

VALUATION MASTER CLASS

by
A. Stoltz INVESTMENT
RESEARCH

Is **Snapchat's** crash symbolic of the **social** **media fall?**



Valuation Master Class



**What's interesting
about Snapchat is that its
share price is 82% below
its Oct '21 all-time high**



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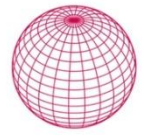
This information is for
learning purposes only.

***This is not
investment advice or a
recommendation.***

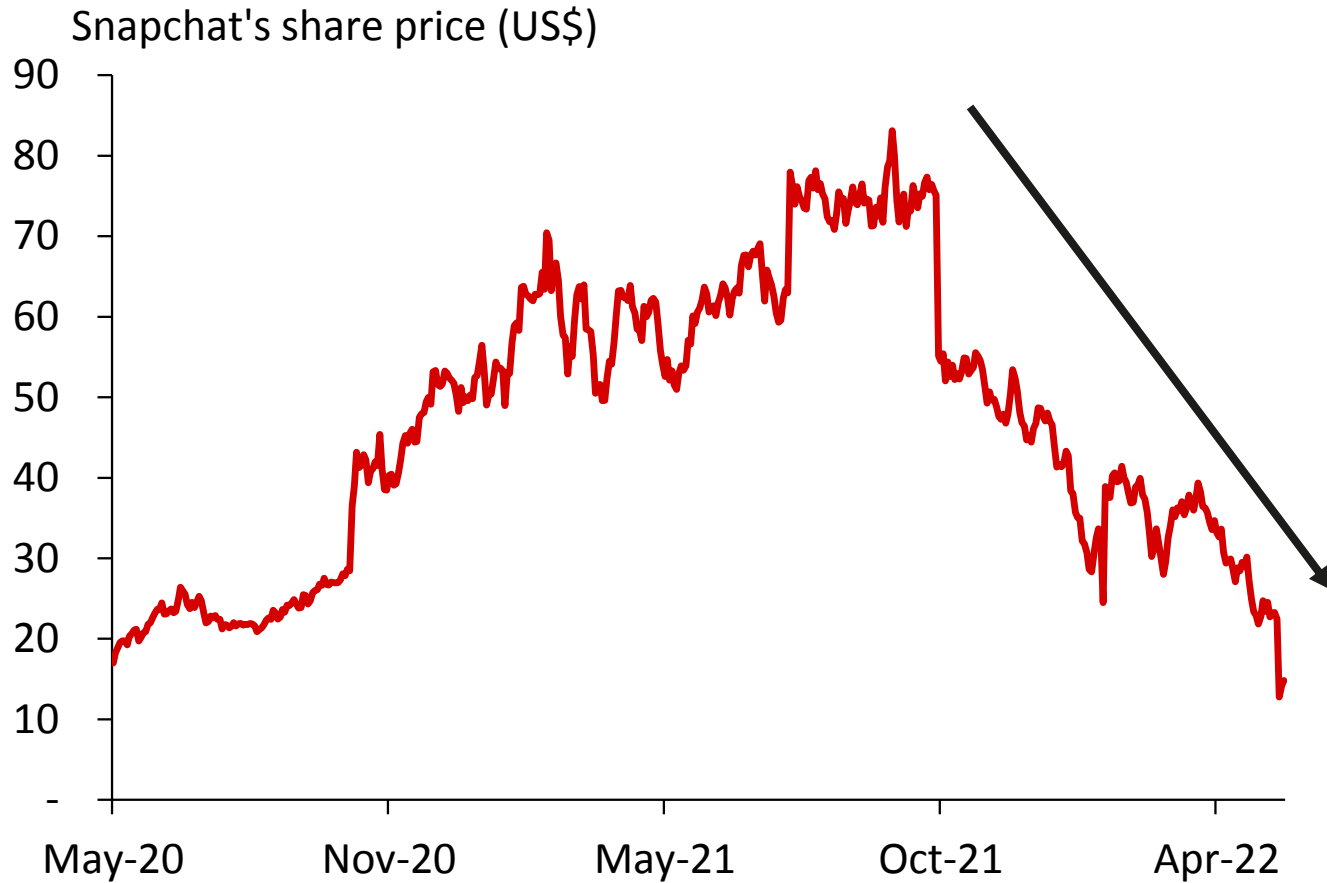


Ask
Ajarn
Andrew

The rise and fall of Snapchat's share price

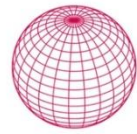


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- ★ During the pandemic, Snapchat's share price surged to US\$83
- ★ However, subsequent earnings releases were very disappointing and brought the price back to pre-pandemic levels

Let's go to the latest annual report



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Investor Relations

Overview About Snap Events & Presentations **Financials** News Impact Reporting Stock Information Governance Resources

Annual Report
Quarterly Results
SEC Filings

Investor Relations

Replay the Snap Partner Summit 2022

NYSE: SNAP

\$14.81

May 26, 2022 4:00 PM, Pricing delayed by 20 minutes

Snap Inc. is a camera company.

We believe that reinventing the camera represents our greatest opportunity to

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
OF 1934 FOR THE TRANSITION PERIOD FROM TO**

TABLE OF CONTENTS

[Note Regarding Forward-Looking Statements](#)
[Risk Factor Summary](#)
[Note Regarding User Metrics and Other Data](#)

PART I

Item 1. [Business](#)
Item 1A. [Risk Factors](#)
Item 1B. [Unresolved Staff Comments](#)
Item 2. [Properties](#)
Item 3. [Legal Proceedings](#)
Item 4. [Mine Safety Disclosures](#)

Page
1
3
5

PART II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	46	46
Item 6.	Reserved	47	47
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	48	48
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	63	63
Item 8.	Financial Statements and Supplementary Data	65	65
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	101	101
Item 9A.	Controls and Procedures	101	101
Item 9B.	Other Information	102	102
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	102	102

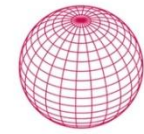
If an emerging growth company, indicate by checkmark if the Registrant has elected not to use it with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934. ☐
Indicate by check mark whether the registrant has filed a report on and attestation to its management internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7201-02) by a registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). ☐
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the shares of Class A common stock on the New York Stock Exchange on June 30, 2021, the recently completed second fiscal quarter, was approximately \$81.7 billion.

