

Twitter (TWTR)

Neutral

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Twitter 4Q Earnings First Look-Blow Out Results a Major Step in the Right Direction

This morning Twitter reported its 4Q17 (Dec.) results with headline numbers well ahead of expectations, as the company also reached its first quarter of GAAP profitability, a significant achievement given the hurdles over the past year. Total revenues of \$731.6 million crushed the Street's \$686.5 million estimate, with stronger than expected advertising growth (an 8% beat) the "star of the show" for Dorsey & Co. this quarter. On the bottom-line Twitter reported EPS of \$0.19 vs. the Street at \$0.14 with Ebitda of \$308.0 million well ahead of the Street's \$241.0 million estimate. Our GBH Tech Tracker results have been incrementally positive on Twitter as feedback from advertisers and user engagement appear to be trending positive into 2018 and this quarter was a major step in the right direction that shows the monetization and ad growth machine at Twitter is finally heading in the right direction after years of a "one step forward two steps back" strategy. MAU of 330 million missed the Street's estimate of 332.5 million and was flat sequentially which was a clear blemish in the quarter although DAU grew 12% year over year and was above expectations, helping drive engagement and ad growth. In addition, while we expect more details on the call later this morning, initial 1Q Ebitda guidance is modestly above expectations and will be digested well by the bulls. Overall, 4Q was a breath of fresh air for investors that have patiently awaited for this turnaround story to manifest after years of pain and it looks like the Twitter growth train is back on track. A tailwind for Twitter in the near-term in our opinion is the Facebook Newsfeed overhaul, which is forcing publishers and online advertisers to "dip their toe in the water" on the Twitter platform and start to ramp up ad investments on this platform. In our opinion, Twitter could see potentially a benefit of what we estimate is between 100 bps-200 bps of incremental ad growth in 2018 as some advertisers/publishers start to more heavily bet and experiment on the its ad platform, which is showing increasing signs of an ad growth and MAU

turnaround based on our recent checks. The combination of consecutive quarters of accelerating DAU growth, improving advertiser feedback/demand, and GAAP profitability are all clear positives which should gain further steam after this 4Q earnings blow out report. Overall, while clear execution/competitive challenges remain for Twitter in 2018 with the Noto departure not helping matters, 4Q results/guidance (off a solid 3Q) is another step in the right direction for Dorsey & Co. as it appears some organic growth initiatives, secular tailwinds, cost controls, and stabilization trends (albeit a modest disappointment this quarter) in MAU are slowly changing the narrative of the Twitter story. **We maintain our Neutral rating.**