities we had for 2017 to make sure we had the right prioritization. When we dug into the data business, it became clear to us that this was a business that needed more structure from a productization standpoint as well as a channel standpoint. So we've developed a point of view on the product side where we want to have a land-and-expand strategy, which gives us 2 opportunities for growth, not just penetration, but also pricing. And then as well, in addition to that is a channel strategy, focused on enterprise channel, the social channel, the marketing cloud channel, et cetera. And what you're seeing in our results in the last 2 quarters is the accelerating year-over-year growth as a result of that change in the strategy and more aggressive selling. We think this is a large opportunity for us. It's directly related to the audience growth and engagement on Twitter. We're taking that data and packaging it for our partners. So as the audience grows and the engagement grows, the value of the asset will grow. We're looking at developing new use cases for the data business outside of the current footprint of users, and we're excited about the prospects. One thing that's really important to note is that $1 in data revenue is equal to about $3 to $4 in advertising revenue, given the difference in profitability. So not only does it help us on the top line, but it helps offset costs on the bottom line, which is one of the reasons we're able to achieve margins that are the highest that we've achieved since going public at 31% EBITDA margins, similar to where we were in Q1.

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

Heath P. Terry
Anthony, user growth, -- sorry, the financial declines moderated this quarter. Should we be thinking that advertising revenue growth, particularly on a per-user basis, has sort of bottomed out here? Can

you give us a bit of an update on where you are in the process of cleaning up the advertising offering and the TellApart shutdown?

Anthony Noto
Sure. Thank you, Heath. As I mentioned, we're really excited about the third consecutive quarter of double-digit DAU growth at 12% year-over-year because that bodes really well for future revenue growth. We're also very pleased that we're able to see an inflection point in our total revenue growth, improving from an 8% year-over-year decline in Q1 to a 5% year-over-year decline in Q2 and a 2% year-over-year decline when you exclude the contribution in both years from TellApart, which as you mentioned, we're deemphasizing and expect to be at 0 revenue in the fourth quarter. While we still have a lot of work to do for revenue growth to get it to track audience growth, the improvements in revenue growth reflect the progress executing against our top revenue-generating priorities in the second quarter as well as strengthening business fundamentals. And I want to point out a couple of drivers that drove that inflection point. First and foremost is the second quarter of accelerating year-over-year growth in the data business. Second is continued strong growth in video, with a very strong debut at the 2017 Digital Content NewFronts. Third is an improvement in our year-over-year growth rate for owned and operated revenue, with a linear improvement in spending across our existing global and U.S. upfront advertisers in both May and June compared to April. Our DR and social products performed better than expected. While they were down year-over-year, we were able to stem that decline and see an inflection point in those products as well. And then just executing. Our team has done a great job of communicating the incremental value that we're driving this year than a year ago to advertisers, as a reflection of our audience growth, our improved ad relevancy measured by click-through rate and our better pricing, down more than 50% year-over-year. In addition to that, while Bruce recently joined us, our team on the revenue product and engineering side has done a great job with driving platform benefits. We'll note that one of the benefits that we saw throughout the quarter is a 10% increase in reach and ROI based on new platform changes to buy on an interest basis and a demo basis. And so there's lot of iteration going on underlying the products that's also helping us. As it relates to the back half of the year, we did note that while we're encouraged by the improvement in overall revenue trends, we don't expect to see revenue growth rates improve for the second half of '17 because of the headwinds you mentioned of $75 million. That's primarily tied to the TellApart business, but there are some other comparables in there that are difficult. And so the $75 million, the combination of the products we deemphasized and some tougher comps as it relates to Live, which we're encouraged we can continue to chip away at given the great slate that we have. So on a normalized basis, excluding that $75 million headwind, we could see an improvement in total revenue growth by fourth quarter.

Krista Bessinger
Thanks. And our next question comes from Twitter. It comes from the Twitter account of [Michael Smith]. And he asks, can you comment on the firm's talent strategy given the competitive environment and the recent 2017 departures?