As of February 1, 2022, the Registrant had 1,369,920,406 shares of Class A common stock, 22 and 231,626,943 shares of Class C common stock outstanding.

Auditor Firm Id: 42 Auditor Name: Ernst & Young LLP Auditor Location:

First, you need to understand the underlying drivers



Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs that involve significant risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to those differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in "Risk Factors," "Note Regarding Forward-Looking Statements," and "Note Regarding User Metrics and Other Data."

The following generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. Discussion of historical items and year-to-year comparisons between 2020 and 2019 that are not included in this discussion can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 4, 2021.

Overview of Full Year 2021 Results

Our key user metrics and financial results for fiscal year 2021 are as follows:

User Metrics

- Daily Active Users, or DAUs, increased to 319 million in Q4 2021, compared to 265 million in Q4 2020.
- Average revenue per user, or ARPU, increased 18% to \$4.06 in Q4 2021, compared to \$3.44 in Q4 2020.

**Annual report:
Page 48**



What are internal revenue drivers?



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$$\text{Revenue} = \text{Quantity} \times \text{Price}$$

Quantity-driven

- Add outlets, capacity, staff
- Expand to other regions
- Enter new line of business
- Take over competitor

Price-driven

- Charge a higher price
- Shift to higher profit margin products

What possibilities does Snapchat have to increase revenue?



$$\text{Revenue} = \text{Quantity} \times \text{Price}$$

Quantity-driven

- Add outlets, capacity, staff
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- Take over competitor

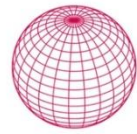
Price-driven

- Charge a higher price
- Shift to higher profit margin products

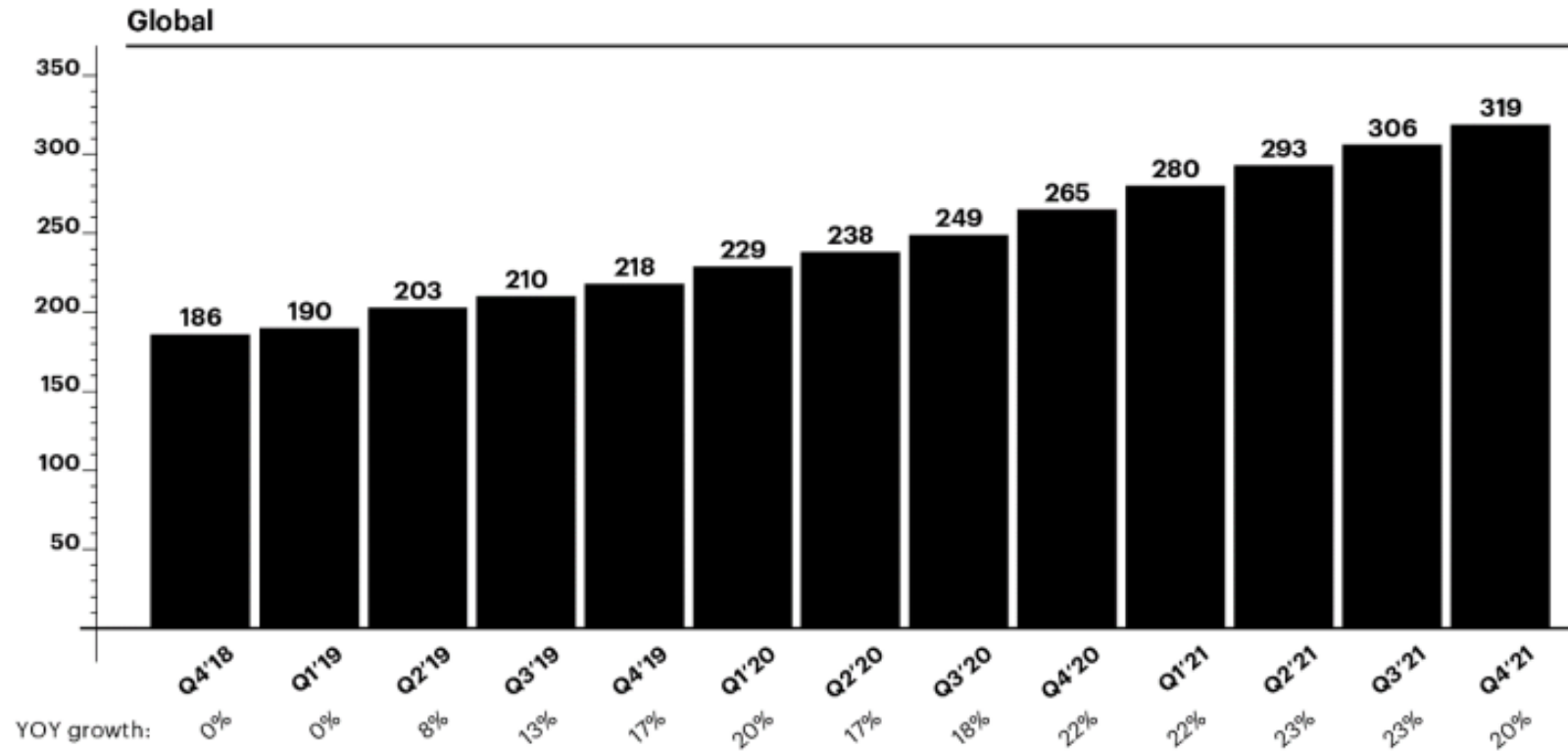
Snapchat

Increase number of daily active users (DAU)

