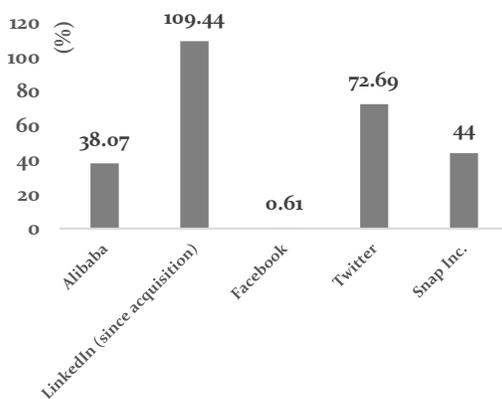


Snapchat – There and gone...

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First-day Trading Gain



The Offering

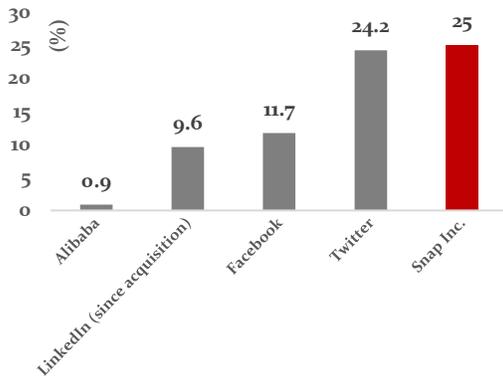
Snap Inc. (“Snap” or the “Company”) is the parent Company of the globally renowned messaging application, Snapchat. While the parent Company is registered as merely a camera Company, its subsidiary Snapchat is the flagship entity that allows users to send, view and share ‘Snaps’. The tech industry alongside the global Equity Capital Markets went abuzz earlier this year when Snap Inc. attained listing on the New York Stock Exchange (“NYSE”). While this Initial Public Offering (“IPO”) turned out to be distinctive from numerous viewpoints, it went down as the biggest IPO after Alibaba (BABA:US) in 2014 and the largest U.S tech IPO since Facebook (FB:US) in 2012. Consequently, valued at US\$17 a share, the Company successfully floated 200 million shares raising US\$3.4 billion. As the issue was oversubscribed by ten times, the Company carried its impressive run on the debut trading day, closing up 44% higher and eventually translating into a market capitalization close to US\$28.4 billion.

Underlying Dynamics

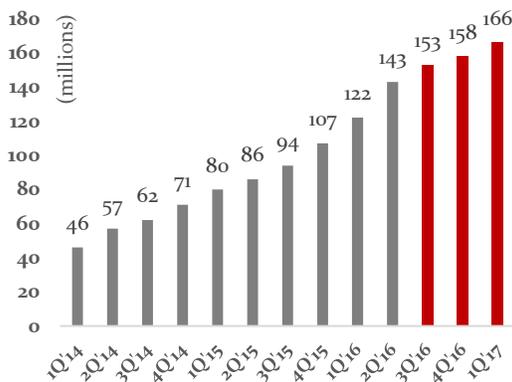
An unbiased macro analysis of this historic offering reveals facts that are both fascinating and thought-provoking. While any offering is fundamentally and primarily driven by its proceeds utilization, Snap’s prospectus addressed this part in a more ambiguous and vague manner. It mentioned a range of purposes for which the proceeds would possibly be utilized without precisely stating how funds would exactly be consumed. Interestingly enough, these purposes were associated with provisional phrases like “may be used” and “may also be used”. These included but are not limited to potential acquisitions, covering of working capital, operating and capital expenditures and even settling its contracts for cloud services with both Google and Amazon. Moving forward, an equity stake in any company is usually associated with potential monetary benefits and power of voting rights. However, the Class A shares issued by Snap entails no voting power meaning shareholders would have absolutely no say in management of the Company. This largely remains unprecedented as tech companies before have floated shares with limited but at least some voting power.