Jack Dorsey
Yes. Thank you for the question, [Michael]. So we've been focusing a lot of our energy on making sure that we have some of the best leadership in the world. And we made a lot of progress over this past 3 months in bringing in a few folks. Really excited about Bruce, who joined us to lead our revenue product. He has been spending the past 6 weeks sitting down with the team, validating all of our plans and our strategy, and continuing to simplify and differentiate the products and really focus the team on ROI. And we're getting some -- making some good progress there. Candi joined us as our VP of inclusion and diversity. And Ned is joining us on our next earnings call as our CFO. And we're really excited about his principled, engaging and rigorous approach to the CFO role. I spend the majority of my time on recruiting, and we're looking for more engineering and product leadership throughout the company. One of the things that brings people to Twitter is our purpose. And being the place -- the first place in the world to see what's going on and what's happening and what people are talking about is a strong purpose that people want to join. And they also want to help with a company and a service that

they feel is really critical and important for the world. So first and foremost, we look for purpose, we look for passion. And we look for great people who can help us focus and continue to help our discipline and help our execution and continue to drive the results that we've been seeing in the consumer [products].

Krista Bessinger
Great. Thank you. And the next question comes from Lloyd Walmsley at Deutsche Bank.

Lloyd Wharton Walmsley
I'm wondering, you're adding a lot of video content that seems pretty underserved, as you guys note. Wondering how competitive those deals are in terms of just bidding versus other platforms, or whether you think, in a lot of these cases, you're not really being competitive or there's not a lot of competition. And then, the partnership with Roku, moving video content to larger screens. Curious if you can talk about what you expect to see from that. And related to that, have you done work to understand how consumer perception is changing around Twitter, kind of in general, but specifically around the video content? Are you seeing more people become aware of the content on Twitter?

Anthony Noto
Thank you, Lloyd. As it relates to the video strategy and our differentiation, we think we have significant differentiation in the Live video premium category, given the uniqueness of Twitter. Twitter is what's happening, and our audience is coming, leaning forward, looking to see what's happening. It's an influential audience. It's an audience in the discovery mode. And it's an audience that's connected to each other. The biggest point I want to emphasize is the one I made up front, which is we're building Live off of a position of strength. That position of strength is that people have been on the platform for more than a decade, talking about these events already. All we're simply doing is taking all those tweets and bringing them together through our machine learning and putting it into a great time line that gives them the best of that conversation with the companion video that goes along with it, which should drive more conversation, faster distribution and more discussion. The greatest testament we have for our ability to compete in the marketplace, while we may be smaller than others, is we're renewing our deals. We've renewed the vast majority of our deals that we've anniversary-ed. And the signs and the deals that we've already done and that need to be renewed are very positive. Getting to 1,200 hours of live streaming content from 600 hours in our first quarter of Q4 is also a testament to the value proposition we can deliver. We've gone head to head with a number of our competitors with the same exact content, streaming at the same exact time. And we've been able to beat our competitors, whether it's in sports, whether it's in news and politics or whether it's in e-sports, because we have a different audience that's highly engaged with this content already and has an interest in it. And so that has helped us deliver. Our advertising product is also very differentiated. We have midstream video ads as well as pre-roll ads. We're not just licensing live content. We're licensing the live content for all of the Twitter windows, in-progress highlight windows, post-event windows and then on-demand windows. And that's also differentiated. That allows us to put more of the content into the home time line, which is where people are spending the majority of their time, and create somewhat of a productivity loop across that live video that is the starting point for the windows that come after it, all contributing to the value for our advertising partners, and of course, our content owners that are trying to reach a younger, global audience that's hard to reach. One of the points I'll give you anecdotally is that we've been able to deliver an audience for our content partners that's younger than their other forms of distribution, and that has been incremental. But we recently did a study that actually showed not only are we driving incremental reach for our content partners, we're also doing it for our advertising partners. We did a study -- a couple of studies with Nielsen on total ad ratings, and based on those studies, we've been able to provide an average of a 6% incremental reach to television campaigns against targeted demographics. The incremental reach that skews towards the 18- to 24-year-olds is actually 25% relative to what they get on TV, and that's an audience that's hard to reach in that medium. And so we're adding incremental value and reach for advertisers as well, with a format that they're familiar with and comfortable with, which is the video content and advertising. As it relates to your second question, our over-the-top strategy is much broader than Roku. We have a video app

