

Twitter IPO Report Abstract



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Twitter has developed a fundamentally new way for people to discover, find, create and distribute content, with an emphasis on simplicity and real-time communication. The company had 232 million monthly active users around the world as of September 2013 posting some 500 million tweets a day. In our view, the combination of Twitter's offerings and large user base contributes to what the company calls "powerful shared experiences."

Mobile is a key element of Twitter's growth story, with more than three-quarters of users accessing the platform from a mobile device. About 70% of its revenues are generated via mobile. We also note that 77% of Twitter's users are based outside the U.S., but only around a quarter of revenues originate from international sources, which we see as a significant opportunity.

Twitter generates most of its revenues from advertising and the balance from data licensing. Primary advertising products consist of Promoted Tweets, Promoted Accounts, and Promoted Trends. Twitter also licenses its data, allowing partners to access, search and analyze historical and real-time data on its platform, consisting of public tweets.

Twitter's growth strategy is focused on the platform's three primary constituents: users, platform partners, and advertisers. Twitter is looking to grow its user base around the world, improve engagement, and build and buy new complementary technologies and offerings. Innovation and acquisitions have been a major emphasis, and we note a number of new offerings and acquisition activity in 2013.

We project substantial revenue growth for Twitter over the next several years. Based on our estimates, we calculate a compound annual growth rate [CAGR] for revenues of 97% from 2013 to 2015, driven largely by the advertising business, as the company focuses on monetization and seizes upon potential international opportunities. Nonetheless, Twitter has been losing money, and we do not foresee operating profitability until 2015.

Without earnings, we believe an appropriate way to value the company is relative price-to-sales and price-to-sales-to-growth analysis. We assembled a peer group of 10 publicly traded high-growth technology, Internet and social media companies based around the world. Our analysis yields a valuation for the company of \$11.3 billion to \$13.7 billion, which is below where Twitter valued itself just last month, and mostly below the contemplated IPO valuation, based on the initial price range indicated by the company.

Our valuation assessment reflects the considerable risks we see related to some confusion about Twitter's offerings and their appeal, a number of larger and comparably positioned competitors, indications of decelerating growth in users and engagement, significant operating and net losses we see into 2015, and our view of somewhat lacking corporate governance.

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Ranking	N. America	Europe	Asia	Global
Buy	36.5%	33.5%	32.3%	25.6%
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Sell	9.3%	23.0%	8.2%	11.3%
Total	100.0%	100.0%	100.0%	100.0%

STARS Raking System and Definition:

★★★★★ 5-STARS [Strong Buy]:

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARS [Buy]:

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARS [Hold]:

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

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Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

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