Twitter Reveals $1 Billion IPO Plan
First Glimpse of Financials Shows Users Still Growing but No Profit; TWTR Has Yet to Name Exchange

By YOREE KOH, TELIS DEMOS and SHIRA OVIDE

Twitter Inc. on Thursday revealed plans to raise up to $1 billion in a public offering, looking to cash in on a messaging service that has transformed public conversation but is still losing money and facing challenges attracting new users and advertisers.

Twitter's Annotated S-1
Read the full document filed with the Securities and Exchange Commission with key sections highlighted.

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The document suggests Twitter recently valued itself at about $9.7 billion, based on the number of shares outstanding, or at about $13 billion when including equity awards.

Twitter chose TWTR as its ticker symbol but hasn't specified whether it will trade on the New York Stock Exchange or Nasdaq Stock Market.

In seven years, Twitter has grown from a wobbly startup to a social phenomenon where in just 140 characters its 215 million monthly active users tap out more than 500 million messages each day.

The short-message service serves as a global forum in which users break news, organize protests and gripe about what they ate for lunch. As early as 2008, Twitter turned eyewitnesses into "citizen journalists" who reported on a terrorist attack in Mumbai.

Now, once-elusive public figures including the pope, Warren Buffett and Kanye West "tweet" their thoughts and interact with other users. Twitter CEO Dick Costolo uses the service to answer users' troubleshooting queries. Businesses, stock pickers and politicians alike analyze the sentiments expressed on Twitter as important.

Potential buyers for the first time saw the financials behind one of the most anticipated stock-market debuts of the year, which showed the social network's revenue more than doubled to $254 million in the first six months of this year.

But its net loss grew by 40% to $69 million as the company's expenses ballooned. Twitter's user growth is also slowing, and prices for advertisements, which make up the bulk of the company's revenue, are falling.

"They certainly have a lot of work ahead of them to get mainstream America to understand" how Twitter works, said Brian Solis, an analyst at the Altimeter Group.

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Despite its ubiquity, Twitter remains an immature business. The filing showed Twitter has far fewer users and generates less revenue per user than Facebook.

When Facebook filed for a public offering, the company revealed sales of $3.7 billion and a profit of $1 billion for 2011. It also had 845 million monthly active users, a huge bragging point as it pitched itself to investors.

Twitter’s growth is also a question. The majority of Twitter’s revenue, about 75%, is from the U.S., even though three-quarters of monthly users are outside the U.S. Facebook also has a wide gap between its usage and its ad revenue outside the U.S., where advertising businesses typically are less mature.

In the second quarter, Twitter’s growth in monthly active users slowed to 7% from three months earlier, compared with 10% to 11% growth in the prior three quarters.

Like Facebook, Twitter makes money mostly by selling advertising based on users’ posts. As they compete for advertisers, both companies position themselves as the world’s online town square.

Twitter also has as a second business licensing its data companies that analyze user tweets for insights on news events and social trends. That business generated $47.5 million in revenue last year, roughly 15% of the total.

Goldman Sachs Group Inc. is spearheading Twitter’s IPO, but its rival Morgan Stanley won a measure of vindication by landing the second-biggest role in the deal.

Morgan Stanley had led Facebook’s IPO, and was criticized after Facebook shares fell as much as 50% in their first three months of trading, though the stock has since recovered and is well above its initial price.

J.P. Morgan Chase & Co. also is in the lead group of banks, meaning that the same three banks that led Facebook’s IPO will lead Twitter’s. Bank of America Merrill Lynch and Deutsche Bank AG are also serving as underwriters.

The largest Twitter shareholder specified in the filing is co-founder Evan Williams, who owns 12% before the offering. He became Twitter’s CEO in 2008 before being replaced by Mr. Costolo in 2010. At Twitter’s most-recent internal valuation, Mr. Williams’ stake would be valued at nearly $1.2 billion.

Other major shareholders listed in the filing include venture-capital firm Benchmark Capital, which owns 6.7% and invested in Twitter early on; co-founder Jack Dorsey, with 4.9%; and Mr. Costolo, who holds 1.6%. Based on the internal valuation, Benchmark’s stake would be valued at about $651 million; Mr. Dorsey’s stake would be worth roughly $483 million; and Mr. Costolo’s shares would be valued at about $155 million.

Four other venture-capital firms, Rizvi Traverse, Spark Capital, Union Square Ventures and DST Global, are listed as owning at least 5% of the shares, but specific share counts aren’t listed.

The clock is now ticking on when Twitter can begin its roadshow. The IPO filing must be public for at least 21 days before the company can set a price range and say how many shares it is selling.

Companies typically take at least a week to travel to different cities and meet investors on the roadshow. That means if the process moves at full speed, Twitter could begin trading around the end of the month or the first week of November.

As for the federal government shutdown, a person familiar with the deal said there isn’t a big worry right now. But a shutdown extending three weeks or longer could possibly slow the offering if the Securities and Exchange Commission isn’t operating at all when Twitter begins the roadshow, this person said.

The deal will be watched by other technology companies looking to go public, such as Box Inc., an online storage company, and Square Inc., the mobile-payments company created by Mr. Dorsey.

Several of those companies delayed potential public offerings after shares of Internet companies such as Facebook, Groupon Inc.
and Zynga Inc. sagged after their debuts. But shares in Internet companies have surged this year, amid a broader rally in the U.S. stock market.

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