

Twitter IPO could help it compete with tech giants

September 25 2013, by Jessica Guynn

Just days before telling the world that his company had filed to sell stock to the public, Dick Costolo delivered a short talk on leadership at a technology conference in San Francisco.

Twitter Inc.'s chief executive gave no hint of the upcoming announcement. Instead he urged everyone in the room to "find your individual superpower."

Costolo has spent the past two years honing his own: the ability to transform a scrappy startup into a successful publicly traded business that can compete head to head with digital giants for online advertising dollars.

It's not yet clear whether that effort will pay off, but analysts say one thing is certain. To be in the same league as Facebook Inc. and Google Inc., Twitter needs a massive infusion of cash to fuel its global expansion and challenge much larger, deeper-pocketed competitors.

"They need cash to keep innovating and to add new features or literally they are going to get knocked out of the game," said Max Wolff, chief economist and senior equity analyst at Greencrest Capital.

The 7-year-old company is on the verge of a hotly anticipated IPO that analysts estimate could value Twitter at as much as \$15 billion and could come as soon as November.

Analysts expect Twitter to raise more than \$1 billion in its IPO, which would make it easier to compete for talent and acquisitions. The IPO, expected to be the largest technology offering since Facebook, also will give employees and investors an easy way to sell some of their shares.

Twitter could have raised money through [private stock](#) sales that let insiders cash out. SurveyMonkey, for example, raised \$444 million last year from investment firms and took on \$350 million in new [debt financing](#) arranged by JPMorgan Chase, avoiding the costs of a public offering and the demands of operating as a public company.

Despite the disastrous debut of Facebook and the cautionary tales of Groupon Inc. and Zynga Inc., many technology companies still view an IPO as a major milestone that raises the company's profile and paves the way for further growth.

Investors are still clamoring for consumer Internet IPOs, and the market is rewarding major Internet companies with "unheard of" valuations, whether they have an established business such as LinkedIn Corp. and Yelp Inc. or are more speculative such as Groupon and Zillow Inc., said Rob Steinberg, a corporate law partner with Jeffer, Mangels, Butler & Mitchell.

"I think the reason they go public now is as simple as 'it is time,' " Steinberg said.

Unlike Facebook, whose sales had begun to flatten out at the time of its IPO, Twitter is going public as its ad revenue is still on a tear, especially on mobile devices, an area that has proved challenging to its rivals.

"If Twitter missed the market window now, they might have to wait a couple years," Steinberg said. At that point, Twitter's rate of growth may have slowed or even decreased, undercutting its valuation on the public

markets.

A war chest will help Twitter address crucial challenges. It is neither as wildly popular as Facebook nor as wildly profitable as Google. For the company to rise to the top of the digital heap, it's going to have to win over more users and a greater share of online advertising dollars, analysts say.

It may be the digital megaphone for the pope, President Barack Obama and Justin Bieber and the populist tool to distribute news and organize mass movements such as the Arab Spring, but Twitter is not a service that appeals to everyone. Twitter's 200 million active users around the world represent about one-sixth of Facebook's nearly 1.2 billion users.

Twitter last week released new versions of its iPhone and iPad mobile applications to make the service easier to use. It's part of its bid to bring in new users and keep up its momentum ahead of the IPO.

Less is known about Twitter's financial performance. It secretly filed the regulatory documents to take the company public under a new law that allows companies with less than \$1 billion in revenue to begin the process in stealth mode. It can keep specifics of its business operations and finances under wraps until three weeks before it begins marketing the IPO to prospective investors.

Like Facebook and Google, Twitter makes most of its money from advertising. It just makes far less of it than its competitors.

Research firm eMarketer Inc. estimates that Twitter will bring in \$583 million in ad revenue this year and \$950 million in 2014. By 2015, eMarketer expects Twitter's annual ad revenue to hit \$1.3 billion. That's up from \$288 million in 2012.

It was Costolo - who sold Feedburner, an advertising-supported blog publishing service, to Google for \$100 million - who helped Twitter start making money after he joined the company in 2010 as its chief operating officer. Twitter's first - and most successful - type of advertising was the "promoted tweet," which looks like a regular tweet but advertisers pay to make it appear at the top of users' updates streams or in search results.

Marketers are flocking to Twitter to get in on "real-time" advertising, looking to capture the attention of users as they engage in conversations about the latest news, analysts say.

Right before it announced it had filed for a public offering, Twitter said it paid more than \$300 million in stock for online advertising start-up MoPub Inc., which will give marketers a new way to buy real-time ads on Twitter and enable Twitter to sell ads beyond its own service.

Analysts expect more strategic moves in coming months.

"Having capital gives them flexibility as they figure out what they want to do when they grow up," Pivotal Research Group analyst Brian Wieser said of Twitter. "They are a strong adolescent of a company, but their sector is still evolving."

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