Twitter (TWTR) Earnings Report: Q4 2015 Conference Call Transcript

The following Twitter conference call took place on February 10, 2016, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Krista Bessinger; Twitter; Senior Director - IR
- Jack Dorsey; Twitter; CEO
- Omid Kordestani; Twitter; Executive Chairman
- Anthony Noto; Twitter; CFO
- Adam Bain; Twitter; COO

Other Participants

- Michael Graham; Canaccord Genuity; Analyst
- Ross Sandler; Deutsche Bank; Analyst
- Anthony DiClemente; Nomura; Analyst
- Mark Mahaney; RBC; Analyst
- James Cakmak; Monness Crespi Hardt; Analyst
- Eric Sheridan; UBS; Analyst
- Doug Anmuth; JPMorgan; Analyst
- Brian Wieser; Pivotal Research; Analyst
- Colin Sebastian; RW Baird; Analyst
- Justin Post; Bank of America; Analyst
- Mark May; Citygroup; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good day, ladies and gentlemen, and welcome to the Twitter fourth quarter 2015 earnings conference call.

(Operator Instructions)

I would now like to turn the call over to your host, Krista Bessinger, Senior Director, Investor Relations. Please go ahead.

Krista Bessinger (Senior Director - IR):

Hi, everyone. Thanks for joining our Q4 earnings periscope. We have with us today our Executive Chairman, Omid Kordestani; CEO Jack Dorsey; COO Adam Bain; and CFO, Anthony Noto.

As we announced last week we're changing the format for our earnings presentation. In response to investor feedback, today and going forward we'll publish a letter to shareholders on our investor relations Web site shortly after the markets close. Then we'll begin with just a few prepared remarks before opening the call directly to your questions.

Our hope is that this new format will result in greater clarity and additional time for Q & A so that our analysts, investors and shareholders can really drive the conversation.

During the Q & A, we'll take questions asked via Periscope and Twitter, in addition to questions from conference call participants. Questions submitted via Twitter should be directed to @twitter IR using the hash tag TWTR.

We would also like to remind everyone that we'll be making forward-looking statements on this call such as our outlook for Q1 and 2016, our expectations for user growth, 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. Also note that 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 will be provided in the shareholder letter on our investor relations Web site. These non-GAAP measures are not intended to be a substitute for our GAAP results.

And finally this call in its entirety is being broadcast over Periscope and being webcast on our investor relations Web site. An audio replay of this call will also be available via Twitter and on our Web site in a few hours.

And with that, I'd like to turn it over to Jack.

Jack Dorsey (CEO):

Thank you, Krista, and thank you, everyone, for joining. Before we get into the questions, I wanted to highlight a few things from our shareholders letter.

In our shareholder letter we talk in detail about the strength of our overall business, our financial performance, our outlook, and that monthly active usage in January has bounced back to Q3 levels. We're confident that with disciplined execution, this growth trend in active usage will continue over time.

We spent the last six months structuring the organization and our leadership team to move with greater agility and focus, reviewing the state of our service and strategy, learning from what we've shipped, and developing a stronger point of view about what we are and what we want to be. In January, we gathered our entire global leadership team to align and commit to a plan for 2016.

We're focused now on what Twitter does best, live. Twitter is live. Live commentary, live conversations, and live connections. Whether it's breaking news, entertainment, sports, or everyday topics, hearing about and watching the live event unfold is the fastest way to understand the power of Twitter.

Twitter has always been considered a second screen for what's happening in the world and we believe we can become the first screen for everything that's happening right now. And by doing so, we believe we can build the planet's largest daily connected audience.

A connected audience is one that watches together and can talk with one another in realtime. It's what Twitter has provided for close to ten years now and it's what we will continue to drive in the future.

We have five priorities in 2016 to serve this focus. Number one, we're going to refine our core service and make everything more intuitive. Number two, we're going to invest in being a leader in live streaming video, building off our lead with Periscope.

Three, we're going to give creators and influencers the best tools to build and connect with their audiences. Four, we're going to invest in making Twitter safer so everyone can feel more empowered to speak freely.

And finally fifth, we will support developers to build and grow their businesses with Twitter. Each is critical to strengthening our platform and audience around live.

I wanted to invite Omid to share a few thoughts of his own.

Omid Kordestani (Executive Chairman):

Thanks, Jack. Hi, everyone, and thanks again for joining us. Before the leadership team takes questions, I want to share a few high-level observations. Twitter is a mission-driven Company with an iconic product.

When something happens in the world, it happens on Twitter. This makes Twitter an incredibly important service to the world. We've built a strong revenue engine around that and we think there is a tremendous potential ahead.

In my experience, success does not come from short-term actions, but rather from consistent long-term product innovations. This is true of all of the most successful companies in our space and you should expect it from Twitter as well.

Our work will take time and through steady focus and disciplined execution, we will ultimately create the highest long-term value for our shareholders.

I'm excited to be here at this important juncture in Twitter's history and I'm committed to helping Jack and the leadership team achieve their vision. They have my full faith and support.

With that let me turn it over to Krista to kick off questions with the leadership team.

Krista Bessinger (Senior Director - IR):

Thank you, Omid. Abigail, we are ready to go ahead and poll for questions, please.

QUESTIONS & ANSWERS

Operator:

Thank you, ladies and gentlemen.

(Operator Instructions)

Michael Graham, Canaccord.

