



Twitter Q3 Earnings: What to Watch

Description

Shares of **Twitter** ([NYSE: TWTR](#)) have been on a roll over the last 12 months, rising 35% year over year. This crushed the **S&P 500**'s 2% gain over the same time frame. The stock's gain comes as the company is seeing strong growth in monetizable daily active users and a sharp rise in advertising revenue.

In less than two weeks, investors will get to see whether Twitter has been able to keep up this momentum. While the [social network](#) is expected to report another quarter of double-digit revenue growth, the company's momentum should cool slightly as Twitter laps tough comparisons.

Here's a look at the key metrics investors should watch when Twitter reports results on Oct. 24.

Revenue growth

Twitter's [second-quarter](#) revenue rose 18% year over year in Q2, in line with the growth the company saw in its first quarter. The top-line performance was ahead of both management's guidance and analysts' expectations.

Twitter saw particular strength in the U.S. during the quarter, with U.S. revenue rising 24% year over year. U.S. advertising revenue, specifically, accelerated to a rate of 29% — up from 26% growth in the prior quarter. "Video ad formats continued to show strength, notably from our Video Website Card, In-Stream Video Ads, and First View ads," management said in the company's second-quarter shareholder letter.

For the company's third quarter, management guided for revenue to be between \$815 million and \$875 million. The midpoint of this guidance range implies 11% year-over-year growth. On average, analysts currently expect Twitter's revenue during the period to rise 15.3% to \$874 million.

Daily active users

While Twitter is primarily reliant on advertisers for its revenue, active users are ultimately the company's lifeblood. Without an engaged user base, advertisers would lose interest in Twitter's platform.

Fortunately, Twitter has seen increased user engagement recently, with daily active users rising 14% year over year in the company's second quarter. This is an acceleration from 11% growth in Q1 and 9% growth in the fourth quarter of 2018.

In the company's second quarter, investors should look for growth in this key metric to be in the 9% to 14% range it has hovered at for the last several years.

Operating income

Finally, users should check on Twitter's operating income. The company's investments in the health of the conversation on its platform, advertising products, sales, and its overall platform has put some pressure on operating income recently. Twitter's second-quarter operating income was \$76 million, down from \$80 million in the year-ago quarter.

Management expects investments will continue to weigh on profitability, as Twitter guided for operating income between \$45 million and \$80 million. This compares to operating income of \$92 million in the third quarter of 2018.

The company is scheduled to report its third-quarter results before market open on Thursday, Oct. 24.

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