| Rating | Company | Date |
|---|---|---|
| **Buy** | # Twitter, Inc. | 24 March 2014 |

North America
United States

TMT
Internet

| | Reuters | Bloomberg | Exchange | Ticker |
|---|---|---|---|---|
| | TWTR.N | TWTR US | NYS | TWTR |

## Company Update

| | |
|---|---|
| Price at 21 Mar 2014 (USD) | 50.92 |
| Price target | 65.00 |
| 52-week range | 73.31 - 20.00 |

# A Closer Look At Twitter's User Funnel Issue

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## The Key Take-Away

We believe that Twitter's MAU conversion and retention issues are solvable, and that as this starts to become clear to investors or user growth picks up, shares should work higher. Timing is uncertain as there are a number of seasonal and product-related factors, but we believe MAU growth should accelerate at some point in 2014 and we want to be long ahead of that. Importantly, while MAUs are critical near-term topics, Twitter continues to make progress in all areas of its business, including engagement, user experience and monetization. We expect volatility around the upcoming lock-up expiration, and would add to positions into that. Buy.

## DB Proprietary Survey Is Encouraging - Sheds Light On The MAU Issue

We surveyed over 1100 users in the US across three categories: A) current Twitter users, B) prior Twitter users (those that have stopped), and C) non-Twitter users. Key take-aways include: 1) Engagement among current users is high, and most find Twitter second to only Facebook in terms of preferred social networks, 2) 57% of past Twitter users stated they would consider using the service again, 3) past users cited better sorting and filtering tools and improved set up process as key areas that would encourage them to use Twitter again, 4) most past users are not aware of new/improved features, 5) for non-users, 30% stated they would consider using Twitter, and a shocking 95% responded that they hear about Twitter at least once or twice per week, and 62% at even higher frequency, and 6) over 80% of non-users hear about Twitter specifically on TV each week. These insights highlight that most issues around attraction, conversion and retention of MAUs are largely fixable. We believe Twitter is well aware of and working on these issues and are comfortable that MAU growth could re-accelerate at some point in 2014.

## Most Recent Product Changes Were NOT Designed For MAU Growth, But Rather Higher Engagement (And Appear To Be Working)

We categorized the 27 new features shipped at Twitter in the past several months across four primary areas: 1) Engagement improvement, 2) resurrection of prior users, 3) top of the funnel new user growth, and 4) conversion and retention of new users. Surprisingly, most product initiatives fall into the first and second buckets, and few are designed to drive MAU growth. Consensus currently calls for around 255m MAUs in 1Q, or 14m net adds, above last quarter's 9m, with buyside expectations slightly below we believe (at 10m-12m net adds, which we view as do-able).

## Valuation & Risk

Our $65 price target is based on a blended average of 15x and 45x our 2017 revenues and EBITDA estimates. Risks remain MAU deceleration, competition and Twitter's stretched valuation vs. peers.

### Price/price relative



Twitter, Inc.
S&P 500 INDEX (Rebased)
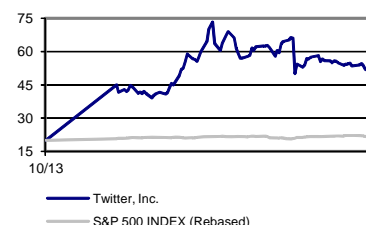
| Performance (%) | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | -8.9 | -15.1 | – |
| S&P 500 INDEX | 1.6 | 2.7 | 20.7 |

*Source: Deutsche Bank*

### Forecasts And Ratios

| Year End Dec 31 | 2012A | 2013E | 2014E |
|---|---|---|---|
| Revenue (USDm) | 316.9 | 664.9 | 1,166.5 |

*Source: Deutsche Bank estimates, company data*

24 March 2014
Internet
Twitter, Inc.

Model updated:24 March 2014

## Running the numbers

North America

United States

Internet

# Twitter, Inc.

Reuters: TWTR.N          Bloomberg: TWTR US

## Buy

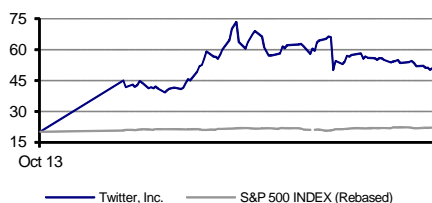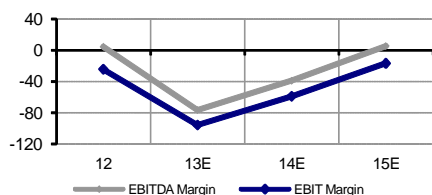| | |
|---|---|
| Price (21 Mar 14) | USD 50.92 |
| Target Price | USD 65.00 |
| 52 Week range | USD 20.00 - 73.31 |
| Market Cap (m) | USDm 9,627 |
| | EURm 6,986 |

### Company Profile

Twitter is an online social networking and microblogging service that enables users to send and read "tweets",which are text messages limited to 140 characters.
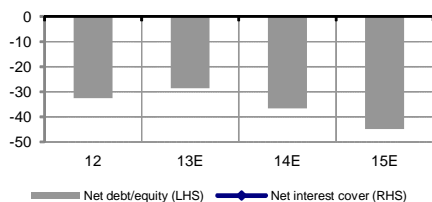
### Price Performance



Twitter, Inc. —— S&P 500 INDEX (Rebased)

### Margin Trends



EBITDA Margin —— EBIT Margin

### Growth & Profitability



Sales growth (LHS) —— ROE (RHS)

### Solvency



Net debt/equity (LHS) —— Net interest cover (RHS)

Ross Sandler
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| Fiscal year end 31-Dec | 2012 | 2013E | 2014E | 2015E |
|---|---|---|---|---|
| **Financial Summary** | | | | |
| DB EPS (USD) | -0.30 | -0.18 | -0.05 | 0.01 |
| Reported EPS (USD) | -0.68 | -3.41 | -0.97 | -0.39 |
| DPS (USD) | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS (USD) | 5.32 | 15.60 | 4.01 | 3.85 |
| **Valuation Metrics** | | | | |
| Price/Sales (x) | nm | 14.5 | 8.3 | 6.0 |
| P/E (DB) (x) | nm | nm | nm | nm |
| P/E (Reported) (x) | nm | nm | nm | nm |
| P/BV (x) | 0.0 | 3.3 | 12.7 | 13.2 |
| FCF yield (%) | na | nm | 0.4 | 0.9 |
| Dividend yield (%) | na | 0.0 | 0.0 | 0.0 |
| EV/Sales | nm | 11.1 | 6.3 | 4.4 |
| EV/EBITDA | nm | nm | nm | 81.5 |
| EV/EBIT | nm | nm | nm | nm |
| **Income Statement (USDm)** | | | | |
| Sales | 317 | 665 | 1,167 | 1,606 |
| EBITDA | 14 | -508 | -453 | 87 |
| EBIT | -77 | -636 | -687 | -270 |
| Pre-tax profit | -79 | -647 | -700 | -289 |
| Net income | -79 | -645 | -700 | -289 |
| **Cash Flow (USDm)** | | | | |
| Cash flow from operations | -28 | 1 | 302 | 454 |
| Net Capex | -51 | -76 | -152 | -112 |
| Free cash flow | -79 | -74 | 150 | 342 |
| Equity raised/(bought back) | 2 | 2,027 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 |
| Net inc/(dec) in borrowings | 0 | 0 | 0 | 0 |
| Other investing/financing cash flows | 61 | -1,315 | 65 | -107 |
| Net cash flow | -16 | 638 | 216 | 235 |
| *Change in working capital* | *-53* | *-61* | *153* | *119* |
| **Balance Sheet (USDm)** | | | | |
| Cash and cash equivalents | 203 | 841 | 1,057 | 1,291 |
| Property, plant & equipment | 186 | 333 | 587 | 616 |
| Goodwill | 69 | 363 | 363 | 363 |
| Other assets | 374 | 1,829 | 1,587 | 1,627 |
| Total assets | 832 | 3,366 | 3,594 | 3,898 |
| Debt | 0 | 0 | 0 | 0 |
| Other liabilities | 207 | 416 | 706 | 1,016 |
| Total liabilities | 207 | 416 | 706 | 1,016 |
| Total shareholders' equity | 624 | 2,950 | 2,888 | 2,882 |
| *Net debt* | *-203* | *-841* | *-1,057* | *-1,291* |
| **Key Company Metrics** | | | | |
| Sales growth (%) | nm | 109.8 | 75.4 | 37.7 |
| DB EPS growth (%) | na | 39.4 | 70.0 | na |
| Payout ratio (%) | nm | nm | nm | nm |
| EBITDA Margin (%) | 4.5 | -76.5 | -38.8 | 5.4 |
| EBIT Margin (%) | -24.3 | -95.6 | -58.9 | -16.8 |
| ROE (%) | -12.7 | -36.1 | -24.0 | -10.0 |
| Net debt/equity (%) | -32.6 | -28.5 | -36.6 | -44.8 |
| Net interest cover (x) | nm | nm | nm | nm |
| **DuPont Analysis** | | | | |
| EBIT margin (%) | -24.3 | -95.6 | -58.9 | -16.8 |
| x  Asset turnover (x) | 0.4 | 0.3 | 0.3 | 0.4 |
| x  Financial cost ratio (x) | 1.0 | 1.0 | 1.0 | 1.1 |
| x  Tax and other effects (x) | 1.0 | 1.0 | 1.0 | 1.0 |
| =  ROA (post tax) (%) | -9.5 | -30.7 | -20.1 | -7.7 |
| x  Financial leverage (x) | 1.3 | 1.2 | 1.2 | 1.3 |
| =  ROE (%) | -12.7 | -36.1 | -24.0 | -10.0 |
| *annual growth (%)* | *na* | *-183.9* | *33.6* | *58.2* |
| x  NTA/share (avg) (x) | 5.3 | 9.5 | 4.1 | 3.9 |
| =  Reported EPS | -0.68 | -3.41 | -0.97 | -0.39 |
| *annual growth (%)* | *na* | *-404.7* | *71.5* | *60.3* |

*Source: Company data, Deutsche Bank estimates*

## Table Of Contents

# Can Twitter Fix The MAU Growth? And If So, When?

This remains the most critical issue near term for TWTR shares, and similar to FB's period between mid-2012 and mid-2013, we think it could represent a good time to accumulate before the issue is fixed. We think the answer to this first question is a definitive "Yes" after completing an extensive user survey (details below), but timing is uncertain. Unlike FB's sentiment downturn, Twitter's issues seem like easier fixes to us. FB was tasked with pivoting its entire company and inventing effective native mobile advertising, both daunting challenges. Twitter doesn't appear to have an awareness issue (the top of the user funnel is solid), but more of a MAU conversion and retention problem. The company has some of the best engineers in silicon valley working on a number of product enhancements, and we believe Twitter is going to figure it out.

In this report, we walk through a number of topics related to Twitter's user issue, including: 1) first, a closer look at the recent product changes and what they are designed to accomplish – most of which have been successful, 2) why investors shouldn't focus on TLV/MAU as a metric for engagement, 3) how MAU re-acceleration is typically a catalyst for share price appreciation, and 4) finally and most importantly, DB's extensive Twitter user survey.

The survey sheds light on a number of critical issues surrounding Twitter. We are encouraged by the results, including a high level of engagement among current users, a high likelihood of winning back past users, and a very high awareness among non-users about the service. In summary, Twitter remains arguably the best ways to play the biggest trend in consumer internet – mobile, which represents over 70% of usage and 80% of company revenue.

## Most Product Enhancements Of Late Were Designed To Increase Engagement, NOT MAU Growth

Over the past few quarters Twitter has launched a number of new features and product enhancements. These exciting new features, combined with press around the IPO, and accelerating time spent as measured by comScore, created an investor expectation heading into 4Q results that Twitter's MAU growth would start to accelerate. Clearly Comscore is a false-read on predicting MAU growth, similar inconsistency to what we see across most of our consumer internet coverage names, hence we caution to use that data.

We have analyzed the features and product initiatives rolled out over the past several months below, and the VAST majority are designed to drive up engagement of existing users, not necessarily generate growth in new users. Within engagement, we categorize the product changes as 1) core engagement or usage improvements, and 2) resurrection of prior users. The latter can sometimes create additional MAU if the user has been off Twitter for over a month, but mostly designed to get existing MAUs to engage at a higher rate. The product tweaks that are more designed to drive new MAU growth

are: 1) top of the funnel new user growth initiatives, and 2) better conversion and retention of new users.

Below, we identify 27 product changes (Figure 1) that have been rolled out since end of 2Q13, across these four areas of engagement and MAU growth.

Figure 1: Recently Launched Product Enhancements

| Product Enhancement | Comments | User Engagement | Re-activate Past Users | New User Growth | New User Retention |
|---|---|---|---|---|---|
| @AchievementBird (beta) | Messages users 'achievements' of their Tweets, such as favorates and retweets | X | | | X |
| @Eventparrot (beta) | Delivers direct messages about breaking news | X | | | X |
| @magicrecs | Personalized recommendations for Tweets and accounts to follow | X | | | X |
| Direct Messaging | Allows users to send private messages | X | | | |
| Discover Tab | Highlights trending topics and relevent Tweets and suggests accounts to follow | X | | | X |
| E-mail Re-marketing | E-mails featuring recent Tweets and activity on Twitter | X | X | | |
| Event Surfacing | Helps with event discovery and monitoring real-time events | X | | | X |
| Fave People (beta) | Groups preferred users in one section; groups Tweets from favorite users together | X | | | |
| Feature Phone App | Allows Twitter to be used on feature phones; emerging market focused | | | X | |
| Import Contacts | Allows users to find and follow friends from their contacts on Twitter | X | X | X | X |
| Multiple Timelines | Allows users to set up multiplem, customized timelines | X | | | X |
| Nearby (beta) | New timeline showing a local map with nearby businesses and Tweets | X | X | | X |
| Photo Editing | Allows users to edit photos; includes filters | X | | | X |
| Pre-installed Apps | Twitter app comes pre-loaded on select handset models; emerging market focused | | | X | |
| Profile Redesign (beta) | Increased focus on photos and content cards, among other changes | X | X | X | X |
| Push Notificatons | Sends users push notifications about important happenings on Twitter | X | | | X |
| Share With Friends | Allows users to share Twitter content with friends via email | X | X | X | X |
| Telecom Partnerships | Recent deals include Deutsche Telekom and Turkcell | | | X | |
| Threaded Conversations | Tweets of the same conversation linked and displayed together | X | | | |
| TV Amplify | Provides content creators with another channel to promote their programming | X | X | X | X |
| U2opia Partnership | Allows mobile phones w/o internet to access Twitter; aimed at emerging markets | | | X | |

*Source: Deutsche Bank*

## Monetization Efforts Remain Strong & On Track

Secondary to the MAU debate, Twitter has done a good job of advancing its monetization plans. The company has unveiled a number of new features over the past several months (Figure 2). Partners we speak to continue to characterize Twitter's monetization efforts as early and "a year or two behind Facebook" which speaks to the future opportunity. Our checks suggest Twitter saw significant budget flow during peak moments of the Olympics and other events in 1Q, and that allocations in 2014 remain solid.

