

## FACEBOOK VS. TWITTER: WHICH STOCK WILL SURGE AHEAD IN 2016?



By: Lou Carlozo - November 15, 2015

The social media world doesn't ask too much of its millions in terms of loyalty: If you have a Facebook (FB) page, chances are you use Twitter (TWTR), too. But where you invest your money can be a matter of sharp divides, as neither company looks remotely the same financially — nor faces identical prospects in the new year.

Facebook stock price stumbled after a wobbly IPO in 2012. But now, "Facebook is more than back; it's on top of the investment world and Wall Street loves Facebook," said Max Wolff, chief economist at Manhattan Venture Partners. Compare that to his assessment of Facebook's 140-character competitor: "Twitter is in much worse growth, dynamism and Wall Street perception shape. Twitter is the better risk-adjusted value but will be in the doghouse a while longer and is not growing."

But could the franchises of both properties make a difference in the months ahead? Twitter owns Vine while Facebook owns Instagram — acquisitions that not only brought in new eyeballs, but also hold the promise of bolstering bottom lines. Here's how both social media monoliths stack up as investors anxiously eye them in 2016.

### Facebook Vs. Twitter in 2015: A Bittersweet Tweet

Looking at Facebook stock performance since January 2015, the price has increased from about \$78 a share to around \$109 as of Nov. 11. You can only imagine Twitter investors staring in envy over the fence, as their fortunes have headed in the opposite direction. Twitter stock started the year at about \$37 a share but fell to around \$27 in early November.

Despite its stock price, Twitter has seen big growth in 2015. It has 320 million active users a month, up from the 271 million monthly active users it had in the second quarter of 2014. Yet for whatever reason, the social media site has failed to monetize those numbers in a way that's impressed Wall Street.

Meanwhile, Facebook is much larger, with 1.55 billion monthly active users in September 2015. "Facebook's user base is five times that of Twitter's and Facebook is aggressively innovating its product portfolio to monetize it," said Todd Antonelli, managing director of the Berkeley Research Group.

The purchase of Instagram was one such strategic move. Facebook paid \$1 billion for the photo-sharing app service

in 2012. Not one to be left behind, Twitter purchased Vine, the video sharing service, for a reported \$30 million that same year. Here's how Instagram and Vine stack up.

### Instagram Vs. Vine: A Rivalry Behind the Rivalry

Social media companies don't spend millions and billions of dollars on companies to keep them around as e-play-things; the hope is that their traffic numbers will drive up advertising revenue, which is reflected in quarterly earnings statements.

Since Vine was a video sharing startup that hadn't even officially launched, Twitter took a calculated risk in acquiring it. And to an extent it's helped, as Vine hit critical user targets faster than Instagram. Where it took Vine three months to reach 1 million users, it took Instagram one year to reach the same milestone. But while Vine has over 100 million users, its head of user experience said at a gathering at TechCrunch Disrupt NY that he was more focused on making an amazing product than monetizing it.

Meanwhile, Instagram has pushed ahead of the competition. By itself, Instagram now has more users than Twitter — 400 million as of September. "Instagram itself is beating out Twitter, so Facebook has made a solid acquisition in terms of diversifying its own user base and broadening the corporate reach," said James Gellert, CEO of Rapid Ratings. "Facebook has been demonstrating steady leadership, vision and execution. Twitter can boast none of these things."

Even if you factor in Vine, Twitter can't even boast the revenue potential for 2016 that Instagram has. "Facebook has been monetizing Instagram since 2013, after the integration of Instagram into their main ad platform," said K.C. Ma, director of the Sarah George Investments Institute at Stetson University. "Instagram has already produced around \$700 million this year alone for Facebook. We have estimated Instagram may add up to \$6 billion revenue by 2020."

Ma added that for 2016, Instagram pro forma revenue should be around \$1.5 billion or \$1.6 billion. "The important thing to note here is that Instagram can, and will, keep this growth rate very easily," Ma said. "Once advertisers realize the impact Facebook's platform has on their sales, they will continue to spend more on advertisements."

### Leadership at Facebook Vs. Twitter: A Like or a Retweet?

To be sure, Facebook co-founder Mark Zuckerberg is not an easy person to like. It's now common knowledge that he didn't create Facebook so much as swipe it from under the noses of classmates at Harvard. But you can't fault him for assembling a leadership team that has pivoted Facebook

from a free service to a moneymaking machine.

"The management isn't sitting on their laurels watching cats ride around on Roombas," said Peter Frawley, senior vice president at CoreCap Investments. "With their vice grip on the social media market, strategic merger and acquisition activity, and the development of new technology, I find it difficult to see a competitor unseat Facebook from its position of preeminence in the social media industry."

And with its third-quarter 2015 earnings report, Facebook beat Wall Street expectations. It posted earnings of 57 cents a share — compared to the predicted 52 cents — on a \$4.5 billion in revenue.

"The growth rate in daily and monthly active users is really impressive, especially considering the fact that Twitter was barely able to add new users in the past quarter," said Jesse Cohen, senior editor at Investing.com. "Sixty-five percent of people on Facebook use it every day — and if they can keep growing their audience and the time people spend on the app, the company will continue to outperform."

Though Twitter also beat Wall Street expectations for Q3, its stock tanked the day after the news, dropping 8 percent. The drop was likely due to the fact that Twitter had only been able to add four million monthly active users.

Looking ahead, Twitter predicts it will have revenues between \$695 million and \$710 million in the current quarter. That trails estimates of \$739.7 million.

"Twitter faces a fundamental identity problem, and their ability to pull in new users is limited, given the platform's structure," said Eddie Miller, CEO of eCann Media. Though Twitter CEO Jack Dorsey has been putting in extra effort to turn Twitter around, even sacking 8 percent of his staff, "the company's problems are systemic and unlikely to go away any time soon."

### High Tech Doesn't Always Mean Buy Tech

Social media is a place where people readily share opinions — even about the social media outlets themselves. "But investors shouldn't let their opinion of the social media platform be the sole reason that they invest in the stock of one of these companies," said Robert R. Johnson, president and CEO of The American College of Financial Services.

"There are many historical examples of firms that produce a great product, yet have proven to be poor investments," Johnson noted. "In other words, if you like Twitter better than Facebook, that doesn't mean you should commit your hard-earned funds to Twitter." To which he adds, "One word of caution to investors in this industry is: 'Myspace.'"