Snapchat was able to rapidly increase its users over time



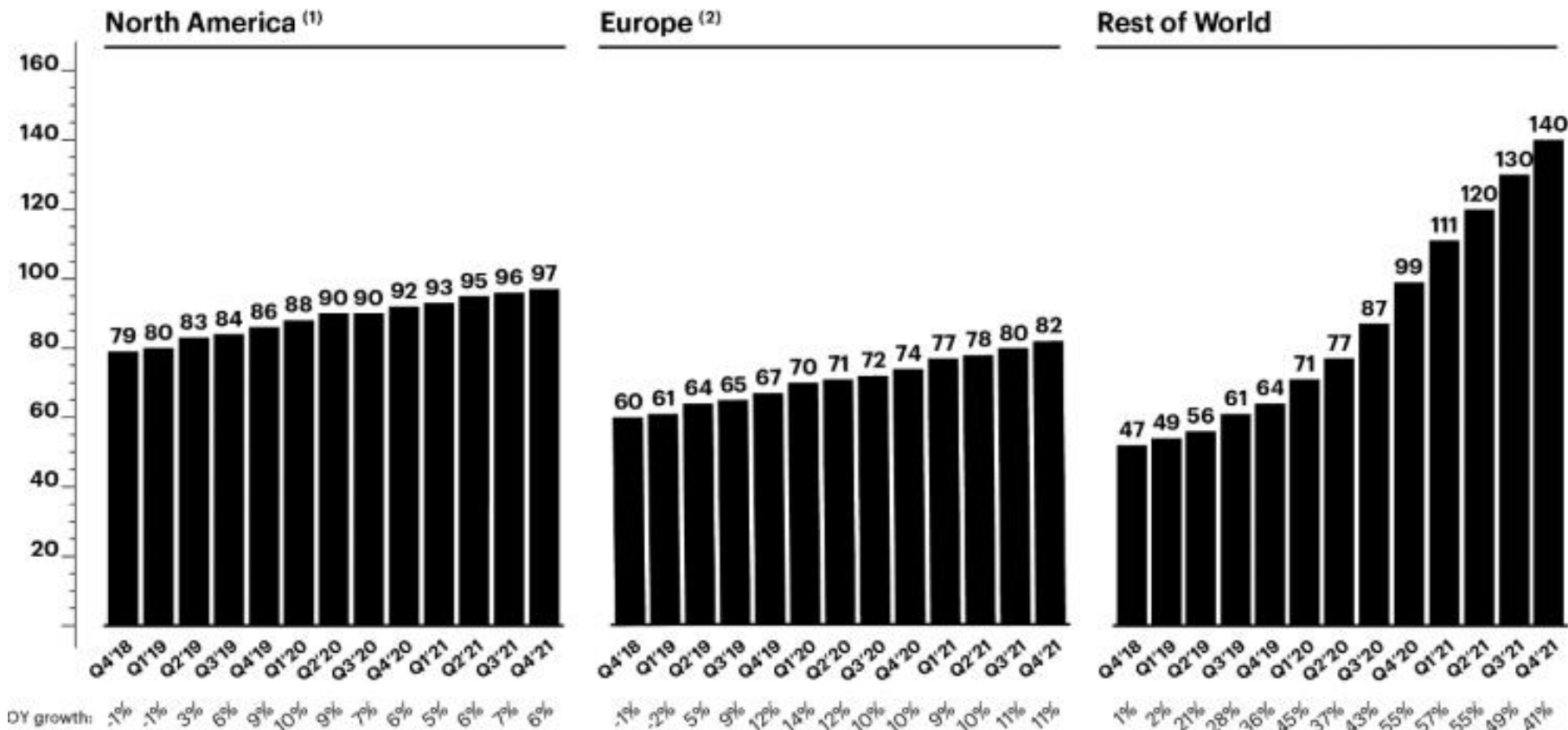
Quarterly Average Daily Active Users
(in millions)



Annual report:
Page 49

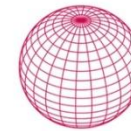


North America and Europe start maturing, Asia drives growth



Annual report:
Page 49





$$\text{Revenue} = \text{Quantity} \times \text{Price}$$

Quantity-driven

Add outlets, capacity, staff
Expand to other regions
Enter new line of business
Take over competitor

Price-driven

Charge a higher price
Shift to higher profit margin products

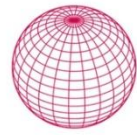
Snapchat

Increase number of daily active users (DAU)

