

VALUATION MASTER CLASS

by
A. Stoltz INVESTMENT
RESEARCH

Is **Snapchat** suffering a slow and painful **death?**



Valuation Master Class

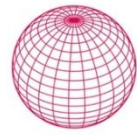


**What's interesting
about Snapchat is that its
share price is 88% below
its Sep'21 all-time high**

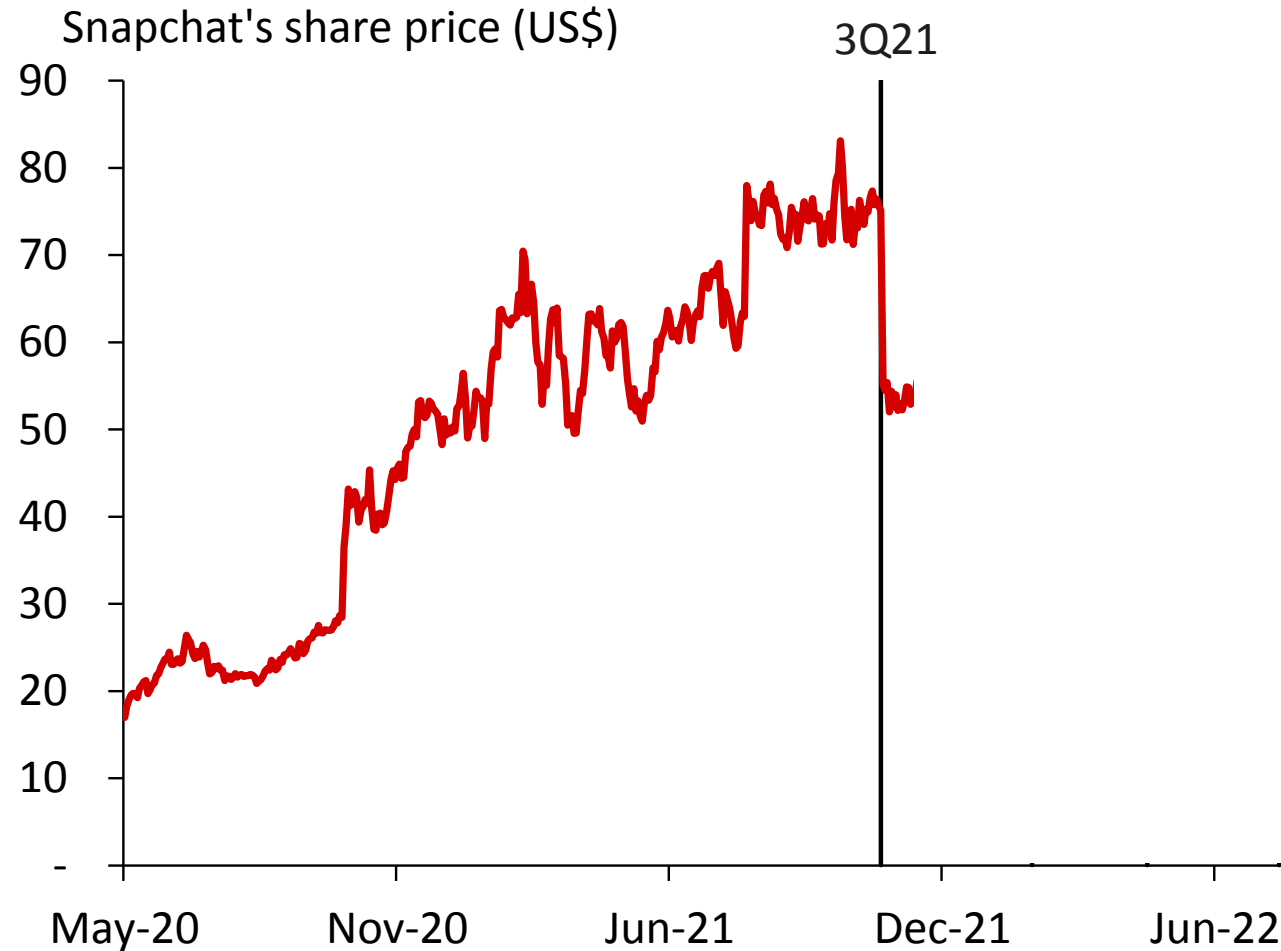


Valuation Master Class

The rise and fall of Snapchat's share price

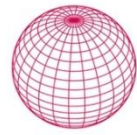


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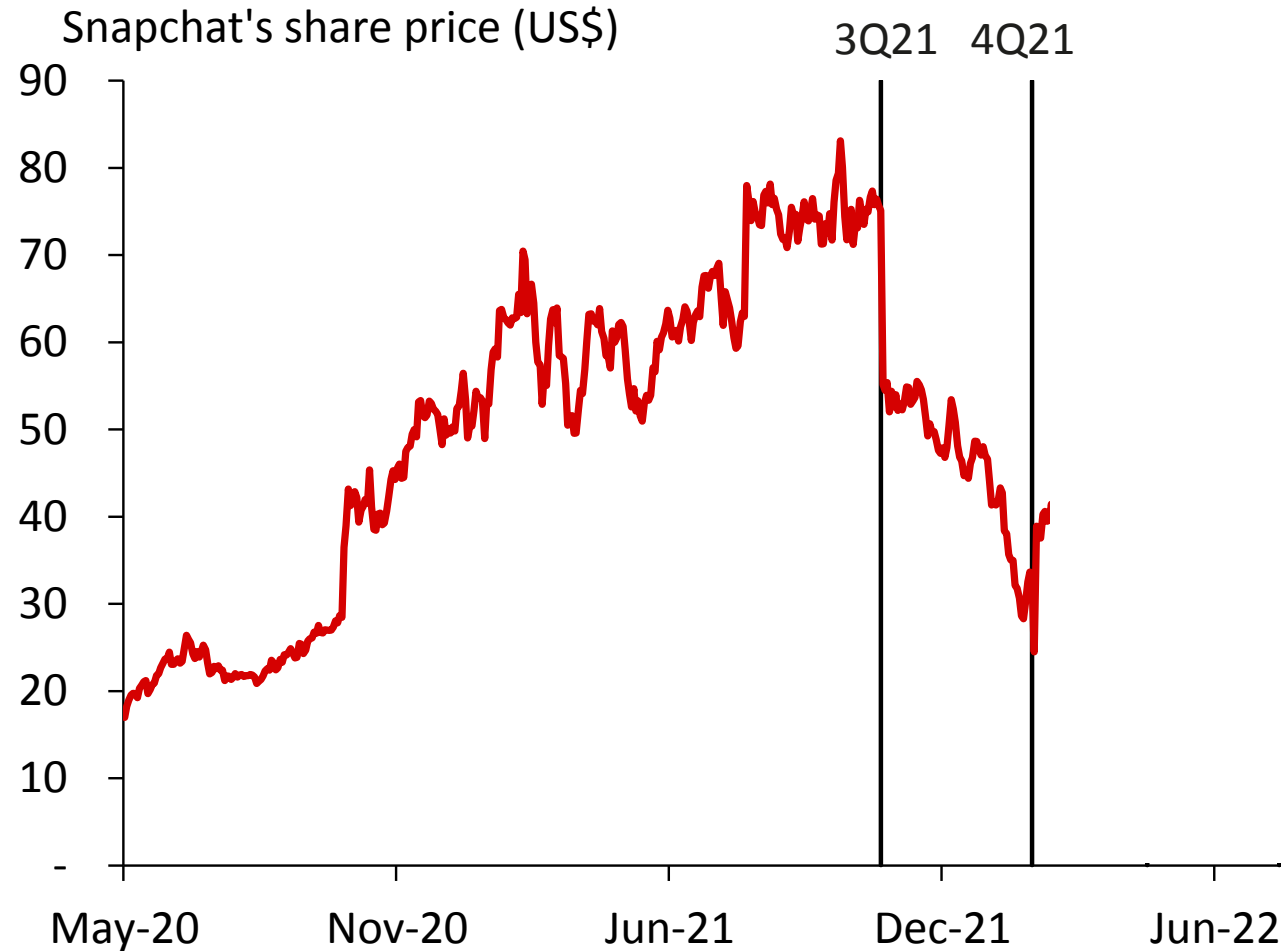


