

Snap Inc. (SNAP)

\$11.35 (As of 03/13/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: D

Summary

Snap is expected to benefit from user base expansion in both iOS and Android platforms. Moreover, strong adoption of AR Lenses and premium content is likely to drive user engagement. The company is benefiting from improvement in user engagement particularly in the 13-34-year-old demography. This is also expanding Snap's advertiser base, and thereby is expected to drive the top line. Further, the launch of new multiplayer games exclusively for Snapchat bodes well for the company. Notably, shares have outperformed the industry in the past year. However, the company's increasing investments in areas such as content, AR-lenses and marketing may hurt profitability in the near term. Moreover, lack of revenue diversification, stiff competition from Facebook and the coronavirus outbreak are major headwinds.

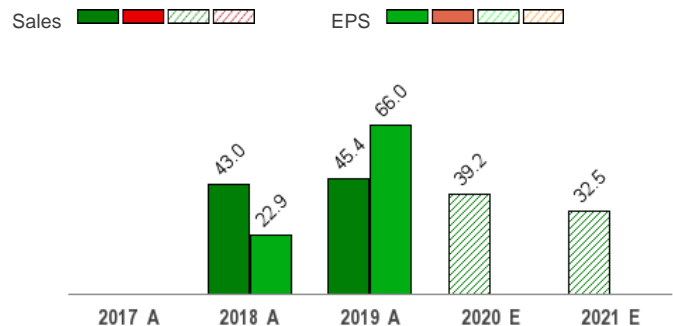
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.75 - \$9.03
20 Day Average Volume (sh)	28,080,592
Market Cap	\$16.1 B
YTD Price Change	-30.5%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 43% (108 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-54.6%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/28/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	642 E	747 E	800 E	916 E	3,165 E
2020	466 E	543 E	615 E	758 E	2,388 E
2019	320 A	388 A	446 A	561 A	1,716 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.00 E	\$0.05 E	\$0.06 E	\$0.10 E	\$0.25 E
2020	-\$0.06 E	-\$0.02 E	\$0.01 E	\$0.07 E	\$0.00 E
2019	-\$0.10 A	-\$0.06 A	-\$0.04 A	\$0.03 A	-\$0.16 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	9.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

Overview

Venice, CA-based Snap Inc. is a technology and social media services provider founded by Evan Thomas Spiegel, Frank Reginald Brown IV, and Robert C. Murphy in July 2011. The company went for an Initial Public Offering (IPO) on Mar 2, 2017.

Snap reported revenues of \$1.71 billion in 2019.

Snap's flagship product, Snapchat, is a mobile camera application that helps people to communicate through short videos and images called Snaps. The application is one of the most popular and trendy messaging and social media applications in the United States.

Snapchat's popularity, especially with teens and millennials, can primarily be attributed to its ephemerality i.e. photos/videos and text sent to friends via Snapchat disappear after sometime. Moreover, an interactive style of chat developed by the addition of stickers, doodling etc. has really caught the fancy of teens.

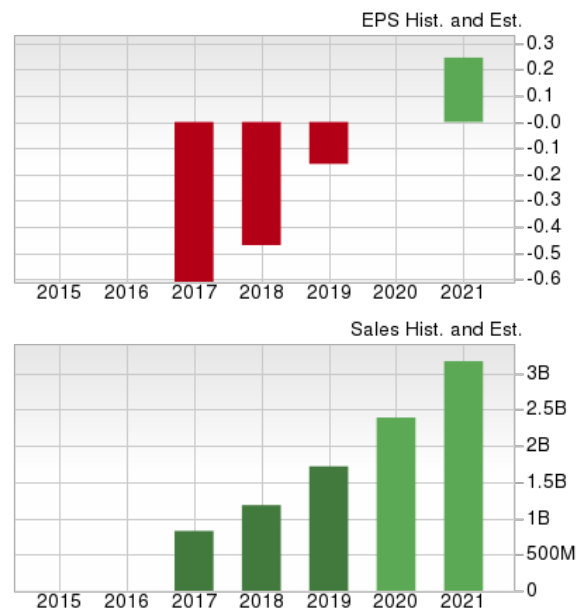
Snap slowly diversified its service offerings by introducing features like Stories and augmented reality (AR). Offerings like Scan, Landmarkers and AR Bar give users a whole new experience within the application. Notably, Snap had 218 million daily active users (DAUs) at the end of 2019.