that's on Apple TV. We also have -- or on Amazon Fire, in addition to Microsoft Xbox, and Roku's a new addition to that distribution. As we move to 24/7 programming on sports and news, we think those larger screens will be more accessible and more valuable to individuals as opposed to episodic content throughout the week. And so we'll always be on. We want to be a dependable place for people to see what's happening in Live, and these over-the-top platforms will give a better viewing experience for that type of content.

Krista Bessinger
Next question comes from Ross Sandler at Barclays.

Ross Adam Sandler
Just one for Anthony and then one for Jack. So Anthony, last quarter, you said the linearity of your owned and operated ad revenue was kind of improving through the quarter. Just curious what the linearity looked like in 2Q and how you feel about owned and operated heading into the back half. Do you feel like the momentum is continuing to pick up? And then Jack, Twitter Lite, the progressive web app, launched in April and the app looks pretty awesome. What are your early takes? And do you think this could be a big driver of user growth, MAU growth in international markets?

Anthony Noto
So on the owned and operated advertising revenue, I want to give you a perspective relative to what we said in the past so that we can illustrate the progress that we're making on the advertising side, which we're really encouraged about. We have a lot more to do to get our revenue growth to mirror our user growth, but we feel like we're moving in the right direction. On the February earnings conference call, we talked about global upfront advertising partner deals being signed. There's only 5. Now these are deals where advertisers negotiate with us for how much they're going to spend in that year, and based on those -- that level of spending, they get certain benefits and value added. And so getting those deals done is really important to give them a roadway and an incentive to continue to increase their spending. We only had 5 in February, which is an indication that the outlook for forward commitments is relatively low. In April, we gave you an update that we have 32 of those relationships. In the second quarter, what I would tell you today is that the linearity that we saw from those existing global and U.S.-based advertising upfront partners is that we saw a linear improvement from April into May into June, and that's helped the underlying growth rate in owned and operated have an inflection point from down 11% in Q1 to down 9% in Q2. It's also a testament that we're going out and really sharing with advertisers our improved value based on audience growth, based on improved click-through rates or relevancy as well as pricing that's down more than 50%. I want to emphasize, this is a relatively small component of our overall revenue. But it's an indication of when we are able to connect and engage with advertisers, we're able to show them the value and see the benefits in their spending. And that was clearly evident in May and June relative to the prior months. I did mention already that our outlook for the fourth quarter and third quarter back half of this year will face a $75 million headwind. Without that, we feel like we'll continue to make progress.

Jack Dorsey
And Ross, we've been working over the past few months on some early foundational work, and Twitter Lite represents one of these. One of our goals is to make sure Twitter is accessible to anyone in the world. And Twitter Lite exactly hits on this particular goal. Especially in places like India, we found that our app was just way too slow to access. So we have areas in the world where network infrastructure is more costly, and we could be a lot better in terms of serving those markets and those countries. So it's way too soon to access the -- to assess the usage trends, but our initial results look really positive. But it speaks more broadly to a foundational approach we're taking to make sure that Twitter gets more and more accessible to people all over the world, independent of their device type or the network that they're on. The other foundational move that we launched over the past few months is the redesign. And this redesign went across all of our services, the app on iOS, on Android and on the Web. And typically, this would take the team months to complete, and we were able to do this in weeks. And we're really proud of that because it speaks to our ability now to execute across the entire

service much, much faster. The redesign was also really important because it clarifies a bunch of areas that new people were having trouble with or confused by. And it gives a lot of room for our team to move much faster and to build more cohesive end-to-end experiences. So we've laid some really good foundation down that allows more people to access Twitter. And we're really excited to see what people do with it.