- ★ During the pandemic, Snapchat's share price surged to US\$83
- ★ However, the 3Q21 results were below expectations and management announced upcoming headwinds

The rise and fall of Snapchat's share price

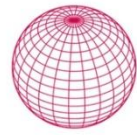


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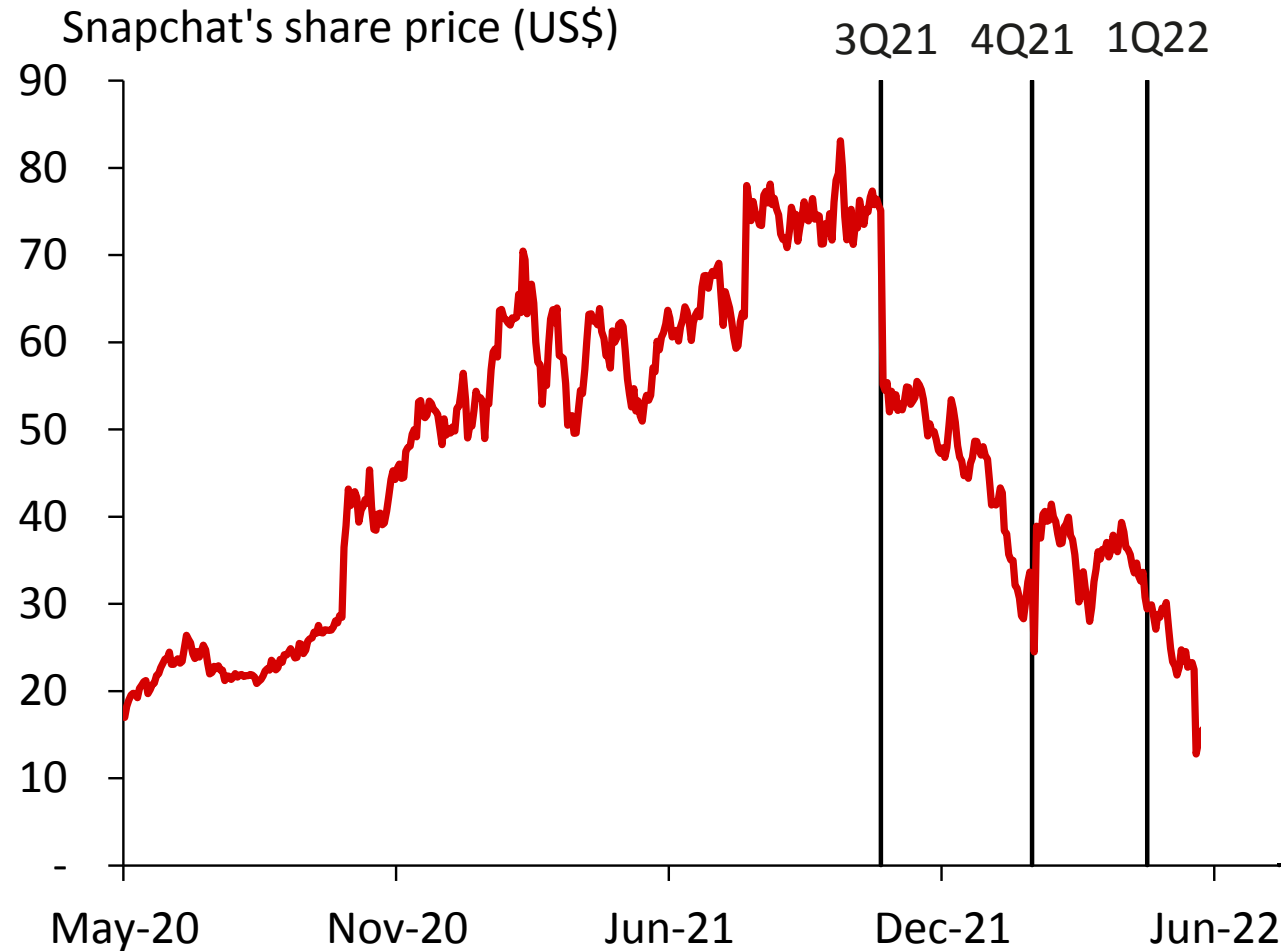


- ★ Analysts anticipated worse results before the actual earnings release
- ★ Performance was better than expected, so the share price slightly recovered