Snap has also ventured into original content through Snap Originals and gaming. In the both the cases, the company provides its own content along with a few other third-party providers content.

Advertising forms the mainstay of Snap's revenues. In order to diversify revenues, in late 2016, Snap launched \$130-priced sunglasses called Spectacles, with a built-in camera that connects to smartphones to take and send Snaps.

Snap faces competition from Apple, Facebook (including Instagram and WhatsApp), Twitter and Google among others over the areas - mobile engagement and advertising. Some of these companies not only have greater financial resources but have higher user base due to increased international presence.

Other mobile communication, content and camera providers like LINE, TikTok and Tencent's WeChat are also Snap's competitors. Moreover, increase in popularity of any other free-to-use applications that provide services similar to Snap may negatively impact the company's user base growth.



Reasons To Buy:

- ▲ Snap has added a number of features, including the Tab feature on Friends and Discover to make its Snapchat platform more attractive to users and advertisers. Moreover, adoption of the company's AR lenses have been strong, particularly post the launch of Lens Studio 2, which introduced Landmarkers, a new tool for overlaying AR on the world. At the end of the fourth quarter, more than 735,000 lenses had been created by Snapchat members through Lens Studio, with Community lenses achieving significant popularity. The company also stated that more than 20% of the Snaps sent every day with Lenses now feature Lenses made by Snapchatters using Lens Studio. Snap is investing heavily in Lens Studio to help creators build AR experiences. Solid adoption of products like Scan and AR Bar is driving the usage of AR-based lenses, providing significant growth opportunities to the company.
 - ▲ Snapchat has become the most preferred social networking medium among Millennials and Gen Z, owing to the immersive experience of Snapchat platform. The company has stated that more than 75% of 13-34-year olds in the United States are active on Snapchat, making it a larger platform than Facebook, Instagram and Twitter among this demography. This bodes well for the company as user engagement holds the key to attract advertisements, which is the primary source of revenues for Snap.
 - ▲ Moreover, Snap's transition to automated or programmatic auction of Snap Ads is driving its advertising revenues. The company's advertising products include Snap Ads and Sponsored Creative Tools like Sponsored Lenses and Sponsored Geofilters. Moreover, Snapchat's new conversion tracking tool, Snap Pixel is also gaining traction. The tool helps advertisers' measure traffic growth on their websites. Snap's new ad format Promoted Stories offers good opportunity to the company by helping advertising partners spend more time with audiences. The company's decision to shift creative tools business to the programmatic platform is also expected to drive ad impressions.
 - ▲ Snapchat's partnership with e-commerce giant Amazon to introduce visual Search, a camera-powered search engine in its app is a tailwind. The company is also aggressively ramping up its original content efforts through collaborations with Viacom, Comcast division NBCUniversal and Disney's ESPN. We believe that with binge viewing catching up fast, expansion of its original content portfolio will attract subscribers and drive Snap's top line growth.
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Snap is benefiting from its growing popularity among teenagers driven by the number of exciting features that the platform provides.

Reasons To Sell:

- ▼ Snap's closest rival Facebook's strategy of mimicking Snapchat features on its platforms to boost user growth and engagement levels has paid off. The company even succeeded in making them more popular than Snapchat. Additionally, competition from Facebook and Apple poses serious threat to Snap as they are preparing to enter the augmented reality (AR) advertising business where Snap is a dominant name.
- ▼ Lackluster user growth remains the primary concern for investors. The company's problem has been its sole focus on the younger demographic. Snap undoubtedly is quite popular among that demography but the failure to attract the older generation (above 35 year olds) has been a major headwind. The company's lack of popularity in the international quarters is also a big concern. Snapchat needs to focus more on the global market and target other age groups in order to stay ahead in the competition.
- ▼ Moreover, lack of revenue diversification is a major concern for Snap. Advertising is its only source of revenues, which is suffering from continuous decline in price per ad impression. Moreover, decelerating growth in advertising revenues following the backlash on redesign remains an overhang on the stock. Notably, the company's hardware product Spectacles has not yet been able to generate significant revenues. There is also uncertainty regarding whether the company views the recently launched Snap Store, to sell Snap merchandise, as an alternative revenue channel.
- ▼ In the video streaming market, the company faces stiff competition from established players like Amazon Prime, Netflix, Hulu and HBO. Given the high growth opportunity in the video streaming market, the players are ramping up their efforts to boost subscriber base. The companies are undertaking a number of initiatives such as investing more in regional programming and making more kids and family-oriented content in a bid to gain an edge. Further, giants like Apple, Facebook and Disney are gearing up to cash in on the high growth opportunity in the video streaming market. This doesn't bode well for Snap.

