



Twitter Q2 2021 Earnings Report
SAN FRANCISCO, CALIFORNIA
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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Twitter Second Quarter 2021 Earnings Conference Call. (Operator Instructions) I would now like to turn the call over to your host, Krista Bessinger, VP, Investor Relations. Please go ahead.

Krista Bessinger Twitter, Inc. - VP, Investor Relations

Thank you. Hi, everyone, and thanks for joining our Q2 earnings conference call. We have Jack and Ned with us today.

We published our Shareholder Letter on our Investor Relations website and with the SEC a couple of hours ago and hope that you've all had a chance to read it. As usual, we'll keep our opening remarks brief so that we can get right to your questions. As a reminder, we will also take questions asked on Twitter, so please tweet us at @TwitterIR using the \$TWTR.

During this call, we'll make forward-looking statements, including statements about our business outlook, strategies and long-term goals. These comments are based on our plans, predictions and expectations as of today, which may change over time. Our actual results could differ materially due to a number of risks and uncertainties, including the risk factors in our most recent 10-K and upcoming -- and 10-Q and upcoming 10-Q that will be filed with the SEC.

Also during this call, we will discuss certain non-GAAP financial measures. We reconcile those to the most directly comparable GAAP financial measures in our Shareholder Letter. These non-GAAP measures are not intended to be a substitute for our GAAP results. And finally, this call in its entirety is being webcast from our Investor Relations website, and an audio replay will be available on Twitter and on our website in a few hours.

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

Jack Dorsey Twitter, Inc. - CEO

Hello, everyone, and thanks for joining us. We did strong in Q2. Total revenue hit \$1.19 billion with ad revenue up 87% year-over-year driven by faster shipping cadence, strong sales execution and a broad increase in advertiser demand. Average monetizable DAU reached 206 million, up 11% year-over-year, in line with our outlook and historical seasonal trends.

We intend to build an ecosystem of connected features and services focused on serving 3 core jobs: news, which is what's happening; discussion, conversation; and helping people get paid.

Every single person in the world has some need for at least the first 2 and frequently the third. Building a model like this isn't easy or fast, and its deliberateness ensures resilience and ever-increasing global value.

There are 3 trends relevant to Twitter and you, our shareholders: AI, decentralization and the Internet finally having access to a global native currency in Bitcoin. All these will help us do our jobs better, and we intend to lead the way in each.

With AI and machine learning, we increased relevance and discovery, a long-standing issue on Twitter which we're improving every day from sign-up to in-app sessions. With decentralization, we increased the size of the corpus of conversation we have access to and improved conversational health by giving more power to individuals. And with the global currency, we can ensure people and companies can freely trade goods and services anywhere on the planet.

The ecosystem model will enable an experience for an individual or company of any size: can Tweet, reply, move to an audio chat, build a following, write a newsletter, charge for content and eventually sell a service or good all in one simple flow. Each part of this cycle will positively reinforce other parts and build upon itself. I've seen this work elsewhere, and it will work even more for Twitter.

Along the way, we're going to try things that end up not being a fit. We're going to be fast to recognize this and take action without hesitation, as we did with Fleets. There are better solutions to the problem we are trying to solve than the stories format everyone has adopted. Entirely new formats that are unique to Twitter and our model. This is what we're striving to create. Expect us to start and stop many more features than we have in the past.

That's all for me for now. I want to thank you all for your continued trust and belief as we do our work. Ned?

Ned Segal Twitter, Inc. - CFO

Thanks, Jack.

Before we get into Q&A, I'll cover a few topics.

As Jack noted, Q2 was a strong quarter, particularly for advertising. We exited March with momentum across both brand and DR. In April trends continued to improve with ongoing strength throughout the quarter across all major products and geographies.

A growing audience, better ad products, strong sales execution, global events and advertiser product launches all had a big impact on our performance. As a result, we exceeded the high end of our guidance range by 10% or approximately \$110 million. In our guidance, we equally weighted the slower start to the year that we saw in January and February in brand with the strong

return to brand spend that we saw in March, which was, in hindsight, too conservative. The impact of ATT on the second quarter was also more muted than we expected, although it's too early to assess the long-term impact.

mDAU grew 11% year-over-year and 3% quarter-on-quarter, in line with historical seasonal trends and the outlook we provided in April.