The rise and fall of Snapchat's share price

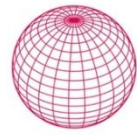


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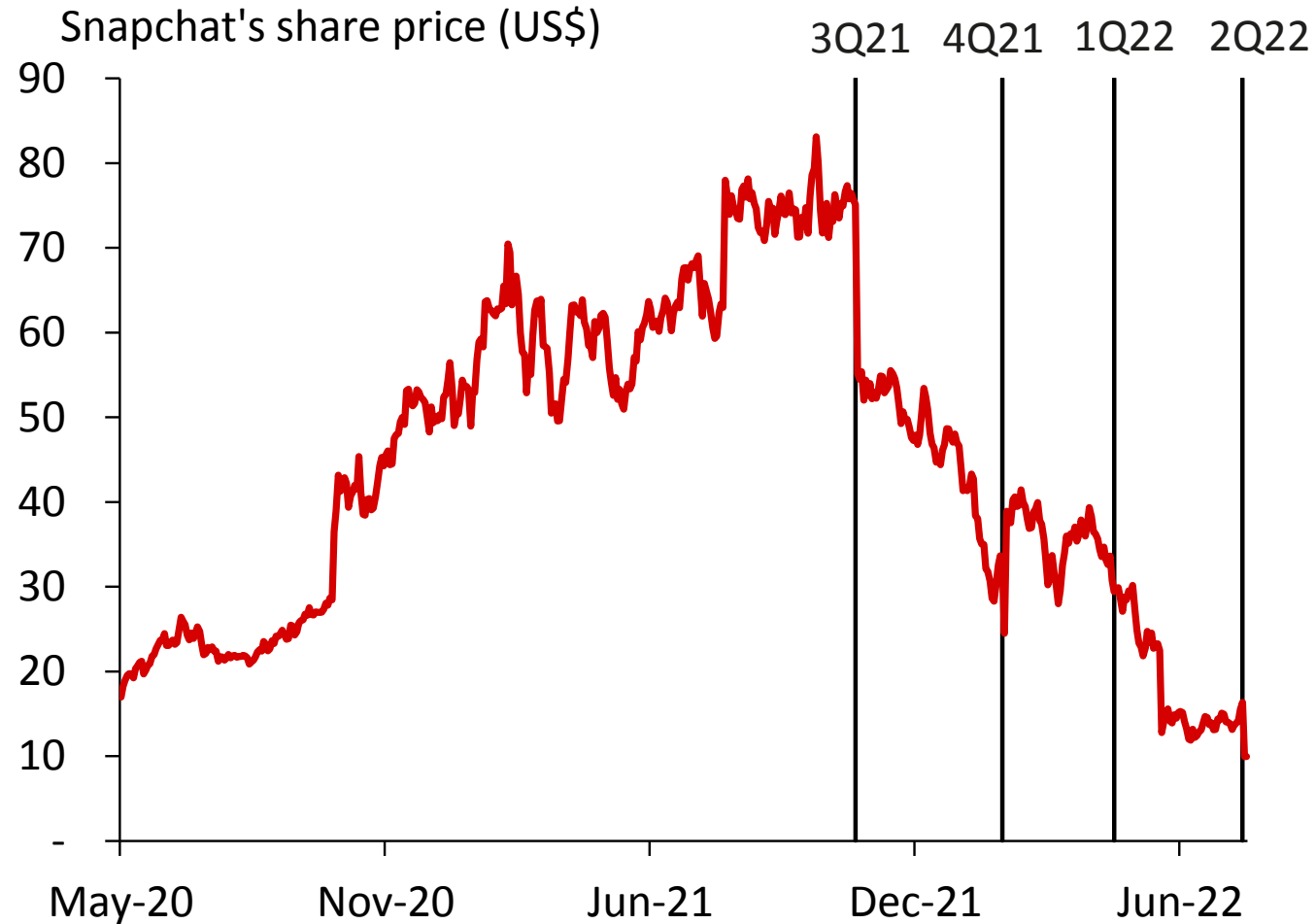


- ★ In 1Q21, Snapchat gave provided insights into the current challenges
 - Grows expected to slow down further
 - Investors responded immediately

The rise and fall of Snapchat's share price



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- ★ The subsequent earnings result in 2Q22 confirmed the negative trend
 - Stock trades now 88% below all-time high

Let's go to the latest quarterly update



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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

Quarterly Results

[Annual Report](#)[Quarterly Results](#)[SEC Filings](#)

	< 2022	2021	2020 >
Webcast	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4
Press Release	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4
Earnings Slides	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4
SEC Filing	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4
Transcripts	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4
Investor Letter	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4	Q1 Q2 Q3 Q4



Exhibit 99.1

Snap Inc. Announces Second Quarter 2022 Financial Results

Daily Active Users increased 18% year-over-year to 347 million

Revenue increased 13% year-over-year to \$1,111 million

Operating cash flow was \$(124) million and Free Cash Flow was \$(147) million

SANTA MONICA, Calif. – July 21, 2022 – Snap Inc. (NYSE: SNAP) today announced financial results for the quarter ended June 30, 2022.

“While the continued growth of our community increases the long-term opportunity for our business, our financial results for Q2 do not reflect our ambition,” said Evan Spiegel, CEO. “We are evolving our business and strategy to reaccelerate revenue growth, including innovating on our products, investing heavily in our direct response advertising business, and cultivating new sources of revenue to help diversify our topline growth.”

**Press release:
Page 1**



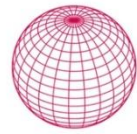


Exhibit 99.1

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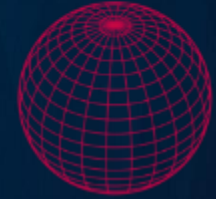
Double digit revenue growth doesn't sound too bad right?

Press release:
Page 1



Master tip: It is always about the surprise component

- ★ Don't look at numbers in isolation
 - **Always compare them with expectations**
- ★ Only the unexpected part of an announcement impacts the share price
 - **This is an important lesson, that many investors fail to apply**
 - **In the case of Snapchat, investors expected much higher growth than 13%**



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by *A. Stotz* INVESTMENT
RESEARCH

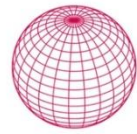
Andrew Stotz, PhD, CFA

Quarterly Results

[Annual Report](#)[Quarterly Results](#)[SEC Filings](#)

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What are internal revenue drivers?



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

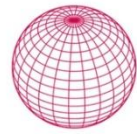
Quantity-driven

- 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?



