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How Much Is Twitter Worth? Less Than You Think

By Om Malik

Twitter, the San Francisco-based micro-messaging startup, recently raised about \$98 million dollars from T. Rowe Price, Insight Venture Partners, Spark Capital and Institutional Venture Partners, valuing the company at a whopping \$1.1 billion. NeXt Up Research, the firm founded by veteran financial analyst Michael Moe, disagrees with that post-money valuation, and instead values Twitter at about \$526-\$674 million. NeXt Up's research report is offered to users of SharesPost, a Santa Monica, Calif.-based private online exchange that allows the sale of shares of private companies to willing buyers. Most of their concern is coming from the lack of revenues and worries that any diversification into money-making services could alienate the Twitter user base. According to the report, Twitter has over 70 million users.

The company's revenue model has yet to be tested. We believe that most revenue generation options available to the company have the potential to alienate at least some of Twitter's user base. Twitter may not have adequate time to revise its models before it loses its critical mass and reputation. Our estimated valuation of \$526M – \$674M is below the recent preferred funding round at a \$1.1B valuation. However, we note that the preferred shares benefit from liquidation preference that limit the downside. We expect common share valuation to be driven by the company's revenue growth and profitability potential over the next 3 – 5 years.

They are estimating that Twitter will make between \$114 million and \$134 million in 2013 and between \$126 million and \$148 million in 2014. I bet these numbers don't take into account the gobs of money Twitter is going to be making by licensing its data to both Microsoft and Google. No one really knows how much the two giants are ponying up for the Twitter fire hose.

Exhibit 22: Possible Avenues of Revenue

Revenue Model	Description	Comments
Licensing data feed	Provide data feed to incorporate into search engine (Google, Bing) results in return of fee	With glitches in Twitter's own real time search, and company's aversion to web ads, licensing data feed is better way of real time search monetization
Premium accounts for businesses	Charges for outgoing messages, Providing verified and feature rich premium account, Adding analytics to business users.	Most cost effective among all direct marketing approaches (Exhibit 21). But too many business ads can alienate users
Charging Third Party Apps	Access fees on the basis of query traffic	Easy to implement a dynamically adjustable pricing structure
Premium charges for Individuals	Have a tiered structure for heavy users	Only a limited user base has large enough following to make this a high potential revenue stream
Web Ads	Ad displayed on Twitter site targeted to user profile	Website accounts for less than 20% usage Does not seem to fit in with company's philosophy
Inserting ads in tweets	Easy and quick to implement	Easiest way to alienate users

Source: NeXt Up Research

Nevertheless, the report points out that Twitter has a special appeal for marketers. Twitter can share in the revenues generated by big brands.

We estimate that Twitter's opt-in feature allows for one of the most cost effective approaches for direct marketers. The cost of an effective message through Twitter, in our estimate, is likely to be (depending on how Twitter chooses to price it) less than \$0.50, far lower than other approaches such as telemarketing or direct mail, which can cost an order of magnitude more.

For instance, Dell has indicated that it generated \$3M in revenues from June 2007 to June 2009, of which \$1M were in the last six months. The followers of Dell (who have opted in to receive messages) soared from 11k in December 2008 to 1.3 million in October 2009. We believe there are hundreds of businesses which have the potential to generate over \$1M in revenues, allowing Twitter to claim a share for referral.

This type of marketing approach is no different than the Fan Pages being established by large brands on Facebook. In both cases, users have to opt in to participate in various marketing efforts, essentially making them more valuable than recipients of, say, random email newsletter-based offers.

Here are some other tidbits in the report about Twitter that might be of interest:

- The U.S. has the largest number of Twitter users at 57.4 percent, followed by the UK with 8.2 percent, Canada (5.9 percent), Australia (2.9 percent), Brazil (2.1 percent), Germany (1.6 percent) and the Netherlands (1.3 percent.)
- Nearly 28 percent of Twitter users are above the age of 45, while 26 percent users are between the ages of 15-24.
- About 18.4 percent of tweets emerge from Tweetdeck, while Tweetie accounts for 9.1 percent and Seismic is at 6 percent of the total. Its web interface accounts for 17.8 percent of total tweets.