Lack of revenue diversification and stiff competition from established players like Facebook are major headwinds.

Last Earnings Report

Snap Q4 Earnings Beat Estimates, Revenues Rise Y/Y

Snap reported fourth-quarter 2019 earnings of 3 cents per share, beating the Zacks Consensus Estimate of break-even and better than the year-ago quarter's loss of 4 cents.

Revenues surged 43.9% from the year-ago quarter to \$560.9 million, narrowly missing the consensus mark by 0.02%. The revenue figure was slightly higher than the guided range of \$540-\$560 million.

Geographically, revenues from North America (68.1% of revenues) soared 42% year over year to \$382 million. Revenues from Europe (16.4%) jumped 48.4% to \$92 million. Rest of the World (ROW) revenues were \$87 million, up 50% year over year.

Average revenue per user (ARPU) increased 23.4% year over year and 21.7% sequentially to \$2.58. On a year-over-year basis, North America, Europe and ROW ARPUs increased 30.8%, 31.7% and 8.9%, respectively.

User Engagement Improved in Q4

Daily active users (DAU) at the end of the reported quarter were 218 million. Snap added 31 million DAUs on a year-over-year basis and 8 million sequentially. The growth was broad based, with year-over-year and sequential growth in both iOS and Android platforms.

North America DAU was 86 million, up 7 million year over year and 2 million sequentially. Europe DAU was 67 million, which increased 7 million on a year-over-year basis and 2 million on a sequential basis.

ROW DAU was 64 million at the end of the reported quarter, up 17 million year over year and 3 million sequentially. The growth was primarily driven by the strong adoption of Snap's redesigned Android application. The company is increasing efforts to improve user experience in these markets through local content and local partnerships.

Snap is benefiting from improved user engagement. It stated that each DAU uses Snapchat over 30 minutes per day on average.

Notably, the company launched Lens Studio 2.0 that introduced Landmarkers, a new tool for overlaying AR on the world, and a variety of other features. By the end of the reported quarter, more than 735,000 Lenses had been created by Snapchat members through Lens Studio, with Community Lenses achieving significant popularity.

The company stated that more than 20% of the Snaps sent every day with Lenses now feature Lenses made by Snapchatters using Lens Studio.

Snap is investing heavily in Lens Studio to help creators build AR experiences. Solid adoption of products like Scan is driving the usage of AR-based lenses, providing significant growth opportunities to the company. Notably, Scan was adopted by McDonald's (MCD) and Coca-Cola during the quarter.

Further, Snap is helping advertisers reach Millennials and Gen Z audience, who are more active on immersive mobile platforms like Snapchat. The company stated that more than 75% of 13-34-year olds and 90% of 13-24-year olds in the United States are active on Snapchat.

The company stated that advertisers focused on consumer end markets like beauty products, beverages and grocery are selecting Snap to penetrate the 13-34-year old demography. This popularity provides the company with a competitive edge over the likes of Facebook, Google and Twitter in attracting ad dollars.

Premium Content Drives Ad Impressions

Total impressions doubled year over year in the fourth quarter, driven by growth in Snap Ads, which benefited from strong demand for bid optimization products such as app installs and premium ad units such as Commercials.

Snap stated that the combination of Snap Ads with AR and Creative Tools products are helping advertisers achieve higher ROI. Notably, the company witnessed year-over-year revenue growth of 21% from AR Lenses and Filters in the fourth-quarter, driven by robust adoption of Self-Serve Reach and Frequency Lens products.

Cost per ad impression declined 24% year over year. However, Snap benefited from growth in user engagement, as well as optimizations to its self-serve platform to utilize inventory more efficiently.