Michael Graham (Analyst - Canaccord Genuity):

Hi, thanks a lot. Just two questions, please. One on the comment about returning to MAU growth. Could you just put a little more color around that and maybe talk about whether you're seeing better performance in the top of the funnel or in conversion?

And then just had a question on Periscope. It seems like it has a ton of potential. Seems like two big factors you need to get right are latency and the density of broadcasters and I'm wondering how you're thinking about scaling both of those? Thanks.

Anthony Noto (CFO):

Sure, Mike, it's Anthony Noto. Thanks for your question on MAUs in January. The rebound that Jack referenced is really due to three important components.

We are seeing an increase in new users to the top of the funnel. We're also seeing an increase in resurrected users to the top of the funnel, and we're seeing a continued improvement in retention within the funnel. So all three are working for us and so we're very pleased with that.

The first quarter is a seasonally strong quarter. There's typically more opportunity to drive organic growth. There are more events that are unique to Twitter's strength and an opportunity for us to really capture those new users and resurrected users, and that's what's occurring in the quarter so we're quite pleased with that.

Jack Dorsey (CEO):

On the Periscope side, we are investing heavily in this technology and the team is working really hard to build a full stack around video to continue to scale that.

We had a major release recently when we announced that anyone who could see - anyone could see a Periscope in a tweet and stream live from the tweet, so any broadcaster could open their phone, start broadcasting and anyone with Twitter who could visualize a tweet could actually see that broadcast live as well.

So the distribution platform and the strategy around live continues to unfold. And we will continue to build full stack technology to make sure that scales and increase the density of the experience.

Michael Graham (Analyst - Canaccord Genuity):

OK, thank you.

Operator:

Ross Sandler, Deutsche Bank.

Ross Sandler (Analyst - Deutsche Bank):

Thanks, I had one for Jack and then one for either Anthony or Adam. So, Jack, in the shareholder letter you mentioned that the algorithmic time line improvements you announced this morning have increased usage across the board.

Can you just elaborate a little bit on that comment? And do you expect overall usage and engagement to improve above what Anthony just cited as of the end of January?

And then the question on ad revenue for either Anthony or Adam. So the O&O ad revenue was up about 37% ex-FX in the fourth quarter and if we look at your first quarter guidance, it implies a little bit of a stepdown to probably the mid to high 20%s, if we're doing the math correctly.

So I guess first question is that accurate? And then we know you aren't guiding to 2016, but should we expect that type of a trajectory for O&O as we get through 2016? Thanks.

Jack Dorsey (CEO):

Thank you for the question, Ross. We saw some really promising growth with the test of the time line that we just announced this morning is rolling out today for everyone to try out.

We're really excited about this because it does improve the experience fundamentally. So when you cop back to the app, you get to see all of the best tweets from the people that you follow right there.

And it also balances that sense of live and that sense of recency, so pull to refresh and you get right back to it. So we see an increase in metrics, even such as tweeting and retweeting, so pretty phenomenal. And continues to show that we need to continue to invest in our core around the timeline specifically.

So as we make this better and better for people, as we continue to make it more realtime, more live and also notice their usage patterns around them coming back to the app, what did I miss, I want to catch up to live as quickly as possible.

And then we've seen likes and also replies and conversation go up as well. So pretty much every metric across the board has improved by just focusing on the timeline. And as we noted in the shareholders letter, we think there's a lot of opportunity in our product to fix some broken windows and some confusing aspects of our service that we know are inhibiting growth and timeline is a big focus area for that.

Anthony Noto (CFO):

Ross, as it relates to our first quarter guidance, as you saw in the fourth quarter, our total revenue growth was faster than our owned and operated revenue growth. We expect that same relationship to continue into Q1.

Our Q1 total revenue guidance, though, just to be clear for everyone on the call, is 36% to 40% year-over-year growth and we would expect the relationship between owned and operated revenue in Q1 on a year-over-year basis to be less than that, just as it was in the fourth quarter.

Operator:

Anthony DiClemente, Nomura.

Anthony DiClemente (Analyst - Nomura):

Thanks so much for taking my questions. I have one for Jack and then one for Anthony or Adam. Jack, with the recent restructuring of your leadership team, it appears from us on the outside looking in to us that Twitter leadership has, until recently, been in a state of flux.

So I wonder if you could help us and talk about the reasons for the restructuring of leadership. And do you think that post these recent changes, that the leadership team at this point is at a point of stability?

And then I also wanted to ask about engagement with the Twitter platform. I know you haven't given any engagement metrics specifically in recent quarters, but user conversations around live events is really where Twitter is supposed to be the most relevant. And using the Super Bowl as a barometer, tweets were down versus last year.

I wonder if you guys could just talk about what you're seeing in terms of engagement with the platform? And you mentioned in the letter higher ad loads year-over-year and sequentially. I wonder, Anthony, have you seen any impact on engagement from those higher ad loads? Thank you very much.

Jack Dorsey (CEO):

Thank you, Anthony, for the question. I'll start with the organization. So 2016 is definitely going to be a year of additions. My primary focus is on recruiting and recruiting more to our leadership team. We've had some major wins with Omid joining our Company and Leslie, our CMO.

Around the restructuring of the leadership team, we've been thinking about this for a lot and looking for opportunities to consolidate some strength in areas around the Company. Marketing is an obvious one. Revenue product and engineering and design is another big one under Adam and the media team.