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Snapchat

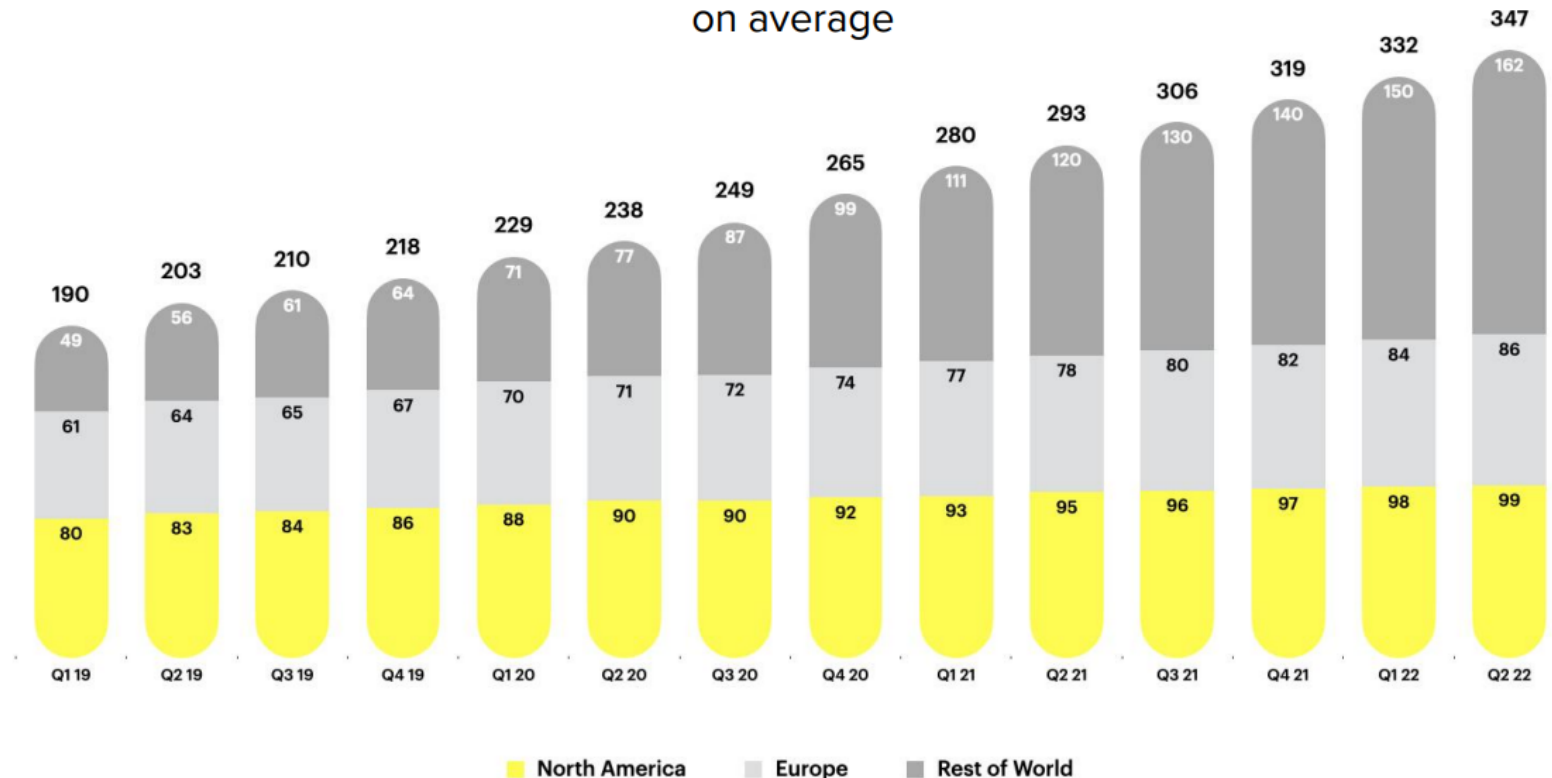
Increase number of daily active users (DAU)



Strong Growth in Our Community

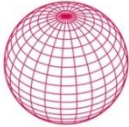
347M Daily Active Users

on average



Earnings slides:
Page 5

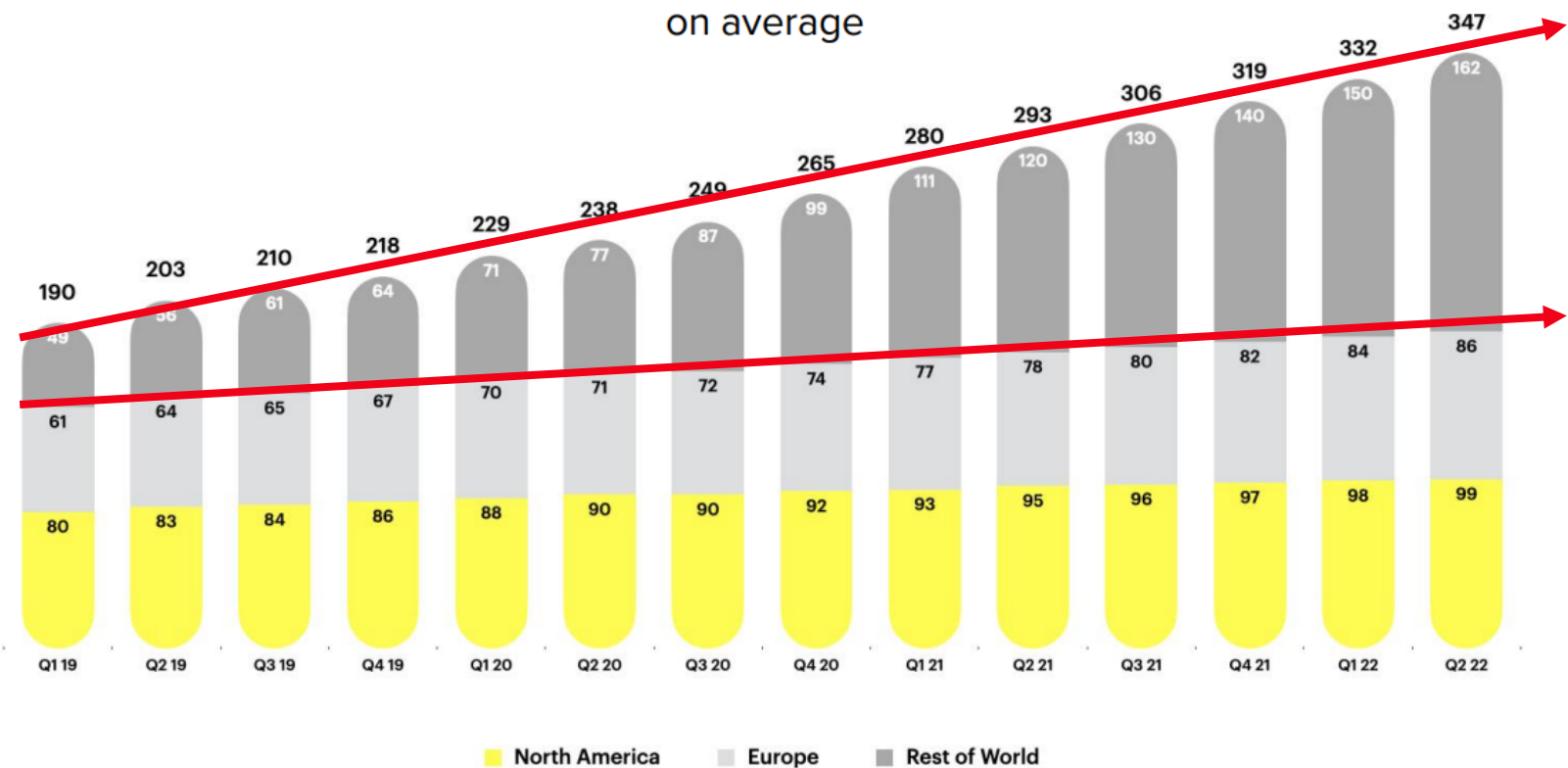




Strong Growth in Our Community

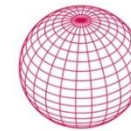
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Earnings slides:
Page 5





