

Three Takeaways from Twitter's Q1 2020 Earnings

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Twitter's Q1 earnings from last week beat Wall Street expectations on both user and total revenue growth. But ad revenue growth was flat due to a sharp decline in March. Here are three takeaways for advertisers.

March Revenue Declines May Be Sign of What's to Come

After [pulling its Q1 2020 guidance](#) in March and announcing that its quarterly revenues could drop, Twitter surprised investors on Thursday with a year-over-year total revenue growth rate of 3%. Worldwide ad revenues came in at \$682 million, which is essentially flat growth (0.4%) from \$679 million in Q1 2019. A strong January and February were enough to partially offset the 27% decline the company reported in its ad business between March 11-31.

The company said that the March downturn was “particularly pronounced” in the US, where Q1 2020 ad revenues reached roughly \$381 million. The US is Twitter's largest market.

Twitter didn't provide Q2 guidance, citing economic uncertainty due to the coronavirus pandemic. In the earnings call, however, CFO Ned Segal told investors that the March 11-31 timeframe can serve as a preview for what to expect for its ad business in April. That suggests that we haven't yet seen the full impact of the coronavirus pandemic and economic slowdown on Twitter's business.

In positive news, Twitter said that ad weakness in Asia—which includes its second largest market, Japan—began to subside by the end of the quarter. The region was the first hit by the coronavirus crisis, and many countries there started to ease business and travel restrictions in March. That could bode well for Twitter in the rest of the world, once economies in its other major markets begin to reopen.

But Twitter's ad business is heavily event driven, and event cancellations as a result of social distancing and stay-at-home measures have clearly hurt its bottom line. The continued suspension of major US sports leagues and postponement of the 2020 Summer Olympics will likely negatively impact its revenues in Q2, as well. When asked, Segal didn't comment on whether he expected advertising to pick up later in the year if sports return.

Direct Response Is a Top Priority

Direct-response advertising has been top-of-mind for Twitter **in recent quarters**, and it's become an even bigger priority given the current situation. By improving its direct response offering, Twitter said it hopes to increase its addressable market, "with more access to advertising demand that may be more resilient through an economic downturn."

Facebook has already been a strong direct-response performer for years, and **Snap reported in its Q1 2020 earnings** that direct response now makes up more than half of its revenues. In that sense, Twitter is playing catch up to its peers.

Twitter said it aims to accelerate its road map for direct-response advertising, beginning with improvements to its mobile application promotion (MAP) ad format. The new offering is currently being tested among a select group of advertisers, and the company said that there will be a phased expansion of the pilot.

Record-High Engagement May Be Temporary

Twitter reported that its worldwide monetizable daily active users (mDAUs) grew by 24% to 166 million in Q1 2020. That's the highest growth rate for the company since it started reporting mDAUs in Q4

2018. Twitter defines mDAUs as users who log in to their account at least once per day from Twitter applications that are able to show ads.

The social network said that it saw strong mDAU growth throughout the quarter, but that there was a "significant acceleration" in March. That's not surprising given that many people were using the platform to find information about the coronavirus as shelter-in-place measures were being implemented in many countries.

But there are signs that Twitter's usage gains may be short lived. By the end of March, Twitter said that the number of mDAUs had stabilized "as many people around the world settled into new routines."

It's also important to note that Twitter's mDAU figures are more a reflection of increased user engagement, rather than an influx of new users to the platform. That makes them difficult to compare with other social networks, such as Facebook and Snapchat, which also **reported strong usage gains in Q1.**

Our forecast for Twitter is based on monthly usage. We expect Twitter will have 53.5 million monthly users worldwide in 2020, up 0.3% from 2019.