But the biggest shift has been around consumer engineering, product and design. And we put all of that under Adam Messenger, our CTO, and there's a few reasons why. Adam has had a lot of context for the Company. He's a true technologist. He's had a good sense of what's happened in the Company. Has a good learning from how we've organized and how we have structured and how we have iterated.

And his number one focus is to make sure that we achieve collaboration between those three organizations so that we can move much faster. Now that we have this greater focus on live and these five areas that we really want to continue to push, week over week over week, we think we can move a whole lot faster with that agility, with that urgency that we need.

So I do want to continue to recruit members under him. A big focus is product leadership and on the PM team and also engineering technical leadership on that team as well. So this structure is new for the Company.

It does consolidate a lot of different organizations that have been spread out and we think we're going to benefit in terms of ship times and also a cadence of releases.

Anthony Noto (CFO):

And then on your engagement question, I'll hit on a couple of important engagement metrics. The one engagement metric that we look at holistically is daily active users. And importantly in the fourth quarter, our daily active users were flat sequentially to the third quarter and we see stability in January as well, referencing our earlier comments about January trends.

A couple of other engagement metrics we'll share with you because we've seen a lot of controversy around them in written reports. Time on site is not a metric that we look at or time spent holistically for the overall service. It does apply directly to video, as you mentioned, and our time spent is actually up on a year-over-year basis on both an aggregate and on a per-user basis.

Additionally, the number of searches are up year-over-year in double digits, the number of DMs are up on a year-over-year basis as well. So the key engagement metrics that we're looking at continue to be positive and that we want to make sure that you have a broader perspective, given the controversy we've seen around it.

Anthony DiClemente (Analyst - Nomura):

OK, thanks. And the ad loads, Anthony, just in terms of ad loads impacting engagement, what would you say about that?

Anthony Noto (CFO):

Sure, ad load has increased meaningfully since the beginning of the year and it's been driven by international ad load increasing more than domestic ad load. Domestic ad load has also increased. That said, while we have increased ad load, we've increased it because of demand.

We've benefited from tremendous growth in a number of advertisers and spend per advertiser throughout 2015, in the most recent quarter we reached 130,000 advertisers, up 90% year-over-year, which is a great growth rate at that level of scale, and so that's what's driven the ad load increase.

I think the other important point I'd make to you is we still have head room in what we think we can do as it relates to ad load in being able to achieve our growth expectations at this point.

Anthony DiClemente (Analyst - Nomura):

Thanks a lot.

Krista Bessinger (Senior Director - IR):

Great; thank you. We'll take the next question from Twitter. It comes from the Twitter account of Victor Anthony and he asks, Since the marketing initiatives were successful, should we assume that you will accelerate those initiatives in 2016?

Anthony Noto (CFO):

We are very pleased with the impact that marketing had on the business in the fourth quarter and more importantly what we learned in applying that into 2016, as Leslie takes over the reins for us as our new CMO. We couldn't be more excited to have her on the team and the expertise she brings with the experience from American Express.

We learned two important things in the fourth quarter. It was the first time we had an integrated campaign across both television advertising as well as performance-based advertising. On the television advertising side of the equation, that has a longer impact but we were able to really deliver a very clear message that Moments was a new way for people to use Twitter and to get the best of Twitter in an instant.

On the performance-based marketing side of the equation, performance-based marketing, as we noted in the shareholder letter, did contribute meaningfully in the fourth quarter. What I'd also point out is the cost of acquisition or the cost of reactivation was well below lifetime value calculations, and so that was a net positive.

I think more interestingly and quite surprising to us, but a very positive that we will expect to continue in the future is that the retention rate of those users that we either resurrected or we acquired new was strong. And, in fact, new MAUs acquired through marketing efforts were performing better from a retention rate standpoint versus new organic MAUs acquired.

So we will continue to integrate marketing into our strategy. It's an important element of what we talked about. We want to simplify the product but we also have to clearly communicate its value. Marketing will play that role.

As we go into 2016, we will gauge our level of spending based on the opportunity in front of us and what we learn. So it will be a prudent investment without overindexing on putting too much into the business and our margins that we've given you for 2016 reflect a balance between both investment and profitability.

Krista Bessinger (Senior Director - IR):

Thank you, Anthony. Our next question comes from Mark Mahaney from RBC Capital Markets.

Mark Mahaney (Analyst - RBC):

Thanks. Just so I understand or we understand the shift in MAUs, kind of the slowdown in the fourth quarter and then the pickup back in January, do you think that was all due to marketing or were there any other product initiatives that may have explained both kind of the slowdown and then the reacceleration?

And then on Moments, I think there's a little bit of a view that Moments has been an uninspiring or not that successful of a product launch. The view internally on how well Moments has done and whether there needs to be more iterations done on that product? Thank you.

Anthony Noto (CFO):

Mark, I'd answer your question both by referring to what happened in Q4 and then reiterating a couple points about Q1. So Q4 historically has been our seasonally worst quarter and this Q4 was no exception to that.

In addition to that seasonality, at the top of the funnel we did see a decrease in resurrected users. That was a reflection of both the seasonality as well as the fact that we made the conscious decision to reduce the volume of e-mails that we sent to dormant users to increase the quality of the communication we had with those users we're trying to bring back to the service.

Interestingly enough, that trend offset some underlying positive trends that are now becoming evident in January. First, the number of new MAU acquired in Q4 actually grew sequentially. The retention rate in Q4 increased relative to Q3 and, as I already mentioned, marketing played a role in that, in addition to those other two elements.