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Snapchat

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Snapchat

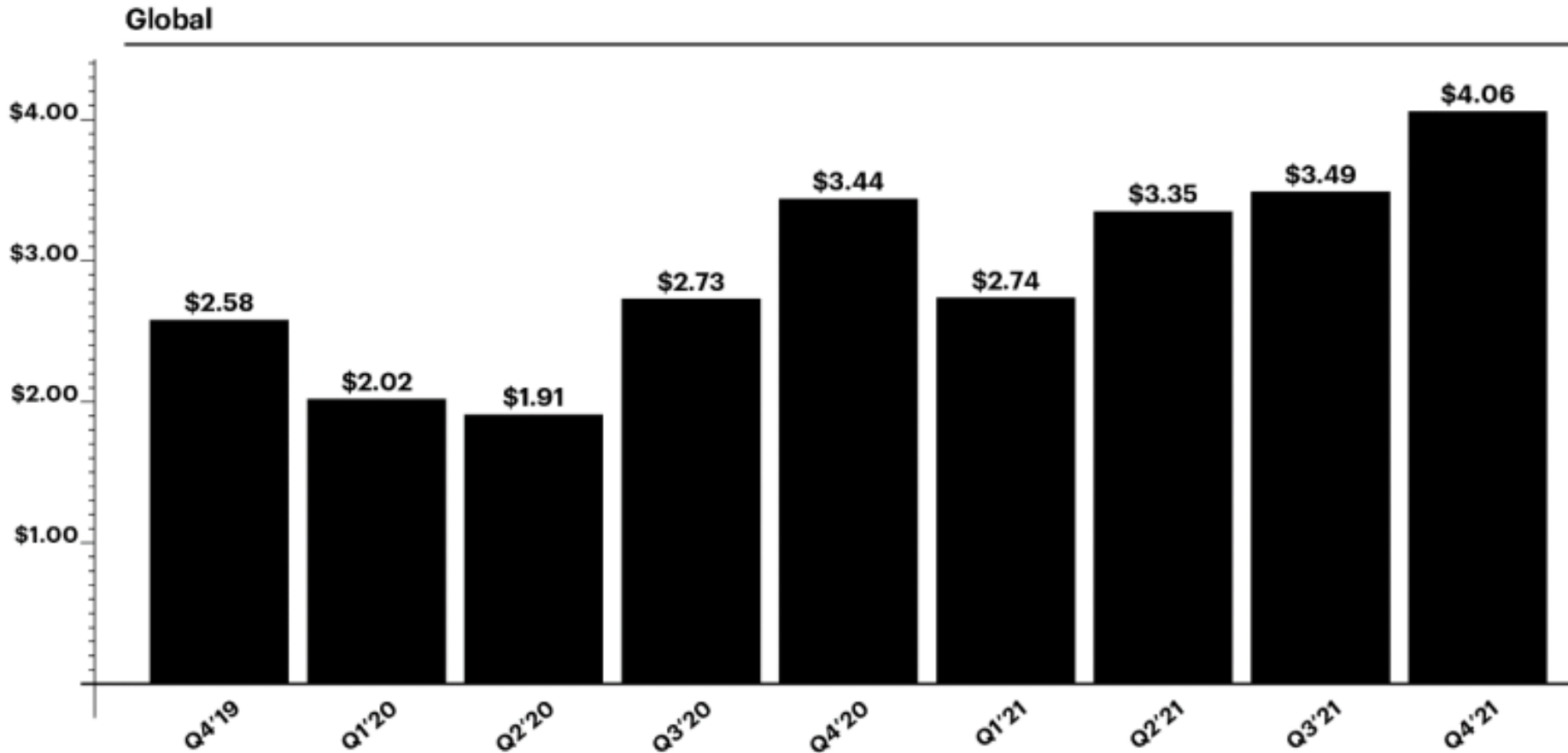
Increase average revenue per user (ARPU)

