

Analyst Report: Snap Inc. (SNAP)

Industries: Communications, Internet

Snap Inc. navigates a dynamic social media landscape, balancing user growth with monetization challenges in a competitive digital advertising market.

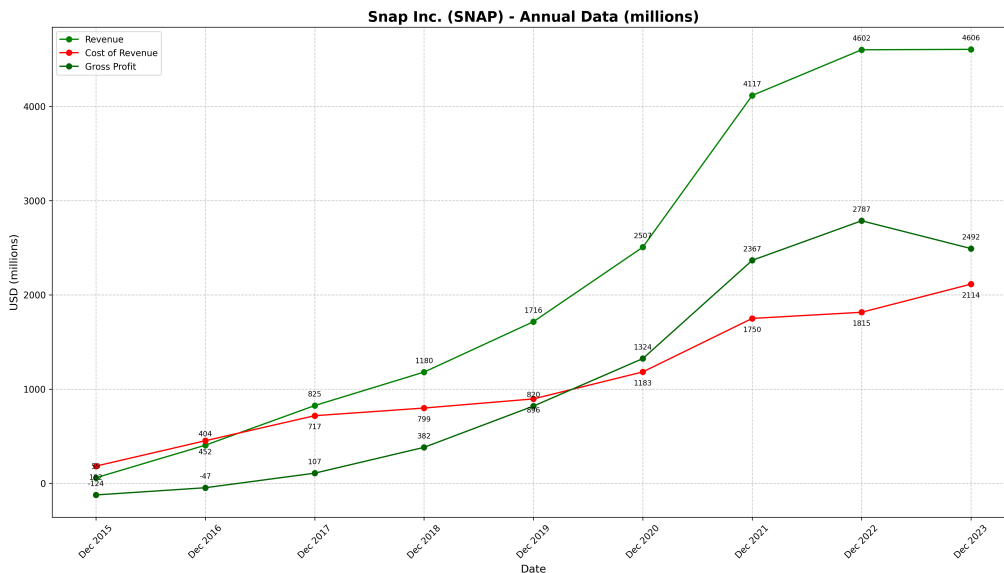
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$16.00 - \$25.00	\$8.00 - \$12.00
Sum of the Parts	\$20.00 - \$30.00	\$5.00 - \$10.00
Relative Multiples	\$16.00 - \$25.00	\$8.00 - \$12.00
Discounted Cash Flow	\$20.00 - \$30.00	\$5.00 - \$10.00

SUMMARY DATA (ANNUAL)

52-Week High	\$17.75
52-Week Low	\$8.29
Shares	1,612.50
EPS	-0.82
Dividend	0
Revenue	4,606.11
Cost of Revenue	2,114.12
Gross Profit	2,492.00
EBIT	-1,272.40

OUTLOOK

Over the next six months, Snap Inc. is expected to continue navigating a challenging but opportune environment. User growth is anticipated to remain a key focus, with the company exploring strategies to expand its user base across different demographics and geographies. Revenue growth will likely depend on the company's ability to enhance its advertising products, improve measurement capabilities, and navigate the evolving regulatory landscape surrounding data privacy. Furthermore, Snap's success in developing and monetizing augmented reality technologies will be a crucial factor in its long-term growth trajectory.



1. Business Description

Snap Inc.'s 10K filing for the fiscal year ending December 31, 2023, provides intricate details into the company's financial performance, product evolution, competitive landscape, and corporate governance. The filing reveals a complex interplay of factors influencing Snap's trajectory, including user growth trends, advertising revenue dynamics, and the pursuit of augmented reality technologies. Analyzing the financial data reveals key trends in revenue, costs, and profitability, providing a comprehensive overview of the company's financial health. The filing also delves into Snapchat's features, user demographics, and engagement metrics, offering insights into the platform's core user base and its evolving usage patterns.

Snap's 10K paints a picture of a technology company navigating a competitive landscape while prioritizing innovation and long-term growth. The company's substantial reliance on advertising revenue, while highlighting its vulnerability to market fluctuations and privacy regulations, also underscores its continued efforts to diversify revenue streams and enhance advertising products. The filing acknowledges the inherent challenges in measuring user metrics across large populations and the need for continuous improvement in methodologies. Furthermore, the document sheds light on Snap's corporate governance, including the substantial voting control held by its co-founders and the composition and responsibilities of the board committees.