Krista Bessinger
Great. And the next question comes from Rich Greenfield at BTIG.

Richard Scott Greenfield
I guess, Anthony -- or Jack and Anthony, could you go through, I guess, a better understanding -- seasonality, I guess, just given where you're at, I think investors don't totally understand, given the strong growth in DAU. What's the seasonality issue that's impacting you on the MAU front? And then, you also called out "other factors." What exactly is other factors? And you've seen this tremendous growth in DAUs for 3 straight quarters growing double digits. Is DAU versus MAU still 50% or less? I think everyone is just trying to understand, how much runway does DAU have even if there isn't robust growth in MAU? Can you still see double-digit growth in DAU for quarters, years? I guess, just some way of framing how big that opportunity remains. And then just lastly, I think, Anthony, you made a comment about the $75 million headwind in the back half. It sounded like when you mentioned the word Live, I assumed some of that is NFL related. If there's any way you can just quantify how much of that is just not having NFL games year-over-year, that would be great.

Anthony Noto
Thanks, Rich. So on your question on seasonality, having sat in your seat and gotten similar questions from investors, the best way to sort of -- to adjust for seasonality to see what the underlying trend is, is to look at a year-over-year growth rate as opposed to a sequential growth rate. Both are important, without a doubt. But a year-over-year growth rate will give you a better sense for what the growth is without seasonality. And as we mentioned, we grew 12% year-over-year in DAU, our third consecutive quarter of double-digit growth, and MAU grew 5%. In terms of the factors, sequentially, the majority of the MAU headwinds was in the U.S. We look at the funnel and try to understand those dynamics and what contributes to growth or the lack of growth. And the top of the funnel for the U.S. is up on a year-over-year basis and that's important to note. It's also important point to note that it's the second-highest absolute amount in the U.S. MAU top of the funnel that we've had in the last 18 months. And so it's a very strong outcome and a result, only failing in comparison versus Q1, which was obviously very strong as well. So second-strongest top of the funnel in U.S. MAU that we've seen in the last 18 months. That said, the top of the funnel for U.S. MAU did increase quarter-over-quarter. We don't have data that will explain the causal impact to that, why the top of the funnel for U.S. MAU decreased. So it could be related to any number of exogenous factors, including fewer events, lower seasonal benefits or organic trends. And so as we've dug into it, that's the conclusion that we've been able to draw based on the data and the analysis. As it relates to the broader opportunity for DAU growth relative to MAU growth, the first point I'll make is DAUs actually equal MAUs that are activated plus new MAUs. And so by definition, it is dependent on your ultimate MAU growth. You asked the question of where we are in DAUs versus MAUs, and we have provided a perspective back in 2014 and, yes, specifically about less than 50%. What I'd say is our DAU-MAU ratio, regardless of how you measure it, hasn't changed meaningfully or substantially one way or the other over the last couple of years. So there's still a significant amount of headroom for us to drive DAU growth without MAU growth. I think the question that you're asking, and we know we're going to hear from others, is likely related to, what is DAU growth from here going forward? We've had 8 quarters of year-over-year growth. We've had accelerating growth through Q1 in each of those quarters, and now we're at 12% growth year-over-year in Q2 versus 14% growth in Q1. And everyone's trying to figure out where do we go from here as we face tougher comparables. And so let me give you a little bit of perspective. First, DAUs are measured as the average of all active users on our platform per day in the quarter. While MAU, it's the average of MAUs in the last day of each month. Therefore, DAU requires sustained changes over time to be able to move that average every day. We have much more visibility, therefore, in DAU, with less