Snapchat

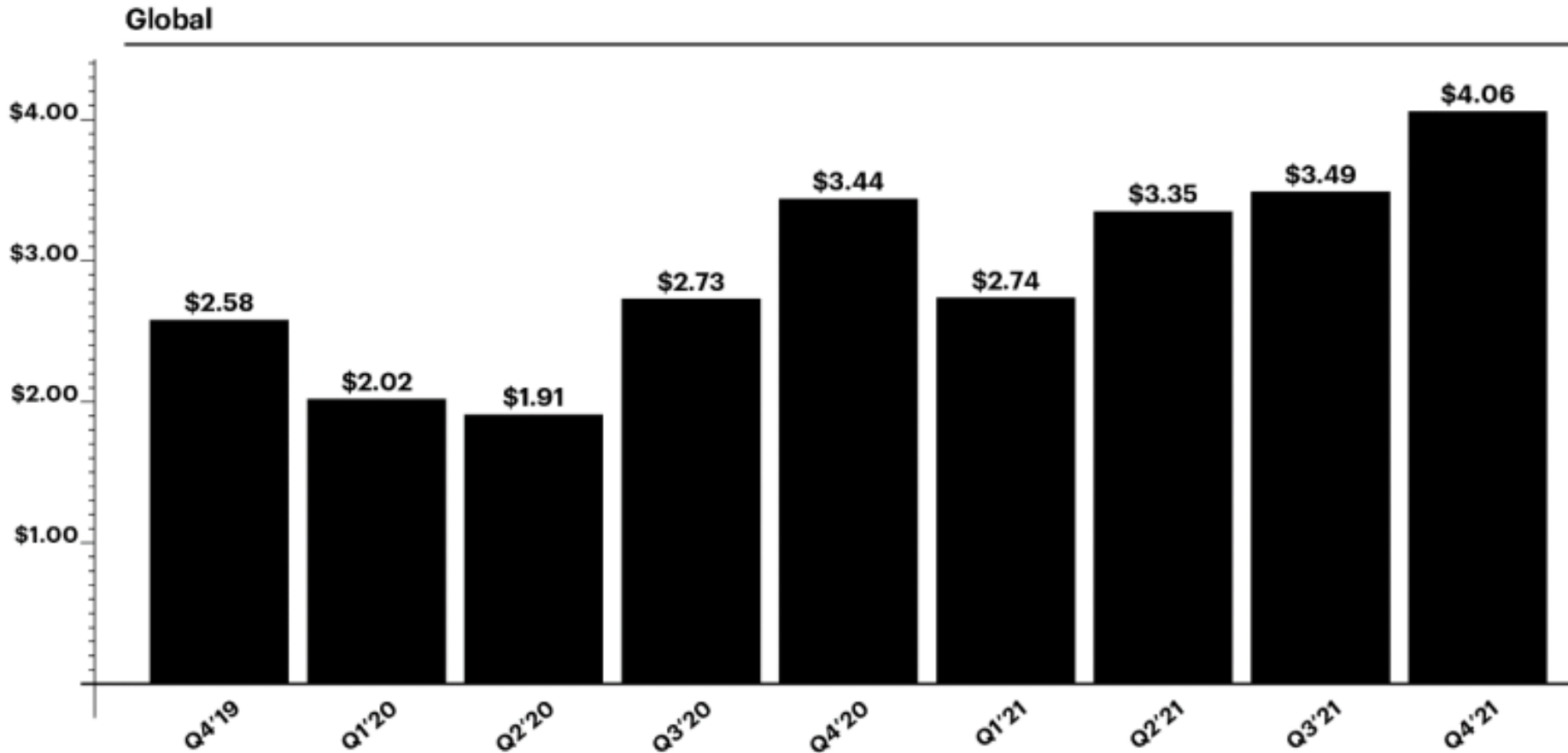
Increase average revenue per user (ARPU)

Snapchat has still difficulties monetizing its users



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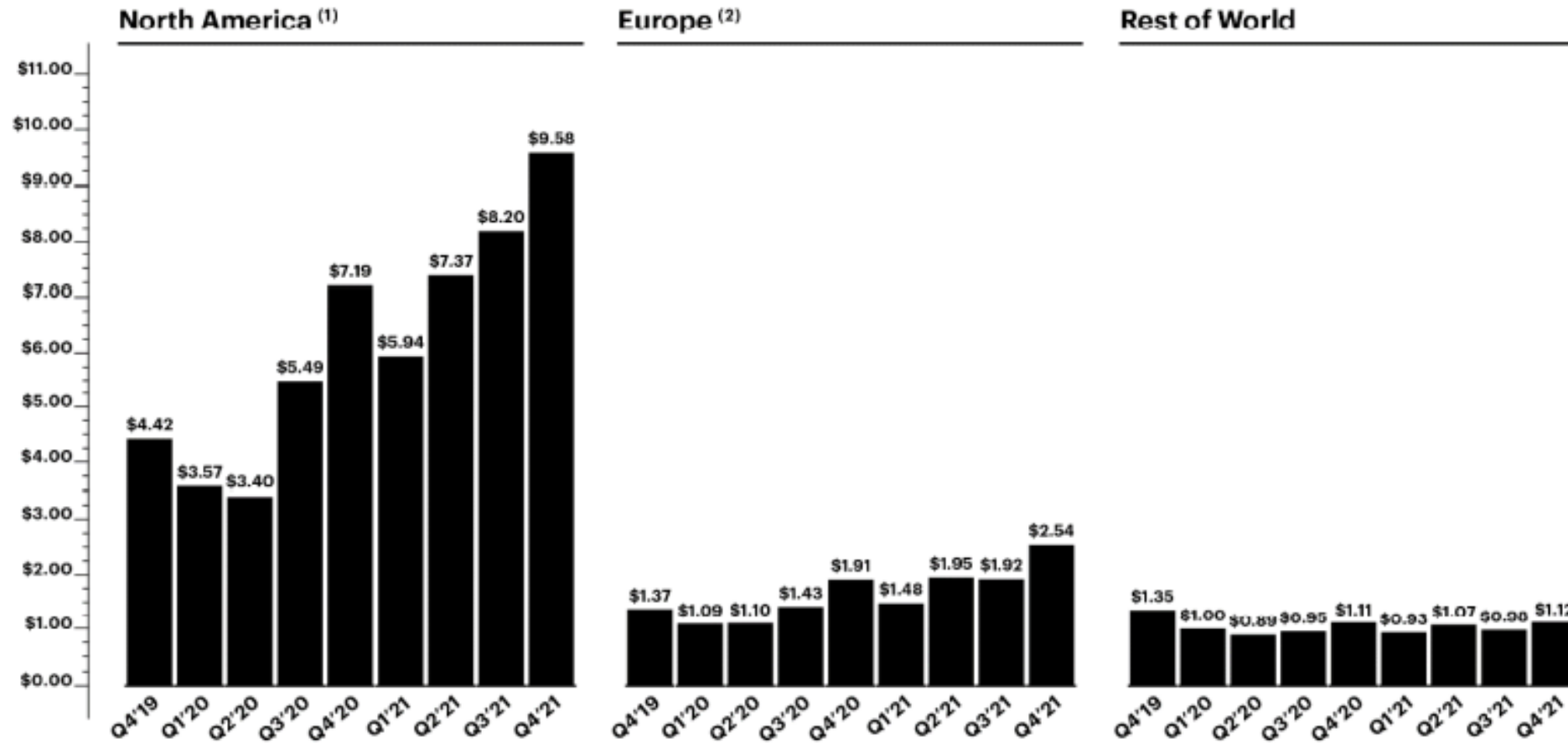
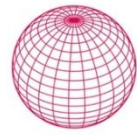
Quarterly Average Revenue per User



