



March 4, 2020

Dear Elliott Management,

As long-term shareholders of Twitter, we think efforts to oust co-founder Jack Dorsey from the CEO role again would be as detrimental to Twitter's evolution and growth today as it was in 2008. We think we are well positioned to opine on this issue for the investment world given our auspicious entry into Twitter's stock in the early days of the Jack-led turnaround and our large positions in both Twitter (our single largest investment at RGAIA) and Square.<sup>1</sup> We are writing this letter to explain our thinking.

One of the big contentions about Jack as CEO seems to be a about Twitter's slow path to reaccelerating monetization. We think this narrative misses a few key points. Jack was right to focus on user experience ahead of monetization, because had Twitter not proven its seriousness about brand safety to top of funnel advertisers, considerable budget would have been lost. **Protecting revenue at that point was more important than creating new revenue streams.** Further, improving the user experience was crucial for reaccelerating user growth and cementing Twitter's role as the modern Associated Press for the 21st Century.

We think it's clear that Jack learned from his shortcomings the first time around and that he has been a distinctly different kind of leader and manager since returning as CEO in 2015. While some point to the flat stock returns during Jack's second tenure as evidence of a job done poorly, we think two mitigating factors should be considered:

1. The base rate of investing in a stock at 10x P/S is historically a bad bet.
2. Twitter had stepped into a series of challenges that would take considerable time to sort out.

When we first bought shares of Twitter in 2017, we identified Twitter's overt Facebook-envy and its inability to define its own essence in the social media landscape as distinct negatives. We felt Twitter should be seen as an information, not a social network, and that defining its role in what was seemingly a crowded space would be crucial for creating a culture and driving product development around a vision. Jack was explicit about this problem in saying "we saw hundreds of use cases over the 10 years and we tried to do all of them. And that just didn't work."<sup>2</sup> It was Jack who uniquely owned the mandate to redefine Twitter around a core essence and recalibrate its entire existence to fulfill that mission.

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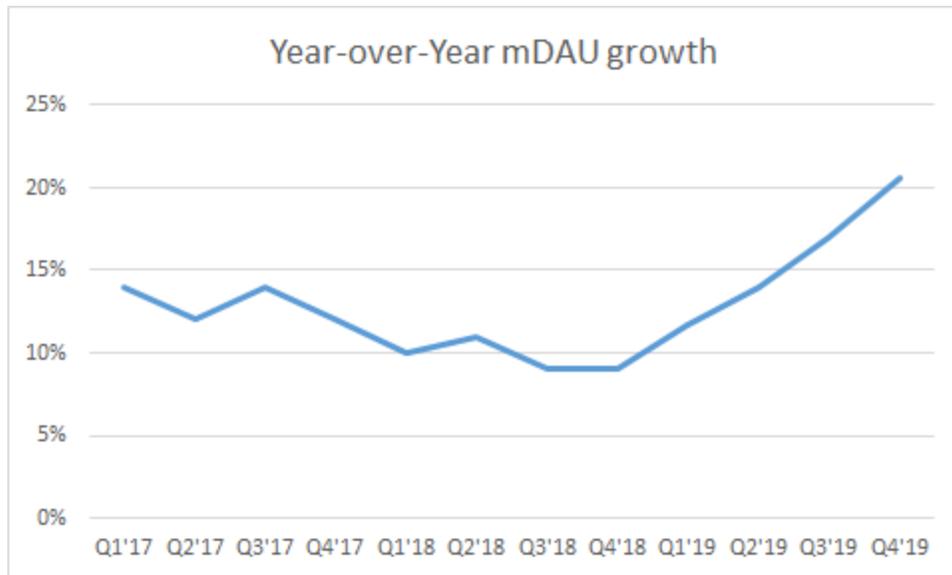
<sup>1</sup> <http://www.rgaia.com/twitter-presentation/>

<sup>2</sup> <https://www.forbes.com/sites/kathleenchaykowski/2017/02/16/jack-dorsey-twitter-lacked-focus-and-discipline-for-growth/#1fe29c606d83>



Jack also noted that Twitter “lacked the sense of ‘ownership’ needed from employees to follow through on a shared roadmap.” In his return to the CEO role, **Jack gave back \$200 million of his own money to the employee bonus pool. How many CEOs have ever so literally “put their money where their mouth is” and helped their employees to their own detriment?** Since returning to the CEO role in 2015, Jack has declined any base salary and nearly all compensation other than relatively small covered expenses for “residential security and protective detail.” This is what leadership looks like! No wonder Twitter employees love Jack, are inspired by him and are leading the #WeBackJack hashtag in the wake of Elliott’s efforts becoming public.

