Twitter Shares Tumble After Nasdaq Leaks Results Early

New Jersey firm tweets news of social-media company’s unexpectedly weak performance ahead of market’s close

Twitter’s results were leaked early on Tuesday. Above, CEO Dick Costolo. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

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Updated April 29, 2015 1:46 a.m. ET

Twitter Inc. delivered its weakest quarterly revenue growth as a publicly traded company, casting a shadow on its fledgling advertising business, which until now has been a consistent bright spot.

Investors, who sent the company’s stock down nearly 20%, were hit with a double whammy Tuesday as Twitter’s first-quarter results were leaked on the social-media service itself an hour before their release was expected.

A small New Jersey firm that crawls the Web for financial data found a link to Twitter’s
news release, and at 3:07 p.m. Eastern time it began tweeting the company’s results, starting with the news that Twitter missed revenue expectations.

The Nasdaq Stock Market, which hosts and manages Twitter’s investor-relations page, where the announcement appeared, said its website, Shareholder.com, “inadvertently made an early version of Twitter’s earnings release publicly accessible.”

The early disclosure prompted the New York Stock Exchange to halt trading in Twitter’s shares at the company’s request. Twitter formally issued its release about a half-hour before the exchange’s 4 p.m. close.

Twitter’s revenue, which grew 74% from a year earlier to $435.9 million, fell short of its own projections as well as analysts forecasts.

The company lowered its forecast for the current quarter as a result.

Twitter’s advertising business until now has defied skeptics by roughly doubling its revenue each quarter over the past year. Since its initial public offering more than a year ago, Twitter has increased its advertising offerings and improved the ads’ ability to target users.

Investors had been more worried about slowing growth in the service’s user numbers, which rebounded to meet expectations. Twitter said Tuesday that it has 302 million monthly active users, up 14 million from the previous quarter.

But investor concerns now are likely to shift to Twitter’s ability to make money from those users.
Twitter has yet to make a profit amid continuing investments in new data centers, office expansion and staff. For the latest quarter, Twitter reported a loss of $162 million, 23% wider than its year-earlier loss.

Twitter’s shares fell 18.2% on Tuesday to $42.27—their second-worst drop—mostly within the hour before the market closed. They fell another 2% in after-hours trading, altogether shaving off about $7 billion in market value.

On a conference call with analysts, Twitter Chief Executive Dick Costolo said, “While I’m disappointed we didn’t continue to exceed expectations on revenue, I am proud of the team’s focus, innovation and energy around the way we manage the business, in light of the shortfall.”

“In particular, it’s reassuring to see we could still exceed our profitability target and make the strategic investments we had planned in the quarter despite the revenue headwinds,” he said.

Twitter’s management attributed the results to subpar performance of its newer “direct response” ads, which are advertisements that resemble tweets and let users click on them and take an action, such as downloading an app.

That setback was especially troubling given how strongly these types of ads have performed for other companies, such as Facebook Inc.

Financial chief Anthony Noto attributed the revenue shortfall to Twitter’s move last fall to change its advertiser fee structure, which allows advertisers to specify exactly how they want to spend their money.

For example, if the objective was to get a user to click through to an advertiser’s website, the advertiser wouldn’t be charged if a user only favorited the paid-for tweet, the equivalent of “liking” it. This reduces the overall cost for advertisers, but they didn’t increase their spending in other ways, as Twitter had expected, to make up the difference.

Mr. Noto said the direct-response ads were in their early days. “We have a great deal of iterating and fine-tuning to do,” he said.
Before Tuesday’s results, Nomura analyst Anthony DiClemente estimated that app-install ads, a type of direct-response ad, could account for as much as $700 million, or more than a third, of Twitter’s revenue for the year.

The results show “there’s a pretty competitive environment out there,” said Mr. DiClemente. “It is concerning that Twitter’s ad revenue per user has decelerated for four consecutive quarters.”

Some advertising firms say small and medium-size businesses may not be adopting ads on Twitter as quickly as expected. In August, the company launched new tools and pricing models designed to make it simpler for marketers to create and optimize their ads across its service.

The company has also tried to appeal to these businesses with a feature that allows ad campaigns to be purchased with just a few clicks.

“Twitter was expecting self-serve to take off among [small and medium-size businesses], but a large part of its revenue growth is coming from major brands,” said Brian Wieser, senior analyst at Pivotal Research Group.

Twitter said on its call that small businesses were its fastest-growing customer for ads.

As Twitter executives sought to explain the company’s results to analysts, the company was also investigating how its results were leaked about an hour early Tuesday.

Selerity Corp., which crawls the Web for financial data, began disseminating the results in several tweets after it found a news release announcing the earnings on the company’s investor-relations webpage.

Brendan Gilmartin, a Selerity executive vice president, said his company’s software discovered the link to the release.

At the start of the earnings call, Krista Bessinger, Twitter’s head of investor relations, said the company asked the NYSE to halt trading of its stock after it realized its results
were “prematurely disclosed.” She said Twitter is investigating the matter with Nasdaq.

Mr. Gilmartin said Selerity’s Web crawler has beaten other news providers to the punch before. In December, it found that ADP LLC released its national employment report on its website before it was scheduled to be disclosed. It promptly tweeted out the numbers ahead of schedule.

In a separate news release that didn’t leak, Twitter said Tuesday that it acquired TellApart, a marketing-technology firm that will help Twitter advertisers target users as they move between mobile and desktop devices. Terms of the deal weren’t disclosed.

Twitter also said it has entered into a partnership with Google Inc.’s DoubleClick platform to help advertisers understand how Twitter ads compel users to take action on them across the Web.

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