Within our global mDAU growth of 11%, our sequential growth in the U.S. may get some attention. Here are some context. In the 3 years prior to COVID, reported quarter-over-quarter growth for U.S. mDAU in the second quarter has ranged from 1 million up to 1 million down. So our performance this year is relatively consistent with this historical range despite an atypical backdrop, which includes lighter news cycles in the U.S. as well as the beginning of reopening across many communities, where consumer behavior likely has not yet normalized.

While it's too early to tell how people's behavior may change and as some economies reopen, while others are still struggling, I'd remind you that sequential growth for U.S. mDAU in Q3 over the last 4 years has ranged from flat to up 1 million, suggesting U.S. mDAU could be flat on a sequential basis in Q3 of '21. The good news is that we're confident in our ability to accelerate growth longer term, and in the near term, these same trends have been great for advertisers, with a return to global events, product launches and our better ad products all driving improved advertiser ROI and our ability to deliver strong results. And there are no changes to our thinking about mDAU over the course of the year. We continue to expect low double-digit year-over-year growth in Q3 and Q4 with the low point likely now behind us.

Given the momentum we're seeing as we enter the second half of the year, we're updating our thinking on investment and revenue. Our expectations for 25% or more expense growth in 2021 and revenue growing faster than expenses now appears too low. We are accelerating our investments and now expect the headcount, along with total costs and expenses, to grow 30% or more for the full year with a focus on engineering and products. As you'd expect, incremental headcount investments in 2021 will flow into our annual expense base in 2022.

With regard to revenue, we continue to expect total revenue to grow faster than expenses in 2021, assuming the global pandemic continues to improve, and that we continue to see modest impact from the rollout of changes associated with iOS 14.5.

You also may have noticed in our Shareholder Letter that we purchased \$334 million of Twitter shares in Q2, a little more than twice the amount we repurchased in Q1, reflecting the pullback in share price we saw in early May. We'll continue to be thoughtful and nimble as we move forward, likely varying our pace based on the operating environment, our capital needs and market conditions.

In summary, we're pleased with our results and the momentum we see as we enter the second half of the year.

And with that, we're ready to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ross Sandler with Barclays.

Ross Adam Sandler - *Barclays Bank*

You had a leadership change in the sales organization recently. So anything new we should expect from that group? Any increased focus on new areas? Obviously, a lot of momentum in your ad sales business right now. So any color there would be helpful. And then, Ned, just a little more follow-up on the U.S. DAU. I guess with all the product innovation going on right now, we're a little surprised to see that decline. So is that just kind of COVID burn-off impact? Or any other color you can give us on retention on that line?

Jack Dorsey Twitter, Inc. - CEO

Yes. So on the first part of your question, Matt has -- Matt Derella, who's leaving us after 9 years, has built an incredible team, including a leadership bench in Sarah, we have full confidence in Sarah's ability to continue to push that team and also has an amazing collaboration with our Head of Revenue Products, Bruce. And that's really what we're looking for, so no specific changes there. We're moving from kind of someone really strong to someone even stronger, and really excited about what Sarah will bring to our leadership team. Ned?

Ned Segal Twitter, Inc. - CFO

On the second part of your question, Ross, so one, I'd just point you to the typical seasonal trends that we've seen when you look past COVID -- or when you look before COVID where in '17, '18 and '19, we were somewhere between down 1 million to up 1 million or flat in the reported numbers. So this feels consistent with that. When you take that in the context of a slower news cycle in the U.S. and people coming out of shelter in place in many communities in the U.S. and you keep in mind that they likely haven't normalized their habits, those who -- for whom Twitter is a new part of their daily ritual and those who are already Twitter faithful, active people beforehand, I think it's too early to call exactly how it all plays out from here.

But when we look at all the product work that we're doing to make it easier for people to find what they're looking for, adding 2,500 topics this quarter including topics in the onboarding flow, giving people more control over who can respond to them and other initiatives such as those, we feel really good about our ability to hit that 315 million DAU number that we put out for the end of 2023 and to change the trajectory of the curve in between here and there.