visibility in MAU, since MAU is the average of the last days of each month and DAU is the average of each day. And we're almost done with one of our first months of the quarter. About 12 to 18 months ago, we did decide to prioritize DAU growth based on our analysis of what would help us drive future growth of the business. And as Jack mentioned, we're focused on delivering value for customers and advertisers on a daily basis. So we're pleased that we're able to see the growth in Q2, up 12%, and it's the beginning of tougher comps. 12% was versus 5% a year ago. As we enter Q3, the year-over-year growth rate in DAU last year in Q3 was 7%, so the comps were even tougher. So we're really pleased that we're seeing stable year-over-year growth in DAU so far in Q3 despite the strong year-ago comps at 7% DAU growth. I want everyone to keep in mind, and I went through the explanation about the difference between MAU and DAU because the growth rates could diverge* further, given our priority on DAU and focus on driving daily usage and so much room that's left in driving DAU growth relative to MAU growth. As it relates to your last question on the NFL, what I'd say is the vast majority of the $75 million headwind is related to TellApart and other deemphasized products. We do have tougher comparable Live advertising comps in the back half of the year. The NFL was part of that. We've talked about the fact that while we don't have Thursday Night Live Football on the platform, we do have live news and analysis and highlights of NFL programming throughout the season. And we're going into the fourth quarter this year with 1,200 hours in this quarter, and we'll add to that. So we just posted 1,200 hours of live streaming. Last year, in Q4, we only had 600 hours. We're going to have some 24-hour networks. So it's a great opportunity for us to chip away that $75 million. We just want to be very clear: We're facing a much bigger headwind in the back half of the year than we faced in the first half of the year so you can get to the underlying growth trends. Thank you for your question, Rich.

Krista Bessinger
Great. Thanks. And we'll take our next question from Twitter. It comes from the account of [Lyman Zerga]. And the question is, are you going to significantly reduce your reliance on stock-based compensation?

Anthony Noto
We've made a commitment to improve our stock-based compensation as a percent of revenue from where it was at over 40% a couple of years ago, down to the level of our competitive peers in the high single digits as a percent of revenue to low double digits. We have made great progress in that regard. This is our second quarter reporting results, and we've improved our outlook for stock-based compensation decline on a year-over-year basis once again in our guidance. We still feel comfortable that we'll be able to achieve the objective over the next couple of years in SBC as a percent of revenue, and the progress we've made so far is quite significant. If you dig into the numbers, you'll see a sizable absolute increase as well as a relative increase as a percent of revenue. It is a commitment that we have to get there, and we're doing it in 3 ways. One, we're anniversarying some initial grants from people prior to the IPO in 2014. Two, we're replacing some stock-based compensation with cash bonuses at year-end. And then three, obviously, growing revenue will be a key driver of getting it down as a percent of revenue. So it's a focus. And the last point I'd make is we're committing to keep our net dilution in the low single digits, and we've been able to do that since 2014.

Krista Bessinger
Great. Thanks. And our next question comes from Doug Anmuth at JPMorgan.

Douglas Till Anmuth
You guys talked about the very strong debut for video at the Digital Content NewFronts. Was just hoping you could give us some more color around some of your more recent discussions at Cannes a few weeks ago. Just given that linearity seems to be improving, is it fair to say that you have better visibility in the pipeline in the back half and into the holiday season? And what else are advertisers looking to see from you so you can regain your share of spend there?