Annual report:
Page 50



Though, it makes some progress in the US



Annual report:
Page 50



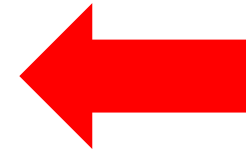
From the annual report, we extract the data for quantity and price



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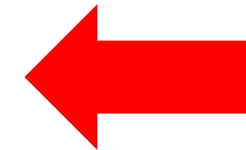
Daily active users	2019	2020	2021
North America	83.3	90.0	95.3
Europe	64.3	71.8	79.3
Rest of world	57.5	83.5	125
Global	205	245	300

ARPU (yearly)	2019	2020	2021
North America	12.8	18.3	30.1
Europe	4.7	5.9	8.3
Rest of world	6.0	5.2	4.7
Global	8.4	10.2	13.7



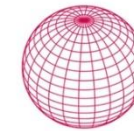
Quantity

X



Price

Revenue is automatically calculated by simple multiplication



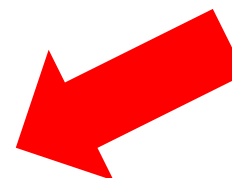
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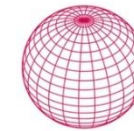
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Revenue	2019	2020	2021
North America	1,068	1,650	2,871
Europe	300	425	660
Rest of world	348	431	585
Global	1,716	2,507	4,117

Revenue



Now, we have our framework for forecasting revenue



Daily active users	2019	2020	2021	2022E	2023E	2024E
North America	83.3	90.0	95.3			
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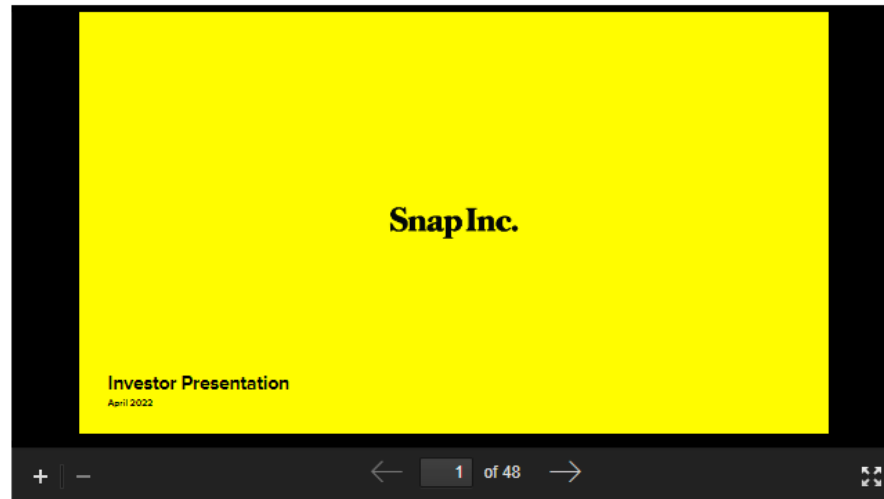
Next, we want to understand the latest business developments



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April 2022 Investor Presentation

