

Snap

Soft 4Q for ad revenues and outlook fails to match expectations; Neutral

Reiterate Rating: NEUTRAL | PO: 16.00 USD | Price: 11.75 USD

4Q revenues miss, while EBITDA & users beat ests.

4Q Rev/EBITDA at \$1,361mn/\$159mn was mixed vs Street at \$1,385mn/\$116mn. 4Q growth at 5% was stable vs 3Q (disappointing vs social peers than are accelerating). Brand revenue declined 3% y/y (vs flat y/y in 3Q) while DR revenue grew 3% y/y (same as 3Q). The company added 8mn q/q DAUs (to 414mn), above Street at 412mn and 1Q user outlook of 420mn (+6mn q/q) was slightly above Street at 419mn. We think Snap likely had a strong November, and some brand spend may have been pulled back in December, leaving estimated ad rev. growth (ex-subscriptions) at 1% in 4Q vs 2% in 3Q.

Outlook disappoints, though 1Q acceleration a silver lining

Favorable industry checks and Meta's results likely led to a higher bar for Snap in 1Q, and Snap's outlook disappointed. Midpoint of 1Q revenue guide at \$1,095mn-\$1,135mn (+13% y/y at midpoint) was below Street at \$1,125mn, while EBITDA outlook at \$(95)-\$(55mn) was below Street at \$(33mn). A silver lining is that the high end of 1Q revenue range suggests +15% rev. growth, which could show better 1Q acceleration than peers. A key negative is that 1Q EBITDA outlook reflects growing infrastructure costs (and possible AI disadvantages), which could impact Snap's long-term margin outlook.

Lowering margin ests. for higher infrastructure costs

We are adjusting our below Street revenues estimates to reflect marginally higher growth but lower profitability given higher infrastructure costs. For 1Q'24, we raise revenues by 1% to \$1,124mn & lower EBITDA to \$(56mn) from \$(50mn). For 2024, we raise revenue by 2% to \$5.3bn & lower EBITDA by 15% (\$76mn) to \$442mn. We estimate +12% y/y rev. '24 growth ex-Snapchat+, below Meta, Pinterest and YouTube.

Reiterate Neutral on relative growth & margins

While results disappointed, industry conditions are favorable and stock will see some valuation support, trading near historical lows for P/S valuation (at 3.5x) using the after hours price of \$11.75. We continue to prefer Meta and Pinterest in the group given Snap's relative growth and valuation, potential AI/ML disadvantages vs larger competitors, and now growing infrastructure costs which could suggest lower long-term margins. We lower our PO to \$16 (from \$18) based on 4.5x P/S, down from 5.5x reflecting lower margin expectations. Using AH price of \$11.75, stock is valued at 30x our revised 2025 EBITDA, and 35x our 2025 FCF, still a premium to peers.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|--------|--------|--------|--------|
| EPS | 0.49 | 0.19 | 0.09 | 0.24 | 0.35 |
| GAAP EPS | (0.31) | (0.90) | (0.82) | (0.56) | (0.38) |
| EPS Change (YoY) | NM | -61.2% | -52.6% | 166.7% | 45.8% |
| Consensus EPS (Bloomberg) | | | 0.08 | 0.18 | 0.37 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | 24.0x | 61.8x | 130.6x | 49.0x | 33.6x |
| EV / EBITDA* | 35.6x | 58.5x | 234.6x | 70.6x | 30.8x |
| Free Cash Flow Yield* | 1.1% | 0.3% | 0.2% | 1.2% | 2.9% |

* For full definitions of *IQmethod*SM measures, see page 8.

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Timestamp: 07 February 2024 03:16AM EST

07 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| Price Obj. | 18.00 | 16.00 |
| 2023E Rev (m) | 4,634.3 | 4,606.1 |
| 2024E Rev (m) | 5,254.3 | 5,342.0 |
| 2025E Rev (m) | 6,036.4 | 6,128.5 |
| 2023E EPS | 0.08 | 0.09 |
| 2024E EPS | 0.40 | 0.24 |
| 2025E EPS | 0.54 | 0.35 |