Operator

Your next question comes from Doug Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan Chase & Co

One for Jack and one for Ned. Jack, can you just talk more about how you see Bitcoin becoming more deeply integrated into Twitter, particularly around some of the newer products like Super Followers and Spaces and how that can drive both engagement and monetization for Twitter over time? And then, Ned, just hoping you could talk more about your MAP and other DR ad product changes and how those are resonating with DR advertisers. I know it was a strong brand quarter, so it's probably early on moving that mix. But are you seeing an increase or inflection in scale of the advertiser base? And any commentary around MAP revenue? You've talked about acceleration over the last couple of quarters.

Jack Dorsey Twitter, Inc. - CEO

Yes. So obviously, I've been Tweeting and talking a lot about Bitcoin, and so I thought it was important that I explain a little bit more as to why in my opening remarks. I think -- not -- focusing on the use case of the Internet having native currency and that Bitcoin probably is the best -- actually known to be the best candidate for that role, that's what I think we should really focus on. If the Internet has a native currency, a global currency, we are able to move so much faster with products such as Super Follows, commerce, subscription, Tip Jar, and we can reach every single person on the planet because of that instead of going down on market by market by market approach.

I think this is a big part of our future. I think there's a lot of innovation above just currency to be had, especially as we think about decentralizing social media more and providing more economic incentive. So I think it's hugely important to Twitter and to Twitter shareholders that we continue to look at the space and invest aggressively in it. And we're not alone here. I mean look at what Facebook is trying to do with Libra or Diem, or I'm not sure what they're calling them right now. But there's an obvious need for this and appreciation for it. And I think an open standard that's native to one of that is the right way to go, which is where -- why my focus on -- our focus will then -- should be on Bitcoin. So I do think it allows speed. It allows a lot more innovation, and it really opens up entirely new use cases for everyone on Twitter. Ned?

Ned Segal Twitter, Inc. - CFO

Doug, on the second part of your question, a couple of things. One, when we think about an inflection point in terms of the number of advertisers on Twitter, that's in front of us. The work we're doing in SMB, which had another strong quarter, so far has been to help grow the spend from the existing customers while we put a pilot out for Business Profiles back in April, which so far is going well but more work to do there, and while we continue to make it easier for small businesses with the new version of Quick Promote to buy ads on Twitter and to help them understand the value proposition of doing so. In terms of MAP, we feel really good about our

progress there. With a revamped product out in February, we began to see some strong momentum there, and that momentum continued into Q2.

I'll give you a couple of fun facts. The streamers, as they continue to grow their business and launch new shows and get people interested in their services, they grew their spend over 40% sequentially with Twitter in Q2. We are piloting a playable ad format for gamers so that you can play a game inside of an ad. We have multi-destination carousels inside of MAP, so you can send people to different places. These are great examples of some of the innovation. When you add those up with a better age-based, better location-based targeting and the ability to show MAP ads to those folks who had limit ad tracking on before where we couldn't report on them earlier but now we can as a part of the SKAdNetwork, we made really good progress here and feel like we've got the wind at our backs on MAP going into the second half.

Operator

Your next question comes from Rich Greenfield with LightShed.

Richard Greenfield - *LightShed Partners*

I want to follow up, Ned, on that last question that you were just sort of talking about local. I think in the press release or in the, I guess, in the investor letter, there's like 175,000 sort of cities comment. And it seems like you called that out for a reason in terms of your ability to target. I think -- to your point, I think we're very focused on sort of how you expand local advertising. What was being done before? Like, were you not -- how many cities -- like what does that comment mean? Can you put it into context? And I'm curious if there's other things that you can look at that sort of tie to that in terms of like other things on the ad product side that you're doing or about to do that are starting to really make local advertising more appealing.

And then just a big picture question for Jack. We're seeing a lot more topics and topic suggestions, and it seems like you're getting increasingly specific with those topics that you're offering up. Could you just maybe give us a sense of sort of what you're learning and how you're adjusting? I know -- I think -- leaving Bitcoin aside, I think Topics has been one of the biggest things you've been focused on over the last couple of years.

Ned Segal Twitter, Inc. - CFO

Sorry. I'll start and then -- sorry. I'll start on the first part of your question. Rich, we feel like we get really unique and differentiated signal in how people are using our service. When they follow one of the 9,500 topics -- we've got 2,500 more topics this quarter. As we get from 9,500 to many, many more topics, we get great signal about what people are most interested in, where they are or the places they care about that might not even be where they are today. Leveraging that signal for small businesses to find their customers, whether those are small businesses that have a distributed customer base or those that are local to a specific market, we think can really help us help small businesses find their customers in a differentiated way.