### Figure 2:  Summary Of Recent Twitter Monetization Efforts

| Monetization Enhancement | Comments |
|---|---|
| App Install Cards | Advertisers can use Promoted Tweets prompting users to install their apps |
| Broad Match Targeting | Keywords-targeted campaigns can reach synonyms, alternate splleings, etc. |
| Cards Analytics | Provides advertisers with tools to track the effectiveness of their cards |
| Media In Stream | Photos and videos shown directly in timeline |
| Retargeted Ads | Allows retargeting based on browser cookies and a cross-device identity layer |
| Self-Serve Ads | Enables advertisers to purchase Twitter ads directly |
| Tailored Audiences | Allows ad targeting based on email addresses and user IDs |
| TV Amplify | Provides content creators with another channel to promote their programming |

Source: Deutsche Bank

# TLV/MAU As Proxy For Engagement Is Misleading

There has been much debate around how to measure engagement for Twitter, given the limited disclosure. The common thought is, in the absence of better metrics, using TLV/MAU is the best measurement. However, as we've noted repeatedly, the decline in TLV-per-MAU starting in 3Q was more a function of the product changes vs. actual engagement declining, specifically, the threaded conversations design change. According to management, engagement measured by retweets and favorites, was up 35% Q/Q in 4Q following the media-forward initiatives. TLV/MAU on the other hand continues to decline.

To explain this phenomenon, we have highlighted the "before" and "after" designs for Threaded Conversations in Figure 3 and 4 below.
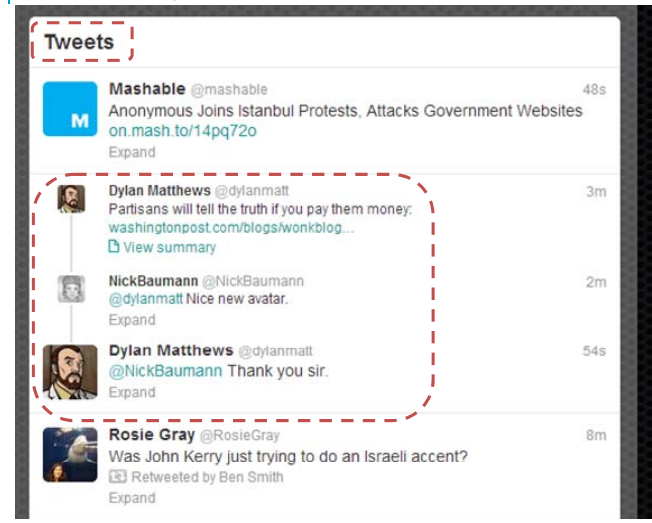
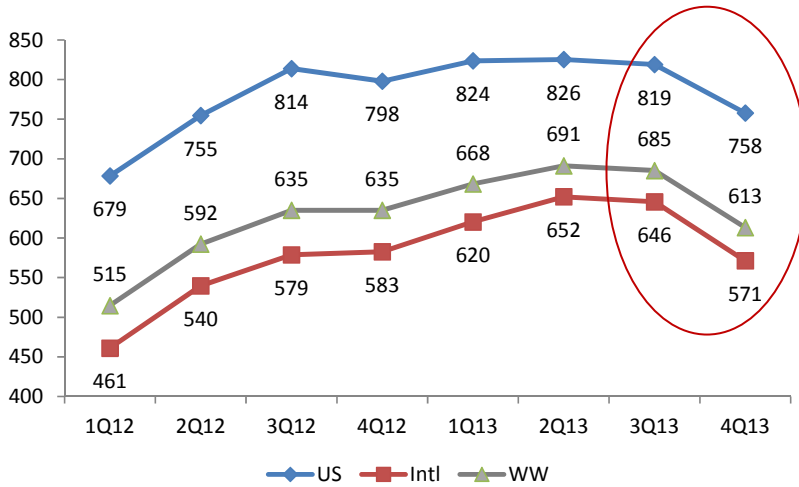| Figure 3: Conversations On Twitter (pre-threaded conversations) | Figure 4: Conversations on Twitter (Threaded Conversations) |
|---|---|
|  |  |
| Source: Deutsche Bank, Company Reports | Source: Deutsche Bank, Company Reports |
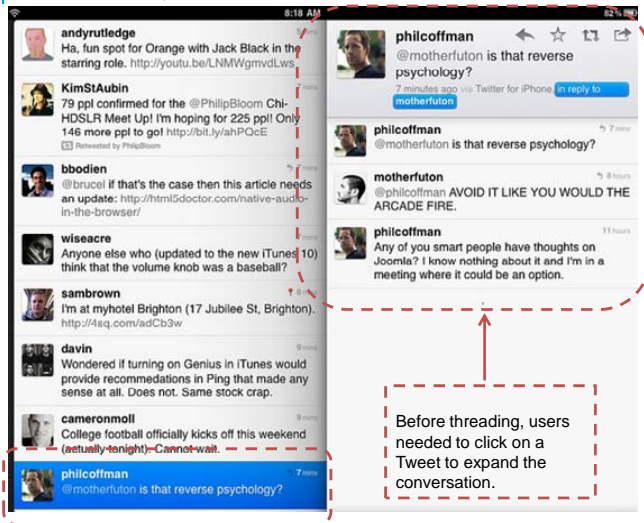
The company rolled out the new version mid-3Q, and hence started to see significantly fewer TLVs, despite improvement in the user experience. Prior to the change, any user who opened a conversation could see 3+ TLVs as they flicked back and forth between the core timeline and the threaded conversation. Under the new design, the user stays in their home timeline and just expands the conversation without adding to the TLV count.

As Figure 5 below illustrates, this impact started to show up partially in 3Q but for a full quarter in 4Q. While some investors are likely to remain skeptical that engagement is actually increasing, anecdotally DB Internet research is finding that the experience is better and more engaging under the new design.

Either way, as we get to 3Q14 and 4Q14, we should start to see this impact normalize Y/Y, and it should start to flatten out Q/Q in 1Q14.

Figure 5: Timeline views per MAUs



Source: Deutsche Bank, Company Reports

Twitter rolled out threaded conversations in 3Q13 that impacted timeline views…

## Case Studies (LNKD & Z): User Growth Re-acceleration Is A Strong Catalyst For Stock Move

We don't know when Twitter's MAU growth could accelerate, but we know the company is laser focused on this effort, and it's not the most challenging problem we've seen facing a consumer internet company.

Historically, we have seen several instances of multiple expansion and upward estimate revisions once user growth re-accelerates. We discussed the LinkedIn case study in our Twitter initiation note, which is illustrated below in Figure 6.

Figure 6: LinkedIn US Unique Visitor Growth vs. Stock Price
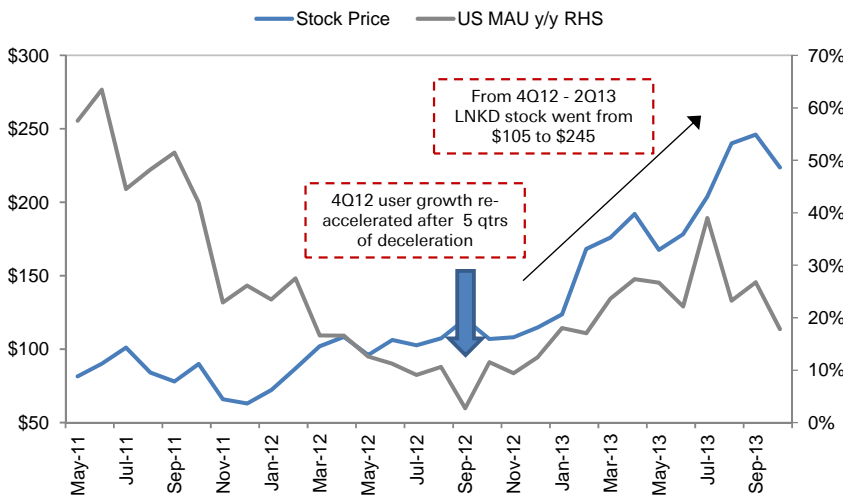


Source: Deutsche Bank, company reports, comScore, Thomson ONE for stock prices

We further are highlighting the strong performance on Zillow in early 2013 when the company saw its user growth reaccelerate during the early stages of its TV marketing campaign. As shown in the chart below, Zillow stock nearly tripled from $30 in early 2013 to over $90 in late 2013 as user growth re-accelerated from 40% y/y to nearly 70% y/y on the back of TV (despite limited upside to EBITDA estimates).

Figure 7: Zillow MAU Re-acceleration vs. Stock Price
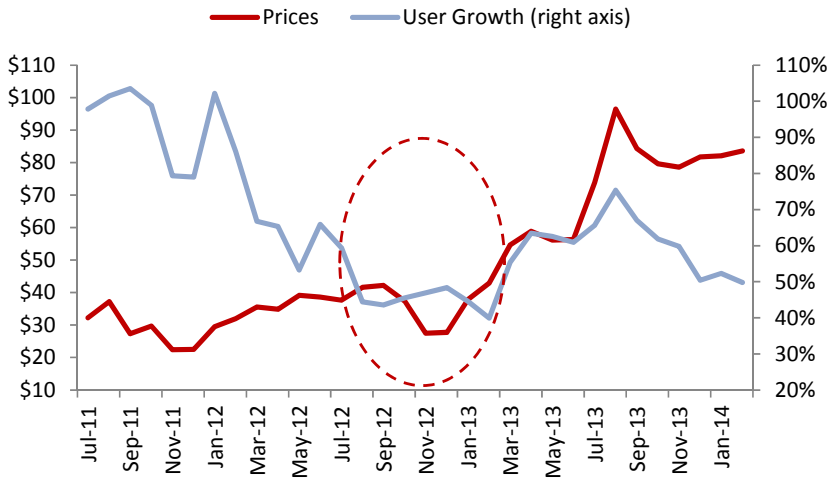


*Source: Deutsche Bank, Company Reports, Thomson One for stock prices*

# Solving The Twitter User Issue

## Key Take-Aways From DB's Twitter User Survey

DB and Surveymonkey Audience recently conducted an extensive (somewhat exhaustive) survey of current/past/non Twitter users to get a better understanding of why folks are using the service (or not), what features users find best/worst, why users stop using Twitter, and a number of other key questions that the company and investors are struggling with.

The full list of responses from survey is presented in the section below. Key take-aways include:

### For Current Twitter Users

- Overall engagement is very high. Nearly 50% of the active Twitter users, use the service more than once a day according to our respondents, slightly below Facebook's 60% DAU / MAU ratio but relatively common with typical social networks. Majority of the people spend less than 5 minutes on the platform during each visit but there seems to be two different two types of users 1) people who use the product more frequently on shorter visits 2) users who login infrequently but spend longer time on each visit

- Reading news events and discovering interesting content are the most common use-cases reported by active Twitter users.

- The population of users who tweet appears to be more evenly distributed than the common belief that majority of the tweets are generated by just the top power users. 84% of users send tweets.

- Awareness and adoption of new product enhancements such as multiple timelines, discover, nearby, and import your contact is still very low even among the core users. This will likely improve over time as Twitter surfaces these features more regularly or explicitly.

- Many users seem to think ads are regular content (which is a big positive). Native ad formats blend well with organic content as 60% of users noted seeing ads specifically but over 80% indicated seeing tweets marked "Promoted By" on their timelines. Meanwhile, nearly 85% of the current users reported that ads are not relevant, suggesting future opportunity to improve ad selection and targeting.

- Among the many other social networks, current users reported that Twitter is most useful to them only behind Facebook. Over 65% also indicated that they are unlikely to switch to another network.

### For Past Users

- 57% of past Twitter users stated that they would consider using the service again.

- Past users of Twitter noted less frequent usage/engagement compared to current Twitter users, which is somewhat obvious and expected. As a general statement, the majority of past users of Twitter also seem to lack a clear understanding of the core use case of service, or couldn't identify a core use for their own personal consumption.

- Past users cited (in order): 1) Lack of proper filtering capability, and 2) difficulty to setup for useful information, as key reasons for stopping Twitter use. Over 80% of the past users noted that better sorting and filtering tools would encourage them to use the service again. Furthermore, 62% indicated that better explanation of the setup process would help them consider using Twitter again.

- The awareness for new features is even lower for past users, and not surprisingly, many of the new media-forward (images, videos, etc) features are not known by past users, which could represent an opportunity.

- From a demographic standpoint, the past users of Twitter are not widely different from current users in terms of their social networking usage and appetite for news consumption.

### For Users Who Have Never Used Twitter

- 30% of non-users stated that they would consider using Twitter

- Over 95% of the non-users hear about Twitter on TV or online at least once a week, hence despite not using it are clearly aware of Twitter. Specifically, over 80% of non-users reported that they hear about Twitter on TV every week.

- Like the past users and current users of Twitter, non-users have relatively similar characteristics in terms of social network usage and appetite for news and real-time events.

- The non-users of Twitter generally seem to know about the service but have yet to find a compelling enough reason to sign up. For example, nearly 47% noted that they associate Twitter with mass messaging and following celebrities.

- Nearly 45% of the non-users noted that they are not clear if Twitter is useful for them.

