

With staff cuts, Twitter sees road to profit (Update)

October 27 2016



Twitter has reaffirmed its strategy to drive growth after failing to find a buyer

Still losing money and without a merger partner, Twitter said Thursday it sees a path to profitability as the struggling social network unveiled job cuts as part of a reorganization.

The messaging platform said it would cut nine percent of its workforce after another money-losing quarter, but suggested it could reach profitability for the first time next year.

"We have a clear plan, and we're making the necessary changes to ensure Twitter is positioned for long-term growth," chief executive Jack Dorsey said.

However, analysts remain skeptical about the company's outlook for expansion, expressing concerns about its ability to entice users beyond its core base.

Twitter reported a net loss for the quarter of \$103 million, compared with a \$132 million loss a year earlier. Revenues meanwhile grew eight percent to \$616 million, mostly from advertising.

The key metric of monthly active users rose only modestly to 317 million from 313 million in the prior quarter—a growth pace that has prompted concerns over Twitter's ability to keep up in the fast-moving world of social media.

The restructuring "is intended to create greater focus and efficiency to enable Twitter's goal of driving toward (net) profitability in 2017," the company said.

Twitter was widely reported to be in talks to find a buyer, and has held meetings with Google parent Alphabet and cloud computing giant Salesforce.

But no deal materialized, with Salesforce saying Twitter was not a good fit for the group.

Separately, Twitter said it would discontinue its looping video application Vine in the coming months while adding that users would "still be able to watch all the incredible Vines that have been made."

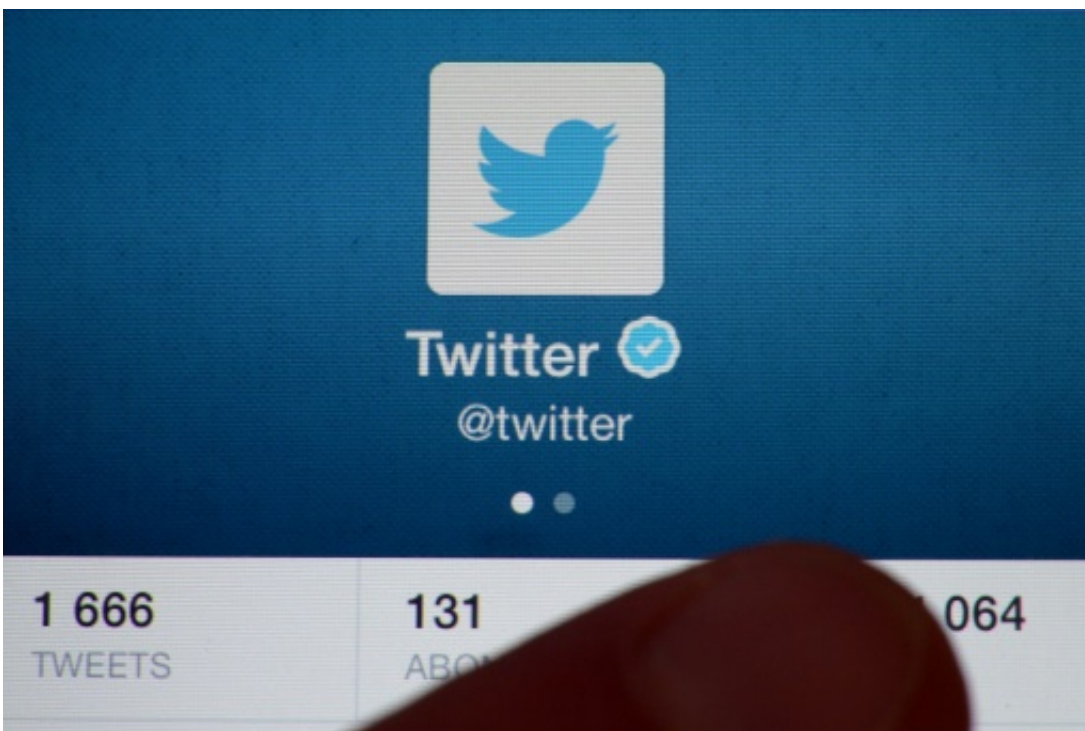
'Trending positive'

Even though Twitter has never posted a profit, Dorsey said the latest quarterly results show upbeat signs.

"The key drivers of future revenue growth are trending positive, and we remain confident in Twitter's future," he said.

The cuts would amount to about 350 jobs based on the Twitter website's headcount of 3,860 employees worldwide. Twitter will incur a charge of \$10 million to \$20 million for the reorganization.

Twitter shares got an early lift after the results—which topped most analyst forecasts—and after a financial blog reported that Walt Disney Co. had reopened talks on an acquisition. They ended up a modest 0.64 percent at \$17.40



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Dorsey declined to comment on speculation about a sale during a conference call with analysts, saying only that "our board is committed to maximizing long-term shareholder value."

Although Twitter's 2013 public offering was among the sector's most anticipated, shares have been slumping after only a brief rise. The company's market value is about \$12 billion based on its most recent share price.

Dorsey, one of the messaging platform's co-founders, returned as CEO last year as part of an effort to revive growth.

Twitter has since added new services such as live video, including partnerships with major sports organizations and new advertising options. It has also drawn large audiences for events such as the US presidential debates and NFL football games.

"This strategy is working," Dorsey said, claiming that Twitter "hit an inflection point" in the second quarter.

Analysts cautious

Still, analysts remain cautious about Twitter's ability to break out of its rut and accelerate growth. It is far behind Facebook, which has an audience of more than 1.7 billion, and Facebook-owned Instagram, with some 500 million.

While Twitter is popular among a core group of celebrities, politicians and journalists, it has failed to expand beyond that base.

"They are pretty close (to profitability) and if they cut expenses and

maintain revenue, that should lead to profitability in a year," said Roger Kay of Endpoint Technologies Associates.

"But I don't know if that's enough to overcome the expectation in the stock price, which reflects belief in a much faster-growing company."

Jan Dawson at Jackdaw Research said the reorganization may not be enough to fix Twitter's problems.

"Twitter keeps going with this same old terrible brokenness for new users, despite repeated promises to fix things," he said in a blog post. "This, fundamentally, is why Twitter isn't growing as it should be, and why people are losing faith that it will ever turn things around."

But Brian Wieser at Pivotal Research Group said the results showed "signs of life" for Twitter and maintained a buy rating.

"The current quarter results were ahead of expectations and user figures provided some promising elements as well," he said in a note.

The research firm eMarketer estimates Twitter's share of US social network users will decline to 28.1 percent this year and continue to drop through 2020 as it loses users to Snapchat, Instagram and other messaging apps.

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Citation: With staff cuts, Twitter sees road to profit (Update) (2016, October 27) retrieved 25 April 2024 from <https://phys.org/news/2016-10-twitter-staff-plots-growth-strategy.html>

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