



Twitter Q2 2015 Quarterly Results Transcript

SAN FRANCISCO, CALIFORNIA

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Twitter Second Quarter Earnings Conference Call. I would now like to turn the call to your host, Krista Bessinger, Senior Director, Investor Relations. Please go ahead.

Krista Bessinger

Senior Director, Investor Relations

Thanks, Abigail, and good afternoon. Welcome to our Q2 earnings call, and thanks for joining us. We have with us today our interim CEO, Jack Dorsey; and CFO, Anthony Noto.

Today, in addition to connecting with you on Twitter, we're using Periscope to show you a behind-the-scenes view of the call. We've always used Twitter to bring you closer to the discussion, but now through Periscope, we can bring you inside the room and show you around.

Periscope is the best way to watch, to share and watch live video from a mobile phone. It's about seeing the world through someone else's eyes and sharing and experiencing a live moment. It's not about an overly produced and edited video, so bear with us as we read our prepared remarks and occasionally check our notes. But we hope you enjoy what it's like to be transported into the room with us today and experience how powerful we think this platform can be.

Moving on to the safe harbor. We'll begin with approximately 15 minutes of prepared remarks, followed by Q&A. 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 #TWTRearnings. We'd also like to remind everyone that we will be making forward-looking statements on this call such as our outlook for Q3 and 2015 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 provided in our earnings release. These

non-GAAP measures are not intended to be a substitute for our GAAP results. This call in its entirety is being webcast from our Investor Relations website and being broadcast over Periscope. An audio replay of the 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, Chairman and Interim Chief Executive Officer

Thank you Krista.

Hello from San Francisco, everyone! Thanks for joining us today. I also want to welcome all those tuning in to watch our prepared remarks and Q&A, live via Periscope.

To start, I want to thank our shareholders, and most importantly, I want to thank everyone who uses Twitter. And I want to note that it's pretty amazing we're able to follow the commentary about this call and our earnings report, live, directly through our service!

So, let's get into it.

We've been very successful at monetization with a strong Q2, delivering over \$500 million in revenue and more than \$120 million in EBITDA. However, product initiatives we've mentioned in previous earnings calls, like instant timelines and logged out experiences, have not yet had meaningful impact on growing our audience or participation. This is unacceptable.

Over the past few weeks I've had a chance to get a deeper understanding of where I need to focus our team. We need to do 3 things:

- 1) Ensure a more disciplined execution
- 2) Simplify our service to deliver Twitter's value faster
- 3) Better communicate our value

Now, let me go through each.

First of all, we haven't done a great job at aligning the entire company around our total audience strategy. We are in the process of implementing a stronger discipline of direct ownership and accountability that clearly serves a single strategy in order to increase our reach, value to people, and participation. The people, organizations, and companies that use Twitter must come first and be at the center of everything we do.

Second, you will see us continue to question our reverse chronological timeline, and all the work it takes to build one by finding and following accounts, through experiences like "while you were away" and "Project Lightning", which launches this fall. Our goal is to show more meaningful Tweets and conversations faster, whether that's logged in or out of Twitter. It's been awesome to use these new experiences daily, and I believe we've struck the right balance of recency and



relevance in a way that feels great! They truly show the power of Twitter immediately. And I can't wait for all of you to experience it yourself!

Third and finally, we have unbelievably high brand awareness globally. People all over the world know of the power of Twitter, but it's not clear why they should harness it themselves. An answer to "why Twitter?" must be articulated clearly and felt everywhere throughout the service. We are advancing this marketing and communications work as fast as possible and ensuring it's coordinated with the simplification of our service. Anthony will speak to this more in his remarks.

We will take the necessary time to build a service people love to use every single day, and we realize it will take some time to show the results we all want to see. A greater clarity of our purpose, our objectives, and putting the people that use Twitter first drive the urgency we now feel.

What should you expect from Twitter? You should expect Twitter to be as easy as looking out your window to see what's happening. You should expect Twitter to show you what's most meaningful in the world, delivered first before anyone else, straight from the source. And you should expect Twitter to keep you informed and updated throughout the day.

But Twitter can't just be the best window to the world, Twitter also has to be the most powerful microphone in the world. You should expect Twitter to increase your reach. And you should expect Twitter to encourage live and direct conversation and participation around whatever you share.

If we meet these expectations, and we will, Twitter will become the first thing everyone in the world checks to start their day. And the first thing people turn to when they want to share ideas, commentary, or simply what's happening.

And now over to Anthony to provide a perspective on our financial results and outlook before we open it up to questions.

Anthony Noto
Chief Financial Officer

Thank you Jack, and good afternoon everyone. I will discuss our financial and operating performance for Q2 and provide guidance for Q3 and the full year.

Total revenue reached \$502 million, an increase of 61% year over year and \$17 million above the high end of our guidance range. On a constant currency basis, total revenue grew 68% yoy.

Ad revenue reached \$452 million, up 63% year over year as reported, and up 71% year over year on a constant currency basis. Ad revenue was driven by strong demand, as growth in our advertiser base accelerated year over year.

From an advertising products perspective, Y/Y growth was driven by Promoted Tweets and specifically promoted tweet features such as video, mobile app downloads, and website cards. Importantly, these features were also the primary driver of Q/Q revenue growth, as we continue to execute on initiatives to improve targeting, measurement, and creative capabilities for our



advertisers with direct response objectives. Finally, the promoted video ads feature moved to autoplay late in the quarter, with some of the strictest quality standards for a monetizable event in the industry.

