Twitter Surges in Trading Debut After $1.82 Billion Share Sale

By Sarah Frier and Lee Spears - Nov 7, 2013

Twitter Inc. surged 85 percent in its trading debut, as investors paid a premium for its promises of fast growth.

The shares rose as high as $48.15 and were trading at $47.10 as of 10:53 a.m. in New York. The company sold 70 million shares at $26 in its initial public offering yesterday, raising $1.82 billion.

The microblogging service picked a price that values it higher than rival Facebook Inc. and still drew more interest than anticipated. The San Francisco-based company, which is unprofitable and has one-fifth as many users as Facebook, is benefiting from investors’ thirst for companies that will grow quickly in expanding markets like mobile advertising.

“The company did everything to secure the most cash for itself while leaving some money for the IPO buyers,” said Josef Schuster, the founder of IPOX Schuster LLC, a Chicago-based manager of about $1.9 billion. “You need a pop at the opening to leave a good taste with everyone. They did a pretty good job managing the whole situation.”

At the IPO price Twitter is valued at $14.2 billion, or 12.4 times estimated 2014 sales of $1.14 billion, according to analyst projections compiled by Bloomberg. That compares with 11.6 times that Facebook was trading at yesterday and similar to LinkedIn Corp.’s multiple of 12.2 times sales.

Price ‘Hype’

The pricing puts the onus on Twitter to deliver on its promises of fast growth after earlier pitching shares as low as $17. Chief Executive Officer Dick Costolo has rallied investor interest in Twitter’s rapid sales curve -- with revenue more than doubling annually -- even with no clear path to making a profit.

The company received orders for about 30 times as many shares as it offered at the $26 IPO price, a person familiar with the matter said. About 8 million of the shares, or 11 percent of the total in the IPO, were allocated to retail investors, the person said, asking not to be named.
because the information is private. A typical retail allocation is 10 percent to 15 percent.

Still, any price over $40 reflects “hype” and makes Twitter too risky of an investment, said Jeffrey Sica, president and chief investment officer of Sica Wealth Management LLC in Morristown, New Jersey.

“I anticipated a very strong open, but when you start to approach these levels this is absolute froth,” he said. “There is nothing supporting this range. I think this is just way, way above what realistically we should be considering a stable open.”

At NYSE

CEO Costolo was at the New York Stock Exchange for the stock’s debut under the TWTR symbol, along with CFO Mike Gupta and Twitter co-founders Evan Williams, Biz Stone and Jack Dorsey.

Twitter’s $1.82 billion IPO is almost as much as the $1.9 billion that Google Inc. raised in its 2004 IPO and makes it the largest IPO by a U.S. technology company since Facebook’s debut in May 2012. Goldman Sachs Group Inc. led the sale, working with Morgan Stanley and JPMorgan Chase & Co.

Twitter had sought to avoid the hype that surrounded Facebook’s initial share sale last year, leading bankers to overestimate demand for its shares. Twitter filed for an IPO confidentially with the U.S. Securities and Exchange Commission earlier this year, and originally set an offering price range at a discount to its Internet peers.

Price Range

Demand for the stock exceeded the supply even before bankers started formally asking for orders, people familiar with the matter have said. On Monday, Twitter raised the proposed price range for the 70 million shares sold in the IPO to $23 to $25 each, up from the earlier range of $17 to $20.

“People are really looking all the way out to their 2015 and 2016 revenue estimates to price this,” said Larry Levine, a partner in financial advisory firm McGladrey LLP in Chicago. “The risk to buying Twitter is if Twitter does not achieve its very lofty growth estimates.”

Twitter will have 544.7 million shares of common stock outstanding after the IPO, its filings show. Including restricted stock and options, Twitter will have about 694.8 million shares outstanding. By that measure Twitter is valued at $18.1 billion at the IPO price. The sale doesn’t include an extra 10.5 million shares that underwriters have an option to buy, according to the company’s prospectus.
Twitter, whose website and applications let people post 140-character messages to friends and online followers, still needs to deliver on its business model. Twitter's loss widened to $64.6 million in the September quarter from $21.6 million a year earlier, and it is unlikely to be profitable until 2015, according to the average estimate of analysts surveyed by Bloomberg. LinkedIn and Facebook were both profitable at the time of their IPOs.

**Mobile Users**

While Twitter's revenue has surged, reaching $534.5 million in the 12 months that ended Sept. 30, user growth is slowing, filings show. The service had 231.7 million monthly users in the quarter that ended in September, up 39 percent from a year earlier. That compares with 65 percent growth in the prior year.

Twitter has been touting its engagement with mobile users, where other Web companies have struggled. About three-fourths of Twitter's active users accessed the service from mobile devices in the three months ended in September, compared with 69 percent in the year-earlier period, according to the filing. More than 70 percent of advertising revenue comes from those devices, a higher proportion than Facebook.

The money from the public offering will help Twitter build its business outside the U.S., where it got 77 percent of users yet only 26 percent of revenue in the third quarter. The company will also expand its infrastructure and work on products that will help it attract more users and advertisers.

Facebook's debut was plagued with technical snafus on the Nasdaq exchange -- something Twitter may be trying to avoid by listing on the New York Stock Exchange. Nasdaq OMX Group Inc. paid $10 million to settle charges that the malfunction violated securities laws.

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