Justin Post

Research Analyst
BofAS
+1 415 676 3547
justin.post@bofa.com

Nitin Bansal, CFA

Research Analyst
BofAS
+1 415 676 3551
nbansal7@bofa.com

Huiyu (Harvey) Qin

Research Analyst
BofAS
+1 917 864 5179
huiyu.qin@bofa.com

Stock Data

| | |
|--------------------------------|----------------------|
| Price | 11.75 USD |
| Price Objective | 16.00 USD |
| Date Established | 7-Feb-2024 |
| Investment Opinion | C-2-9 |
| 52-Week Range | 7.86 USD - 17.90 USD |
| Mkt Val (mn) / Shares Out (mn) | 21,191 USD / 1,803.5 |
| Free Float | 74.1% |
| Average Daily Value (mn) | 288.19 USD |
| BofA Ticker / Exchange | SNAP / NYS |
| Bloomberg / Reuters | SNAP US / SNAP.N |
| ROE (2023E) | 5.8% |
| Net Dbt to Eqty (Dec-2022A) | -7.6% |
| ESGMeter TM | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

DR – Direct Response

AI: Artificial Intelligence

DMA: Digital Markets Act

ML: Machine Learning

iQprofileSM Snap

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 6.5% | 0.3% | 1.2% | 3.9% | 8.6% |
| Return on Equity | 25.4% | 9.4% | 5.8% | 16.6% | 22.5% |
| Operating Margin | 9.6% | -0.2% | -1.6% | 3.6% | 8.4% |
| Free Cash Flow | 223 | 55 | 35 | 264 | 614 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|--------|-------|-------|-------|--------|
| Cash Realization Ratio | 0.4x | 0.6x | 1.7x | 1.1x | 1.3x |
| Asset Replacement Ratio | 0.6x | 0.6x | 1.3x | 1.0x | 0.7x |
| Tax Rate | NM | NM | NM | 1.1% | 1.0% |
| Net Debt-to-Equity Ratio | -38.0% | -7.6% | 8.5% | 13.6% | -10.1% |
| Interest Cover | 22.3x | -1.8x | -3.4x | 6.0x | 24.4x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|------------|---------------|---------------|---------------|--------------|
| Sales | 4,117 | 4,602 | 4,606 | 5,342 | 6,129 |
| % Change | 64.2% | 11.8% | 0.1% | 16.0% | 14.7% |
| Gross Profit | 2,386 | 2,799 | 2,502 | 2,804 | 3,351 |
| % Change | 79.0% | 17.3% | -10.6% | 12.1% | 19.5% |
| EBITDA | 620 | 377 | 94 | 312 | 717 |
| % Change | NM | -39.2% | -75.1% | 232.2% | 129.3% |
| Net Interest & Other Income | 228 | 15 | 104 | 135 | 127 |
| Net Income (Adjusted) | 779 | 301 | 144 | 392 | 593 |
| % Change | NM | -61.3% | -52.1% | 171.8% | 51.4% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|------------|---------------|---------------|---------------|---------------|
| Net Income from Cont Operations (GAAP) | (488) | (1,440) | (1,322) | (932) | (636) |
| Depreciation & Amortization | 119 | 202 | 168 | 186 | 202 |
| Change in Working Capital | (196) | (35) | 63 | (15) | (100) |
| Deferred Taxation Charge | 0 | 0 | 0 | 0 | 0 |
| Other Adjustments, Net | 858 | 1,457 | 1,337 | 1,204 | 1,285 |
| Capital Expenditure | (70) | (129) | (212) | (179) | (136) |
| Free Cash Flow | 223 | 55 | 35 | 264 | 614 |
| % Change | NM | -75.2% | -37.1% | 657.5% | 132.9% |
| Share / Issue Repurchase | 1,065 | 484 | (188) | (375) | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 0 | 0 | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 3,693 | 3,939 | 3,544 | 3,435 | 4,048 |
| Trade Receivables | 1,069 | 1,183 | 1,278 | 1,376 | 1,556 |
| Other Current Assets | 92 | 134 | 154 | 160 | 183 |
| Property, Plant & Equipment | 203 | 272 | 410 | 404 | 339 |
| Other Non-Current Assets | 2,480 | 2,501 | 2,582 | 2,582 | 2,582 |
| Total Assets | 7,536 | 8,030 | 7,968 | 7,956 | 8,708 |
| Short-Term Debt | NA | NA | NA | NA | NA |
| Other Current Liabilities | 852 | 1,216 | 1,134 | 1,223 | 1,327 |
| Long-Term Debt | 2,253 | 3,743 | 3,749 | 3,749 | 3,749 |
| Other Non-Current Liabilities | 641 | 491 | 670 | 670 | 670 |
| Total Liabilities | 3,746 | 5,449 | 5,554 | 5,643 | 5,746 |
| Total Equity | 3,790 | 2,581 | 2,414 | 2,313 | 2,961 |
| Total Equity & Liabilities | 7,536 | 8,030 | 7,968 | 7,956 | 8,708 |