By channel, SMB was again the fastest growing channel on a year-over-year basis, driven by growth in new customers. Our DSO channel remains our largest overall contributor. By region, International Ad Revenue grew 75%, and US Ad Revenue grew 57% on a year over year basis.

Turning to monetization metrics. Y/Y ad revenue growth was driven by an increase in both ad engagements and cost per ad engagement, or CPE. Ad engagements grew 53% year over year, driven by an increase in ad load, growth in audience, and the move to auto-play video. CPE, grew 6% Y/Y driven by both higher pricing of our direct response ad formats and mix shift.

Lastly, on ad revenue, we closed the acquisition of TellApart on May 22, and we are very happy to have Josh McFarland and his team on board. For the five weeks it was part of Twitter in Q2, TellApart contributed \$12 million to our reported results. As you think about Q3 please note that we do not expect the full quarter contribution from TellApart revenue to increase sequentially relative to the Q2 run rate, and it is possible it may even decline.

And to round out total revenue, data licensing and other revenue contributed \$50 million in the quarter, an increase of 44% year-over-year.

Before moving down the income statement, I'd like to highlight a few points related to the progress we have made in our direct response capabilities and feature set for advertisers. Overall, we're starting to see a positive response to improvements we are making across targeting, measurement and creative for advertisers. First, we are seeing solid improvement in growth of spend-through from these advertisers driven by improved auction dynamics and higher returns. Second, objective-based campaigns were made generally available in May, and demand continues to be strong, with related increases in CPE on a like-for-like basis. We will continue to iterate in these three areas and hope to see continued improvement in the coming quarters.

Moving on to costs and EBITDA. In Q2, total non-GAAP expenses were \$443 million, up 50% year-over-year. The increase was primarily driven by headcount and related overhead costs, as well as investments in infrastructure and sales and marketing. We continue to invest in our workforce across all functions to scale our business. And total headcount reached approximately 4,100 employees at the end of the quarter. Adjusted EBITDA totaled \$120 million, an increase of 122% year over year and also above the high end of our guidance range. Adjusted EBITDA margin for Q2 was 24% vs. 17% in the prior year period and in line with that of Q1.

Non-GAAP net income was \$49 million in the quarter, up from \$15 million in the same period a year ago. Our GAAP net loss in Q2 was \$137 million. Non-GAAP diluted EPS was \$0.07 per share, while GAAP EPS was a loss of \$0.21 per share.

Turning now to our audience. As I noted throughout the quarter, MAUs in Q2 did not benefit from the same factors that benefited Q1. Specifically, we did not see organic growth, positive



seasonality, or growth initiatives seen in Q1. We reached 304 million MAUs in Q2 excluding SMS Fast Followers, compared to 302 million MAUs in Q1, for a growth rate of 12% on a year over year basis.

Total Average Monthly Active Users, which, as a reminder includes SMS Fast Followers, reached 316 million for the quarter, reflecting year-over-year growth of 15%. It is important to note that while the sequential growth of SMS Fast Followers was strong in Q2, user activations are not necessarily linear for these types of users. As a result, net additions in future periods could vary.

As Jack mentioned, we are obviously not satisfied with these results. In the couple of months since assuming the responsibility to lead marketing, we've done a deep dive into the issues driving MAUs and usage and are developing a new marketing strategy and plan. I want to share with you a few observations from that process.

We are incredibly fortunate to have over 95% aided brand awareness across the most important global markets. This is outstanding and puts Twitter in rarified air. Despite this enormous awareness, we've achieved less than 30% penetration of users in most of these markets. This low level of penetration implies that we have only reached early adopters and technology enthusiasts, and we have not yet reached the next cohort of users known as the mass market.

We believe the reason is that we have failed to do two critical things:

1. We have not clearly communicated Twitter's unique value and ensured that it is reflected in everything we do across product, content, and marketing. And as a result, non-users continue to ask - why should I use Twitter?
2. Additionally, we have not delivered on meeting the new potential user's expectations of Twitter when they try the product. Simply said, the product remains too difficult to use. As Jack mentioned, we need to simplify the product so everyone can get value from Twitter faster.

In short, we have not communicated why people should use Twitter nor made it easy for them to understand how to use Twitter. This is both a product issue and a marketing issue.

We have seen other products overcome these same issues and successfully make the transition to reach mass market adoption, and we are confident we can do the same. To solve this problem it's critical we define our unique value and ensure that uniqueness is fully reflected in our product, our content, and our marketing.

We are working as rapidly as possible to be in a position to launch an integrated marketing strategy and campaign before the end of 2015. We have also begun the process of hiring a CMO and are encouraged by the quality of candidates that we're in dialogue with today.

To be clear, however, we do not expect to see sustained meaningful growth in MAUs until we start to reach the mass market. We expect that will take a considerable period of time. What I can tell you today, though, is we will be bolder, move faster, and raise the bar on everything we do to unlock value for shareholders by ensuring disciplined execution.



Now, before moving on to our outlook I wanted to provide an update on some key data points as it relates to the long term opportunities we discussed at our analyst day.