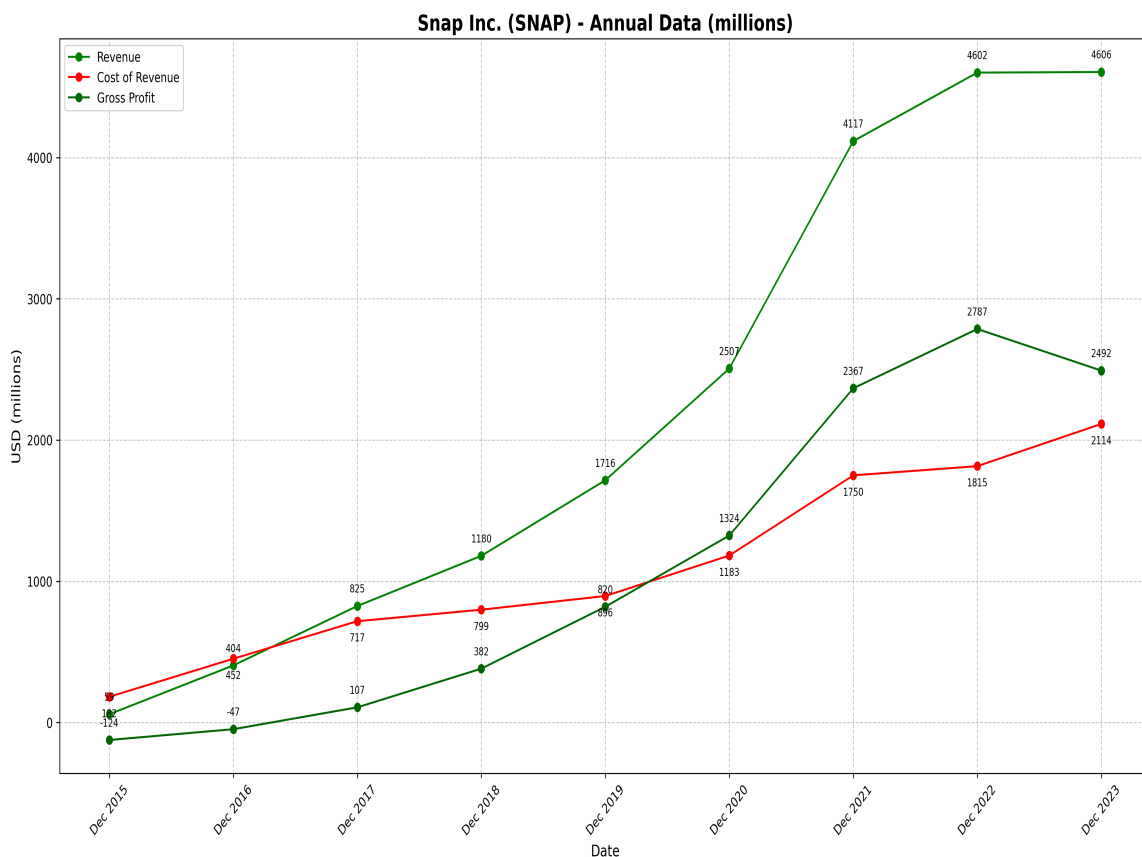
A critical audit matter highlighted in the independent auditor's report pertains to revenue recognition, particularly the complexity of systems and controls associated with high-volume, low-value advertising transactions. The report affirms the fairness of the consolidated financial statements but emphasizes the audit challenges posed by the intricate revenue recognition process. The strategic reprioritization in 2022, including headcount reduction and impairment charges, signals the company's ongoing adaptation to the evolving market and its commitment to profitability.

2. Financial Analysis

Snap Inc.'s financial data for the past ten years and ten quarters reflects a company in a state of evolution, marked by periods of growth, challenges, and strategic adjustments. Analyzing the income statements, balance sheets, and cash flow statements reveals key trends in revenue generation, cost management, and overall profitability. A comprehensive examination of this data allows for a nuanced understanding of the company's financial health and its capacity to navigate the dynamic technology landscape.

Revenue growth, largely driven by advertising sales, exhibits fluctuations influenced by market conditions, competition, and evolving privacy regulations. Examining cost trends, including those associated with research and development, sales and marketing, and general and administrative functions, provides insights into the company's investment priorities and its efforts to manage expenses. The evolution of profitability metrics, such as net income and adjusted EBITDA, offers a clear picture of Snap's financial performance over time, highlighting its progress towards sustainable profitability.