So the cities, I think that plays out for Topics over time. It plays out right now in terms of how we can help an advertiser target their customers or people who are in a given location. We've made improvements to our age-based targeting as well. These are things that help large advertisers as well as the smallest advertisers. I know when you look at why you see an ad and you see that it's either because you're in a state or in a country or you're a certain age, we're getting better and better at helping advertisers find their customers this way. And this quarter is an example of some of the impact that we're seeing from that.

Jack Dorsey Twitter, Inc. - CEO

And on what we're learning from Topics, we continue to understand how important it is to our service, both sign-up and also within the app and the experience and how great a foundation it is for everything that we want to do, including newer things like Spaces, which are very, very topic-focused. And as we dig into conversations even more, usually, those Spaces are focused on one particular topic. But sometimes, they break into many. And being able to understand how that is and also create snippets of the conversation allows for more content around those interests and people hopefully get more and more value. We continue to add more topics, more languages. But I think the important work to look forward to is how we use this as a foundation and move away from just purely a broadcast mechanism and into more of a narrowcasting mechanism where people can not only get a very specific view on the topic and interest in the world, but also participate in a room that feels much smaller than speaking to the whole world, which is one of the reasons...

Richard Greenfield - *LightShed Partners*

So are you talking about Spaces, or you're talking about -- are you talking about Spaces specifically when you say narrow, or you're talking more broadly?

Jack Dorsey Twitter, Inc. - CEO

More broadly in the narrow end. Narrowcasting is the use case that we want to solve, and Spaces is one example of that, but Spaces can also be used for a broadcast like this.

Ned Segal Twitter, Inc. - CFO

Rich, remember back to the Analyst Day where we talked about communities and over time, the ability for people to Tweet directly to a community as an example. Think about an advertiser leveraging that community. There's a guy at Twitter who tTweets about cookies a lot. And some people may not be interested in those Tweets...

Richard Greenfield - *LightShed Partners*

[Nabisco].

Ned Segal Twitter, Inc. - CFO

And some people may not be interested in those Tweets just because he's the CFO of Twitter. It'd be cool if he could Tweet to the cookie community and spare the rest of you his cookie Tweets

and there'd be a target-rich environment for people who wanted to buy chocolate chips or other things like that. I'm sure you can think of a few other relevant examples, too.

Richard Greenfield - *LightShed Partners*

Absolutely. Thanks for putting a little bit of a frame around that. That's helpful.

Operator

Your next question comes from Mark Mahaney with ISI.

Mark Mahaney -*Evercore ISI Institutional Equities*

Two questions, please. Could you talk about what impact you would expect the Olympics to have on your outlook? What's embedded in there? I know from time to time you have called out events like World Cup contribution. So just talk about what the impact, I guess, of a crowd-less Olympics is likely to be this year. And then your commentary about IDFA or the Apple changes, it almost seems like your outlook is a little more muted than what we hear or a little less uncertain than from other advertising platforms. Are there particular reasons why you think that the IDFA impact would be more certain, would be clearer for you than it would be just maybe to your advertiser base with the type of formats? Just any color on that would be helpful.

Ned Segal Twitter, Inc. - CFO

Okay. Thanks, Mark. So first, on the Olympics, we're really excited about the Olympics, one, from an audience perspective. This is just a great way to engage people who use Twitter where they - - because they're going to be able to come to Twitter and find the medal moments right after they happen. The highlights will be there. There will be pre-roll in front of them from advertisers who've been waiting for this opportunity to connect with their customers around a big global event like this. I'd point you back to last year where there were a lot of events that happened where fans weren't in the stands. Twitter took the place of the stand. It was the roar of the crowd. It was one of the fewer places where advertisers could connect with their customers and know that they'd be there. So we've been working hard to make sure that this can be a success for us. It's going to be an Olympics unlike any other, and it's still uncertain exactly how it plays out.