Moving on, the Company to date hasn’t experienced profitable operations as it has persistently posted growing operating and net losses despite a rising revenue base. Under such circumstances, the success that the offering received reflects investors’ bullish stance on the Company being able to control its expenditures going forward. This prudently leads to an investment decision solely rationalized on projections. Furthermore, to stimulate the market sentiment and to ensure full subscription of the issue, the owners of the Company ended up potentially undervaluing the issue hence leaving quite a hefty amount on the table. If the opening share price of US\$24 per share is considered as a loose benchmark of what the investors were actually willing to pay, the Company conveniently gave up US\$1.4 billion of accessible cash. In light of US\$677 million of negative free cash flow posted in FY16, Snap is

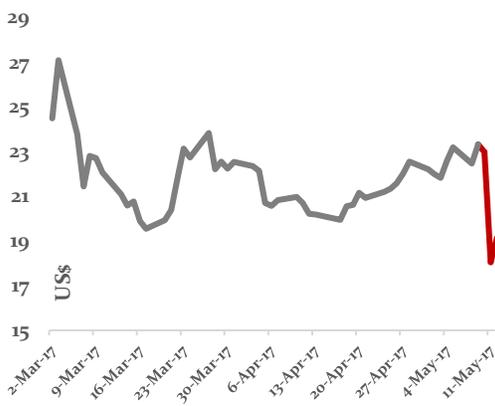
Share Price dip after first earning result



Daily Active Users (DAU)



Historical Share Price Movement



currently burning huge heaps of cash and this potentially foregone amount would have given it the much-needed liquidity cushion.

1QFY17 Results – Snapped Earnings

As the Company posted its 1QFY17 results, Snap’s IPO hype met reality as criticism and concerns put forth by analysts largely materialized. With the Company managing to lose a quarter of its market capitalization during post-hours trading, the first public results can be cautiously termed as no less than a disaster. However, it was not just the investors who lost big but also the co-owners who took a massive hit of over US\$1 billion each to their respective net worth. Unfortunately enough, the Company ended up missing almost all the analyst estimates. In this regard, despite revenues remaining on an upward trajectory (286% increase YoY), the Company posted US\$150 million of quarterly revenue against an anticipated figure of US\$158 million. (Thomson Reuters consensus estimate). Furthermore, the actual Daily Active Users (“DAU”) turned out to be 166 million against expectations of 167.3 million. This measure in particular has been talk of the town as considerable growth in DAU is badly needed by the Company in order to justify its share price and intrinsic value. On the earnings front, the realized adjusted EBITDA loss of US\$188 million against an expected US\$177 million eventually translated into a Basic Loss per Share of US\$2.31.

The Way Forward

However, despite disappointing results and considerable criticism from analysts and investors alike, the Company needs to be credited for pulling off a prominent offering and staging an impressive show on the Wall Street. Having said that, what lies ahead for Snap is a rather bumpy path in light of the challenges it faces in near future. The Company prospectus itself mentioned about pressured DAU growth primarily on the back of Snap alike features introduced by Facebook, Instagram and WhatsApp. Not only is this a deep concern for Snap senior’s management but also a source of botheration and frustration as co-founder, Evan Spiegel slashed out at Facebook Inc. saying: “.. people are going to copy your product if you build great stuff .. just because Yahoo has a search box doesn't make it Google.” Furthermore, the Company operates in an industry that is not only characterized by fierce competition but also simultaneously requires a continuous need for research, development and innovation. Competing against the like of Facebook which has deep cash reserves and almost 18 times the market capitalization, Snap will not only have to play its cards strategically but also convincingly enough to retain existing and attract new users. In light of all these challenges faced, the Company can potentially carve its way out by pursuing a dynamic expansion and diversification strategy. Registered as a camera company, Snap can possibly develop its hardware product base while simultaneously maintaining its focus on the software business. A glimpse of pursuing such a strategy was the launching of ‘Spectacles’ – a hardware eyeglasses product allowing users to capture videos and share them on the app itself. Despite previous launches of similar products by tech giants like Google, Snap enjoyed an extraordinary product debut in the relevant category. Innovation and execution of such products alongside simultaneous integration with its application testifies Snap’s potential and competency in being able to not only engage its current users but also widen its potential user base in a more dynamic and charismatic manner. Additionally, the Company will also need to innovate new ways of revenue generation in an

attempt to curtail its dependence on advertisement based revenues. Finally, the owners will need to ensure prompt dilution of power as this will not only lift the investor sentiment but would also provide Snap convenient access to Equity Capital Markets going forward.

DISCLAIMER

Snapchat



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