*** corrected from converge in original transcript**

Anthony Noto
The thing I'd say about our progression with advertising conversations, I'll give you a comparison between CES and Cannes. Both events are where we spent a lot of time with the senior leadership of our advertising partners and the senior leadership of Twitter. One thing is very clear from our partnerships. They absolutely support and understand and applaud our focus and differentiation on Twitter is the best at showing you what's happening and what people are talking about. They think that's honorable for Twitter. They think that's a very differentiated positioning than our competitive peers. They also think that focus and clarity is important for them to understand so they know why they should partner with Twitter as it relates to our overall audience growth and that (inaudible) that we're driving. The second thing that's really important is that they understand now that the product changes that we're making against that strategy is driving sustained growth. That wasn't the case 18 months ago. In addition to that, we've seen a significant increase in our average cost per engagement based on a number of factors, but that's also increasing [the significant value]. And then last, they understand the challenges that we have in the marketplace to make sure that we're delivering ROI in a measurable way every day. We can measure ROI through brand-lift studies and marketing analysis, and our goal is to continue to drive, being able to drive a return analysis on a highly frequent basis in a reliable away with third-party audits and third-party validation. And so we're committed to that measurability and that transparency as well. I will say that in January and February, the conversations we were having, given we only had 5 upfront deals, were about how do we get back to partnering in a bigger way and walking them through all of that, that I just mentioned. And we've got the candid discussions about how can we do more together, given how much we've improved over the last 6 months. I want to emphasize, these are meetings with 20 to 40 advertisers and agencies, not in the thousands of advertisers. So we're chipping away at our most important advertising clients, and it's having an impact on our results, but it's still, still very early, and we're encouraged by the progress that we're making with the advertisers. In terms of visibility -- so we talked about the fact that we only have 32 of these upfront deals. So we're still very much competing for end-market dollars and our visibility is about 30 days. So while we're encouraged by all the trends, we're still chipping away at getting incremental commitments for that on upfront dollars. The NewFront dollars are commitments [starting] in the back half of the year and that has increased, but it's still very low [and slightly higher than] the $75 million headwind.

Krista Bessinger
Thanks. And our next question comes from Ron Josey at JMP Securities.

Ronald Victor Josey
I wanted to talk a little more about engagement and just talk about the importance of the Explore tab. I know, last quarter and even now, we're talking about more and more how machine learning is driving engagement. So can you just talk more about the automated discovery on the Explore tab. And then a quick follow-up, Anthony, to your comment on the DAU growth metrics. Any sense on -- or can you break out U.S. versus international DAU mix?

Jack Dorsey
Yes. Thanks, Ron. So we've been investing pretty heavily on machine learning and deep learning throughout the product. We've been focusing most of our energy on the time line and notifications. And the more relevant we make the time line, the more we show relevant tweets to people, the more engaged they are. And that's both in likes and retweets and also replies and tweeting itself. So we've progressed in a pretty significant way along the time line, along notifications. Explore represents a new approach for us, where we're organizing not around accounts, but around topics, and topics that people are interested in and in interests as well. So within Explore, you find Moments, you find Search, you find trends and you also find some of our live content as well. And more and more, you'll see more experiments around organizing Twitter in a topic-forward and interest-forward way, which allows us to experiment in terms of really getting to what people, I think, come to Twitter for, which is to follow their interests and to follow their passions, and to follow the debate and the conversations. So it's a good way, after you exhaust your time line, to find new things around what's happening in the world, whether it's topic based or location based or if it's a particular live event. So machine learning and deep

learning is fueling both the time line notifications and everything that we do in the Explore tab, and it just gets better and better every single day. The team has a really clear road map ahead for each.

Anthony Noto
And as it relates to DAU in the U.S. versus international, we don't break it out. I'd give you a couple of additional data points. First, DAUs globally were up sequentially. Second, our U.S. DAU growth was very strong. I mentioned 5 of our top 10 markets grew double digits. The U.S. did not grow double digits, but it was very, very close to double digits at 9% and has continued to see stable growth rates. What I'd say more broadly about DAU is that the DAU by country does generally track towards MAU, but not in every market, but in our top markets.

Krista Bessinger
Thanks. And our next question comes from Brian Wieser at Pivotal Research.

Brian W. Wieser
Curious how you think the changes in privacy protection and GDPR, in particular, in the European Union might impact the business. You've obviously got a logged-in user base, which should be positive. On the other hand, maybe it constraints how data gets used for both the core Twitter platforms to MoPub. Just curious about general thoughts on the impact.

Anthony Noto
So the change you mentioned goes into effect next year. It's something that we're evaluating, as you would imagine, and we don't have anything to share at this time.

Krista Bessinger
Thanks. And our next question comes from Peter Stabler at Wells Fargo.

Peter Coleman Stabler
A couple for Anthony on the video side. Your shareholder letter mentions the 55 million unique viewers, really nice growth there. Wondering if you could give us a little bit more color on the trajectory of average viewing duration or total trend of hours, any additional data points there. And then one other on video would be, can you give us a sense of how you feel about content discoverability? Tons of video content on the platform right now, yet we have a sense that even some of your super users or power users might still not be aware of all the great video content on the platform.