We haven't broken it out in terms of how we'd quantify it. We tend to do that less these days because it -- you've got to judge how much of spend is truly incremental. There's some subjectivity in that, and I don't think we'd do it justice. But when we step back from the dollars and the specific audience on a given day, this is a great opportunity to showcase for people how much better Twitter is from the last time they came, if that was the World Cup or the Olympics or a different event as opposed to them having Twitter as a part of their daily habit. And the same thing is true for advertisers. So we're really looking forward to the Olympics getting going with the opening ceremonies here shortly.

The second part of your question on ATT or IDFA, so far, we're pleased with what we've seen, but it's too early to call a long-term trend. I'd point you to a few different things. The first is we've

worked really hard as long as the company has been around to build trust with the people who use our service. Hopefully, that means that when they're prompted from Twitter and we give them a really clear explanation of what we're asking, hopefully that means they're more likely to accept the prompt from us than they might be from others.

Second, we worked really hard to implement the SKAdNetwork, to give that data to third-party measurement partners, to now show MAP ads to people who have limited ad tracking on, to continue to work on ways that we can help attribution with -- in a post-cookie world. I think all these things are helping us a bunch with advertisers and with the people who use our service. But given it's really not been that long here, not everybody's upgraded and agencies and advertisers and the broader ecosystem likely hasn't fully adjusted yet, we're going to have to wait and see how this plays out completely.

The last thing I'd point out is just remember, at the end of last year, we were 85% brand, 15% DR, and there's still lots of opportunity for us to better leverage first-party signal than we historically have. And so we're probably coming at this from a different angle than many other ad platforms are, and we see opportunity where others may see it differently.

Operator

Your next question comes from Justin Post with Bank of America.

Justin Post - BofA Securities

Great. Maybe one more on U.S. DAUs in the quarter. Any change in your top-of-funnel conversion to DAUs? What kind of drove the quarter-over-quarter decline? Is it just less people coming at the top of the funnel or maybe less repeats? And then, Ned, you reiterated your view on 315. It sounds like you're confident. Can you just remind us what gives you that confidence? Is it the usage you're seeing for new products? Or as you look at the pipeline of products that are coming out, do you feel optimistic on that? How do you feel about what's going to be -- really drive U.S. users from here?

Ned Segal Twitter, Inc. - CFO

Justin, first, on DAU. So when we step back and look across geographies, across times of year and how people are coming to Twitter, it's been remarkably consistent and healthy. So we're getting a lot of at-bats. It evolves from one geography to another at different points in the year, but overall, continues to be really healthy. In the U.S., as new cycles come and go, as habits evolve post COVID hopefully, it's -- people are still merging their old -- their pre-COVID habits with their new habits. Many -- for many people, that means that they're new on Twitter, and they're sorting out all kinds of different things that have changed in their lives. So we're not sure exactly how that plays out. But when we look at Q2, we continue to see healthy usage of service. And the DAU trend, since it was consistent with what we saw pre-COVID, we're not sure there's that much to read into it just yet.

Justin Post *BofA Securities, Research Division - MD*

Okay. And then on...

Ned Segal Twitter, Inc. - CFO

The second part of your question -- sorry. And then in the second part, Justin, you're asking about the 315. When we look at the 7 billion people in the world who don't yet use Twitter, when we look at the 300 million of them who are in the United States, we still see lots of opportunity to add whole groups of people who look just like those that use the service today, whether they're in the U.S. or in other parts of the world. And when we think about our product road map, it's designed to help all of them get better usage out of Twitter than they do today. That top of funnel, which continues to be healthy and consistent, gives us confidence that we're getting the at-bats and we just have to continue our work to help people find what they're looking for and feel safe being a part of the conversation.

Krista Bessinger Twitter, Inc. - VP, Investor Relations

Thank you. And we're going to take our next question from Twitter. It comes from the account of @TyLanceJones. And he asks, "When does Twitter plan to roll out Twitter Blue globally? And are there any plans for other subscription-type offerings for things like TweetDeck?"

Jack Dorsey Twitter, Inc. - CEO

Yes. So we want to do our -- we want to learn as much as possible and learn as quickly as possible. And so we started with 2 markets that we felt confident we would optimize for learning. We started with an initial package of features. Again, something small so that we could test a bunch of theories and then build upon. So what we're attempting to do right now is like try to make sure that we find the right products that we feel comfortable rolling out to the entire world and feel comfortable charging for it.