- First, DAU/MAU for our top 20 markets in Q2 was approximately 44%, vs the 48% we shared with you at our Analyst Day which was for the first three quarters of 2014.
- Second, Ad load, as measured by total ad impressions divided by total tweet impressions, is approximately one third of what we see as the long term potential.
- Third, since going public, our revenue growth has primarily been driven by increased users and increased monetization via increased load factor. During this period, supply has been greater than demand.
- However, over time we recognize that if we do not grow audience, drive increased engagement, or begin to monetize other areas such as logged out, it is possible that on some days our revenue could be impacted by limited available inventory for specific ad types.

Now, I will turn to our guidance. For Q3, we expect:

- Revenue to be in the range of \$545 to \$560 million
- Adjusted EBITDA to be \$110 to \$115 million
- SBC in the range of \$190 million to \$200 million
- Share count for Q3 to be approximately 675 million shares on a GAAP basis, and the fully diluted share count to be approximately 708 million shares on a non-GAAP basis

For the full year 2015, we now expect:

- Revenue to be in the range of \$2.2 billion to \$2.27 billion, and adjusted EBITDA to be \$520 to \$540 million
- SBC expense in the range of \$750 million to \$790 million
- Capital expenditures to be in the range of \$450 to \$550 million

To wrap up, I've been at Twitter for just over a year. I joined the company because of the significant opportunity I believe we have to build one of the most successful companies in the world. Over the course of the last thirteen months, my view on the opportunity for Twitter has not changed.

The unique value that Twitter provides partners, companies, and individuals gives us the best aggregated real time content in the world. Twitter is incredibly unique in that it makes other companies and partners better. That said, we have a significant amount of work ahead of us to turn that opportunity into a reality. We are committed to doing just that for our company, our shareholders, and our partners.

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



QUESTION AND ANSWER

Operator

Our first question comes from the line of Ross Sandler with Deutsche Bank.

Ross Sandler

Deutsche Bank AG, Research Division

Just 2 questions, one for Anthony and then one for Jack. Anthony, on the topic of supply outstripping demand in the ad business, where do you think we'll be on the DR advertising side by the time we get to the fourth quarter? Do you think the targeting attribution and measurement will be in place? And how much do you think TellApart or how much do you expect TellApart to contribute in the fourth quarter based on your full year guidance? And then, Jack, on the product side, I guess, Project Lightning and the Google partnership were kind of the 2 biggest things you guys have done of late, but can you give us an update on traffic and retention from these? And then do you broadly think that these are the types of initiatives that will break us into the mainstream or the mass market as you guys talked about? Or do we need full overhaul in the future?

Anthony Noto

Chief Financial Officer

Thanks, Ross. First, in terms of your question, DR is approximately 25% of our overall revenue. It's the fastest-growing channel that we have. DSO or direct sales branded advertiser still is the largest contributor. We don't have a specific forecast for where DR will be by Q4. On TellApart, contribution in the second half of the year. The only comment I'd make is I would tell you that, that business is dependent on third-party inventory. And we bought the business knowing that some of that third-party inventory, which are our competitors, could go away, and there'd be a transition time period ultimately to put that inventory to other channels. And so that's factored into our outlook. I made a specific comment not to expect the Q2 revenue run rate to be up sequentially, and it could potentially be down sequentially into Q3. And that was specifically because of that transition and knowing what we have to have to make that investment. As it relates to your question on overall supply, I'm simply stating because our growth rate in users is slowing quite dramatically, we're giving you a sense in our load factor, that there are scenarios where we could have a significant increase in daily revenue demand and specific mix shift towards one particular type of ad category. And if that happens, we could be more constraint than we have been in the past from a supply standpoint.

As it relates to the Google deal, we're very happy with the broad relationship we have with Google. It's not just about the distribution and search deal, it's also about the ads deal, ads API as well as third-party attribution. And so we enjoy working with them. As it relates specifically to the Google search daily integration, the deal is only partially implemented. It's implemented in the U.S. There are other languages we'll expand into specifically within English-speaking countries. Also, it's only in mobile. We haven't expanded it to desktop. Additionally, it's focused primarily on events, celebrities, politicians and the news-breaking things, and so it's a small segment of the overall opportunity that we have with them and they have with us. So far, we're happy with what we're seeing, but it's really too early for it to have a meaningful impact on our business or to quantify the contribution that it's making.



Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

And on the product side, specifically, your question was around Project Lightning. This has not been launched yet. We expect to launch it in the fall. The ideas behind it around really pushing up the best content found within Twitter immediately, with some human editorial curation to find more context and also to help us find the best tweets, something we've been able to play with internally. And so far, it feels really great. We're discovering a lot of amazing content on the service. And it does have that immediacy that we love about Twitter. But it also has this great contextual addition as well, which tells the better story. So we're really, really excited about the direction, but it is early, and we're going to learn from it internally and then can't wait for you all to see it externally as well.

Operator

Our next question comes from the line of Paul Vogel with Barclays.

Paul Aaron Vogel**Barclays Capital, Research Division**

So you guys talked about attracting the mass market, but I guess, it looks like over the years, there's been kind of over 1 billion unique users created and you have about 302 million or 304 million monthly actives right now. So, a, if we think about that number accurately, how should we think about the mass market you need to attract? Do you feel like you've attracted a lot of them and they haven't

stayed? Or do you think there's still a huge opportunity to get people who sort of never sampled it and you need to sort of expose them to what Twitter is? I guess, how should we think about sort of reengagement versus kind of new customers?

