Beyond Twitter: The next wave of tech IPOs brews (Update)

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Just as one high-tech breakthrough often paves the way for the next big thing, technology IPOs move in virtuous cycles, too.

Twitter's scintillating stock market debut punctuated a procession of highly anticipated coming-out parties over the past two-and-half years, providing a springboard for a new generation of rapidly growing startups to make the leap to Wall Street.

The next wave of potentially hot IPOs includes trendy services such as AirBnB, Square, Spotify, Dropbox, Uber, Snapchat, Pinterest, Box, Scribd, Flipboard and King.com. Most of their services are tailor made for smartphones and tablets, a crucial characteristic that helped feed the rabid demand for Twitter's stock in its initial public offering last week.

Despite the short-messaging service's unprofitable history, Twitter is now worth about $29 billion—a valuation that has enriched its founders, employees and early investors.

"Twitter just made it clear that the IPO window is open and a lot of success can be had," says Ira Rosner, an attorney and shareholder for Greenberg Traurig, a law firm that helps prepare companies for IPOs.

Other startups —and the venture capitalists who provide them with rounds of funding— will be angling for similar windfalls by filing their own plans to go public over the next two years, Rosner believes.

"There is no question that a successful offering encourages other offerings," he says. "It gets people excited and it creates buzz."

Even before Twitter's IPO, good vibes were rippling through the stock market as the Dow Jones industrial average and Standard & Poor's 500 indexes repeatedly set new highs. The fertile conditions have produced 199 IPOs in the U.S. this year, according to the research firm Renaissance Capital. At the current pace, 2013 is on track to be the biggest year for IPOs in a decade.

Sentiment among venture capitalists is also strong—the highest since 2007 according to a survey by Mark Cannice, a University of San Francisco professor of entrepreneurship who polls Silicon Valley financiers every three months.

The companies generating the most interest from venture capitalists include Uber, the provider of on-demand car services that received $258 million so far this year and Pinterest, which nabbed $425 million. Pinterest's latest round of financing, for $225 million, valued the popular online pinboard service at nearly $4 billion. The San Francisco company just recently began trying to generate revenue, which means it could be several years before it becomes profitable. Snapchat, meanwhile, recently turned down a $3 billion buyout offer from Facebook, according to a Wall Street Journal report citing anonymous people briefed on the matter. The report also said China's Tencent Holdings had offered to invest in the company at a $4 billion valuation. A Snapchat representative did not immediately return a message for comment Wednesday.

"The market is signaling that it is very receptive again to these young, high-growth social media Internet companies," says Tim Loughran, finance professor at the University of Notre Dame in Indiana. Twitter's successful IPO even proved that it's irrelevant whether companies are profitable, he says.

A string of IPOs that began with the May 2011 debut of professional network LinkedIn Corp. helped fuel investors' interest in rapidly growing Internet companies. Other online services with large audiences followed LinkedIn into the public stock market, including online review site Yelp Inc., Internet radio station Pandora Media Inc., daily deal maker Groupon Inc., online game maker Zynga Inc. and social networking leader Facebook Inc.

Groupon and Zynga have been duds so far, largely because they didn't adjust quickly enough to shifting conditions in their respective markets, but all the others are trading above their IPO prices. LinkedIn and Yelp have more than quadrupled from their IPO prices, making the stocks star performers among the group.

Facebook's May 2012 IPO spooked many investors because of trading glitches and questions about the company's ability to grow mobile revenue. But the company has since soothed critics by proving it can make money from mobile advertisements. The stock is now trading well above its $38 IPO price after losing more than half of its value in the first four months of trading.

The next batch of startups expected to test their fate on the public market doesn't include names as well known as Twitter or Facebook, so splashy IPOs of either's caliber are unlikely. Twitter's $1.82 billion market debut made it the second largest Internet IPO in the world, relegating Google Inc.'s stock market debut in 2004 to third place.

Twitter could prove even more influential than its IPO predecessors because of the route to market it chose —and its shaky financial condition. The San Francisco company took advantage of a federal law passed last year that allows companies with less than $1 billion in revenue in its last fiscal year to keep its IPO documents under seal until the final few weeks before a price is set on a stock offering. This alternative—known as the Jumpstart Our Business Startups, or JOBS, Act—allowed Twitter to secretly fine-tune its filing to satisfy regulators.

Although Twitter filed its IPO paperwork in July, the information wasn't unsealed until Oct. 3—just five weeks before its stock market debut. In contrast, Facebook's IPO filing was accessible—and picked over—for more than four months before the company's stock market debut.

The confidentiality provided by the JOBS act means some promising startups may have already started the process to go public, but haven't yet revealed their plans.

By keeping its finances under wraps, Twitter minimized the amount of time people had to dissect the mounting losses the company is absorbing as it expands its service to accommodate 232 million global users. Investors' willingness to embrace a company that has lost nearly $500 million since its 2006 inception is likely to embolden other unprofitable startups.

As privately held companies, startups rarely reveal anything about their finances until their IPO filings. But some, such as Snapchat and Pinterest, are generating little or no revenue as they subsist on venture capital. Many of the companies that are producing revenue rely on advertising, a dependence that worries Larry Chiagouris, marketing professor Pace University's Lubin School of Business in New York.

"If you fast-forward beyond the next 24 months, people will realize that these companies just aren't going to make a lot of money," he says. "Advertisers are not putting a large portion of their budgets into these companies."

Chiagouris thinks the stampede to invest in Twitter and other money-losing startups is heading in the same direction as the dot-com bubble of the late 1990s when a horde of unprofitable Internet companies were ushered on to Wall Street.

"People are chasing the dream of profits as opposed to any evidence of profits," Chiagouris says. "And it's a hope, it's a wish, it's a dream, but that's all it is right now."