

Twitter Removes Q1 Guidance—What Does that Tell Us About the Broader Digital Ad Market?

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With large sectors of the economy unable to do business as usual, many marketers have paused or changed media plans. In one potential early sign of the tough times to come for digital advertising, Twitter updated its guidance to investors earlier this week and announced that it expects to see a drop in Q1 2020 revenues, on a year-over-year basis, due to the coronavirus pandemic.

Back on February 6, 2020, Twitter had told investors it believed total revenues would grow between 4.8% and 12.5% on an annual basis in Q1 2020. Twitter has now rescinded that guidance and instead anticipates a slight decline due to COVID-19's impact on the global economic environment and, consequently, advertiser demand. Twitter went on to state that it saw strong growth early in the year.

What the Updated Guidance Means for Twitter's 2020 Performance

We'll make a few assumptions about Twitter's revenues so far in Q1 and look at two scenarios. Our assumptions in this analysis include:

- Prior to March 1, total revenues at Twitter were growing, according to guidance, between 4.8% and 12.5%. The change in performance that led to the revision in guidance occurred around March 1.
- Twitter was not expecting a significant amount of seasonality in its revenues that would have made March notably higher than January-February.
- All of Twitter's revenues are advertising-related. (About 87% of Twitter's revenues come from advertising on its platform, while 13% come from data licensing and mobile advertising it sells on third-party sites and apps. Most of that remaining 13% is either directly or indirectly related to the broader ad market.)

If Twitter revenues grew at 4.8% prior to March 1—the bottom end of its original guidance—revenues will need to decline by 9.7% between March 1 and March 31 on an annual basis to result in 0% annual growth for the full quarter. Twitter revenues would have to drop by 24.7% in March in order to result in a 5.0% decline for the entire quarter.

If Twitter's January-February revenues grew at the top end of company guidance (12.5%), March revenues would have to decline by 25.0% to end up with 0% growth over the full quarter. March revenues would have to be down by 40.0% in order to see a 5.0% decline for the full quarter.

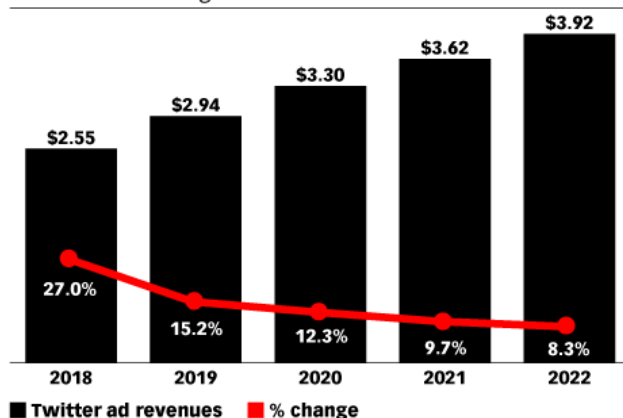
It is likely that Twitter's revenues will decline between 9% and 40% in March.

It's a fair assumption to make that Q2 revenues will look similar to—or even worse than—the last month of Q1, as industries beyond travel, hospitality, restaurants and retail begin to see economic effects stemming from COVID-19 and the related economic slowdown.

In our most recent forecast, finalized the first week in March, we estimated Twitter's worldwide net ad revenues would grow by 12.3% this year. We'll be updating these estimates in early June, based on Q1 financial reports, but if Twitter's updated guidance turns out to be correct, it's safe to say that we'll be revising these figures downward.

Twitter Net Ad Revenues Worldwide, 2018-2022

billions and % change



■ Twitter ad revenues ■ % change

Note: paid advertising only; excludes spending by marketers that goes toward developing or maintaining a Twitter presence; net ad revenues after company pays traffic acquisition costs (TAC) to partner sites; ad spending on tablets is included; excludes SMS, MMS and P2P messaging-based advertising

Source: eMarketer, March 2020

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www.eMarketer.com

What It Means for the Broader Digital Ad Market

What Twitter's updated guidance means for the broader digital ad market depends on how much of the social platform's decline is due to shrinking ad budgets and dollars disappearing from digital entirely. It also depends on how much is due to a shift in spend away from Twitter and toward other digital channels that are viewed as more essential. Platforms that are deemed more essential to advertisers than Twitter is will likely see lesser percentage declines in ad revenues, even though their dollar declines will be larger, simply as a result of their sizes and larger shares of media budgets.

Twitter makes up a small percentage of the digital advertising market and has lost US digital ad market share over the years, but every platform and publisher is ultimately facing the same macroeconomic situation.

Fortunately for Twitter and the industry, the broader macroeconomic situation is generally expected to turn around in Q3 and Q4 this year. Ad spending is seasonally stronger in H2, so a turnaround late in the year would have a disproportionate effect on maintaining ad spend growth.