Anthony Noto**Chief Financial Officer**

I think it's about addressing both of those, those that have tried to use Twitter and found it to be too hard to use and those that have not tried. The #1 reason from our market research that users don't use Twitter is because they don't understand why to use Twitter, they don't understand the value that Jack and I both talked about, and we need to clearly communicate what that value is. The #2 reason why users do not use Twitter is because they don't know how to use Twitter. And so our efforts to simplify the product, our efforts to communicate that value clearly are necessary to go to that next cohort of potential users and have them be retained in the mass market. So it's a combination of those that have tried and haven't stayed with the service and then those that have never used it.

Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

And just to add to that as well, we intend to not only answer that with marketing and better communication around that value but also to meet those expectations that we set forth in the product itself. And we need to make sure that we're telling a consistent and a cohesive story. And I think that's the biggest opportunity internally is to ensure more of that disciplined execution to think



cohesively, to think from the marketing message, all the way into when someone gets into our app and utilizes it and is encouraged to use it on a daily basis.

Operator

Our next question comes from the line of Eric Sheridan with UBS.

Eric James Sheridan

UBS Investment Bank, Research Division

Anthony, maybe just two. You talked a little bit about ad base will be accelerating year-on-year in the quarter. I wanted to confirm that was in terms of the number of advertisers using Twitter and what might drive that. And then the second question. When you announced the CEO announcement later in the quarter, about a couple of weeks back, you reiterated the quarter being in line. I wanted to see if the strength in beating the numbers actually resulted from June being better-than-expected, in which case, you exited with a better run rate for advertising revenue growth exiting the quarter.

Anthony Noto

Chief Financial Officer

Thank you. So your first question to the number of advertisers, yes, the absolute number of advertisers on a year-over-year basis grew faster in Q2 than it grew in Q1. We've talked about the opportunity to move from tens of thousands of advertisers to millions of advertisers. We're fortunate in that we're just about to pass the 100,000 advertiser mark. And there's a couple of things that we will continue to do to grow the overall advertiser base. Clearly, continuing to provide new formats, something like autoplay video is an entirely new format relative to just promoted a video that will track new types of advertisers. Additionally, mobile application download is something we launched in July, August of last year, in addition to some other direct response cards. So we will continue to innovate as it relates to the actual format advertisers want, and that will allow them to better target their particular potential customers and get better ROI. We'll also continue to focus on improving creative design to give them, again, a better way to deliver their message to the end user and, therefore, better ROI and then measurement. And so we're iterating on all 3 of those dimensions, and that's what's allowing us to grow the advertiser base. Our goal is to hit the 1 million to 2 million range that some of our competitor peers are at, and we're still at our first 100,000. So there's a big opportunity in front of us still. As it relates to the quarter, what I'd say is the performance in the quarter, there was no significant changes as we entered the last month of the quarter. We continued on a trend line that we had throughout the quarter, and that ultimately ended up with our total revenue of \$502 million.

Krista Bessinger

Senior Director, Investor Relations

Great. Thanks. And we will take the next question from Twitter. It comes from the Twitter account of Jordan Roberts. And the question is, "How does the monetization of SMS users differ from the full desktop or mobile users? And how do you plan to close the gap over time?"



Anthony Noto
Chief Financial Officer

So I think it's important to put into context what the strategy is behind SMS Fast Followers users. Again, these are users that are defined as individuals that have signed up for Twitter through SMS as opposed to one of our specific clients. Our MAU users, excluding SMS Fast Followers, have used a specific client to sign up for the product. They may access the product over time via any client or any product like SMS.

So these specific users that we've coined the phrase SMS Fast Followers are users in growth markets that are largely on feature phones and they are signing up for the product via SMS. And we're delivering them information based on specific followers they may choose or a program list that we decide to transmit to them. They are monetizeable. We did monetize a few of them in the first quarter. We'll continue to look for ways to not just drive monetization but, more importantly, drive increased engagement. We're planting the seed in these markets today with a very complicated product. And so as those markets evolve and the adoption of the smartphone reaches these future phone users, they will be more than familiar with the brand. They already have used it in its most complex state, and we'll build a really tight relationship with them. And over time, we will trade them up to a more engaged experience and on a smartphone which will monetize at much, much higher rates than what will monetize on an SMS Fast Followers format.

Operator

Our next question comes from the line of Mark Mahaney with RBC Capital Markets.

Mark S. Mahaney
RBC Capital Markets, LLC, Research Division

Two questions, Jack. Could you just give us an update on the CEO search and your personal plans? You talked about the MAU trends, but what about the engagement trends? And I know you're not necessarily providing metrics, but as you've looked at what's happened across Twitter, the Twitter sphere, the engagement of the current MAUs, any notable trends there? And any possibly adverse impact from the rollout of video? Or is that leading to greater engagement?

Jack Dorsey
Co-Founder, Chairman and Interim Chief Executive Officer

Well, thank you for the question, Mark. I know this is a trending topic on Twitter around the CEO search, but unfortunately, we do not have an update to provide today. The search committee does feel the urgency of the search but is doing its work to make sure that we arrive at the best answer. And we'll have updates when there's something meaningful to share. My focus is entirely on raising the bar of our execution and making sure that we're focused on the right things. And as I said in my prepared remarks, it's really around simplifying our service and making sure that people can get in and get to the value of Twitter faster and in a more immediate way, in a more relevant way and also making sure that we have a good communication of what that value is even before they get into the app. And that's all the work we're doing with the marketing. So I am focused on what I believe to be the most meaningful thing, and I'm spending a lot of time on it.