The balance sheets reveal the composition of Snap's assets and liabilities, indicating its liquidity position, capital structure, and overall financial stability. Analyzing cash flow statements elucidates the sources and uses of cash, highlighting the company's ability to generate cash from operations, manage investments, and finance its growth initiatives. Furthermore, examining key financial ratios derived from this data, such as profitability ratios, liquidity ratios, and solvency ratios, enables a more comprehensive assessment of Snap's financial strength and its capacity to meet its financial obligations and pursue future growth.





BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Assets	7,967.76	8,029.54	7,536.31	5,024.24	4,011.92	2,714.11	3,421.57	1,722.79	938.94
Total Debt	4,345	4,175.28	2,630.99	2,003.54	1,237.13	0	0	0	0
Shares	1,612.50	1,608.30	1,559.00	1,455.69	1,375.46	1,300.57	1,166.09	807.87	0
EPS	-0.82	-0.89	-0.31	-0.65	-0.75	-0.97	-2.95	-0.64	-0.51
Dividend	0	0	0	0	0	0	0	0	0
Revenue	4,606.11	4,601.85	4,117.05	2,506.63	1,715.53	1,180.45	824.95	404.48	58.66
Cost of Revenue	2,114.12	1,815.34	1,750.25	1,182.51	895.84	798.87	717.46	451.66	182.34
Gross Profit	2,492.00	2,786.51	2,366.80	1,324.12	819.70	381.58	107.49	-47.18	-123.68
EBIT	-1,272.40	-1,379.24	-456.69	-828.96	-1,008.27	-1,249.47	-3,459.95	-520.30	-380.48

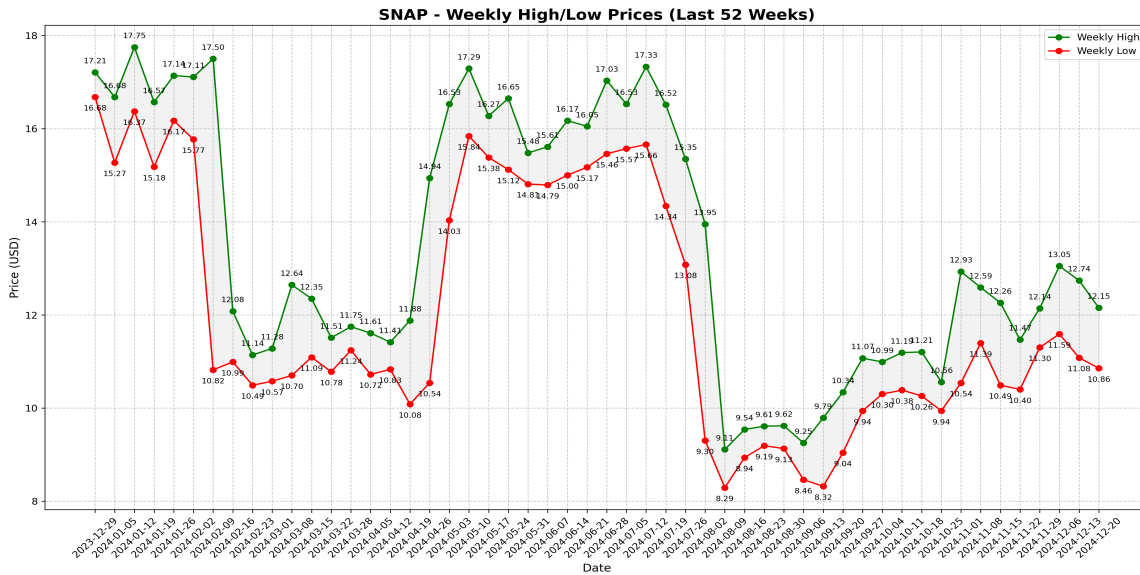
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	7,591.42	7,420.04	7,167.40	7,967.76	7,722.90	7,666.22	7,888.39	8,029.54	8,285.19	8,790.79
Total Debt	4,240.55	4,239.91	3,891.86	4,345	4,156.30	4,160.78	4,163.55	4,175.28	4,183.21	4,204.57
Shares	1,663.01	1,644.74	1,647.39	1,639	1,625.92	1,603.17	1,581.37	1,573.56	1,608.52	1,632.14
EPS	-0.09	-0.15	-0.19	-0.15	-0.23	-0.24	-0.21	-0.19	-0.22	-0.26
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	1,372.57	1,236.77	1,194.77	1,361.29	1,188.55	1,067.67	988.61	1,299.73	1,128.48	1,110.91
Cost of Revenue	638.91	588.92	574.75	621.50	555.75	496.87	439.99	481.31	466.76	446.38
Gross Profit	733.67	647.85	620.02	739.78	632.80	570.79	548.62	818.42	661.72	664.53
EBIT	-139.03	-238.31	-293.42	-239.70	-356.89	-359.87	-315.94	-278.94	-344.84	-409.52