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Internet/e-Commerce

Company Description

Snap, Inc. is a leading social media platform. Through Snapchat, the company facilitates communication through visual media, enabled by the mobile camera. Users are able to share photos, videos and text and are exposed to publisher content from top media companies such as WSJ, Vogue, People, MTV, and CNN. Advertisers use the platform to promote products, which has a strong reach with the coveted millennial demographic.

Investment Rationale

Snap is a top mobile communication tool for users under 35, and is early in its opportunity to capitalize on monetization of usage. We are optimistic on Snap's opportunity to rapidly increase monetization of popular screens including Discover, Maps and Spotlight. However given increasing competition from Reels and TikTok, scale disadvantages (for ad sales and use of AI/ML), and declining time spent on Stories, we rate the stock at Neutral.

Stock Data

Average Daily Volume 24,527,086

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|--------|--------|
| Q1 | -0.02A | 0.01A |
| Q2 | -0.02A | -0.02A |
| Q3 | 0.08A | 0.02A |
| Q4 | 0.13A | 0.08E |

4Q results summary

4Q Rev/EBITDA at \$1,361mn/\$159mn was mixed vs the Street at \$1,385mn/\$116mn. 4Q growth at 5% was stable vs 3Q (though we estimate ad revenue growth decelerated 100bps) and Snap highlighted Middle East conflict negatively impacted growth by 2pts. Brand revenue declined 3% y/y (vs flat y/y in 3Q) while DR revenue grew 3% y/y (stable vs 3Q). The company added 8mn q/q DAUs (to 414mn), above the Street at 412mn and 1Q user outlook of 420mn (+6mn q/q) was slightly above the Street at 419mn. 4Q ARPU declined 5% y/y to \$3.29 (vs Street \$3.35). Snapchat+ was a positive, crossing 7mn subscribers with \$249mn annual revenue run rate in 4Q.

The midpoint of Snap's 1Q revenue guidance at \$1,095mn-\$1,135mn (+13% y/y at midpoint) was below the Street at \$1,125mn, while EBITDA outlook at \$(95mn)-\$(55mn) was below the Street at \$(33mn). A silver lining is that the high end of 1Q revenue range was +15% growth, which would likely show better 1Q acceleration than peers. Snap laid out three priority areas for 2024: 1) Build larger and more sophisticated AI/ML ad ranking models to improve targeting, 2) Unify content experience across Spotlight & Stories to improve user experience, and 3) Shift from focusing on user growth to deepening engagement in US & Europe.

Snap highlighted that it continues to evolve its ML models to improve ROAS for advertising partners. In 4Q, the company implemented ML ranking and optimization improvements for App, Web, and Dynamic Product Ads (DPA) optimization goals. Also, Snap noted 7-0 Pixel Purchase optimization model led to a more than 90% increase in purchase-related conversions y/y. A key question is if these product changes can drive further acceleration in growth past 1Q, which has the easiest y/y growth comp.

Negative read-across for Pinterest for 4Q, but possibly positive for 1Q

Snap's 4Q growth at 5% y/y (was stable vs 3Q) and below the Street estimates. The company highlighted that Middle East conflict negatively impacted 4Q growth by 2pts. Snap's brand revenue declined 3% y/y in 4Q (vs flat y/y in 3Q) while DR advertising spend grew 3% y/y (same as 3Q). 4Q'23 q/q revenue growth at 15% was in line with Meta ad revenue growth and slightly above YouTube at 13%. For Pinterest, we expect 4Q y/y revenue growth to accelerate 2pts q/q to 13% y/y on a 5pt easier comp, with revenues of \$988mn (in line with the Street). We believe Snap is not a very good read for Pinterest in 4Q given platform specific issues and weakness in Snap's display advertising, presumably from the Middle East conflict.

