

3Qs: How 'tweet' it is?

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Credit: Dreamstime

Last week, the social media giant Twitter tweeted that it had filed for a planned initial public offering with U.S. regulators. We asked Linlin Ma, who joined the Northeastern faculty this fall as an assistant professor of finance in the D'Amore-McKim School of Business, to examine this decision and what it means for the tech industry.

What are the challenges and advantages of Twitter's

decision to go public?

The timing of Twitter's IPO could not be better. It has been a good year for [social networking](#) companies. Facebook has finally recovered from its post-IPO debacle, and LinkedIn stock soared to its record high. This overall market trend certainly helps with increasing investors' appetite for Twitter's IPO. The company is also in a great position for IPO as it still has a lot of room for growth, a quality that Wall Street ultimately looks for. Advertising on Twitter—its main source of revenue—more than doubled in 2012 and is expected to double again this year, according to eMarketer. This will certainly make Twitter's shareholders happy, but Twitter's users frown. Balancing the pressure from shareholders and the satisfaction of users can be their biggest challenge. Thanks to the newly passed JOBS Act, Twitter is able to file its IPO confidentially. So it can keep its most sensitive information away from the public until shortly before the road show, and it certainly has more control over the IPO process. The drawback of confidential filing is that without access to the accurate [financial information](#), uninformed investors could suffer from misleading information and therefore put them at a disadvantage among more informed parties.

Facebook, the world's largest social media network, held its IPO last year and got off to a rocky start—falling from \$38.23 a share to as low as \$20 in subsequent weeks, though it's now rebounded to more than \$45 a share. What lessons can Twitter learn from Facebook's IPO?

The fact that Twitter is going public at its current stage is already a lesson learned from Facebook. It is in a much earlier stage in which investors can still see a strong growth prospectus in the near future. More

importantly, Twitter seems to have a sound business plan that promises strong profits growth: mobile advertising, where Twitter outpaces both Facebook and Google. In order not to repeat Facebook's mistake, Twitter chose Goldman Sachs as its lead underwriter of its IPO. This is a big change for Silicon Valley tech IPOs where Morgan Stanley has been the lead underwriter for years. Twitter may also stay away from NASDAQ, Silicon Valley's major exchange, to avoid the same technical and trading errors that occurred during Facebook IPO in 2012. Learning from Facebook, Twitter should also try to avoid being too aggressive with the valuation of its stock. As its long-term holder Saudi billionaire Prince Alwaleed bin Talal was quoted as saying: "The lessons are not to brag too much, don't be greedy—I mean price it right and be realistic."

How might Twitter's success or struggles following its IPO have a ripple effect in the tech sector?

Starting in 2011, the market for tech IPOs exploded, though it calmed down after Facebook's IPO last year. Recently, the tech sector is heating up again and there is a pipeline of tech IPOs coming up in the next year or so. Twitter's IPO is surely going to be one of the most visible transactions of the year and will certainly attract great investors' attention. Analysts have estimated Twitter's value close to \$10 billion, if not more. Twitter's influence is likely to generate a spillover effect in the tech sector; Investors may use Twitter's success or struggle as an analogous indicator to other upcoming tech sector IPOs. A successful Twitter IPO can build up investors' confidence in tech stocks and surely have a ripple effect for other tech companies in need of capital. However, if it receives a weak reception, it may potentially spook investors about social media stocks and tech stocks in general, at least in the short run.

Provided by Northeastern University

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