## Methodology

In the last two weeks, Deutsche Bank performed a comprehensive survey using Surveymonkey's Audience panel to understand the demographic and use cases of Twitter. We categorized our respondents broadly on three buckets: 1) people who use Twitter currently 2) people who registered for Twitter and used it in the past but are not currently not using it 3) people who have never used Twitter.
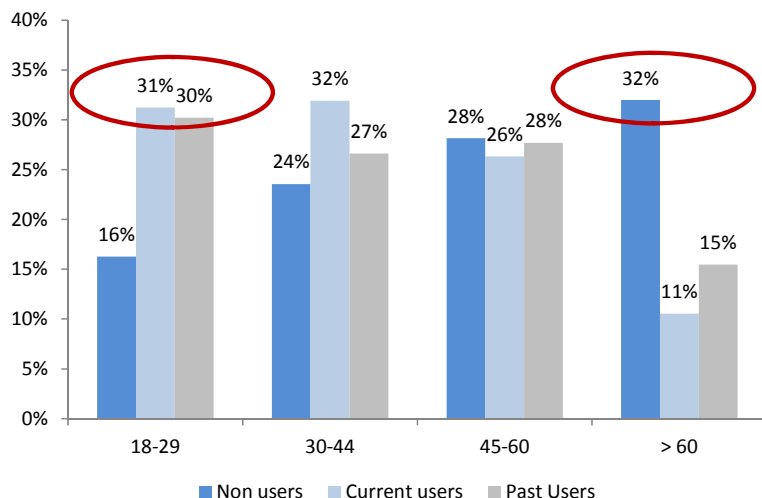
Figure 8: Survey Demographic

| Age Group | | Household Income | | Region | | Education | | Gender | |
|---|---|---|---|---|---|---|---|---|---|
| 18-29 | 24% | $0 - $25k | 9% | New England | 7% | < high school degree | 1% | Male | 25% |
| 30-44 | 26% | $25k-$50k | 16% | Middle Atlantic | 13% | High school degree | 8% | Female | 75% |
| 45-60 | 28% | $50k - $100k | 33% | East North Central | 17% | Some college | 30% | | |
| > 60 | 22% | $100k-$150k | 16% | West North Central | 8% | Assoc or bachelor de | 32% | | |
| | | $150k+ | 26% | South Atlantic | 17% | Graduate degree | 30% | | |
| | | | | East South Central | 4% | | | | |
| | | | | West South Central | 8% | | | | |
| | | | | Mountain | 8% | | | | |
| | | | | Pacific | 18% | | | | |

*Source: Deutsche Bank, Surveymonkey Audience, Sample = 1,096*

Our survey had over 1,100 responses in total. Over 28% of people reported that they are active Twitter users, 25% reported that they used Twitter in the past but stopped using it recently and nearly 47% of them noted that they never used Twitter. The survey responses are evenly distributed geographically and in terms of household distribution but more oriented towards the female gender as shown in Figure 8.

Figure 9: Survey Respondents Grouped By Age



*Source: Deutsche Bank, Surveymonkey Audience, Sample = 1,096*

Interestingly, people who responded as Twitter users appear to be skewed towards slightly younger demographic compared to non-users as shown in Figure 9.

## Insights From Current Twitter Users

In the section below, we discuss the responses from people who responded as active Twitter users on our survey. We found a number of interesting insights from our data.

### #1 - ~50% Of Twitter Users Are Daily Active Users (DAU)
We have long believed that Twitter has a core group of highly engaged users who access the service multiple times a day. Our survey results corroborate

this view, with approximately 25% of Twitter users noted using the service multiple times a day and 49% of users using the service at least once per day (Figure 10). The other 51% of Twitter users are evenly split between using the service once a week and once a month or less (Figure 10). In the last two quarters, Twitter rolled out a number of product enhancements focused on improving the engagement levels of current Twitter users and we expect these initiatives to help DAU / MAU ratio for Twitter, which is currently below Facebook's 60% ratio.

Figure 10: Q: How frequently do you use Twitter?
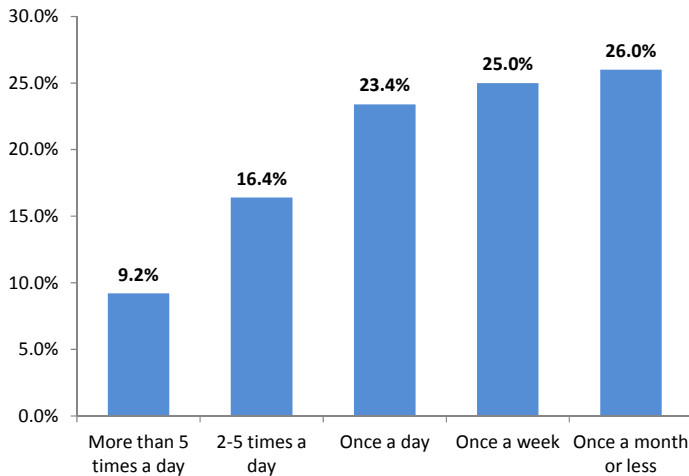
*~50% of active Twitter users use the service daily…*



Source: Deutsche Bank, Surveymonkey Audience, Sample = 304

#2 – Reading News & Discovering Interesting Content Are The Common Uses Case On Twitter

From a use case standpoint, survey respondents indicated that reading news is the most popular use of Twitter. Over 51% indicated that they use the survey for finding news articles and related events. Nearly 37% indicated that they use Twitter to discover interesting articles and content. Surprisingly 37% of the people also noted that they use Twitter to tweet something interesting, contradicting to the common opinion that only a small share of the people on the platform post tweets.

Figure 11: Q: What do you use Twitter for? (Select all that apply)



| | |
|---|---|
| For News events | 51.0% |
| To discover interesting articles/content | 36.8% |
| To tweet something interesting | 36.5% |
| Stay updated on my friends activity | 33.2% |
| No specific use case - like Twitter | 27.0% |
| Other (please specify) | 11.5% |

*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*
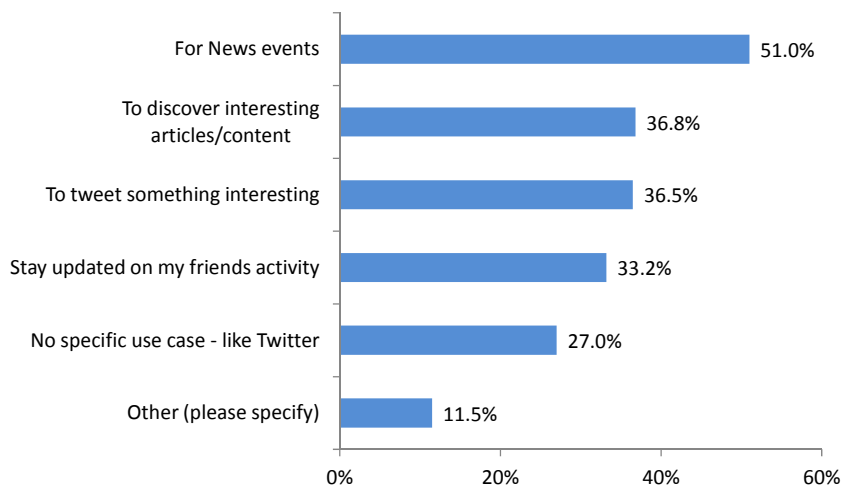
*Reading news and discovering interesting content are the most popular use cases of Twitter….*

Along the same lines, we asked the current Twitter uses about their tweeting behavior. Again, ~65% of the people noted that they tweet at least once a month and nearly 20% noted that they tweet at least once a day. This likely proves that the distribution of Tweets on the platform is more even than the popular belief that a very small percent of the user base tweets on the platform. Stated another way, 84% of Twitter users in our survey responded that they tweet vs. 16% who never Tweet.

Figure 12: Q: How frequently do you Tweet?



*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*
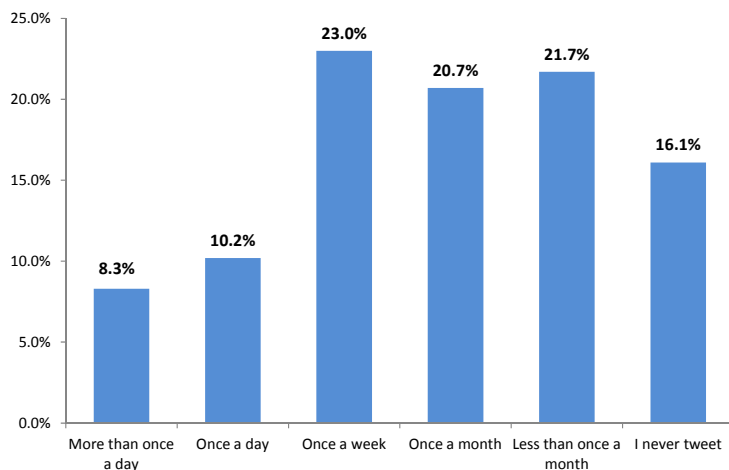
*Contrary to common belief that very few people post tweets on platform, our survey finds that tweeting population is more evenly balanced (84% of respondents tweet)…*

#3 – Mobile Is The Common Platform Of Choice For Active Users
Twitter has a high percentage of users accessing the service from mobile, somewhat obvious given that the product is mobile first. The company noted that nearly 76% of total MAUs at the end of 2013 accessed the service using mobile. Our survey results also indicate similar high share of usage on mobile. Mobile apps were the most common means of accessing Twitter (Figure 13),

with 72% of users having accessed the service via Twitter mobile app on smartphone or tablet devices.

Figure 13: Q: How do you access Twitter? (Select all that apply)
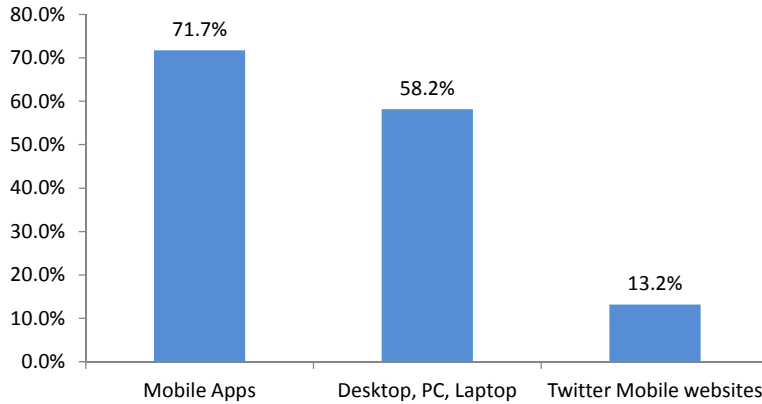


Source: Deutsche Bank, Surveymonkey Audience, Sample = 304

#4 - Time Spent On The Platform On Each Visit Is Relatively Low But Slicing The Data Deeper Shows Two Types Of Users

In terms of duration, the majority of users spend five minutes or less when they use Twitter (Figure 14). Over 80% of users spent an average of less than 10 minutes during every visit to Twitter. This is fairly common given the biggest use case is frequently checking for real-time information throughout the day. Unlike other social networks like Facebook, we think Twitter's use case resonates with frequent shorter visits to the platform.

When asked specifically about the volume of content they see on each visit, nearly 90% of Twitters users reported that they view less than 50 Tweets in a typical session and 68% reported viewing 30 or less, likely creating only one timeline view in the process.

Figure 14: Q: How much time do you spend on Twitter every time you open Twitter?
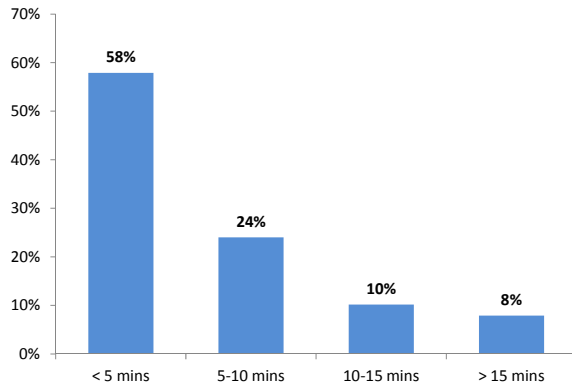


Source: Deutsche Bank, Surveymonkey Audience, Sample = 304

Figure 15: Q: How many Tweets do you view (on average) when you open Twitter?
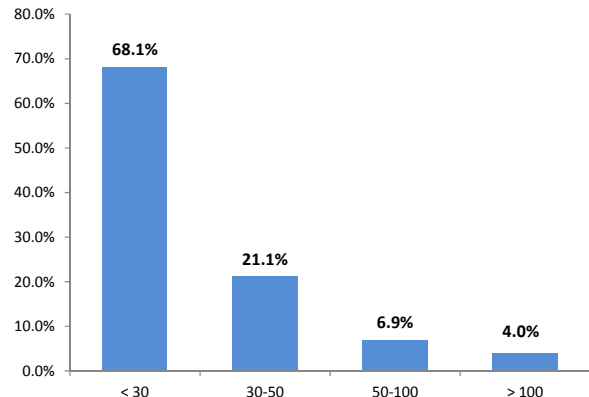


Source: Deutsche Bank, Surveymonkey Audience, Sample = 304

Slicing the time spent data further based on the daily frequency reveals that the percentage of users who login more than 5 times a day is higher among the users spending < 5 minutes compared to users spending more than 30 minutes per visit (Figure 16 and Figure 17). These users are likely the power users using Twitter for actively monitoring real-time news events on Twitter. Interestingly, users who login into Twitter less frequently (once per week) is the largest share of the population that spends more than 30 minutes on Twitter, which likely points to the more casual user of the service.