Importantly, we believe that Twitter today is on the right track. The true reacceleration in user growth began in earnest in the beginning of 2019 and accelerated throughout the year:



Unfortunately, problems with revenue product limited the capacity for the user growth to flow through in the form of higher revenue. We are confident faster growth is near. Twitter has made rebuilding its entire core ad server a top priority for this year. The task will be completed at some point during the first half of the year. Twitter has called it “foundational and transformational work” that will “increase development velocity” and build a platform to add incrementally new revenue products, including the capability for native commerce and experiments in microtipping. The improvements will meaningfully enhance Twitter’s relevance as a demand response platform, which would then open up more self-serve opportunities for smaller advertisers. **At the very least, we think anyone eager to judge Jack should afford the company the opportunity to complete what we think of as the second phase in the turnaround that began in 2015 with this enhanced effort at building revenue product.**



While we do not think firing Jack is the right move for Twitter, we do think there is room for Elliott (the investment firm with two T's, not our Elliot with one T) to oversee some improvements at Twitter. In our conversations with investor relations, the company at first was somewhat warm and since has been resistant to the idea of subscription feeds. This is a big mistake. Twitter historically has been highly attuned to how active users are using the platform and adapting the product accordingly. While Twitter has reservations about a product that preferences private over public conversation, this is a change that is happening across all kinds of platforms and will continue happening irrespective of Twitter's hopes.<sup>3</sup> **Meanwhile Twitter is incredibly well positioned for subscription feeds given its role as an "information network" and it could rapidly create a recurring revenue, non ad-supported revenue stream that would be differentiated in the technology platform world.**

Plus, we think capital allocation could improve and this is where Elliott could offer considerable help. The company has built a large cash stash that bought time in pursuing a turnaround while still unprofitable on the income statement; however, **today, with cash flowing and the stock cheap based on what the company has been emphatic are shorter-term revenue product issues, a repurchase would be smart.**

One of the problems investors have with Jack as a manager is that he is very atypical leader who doesn't fit a mold. There are personality traits and interests that seem more like parodies of tech types in HBO's Silicon Valley. While people are quick to point out some of Jack's quirks, he has two demonstrable strengths that shine through clearly at both Square and Twitter:

1. Jack is one of the legendary product visionaries of our time, having founded three different billion dollar revenue products: Twitter, Square for merchants; and, Cash App.
2. Jack is a leader: he hires top notch talent for key roles and **empowers people to fulfill their mission in a decentralized management structure that incentivizes independent thought, nimble action and the capacity to take risks that might fail. Meanwhile when failures do happen, Jack takes responsibility himself without pointing fingers.** Some of the outstanding hires we have been impressed with include Leslie Berland as CMO, Sriram Krishnan and his replacement Kayvon Beykpour as Head of Product, Bruce Falck as GM of Revenue Product, and Sarah Friar and Amrita Ahuja as CFOs at Square.

We think this description of Jack from Yahoo Finance's deep feature is incredibly apt: "He's a good listener. Good observer. Very patient. His emotional IQ is very high even though, because of his demeanor, people aren't sure whether he's really present. Jack is a man of few, but

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<sup>3</sup> <https://www.voguebusiness.com/companies/influencer-paywall-what-it-means-for-fashion-brands>



powerful, words.”<sup>4</sup> These are exactly the kind of traits we would want in the leader of the world’s most important information network.

We look forward to working constructively with IR and fellow shareholders in helping Twitter achieve its fullest potential.

Sincerely,

A handwritten signature in black ink that reads "Elliot Turner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Elliot Turner  
Managing Partner, CIO  
RGA Investment Advisors LLC

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<sup>4</sup> <https://finance.yahoo.com/news/jack-dorsey-twitter-square-profile-140037540.html>