(* millions, except EPS and dividend)

3. Stock Technical Analysis



Over the past 52 weeks, Snap Inc.'s stock price has traversed a dynamic path, reflecting investor sentiment influenced by a confluence of factors, including financial performance, market trends, and media narratives. A detailed technical analysis of the stock's movement reveals key support and resistance levels, trend lines, and trading volume patterns, offering insights into potential future price action.

Examining the stock's 52-week high and low provides a snapshot of the price range within which the stock has traded, indicating the extent of its volatility. Identifying key trend lines, whether upward, downward, or sideways, allows for a better understanding of the stock's overall direction and potential future movement. Furthermore, analyzing trading volume alongside price changes provides valuable context, confirming the strength of trends and indicating potential reversals.

The use of various technical indicators, such as moving averages, relative strength index (RSI), and Bollinger Bands, can offer additional insights into the stock's momentum, overbought/oversold conditions, and potential volatility. Considering these technical factors in conjunction with fundamental analysis, encompassing financial data and company performance, enables a more holistic approach to evaluating the stock's investment potential and formulating trading strategies.

4. Current Media Coverage & Stories

Snap Inc. has consistently garnered media attention, with headlines often revolving around its financial performance, product updates, competitive pressures, and legal and regulatory challenges. Recent news coverage includes discussions of the company's financial results, strategic initiatives, and stock price fluctuations.

Headlines often link Snap's financial performance with broader market trends and macroeconomic factors. Product updates and new features are frequently discussed, with media outlets analyzing their potential impact on user engagement and competitive positioning. Competitive pressures from larger technology companies are a recurring theme, with headlines often comparing Snap's performance and strategies to those of its rivals.

Legal and regulatory challenges, particularly those concerning privacy and data protection, are also featured prominently in news coverage. Furthermore, media reports often speculate on the potential impact of political and economic developments on Snap's business and stock price.

5. Financial vs. Stock vs. Media Coverage Situations

The media narratives surrounding Snap Inc. often present contrasting perspectives, reflecting the complex interplay of factors influencing the company's performance and future prospects. Positive narratives typically focus on user growth, product innovation, and the potential of augmented reality technologies. These narratives highlight Snap's ability to engage a large user base, introduce new features, and capitalize on emerging trends.

However, negative narratives often emphasize the company's financial challenges, competitive pressures, and vulnerability to market fluctuations and regulatory changes. These narratives underscore Snap's reliance on advertising revenue, its competition with larger technology companies, and the challenges it faces in achieving sustained profitability.

Comparing these contrasting narratives with the company's financial data and stock price movement provides a more comprehensive understanding of the factors driving investor sentiment and influencing the company's valuation. Analyzing the relationship between media coverage and stock price fluctuations can offer insights into how news and market sentiment interplay.

6. Industry Analysis

The social media and digital advertising industry, within which Snap Inc. operates, is characterized by intense competition, rapid innovation, and evolving user preferences. Key drivers for the industry include increasing mobile device penetration, growing demand for digital advertising, and the emergence of new technologies such as augmented reality and artificial intelligence.

However, headwinds for the industry include growing regulatory scrutiny of data privacy practices, platform accountability for content moderation, and the increasing power of established technology giants. Competition within the industry is fierce, with companies vying for user attention, advertising dollars, and market share. Snap competes with larger, more established companies like Meta, Alphabet, and ByteDance, each of which possesses significant resources and user bases.

Snap's strategic positioning within the industry emphasizes its focus on visual communication, augmented reality experiences, and a younger demographic. The company's brand and market penetration are significant, particularly among younger users, but it faces challenges in diversifying its user base and achieving sustained profitability in a competitive environment.

7. Drivers & Challenges

Snap Inc. faces a complex array of drivers and challenges that will shape its trajectory in the coming years. Key drivers include its large and engaged user base, particularly among younger demographics, its innovative product offerings, and its focus on augmented reality technologies. These drivers position Snap to capitalize on emerging trends and maintain its relevance in a rapidly evolving technology landscape.