Anthony Noto
Thanks, Peter. In terms of viewing duration, it depends on the content and it depends on the audience we're going after. It's literally very -- I would say, there's a great amount of diversity in the time spent. We've been, overall, very encouraged by the reach that we've been able to achieve in terms of MRC-unique viewers as well as duration and engagement and the data points I'd given earlier in the day -- earlier in the call, I mean. So it's hard to give you an overall number because it's so different by vertical and it's so different by event. But overall, we're really pleased and the best estimate of that us we're able to renew our deals in the majority of the cases. As it related to content discovery, this has been something that we've taken a very much step-wise approach to. When we launched last year in September, we really wanted to nail the product quality, the video product quality in terms of fidelity and latency, and the team did a phenomenal job with that. The praise that we get for the quality of video, the praise that we get for the overall experience is very evident in all of our notification tabs when we have events on. And the team did a great job with that. From there, we started to spend more time on the time line and curating it in a better way, in a more relevant way and creating some theme time lines. As an example, when the President had a joint address of Congress and Senate, we had a time line that was of just senators and congressmen, and it was high-quality, influential, important politicians providing a perspective on that and that address as it occurred. And now we're in a state where we're not just leveraging organic ways to drive discovery, such as promoted tweets, such as search, notifications, we now have a location within the application to find live events. That's under the

Explore tab and that rolled out last night on iOS and rolled out previously on Android, and we're really -- I'm looking forward to see how that performs, especially as we move into 24/7 in news and sports. It will something -- there will be something always there for our audiences in specific geographies because of that transition. So it's been a gradual transition and there's more for us to [comment] in that regard. The second thing I would really highlight is that when you look at Live and the Explore tab, you're also going to see Periscopes and [DTC] content. And I want to emphasize, the premium stuff is important. It builds awareness of live content on the platform. We're leveraging globally and nationally recognized stuff. But when I say that we want to serve -- we want to deliver underserved audiences and underserved content, it's everything from the head to the tail, from stuff that's professionally produced, like the WNBA, to individually produced content. So it's a holistic strategy with the goal of delivering to our passionate audience on Twitter what they want.

Krista Bessinger
Great. Thanks. And I think we have time for just one last question. And this question comes from Ben Schachter at Macquarie.

Benjamin Ari Schachter
Anthony, in the past you've talked about experimenting more on revenue models and potentially going into subscriptions, micro transactions and even the potential to possibly outsource more of the long-tail advertisers. Can you give us any updates on what's going on with that?

Anthony Noto
We do think there's opportunities for us to continue to innovate and drive alternative revenue streams. It was broadly reported that we were doing a test on and TweetDeck and whether or not a subscription product would be attractive for those premium heavy users and also new segments of consumers. We're still doing work on that. We have nothing to report so early. From an advertising perspective, we're leaving no stone unturned. We want to make sure we're addressing the different channels of demand, the different pockets of supply and the different ways to buy. So we're starting to tap into new advertising budgets. The Digital NewFront commitments that we're getting are really positive and they're coming from areas outside of digital media and that's really positive. And in some cases, they will be firm commitments. In terms of new sources of demand and new ways to buy, we have nothing to report. But we're testing and building innovative stuff that will ultimately prove to either be a benefit and we'll invest more in it or iteration into other ideas. So it's still early days there. But we'll continue to make sure that we're looking at those additional growth drivers that we talked about in the past. And hopefully, we'll have something to share by the end of the year.

Krista Bessinger
Great. Thanks. So with that, I'll just turn it back over to Jack for any closing remarks.

Jack Dorsey
Thank you, again, for your questions and for your continued faith in Twitter. Very proud of the team for our achievements and focus, growth, execution, safety, products and our leadership additions. I'm confident we are on the trajectory to success in products, revenue and in building Twitter into a company of enduring value. Have a wonderful day or night, depending on where you are. And see you on Twitter.

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