Figure 16: % of Twitter Users Who Spend < 5 mins On Every Visit
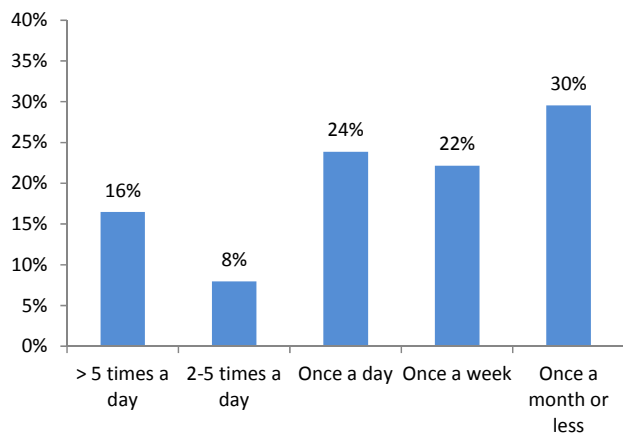


Source: Deutsche Bank, Surveymonkey Audience, Sample = 304 (~175 for < 5mins)

Figure 17: % of Twitter Users Who Spend More Than 30 mins on Every Visit
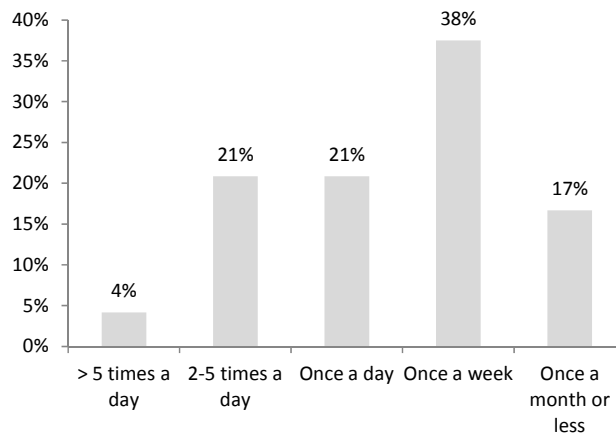


Source: Deutsche Bank, Surveymonkey Audience, Sample = 304 (~25 for > 30 mins)

#5 – Over 60% Noted They Find Users To Follow From People They Currently Follow

Recently, Twitter has rolled out a number of new enhancements such as "Import your contacts" and "Discover" focused on making the on-boarding process seamless for new subscribers, and making it easier to add follows. Twitter has found that a critical issue for converting and retaining new users is setting up an appropriate amount of follows, in order to have a fluid home timeline. We view this as one of the most critical issues that Twitter is working to solve.

However, newer product initiatives on on-boarding still seem to have fairly low adoption rates. Only 7% of respondents listed Discover as a means of finding new people to follow, while 60% noted finding new users to follow from the people they already followed. In fact, nearly 60% of users were not aware of the Discover tab (Figure 20). This is a key area that Twitter could improve in the future.

Figure 18: Q: How do you usually find new users to follow? (Select all that apply)
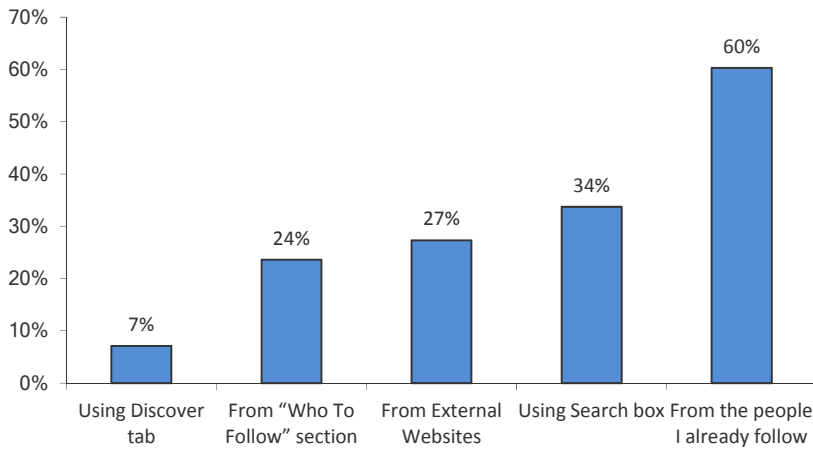


*Awareness for new product enhancements such as Discover, Nearby, Multiple Timelines, and Import your contact is low even among active Twitter users…*

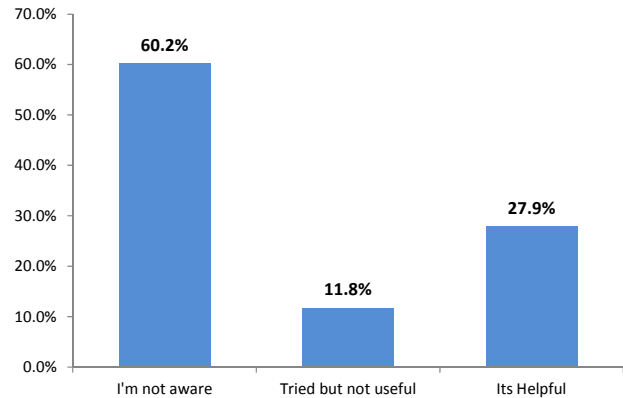*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

Figure 19: Q: Do you use Twitter to direct message others?
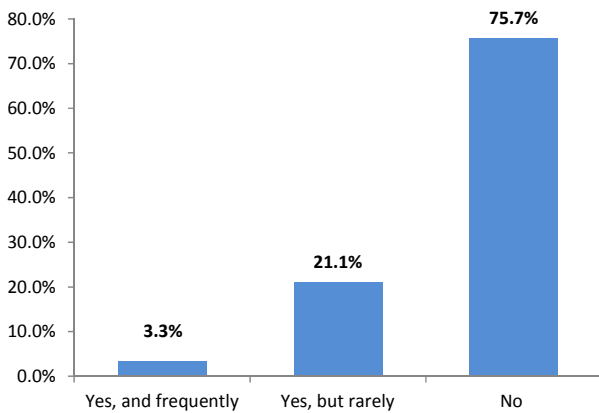


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

Figure 20: Q: How helpful do you find the 'Discover' tab on Twitter?



*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

More importantly, 76% of respondents have never used direct messaging (Figure 19). 51% of users had never heard of the ability to import email contacts (Figure 21), 77% had never heard of the Nearby feature (Figure 22), and 86% had never heard of multiple timelines feature (Figure 23). This is clearly an area that should see improvement as Twitter surfaces these new features more regularly.

**Figure 21: Q: Have you tried the 'import email contacts' feature on Twitter to import a contact list?**
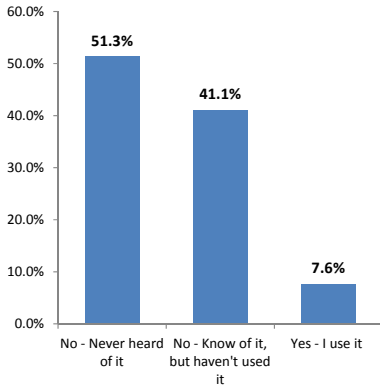


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

**Figure 22: Q: Have you tried the 'Nearby' feature on Twitter?**
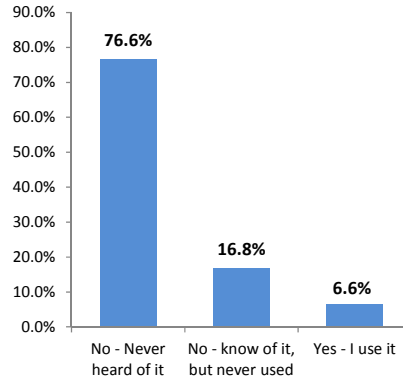


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

**Figure 23: Q: Have you tried the multiple timelines feature that helps you categorize tweets into multiple categories and views on Twitter?**
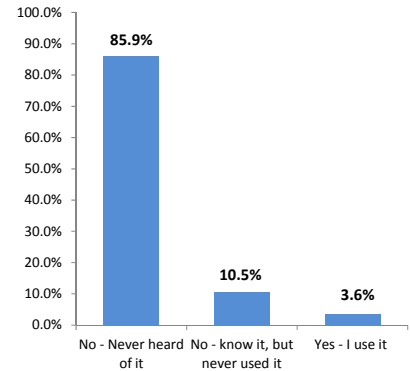


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

**#6 – Receptivity Toward Ads On Twitter & Opportunities To Improve Targeting**

As a part of the survey, we also wanted to understand the receptivity towards ads. In response to question on whether they have seen ads, nearly 60% noted that they have seen ads (Figure 24) on Twitter, and importantly 40% responded to have not seen ads. When specifically asked whether they have seen Tweets marked "Promoted By", over 80% (Figure 25) said they have seen promoted tweets on Twitter. This likely indicates that Twitter's native ads blend well with the content in the timeline, and are largely effective in not obstructing the user behavior, which we view as a big positive.

*Native ads blend well with organic content but ad targeting still remains subpar…*

**Figure 24: Q: Have you noticed ads on Twitter?**
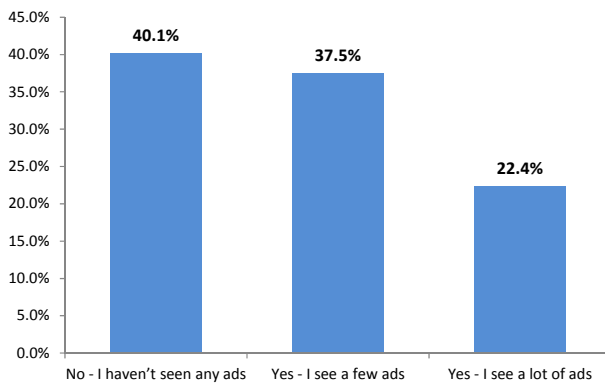


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

**Figure 25: Q: Do you see Tweets marked "Promoted By" on Twitter?**
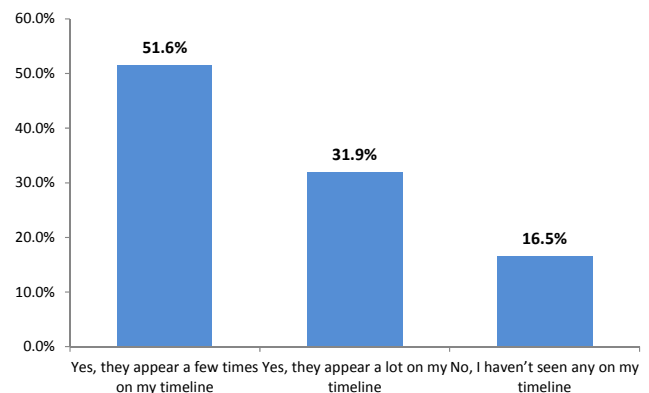


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

From a targeting standpoint, over 80% noted that the ads are not relevant to them, with 49% finding the ads to be random and 34% specifically saying ads are not useful (Figure 26). This signals future opportunity to improve ad targeting through better tools and wider selection of advertisers. Twitter rolled out a number of enhancements to targeting capabilities including tailored

audiences for advertisers in 4Q13 and we believe as more advertisers use these advanced capabilities targeting should improve over time making ads more relevant.
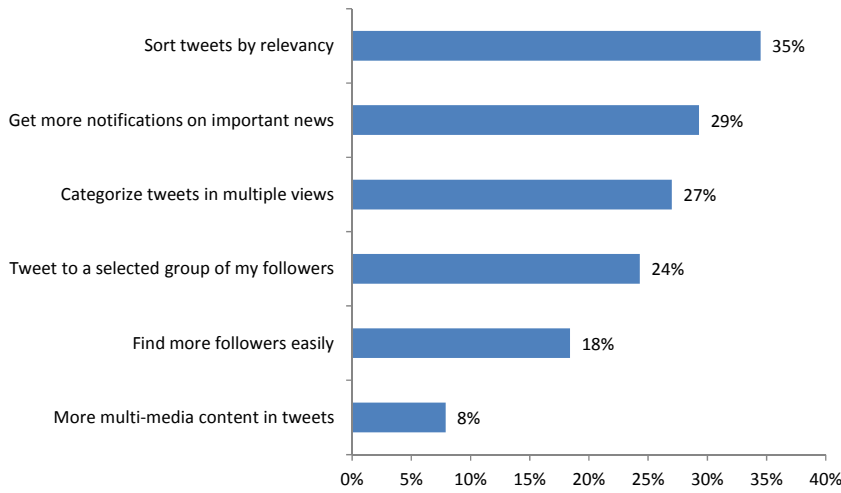
Figure 26: Q: Do you find the ads on Twitter relevant?
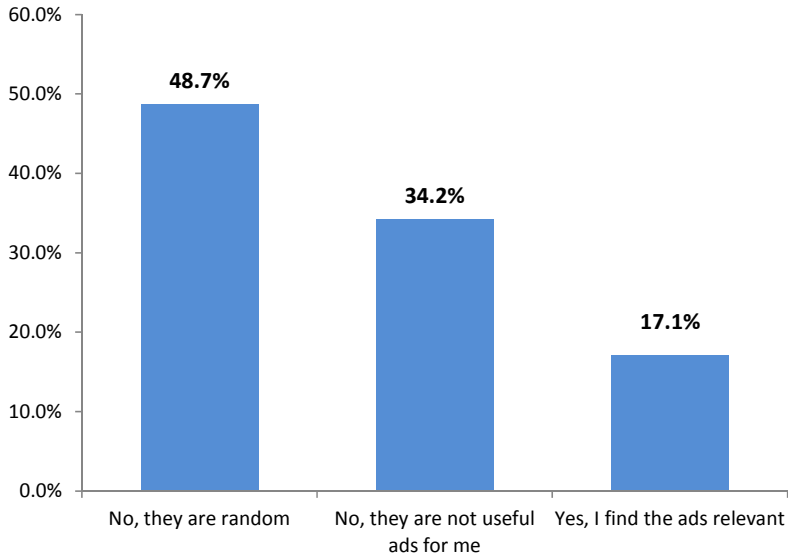


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

## #7 – Ability To Sort Tweets & Categorizing Tweets Are Noted As Features That Are Likely To Encourage Greater Usage & Engagement

When asked what functionalities would encourage them to increase Twitter usage, the most popular answers centered around relevancy and surfacing important content. 35% of users would like to see Tweets sorted by relevancy while 29% would like to be notified about important news. Interestingly, 27% said they would like to categorize Tweets by multiple views. Twitter already enables users to have multiple timelines, but as our survey suggested, most users are not aware of the feature. Again, this underscores that Twitter could improve engagement through better education and making it easier for users to adopt the features already available.

Figure 27: Q: Select the functionalities would encourage you to increase your Twitter usage?  (Select all that apply)



| | |
|---|---|
| Sort tweets by relevancy | 35% |
| Get more notifications on important news | 29% |
| Categorize tweets in multiple views | 27% |
| Tweet to a selected group of my followers | 24% |
| Find more followers easily | 18% |
| More multi-media content in tweets | 8% |

Source: Deutsche Bank, Surveymonkey Audience, Sample = 304

#8 – Twitter Ranks Only Next To Facebook In-terms of Usefulness

Our survey shows that users find Twitter to be one of the more useful social networks. On a scale of one to five, with five being the most useful, Twitter scored a 3.19; only Facebook was better (Figure 28). Users found Twitter to be more useful than LinkedIn, Instagram, Snapchat, and WhatsApp. This could likely be skewed by the fact that our survey targeted Twitter users, but interesting nonetheless.