Snapchat has still difficulties monetizing its users



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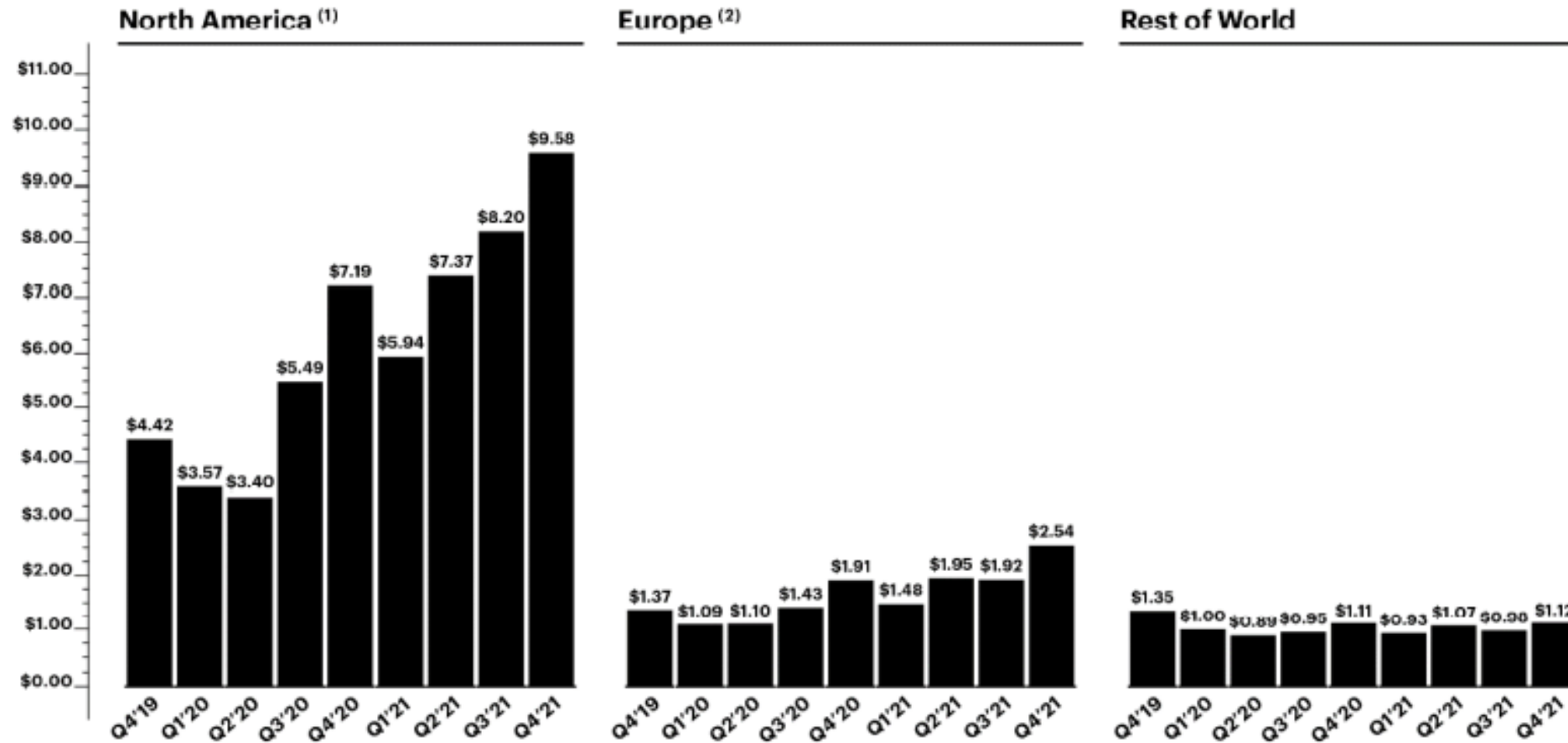
Quarterly Average Revenue per User



Annual report:
Page 50



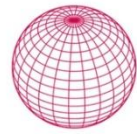
Though, it makes some progress in the US



Annual report:
Page 50



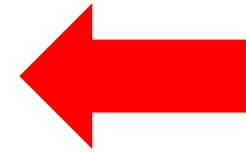
From the annual report, we extract the data for quantity and price



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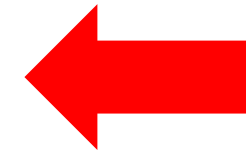
Daily active users	2019	2020	2021
North America	83.3	90.0	95.3
Europe	64.3	71.8	79.3
Rest of world	57.5	83.5	125
Global	205	245	300

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



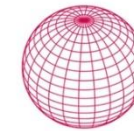
Quantity

X



Price

Revenue is automatically calculated by simple multiplication



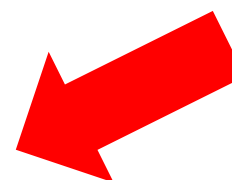
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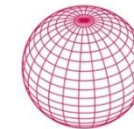
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Revenue	2019	2020	2021
North America	1,068	1,650	2,871
Europe	300	425	660
Rest of world	348	431	585
Global	1,716	2,507	4,117

Revenue

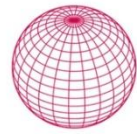


Now, we have our framework for forecasting revenue



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

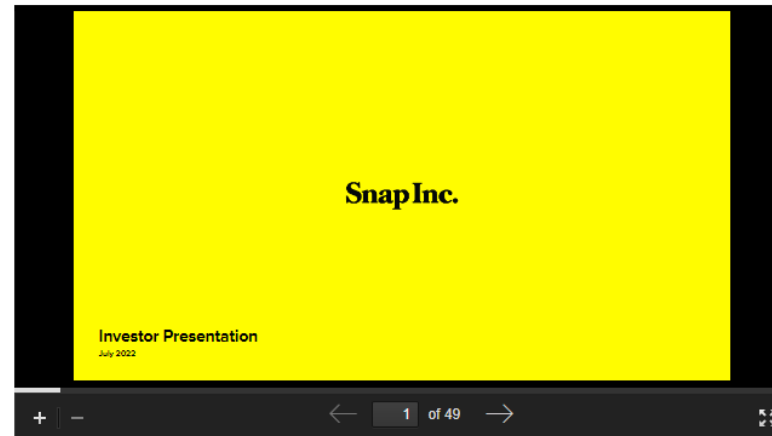


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Presentations

Presentations Events

July 2022 Investor Presentation

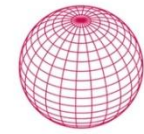


07/21/2022

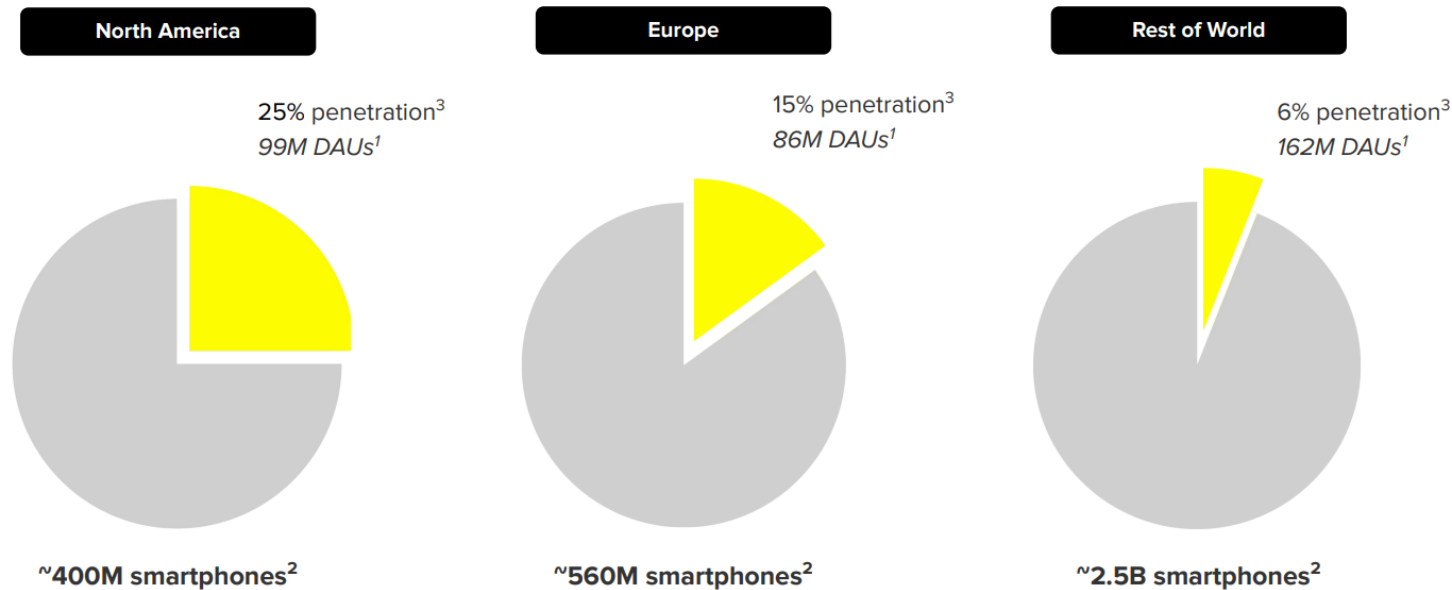
July 2022 Investor Presentation

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Significant Opportunity to Globally Expand Our Community