And of course, everything is on the table in terms of what we're looking at. Certainly, there's categories for individuals who want features, and there's also categories of -- features for businesses or people who are trying to make money off of Twitter that we think point to a pretty significant bundle as well. So we're still in the learning phases. We're moving as fast as we can, but we want to make sure that before we roll it out everywhere that we have something compelling that people actually want to exchange their hard-earned dollars for.

Krista Bessinger Twitter, Inc. - VP, Investor Relations

Thank you.

Operator

Your next question comes from Maria Ripps with Canaccord.

Maria Ripps - *Canaccord Genuity Corp*

It seems like SMB is clearly a focus area, and it's nice to see sort of accelerating revenue growth within that cohort and enhanced functionality. Is there any more color you maybe can share on what the road map looks like on that front, whether it be types of placements you're exploring for this group of advertisers or sort of expanding sales headcount that is focused for -- on this segment? And then I have a quick follow-up.

Jack Dorsey Twitter, Inc. - CEO

Yes. Small businesses are really important to us. There's a lot that we're doing foundationally to make sure that we're serving them better, including all of our focus on Topics. A big part of that focus is local as well. This is critical for any small business to be able to follow like my neighborhood and also see the neighborhood businesses within it. So from a consumer perspective, we're doing a lot. But also, on the revenue product side, we launched the rebuilt Quick Promote offering where location, age and gender targeting as well as redesigned the workflows. So a lot of what small businesses need or just something simple and straight forward so they can get back to building their business up.

But this change alone drove a 26 increase in revenue per campaign versus before the launch. And then we launched a pilot of professional profiles for businesses, nonprofits and publishers and other professionals so that people can sort of know exactly what type of accounts they're engaging with and that they might be engaging with a business or a nonprofit, which also may lead to more tools for that business or nonprofit as well.

Maria Ripps *Canaccord Genuity Corp., Research Division* - Analyst

Great. And just to follow up on IDFA, is there anything you can share on how CPMs trended for iOS versus Android users during the quarter?

Ned Segal Twitter, Inc. - CFO

Maria, we haven't broken that out in the past. I do think even if you've got a data point around it, you may -- it may be too early to draw a straight line between data points. There's just a lot that advertisers, agencies, the broader ecosystem, I think, will do in the coming quarters to adjust to the different data that they've got when they make decisions about where they advertise and how they measure success of their advertisements. And so there will be near-term movements and there would be anecdotes to support lots of theories, but I think it's just going to take a little time here. When we step back from it, we feel really good about how we've shown up so far and our ability to continue to leverage -- do a better and better job leveraging our unique first-party data when we're helping advertisers on Twitter.

Operator

Your next question comes from Brian Nowak with Morgan Stanley.

Brian Nowak - Morgan Stanley

I have 2. Suddenly, the U.S. DAU, yes, it's getting a lot of attention. Maybe one way to sort of clear that up a little bit. Could you just help us understand a little bit what's going on, on time spent per user per day or time spent in the parts of the world that are a little more reopened? Maybe the engagement trends are more important than the actual number of people. So help us on time spent a little bit, if you could. And the second one, just to go back to Justin's question earlier on the forward drivers of U.S. DAU. It is 300 million-ish Americans. There's a lot of them who are not on the platform. What are sort of like 1 or 2 of the key hurdles you think you really need to overcome to convert more of those Americans to use the platform more regularly?

Ned Segal Twitter, Inc. - CFO

On the first part of the question, then I'll turn it to Jack on some of the opportunities in the product work. We haven't broken out time spent, Brian. We don't solve for time spent. We solve for giving people a great experience on Twitter. If they come looking for a highlight, they come looking for a conversation or they're looking to get informed about a broad array of topics, we want to solve what they're looking for and then help them get on with whatever they were doing before. If we do that, they'll come back to Twitter the right amount, and we'll continue to build trust with them that we can solve what they're looking for when they're looking for it. So I'm not sure that time spent would help as much. I'd just keep watching that DAU number because as we continue to grow that through -- continue to improve the product and make sure that when the events and topics that are happening will bring people to Twitter that we're doing a better and better job for them, that DAU number is going to be the best way to measure success. Let me turn to Jack on the second part of the question.

