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Twitter's Revenue Sharply Rises, but Its Usage Stalls

By VINDU GOEL OCT. 27, 2014

SAN FRANCISCO — Dick Costolo, Twitter's chief executive, has been sprucing up the social network this year. So far, however, the renovations don't seem to be flashy enough to bring in many newcomers or persuade the veterans to return more frequently.

Wall Street has been disappointed by the slow pace of improvements, with investors sending Twitter's stock down 11 percent Monday evening after the company reported meager growth in sign-ups and usage during the third quarter.

"The lack of growth there comes from Twitter's relative lack of innovation," said Nate Elliott, an analyst at Forrester who studies social media. "The experience on Twitter today is the same experience people have always had on Twitter."

Mr. Costolo, too, said he wanted the company to innovate more quickly.

"We have to continue to grow our monthly active users and make it increasingly a daily use case for them," he said during a webcast with investors to discuss the financial results. "It's more critical than ever to increase our overall pace of execution."

In an interview, Mr. Costolo also emphasized the long view. He said the microblogging service, which consists of a stream of 140-character messages, is trying to provide something useful to three very different audiences: the daily Twitter user, the casual visitor who comes to the site through a web search or the home page, and the person who simply views a tweet embedded in a news article or app.

"You want to create scalable experiences that work for all kinds of different users," he said.

In its financial report, Twitter said that 284 million people logged into its service at least once a month during the third quarter, up 4.8 percent from 271

million in the second quarter. But it attracted fewer new users during the three months than it did in the first or second quarters.

Usage of the service by existing customers has also stalled. On average, regular users pulled up their Twitter feeds slightly less frequently than during the previous quarter. And the company disclosed that in its top 20 markets, fewer than half of Twitter's monthly visitors check out the service daily.

That's roughly unchanged from a year ago, when Twitter filed its paperwork to sell stock to the public, and well below the 63 percent daily usage reported by Facebook, the largest social network.

In essence, Twitter's efforts to attract and retain users, from simplifying the sign-up process for newbies to better organizing tweets about big events like the World Cup and the National Football League's season, have not yet yielded significant benefits.

"Investors want to know, what's your long-term vision?" said Robert Peck, an analyst with SunTrust Robinson Humphrey, who was one of the earliest bulls on Twitter's prospects. Although he is still a fan of the company, he said there were many questions, and so far, few answers. Mr. Peck is hopeful that Twitter executives will share more about the company's plans in mid-November, when it holds a one-day meeting with Wall Street analysts.

Twitter's revenue, most of which comes from advertising, increased sharply in the third quarter. Revenue more than doubled to \$361.3 million, compared with \$168.6 million a year ago, exceeding Wall Street's projection of \$352 million.

The company said it collected \$1.77 in ad revenue per 1,000 users, its highest level ever and up 83 percent from last year's third quarter. Twitter recently expanded its options for marketers to buy video ads and ads inside other companies' mobile applications.

Twitter is still losing money as it spends hundreds of millions of dollars on stock compensation for its rapidly growing work force. In the third quarter, its net loss was \$175.5 million, or 29 cents a share, compared with a loss of \$64.6 million, or 48 cents a share, in the period a year earlier.

Excluding those compensation costs and certain other expenses this year, Twitter earned a profit of 1 cent a share, meeting analysts' expectations. Twitter also raised its financial projections for the fourth quarter, predicting revenue of \$440 million to \$450 million and adjusted profits of \$100 million to \$105 million.

That was below the expectations of some Wall Street analysts, contributing to the drop in Twitter's stock in after-hours trading.

Despite Twitter's difficulties in increasing use of the service, it has been far more successful at increasing ad revenue. Anthony Noto, Twitter's chief financial officer, said that the company was showing users far fewer ads than competitors. "We have magnitudes of upside there," Mr. Noto said in the webcast.

Mr. Costolo said that Twitter would find ways to make money from casual visitors to the site as well as those who see tweets on other platforms. "We absolutely believe we'll monetize that experience," he said in the interview.

Mr. Costolo also wants Twitter to become an essential tool supplier to mobile app makers everywhere. Last week, the company unveiled Fabric, a set of tools that developers can use to make it easier to build apps and incorporate Twitter content and advertising into them. "We're trying to provide simplicity to the mobile app developer," he said.

Mr. Elliott, the Forrester analyst, said Twitter needed to take a page from Facebook and be more aggressive about improving the user experience.

"Facebook is constantly looking for ways to get people back on their site," he said.

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