Notably, in the reported quarter, more than 50 Discover shows reached a monthly audience of more than 10 million viewers. The company added 78 new channels internationally across eight markets.

Snap stated that the number of media partners distributing content on Discover has doubled. It has also strengthened relationships with larger partners. Notably, total daily time spent by Snapchatters on Discover grew more than 35% year over year. Moreover, time spent on premium content internationally increased more than 50% year over year.

Snap stated that its comic series Bitmoji Stories reached more than 125 million users since its launch in November 2018.

Further, the company launched Bitmoji TV, a fully animated cartoon series. Additionally, the company launched three new multiplayer games called Find My Friends, Slide the Shakes, and Ready Chef Go exclusively on Snapchat.

Operating Details

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-0.02%
EPS Surprise	-54.55%
Quarterly EPS	0.03
Annual EPS (TTM)	-0.17

In fourth-quarter 2019, the cost of revenues on a non-GAAP basis increased 22.3% year over year to \$247 million. Infrastructure costs, revenue sharing costs and other expenses increased 17.2%, 48.7% and 17.9%, respectively, on a year-over-year basis.

Infrastructure costs per DAU in the reported quarter were 72 cents, flat year over year and up 2 cents sequentially.

Gross margin on a non-GAAP basis increased to 56% from 48% in the year-ago quarter.

Operating expenses were \$271 million, up 13.9% year over year. Sales and marketing expenses jumped 28% year over year to \$96 million while general and administrative expenses grew 1.3% year over year to \$96 million.

Adjusted EBITDA was \$42.3 million against a loss of \$50.4 million in the year-ago quarter.

Balance Sheet and Cash Flow

As of Dec 31, 2019, cash and cash equivalents and marketable securities were \$2.1 billion, down from \$2.26 billion as of Sep 30, 2019, due to investments in working capital as well as cash investments related to merger and acquisition activity during the period.

Net cash used from operating activities was \$66.8 million compared with \$126 million used in the year-ago quarter.

Free cash outflow was \$75.9 million compared with an outflow of \$148.8 million reported in the year-ago quarter.

First-Quarter Guidance

For the first quarter of 2020, Snap expects revenues between \$450 million and \$470 million.

DAUs are expected between 224 million and 225 million, up 18% year over year.

Adjusted EBITDA loss is expected between \$70 million and \$90 million.

Recent News

On Feb 11, 2020, Snap announced Here for you, a feature that will provide proactive in-app support to users who are experiencing a mental health or emotional crisis, or who may be curious to learn more about these issues.

On Dec 9, 2019, Snap introduced Cameos, which are looping videos a user can send to friends in Chat.

On Sep 25, 2019, Snap expanded its originals content portfolio with the announcement of new shows — *Tekashi69 VS The World*, *Nikita Unfiltered*, *The Honeybeez*, *Driven*, *Mind Yourself*, *Everything's Fine*, *Players* and *Save Me*. The company also renewed shows like *Bringing UpBhabie* by Invent TV, *Two Sides* by New Form, and *Kappa Crypto*.

On Sep 17, 2019, Snap introduced a 3D Camera Mode that adds depth to a user's snap. The company also released new 3D effects that users can swipe on in the Filter Carousel.

Valuation

Snap shares are down 32.6% in the past six-month period and up 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Computer and Technology sector are down 12.9% and 3.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 13.9% while the sector is up 0.5%.

The S&P 500 Index is down 9.6% in the past six-month period and 5.3% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 8.31X, which compares to 5.75X for the Zacks sub-industry, 3.61X for the Zacks sector and 2.73X for the S&P 500 index.

Over the past two years, the stock has traded as high as 22.07X and as low as 4.67X, with a 2-year median of 12.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 6.7X forward 12-month sales.