For 1Q, Snap expects revenue to grow 13% y/y at midpoint (below prior Street estimates at 14% y/y), accelerating 8pts on 7pts easier comp. For 1Q'24, we expect Pinterest y/y revenue growth to accelerate 3pts to 15% on 1pts tougher comp, with revenues of \$696mn (vs Street at \$703mn). Assuming Snap generated 7% growth in 4Q (ex-Middle East pressure), the implied acceleration in ad revenue growth in Snap's 1Q guidance would be higher than the acceleration in our Pinterest estimate, and Pinterest should have the added benefit from the Amazon deal uplift. So, we see Snap's 1Q guidance as a slightly positive read, as was Meta's 1Q guidance.

4Q Positives:

- **4Q EBITDA above the Street:** Snap's 4Q EBITDA at \$159mn was above the Street estimates at \$116mn driven by lower marketing and R&D costs, partially offset by higher infrastructure costs. Management noted approx. two-thirds of incremental revenue generated q/q flowed through to Adjusted EBITDA in 4Q.
- **1Q outlook suggests above industry acceleration but below Street:** Midpoint of Snap's 1Q guide suggests 8pts of acceleration vs 4Q on a 7pt easier comp, higher than our q/q acceleration expectations for Meta, YouTube and Pinterest. However, 1Q revenue outlook of \$1,095-\$1,135mn (up 11-15%



y/y) was below the Street estimates at \$1,125mn (up 14% y/y), so the outlook did disappoint vs expectations.

- **SBC below estimates:** In 4Q'23, SBC as a percentage of revenue declined to 24%, below Street estimates and vs 30% in 3Q'23 and 35% in 4Q'22.
- **4Q users above the Street, though US users declined q/q:** Snap' 4Q DAUs at 414mn (+8mn q/q) increased 10% y/y and were above the Street estimates at 412mn (+6mn q/q). MAUs increased 8% y/y in 4Q and surpassed 800mn. However, in 4Q, US users declined 1mn q/q. For 1Q, Snap expects DAUs to grow 10% y/y to 420mn (+6mn q/q), slightly above the Street estimates for 419mn.
- **Strong growth in non-advertising revenues:** Management highlighted that in 4Q, Snapchat+ reached 7mn users and exited the year with annualized revenue run rate of \$249mn.
- **Improving DR capabilities:** Snap highlighted that it continues to evolve its ML models to improve ROAS for advertising partners. In 4Q, the company implemented ML ranking and optimization improvements for App, Web, and Dynamic Product Ads (DPA) optimization goals. Also, the company noted 7-0 Pixel Purchase optimization model led to a more than 90% increase in purchase-related conversions y/y. Snap highlighted that the number of SMB advertisers on the platform increased 20% y/y in 4Q as the company focused on serving customized solutions that delivered higher ROI.
- **Usage stabilizing:** Snap highlighted overall time spent watching content globally grew on y/y basis in 4Q, driven primarily by strong growth in total time spent watching Spotlight. Total time spent watching Spotlight content increased more than 175% y/y and average MAU watching Spotlight increased more than 35% y/y in 4Q. Total time spent with content in North America improved to flat y/y in 4Q.

4Q negatives

- **4Q Revenue below the Street:** 4Q revenue at \$1,361 (up 5% y/y) was below the Street at \$1,385mn. Snap highlighted Middle East conflict negatively impacted 4Q growth by 2pts. Brand revenue declined 3% y/y in 4Q (vs flat y/y in 3Q) while DR advertising spend grew 3% y/y (same as 3Q). Other revenue, which is driven primarily by Snapchat+, grew more than 200% y/y in 4Q, and we estimate 4Q y/y revenue growth ex-Spotlight decelerated 100bps q/q.
- **Growing infrastructure costs:** Gross margins missed street estimates as infrastructure cost per DAU was \$0.84 in 4Q'23, higher than expected and above \$0.79 in 3Q'23 and \$0.57 in 4Q'22. Higher costs are being driven by increasing ML infrastructure investments & we lowered our outlook for 2024 gross profit despite higher revenues.
- **1Q EBITDA outlook below the Street:** Snap 1Q EBITDA outlook of \$(55mn)-\$(95mn) was below the Street estimates at \$(33mn). We are lowering our full year EBITDA outlook on lower gross margins.
- **CPMs remain under pressure:** In 4Q Snap's total impressions increased 4% y/y (driven by growth of Stories revenue share program and expanded advertising within Spotlight) while eCPMs declined 2% y/y, potentially reflecting competition from TikTok, Instagram and YouTube Shorts.
- **Share count growth diluting shareholders:** Net of share repurchases, fully diluted shares outstanding grew 5.7% y/y in 4Q.