Figure 28: Q: Please rank the following social networks in the order of usefulness to you (with '1' being the least useful and '5' being the most useful)
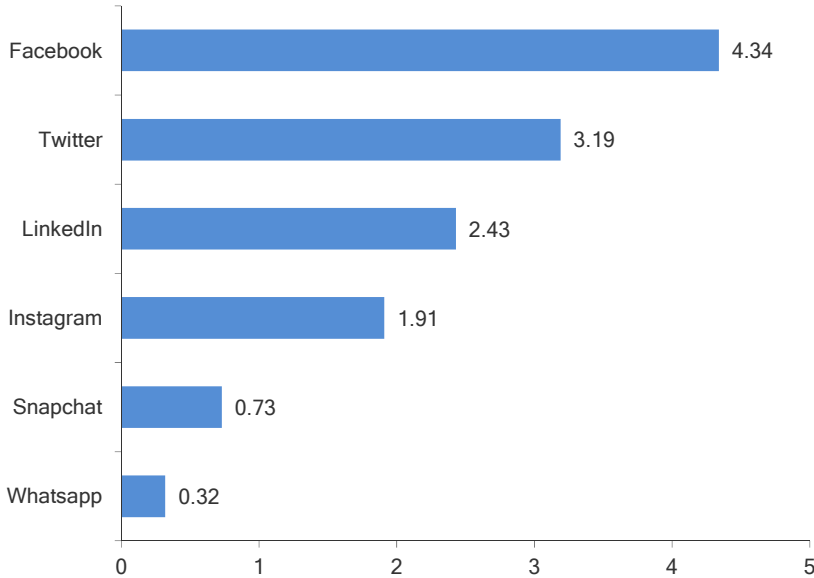


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

Furthermore, Twitter appears to be sticky with its current users, with 65% saying they would be either very unlikely or unlikely to switch to another network (Figure 29).

Figure 29: Q: How likely are you to switch to another social network if you find a new service like Twitter?
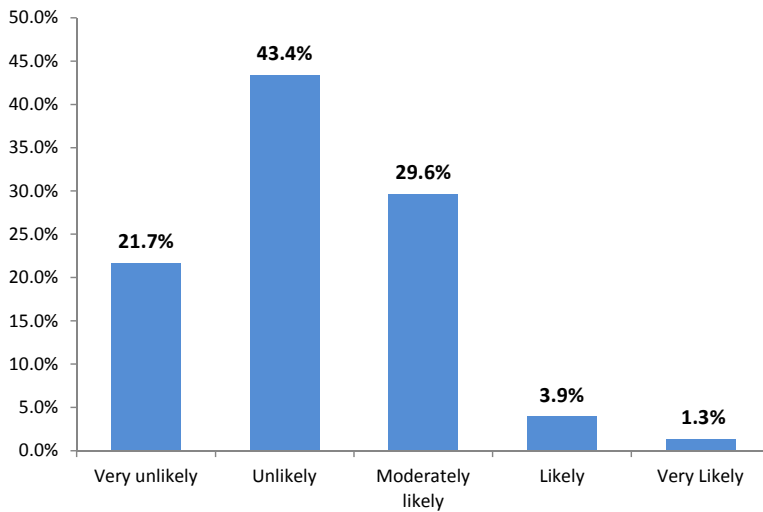


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 304*

## Insights On Past Twitter Users

In the section below, we discuss our responses from previous users of Twitter (those who responded that they currently are not actively using the product, but have in the past).

### #1 - Past Users Had Lower Engagement Levels

When compared to current Twitter users, past users demonstrated lower engagement (not surprisingly), with only 15% using the service at least once a day compared to 49% for current users (Figure 31 and Figure 10). Similarly, 47% of past users logged on once a month or less, compared to 26% of active users (Figure 31 and Figure 10).

Figure 30: Q: When was the last time you used Twitter?
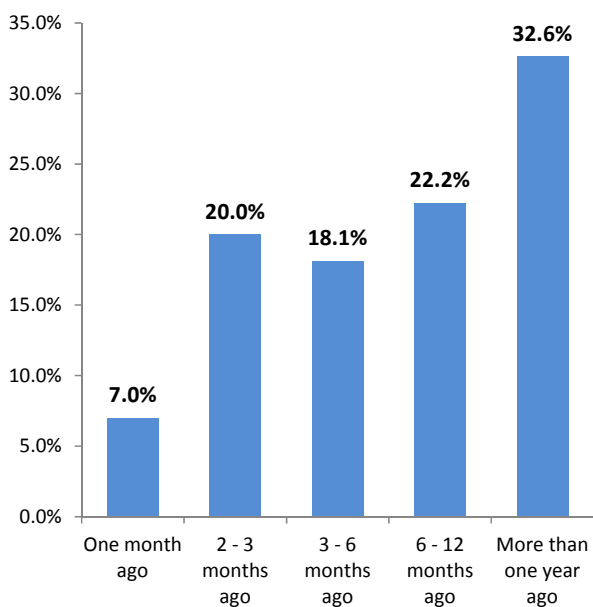


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Figure 31: Q: When you were using Twitter, how often did you use it?
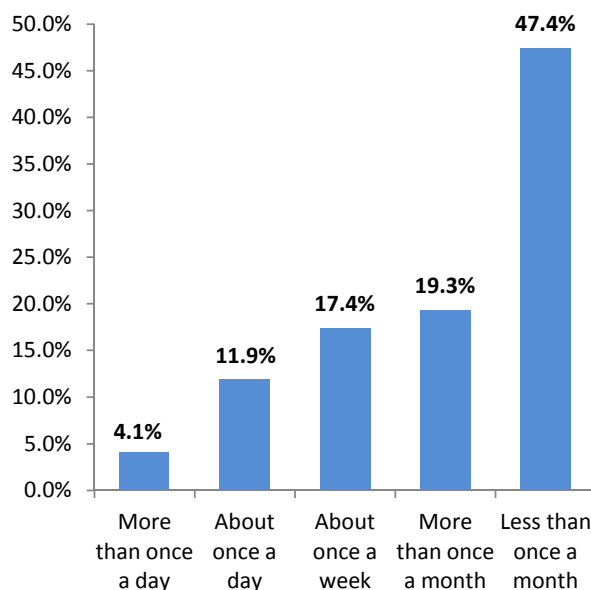


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Not only did past users use Twitter less frequently, they were also less likely to Tweet, with 30% of past users never Tweeting, compared to 16% for current users (Figure 32 and Figure 12).

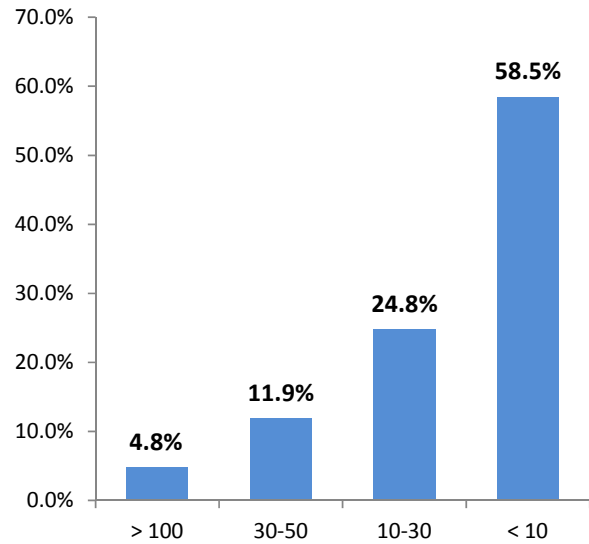*Past users used the service less frequently and had lower engagement on the*

Figure 32: Q: When you were using Twitter, how often did you tweet?
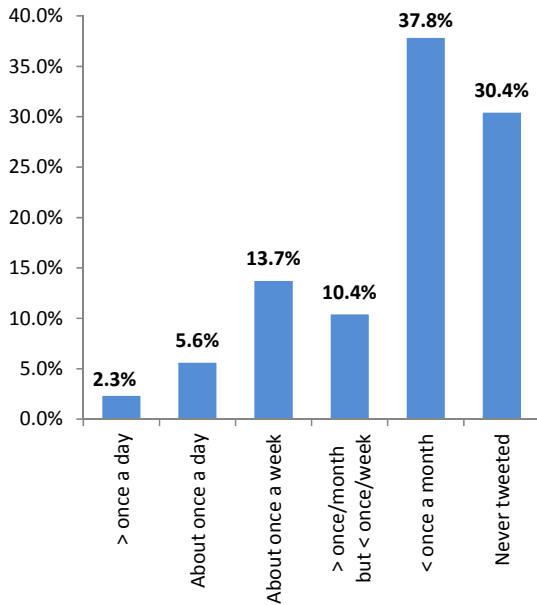


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Figure 33: Q: How many followers did you have when you stopped using Twitter?



Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

## #3 - Past Users Used Desktop More Commonly Than Mobile

Another stark contract between past users and current users was how they accessed Twitter. While mobile apps were the most popular method for current users (70%+), PCs were the most popular method for past users (Figure 13 and Figure 34). Twitter is a mobile-first platform, and we believe the user experience is better on mobile vs. PC. This suggests a potential opportunity for re-engagement if Twitter can get some former-PC user to try the mobile app.

Figure 34: Q: How did you access Twitter? (Select all that apply)
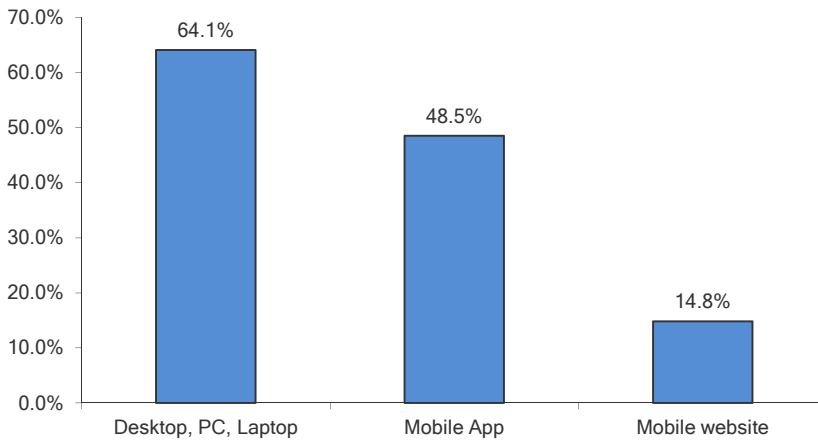


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

## #4 – Past Users Demonstrated Different Use Cases, And Seem To Have Little Awareness On New Product Enhancements

The use cases reported was somewhat different between current and past users. More than 23% of the past users reported that they used Twitter primarily because their friends used it. Also, more than 17% of the people reported a broad range of several other uses cases including following live events and responding to online polls and contests.

*Past users seem to lack a clear understanding of the use cases of Twitter…*

Figure 35: Q: What was your primary reason for using Twitter?
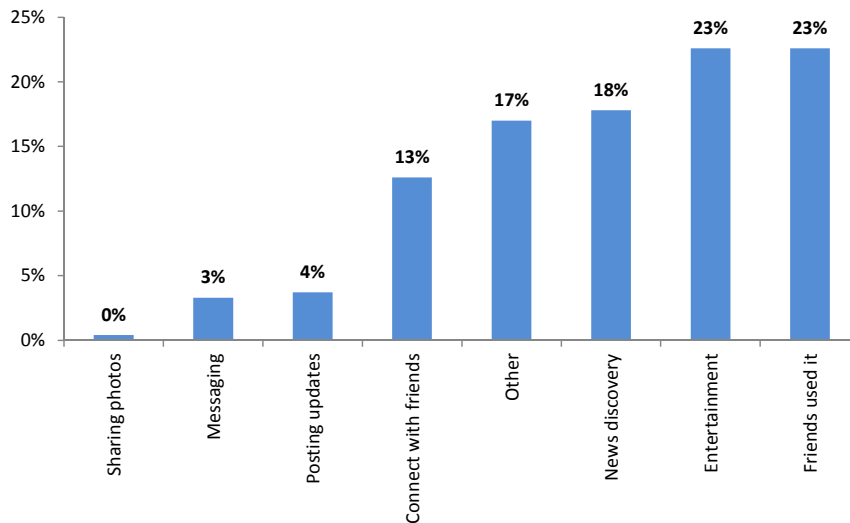


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Similar to current users of Twitter, most past users reported that they are unaware of the new features rolled out on Twitter., with 76% having heard of none of the new features such as multiple timelines, nearby, discover, and direct messages. Give that more than 50% of the respondents haven't used the service in at least six months, however, this doesn't come as a surprise.

As we discuss below, nearly 60% of past user stated that they would consider using Twitter again, and given that most past users have not experienced the recent enhancements around the media-forward initiative (images, etc), resurrections may be more successful in 2014 than in prior periods.
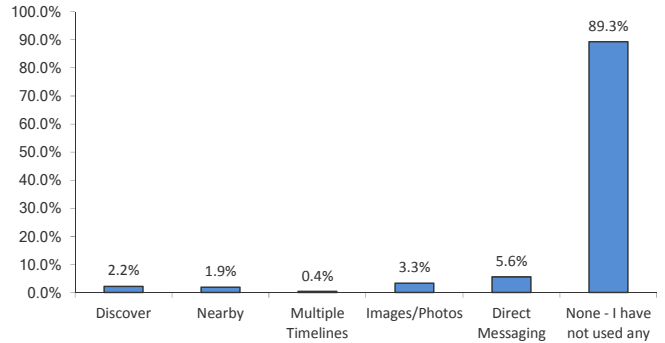
Figure 36: Q: Which of the following new features of Twitter are you aware of?
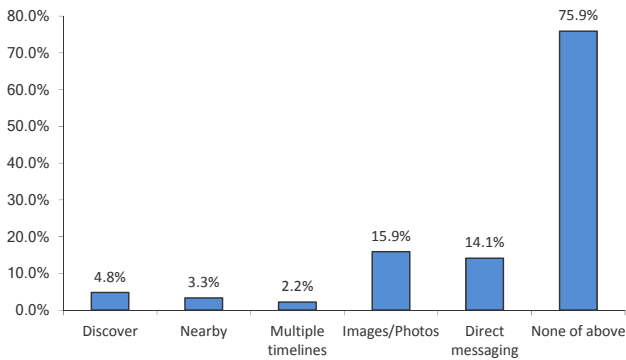


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Figure 37: Q: Of the new features you are aware of, which have you used?
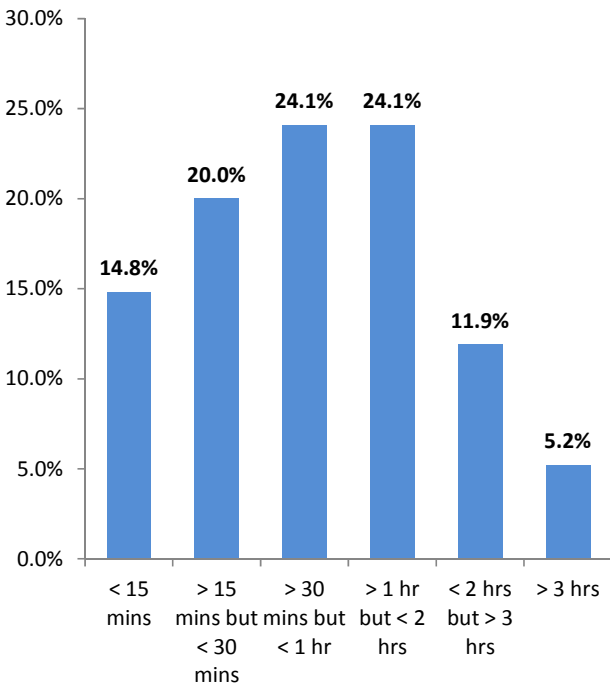


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

## #5 – Past Users Value News Discovery & Social Networking

While no longer active on Twitter, respondents were generally active on social networks with 85% spending at least 30 minutes a day on social networks and 41% spending more than an hour (Figure 38). Past users were also active consumers of news - one of the main use cases of Twitter. 60% of respondents consumed at least 30 minutes of news a day and 33% consumed at least an hour of news a day.