Anthony Noto
Chief Financial Officer

So as we've said in the past, we measure engagement in a lot of different ways. Obviously, daily active users as one measure of engagement relative to monthly active users, and I just provided an update on where that was in Q2 for our top 20 markets. In addition to that, we look at other things like number of searches conducted, which is actually growing very well, number of direct messages sent, which actually accelerated. There's not one level of engagement metric that we look at. And so it depends on whether or not we're talking about advertising usability and these other measurements that I've mentioned in terms of other activities on the property and the service. The last thing I'd say about video, you referenced that, autoplay video is a win for everybody. It's a win for the advertiser. We don't charge them until there's a 3-second viewing time with 100% viewability at that point in time. It's easier for the consumer. They don't have to click on the ad. They can simply fly through Twitter and see videos as they're playing and decide to stop and view or continue moving on. The engagement rates for them are actually higher than the engagement rates for our other products, and that's also a net positive.

Operator

Our next question comes from the line of Heath Terry with Goldman Sachs.

Heath P. Terry
Goldman Sachs Group Inc., Research Division

I was hoping you could sort of give us a sense of, as you look at managing through this transition, how are you approaching employee retention? What kind of increase or changes at all are you seeing in turnover among sort of the type of employees that you're trying to hold on to? And how in the current environment for talent within the Valley is Twitter dealing with attracting the kind of people that you need?

Jack Dorsey
Co-Founder, Chairman and Interim Chief Executive Officer

It's a great question. I am entirely focused on building the best team, and a lot of that focus has to be around not just particular individuals but the best team dynamic. And great teams love shipping products to people who will use them on a daily basis. And our focus is entirely around making sure that we unblock our team from shipping products faster and a better way. And we also have the benefit of having a brand and having a tool, having a service that truly empowers people. And that aligns a lot of folks who want to come in and have an impact on that tool. So we definitely need to do a better job in ensuring an execution discipline to allow for people and enable people to ship faster. And I think our shipping cadence has improved over the past 6 months, and we will continue to show improvements there. But there's a lot we could do around aligning folks around our purpose and around the objectives and making sure that we have direct ownership and accountability, and that is the work and the discipline we're putting into the organization right now.

Krista Bessinger
Senior Director, Investor Relations

Thanks. And we will take the next question from Twitter. It comes from the account of Nick Cirillo, and the question is, "Does Twitter plan on integrating Vine, Periscope and Twitter into one app?"



Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

It's a great question, Nick. We're always looking for opportunities to provide integration between all of our apps. We have the benefit of having some pretty amazing and engaging brands in Twitter, in Vine and in Periscope. And we certainly want to make it easy to broadcast live or to broadcast a 6-second video from whichever app you're in. And we're always looking for those opportunities. But nothing specific to update around today. But our goal is to make that easier and to provide more connection between all three.

Operator

Our next question comes from the line of Douglas Anmuth with JPMorgan.

Douglas Anmuth**JP Morgan Chase & Co, Research Division**

Jack, you've mentioned Project Lightning coming in the fall. Do you have a similar time frame for moving beyond reverse chron order? And can you talk about just some of the key considerations and challenges there as you think about doing that? And perhaps Anthony can give us an update on the early impact of Doubleclick Bid Manager.

Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

Thank you, Douglas. So we actually have an initiative in the app today, which is While You Were Away, which starts to break down the reverse chronological timeline and orders things by relevance, orders tweets by relevance. And it's showing some good early results. This is an early product and we need to learn from it, but it does point to the direction that we want to see more of. And again, we need to balance recency with relevance. I think Project Lightning does a fantastic job of that. While You Were Away does a great job of that as well, but there's a whole lot more work to do there. And my own experience of using Twitter and my home timeline now, I'm definitely seeing a lot more value at the top of my stream and definitely favoriting and retweeting and replying to those tweets right at the top so that, that relevance is having an impact. And right now, we're just finding the balance of how much to push that versus the recency of the reverse chronological timeline. But we continue to show a questioning of our fundamentals in order to make the product easier and more accessible to more people.

Anthony Noto**Chief Financial Officer**

And then, Doug, on your second question as it relates to Doubleclick, there's 2 components to that deal, obviously, third-party attribution and then what we call the ads API. Third-party attribution, we haven't introduced yet. We hope to do that in the fourth quarter by the end of the year. We're ready to go on that as quick as our partner is. It's really an important element of our DR business in that there's some really large direct response advertisers, especially in the financial services space, where these partners table stake to have third-party attribution from Doubleclick before they even spend dollar one with us. So we're excited about implementing that by the fourth quarter. I would say the same thing about Doubleclick Bid Manager being a fourth quarter event. And since I'm talking about the fourth quarter, I'd also just indicate to everyone that the TellApart business is



something that we'll have this year for the first time in the fourth quarter, and that is a retail-focused business on the retail vertical, which is really a big fourth quarter business, so something else to consider.

Operator

Our next question comes from the line of Brian Wieser with Pivotal.

Brian W. Wieser

Pivotal Research Group LLC

First, I know your user growth was stable in the U.S. for the quarter, but I was wondering if you can provide any color around churn. And separately, I was wondering if you could talk about the ongoing progress with MoPub and whether you have any sense what your market share is in ad serving mediation or marketplace capabilities.

Anthony Noto

Chief Financial Officer

Thank you for both questions. In terms of retention, our retention rate for the quarter was the same as it was last quarter, so no change there. And then as it relates to the MoPub business, we don't break it out separately, but what I would tell you is that the growth rate of the MoPub ad exchange business had a similar growth rate to our overall advertising business. We don't break out the market share.