And DAUs were flat in the fourth quarter, which is a clear signal that the users that we lost from a MAU perspective are not as high quality as our DOUs, since that number wasn't impacted. As we get into January, we see a continuation of new, improving - resurrected improving and retention continue to improve in addition to marketing helping.

But it's important to note our marketing spend in Q1 will be down meaningfully from our marketing spend in Q4 because of the time of year, Q4 being seasonally strongest from an advertiser and demand opportunity standpoint.

So those are the factors. As it relates specifically to the product, we've made numerous product changes throughout the last 12 months and that continuous improvement in product changes improves the experience someone gets when they come back to the product. And so over time, we retain more of those users and we have a chance to keep them on the platform longer.

So ultimately Q1 is a very good opportunity for us to capture some unique Moments around the Grammys and Super Bowl and some events that come, like the Oscars and the Emmys.

And as those things unfold, we get a chance to bring people back into the service and show them how much has improved, so there's not one product initially I'd point to. It's just the fact that we're constantly improving the product and when they come back, we have an opportunity to keep them.

Jack Dorsey (CEO):

And, Mark, on Moments. Moments has proven to be a fantastic way to tell a story, so it's a collection of tweets in chronological order. We're seeing a lot of positive activity with Moments in the timeline and people tweeting Moments.

When a Moments is in a tweet, it's opened with higher-than-average click-through, which is really awesome. So we want to focus a whole lot more energy on enabling people to tweet out Moments, but also more people to create these Moments as well. But it all goes back to that focus on the timeline and making the timeline better and better and better and better.

On the Moments tab specifically and the guide, we think we can do a lot more work there and there's more ahead to make that a better experience, but we do want to focus a whole lot more on the tweets and the timeline and the intersection with Moments as well.

Mark Mahaney (Analyst - RBC):

Thanks, Jack. Thanks, Anthony.

Krista Bessinger (Senior Director - IR):

Thank you. Our next question comes from James Cakmak at Monness, Crespi and Hardt.

James Cakmak (Analyst - Monness Crespi Hardt):

Hi, thanks. Jack, just one high-level question on Twitter's identity, please. So in the prepared commentary you state that the focus is around live, which is consistent with, I think, how (inaudible) perceived today, but in the investment community there's this constant question of how Twitter fits into the ecosystem versus your peers.

Now, I use it for keeping up with the news, but when you think about how to communicate that value to a global audience and considering that you have several use cases for it, I'm just curious, how do you see the broader definition of Twitter's identity. Is it social media, messaging, a lead generation tool?

Those are parts of it, but when you consider that a user's time is finite, and they're making tradeoffs in how they spend that time, how do you want that value to be perceived so you actually get signups in bigger numbers?

And how do you plan to communicate that value proposition in a way that resonates that it hasn't before? Thank you.

Jack Dorsey (CEO):

Thank you for the question, it's a great question. So one of the things that we, as we said, we really want to focus on live because we think it's the fastest and easiest way to understand the power of Twitter and get into it.

And once you see an event unfold on Twitter, there's a real sense of electricity. There's a real sense of being realtime, being in the now, being in the know about everything that's happening.

And then you start getting into more of the stronger, stickier value propositions for the service which, as you mentioned, are around messaging. People are having conversations in the public with people all over the world, first around these live events, and then they make these connections in realtime around these events and they persist. And we want to make that a whole lot easier.

So when I say live, I mean that live commentary. That live commentary around finance, around sports, around a protest, around a natural disaster. We see it every single day. Around a meme.

Then we see all these live connections happen and they turn into conversations. So we really want to focus on making that feeling really, really strong, enabling people to get into it much, much faster because we think it's such a clarifying way to consider Twitter and then you're really bought into the broader ecosystem.

So you're right. It does go back to those fundamentals of Twitter is - starts with live, it's powerful because it's public, it's powerful because - and sticky because of the conversations and the connections that emerge. And then it can be everywhere because it's distributed. And all of that adds up to us being the fastest.

That allows us to break news 10 to 15 minutes before any other service, because of those four powerful aspects of the service. So our focus is really what's the most meaningful guide path into the experience? And then what really continues to engage people and we think that's around conversation and on to the next live event.

James Cakmak (Analyst - Monness Crespi Hardt):

Thank you.

Krista Bessinger (Senior Director - IR):

Thank you. The next question comes from Twitter and it comes from the Twitter account of Jason Moser, and he asks, With two major events this year, with the Olympics and the election, how are you approaching them? Do you see any opportunities for interesting partnerships or strategies?

Adam Bain (COO):

Jason, it's Adam. I'll take that one. While we aren't going to quantify the lift that we're going to see from the Olympics and the elections, really excited about the opportunity, both on the content side and then certainly what's going to be available for marketers. On the content side, we now have a massive audience and a massive amount of engagement around video in particular that also is translated to marketer activity.

This is activity that, the last elections and last Olympics did not exist, especially these ad products.

So whether it's video to drive persuasion budgets in the elections or video to drive television budgets to correspond with TV budgets that run on the Olympics, we're going to be in a really good position. Marketers also have a way to bring their tailored audiences, so their CRM data, to the platform to also drive targeting.

And we saw it even this past weekend during the Super Bowl. It was an exciting day for marketers, even if the game wasn't that exciting.

