Twitter's IPO could pave the way for other consumer Internet companies

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With last week's eye-popping initial stock offering, Twitter may have turned around the Facebook IPO curse.

That's good news for online clothing retailer Zulily and textbook-provider Chegg, which have already announced plans to sell shares publicly in coming days. And while social-networking companies like Pinterest and Snapchat haven't announced plans, they are widely expected to be headed for Wall Street, perhaps in 2014.

Twitter Inc.'s Wall Street debut could fuel a wave of investor enthusiasm for these online companies and others, particularly those aimed at consumer markets, analysts say.

Facebook Inc.'s disappointing debut threw a wet blanket over the consumer Internet sector, according to analysts and industry participants. Facebook has since recovered, and experts say Twitter's performance could help counter a trend in which investors showed more faith in companies that focused on business customers.

"I think people feel more comfortable and confident about Internet companies" overall, said Scott Kessler, an investment analyst at S&P Capital IQ, who added that, "without question, Facebook had an impact" in discouraging similar companies from going public, after its stock floundered in the summer of 2012.

"When the market is optimistic, the whole sector is going to benefit from it," agreed Jay Ritter, a University of Florida finance professor who studies initial public offerings.

Twitter co-founder Jack Dorsey seems intent on riding the wave: He's been quietly meeting with investment bankers about taking his other online company, Square, to an initial public offering in coming months, the Wall Street Journal reported last week.

After a widely anticipated stock debut that fizzled, Facebook shares plunged last year to half their IPO price of $38, amid questions about the viability of the company's advertising business. The consumer tech sector saw two more high-profile flops as Groupon and Zynga struggled with weak revenue and falling share prices.

The rate of consumer tech IPOs also dropped: Only 15 consumer tech companies went public in the six quarters that followed Facebook's debut, according to the San Jose Mercury News' analysis of data from the research firm Dealogic. That's down from 25 consumer-tech IPOs in the six quarters leading to Facebook's IPO.

By comparison, the number of commercial tech companies that started trading stayed level at about 40 in each period. Investors flocked to companies that sell online services to other firms - a business model that's often viewed as more reliable - including payroll processor Workday, phone system operator RingCentral and network security provider FireEye.

But Facebook has roared back, defying skeptics by building its mobile advertising business from zero to nearly $900 million in revenue last quarter. Its stock is now trading above $46. "Facebook has climbed out of the mud," said Francis Gaskins, who tracks young companies for IPOdesktop.com.

Analysts say that has helped other social networking and messaging startups, including Pinterest, Snapchat and Nextdoor, raise hundreds of millions of dollars in funding from private investors in recent months.

"There's more confidence in the consumer Internet industry, in the ability of these companies to become really valuable long-term franchises," said Nirav Tolia, a veteran entrepreneur and CEO of Nextdoor, a neighborhood-focused social network that announced $60 million in private funding last month.

Twitter's performance could likewise make a difference for consumer tech companies deciding whether to go public in the near future, said longtime Internet investor Jeremy Liew of Lightspeed Venture Partners.

While companies have to consider their own financial strength and other factors, he said, "You obviously want to choose a time when market sentiment is positive."

Tolia said he's not rushing to take Nextdoor public. It currently has no revenue, and Tolia said he wants to be thoughtful about introducing local advertising or other sources of income.

But other social networking companies may be further along. Pinterest, which lets users "pin" and share collections of images, recently began selling online ads after announcing it had raised $225 million in a private funding round that valued the company at $3.8 billion.

The next really big Internet IPO candidate is likely to be Alibaba, the Chinese e-commerce giant that's reportedly planning to start trading in the U.S. in early 2014. Others rumored to be in the wings include Silicon Valley cloud storage companies Box and Dropbox, although none of the U.S. companies in the pipeline are expected to be anywhere near the size of Twitter or Alibaba.

Twitter's performance last week is also an answer to skeptics who fear companies like Pinterest are riding a financial bubble, according to Robert Hendershott, a finance professor at Santa Clara University.

Even if Twitter's stock price settles down in coming days, he said, the fact that it reached a total market value of nearly $25 billion on its first day of trading "is a sign that a $4 billion valuation for a company like Pinterest is not as crazy as people might have thought."