
My Life Without God or Twitter

By [Kevin Rose](#), in our one-man New York office

If you are on Twitter, then you have probably noticed that Steve and Gareth, my International Fund colleagues, enjoy the [occasional tweet](#). They keep trying to bring me into the fold, but while this pair are stuffing about following some guy who calls himself [God](#) (most recent revelation to the world: “at the end of the day, it’s 11:59pm”), someone has to do some actual research.

Maybe you have also heard that Twitter is going public - an obvious strategic step given an IPO market as frothy as any in recent memory. Perhaps not quite the heady days of 1999. But Mr Market, once again, doesn’t seem to care too much about profit. Rumour has it that Twitter will be valued somewhere around \$15bn, this despite seven years of losses. I’m out of my depth when assessing valuations for immature, “growthy” companies that lack defined business models, but such a price would equate to 33x revenue. That is considerably richer than the valuation multiples awarded other social networks like Facebook (18x) and LinkedIn (21x).

Is Twitter worth it?

Twitter is not Facebook. Facebook has over one billion active users – Twitter has 218 million. Facebook is a mass market social medium - Twitter is an acquired taste. It’s a quirky, supposedly useful, real-time tool that seems to have found a home with celebrities, media types, newshounds, and pretty much anyone selling something. But user growth is stalling, having only grown 7% in the most recent quarter. And the \$2 of revenue that Twitter generates from each one of those users is far less than the \$6 that Facebook generates.

Twitter makes money by selling advertising. In order to do that, it has to convince advertisers of its value. Ad buyers will tell you they have problems with Twitter: (1) doesn’t have enough users; (2) too hard to use; (3) can be an overwhelming flood of information; and (4) there’s a large, unknown number of fake/duplicate accounts. In order for the 33x revenue valuation to make sense, it will need to escape its niche personality and become a compelling destination for everyone. Can Twitter go mainstream? Paint me skeptical.

Perhaps more concerning is that the company is spending significantly to grow its business, especially overseas. Overseas digital ad markets are significantly less attractive than the US market. On a per user basis, Facebook makes 2.5 times as much in the US as it does in Europe, and 6.5 times more than everywhere else. Since Twitter is expecting much of its growth to come from overseas, don’t expect to get much payback for that \$1bn capital raise any time soon. My first tweet: #twitteristhenewyahoo