Figure 38: How much time do you spend per day on social networks?



Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

Figure 39: How much time do you spend per day reading news magazines and newspapers, watching the news, reading about current events online, etc?
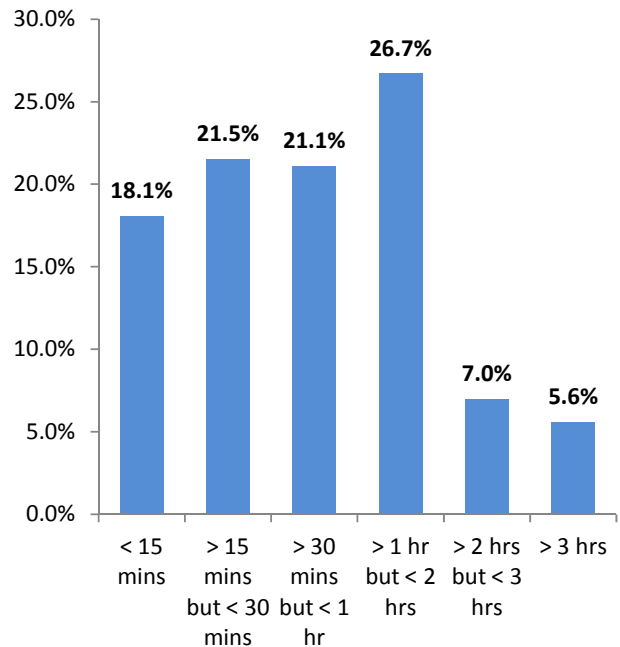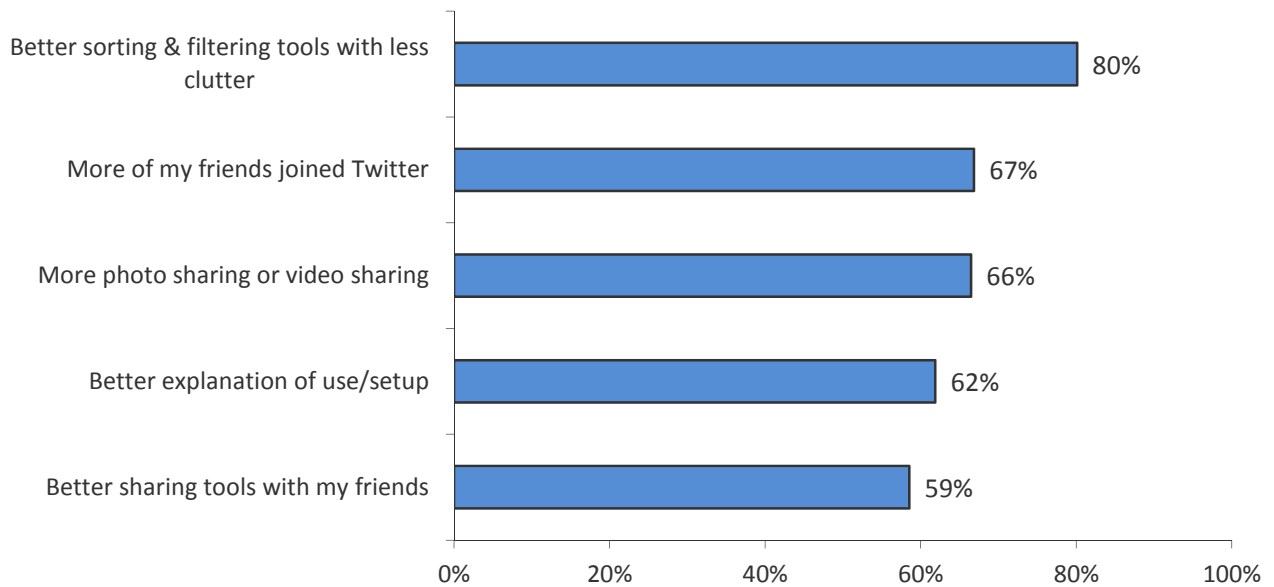


Source: Deutsche Bank, Surveymonkey Audience, Sample = 270

#6 – Better Sorting Ability  & More Social Networking Tools Are Desired Enhancements

Another commonality between current and past Twitter users were on the desired improvements to the product. The most popular suggested improvement for non-users was better sorting and filtering tools. 80% of past users said that improvement here would encourage them to use Twitter again (Figure 40).

Figure 40: Please rank your feeling towards each of the following improvements as to whether or not they would encourage you to use Twitter again:

The inability to easily surface relevant content was one of the biggest reasons why users stopped using Twitter. "There was no useful information on Twitter" and "There were too many Tweets and Twitter wasn't sorting or filtering" were two of the three most popular reasons for users to abandon the service (Figure 41). Given the immense amount of content discovery on Twitter, we believe that the problem is with curation, not content. Users who left the service because there was no useful information likely abandoned because they didn't have the proper curation to access that information.

Figure 41: When thinking about the reasons why you stopped using Twitter, please choose the option that appropriately represents your reason
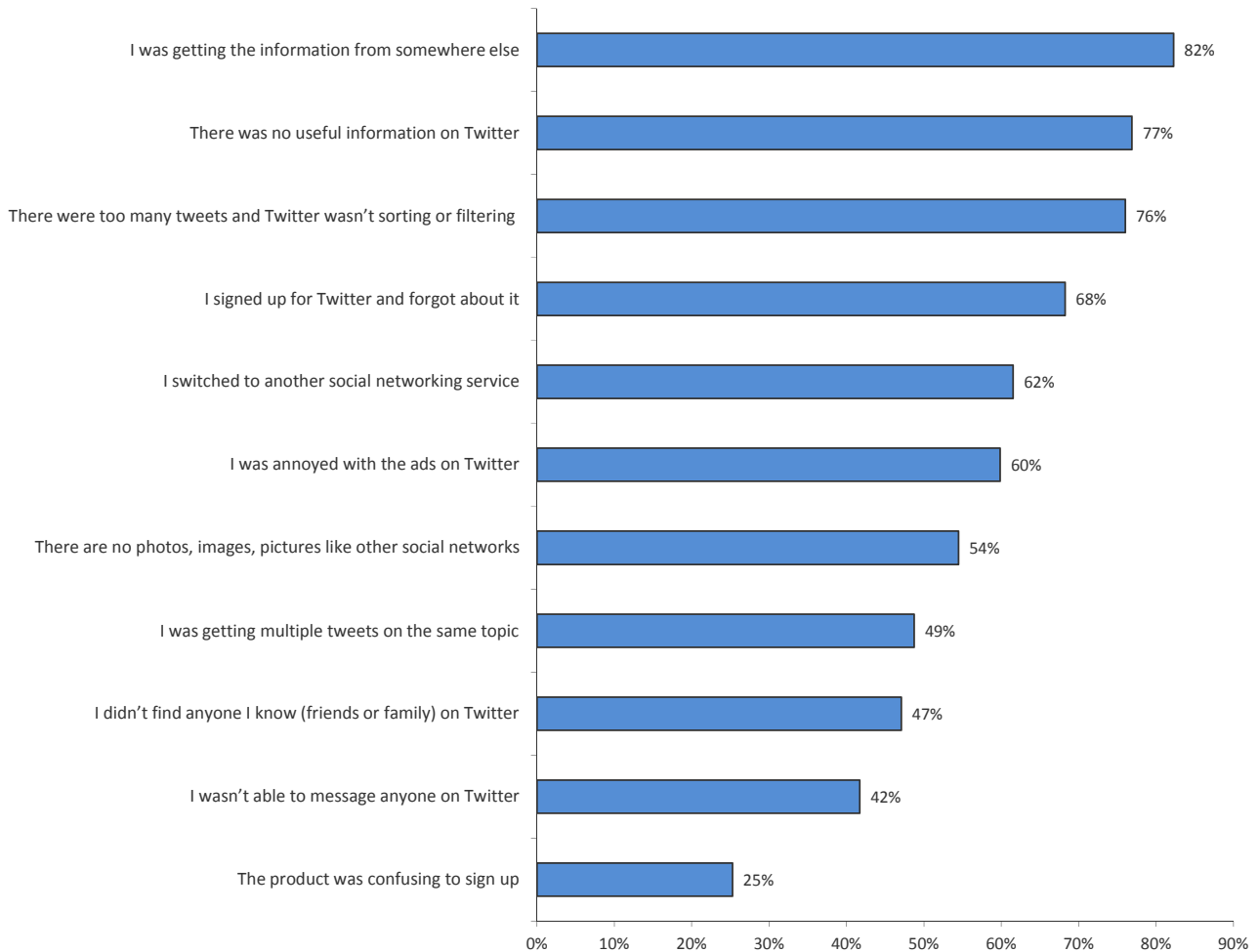
#7 – Majority Of Past Users Are Receptive to Returning To Twitter

The biggest take-away (and most encouraging) from this portion of the survey is that nearly 60% of past users said they would consider using the service again (Figure 42). As the company works to educate users about new platform features and makes new changes, we see an opportunity for the company to re-engage past users. Based on our responses, initiatives around curation, sorting, and surfacing relevant content would be the most impactful.

Figure 42: Would you ever consider using Twitter again?
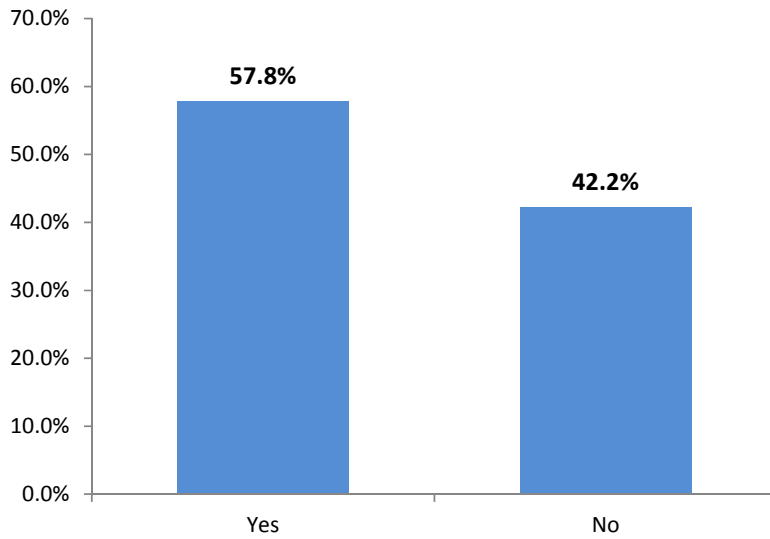


*Nearly 60% of the users reported that they would consider returning to Twitter again...*

## Insights On People Who Have Never Used Twitter Before

We discuss the responses from survey participants who indicated to have never used Twitter in the section below.

### #1 – Awareness Is High - Even Non-Twitter Users Hear About Twitter At Least Once A Week

Even if someone is not using Twitter, they are likely to have heard of it, and continue to hear often about it. Over 95% of respondents who have never used Twitter mentioned hearing about the service at least once or twice a week (Figure 44). TV shows were the most frequent place where non-users had heard about Twitter, followed by online articles (Figure 45). This stat is telling and represents opportunity for Twitter to engage and convert non users in the future. We believe that events like Ellen Degeneres' Oscars selfie are likely to continue to happen, and should help bring more MAUs to Twitter over time.