Krista Bessinger

Senior Director, Investor Relations

Great. And we'll take the next question from Twitter. It comes from the Twitter account of Joe Elk, who asks, "How do you simplify the UX without degrading the feature set of power users?"

Jack Dorsey

Co-Founder, Chairman and Interim Chief Executive Officer

Thank you, Joe. This is a great question and want to find the right balance of. First and foremost, we all inside the company use the product on an hourly if not minutely basis, and there's a lot we love about it. But even for us as power users of the service, there's a lot we can do to increase the relevance of what we're seeing. And if we're increasing the relevance of what we're seeing, we're also increasing the potential of the relevance for people who are not familiar with the traditional Twitter models. We need to make sure that we provide a really graceful and unfolding path to get to more value faster for anyone that comes into the service. And that means they don't have to consider what Twitter is, they just have to consider what they're there for. And we think Project Lightning is a good example of showing this. While you were away is a good example of showing this. And there's opportunities where we can place this in our traditional model such as at the top of the reverse chronological timeline, in the Project Lightning case on a separate tab so that you can go to that tab and you can actually discover a new content and discover new events and discover what's happening in the world easily. But also as you follow and as you work to build up following for your reverse chronological timeline, you can go back there as well. And this is something we want to make sure that we continue to optimize and make sure that we're speaking to the needs of our more sophisticated folks because it is meaningful, but it is a fine balance. We think search is a



big part of this as well. We do see a lot of folks who are familiar with the service who use search in really compelling ways, and we want to make sure that we're making that easier and easier as well. So more relevance benefits everyone, but at the same time, we need to make sure that we're balancing that with what we're known for in terms of recency and live and that roar of the crowd feeling.

Operator

Our next question comes from the line of Anthony DiClemente with Nomura.

Anthony J. DiClemente

Nomura Securities Co. Ltd., Research Division

I have one for Jack and a couple of quick ones for Anthony. Jack, philosophically, as you look to grow the audience at Twitter, just wondering, are all users created equal such that you just do whatever you can to grow the audience as quickly as possible? Or in your mind, are there types of users either by geography or by demographic, by cohort that you would kind of focus on organizationally given their monetization capability over the long term? And then just wondering if that will inform where and how you guys roll out your marketing campaign that you mentioned. And then, Anthony, I just wondered to what degree was an increase in the load factor a driver of the reacceleration in ad engagements in the quarter. I know that in your prepared remarks, you talked about ad load at Twitter being 1/3 of its long-term potential. But just wondering if there's any interplay or any dots to be connected between load factor and engagement in terms of the DAU over MAU numbers that you cited. And then finally, can you just talk to us specifically about MAU trends into the third quarter?

Jack Dorsey

Co-Founder, Chairman and Interim Chief Executive Officer

Thank you, Anthony. I'll kick it off. I would say that Twitter is unique in the sense that it has a potential to really reach a global audience, every individual in the world, and provide value to every individual in the world. And we certainly have content and tweets that will be relevant to every particular person in the world for different reasons. I think one of the goals we should always be mindful of is how do we not just increase that reach but also increase participation. How do we show a path towards participating more with the tweets and participating more with the service and enabling more and more conversation on the platform? One of the things that's really unique about what we have is we have some of the best live content in the world, but at the same time, we provide a venue for conversation around it. And that venue is both in public conversation and also in private conversation through direct messages. So we certainly want to amplify that, and we think there's value all along the path from just purely consuming tweets and reading tweets, all the way to engaging and then ideally tweeting yourself and participating in those conversations more deeply. So that's what we're focused on doing, and we believe there's a whole lot of value there.

Anthony Noto

Chief Financial Officer

One additional thing I'd say, Anthony, you asked the question how that focus impacts our marketing plans. We do LTV, lifetime value analysis, on users by market. We've identified 8 growth markets. We're focused on those growth markets based on the relative value and will invest in



marketing in each one of those 8 growth markets based on its lifetime value. And we've been doing that since last year when we started performance-based marketing. To your second question, you asked about load factor and ad engagements. Load factor increased sequentially and year-over-year. I gave you an update on where load factor is versus our long-term opportunity to give you a sense for that. Ad engagements increased both due to load factor but also the mix shift towards autoplay video, which is a net positive. As it relates to the MAU-to-DAU ratio and other factors, what I'd say is the DAU-to-MAU ratio has gone down over the time period that I articulated because we've grown MAUs faster than DAUs. And we have not historically focused on daily active user growth, and that's something in 2016 that we will all consider more. As it relates to MAU trends in the third quarter, we wanted to give you a very clear articulation of the opportunity we have in front of us. It's an opportunity to close the gap between penetration at less than 30% and awareness at 95%. And we couldn't be more excited about the opportunity to really leverage what we think is the best real-time content in the world, to simplify the products so that value could be achieved and then to scream from the building tops on that value proposition and bring people to the product. But in the near term, organic growth is going to be very low as it was this quarter. And as I think about Q3, it's marginally better, but I wouldn't want you to or anyone else to expect change in our growth rate relative to what you're seeing this quarter. And I think you'll see that for a while, and that was my point.

Operator

Our next question comes from the line of Brian Nowak with Morgan Stanley.

