

# Twitter is powerful, but where are the profits?

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It can help overthrow dictators. But can it make money?

Protesters famously used Twitter to organize during the Arab Spring three years ago. President Barack Obama announced his 2012 re-election victory using the short messaging service. Lady Gaga tweets. So does the pope.

But for all its power and reach, Twitter gushes losses — \$65 million in the third quarter, nearly three times more than it lost a year ago.

As Wall Street analysts size up Twitter ahead of its first public stock sale this week, more than a few are expressing concern about the company's lack of profits.

Those misgivings are echoed by average investors. Some 47 percent of Americans believe Twitter won't be a good investment, according to a recent AP-CNBC poll.

Of course, a company's pre-IPO losses are no indication its stock will do poorly. Amazon.com had big losses before it went public 16 years ago and still occasionally posts them. Yet its stock is up more than 18,000 percent since the IPO.

Even so, future Twitter shareholders poring over the company's more than 200-page IPO document are being asked to take a leap of faith. The document never makes clear when the company will sell enough ads to stanch the red ink and deliver sustainable profits.

What's Twitter's sales pitch to potential investors?

"They're taking you to the edge of a swamp and saying, 'Someday, this is going to be paradise,'" says Anthony Catanach, a professor of accounting at Villanova University.

Pessimists who have gazed at that swamp believe Twitter is going public too soon but can't resist exploiting a market in which investors are eager to look past losses as stock prices soar to record highs. Optimists refuse to believe a company that has turned itself into a worldwide water cooler in just seven years can't make big money — at least someday.

"Twitter is in its infancy, and it's a site a lot more people will go to," says Michael Pachter, an analyst at Wedbush Securities. "They'll figure out how to sell advertising."

Many money managers seem to agree. In a reflection of high demand from them for the stock, Twitter on Monday increased its expected IPO price to \$25 per share, up from \$20.

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Published on Electronic Component News (<http://www.ecnmag.com>)

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To the optimists, Twitter's losses are expected, even welcome, as the company spends hundreds of millions of dollars to attract users and build an ad business.

Twitter, those who are bullish about the company point out, is allowing TV advertisers to grab the attention of people who are using Twitter to engage in running commentary on the shows they're watching.

When the lights went out during the Super Bowl in February, for instance, Oreo-maker Mondelez tweeted a picture of the cookie with the caption, "You can still dunk in the dark." People re-tweeted the ad 15,000 in a few hours.

Another example: Earlier this month, moments after New England quarterback Tom Brady was intercepted in a big game, the NFL sent its Twitter followers a video replay, preceded by an eight-second Verizon ad.

Debra Aho Williamson, an analyst at research firm eMarketer, sees plenty more opportunity for Twitter to shake up the ad world. She says Twitter is an ideal medium for targeting people with ads while they're away from home because it's mostly accessed by smartphones and other mobile devices.

Williamson muses about a future in which you tweet that you're hungry for a particular snack, and Twitter, using the location service on your device, sends you a coupon and directs you to a store nearby.

Unfortunately, that's not all that potential Twitter investors are left to muse over after studying the company's IPO document. What companies are its biggest advertisers? The document doesn't say. When does it hope to make profits? It's not clear.

What we do know from the document raises questions about whether Twitter's race to grow quickly is faltering. Twitter had 232 million users in September, up 6 percent from June. The number of people using Twitter had been growing at double-digit rates last year.

Another problem: Those 232 million users are just one-fifth of the 1.19 billion monthly users on Facebook, a big rival for social-media ad dollars.

Brian Wieser, an analyst at Pivotal Research Group, says investors shouldn't be put off by Facebook comparisons. He says Twitter is a "niche" business, but one with potentially a bright future selling ads. He reckons the company is worth maybe \$29 per share.

But even bulls like Wieser say Twitter is a gamble. Twitter is less developed than most companies going public, he says, and is therefore an investment perhaps better suited for a venture capitalist than a public investor.

"They have to invent the ad products. They have to evangelize to marketers," he says. "They have to get advertisers to cut checks."

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As with any company in the early stages of building its business, investors should expect plenty of hiccups, and in surprising places.

Take Twitter's supposed strength — all those users accessing it via smartphones. Skeptics say that because of the small screen, Twitter could easily alienate users as it tries to squeeze in more tweets from advertisers.

One thing Twitter pessimists can't deny about the IPO: The timing seems perfect. The tech-heavy Nasdaq index is up 30 percent in 2013, and the stocks of plenty of unprofitable companies have soared.

Zynga, a maker of games played over the Internet, is losing money this year and is expected to do the same in 2014. Its stock is up 56 percent this year. Yelp, the user-generated review site, is a big money loser, too. Its stock has more than tripled.

"People get very excited about social media," says Villanova's Catanach. "The passionate user-base wants to invest."

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