Jack Dorsey Twitter, Inc. - CEO

I think the biggest opportunity that we have in the U.S. and also globally is around reconsideration. And when people see a Tweet or when they see a discussion around the topic that they're coming to our service and they're finding something else, they're finding something else that interests them. And now that we have a much broader base of topics, the algorithms are better in terms of finding the most relevant, and we have different formats which we can serve these topics on, such as Spaces. And as we explore more and more of that narrowcasting use case, this gets even stronger. That, I think, is a really strong reconsideration, especially when it's tied to events like sports and obviously, news events as well.

So we're looking for much more removing a lot more friction from onboarding and re-onboarding and the sign-up flow itself or the re-sign-up in many cases to make sure that when people come in for one reason, however small that is, that they're seeing a much broader universe that's a lot more relevant to them than it was in the past when they followed one account and only found 1 or 2 relevant Tweets on an episodic basis. So now we have a much better chance of doing that. It's just making sure that we get the right entry path.

Operator

Your next question comes from Deepak Mathivanan with Wolfe Research.

Deepak Mathivanan - Wolfe Research, LLC

I wanted to ask about Fleets. The (inaudible) engagement has proven to be very successful on other platforms. What was the challenge for Twitter to make the decision to shut it down? And then related to that, you tested ads there for a few days, and we saw some big brands advertise there. Is there an opportunity to bring those ads full screen into news feed or other areas of the app? Given the better form factors, it feels like the ads actually have a premium pricing. Just wanted to get your thoughts there.

Jack Dorsey Twitter, Inc. - CEO

Yes. The original problem we were trying to solve was -- with Fleets was around ephemeral and helping people feel comfortable sharing something that they don't have to worry about being on the public records forever. We chose the stories format because it was understood, because so many platforms have adopted it from Snapchat. But it wasn't really a fit, and it caused a little bit of confusion between the purpose and the job of what a fleet is and a general fleet. So in solving that problem, I think we can do a much better job. And I think we can do it with a format that is unique to Twitter, which is important because it will help grow a lot more of our ecosystem instead of just playing catch up with a format that tends to constantly evolve based on visual cues rather than like really going after the jobs that we're trying to solve.

So we wanted to make sure that we're acting without hesitation when we see something not exactly a fit. We could have kept it for many more years and made it work, but I'd rather spend the time on stuff that's going to be very unique to Twitter and really move the needle for us and it wasn't that.

Ned Segal Twitter, Inc. - CFO

Deepak, I'd just add, we don't need Fleets in order to use more of the screen to help advertisers connect with their customers. And so when you see us testing ad formats, you should think about the broader opportunity we have to leverage that innovation in other ways to help advertisers. And we're excited about how that can play out in the coming quarters.

Operator

Your next question comes from Rob Sanderson with Loop Capital.

Robert Sanderson - Loop Capital Markets

This is for Ned. Ned, I want to maybe dig a little deeper on your revenue durability efforts, specifically, the business models around some of the new opportunities here, understanding we're at the starting line, of course, and just helping -- looking for help framing the longer-term opportunities that -- Twitter Blue seems fairly obvious, but the new products for creator monetization. Should we assume these are revenue share opportunities for Twitter? I guess they

might be. Will there be revenue in the near term? Is the initial focus more on building awareness and adoption and the revenue model will develop over time? That's question one.

And how should we think about the potential here? We look at across the Pacific, and things like gifting are very significant revenue contributors to the Chinese social networks. And we're in a culture where people obviously want to compensate great services. So I can see some match here. How should we think about that and the revenue impact of these types of new products scale up over time? And kind of along these lines, rounding up the business model considerations, do you think these things would have fairly marginal costs assuming they're booked on a net revenue basis? But what kind of framework can you provide, again, at the starting line here, just to think about just the business model considerations as some of these services hopefully catch and grow into meaningful contributors over time?

Ned Segal Twitter, Inc. - CFO

Thanks, Rob. That's a great question. I think the most helpful framing would be for you to consider that if we're creating the value, then the customer would be paying Twitter and the value would accrue to us. This would be for something like TweetDeck or the features that we put in Twitter Blue, which will continue to evolve as we test and learn. If the creator is creating great content and you see it in Super Follows, or it's just a Tweet and somebody puts money in their Tip Jar, or it's long-form content that we include in a different price point for a subscription without ads that's complemented with other features that come from us, then we would make sure that the -- part of the value that can be attributed to the creator where those dollars go to them and we're facilitating a transaction.