Actual vs Estimates

Exhibit 1: 4Q'23 Actual vs BofA Estimates

4Q'23 Revenue/EBITDA at \$1,361mn/\$159mn was mixed vs Street estimates at \$1,385mn/\$116mn.

| Metric | 4Q'23 | | | Actual - BofA |
|---|----------------|----------------|----------------|-----------------|
| | Actual | Street | BofA Est | |
| Revenue | \$1,361 | \$1,385 | \$1,389 | (\$28) |
| y/y % | 5% | 7% | 7% | -2% |
| q/q % | 15% | 17% | 17% | -2% |
| Cost of revenue | \$619 | \$597 | \$584 | \$35 |
| As a % of revenue | 45% | 43% | 42% | 3% |
| Gross profit | \$742 | \$787 | \$806 | (\$63) |
| Gross margin | 55% | 57% | 58% | -3% |
| Research and development | \$263 | \$290 | \$282 | (\$20) |
| As a % of revenue | 19% | 21% | 20% | -1% |
| Sales and marketing | \$205 | \$253 | \$236 | (\$31) |
| As a % of revenue | 15% | 18% | 17% | -2% |
| General and administrative | \$190 | \$183 | \$182 | \$8 |
| As a % of revenue | 14% | 13% | 13% | 1% |
| SBC | \$333 | \$372 | \$364 | (\$31) |
| As a % of revenue | 24% | 27% | 26% | -2% |
| Operating expenses (GAAP) | \$991 | \$1,093 | \$1,064 | (\$73) |
| As a % of revenue | 73% | 79% | 77% | -4% |
| q/q % | -2% | 8% | 5% | -7% |
| Operating income (GAAP) | (\$249) | (\$305) | (\$258) | \$9 |
| Operating margin (GAAP) | -18% | -22% | -19% | 0% |
| Operating income (loss) (ex-SBC) | \$84 | \$63 | \$106 | (\$21) |
| Operating margin (ex-SBC) | 6% | 5% | 8% | -1% |
| GAAP net income (loss) | (\$248) | (\$278) | (\$240) | (\$8) |
| GAAP diluted EPS | (\$0.15) | (\$0.17) | (\$0.15) | (\$0.00) |
| Non-GAAP net income | \$128 | \$103 | \$115 | \$13 |
| Non-GAAP EPS | \$0.08 | \$0.06 | \$0.07 | \$0.01 |
| Diluted Shares | 1,639 | 1,660 | 1,627 | 12 |
| Adjusted EBITDA | \$159 | \$116 | \$147 | \$12 |
| EBITDA margin | 11.7% | 8.4% | 10.6% | 1.1% |
| Total DAUs | 414 | 412 | 412 | 2 |
| North America DAUs | 100 | 101 | 101 | (1) |
| Europe DAUs | 96 | 96 | 96 | 0 |
| RoW DAUs | 218 | 215 | 215 | 3 |
| ARPU | \$3.29 | \$3.35 | \$3.37 | (\$0.08) |
| North America ARPU | \$8.96 | \$8.72 | \$8.87 | \$0.09 |
| Europe ARPU | \$2.49 | \$2.60 | \$2.43 | \$0.06 |
| RoW ARPU | \$1.03 | \$1.16 | \$1.21 | (\$0.18) |
| Capex | \$54 | \$54 | \$69 | (\$16) |
| Free cash flow | \$111 | \$76 | (\$38) | \$148 |

Source: BofA Global Research Estimates and Company Filings

BofA GLOBAL RESEARCH



Estimate Changes

We are slightly raising revenues to reflect higher ARPU, but lowering margins and EBITDA given higher infrastructure costs and a smaller benefit from recent headcount cuts than we expected. For 1Q'24, we raise revenues by 1% to \$1,124mn and lower EBITDA to \$(56mn) from \$(50mn). For 2024, we raise revenue by 2% to \$5.3bn and lower EBITDA by \$76mn to \$442mn. We estimate +12% y/y growth ex-Snapchat+ in 2024, below peers. For 2025, we raise revenue by 2% to \$6.1bn and lower EBITDA by \$68mn to \$717mn.