04/21/2022



View All Presentations

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Quarterly Results

☐ Webcast

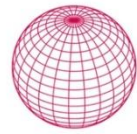
Press Release

Earnings Slides

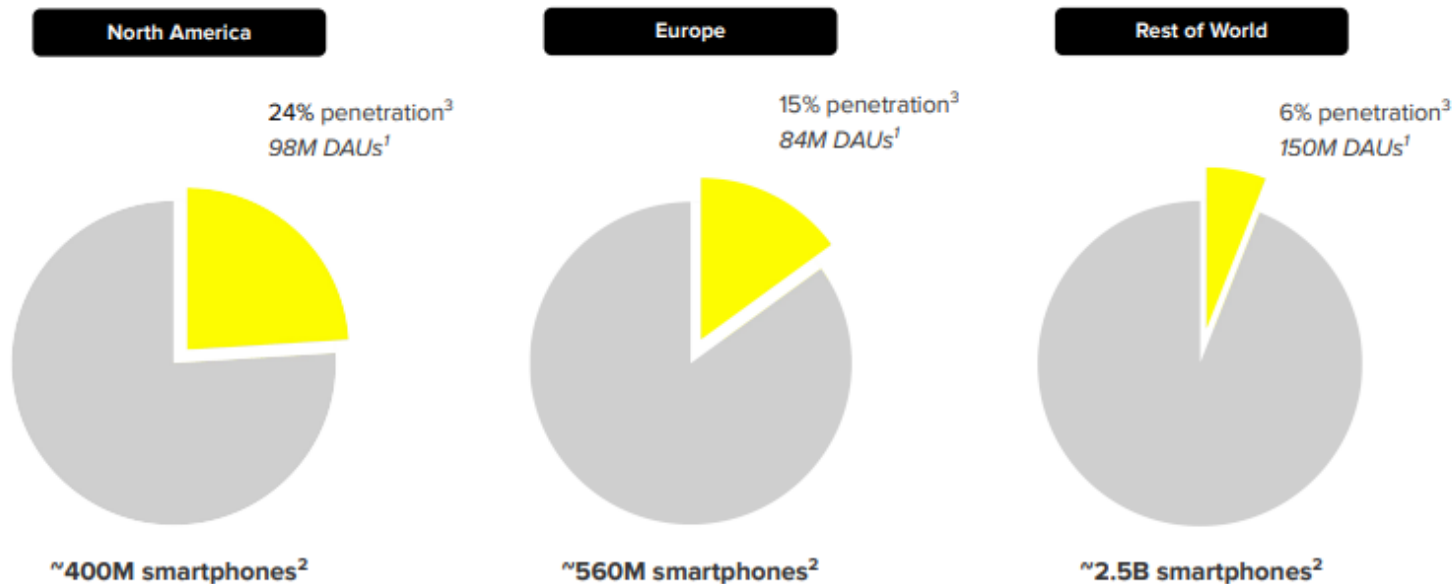
10-Q

Transcript

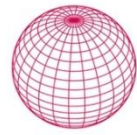
View All Results



Significant Opportunity to Globally Expand Our Community

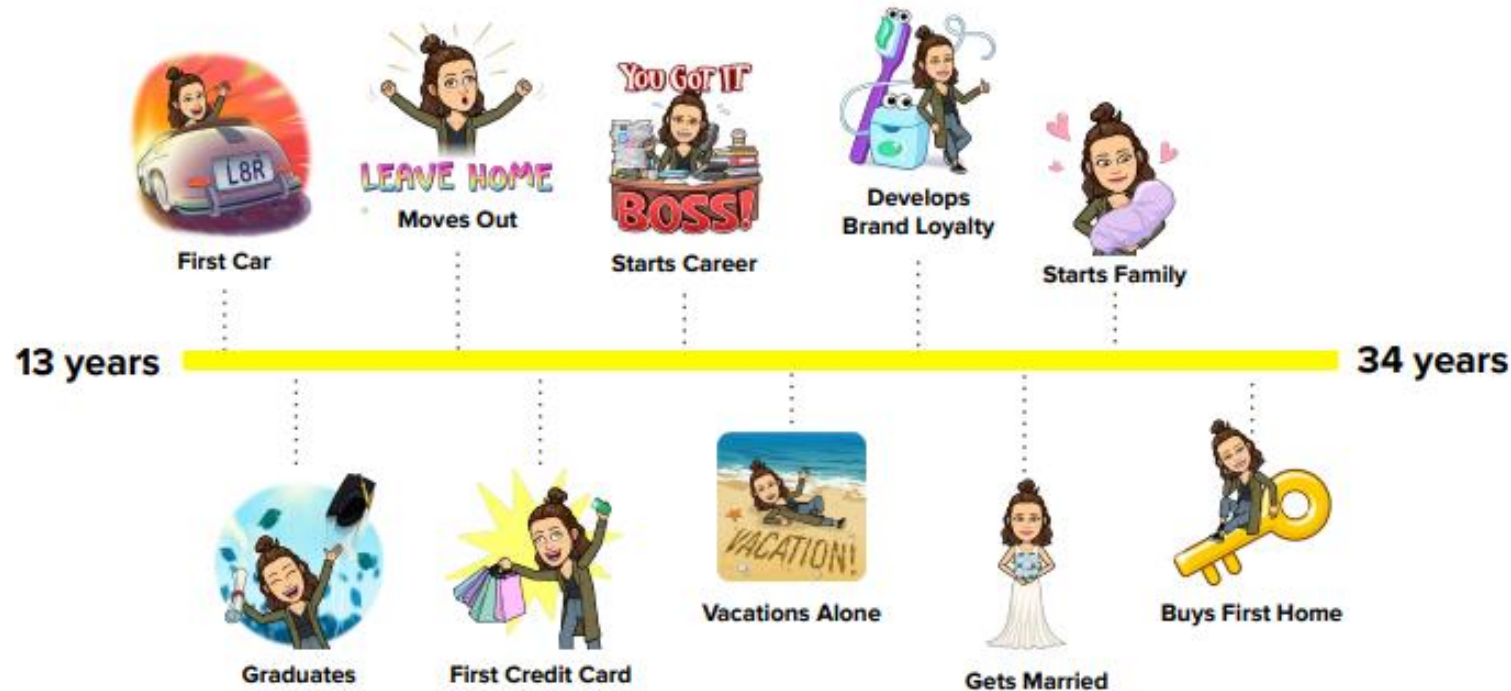


- ★ It estimates the total addressable market to be the number of global smartphone users
 - That's why the penetration rate looks rather small and there seems to be a massive potential
 - But...

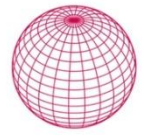


Why This Age Range Is Critical

Between the ages of 13 and 34, people experience many common milestones in life.



- ★ Snapchat considers the population between 13 and 34 years as its most important market



High Penetration in Most Established Markets



90%

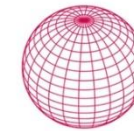
of the 13 to 24-year-old population.

75%

of the 13 to 34-year-old population.

- ★ In developed markets, the penetration rate is close to maximum
- ★ This means that growing quantity (number of users) likely must come from emerging markets, in particular, Asia

Low growth for US and Europe, higher growth for rest of the world



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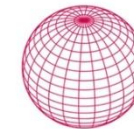
Daily active users	2019	2020	2021	2022E	2023E	2024E
North America	83.3	90.0	95.3	98.1	101	104
Europe	64.3	71.8	79.3	81.6	84.1	86.6
Rest of world	57.5	83.5	125	135	149	164
Global	205	245	300	315	334	354

Up 31% from
2021

ARPU (yearly)	2019	2020	2021	2022E	2023E	2024E
North America	12.8	18.3	30.1			
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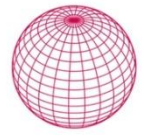
Now, we forecast the price component