If we do that, we're going to help creators build and nurture and grow their follower base on the service. They'll continue to create great free content, and they will also create great paid content as well. And if there's lots of good things happening on Twitter, there'll be great ways for us to monetize the service, whether it be ads, subscriptions or otherwise. So think about the helping creators as a way to make sure there's great content on the service and to make sure that those creators get paid and that they can find their customer base and think about the other services where we're providing the value as a way for us to exchange value with what the customer instead.

Operator

Your next question comes from Brent Thill with Jefferies.

Brent Thill - Jefferies

Ned, just on pricing, I'm curious if you could just frame first half versus second half and your expectations on overall pricing. And anything surprising you that maybe you didn't see in your crystal ball a quarter back?

Ned Segal Twitter, Inc. - CFO

Thanks, Brent. First, on the crystal ball, I wish we had one. We definitely incorporated too much at the beginning of the quarter into our guidance when we guided for Q2, where we got off to a slower start in terms of brand in January and February and March, we saw strength and we equal weighted them in the guidance. And that strength from March really continued throughout Q2. So, so much for the crystal ball. On the second part of your question about pricing. There are lots of different factors that play into pricing. And so as you've seen in the past with us, if you go back to 2018 as an example, there are times where cost per engagement can go down dramatically and revenue growth can be pretty significant.

And I point that out because as you think about the mix of brand versus DR, as you think about what the threshold is for something to be a click, we're now actually at the point where more than half of the videos that you see on Twitter in ads are 15 seconds or less. It's taken us a long time to get there. The likelihood that those -- that we and -- that we get paid for them, that the advertiser realizes their objective is higher than it is for longer videos typically. This is a great example of something that can throw a wrench in comparables when you look at ad engagements or cost per engagement.

And so I'd focus less on the pricing and more on the return on investment for the advertiser. And when we're improving at the age-based targeting, location-based targeting, improving the formats, growing the audience and hopefully over time continue to see a mix shift towards DR from brand, that -- there are lots of ways that, that can play out well for advertisers. Some of them include pricing being higher, but others where pricing is meaningfully lower and they're just getting more reach and more return and therefore invest even more against our growing audience.

Operator

Your last question comes from Mark Shmulik with Alliance Bernstein.

Mark Shmulik - *Sanford C. Bernstein & Co.*

Ned, just a quick follow-on to the last answer. I think in the Shareholder Letter, brand was -- exceptional momentum was referred to. And if we think about ways to dimensionalize that, is it a lot of it ties to kind of upfront and these advertisers coming back with events? Is it some of these new formats that are appealing and growing share of wallet? Or is it new advertisers coming on the platform for the first time ever? Any color you can share on what's driving that momentum?

Ned Segal Twitter, Inc. - CFO

Boy, it's a lot of those things that's driving the momentum. It's been less about new advertisers and more about growing our share of wallet and those advertisers spending more than they had in previous periods broadly and hopefully as well on Twitter. Over time, we do think we can grow the number of advertisers on our service both because we can show incredible value proposition to lots of medium-sized advertisers who haven't historically advertised with us, where our sales team can continue to do a great job growing the dollars spent by some small businesses. But also

where the work we're doing around Topics, the work we're doing around Quick Promote, the work we're doing to make it easier to buy ads and see the return from those ads for small advertisers will help us meaningfully grow the number of advertisers.

There are millions of small businesses on Twitter today, but most of them don't yet advertise because we haven't made a good case to them what the value proposition is or made it easy for them to do it. So I think the benefits of growing the advertiser base are in front of us. And the strength that we're seeing today is about that larger audience with better ad formats, with more relevance, with a really strong macroeconomic backdrop of events coming back, more product launches and a lot of that to come in the second half of the year as well.

Operator

This concludes the Q&A session. I will now turn the call back over to Ned Segal for closing remarks.

Ned Segal Twitter, Inc. - CFO

All right. Thanks for joining us, everybody. We appreciate your interest in Twitter, and we look forward to speaking with you next quarter when we report earnings for Q3 on October 26 after the market closes. Until then, we'll see you on Twitter.

Operator

Ladies and gentlemen, thanks for participating in today's program. This concludes the program. You may all disconnect. Have a good day, everyone.