90% of the advertisers that ran on TV also ran on Twitter and over half of that budget that they ran actually was dedicated towards video. And we saw the event be home to really incredible creative executions and I'll talk about a couple of these.

Doritos went live from Levi stadium in the middle of the game to promote their new Doritos brand on Periscope and they also promoted it as a promoted tweet with a Periscope. This is a feature that we've launched in pilot this week and they were the first marketer to test that.

We also saw great content that came to the platform, Beats for example, debuted their new commercial on Twitter first, so did Disney Marvel, as well. So we think ultimately these events are great from a content experience or consumers and then certainly, they're very powerful for marketers.

Krista Bessinger (Senior Director - IR):

Great. Thank you, and our next question comes from Eric Sheridan at UBS.

Eric Sheridan (Analyst - UBS):

Thanks for taking my questions. I just have two on the advertising business, maybe for Adam. With respect to the relationship with DoubleClick, I appreciate all of the color around the advertising business. You also said you're very optimistic about DoubleClick Campaign Manager and the DoubleClick Bid Managers who move into 2016.

Can you help us understand a little bit better about how those will evolve, those relationships, what that might mean for the advertising business going forward and how it will play out in a little more detail through 2016?

And then maybe one follow-up would be what percentage of the ad business now is via self-service? And as that evolves to more self-serve over time, what that might do for margins in the business? Thank you.

Adam Bain (COO):

Yes, great. So on the first question on DoubleClick, as we mentioned on the last earnings call, we started our pilot in Q4 with DoubleClick and this is around the measurement part of DoubleClick, DoubleClick Campaign Manager or DCM.

That pilot started at the end of Q4 and runs to the very end of Q1, so we're going to have more information at the end of the quarter on how those tests went, but what I can tell you, it's very early, but there's encouraging signs based on the early setup tests that are running with DCM. And ultimately DCM is important because it's going to allow us to show a real apples-to-apples comparison of how Twitter performs versus the marketers rest of their media mix.

And then on the other side of the equation is DBM, DoubleClick Bid Manager or the buying arm of DoubleClick. And we're excited about this opportunity because there's - we think we're going to be exposed to new advertiser budgets and also new advertisers that primarily use DBM to drive their campaigns.

We just started technical integration here in Q1 for DBM, so more to come as soon as the technical integration is completed and we begin our pilots.

Anthony Noto (CFO):

And then on the question as it relates to the% of the business that's self-serve, our direct sales organization is still the largest percentage of advertising from a channel perspective.

From a margin perspective, the self-serve business has much higher margins. We love the margins of that business, we're very happy with the margin expansion we've been able to achieve to date, but as that business continues to grow as a% of total, it will give us additional margin benefit, so that will be a net positive.

Jack Dorsey (CEO):

And we're excited about on the small business side or the self-serve platform, as Anthony mentioned, we went from 100,000 active advertisers in Q3 to now over 130,000 active advertisers in Q4. A lot of that growth was driven by the S& B channel.

And ultimately we've got a strong road map ahead to help prove to those SMBs and direct response marketers the efficacy of the ads they are running on Twitter.

Eric Sheridan (Analyst - UBS):

Great, thank you.

Krista Bessinger (Senior Director - IR):

Thanks and our next question comes from Doug Anmuth at JPMorgan.

Doug Anmuth (Analyst - JPMorgan):

Great; thanks for taking the question. First just wanted to ask about timeline and the new things you're introducing. Could you just talk a little bit more about how they differ from While You Were Away and how that is going to impact user experience in relationship to that previous kind of change that you implemented?

And then secondly, I would argue there's tremendous value in Twitter without having to tweet. How can you better communicate that to potential users, and is that a big priority for you going forward?

Jack Dorsey (CEO):

Absolutely and thank you for the question. So we do have this focus around live because we do think that's the easiest way to explain more of the logged-out audience experience around Twitter. It's a very easy way to see the value instantly. And we will continue to push our marketing efforts under Leslie now to make sure that we're showing that value fast.

We have a lot of great events coming up in this quarter and also throughout this year. The election is always fantastic for us. I think you're seeing that unfold on Twitter right now. Every single day there's something new and that's been consistent over our nearly 10 years as a service as well; election years are fantastic for us in terms of the public dialogue.

In terms of the timeline versus While You Were Away, While You Were Away is something that we launched about a year ago and it is a fully ranked module that gives you a sense of the best tweets from folks you follow, but they are not necessarily in reverse chron order. They are in relevance order.

With this new improvement of the timeline, which is something that people are going to be able to opt in today by going to their settings, we have learned a lot from that experience. We've applied a lot of the same algorithms to it, but they are in reverse chronological and they are a whole lot more recent as well.

This activates when you open up your app, so when you're away from your app for a bit, you have a quick recap that is recent that is reverse chronological. You pull the refresh and you go right back to live and recent.

So one way to think about it is it's the fastest way to get back to live without missing any of those tweets that you really wanted to see and this gives the Tweeter also a super power, because they don't have to tweet multiple times to get one message across. It will likely be seen in the right way by the right person by the right audience.

So our job is to connect the audiences, especially for these creators and for these influencers, and for these conversations. And we've shown that this work can do that job very, very well.

So we're really excited for people to see it, to feel it, to play with it, and continue to refine it, because more and more we see that all that time spent is in the timeline and we think we have a significant opportunity to make that better and better while still preserving what is core to Twitter, which is around that recency, that realtime and that live feeling.