The table below shows summary valuation data for SNAP

Valuation Multiples - SNAP					
		Stock	Sub-Industry	Sector	S&P 500
EV/Sales TTM	Current	8.31	5.75	3.61	2.73
	2-Year High	22.07	7.63	4.45	3.46
	2-Year Low	4.67	4.55	3.05	2.48
	2-Year Median	12.43	6.44	3.81	3.03
P/S F12M	Current	6.33	5.24	3.06	2.9
	2-Year High	14.51	6.66	3.58	3.43
	2-Year Low	4.28	4.92	2.62	2.76
	2-Year Median	9.41	5.89	3.2	3.16
P/B TTM	Current	7.11	5.25	4.45	3.64
	2-Year High	12.06	8.23	5.53	4.55
	2-Year Low	2.70	4.9	3.57	3.33
	2-Year Median	6.92	6.52	4.58	3.98

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 253)



Top Peers

Apple Inc. (AAPL)	Outperform
Microsoft Corporation (MSFT)	Outperform
Baidu, Inc. (BIDU)	Neutral
Facebook, Inc. (FB)	Neutral
Momo Inc. (MOMO)	Neutral
Tencent Holding Ltd. (TCEHY)	Neutral
Twitter, Inc. (TWTR)	Neutral
Weibo Corporation (WB)	Underperform

Industry Comparison Industry: Internet - Software				Industry Peers		
	SNAP Neutral	X Industry	S&P 500	FB Neutral	TWTR Neutral	WB Underperform
VGM Score	F	-	-	B	D	F
Market Cap	16.12 B	419.84 M	19.05 B	485.37 B	22.91 B	8.55 B
# of Analysts	9	5	13	15	9	3
Dividend Yield	0.00%	0.00%	2.31%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	D	F
Cash/Price	0.11	0.13	0.05	0.11	0.25	0.25
EV/EBITDA	-16.83	-0.28	11.57	14.40	17.52	11.37
PEG Ratio	NA	2.12	1.68	1.06	1.09	NA
Price/Book (P/B)	7.11	4.16	2.56	4.81	2.61	3.75
Price/Cash Flow (P/CF)	NA	19.98	10.18	20.05	10.63	14.44
P/E (F1)	NA	34.07	14.94	18.31	32.54	16.15
Price/Sales (P/S)	9.40	3.09	2.02	6.87	6.62	4.84
Earnings Yield	0.00%	0.84%	6.67%	5.46%	3.07%	6.18%
Debt/Equity	0.53	0.11	0.70	0.09	0.36	0.74
Cash Flow (\$/share)	-0.66	-0.01	7.01	8.49	2.76	2.63
Growth Score	C	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.85%	53.35%	NA	115.21%
Proj. EPS Growth (F1/F0)	100.00%	7.84%	5.99%	44.65%	-62.03%	-15.35%
Curr. Cash Flow Growth	-20.24%	8.72%	6.15%	-8.33%	123.58%	60.82%
Hist. Cash Flow Growth (3-5 yrs)	NA%	18.18%	8.52%	38.21%	55.36%	75.38%
Current Ratio	5.29	1.53	1.24	4.40	9.15	4.54
Debt/Capital	34.59%	17.41%	42.57%	8.61%	26.38%	42.44%
Net Margin	-60.25%	-16.29%	11.64%	26.15%	42.37%	28.00%
Return on Equity	-46.63%	-13.79%	16.74%	19.97%	4.87%	23.63%
Sales/Assets	0.51	0.62	0.54	0.58	0.29	0.42
Proj. Sales Growth (F1/F0)	39.18%	16.84%	3.54%	21.09%	14.45%	-1.74%
Momentum Score	D	-	-	C	A	D
Daily Price Chg	8.93%	2.04%	8.21%	10.23%	9.37%	3.82%
1 Week Price Chg	-8.26%	-2.65%	-0.67%	-5.91%	0.78%	-0.43%
4 Week Price Chg	-35.47%	-26.79%	-22.67%	-20.11%	-21.18%	-13.77%
12 Week Price Chg	-26.58%	-20.01%	-20.46%	-17.36%	-8.55%	-17.85%
52 Week Price Chg	0.62%	-25.84%	-10.79%	0.06%	-5.61%	-38.07%
20 Day Average Volume	28,080,592	346,246	3,061,271	20,952,516	22,297,314	2,513,734
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-4.01%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.32%	0.22%	4.46%	-14.79%
(F1) EPS Est 12 week change	-20.92%	-5.89%	-0.65%	2.52%	10.86%	-26.23%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.62%	0.20%	-3.27%	-23.68%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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