

# Twitter's wings clipped by weak user growth (Update)

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The shares closed down 24 percent at \$50.03 a day after Twitter reported a \$511 million quarterly loss and only sluggish growth in the

number of users.

The figures "show signs of slowing user growth and engagement... suggesting that Twitter may be finding it more difficult to capture a more mainstream audience," said Morgan Stanley analyst Scott Devitt in a research note.

Stifel analyst Jordan Rohan downgraded Twitter, noting that "user growth metrics faltered."

"The company did a poor job explaining how and why the lower user growth was a temporary phenomenon," Rohan added.

## **A 'show-me story'**

A similar warning came from Cantor Fitzgerald, where analyst Youssef Squali and colleagues said that "Twitter has all of a sudden become a show-me story in the same way Facebook was challenged to prove its mobile credentials over a year ago."

"We now know how Facebook turned out, but we won't know how Twitter will fare for at least several quarters," Squali said in a research note.

The first earnings report since Twitter's vaunted public offering in November offered a cold dose of reality for the company.



A sign is posted on the exterior of the Twitter headquarters on February 5, 2014 in San Francisco, California

The results showed revenues in the quarter that ended December 31 doubled from a year ago to a better-than-expected \$242.6 million.

But the number of worldwide users was up just nine million from the figure of 232 million when Twitter went public in November, suggesting only modest growth at a time when investors were looking for a surge.

Twitter said the loss for the year widened to \$645 million from \$79 million in 2012, even as revenues more than doubled to \$664 million for the full year.

Trip Chowdhry at Global Equities Research said the revenue figures were better than expected but that Twitter needs to address issues of credibility, including spam and duplicate user profiles.

"Twitter management should be focused on fixing the authenticity and credibility of the Twitter platform, just like Google and Facebook have done," Chowdhry said in a note to clients.

Deutsche Bank analyst Ross Sandler meanwhile kept a "buy rating" and said Twitter's results showed it was making progress in monetizing its platform.

Sandler said he remains among those "who believe that Twitter is one of the best positioned companies in mobile, and on its way to one billion users."

## **CEO offers assurances**

Twitter chief executive Dick Costolo spent much of an earnings call Wednesday assuring analysts that Twitter is working on features and improvements intended to ramp up the number of users, along with how much they engage with the global one-to-many messaging platform.

"It will be a combination of changes introduced over the course of the year that will change the slope of the growth curve," Costolo said.

"We want to reach every person on the planet."

Twitter aims to focus on making it easy for anyone to grasp the service within moments of a first visit and on improving the experience on smartphones and tablets.

The company, which has its roots in 140-character text messages, also planned to get more visually engaging with pictures and video.

The service's format of sharing in real-time with short text messages doesn't lend itself easily to traditional ad formats, so the company needs

to get creative with marketing messages, according to Silicon Valley analyst Rob Enderle at Enderle Group.

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