Brian Nowak

Morgan Stanley, Research Division

I have two. Anthony, is there any way you can quantify or help us better understand how the CPX transition impacted the growth in pricing versus ad engagements or the load factor in the quarter? And how do you see that flowing through in the second half of the year in the guidance? And then the second one, Jack, I guess, is going back to the MAU deep dive that you talked about. I'm curious here, what has surprised you most since you've been getting under the hood on the MAU base and the MAU growth so far? And which demos or age groups do you see as the biggest opportunity or the lowest-hanging fruit to go after to really grow the MAUs from here?

Anthony Noto

Chief Financial Officer

In terms of your first question, objective-based pricing you referred to as CPX, that became generally available to everyone in May. The beta on it was pretty broad, so it's now generally available to everyone. We saw nice improvements in CPE. We had articulated to you last quarter that we were driving the engagement metric, lowering the funnel, the acquisition funnel, by giving advertisers a specific vehicle that they were optimizing for, i.e. an objective. And so we saw nice improvements in CPE this quarter to get us back to our overall CPM, where we would have wanted to be after making that investment. So we're encouraged by the trend in CPE as well as the improvement in the ROI for the advertiser. In the second half of the year, I would say our outlook reflects the combination of that factor as well as other initiatives we have as it relates to targeting, creative and measurement.



Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

Brian, thanks for the question. No real surprises. I've been fairly close to the business. Again, as I've spent the last few weeks really considering what's in front of us and what the present state is and the future, it's really around aligning our execution and simplifying the service and making sure we're communicating the "why" of the service more. But we are communicating that to a very, very broad base. We do think Twitter and everything found within Twitter has mainstream appeal and not targeting particular demographics. One of the benefits is that we do carry every type of event in the world. So you will definitely see us amplify more of those events as they happen, and they will certainly target then to particular demographics around those events. But we're going to make that call as those events happen and as we can really understand how we can share that value and then immediately get people into the service and realize it, too.

Operator

Our next question comes from the line of Justin Post with Merrill Lynch.

Justin Post**BofA Merrill Lynch, Research Division**

Two questions. I guess, my first is either for Jack or Anthony. Just your strategy to get Twitter to the mass market. I guess, what data or what gives you confidence that Twitter is right for the mass market? Obviously, a lot of us on this call use Twitter. But just thinking about the mass market use case, what gives you confidence there? And then in the second half of the year, if usage and user growth is going to be somewhat slow relative to prior years, what is really going to drive the quarter-over-quarter revenue growth beside just normal seasonality? What are some of the things you're excited about for the second half revenue drivers?

Anthony Noto**Chief Financial Officer**

In terms of your first question, Justin, the reason why we're so confident that we can reach the mass market is there's 2 things that are required to get there: one, articulating a clear value what Twitter provides, why should people pick Twitter versus all the other choices; and two, delivering that value and their expectations of value when they get to the product. What we start with is great brand awareness. Second, we just have to clearly communicate that value. Third, what we have that people want is this best real-time content in the world and ability to participate with that real-time content. So there's not an asset that we need to go get. There's not a component of value that we need to go get. We know we have the value that they want. It's one of communication which Jack and I have mentioned; and two, it's about making the product simple and easy to use. And I think you'll see from Project Lightning that we've made it very simple. Users will show up, the content will be curated. It will be curated by editors that are picking the best of the tweets that we have on a daily basis, which is a massive number of pieces of content on what's most relevant in the world and will give individual consumers an opportunity to see the world now on Twitter. And so we have to do 2 things: one, clearly state the value; and two, organize and deliver in a way that is an experience that they've experienced at other places. We've seen other products that have had the issue of crossing the chasm make that transition quite easily. E-commerce and Amazon is one



example. A cellphone is another example. But there are many other companies that haven't been able to do it because there's a structural problem. In the e-commerce space, there's been some brands that really only 1/3 of the people that buy online buy from these really well-known brands. Why? They don't own the product, they don't own customer service, they don't own pricing. Those are the value drivers for e-commerce, best selection, best price, best service. We have the values that will cause someone to want to come to Twitter versus everyone else. Best content, ability to participate, ability to see the world. We just have to simplify that message and give it to them in a foolproof way where they just have to show up. So we don't have any concerns that there's a structure issue, we just have to execute with discipline and we'll unlock that value for you, our shareholders.

Justin Post

BofA Merrill Lynch, Research Division

And then on the second half drivers of revenue, what are you kind of most optimistic about?

Anthony Noto

Chief Financial Officer

Well, we're very excited about having the TellApart business, which will really focus on DR and the retail category, which we have been underpenetrated in. I'm also excited about the marketing that we'll do in the second half of the year. That's implied in our guidance. For the first time, we'll have an integrated marketing plan in the U.S. behind the launch of Project Lightning, which will communicate that clear value I just talked about. And we'll see how well the product delivers against that. Additionally, we talked about continuing to expand the relationship with Google from a distribution standpoint to other countries with English language and to other platforms like the desktop and then third-party attribution is another contributor to that. We also have some product road map plans as it relates to monetization and specific things focused on targeting, creative and measurement and really raising the bar in that area to better meet needs of advertisers. So a lot of stuff in the second half as it relates to both users, partners and advertisers.

Krista Bessinger

Senior Director, Investor Relations

So we will take the next question from Periscope. And the question is, "How do you plan to monetize Periscope, which is the next big thing?"