However, significant challenges confront Snap, including intense competition from larger technology companies, the evolving regulatory landscape surrounding data privacy and platform accountability, and the need to diversify its revenue streams beyond advertising. The company must also address concerns about user safety, content moderation, and the potential misuse of its platform.

Furthermore, Snap faces the challenge of navigating macroeconomic uncertainties, including global economic conditions and geopolitical events, which can impact advertising spending and user behavior. The company's success hinges on its ability to leverage its drivers while mitigating its challenges, adapting to changing market conditions, and maintaining its competitive edge.

8. Bull Case

In a bullish scenario, Snap Inc. capitalizes on its strengths and successfully navigates its challenges, leading to significant growth and increased shareholder value. The company's large and engaged user base continues to grow, driven by innovative product offerings and compelling augmented reality experiences. Advertising revenue increases steadily, bolstered by enhanced targeting capabilities, improved measurement tools, and a growing demand for digital advertising.

Snap successfully diversifies its revenue streams, generating significant income from new products and services such as subscriptions and e-commerce offerings. The company effectively manages its expenses, achieving sustainable profitability and generating positive free cash flow. Furthermore, Snap's strategic investments in augmented reality technologies pay off, positioning the company as a leader in this emerging field.

In this scenario, investor confidence in Snap grows, driving increased demand for its stock and pushing its price to new highs. The company's strong financial performance, coupled with its innovative product development and strategic vision, establishes it as a leading player in the social media and digital advertising industry.

9. Bear Case

In a bearish scenario, Snap Inc. struggles to overcome its challenges, leading to declining performance and diminished shareholder value. User growth stagnates or declines, as the company faces intense competition from larger technology companies and struggles to attract and retain users in older demographics. Advertising revenue declines, impacted by reduced user engagement, evolving privacy regulations, and macroeconomic uncertainties.

Snap's efforts to diversify its revenue streams fail to gain traction, leaving the company heavily reliant on advertising income. Expenses increase faster than revenue, leading to widening losses and negative free cash flow. Furthermore, Snap's investments in augmented reality technologies fail to generate significant returns, leaving the company behind in this emerging field.

In this scenario, investor confidence in Snap wanes, leading to decreased demand for its stock and driving its price to new lows. The company's weak financial performance, coupled with its struggles to compete effectively and adapt to changing market conditions, raises concerns about its long-term viability.

10. Forward Valuation

Discounted Cash Flow (DCF): Bullish: A bullish DCF valuation incorporates optimistic assumptions about future revenue growth, profit margins, and cash flow generation. Estimating future free cash flows involves projecting revenue growth based on user engagement and monetization trends, and forecasting operating expenses and capital expenditures. A bullish scenario assumes higher revenue growth and improving profit margins over time, reflecting optimistic projections for the company's ability to monetize its user base and manage costs. Determining an appropriate discount rate requires considering the company's risk profile, including its cost of equity and debt. A bullish scenario may use a lower discount rate, reflecting greater investor confidence in the company's future prospects. Finally, calculating the present value of the projected free cash flows involves discounting each year's cash flow back to its present value using the chosen discount rate. Summing these present values yields the estimated enterprise value. Subtracting net debt and other non-operating liabilities, and dividing by the number of shares outstanding, yields the estimated stock price. A bullish scenario assumes a higher terminal value, reflecting optimistic projections for the company's long-term growth potential. A bullish case for the company typically incorporates a range of valuation estimates, encompassing a high-end and low-end scenario, to account for potential variability in future performance. A bullish valuation for SNAP may range from \$20 to \$30 per share.

Bearish: A bearish DCF valuation incorporates pessimistic assumptions about future revenue growth, profit margins, and cash flow generation. A bearish scenario assumes lower revenue growth and declining profit margins over time, reflecting pessimistic projections for the company's ability to monetize its user base and manage costs. A bearish scenario may use a higher discount rate, reflecting greater investor concern about the company's future prospects. Finally, a bearish scenario assumes a lower terminal value, reflecting pessimistic projections for the company's long-term growth potential. A bearish valuation for SNAP may range from \$5 to \$10 per share.