Exhibit 2: Estimate Changes

We are increasing our 2025 revenue estimates by 2% to \$6.1bn but lower EBITDA by \$68mn to \$717mn.

| | 1Q24E | | | 2Q24E | | | 2024E | | | 2025E | | |
|---|-----------------|-----------------|-----------------|----------------|----------------|-----------------|------------------|----------------|-----------------|----------------|----------------|-----------------|
| | New | Old | Diff | New | Old | Diff | New | Old | Diff | New | Old | Diff |
| Revenue | \$1,124 | \$1,110 | \$13 | \$1,242 | \$1,222 | \$20 | \$5,342 | \$5,254 | \$88 | \$6,129 | \$6,036 | \$92 |
| y/y % | 14% | 12% | 1% | 16% | 14% | 2% | 16% | 13% | 3% | 15% | 15% | 0% |
| q/q % | -17% | -20% | 3% | 10% | 10% | | | | | | | |
| Cost of revenue | \$590 | \$557 | \$33 | \$621 | \$585 | \$35 | \$2,538 | \$2,398 | \$139 | \$2,778 | \$2,655 | \$123 |
| As a % of revenue | 53% | 50% | 2.3% | 50% | 48% | 2.1% | 48% | 46% | 1.9% | 45% | 44% | 1.4% |
| Gross profit | \$534 | \$553 | (\$19) | \$621 | \$637 | (\$16) | \$2,804 | \$2,856 | (\$51) | \$3,351 | \$3,382 | (\$31) |
| Gross margin | 48% | 50% | -2.3% | 50% | 52% | -2.1% | 52% | 54% | -1.9% | 55% | 56% | -1.4% |
| Research and development | \$242 | \$251 | (\$9) | \$231 | \$232 | (\$1) | \$991 | \$992 | (\$1) | \$1,105 | \$1,094 | \$11 |
| As a % of revenue | 22% | 23% | -1% | 19% | 19% | 0% | 19% | 19% | 0% | 18% | 18% | 0% |
| Sales and marketing | \$214 | \$217 | (\$3) | \$223 | \$220 | \$4 | \$909 | \$900 | \$9 | \$978 | \$970 | \$8 |
| As a % of revenue | 19% | 20% | -1% | 18% | 18% | 0.0% | 17% | 17% | -0.1% | 16% | 16% | -0.1% |
| General and administrative | \$180 | \$178 | \$2 | \$171 | \$161 | \$10 | \$712 | \$685 | \$27 | \$753 | \$724 | \$29 |
| As a % of revenue | 16% | 16% | 0% | 14% | 13% | 0.6% | 13% | 13% | 0.3% | 12% | 12% | 0.3% |
| SBC | \$326 | \$332 | (\$6) | \$323 | \$318 | \$5 | \$1,269 | \$1,278 | (\$9) | \$1,285 | \$1,322 | (\$37) |
| As a % of revenue | 29% | 30% | -1% | 26% | 26% | 0% | 24% | 24% | -1% | 21% | 22% | -1% |
| Operating expenses (ex-SBC) | \$635 | \$645 | (\$10) | \$626 | \$613 | \$12 | \$2,612 | \$2,577 | \$35 | \$2,835 | \$2,788 | \$47 |
| y/y % | 6% | 7% | -2% | -5% | -7% | 2% | 1% | -2% | 3% | 9% | 8% | 0% |