Figure 43: Have you ever considered using Twitter?
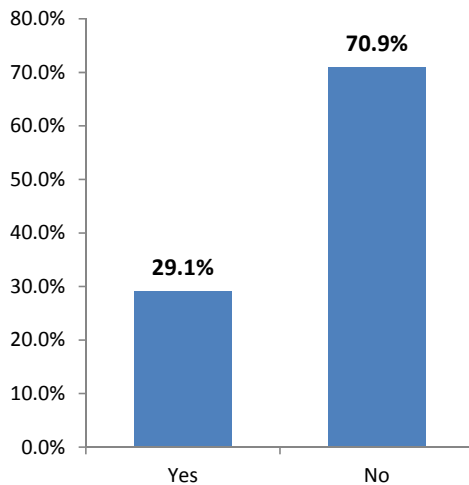


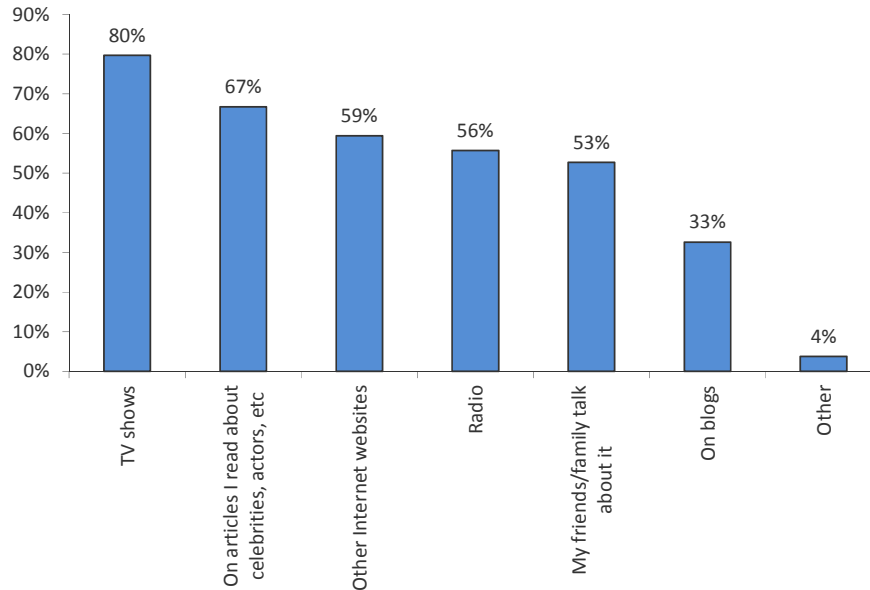*Source: Deutsche Bank, Surveymonkey Audience, Sample = 522*

Figure 44: How many times do you hear about Twitter from friends, TV, newspapers, or Internet per week?
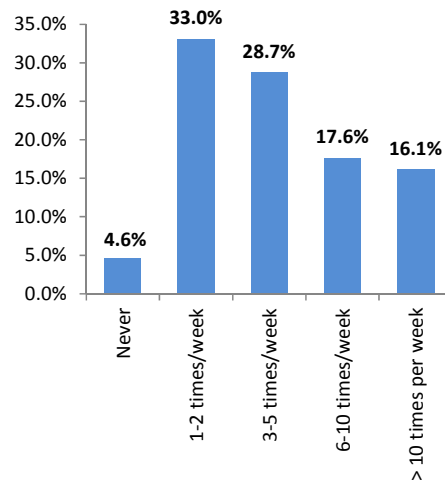


*Source: Deutsche Bank, Surveymonkey Audience, Sample = 522*

Figure 45: Where have you heard Twitter mentioned? (Select all that apply)

## #2 –Demographic Similar With Past Users In-terms Of Social Media Usage

When compared to past Twitter users, non-users displayed similar social media usage characteristics. 38% of non-users spent at least an hour a day on social networks compared to 41% for past Twitter users (Figure 46 and Figure 38). However, non-Twitter users typically spent less time consuming news content compared to past Twitter users (Figure 47 and Figure 39). Given how one of the most popular reasons for using Twitter is to stay up-to-date on news, it could be that people who care less about the news don't assign as much value to Twitter.
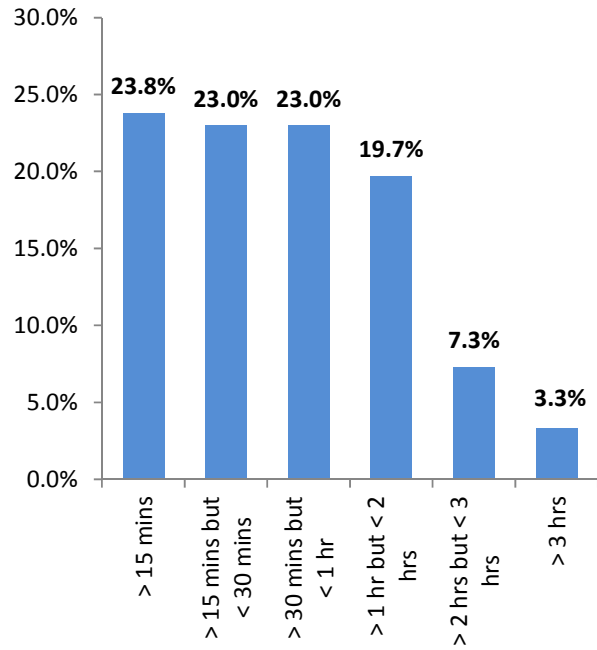
Figure 46: How much time do you spend per day on social networks?
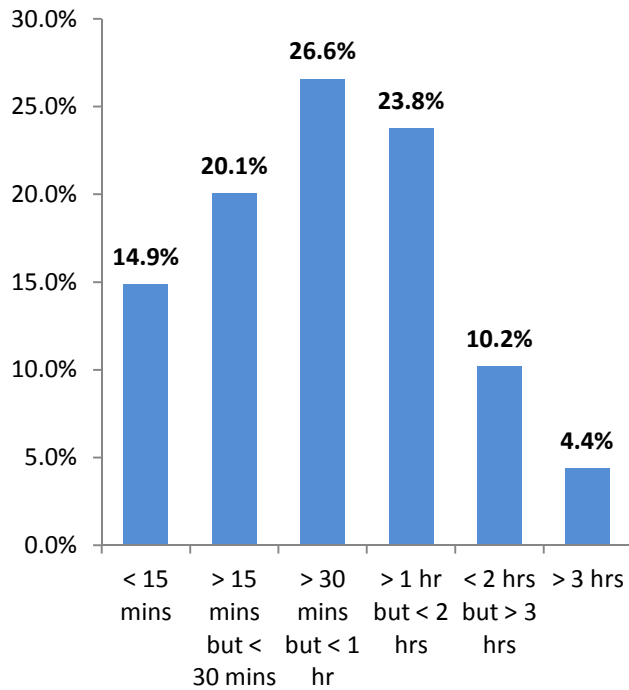


Source: Deutsche Bank, Surveymonkey Audience, Sample = 522

Figure 47: How much time do you spend per day reading news magazines and newspapers, watching the news, reading about current events online, etc?



Source: Deutsche Bank, Surveymonkey Audience, Sample = 522

## #3 – Twitter Use Case Unclear For Non-users

Non-users mainly see Twitter as a way for sharing messages with a large number of people and following high-profile users (Figure 48). Interestingly, only 13% of respondents associate Twitter as a medium for discovering interesting content. Again, we believe the issue isn't that the content doesn't exist on Twitter, but rather that it is cumbersome for users to find and curate it.

Figure 48: What do you generally associate with Twitter? (Select all that apply)

| Response | % |
|---|---|
| Twitter helps users share status messages with a large number of people | 47% |
| Twitter helps follow politicians, news reporters, sports professionals, and other interesting celebrities | 44% |
| Twitter helps stay connected with real-time events | 39% |
| Twitter is another social network like Facebook, but complex | 37% |
| Twitter helps a large number of people have conversations on a specific topic (or event) | 29% |
| Twitter helps users discover interesting articles, blogs, and reports | 13% |
| Other | 16% |

*Source: Deutsche Bank, Surveymonkey Audience, Sample = 522*

Social network fatigue and lack of usefulness were the top two reasons for individuals to not sign up for Twitter (Figure 49).

Figure 49: Which of the following describes your reasoning for not signing up for Twitter?(Select all that apply)

| Response | % |
|---|---|
| I use other social networking services and don't want to use too many of them | 45% |
| I don't know whether Twitter is useful for me | 45% |
| Not many of my friends or family members use Twitter | 28% |
| I think I get the information I can find on Twitter from somewhere else | 28% |
| Twitter seems too complicated or difficult to use | 18% |
| It looks difficult to get an account set up and find people to follow | 5% |
| Other (please specify) | 21% |

*Source: Deutsche Bank, Surveymonkey Audience, Sample = 522*

When asked about which product changes would encourage them to sign up for Twitter, the most popular response was "none", somewhat expected given that social network fatigue was the top reason for not signing up for Twitter. Among specific possible enhancements, the most popular was "if more of my friends and family use Twitter".

Figure 50: Q: Which of the following, if any, would encourage you to sign up for Twitter? (Select all that apply)
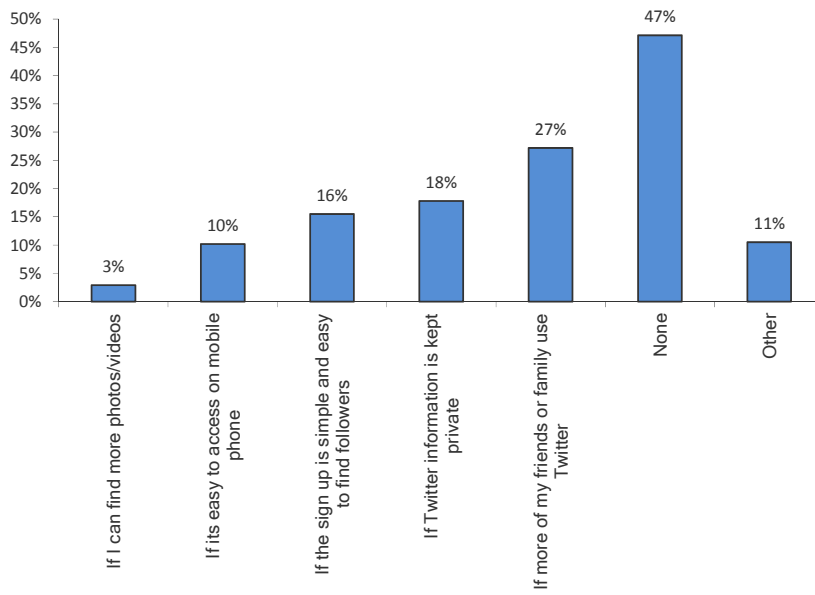


Source: Deutsche Bank, Surveymonkey Audience, Sample = 522

# Valuation

## Buy Rating & $65 Price Target

Our $65 price target is based on a blended average of 15x on our 2017 revenues and 40x on our 2017 EBITDA estimates.

Figure 51: Valuation

**Twitter -- Valuation Worksheet**
($ in billions, except per share amounts)

| | | | | | |
|---|---|---|---|---|---|
| Current Price | $50.92 | | | | |
| Diluted Shares Outstanding | 702.3 | | | | |
| Current Market Cap | 35,761.5 | | | | |
| Less: Cash and Cash Equivalents | 2,234.1 | | | | |
| Plus: Debt | 197.6 | | | | |
| Adjusted Enterprise Value | 33,725.1 | | | | |

| **EV to Revenue** | | **2015E** | **2016E** | **2017E** | **2018E** |
|---|---|---|---|---|---|
| Revenue ($b) | | $1,605.8 | $2,240.8 | $2,906.0 | $3,655.6 |
| Current EV/Revenue Multiple | | 21.0x | 15.1x | 11.6x | 9.2x |
| Target Multiple | | 15.0x | 15.0x | 13.0x | 15.0x |
| Enterprise Value | | 24,087 | 33,612 | 37,778 | 54,834 |
| Equity Market Capitalization | | 26,083 | 35,991 | 39,903 | 57,078 |
| FY End Projected Sharecount | | 749.3 | 770.1 | 779.7 | 783.6 |
| **Implied Stock Price on Forward Revenue** | | $35 | $47 | $51 | $73 |

| **EV to EBITDA** | | **2015E** | **2016E** | **2017E** | **2018E** |
|---|---|---|---|---|---|
| Adjusted EBITDA | | 354.4 | 755.9 | 1334.1 | 1811.3 |
| Current EV/EBITDA Multiple | | 95.2x | 44.6x | 25.3x | 18.6x |
| Target Multiple | | 50.0x | 50.0x | 45.0x | 50.0x |
| Enterprise Value | | 17,718.2 | 37,796.9 | 60,034.5 | 90,564.7 |
| Equity Market Capitalization | | 19,714.5 | 40,176.6 | 62,159.5 | 92,808.3 |
| FY End Projected Sharecount | | 749.3 | 770.1 | 779.7 | 783.6 |
| **Implied Stock Price on Forward EBITDA** | | $26 | $52 | $80 | $118 |

| | | | | | |
|---|---|---|---|---|---|
| Average | | $31 | $49 | $65 | $96 |
| Target Price | | | | $65 | |

Source: Deutsche Bank, Company Reports

## Risks

Key risks include expensive valuation and subject to high volatility if results fail to meet the high expectations, mass market expansion in user base, decelerating MAU's and flattening engagements and monetization ramps could be slower than expected.