Daily active users	2019	2020	2021	2022E	2023E	2024E
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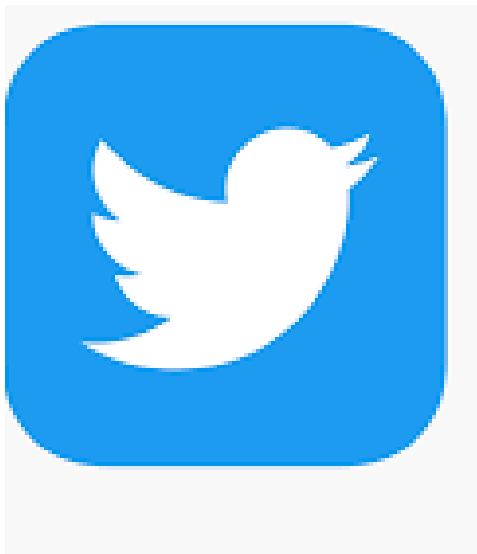
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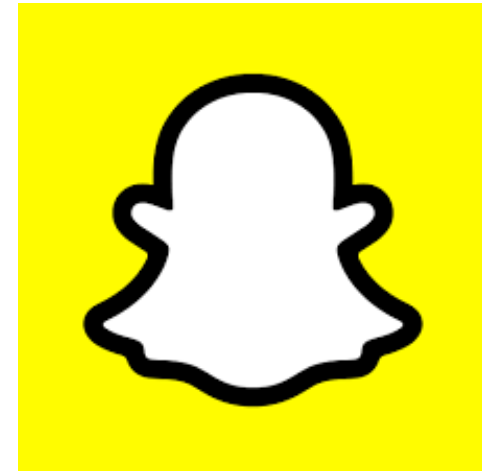
Average revenue per user



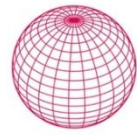
US\$40



US\$20

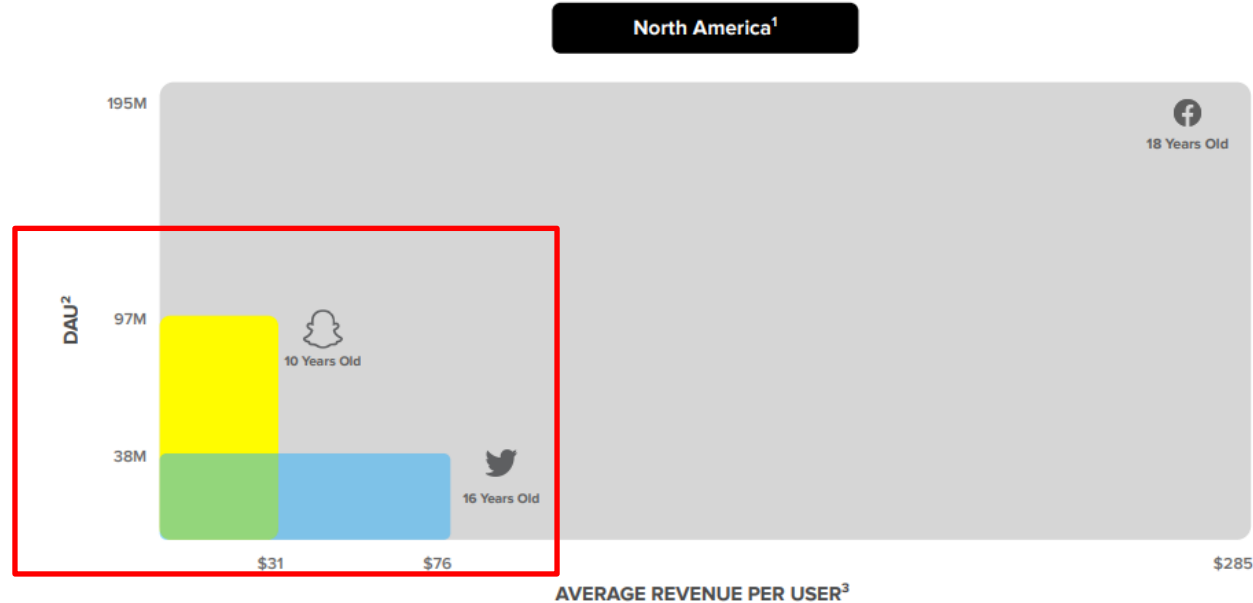


US\$14



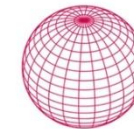
Significant DAU and ARPU Opportunities

North America is critical to growing revenue in the near and medium term—and we have a long runway ahead of us.



- ★ The North American market is priority No. 1 for Snapchat
- ★ While it has 3x more daily active users than Twitter in the US, it generates less than half of revenue per user

Monetization could converge closer to Twitter's results



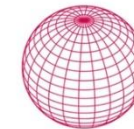
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North America	12.8	18.3	30.1	38.0	50.0	60.0
Europe	4.7	5.9	8.3	10.0	14.0	20.0
Rest of world	6.0	5.2	4.7	5.0	7.0	9.0
Global	8.4	10.2	13.7	16.6	21.8	26.7

Revenue	2019	2020	2021	2022E	2023E	2024E
North America	1,068	1,650	2,871			
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Revenue is calculated automatically; forecast is complete



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Europe	4.7	5.9	8.3	10.0	14.0	20.0
Rest of world	6.0	5.2	4.7	5.0	7.0	9.0
Global	8.4	10.2	13.7	16.6	21.8	26.7

Revenue	2019	2020	2021	2022E	2023E	2024E
North America	1,068	1,650	2,871	3,728	5,053	6,245
Europe	300	425	660	816	1,177	1,732
Rest of world	348	431	585	676	1,042	1,473
Global	1,716	2,507	4,117	5,221	7,271	9,450

Let's take a look at the recent filings




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 Investor Relations












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SEC Filings

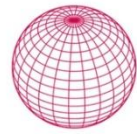
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Select year: **2022** 

Date	Filing Type	Filing Description	Download / View
May 25, 2022	4	Statement of Changes in Beneficial Ownership	  
May 23, 2022	8-K	Current report filing	    
May 18, 2022	4	Statement of Changes in Beneficial Ownership	  

What is an 8-K filing?



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[HOME](#) > [Introduction to Investing](#) > [Glossary](#)

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How Stock Markets
Work



Investment
Products



What is Risk?

Role of the SEC



Glossary

Form 8-K

In addition to filing annual reports on [Form 10-K](#) and quarterly reports on [Form 10-Q](#), publicly reporting companies must report certain material corporate events on a more current basis. [Form 8-K](#) is known as a “current report” and it is the report that companies must file with the SEC to announce major events that shareholders should know about.

