

Twitter (TWTR)

Neutral

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Twitter 4Q Earnings on Deck-Should Be Another Step in the Right Direction; Challenges Still Remain

Later this week Twitter will be reporting its 4Q17 (Dec.) results which we believe will come in modestly ahead of Street expectations of \$686 million and \$0.14. 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, which is a breath of fresh air for investors that have patiently awaited for this turnaround story to manifest after years of pain. 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 the steady progress towards GAAP profitability are all clear positives which should gain further steam after this 4Q earnings report. We are estimating MAUs of 333 million at the end of 4Q (3 million net adds), a 4.5% year over year increase for 2017, which we characterize as a “small victory”. We are forecasting a similar trend line of MAU growth (4%-5%) for 2018, with monetization and improving ad growth trends remaining the key ingredient in Twitter’s potential turnaround story for 2018. Overall, while clear execution/competitive challenges remain for Twitter in 2018 with the Noto departure not helping matters, we expect stronger than expected 4Q results/guidance (off a solid 3Q) as another step in the right direction for Dorsey & Co. as it appears some organic growth initiatives, cost controls, and stabilization trends in MAU are slowly changing the narrative of the Twitter story. **We maintain our Neutral rating and \$25 price target.**