Jack Dorsey

Co-Founder, Chairman and Interim Chief Executive Officer

I definitely agree that Periscope is the next big thing, but we have no plans to share around monetizing it just yet. One of the amazing things about what we've done with Twitter and what the team has really pushed is the monetization fits perfectly within the service that actually makes the service better. So we're always looking for opportunities to do more of that, and we would hold the same high bar to what we do with Periscope and with related properties like Vine.

Operator

Our next question comes from the line of Peter Stabler with Wells Fargo.



Peter Stabler**Wells Fargo Securities, LLC, Research Division**

Two, if I could. First of all, the 100,000 advertiser count is pretty impressive. I think the last time you gave it to us was around 60,000. So at a high level, 2 ways to increase your ad revenues: one, bring in new customers; two, grow your wallet share of existing customers. Wondering if you could comment on the latter, those who have been on the platform for a while. How are you doing there in terms of growing your wallet share? And then secondly, wondering if you could give us an update on commerce initiatives and what kind of consumer appetite you're seeing for transactions on the platform.

Anthony Noto**Chief Financial Officer**

In terms of number of advertisers, we're fortunate that we're benefiting from the growth in both, both number of advertisers and spend for advertiser. If you think about the pyramid, at the top of the pyramid are branded advertisers, what we refer to as a DSO channel. We were really fortunate in that we cracked the nut on how to deliver value to DSO or branded advertisers very early on. So it's our most mature channel, but we're still seeing growth there in both number of advertisers as well as spend per advertiser. At the bottom of the pyramid, revenue's being driven more by penetration of these new SMB advertisers than it is spending rate. But over time, we do think we'll also have the benefit of an increased spending rate, so to speak, by the advertisers as it relates to SMB. So it depends on which type of advertiser you're talking about that's predominantly driving it, but we're overall benefiting from both.

Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

And on the commerce side, it's still super early for this project. But a lot of our focus has been around making tweets more relevant and delivering more relevant tweets faster to people, and as we do that, everything within the action, within the tweet action benefits, including something like commerce.

Operator

Our next question comes from the line of Dan Salmon with BMO.

Daniel Salmon**BMO Capital Markets Equity Research**

Jack, you recently launched a product around event targeting, and I know that's been an area where advertisers take a real long look and use Twitter a great deal. It looks like that helps automate that process around some of the bigger events, World Cup, Olympics and otherwise. Could you maybe tell us a little bit more about the road map you see for that product? And in particular, is it the type of thing where if an event is more of a breaking event, where it might be able to be applied and help advertisers automate that process a little bit more where they're trying to get engagement around that specific event and subject?



Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

So, great question. I think one of the biggest things that we've always seen on Twitter and be really successful on the platform is around events and the engagement around events. And certainly, we're going to make sure that we're building more and more tools to allow people to target these events faster. But these are still super, super early and something we need to learn a lot more from.

Daniel Salmon**BMO Capital Markets Equity Research**

If I could just have one quick follow-up on TellApart for Anthony. The focus on it so far has been around increasing the DR demand on Twitter. Take a step back. Do you see that as a tool that advertisers are going to be able to use more broadly as a buy-side tool? Obviously, you've mentioned some move away from some inventory from competitors. But is that just simply a DR tool to buy on Twitter as you see it? Or is it a broader one that advertisers are going to be able to use across the web?

Anthony Noto**Chief Financial Officer**

So first, what I'd say is TellApart is a great standalone business, and that's the first question we have to answer when we acquire a business. And Josh and his team have built a really successful standalone business. It's been primarily focused in the retail category. All I'm simply saying is when they source inventory, they source it from a number of different platforms. It has historically not been sourced from Twitter. And so it's important that as we think about our outlook and as we integrate some of that demand into Twitter platform, that we understand the value that's created. And there's an investment we're going to make in the third quarter to start that process, and it's not all complete in our control. That's reflected in our guidance, and that's why I made a comment specifically about the 3Q trend versus Q2 trend.

Longer-term, the reason we bought the business was, one, it is a great standalone business; but two, it gives us increased capabilities in the DR category and retail. But we could leverage the broader platform of inventory that we have at Twitter, but we also could leverage the broader platform of demand that we have in Twitter to expand geographically TellApart's business and also expand in vertical categories. So it's a holistic strategy, it's not just about using as a DSP into Twitter. That's one small component.

Krista Bessinger**Senior Director, Investor Relations**

Great. Thank you. So we'll have time for one last question, which we'll take from Twitter, and then turn it over to Jack for his closing remarks. So the last question from Twitter comes from the account of David Clinch, who asks, "How much of a role will human curation play in new Twitter products and services?"

Jack Dorsey**Co-Founder, Chairman and Interim Chief Executive Officer**

Great question and something we're still learning and playing with internally, and there's going to be a balance. The general answer is where it matters. And we certainly are going to benefit from the



curation and from people looking at the content, looking at our tweets and making sure that we're constructing the right experience around it. But we're still finding that balance, and we're going to do our work to make sure it feels great before we launch this.

Krista Bessinger

Senior Director, Investor Relations

Great. And then back to you, Jack, for your closing remarks.

Jack Dorsey

Co-Founder, Chairman and Interim Chief Executive Officer

All right. Well, thank you, all, for your time. In closing, I've never been more sure of the value Twitter brings to people and to our world. People trust us to carry some of the most important conversations, commentary, critique, events, ideas and questions in the world. I'm focused on raising the bar of our execution so we can serve people better and faster and build a company that empowers generation after generation. I want to thank you, all, for your time, your support, and we'll see you all on Twitter. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.

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