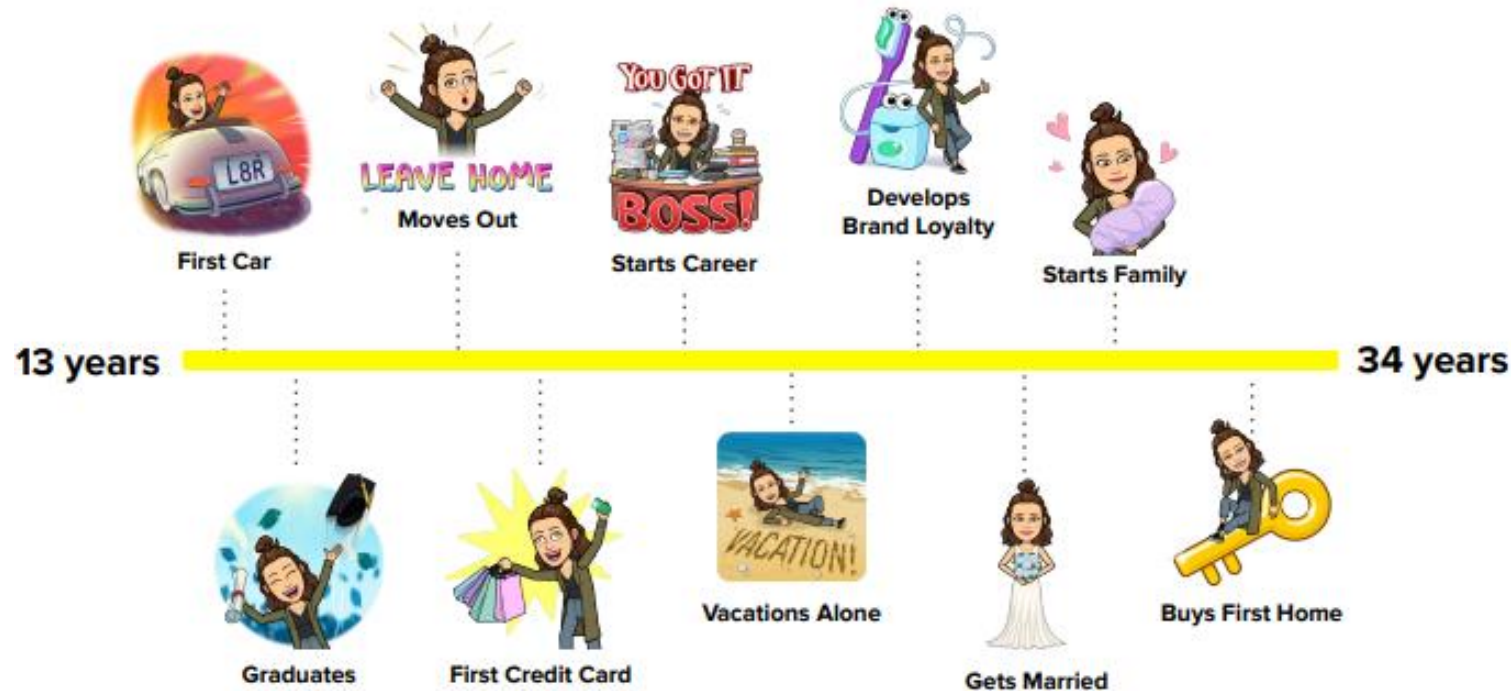


- ★ It estimates the total addressable market to be the number of global smartphone users
 - That's why the penetration rate looks rather small and there seems to be a massive potential
 - But...

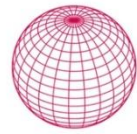


Why This Age Range Is Critical

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%

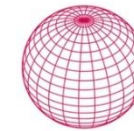
of the 13 to 24-year-old population.

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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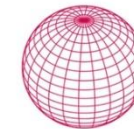
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Europe	64.3	71.8	79.3	81.6	84.1	86.6
Rest of world	57.5	83.5	125	163	195	215
Global	205	245	300	344	384	412

Up 37% from
2021

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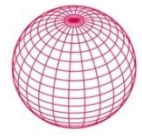
Now, we forecast the price component



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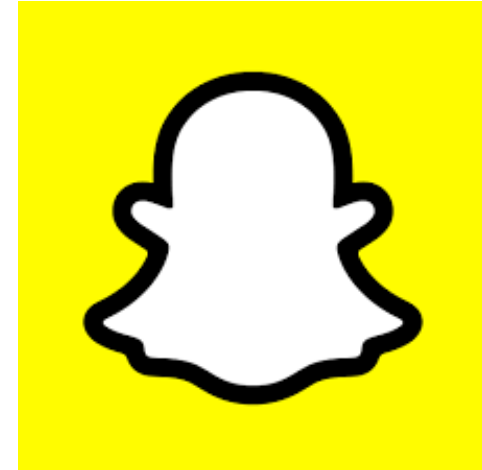
Average revenue per user