Anthony Noto (CFO):

And the question about marketing and being able to convey the value of consuming. We're very focused, obviously, on creators and influencers as was outlined in the shareholder letter, but to your specific question we feel leverage is direct marketing, and the log that experience to deliver someone directly to the content they may be interested in.

And because we've just launched logged-out responsive Web in 23 countries, we can now do that in mobile.

So we can market to them in e-mail, we can market to them on other sites about specific content and bring them directly to that content without them needing to log in, per se, without them actually searching for the content. So it's an important element of our overall strategy and will make marketing more effective.

Jack Dorsey (CEO):

And then communicating the value to marketers actually has been pretty clear to marketers over the last quarter, as we've gone from essentially addressable audience of over 300 million to now an addressable audience for marketers of over 800 million.

In Q4 we began a pilot to run our promoted tweets to logged-out users. The pilot was with a small amount of marketers and was with two advertising units, essentially our promoted video and one of the DR units promoted Web site card, and what we found actually we were pleased with.

The click-through rates and the view rates on the logged-out ads were nearly identical to logged in. And ad recall was nearly identical to logged in as well.

And so we're happy with the early tests that we're seeing in terms of the logged-out adds. Obviously, there's more work to be done in terms of growing the amount of compressions that are there, but from a marketer's perspective, the total addressable reach of Twitter got large, got very large in the quarter.

Doug Anmuth (Analyst - JPMorgan):

Great, thank you.

Krista Bessinger (Senior Director - IR):

Thanks. And we're going to take the next question from Twitter. It comes from the account of Deborah Williamson. She asks, How are direct response ad sales going and are direct response advertisers finding value from Twitter?

Jack Dorsey (CEO):

Thanks, Debbie. So we're early in our direct response business and this is a product- driven growth line for us. The work that we're doing actually is along three lines, which is, one, increasing and making the creative canvas even better for direct response marketers.

Two, to focus on the measurement piece of the equation. And then lastly, expose those marketers to our total audience.

So I'll talk about how we're progressing along those lines in each one. On the canvas side, increasing the creative canvas for direct response marketers, in Q4 we piloted a program with a handful of direct response marketers called Dynamic Product ads, and essentially what this does is it allows us to bring remarketing creative and remarketing budgets on to Twitter.

We saw a two-time lift, 2x lift in click-through rates for those ads, so we're off to a good start in Q1. We're going to expand the pilot for DPAs.

In terms of measurement, in Q4 we launched conversion lift studies. We're working on getting these now in the UI, but for conversion lift studies we are starting to prove to marketers, direct response marketers, the impact on a view or a clicked downstream conversion.

And what we've seen on average so far is that if you view a promoted tweet on Twitter, you're almost one and a half times more likely to convert on the advertisers' landing page. And if you click on the ad, you're more than three times likely to convert on the advertisers' landing page.

And obviously we talked a little bit about our efforts with DoubleClick in terms of getting further measurement in the direct response space.

And lastly, direct response marketers care about scale and reach, and so we've started opening up and exposing those marketers to Twitter's total audience, both in our logged-out areas, as I mentioned, and then also on the Twitter audience platform. And in that platform, a marketer simply goes into the UI, clicks a button to extend past the logged-out base and into a wider area of syndication.

So we're off to a very good start. We're pleased with the progress we're making and we have confidence in the road map ahead for direct response.

Krista Bessinger (Senior Director - IR):

Thank you. Our next question comes from Brian Wieser at Pivotal Research.

Brian Wieser (Analyst - Pivotal Research):

Thanks for taking the question. First, I was curious if you could just clarify the EBITDA margins in your guidance. Is that as a percentage of gross revenue or revenue ex-TAC? Relatedly, why do you think it's going to be stable this year versus perhaps expanding? Where are you prioritizing investments?

And lastly, just around the work you've done with TV networks and Amplify, I was curious if you could update us on how that product is evolving? And given the folks on live, how you see the inner relationship between Twitter and other media owners going forward?

Anthony Noto (CFO):

Thank you. In terms of the margins on our guidance for 2016, EBITDA margins are on a gross basis and it's 25% to 27%. We're very pleased with the margin expansion that we were able to achieve in 2015. We achieved 25% EBITDA margins on a gross basis, up from 21% in 2014. On a net basis it was actually 27%.

Importantly, we're able to make a significant number of investments in 2015 and still drive that improved profitability and it's given us even more confidence we can achieve our long-term EBITDA margin of 40% to 45% on a net basis. In 2016, we will have margin expansion based on the mid point of our range.

It's not as much as we had in 2015, and that's because we see a significant number of growth opportunities in front of us and we want to make sure that we're investing in those growth opportunities to maximize the size of our audience over time, maximize its engagement and ultimately drive the best business characteristics around it so we can maximize shareholder value.

We think it's the right time to make those investments and ensure that we deliver the maximum value for you as shareholders. All of that said, we'll balance both growth versus profitability and hold ourselves to a very high bar as we make those investments.

Jack Dorsey (CEO):

Brian, on the Amplify side, we now have over 225 Amplify partners. These are premium video content providers who are bringing content on to Twitter and it's available now - these partners are in 25 countries all across the world, so it surely has moved global. This is important on a number of reasons.

One, for consumers on Twitter, it's a great content experience, content that they probably wouldn't have otherwise have seen. Some of this content is actually exclusive to the platform.