# Figure 52: Income Statement ($m)

| Twitter -- Quarterly Earnings Analysis | 2011A | 2012A | Mar A 1QA | Jun A 2QA | Sep A 3QA | Dec A 4QA | 2013A | Mar E 1QE | Jun E 2QE | Sep E 3QE | Dec E 4QE | 2014E | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Advertising revenue | 77.710 | 269.421 | 100.460 | 120.972 | 153.437 | 219.677 | 594.546 | 209.483 | 237.396 | 264.965 | 354.681 | 1,066.5 | 1,487.7 | 2,103.4 | 2,754.2 |
| Data licensing | 28.603 | 47.512 | 13.883 | 18.320 | 15.143 | 22.998 | 70.344 | 22.911 | 27.038 | 24.083 | 25.948 | 100.0 | 118.1 | 137.4 | 151.8 |
| **Total revenues** | **106.313** | **316.933** | **114.343** | **139.292** | **168.580** | **242.675** | **664.890** | **232.394** | **264.433** | **289.048** | **380.630** | **1,166.5** | **1,605.8** | **2,240.8** | **2,906.0** |
| | | | | | | | | | | | | | | | |
| Cost of Revenues | 55.286 | 109.281 | 36.895 | 45.800 | 55.396 | 62.801 | 200.892 | 86.606 | 94.351 | 94.982 | 98.502 | 374.4 | 514.7 | 651.1 | 757.2 |
| **Gross Profit** | **51.027** | **207.652** | **77.448** | **93.492** | **113.184** | **179.874** | **463.998** | **145.788** | **170.082** | **194.066** | **282.128** | **792.1** | **1,091.1** | **1,589.7** | **2,148.8** |
| | | | | | | | | | | | | | | | |
| Operating expenses | | | | | | | | | | | | | | | |
| Research and development | 46.617 | 106.382 | 39.149 | 48.491 | 58.127 | 68.012 | 213.779 | 77.244 | 86.767 | 92.439 | 102.869 | 359.3 | 479.9 | 557.6 | 577.9 |
| Sales and Marketing | 24.435 | 85.205 | 30.374 | 42.709 | 55.472 | 71.875 | 200.430 | 68.705 | 89.012 | 86.441 | 101.315 | 345.5 | 442.7 | 528.1 | 568.6 |
| General and administrative | 42.305 | 48.720 | 15.034 | 15.260 | 15.532 | 22.897 | 68.723 | 23.584 | 21.037 | 29.522 | 39.720 | 113.9 | 138.9 | 171.4 | 222.3 |
| Stock-based compensation | 60.384 | 25.741 | 12.922 | 22.646 | 43.602 | 521.197 | 600.367 | 151.756 | 161.986 | 161.475 | 162.801 | 638.0 | 283.5 | 395.6 | 513.0 |
| Total operating expenses | 178.438 | 284.735 | 101.355 | 132.408 | 176.516 | 689.550 | 1,099.829 | 327.757 | 364.732 | 375.312 | 411.688 | 1,479.5 | 1,361.1 | 1,664.1 | 1,889.8 |
| Operating income | (127.411) | (77.083) | (23.907) | (38.916) | (63.332) | (509.676) | (635.831) | (181.969) | (194.650) | (181.246) | (129.560) | (687.4) | (270.0) | (74.3) | 258.9 |
| | | | | | | | | | | | | | | | |
| Depreciation & amortization | 24.192 | 72.506 | 22.730 | 25.917 | 29.023 | 33.224 | 110.894 | 43.226 | 48.968 | 55.338 | 63.925 | 211.5 | 340.9 | 434.7 | 562.2 |
| Stock based compensation | 60.384 | 25.741 | 12.922 | 22.646 | 43.602 | 521.197 | 600.367 | 151.756 | 161.986 | 161.475 | 162.801 | 638.0 | 283.5 | 395.6 | 513.0 |
| **Adjusted EBITDA** | **(42.835)** | **21.164** | **11.745** | **9.647** | **9.293** | **44.745** | **75.430** | **13.013** | **16.304** | **35.567** | **97.167** | **162.1** | **354.4** | **755.9** | **1,334.1** |
| | | | | | | | | | | | | | | | |
| Interest expense | (0.805) | (2.486) | (1.233) | (1.513) | (1.727) | (2.387) | (6.860) | (2.399) | (2.868) | (3.362) | (4.044) | (12.7) | (19.2) | (24.7) | (31.4) |
| Other (expense) income, net | (1.530) | 0.399 | (1.529) | (1.019) | 0.818 | (2.725) | (4.455) | 0.000 | 0.000 | 0.000 | 0.000 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Income | (129.746) | (79.170) | (26.669) | (41.448) | (64.241) | (514.788) | (647.146) | (184.368) | (197.519) | (184.608) | (133.604) | (700.1) | (289.3) | (99.0) | 227.6 |
| Income Tax Expense (benefit) | (1.444) | 0.229 | 0.357 | 0.777 | 0.360 | (3.317) | (1.823) | 0.000 | 0.000 | 0.000 | 0.000 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Reported Net Income** | **(128.302)** | **(79.399)** | **(27.026)** | **(42.225)** | **(64.601)** | **(511.471)** | **(645.323)** | **(184.368)** | **(197.519)** | **(184.608)** | **(133.604)** | **(700.1)** | **(289.3)** | **(99.0)** | **227.6** |
| | | | | | | | | | | | | | | | |
| Non-GAAP Operating Income | (67.027) | (51.342) | (10.985) | (16.270) | (19.730) | 11.521 | (35.464) | (30.213) | (32.664) | (19.771) | 33.241 | (49.407) | 13.453 | 321.249 | 771.941 |
| Non-GAAP Net Income | (65.533) | (35.191) | (10.524) | (16.364) | (17.216) | 9.774 | (34.330) | (26.144) | (29.603) | (17.697) | 34.180 | (39.264) | 10.343 | 307.928 | 748.600 |
| | | | | | | | | | | | | | | | |
| Net income attributable to participating securities | 35.816 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Net income attributable to Class A and Class B | (164.118) | (79.399) | (27.026) | (42.225) | (64.601) | (511.471) | (645.323) | (184.368) | (197.519) | (184.608) | (133.604) | (700.099) | (289.262) | (99.035) | 227.575 |
| | | | | | | | | | | | | | | | |
| Diluted Earnings per Share | | | | | | | | | | | | | | | |
| GAAP Earnings per Share | ($1.60) | ($0.68) | ($0.21) | ($0.32) | ($0.49) | ($0.84) | ($1.86) | ($0.26) | ($0.28) | ($0.26) | ($0.18) | ($0.97) | ($0.39) | ($0.13) | $0.29 |
| **Pro forma Earnings per Share** | **($0.64)** | **($0.08)** | **($0.01)** | **($0.02)** | **($0.02)** | **$0.01** | **($0.05)** | **($0.04)** | **($0.04)** | **($0.02)** | **$0.05** | **($0.06)** | **$0.01** | **$0.40** | **$0.95** |
| | | | | | | | | | | | | | | | |
| Diluted Shares Outstanding | 102.544 | 117.401 | 131.196 | 131.196 | 131.196 | 612.211 | 251.450 | 709.331 | 716.424 | 723.588 | 730.824 | 720.042 | 749.278 | 770.052 | 785.569 |
| Pro forma Shares Outstanding | 102.544 | 449.900 | 702.307 | 702.307 | 702.307 | 702.307 | 702.307 | 709.331 | 716.424 | 723.588 | 730.824 | 720.042 | 749.278 | 770.052 | 785.569 |
| | | | | | | | | | | | | | | | |
| Other Metrics | | | | | | | | | | | | | | | |
| Free Cash Flow | (97.246) | (117.970) | | | (43.434) | (53.187) | (144.791) | 97.416 | (52.886) | (44.164) | 65.169 | 65.534 | 234.682 | 524.240 | 918.162 |
| Free Cash Flow per Share | ($0.95) | ($0.26) | | | ($0.06) | ($0.08) | ($0.21) | $0.14 | ($0.07) | ($0.06) | $0.09 | $0.09 | $0.31 | $0.68 | $1.17 |
| | | | | | | | | | | | | | | | |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross Profit Margin | 48.0% | 65.5% | 67.7% | 67.1% | 67.1% | 74.1% | 69.8% | 62.7% | 64.3% | 67.1% | 74.1% | 67.9% | 67.9% | 70.9% | 73.9% |
| Marketing & Sales as % of revs | 23.0% | 26.9% | 26.6% | 30.7% | 32.9% | 29.6% | 30.1% | 29.6% | 33.7% | 29.9% | 26.6% | 29.6% | 27.6% | 23.6% | 19.6% |
| Research & Development as % of revs | 43.8% | 33.6% | 34.2% | 34.8% | 34.5% | 28.0% | 32.2% | 33.2% | 32.8% | 32.0% | 27.0% | 30.8% | 29.9% | 24.9% | 19.9% |
| General & Administrative as % of revs | 39.8% | 15.4% | 13.1% | 11.0% | 9.2% | 9.4% | 10.3% | 10.1% | 8.0% | 10.2% | 10.4% | 9.8% | 8.6% | 7.6% | 7.7% |
| Total Operating Expenses as % of revs | 167.8% | 89.8% | 88.6% | 95.1% | 104.7% | 284.1% | 165.4% | 141.0% | 137.9% | 129.8% | 108.2% | 126.8% | 84.8% | 74.3% | 65.0% |
| GAAP Operating Margin | -119.8% | -24.3% | -20.9% | -27.9% | -37.6% | -210.0% | -95.6% | -78.3% | -73.6% | -62.7% | -34.0% | -58.9% | -16.8% | -3.3% | 8.9% |
| Non-GAAP Operating Margin | -63.0% | -16.2% | -9.6% | -11.7% | -11.7% | 4.7% | -5.3% | -13.0% | -12.4% | -6.8% | 8.7% | -4.2% | 0.8% | 14.3% | 26.6% |
| **Adjusted EBITDA Margin** | **-40.3%** | **6.7%** | **10.3%** | **6.9%** | **5.5%** | **18.4%** | **11.3%** | **5.6%** | **6.2%** | **12.3%** | **25.5%** | **13.9%** | **22.1%** | **33.7%** | **45.9%** |
| Incremental EBITDA Margin | 10.7% | 30.4% | 21.0% | 11.4% | 7.4% | 20.8% | 15.6% | 1.1% | 5.3% | 21.8% | 38.0% | 17.3% | 43.8% | 63.2% | 86.9% |
| Effective Tax Rate | 3.4% | 1.1% | 3.0% | 8.1% | 3.9% | -7.4% | -2.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Reported Net Income | -120.7% | -25.1% | -23.6% | -30.3% | -38.3% | -210.8% | -97.1% | -79.3% | -74.7% | -63.9% | -35.1% | -60.0% | -18.0% | -4.4% | 7.8% |
| | | | | | | | | | | | | | | | |
| Year Over Year Growth | | | | | | | | | | | | | | | |
| Advertising revenue | 961.5% | 246.7% | 125.8% | 113.0% | 123.5% | 120.9% | 120.7% | 108.5% | 96.2% | 72.7% | 61.5% | 79.4% | 39.5% | 41.4% | 30.9% |
| Data licensings revenue | 36.5% | 66.1% | 41.5% | 62.9% | 10.8% | 79.8% | 48.1% | 65.0% | 47.6% | 59.0% | 12.8% | 42.1% | 18.1% | 16.3% | 10.5% |
| **Net Revenue** | **276.0%** | **198.1%** | **110.5%** | **104.7%** | **104.8%** | **116.2%** | **109.8%** | **103.2%** | **89.8%** | **71.5%** | **56.8%** | **75.4%** | **37.7%** | **39.5%** | **29.7%** |
| Cost of Revenues | 55.9% | 97.7% | 60.6% | 86.9% | 91.9% | 90.7% | 83.8% | 134.7% | 106.0% | 71.5% | 56.8% | 86.4% | 37.5% | 26.5% | 16.3% |
| Gross Profit | -810.3% | 306.9% | 147.1% | 114.7% | 111.7% | 126.8% | 123.4% | 88.2% | 81.9% | 71.5% | 56.8% | 70.7% | 37.7% | 45.7% | 35.2% |
| PF Operating Income | 8.9% | -23.4% | -26.3% | 1.8% | 15.8% | -435.9% | -30.9% | 175.0% | 100.8% | 0.2% | 188.5% | 39.3% | -127.2% | 2288.0% | 140.3% |
| Adjusted EBITDA | -16.3% | -149.4% | -1442.3% | 524.4% | 217.9% | 154.7% | 256.4% | 10.8% | 69.0% | 282.7% | 117.2% | 114.8% | 118.7% | 113.3% | 76.5% |
| Reported Net Income | 90.6% | -38.1% | 25.6% | 53.1% | 199.2% | 5775.6% | 712.8% | 582.2% | 367.8% | 185.8% | -73.9% | 8.5% | -58.7% | -65.8% | -329.8% |
| GAAP Earnings per Share | 80.7% | -57.7% | 12.4% | 53.1% | | | 174.4% | 26.2% | -14.3% | -48.2% | -78.1% | -47.5% | -60.2% | -66.5% | -322.2% |
| Pro forma Earnings per Share | -10.2% | -87.8% | -40.7% | -3.5% | | | -37.5% | 146.0% | 77.3% | -0.2% | 236.1% | 14.3% | -121.2% | 3256.2% | 138.7% |

*Source: Deutsche Bank, Company Reports*

# Appendix 1

## Important Disclosures

### Additional information available upon request

| Disclosure checklist | | | |
|---|---|---|---|
| Company | Ticker | Recent price* | Disclosure |
| Twitter, Inc. | TWTR.N | 50.92 (USD) 21 Mar 14 | 1,7,8,14 |

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors.  Data is sourced from Deutsche Bank and subject companies

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*(as of 3/21/2014)*
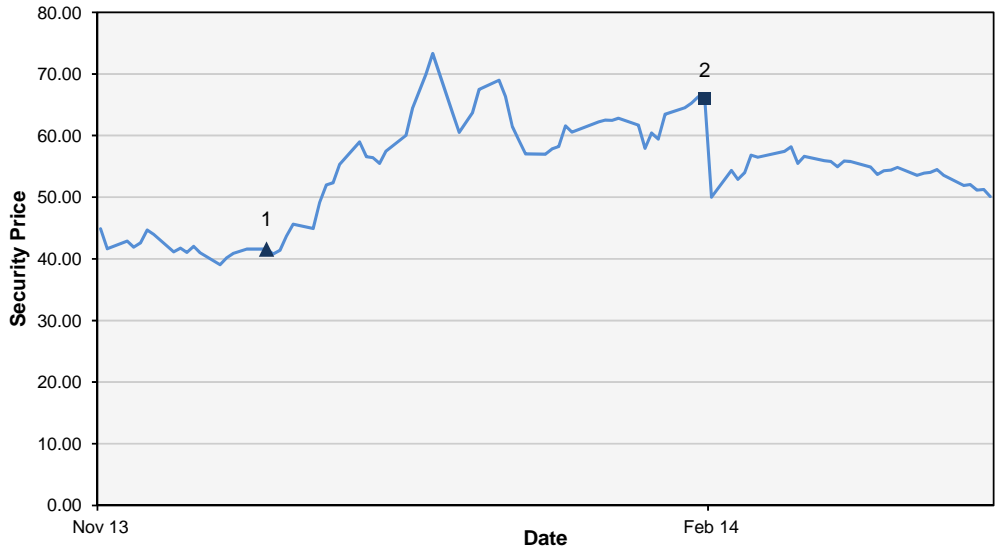


**Previous Recommendations**

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

**Current Recommendations**

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9,2002

| | | | | | |
|---|---|---|---|---|---|
| 1. | 12/02/2013: | Upgrade to Buy, Target Price Change USD50.00 | 2. | 02/06/2014: | Buy, Target Price Change USD65.00 |

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.
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> Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

## Equity rating dispersion and banking relationships



North American Universe
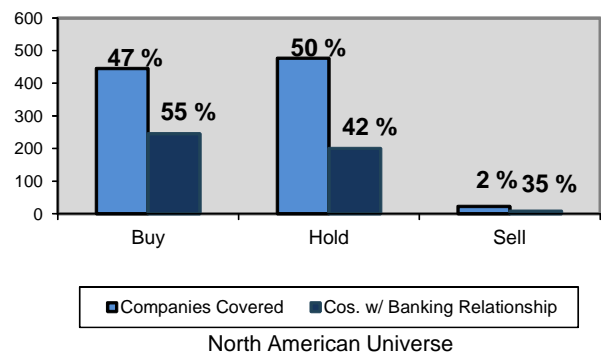
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