| Operating income (GAAP) | (\$492) | (\$489) | (\$3) | (\$328) | (\$294) | (\$33) | (\$1,077) | (\$999) | (\$78) | (\$770) | (\$728) | (\$42) |
| Operating margin (GAAP) | -44% | -44% | 0% | -26% | -24% | -2% | -20% | -19% | -1% | -13% | -12% | -1% |
| Operating income (loss) (ex-SBC) | (\$166) | (\$157) | (\$9) | (\$5) | \$23 | (\$28) | \$127 | \$214 | (\$87) | \$515 | \$594 | (\$79) |
| Operating margin (ex-SBC) | -15% | -14% | -1% | 0% | 2% | -2% | 2% | 4% | -2% | 8% | 10% | -1% |
| GAAP net income (loss) | (\$454) | (\$440) | (\$13) | (\$291) | (\$247) | (\$44) | (\$932) | (\$812) | (\$120) | (\$636) | (\$568) | (\$68) |
| GAAP diluted EPS | (\$0.28) | (\$0.27) | (\$0.01) | (\$0.18) | (\$0.15) | (\$0.03) | (\$0.56) | (\$0.50) | (\$0.07) | (\$0.38) | (\$0.34) | (\$0.04) |
| Non-GAAP net income | (\$41.0) | (\$23.4) | (\$17.5) | \$38.3 | \$124.5 | (\$86.1) | \$392.1 | \$662.4 | (\$270.3) | \$593.5 | \$897.1 | (\$303.6) |
| Non-GAAP EPS | (\$0.02) | (\$0.01) | (\$0.01) | \$0.02 | \$0.08 | (\$0.05) | \$0.24 | \$0.40 | (\$0.17) | \$0.35 | \$0.54 | (\$0.19) |
| Diluted Shares | 1,644 | 1,630 | 14 | 1,649 | 1,635 | 14 | 1,651 | 1,637 | 14 | 1,672 | 1,660 | 12 |
| Adjusted EBITDA | (\$56) | (\$50) | (\$6) | \$41 | \$66 | (\$26) | \$442 | \$518 | (\$76) | \$717 | \$785 | (\$68) |
| EBITDA margin | -5% | -4% | -1% | 3% | 5% | -2% | 8% | 10% | -2% | 12% | 13% | -1% |
| Total DAUs | 419 | 417 | 2 | 430 | 428 | 2 | 443 | 440 | 3 | 468 | 467 | 1 |
| North America DAUs | 100 | 101 | (1) | 101 | 102 | (1) | 102 | 102 | 0 | 103 | 103 | 0 |
| Europe DAUs | 97 | 97 | 0 | 98 | 98 | 0 | 99 | 99 | 0 | 102 | 102 | 0 |
| RoW DAUs | 222 | 219 | 3 | 231 | 228 | 3 | 242 | 239 | 3 | 263 | 262 | 1 |
| ARPU | \$2.68 | \$2.66 | \$0.02 | \$2.89 | \$2.86 | \$0.03 | \$12.47 | \$12.33 | \$0.13 | \$13.45 | \$13.31 | \$0.14 |
| North America ARPU | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Europe ARPU | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| RoW ARPU | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| CapEx | \$48 | \$56 | (\$7) | \$50 | \$61 | (\$11) | \$179 | \$263 | (\$83) | \$136 | \$300 | (\$164) |
| Free cash flow | \$155 | \$146 | \$9 | (\$136) | (\$127) | (\$9) | \$264 | \$245 | \$19 | \$614 | \$521 | \$93 |