And, two, it's a great monetization opportunity and also a great storytelling platform for marketers. Marketers who are running campaigns on Twitter, especially video- centric narratives, are looking to attach themselves to great highlights or other pieces of content that might otherwise organically trend on the platform.

We also are continuing our efforts to monetize that inventory hand in hand with those partners, so this is a joint revenue, a win-win in a joint revenue relationship between the partners.

Last thing I'd say is as we've increased our work on the video side of the world, it also has come hand in hand with telling a story to marketers about how their investment in Twitter not just helps their digital or Twitter ROI, but it also helps their TV ROI as well.

And in recent research and tests that we've done with marketers, we've shown we can increase TV ROI from 8% to 16% when you simply just line up advertising on Twitter to go hand in hand with your TV advertising. And we think there's room for marketers to move budgets out of underperforming display and into Twitter to do that.

Brian Wieser (Analyst - Pivotal Research):

Great; thank you very much.

Krista Bessinger (Senior Director - IR):

Thanks. Our next question comes from Colin Sebastian at R. W. Baird.

Colin Sebastian (Analyst - RW Baird):

Great; thanks, Krista. A couple of follow-ups. First off, on ads targeting the logged-out audience, I was curious what level of demand you're seeing for these ads through the publisher network given that many advertisers are saying they are very interested in finding greater scale and reach through the Twitter platform. And then a follow-up on the margin question.

In anticipation of the growth initiatives you have planned for the year ahead, I wonder what your expectations are for headcount as we move through the year, particularly on the engineering side? Thank you.

Adam Bain (COO):

Colin, it's Adam. I'll take the first one in terms of the demand we're seeing for logged out. The demand is strong for logged out, because obviously we've been talking to our marketer partners about the opportunity to get incremental reach on the platform.

They are very excited about it. Marketers love the storytelling platform and the results that they've been seeing on Twitter and they want to be able to scale it out to this wider audience.

It's important to note for Q4, the pilot that we ran for logged out was with just a handful of marketers and was only across two of our advertising objectives, as I mentioned. One of the DRI objectives and a video objective.

So it's early yet in terms of jumping to any conclusions, but I can tell you I'm excited about what I've seen so far and also the demand we're seeing in the marketplace for it.

Anthony Noto (CFO):

As it relates to margins and headcount, our head count expectations are baked into the margin guidance I gave you. Obviously that will be dependent on us being able to find the high quality people we're looking for, but make no mistake about it.

Our number one priority on headcount is engineers, product managers and design, and so we're focused on that area. We will have headcount growth in other areas, but that will be the largest area.

Colin Sebastian (Analyst - RW Baird):

Thank you.

Krista Bessinger (Senior Director - IR):

We're going to take our next question from Periscope. The question is how much of Jack's time is split between Twitter and Square.

Jack Dorsey (CEO):

Thank you for the question. So I have set up a structure that is working very well for me so that I can spend meaningful time at both Companies.

And I have enough flexibility in the schedule so that if there is something that needs more attention at one Company, I can devote that attention. And I'm always connected to the leadership teams at both Companies non-stop.

So we have a structure that allows me to see what's happening in the week. We set off the week together at both Companies and we have checkpoints. And then the balance of my time is really spent on recruiting. That is going to be the number one focus for me and that's where we are going to show a lot of momentum at Twitter is recruiting. And as Anthony said, we're looking for a whole lot more talent in the product areas and engineering and also in design.

Krista Bessinger (Senior Director - IR):

Thanks. And we're going to double dip from Periscope. We have one more. In terms of to the extent you're looking to add people to the Board, what kinds of qualities and characteristics are you looking for and why?

Jack Dorsey (CEO):

That's a great question. We are looking to add to the Board and part of that recruiting effort is also to our Board. We would like to move fast on this and we are looking for public company experience, significant financial experience, international policy experience, and also media experience.

We want a Board that continues to represent the best of Twitter and can help us guide the Company in the right way going forward, especially around this focus that we're laying out before you today, around live and these five focus areas.

Krista Bessinger (Senior Director - IR):

Thank you. So our next question comes from Justin Post at Bank of America Merrill Lynch.

Justin Post (Analyst - Bank of America):

Great. I'd like to ask one on the user side and one on the ad revenue side. So on the users, you have quite a bit of, I'm guessing, churned users.

And maybe just talk about how large that base is and what are the one or two things you think could really click those things on? I know you're working on a ton of things, but are there one or two things where you really think that could bring those people back?

And then on the revenue side, definitely guiding to some deceleration. Is that macro? Are you decreasing the rate of ad load growth or is it just kind of large numbers? A little bit on the revenue deceleration. Thanks.

Jack Dorsey (CEO):

I'll take a part of the first question. We do believe that in the core product there's just a number of broken windows that are confusing people and inhibiting a lot of growth.

We do want to focus a lot of that energy on the timeline, as we can continue to onboard people in a way that instantly connects them with the interest or with their context we see a whole lot more stickiness and usage.

So the focus is continue to show the world and show the world around these live events, find the best way to bring them in in a very effortless and frictionless way, and then continue to connect them with context.

I know we're with interests they want to follow and stay informed around. That value proposition really works. We're also going to pair this with marketing so we continue to have a consideration of Twitter and Twitter making these live events better.