Relative Valuation (Multiples-based): Bullish: A bullish multiples-based valuation uses higher multiples of earnings, revenue, or other metrics, derived from comparable companies, to estimate the company's value. A bullish scenario assumes that SNAP deserves a higher multiple due to its strong user base, product innovation, and growth potential. For example, SNAP's current price to sales multiple is 3.88 which is lower than the industry average of 5.79. A bullish case for the company may suggest that the company's multiple should be in-line with or slightly higher than its peers. This range may provide a price target for SNAP of around \$16 to \$25 per share.

Bearish: A bearish multiples-based valuation uses lower multiples of earnings, revenue, or other metrics, derived from comparable companies, to estimate the company's value. A bearish scenario assumes that SNAP deserves a lower multiple due to its financial challenges, competition, and uncertainty about its future. For example, a bearish case for the company may suggest that the company's multiple should be at a discount to its peers. This range may provide a price target for SNAP of around \$8 to \$12 per share.

Sum-of-the-parts (SOTP): Bullish: A bullish SOTP valuation assigns higher values to the company's individual business segments or assets, reflecting optimistic projections for their future performance and growth potential. A bullish SOTP valuation may also include the value of potential new products, services, or business segments that the company may develop in the future. A bullish SOTP valuation for SNAP may value its core advertising business at \$10 billion, its augmented reality business at \$5 billion, and its other assets at \$1 billion, for a total enterprise value of \$16 billion. After subtracting net debt and dividing by the number of shares outstanding, this valuation yields an estimated stock price of \$20 to \$30 per share.

Bearish: A bearish SOTP valuation assigns lower values to the company's individual business segments or assets, reflecting pessimistic projections for their future performance and growth potential. A bearish SOTP valuation for SNAP may value its core advertising business at \$5 billion, its augmented reality business at \$1 billion, and its other assets at \$0.5 billion, for a total enterprise value of \$6.5 billion. After subtracting net debt and dividing by the number of shares outstanding, this valuation yields an estimated stock price of \$5 to \$10 per share.

Implied Option Valuation: Bullish: A bullish implied option valuation uses option pricing models, such as the Black-Scholes model, to estimate the value of the company's equity, incorporating optimistic assumptions about the company's future volatility and growth potential. A bullish implied option valuation assumes that SNAP's equity has significant upside potential, reflected in a higher implied volatility of its options. A bullish implied option valuation for SNAP may range from \$16 to \$25 per share.

Bearish: A bearish implied option valuation uses option pricing models, such as the Black-Scholes model, to estimate the value of the company's equity, incorporating pessimistic assumptions about the company's future volatility and growth potential. A bearish implied option valuation assumes that SNAP's equity has limited upside potential, reflected in a lower implied volatility of its options. A bearish implied option valuation for SNAP may range from \$8 to \$12 per share.

Across all methods, I consider various factors in formulating my valuations, including the company's growth prospects, competitive landscape, regulatory environment, and macroeconomic conditions. My bullish case assumes successful execution of Snap's strategic initiatives, user growth and monetization, and leadership in augmented reality. My bearish case reflects the potential for the company to struggle with competition, regulatory changes, and financial challenges. My valuation process involves detailed financial modeling, analysis of market data, and consideration of various scenarios to arrive at a range of estimates.

11. Executive Summary

Snap Inc.'s performance in 2023 highlights the dynamic interplay between its user base growth, revenue generation, and strategic priorities. The company experienced a 10% year-over-year increase in daily active users, reaching 414 million, demonstrating its continued ability to engage users on its platform. However, average revenue per user declined compared to the previous year, reflecting the impact of various factors, including macroeconomic uncertainties, platform policy changes, and increased competition in the digital advertising landscape.

The company's financial results reflect a concerted effort to manage costs and prioritize long-term investments. While total revenue remained relatively stable compared to 2022, total costs and expenses also remained stable, signaling efforts to improve cost efficiency. Snap's strategic reprioritization efforts, including headcount reductions, contributed to these cost management initiatives.

Despite ongoing challenges, Snap demonstrated its commitment to innovation and its pursuit of emerging technologies. The company continued to invest in augmented reality capabilities, recognizing the long-term potential of AR in transforming communication and user experiences. Furthermore, Snap's efforts to diversify its revenue streams, including the launch of a subscription product, demonstrate its adaptability and commitment to sustainable growth. While the company's financial performance is subject to market fluctuations and competitive pressures, its large and engaged user base, innovative product development, and strategic focus on augmented reality position it for future growth in the evolving technology landscape.