Companies generally have four business days to file a Form 8-K for an event that triggers the filing requirement. However, if the issuer is furnishing a Form 8-K solely to satisfy its obligations under [Regulation FD](#), then the due date might be earlier.

[Learn more.](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): May 23, 2022

SNAP INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-38017
(Commission
File Number)

45-5452795
(IRS Employer
Identification No.)

3000 31st Street
Santa Monica, California
(Address of Principal Executive Offices)

90405
(Zip Code)

Registrant's Telephone Number, Including Area Code: (310) 399-3339

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.00001 per share	SNAP	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 7.01 Regulation FD Disclosure.

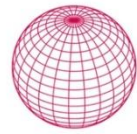
Since we issued guidance on April 21, 2022, the macroeconomic environment has deteriorated further and faster than anticipated. As a result, we believe it is likely that we will report revenue and adjusted EBITDA below the low end of our Q2 2022 guidance range. We remain excited about the long-term opportunity to grow our business. Our community continues to grow, and we continue to see strong engagement across Snapchat, and continue to see significant opportunities to grow our average revenue per user over the long term.

This information is furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended. The information shall not be deemed incorporated by reference into any other filing with the U.S. Securities and Exchange Commission made by Snap Inc., whether made before or after today’s date, regardless of any general incorporation language in such filing.

Forward-Looking Statements

This Current Report on Form 8-K (“8-K”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this 8-K, including statements regarding guidance, our future results of operations or financial condition, business strategy and plans, user growth and engagement, product initiatives, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “excited,” “expect,” “going to,” “intend,” “may,” “opportunity,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. We caution you that the foregoing may not include all of the forward-looking statements made in this 8-K.

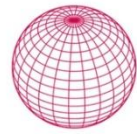
You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this 8-K primarily on our current expectations and projections about future events and trends, including our financial outlook, the macroeconomic environment, geo-political conflicts, and the COVID-19 pandemic, that we believe may continue to affect our business, financial condition, results of operations, and prospects. These forward-looking statements are subject to risks and uncertainties related to: our financial performance; our lack of historical profitability; our ability to generate and sustain positive cash flow; our ability to attract and retain users, publishers, and advertisers; competition and new market entrants; managing our international expansion and our growth and future expenses; compliance with new laws, regulations, and executive actions; our ability to maintain, protect, and enhance our intellectual property; our ability to succeed in existing and new market segments; our ability to attract and retain qualified and key personnel; our ability to repay outstanding debt; future acquisitions, divestitures or investments; and the potential adverse impact of climate change, natural disasters, health epidemics, and war or other armed conflict, as well as risks, uncertainties, and other factors described in “Risk Factors” and elsewhere in our most recent periodic report filed with the U.S. Securities and Exchange Commission, or SEC, which is available on the SEC’s website at www.sec.gov. Additional information is available in Snap Inc.’s periodic reports filed with the SEC. In addition, any forward-looking statements contained in this 8-K are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this 8-K or to reflect new information or the occurrence of unanticipated events, including future developments related to the macroeconomic environment, geo-political conflicts, and the COVID-19 pandemic, except as required by law.



Item 7.01 Regulation FD Disclosure.

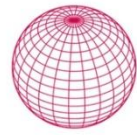
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- ★ A company always has more information than any investor
 - **The company did not provide any guidance on how bad the impact actually is**
- ★ The only thing we can take away from the company's statement is to reconsider our revenue drivers
- ★ But if we take a look at Snapchat's fundamentals, the market correction was just a question of time...

Compare fundamentals: Gross profit margin

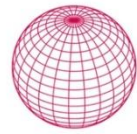


VALUATION MASTER CLASS

Gross profit margin (%)	2016	2017	2018	2019	2020	2021
TWTR		64.8	68.3	67.1	63.2	64.6
SNAP		13.0	32.3	47.8	52.8	57.5
PINS		62.2	68.0	68.6	73.5	79.5
FB		86.6	83.2	81.9	80.6	80.8
GOOGL		58.9	56.5	55.6	53.6	56.9

★ FB is gross profit margin champion, Snapchat is worse than Pinterest

Compare fundamentals: EBIT margin



VALUATION MASTER CLASS

EBIT margin (%)	2016	2017	2018	2019	2020	2021
TWTR	1.6	14.9	10.6	0.7	5.4	
SNAP	(422.5)	(107.5)	(64.3)	(34.4)	(17.1)	
PINS	(29.2)	(9.9)	(121.5)	(3.1)	12.7	
FB	49.7	44.6	41.0	38.0	39.6	
GOOGL	26.1	23.8	22.2	22.6	30.6	

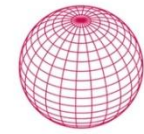
- ★ FB is EBIT margin champion, GOOGL is second place
- ★ Operating business is a disaster at Snapchat



Net margin (%)	2016	2017	2018	2019	2020	2021
TWTR		(4.4)	39.6	42.4	(30.6)	(4.4)
SNAP		(417.6)	(106.4)	(60.3)	(37.7)	(11.9)
PINS		(27.5)	(8.3)	(119.1)	(7.6)	12.3
FB		39.2	39.6	26.1	33.9	33.4
GOOGL		11.4	22.5	21.2	22.1	29.5

- ★ SNAP has never made a profit, Twitter only in 2018 and 2019 because of tax adjustments
- ★ FB and GOOGL are killing it

Compare fundamentals: Free cash flow to the firm



VALUATION MASTER CLASS

ROIC (%)	2016	2017	2018	2019	2020	2021
TWTR				8.0	0.6	6.0
SNAP				(40.9)	(41.4)	(36.8)
PINS				8.0	0.6	6.0
FB				54.2	50.5	59.2
GOOGL				33.6	36.4	59.5

- ★ SNAP is bleeding
- ★ Twitter's return to investors has been tiny
- ★ FB and GOOGL are massive value generators