Anthony Noto (CFO):

And the one thing I'd say about users, to add to what Jack said, is our top of the funnel is quite large. So one thing we benefit from and one thing we are encouraged by every day is the number of new users that come to Twitter on a daily basis and the number of resurrected users that come on a daily basis, which presents a great opportunity for us to really improve the experience for them and make them retained users.

As it relates to the revenue guide, Adam and I will tag team on that. Q1 is normally a seasonally weaker advertising quarter. Last year we were down sequentially. We're forecasting down sequentially as well. Because the demand is down sequentially, you would expect the load factor would also be down sequentially to answer that specific part of it.

Adam Bain (COO):

Let me give you better context overall around what we're seeing in the business and what happened in Q4. We had a good Q4. We saw revenue over 50% on a constant currency basis, and when you look inside of our advertising stream, there's really two types of advertisers that are in the mix and I want to talk about the trends in both.

On the branded advertiser side, this is the largest percentage of our revenue stream. And since we're covering many of those advertisers now, and have been for a while, since it's our most mature business, the growth in revenue is going to come primarily in growing budgets themselves.

And as I think you know in the ad business, branded advertisers are more measured in terms of how they add budget.

At the same time, we just launched, a quarter and a half ago, our video products, and they are working. We're seeing now 33% of our managed clients actually use video as a tool overall. So growth ultimately is going to come from these budgets. And ultimately in Q4, we were up on a quarter-on-quarter basis and a year-on-year basis double digits for branded advertisers in terms of ARPA.

Let me turn the attention over to the direct response side of the business. That's actually faster growing, but it's still the minority part of our revenue stream. Growth in advertisers, as I mentioned before, is coming from SMB marketers.

And since this is a product-driven road map and product-driven growth, budgets will come ultimately as we continue to scale our results. And we're confident in the road map ahead that we've got in Q1 and beyond for measurement targeting and exposing of the scale.

Justin Post (Analyst - Bank of America):

Thank you.

Krista Bessinger (Senior Director - IR):

Thanks. I think we have time for just one last question. So our last question comes from Mark May at Citigroup.

Mark May (Analyst - Citygroup):

Thank you. I think this is directed at Jack. Since you've taken over as CEO, you've changed some things that were kind of uniquely Twitter. At 10,000 characters, this new ad relevance or relevance-based timeline.

And just curious what you think are some of the other elements of the service that might be inhibiting user growth and user engagement that you may be tweaking similarly going forward?

And then a question, there have been some recent reports that Twitter has been experimenting, I'd say, with changing maybe the ad load with certain timelines, particularly verified profiles and time lines. Can you talk a little about that and what you're attempting do there? Thanks.

Jack Dorsey (CEO):

Well, as I said, we are focusing a lot of our energy on refining the core products and looking at what is confusing about the service, what is inhibiting growth.

I mentioned a few of them in the letter, specifically around conversations. Live is a great way to get in, but people want to talk about it and Twitter has always been phenomenal about that.

Where we have really weird rules around conversations, specifically around replies and the (stot) add-name format that just nobody understands and we need to fix those things.

There's a number of places in our onboarding that are just not ideal, doesn't really use great machine learning to connect people with people they already know or interests that we know that they might be interested in.

So we're going to do a lot of that work but really focus on that first step around live, and then getting people into that experience faster so we can connect people in realtime around these interests and really continue to push.

We do think that live streaming video is a great way to explain the service very quickly, and you're going to see us do a whole lot more there. I was really excited about the integration into tweets of Periscope streams.

That's been fantastic because anyone with the Twitter app or visiting Twitter on the Web or anyone anywhere that a tweet can be displayed, you can see a live Periscope stream, which is awesome and really shows off the power of the service and that live simple conversational public aspect that we want to continue to double down on.

So we know of a number of confusing areas. We know of a number of refinements that we can make to help people who are both core to our platform, but also just getting on and we think as we continue to push on those changes, they get deeper and deeper and deeper and more engaged.

Anthony Noto (CFO):

Yes, Mark, the philosophy in terms of the ads part of the business, we focus on the consumer first and then the business ultimately will follow. We've run - one of the things I thought you brought up was around verified users and ads to verified users.

I wouldn't read anything into that. We do short-term and longer-term ad exposure experiments all the time on all of our audience segments and all of our tweeting segments to look for both exposure and ultimately ROI changes for the marketer.

And then on the second piece, we just yesterday launched a new product for marketers called First View. This ultimately allows the marketer to make the very first impression, the first time that a consumer comes to Twitter.

It's important to know that while the product is - already has high demand because it's a reach in scale product, ultimately this is not more ads or more advertising in the timeline. It just is a targeting change for the first impression when that consumer comes in.

Mark May (Analyst - Citygroup):

Thanks.

Krista Bessinger (Senior Director - IR):

Thank you. And that does conclude Q & A. I'd like to turn the call back to Management for closing remarks.

Jack Dorsey (CEO):

Thank you all for your time. And before we leave today, I just wanted to reinforce what we're focused on delivering for the next year. At the center of everything is live. We have a relentless focus on making this experience great.

And we think there are five areas that really make this sing and that is refining our core service, making it a whole lot more intuitive; investing in live streaming video because we think it's a great complement to that live experience; giving creators and influencers the best tools, and really honoring that; investing and making Twitter safer so that everyone feels safe to continue to express themselves on our platform' and supporting developers.

We've structured the teams to do this and have all of the right people in place to move forward. So thank you very much and we look forward to sharing our progress over the year.

Operator:

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