Source: BofA Global Research Estimates and Company Filings

BofA GLOBAL RESEARCH



Price objective basis & risk

Snap (SNAP)

Our \$16 price objective is based on 4.5x 2025E EV/Revenue, within Snap's historical EV/Revenue valuation range. Our valuation reflects a modest discount to mid-cap Online media peer group multiples given lower relative growth, high revenue volatility and lower FCF including SBC expense.

Risks to our PO are 1) deceleration in user growth that would raise concerns on long-term revenue opportunity, 2) pressure on usage due to competing services, 3) valuation that has less earnings based support than peers and 4) high SBC expense that could lower valuation multiples.

Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|-----------------------------------|-------------|------------------|--------------------|
| BUY | | | | |
| | Alphabet | GOOGL | GOOGL US | Justin Post |
| | Alphabet | GOOG | GOOG US | Justin Post |
| | Amazon.com | AMZN | AMZN US | Justin Post |
| | AppLovin | APP | APP US | Omar Dessouky, CFA |
| | DoorDash | DASH | DASH US | Michael McGovern |
| | DoubleVerify Holdings, Inc. | DV | DV US | Omar Dessouky, CFA |
| | Electronic Arts | EA | EA US | Omar Dessouky, CFA |
| | Expedia | EXPE | EXPE US | Justin Post |
| | Integral Ad Science Holding Corp. | IAS | IAS US | Omar Dessouky, CFA |
| | LegalZoom | LZ | LZ US | Michael McGovern |
| | Match Group | MTCH | MTCH US | Curtis Nagle, CFA |
| | Meta Platforms Inc | META | META US | Justin Post |
| | Pinterest | PINS | PINS US | Justin Post |
| | RH | RH | RH US | Curtis Nagle, CFA |
| | Roblox Corp. Class A | RBLX | RBLX US | Omar Dessouky, CFA |
| | Squarespace, Inc. | SQSP | SQSP US | Michael McGovern |
| | Uber | UBER | UBER US | Justin Post |
| | Udemy Inc | UDMY | UDMY US | Curtis Nagle, CFA |
| | Vivid Seats | SEAT | SEAT US | Curtis Nagle, CFA |
| | Wayfair | W | W US | Curtis Nagle, CFA |
| | Wix.com | WIX | WIX US | Michael McGovern |
| NEUTRAL | | | | |
| | ACV Auctions | ACVA | ACVA US | Curtis Nagle, CFA |
| | Airbnb | ABNB | ABNB US | Justin Post |
| | Beyond Inc | BYON | BYON US | Curtis Nagle, CFA |
| | Booking Holdings Inc | BKNG | BKNG US | Justin Post |
| | Bumble | BMBL | BMBL US | Curtis Nagle, CFA |
| | Digital Turbine, Inc | APPS | APPS US | Omar Dessouky, CFA |
| | Duolingo | DUOL | DUOL US | Curtis Nagle, CFA |
| | eBay | EBAY | EBAY US | Justin Post |
| | Etsy, Inc. | ETSY | ETSY US | Curtis Nagle, CFA |
| | Instacart | CART | CART US | Justin Post |
| | Magnite, Inc. | MGNI | MGNI US | Omar Dessouky, CFA |
| | Snap | SNAP | SNAP US | Justin Post |
| | Take-Two Interactive | TTWO | TTWO US | Omar Dessouky, CFA |
| | Zillow | ZG | ZG US | Curtis Nagle, CFA |
| | Zillow | Z | Z US | Curtis Nagle, CFA |



US - Internet Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|-----------------------|-------------|------------------|--------------------|
| UNDERPERFORM | Chewy Inc | CHWY | CHWY US | Curtis Nagle, CFA |
| | Lyft, Inc. | LYFT | LYFT US | Michael McGovern |
| | Opendoor Technologies | OPEN | OPEN US | Curtis Nagle, CFA |
| | Peloton | PTON | PTON US | Curtis Nagle, CFA |
| | Playtika | PLTK | PLTK US | Omar Dessouky, CFA |
| | Redfin Corp | RDFN | RDFN US | Curtis Nagle, CFA |
| | Shutterstock | SSTK | SSTK US | Curtis Nagle, CFA |

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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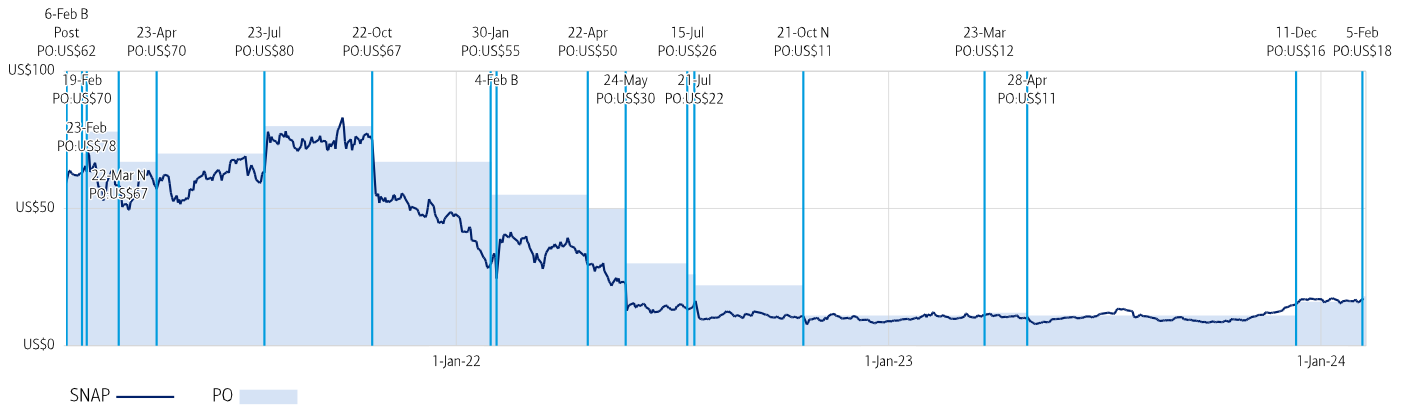
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Snap Inc (SNAP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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