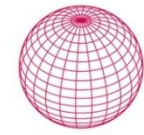
US\$40



US\$20



US\$14

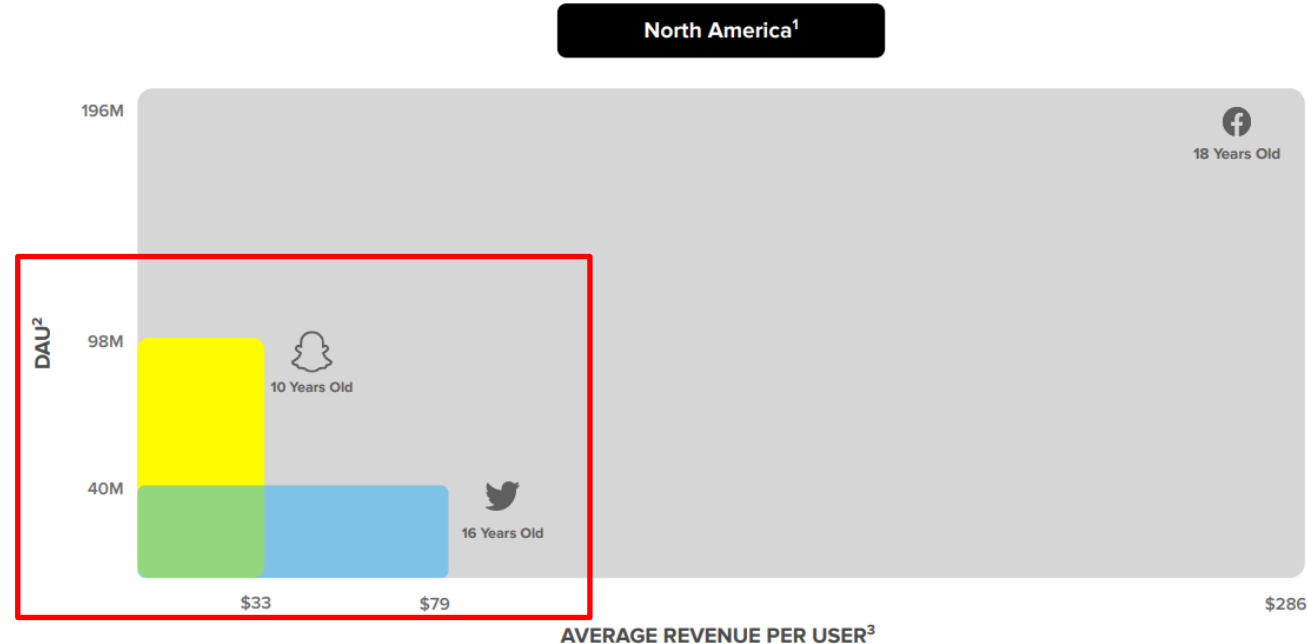


Significant DAU and ARPU Opportunities

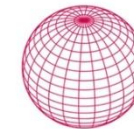
North America is critical to growing revenue in the near and medium term—and we have a long runway ahead of us★ The North American market is

priority No. 1 for Snapchat

- ★ While it has 2.5x more daily active users than Twitter in the US, it generates less than half of revenue per user



We don't believe that it finds a way to monetize its users

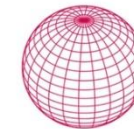


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Revenue is calculated automatically; forecast is complete



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Revenue	2019	2020	2021	2022E	2023E	2024E
North America	1,068	1,650	2,871	2,800	3,255	3,694
Europe	300	425	660	694	715	736
Rest of world	348	431	585	1,058	1,368	1,505
Global	1,716	2,507	4,117	4,553	5,338	5,934

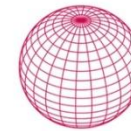


1Q22
results

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.



2Q22
results

Financial Guidance

Given uncertainties related to the operating environment, we are not providing our expectations for revenue or adjusted EBITDA for the third quarter of 2022.

Conference Call Information

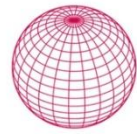
Snap Inc. will host a conference call to discuss the results at 2:00 p.m. Pacific / 5:00 p.m. Eastern today. The live audio webcast along with streaming information will be accessible at investor.snap.com. A recording of the webcast will be available on the investor site.

Snap Inc. uses this conference call to disseminate material non-public information and to discuss its business, financial condition, and results of operations.

Red flag: This is something
to worry about

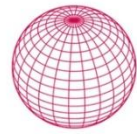
Press release:
Page 5





- ★ 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



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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

Quarterly Results

[Annual Report](#) [Quarterly Results](#) [SEC Filings](#)

For the first time, Snapchat has published a letter directly addressed to its investors

Webcast

Press Release

Earnings Slides

SEC Filing

Transcripts

Investor Letter

Q1 Q2 Q3 Q4

Q1 Q2 Q3 Q4

Q1 Q2 Q3 Q4

Q1 Q2 Q3 Q4

Q1 Q2 Q3 Q4

Q1 Q2 Q3 Q4

Snap Inc.

Investor Letter Q2 2022

July 21, 2022

This Investor Letter contains forward-looking statements and non-GAAP financial measures, please see Appendix for additional information.

The second quarter of 2022 proved more challenging than we expected. Revenue grew 13% year-over-year to \$1.11

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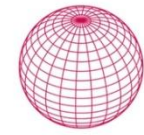
the past year, a series of significant headwinds have emerged

In other words, Snapchat is
desperate!

Platform policy changes have upended more than a decade of advertising industry standards, and macroeconomic challenges have disrupted many of the industry segments that have been most critical to the growing demand for our advertising solutions. We are also seeing increasing competition for advertising dollars that are now growing more slowly. Our revenue growth has substantially slowed, and we are evolving our business and strategy to adapt. We are working to reaccelerate growth and take share, but we believe it will likely take some time before we see significant improvements.

To return to a higher rate of long-term revenue growth, we are focusing on three priorities. First, we will continue to invest in our products and platforms to sustain the growth of our community. Second, we will invest heavily in our direct-response advertising business to deliver measurable returns on advertising spending. Lastly, we will cultivate new sources of revenue that will help diversify our top-line growth to build a more resilient business.

We also intend to recalibrate our investment levels to build a path to free cash flow break-even or better, even with reduced rates of revenue growth. We will continue to invest with a long-term perspective, especially in areas that are critical to realizing the long-term opportunity of augmented reality, but we are taking a hard look at how to better drive productivity across our teams. This will include a substantially reduced rate of hiring and a strict reprioritization of goals and initiatives across the company. We will also implement a stock repurchase program



SUMMARY GRID				
RECOMMENDATION SUMMARY ⓘ				
	Analysts Per level			
	26-Apr-2022	26-May-2022	26-Jun-2022	Current
1-StrongBuy	11	11	11	7
2-Buy	24	23	22	11
3-Hold	9	9	9	23
4-Sell	-	1	1	3
5-StrongSell	-	-	-	-
Rec Mean	2.0	2.0	2.0	2.5
PRICE TARGET SUMMARY ⓘ				
Price Target	Target			
	26-Apr-2022	26-May-2022	26-Jun-2022	Current
Median	\$45.00	\$33.00	\$27.00	\$15.00
Mean	\$48.28	\$35.92	\$30.39	\$17.94

- ★ Constant downward revision by analysts
- ★ Don't believe what other people say
 - Always do your own research