

Twitter has become the Harvey Weinstein of Social Media – New Price Target - \$20

Amnesty International Study makes Twitter “Toxic” to investors and advertisers.

While Wall Street was focused on Facebook being down 7% on a New York Times article citing potential government regulation and criticizing their privacy controls, the real story of the day in the world of social media was more startling and disturbing.

Amnesty International has concluded that Twitter is an abuser of human rights and has become a place that is “toxic” for women, noting that women are abused every 30 seconds on Twitter. The study focused on 800 female journalists and politicians to show the culture of hate that underpins Twitter.

Citron has been following Twitter for years and when we read the just published piece from Amnesty International, we immediately knew the stock had become uninvestable and advertisers will soon be forced to take a hard look at all sponsorships with Twitter.

As quoted from an Amnesty Senior Advisor:

“We have built the world’s largest crowdsourced data set about online abuse against women... Twitter is a place where racism, misogyny and homophobia are allowed to flourish basically unchecked.”

Amnesty went on to state:

"Twitter’s failure to effectively tackle violence and abuse on the platform has a chilling effect on freedom of expression online and undermines women’s mobilization for equality and justice – particularly groups of women who already face discrimination and marginalization,"

In reference to Twitter hiding this systemic problem Amnesty states:

"To be clear: it is NOT our job as a human rights organization to be analyzing abusive tweets on this platform – it's Twitter's," he said. "But [the company's] refusal to make public this information, while allowing abuse to flourish basically unchecked, meant we had to do this study for them."

<https://www.amnesty.org/en/latest/research/2018/03/online-violence-against-women-chapter-1/>

<https://www.amnestyusa.org/press-releases/crowdsourced-twitter-study-reveals-shocking-scale-of-online-abuse-against-women/>

https://www.independent.co.uk/life-style/women/twitter-women-sexist-amnesty-international-diane-abbott-report-a8688426.html?utm_term=Autofeed&utm_medium=Social&utm_source=Twitter#Echobox=1545250100

This controversy comes at a time when Racism and Sexism have become the lead triggers for brand boycotting.

<https://globenewswire.com/news-release/2017/12/13/1261309/0/en/Racism-Sexism-and-Politics-Are-Key-Triggers-for-Brand-Boycott-According-to-a-Euclid-Survey.html>

Twitter now not only faces the problem of conservative backlash but more importantly the ad buyer who must be sensitive to all social norms. Ask anyone from Laura Ingraham to Kevin Hart to Tucker Carlson about how enthusiastic advertisers are about associating with anything that hints of intolerance.

The Real Twitter Dilemma

As explained below Twitter lags FB and Google on growth. But, any form of tweaking of the business model to “monitor speech” sends traffic, engagement, and total users backwards for Twitter – a deathblow for a company playing catch up.

Anonymity and hate is proven to be at the core of Twitter. As eloquently stated in a recent article

“Twitter has outgrown the quaint idea that human nature could be trusted.”

<https://medium.com/s/story/please-jack-kill-anonymity-on-twitter-60ff79bf8ec4>

That is why Twitter was not cooperative is studding this problem with Amnesty. As stated,

“The research was carried out after Twitter refused to share data on reports of abuse against women and other groups. Kate Allen, Amnesty UK’s director, said: “Twitter is failing to be transparent about the extent of the problem ... The company must take concrete steps to properly protect women’s rights on the platform.”

<https://www.google.com/amp/s/amp.theguardian.com/politics/2018/dec/18/diane-abbott-calls-for-twitter-to-clamp-down-on-hate-speech>

Contrast this to YouTube who has just doubled down on brand safety for advertisers.

<https://www.fiercevideo.com/video/youtube-doubles-down-brand-safety-for-advertisers>

While Twitter has always prided itself on being a platform for free speech, that freedom will be in direct conflict with advertisers mandate to be socially conscious.

Let’s put Twitter Stock in Perspective

With the recent major decline in Facebook, let’s reevaluate where Twitter stands in the social media landscape. Facebook is down 25% the past 3 months based on concerns over privacy and the integrity of management and product offerings.

As an investor, if you dislike Facebook you must absolutely HATE Twitter. Beyond the recent findings of Amnesty International, Twitter is subject to the same concerns over privacy regulation.

Remember, TWTR has a business segment dedicated to selling user data. Last quarter, Twitter generated \$108 million from data licensing of their users. If you assume 100% margin on TWTR’s data licensing business, this segment alone accounts for almost 80% of total profits!

Here is a snapshot of TWTR vs Facebook and Google. We put them together as Trump regulatory targets. The human rights/sexism/hatred and privacy concerns comes at a time when there has never been such a disconnect between Twitter, Facebook, and Google valuations.

(\$ in billions)

	<u>GOOGL</u>	<u>FB</u>	<u>TWTR</u>
Market Cap	\$715.5	\$383.5	\$25.1
Net Cash	\$102.4	\$41.2	\$3.2
Market Cap (ex-cash)	\$613.1	\$342.3	\$21.8
2019 Net Income	\$40.6	\$26.1	\$0.7
2019 P/E Multiple (ex-cash)	15.1x	13.1x	32.2x
2019 Revenue Growth	22%	24%	14%

TWTR Price Target @ GOOGL Multiple	\$17.68
TWTR Price Target @ FB Multiple	\$15.93



Is it realistic to expect a regulatory shift that puts this business at serious risk? According to reactions from POTUS and members on both sides of the aisle in Congress – this answer is yes.

At Facebook or Google valuation, TWTR would be trading at \$15 to \$18 – despite higher headline risk – while both Facebook and Google are growing faster.

The Facebook Lag

In March when the Cambridge Analytica scandal first broke, FB was down 7% that day then proceeded to fall as much as 20% over the next week. TWTR was only down 2% on the first day but over the next two weeks the stock fell as much as 26%.

In July, FB reported disappointing earnings and was down almost 20% while TWTR was only down 3% that day. Good job to those who took the opportunity to sell TWTR because two days later the stock was down about 30%.

Moral of the story? Sell TWTR when FB has bad news. We call this phenomenon the FB lag.

Don't take our word for it. Just look at Evan Williams, TWTR's co-founder and longest tenured board member, who just sold \$166M of stock in the last month at an average price of \$32.42. This was by far his largest sale on record in this short of a time frame.



Conclusion

To think, we just thought people hated Citron on Twitter. The culture of hate and anonymity should have Twitter trade at a discount to its closest peer, not a 100% premium. The hate on Twitter is real and the company is not taking proper steps to curb the problem.

Citron believes this story has just begun and advertisers will be forced to make more morality-based brand building decisions.

After all, any platform that would allow Kanye and Drake to go after each other has to be regulated. Celebrity Twitter feuds might be some of the most ridiculous forms of hatred. #checkoverstripes

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