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It's Hard To Believe This Sharp, 5-Point Business Memo Was Written By A 23-Year-Old

Alyson Shontell

15-19 minutes

Snapchat CEO Evan Spiegel
The Verge

When you're the CEO of a multi-billion-dollar company at age 23, you need to grow up quickly.

Just three years ago, Evan Spiegel was a senior at Stanford University. Today, he runs a mobile application worth $10 billion, Snapchat. Spiegel turned 24 in June.

Going from a college frat boy to the CEO of today's hottest new startup isn't easy. Spiegel has been painted as tactless, spoiled and sexist by the press, largely due to a lawsuit brought on by his former fraternity brother and leaked emails from his Stanford days.

But new email exchanges written by Spiegel to his board members paint an entirely different picture. The CEO of Sony Pictures Entertainment, Michael Lynton, was recently the victim of a cyber attack which unearthed his work emails. Lynton is also on Snapchat's board, so there are a number of exchanges between him, Spiegel and other board members that have been leaked.

One email exchange between Snapchat board member Mitch Lasky and Spiegel, dated November 18 2014, blew Lynton away.

"I couldn't have written this at 23," Lynton commented. "Very impressive."

So, what did this masterful email say?

Spiegel was being advised by Benchmark partner Mitch Lasky, who is twice Spiegel's age, to focus on growing Snapchat's user base instead of trying to monetize the startup. Spiegel disagreed, and underscored how important revenue generation is, particularly when there could be a tech bubble.

"For Snapchat to capitalize on market conditions in next 3 years, it is imperative that we become a revenue-generating company," Spiegel wrote. "That will allow us to attract the best talent and prosper despite extreme scrutiny on traditional social media that will have failed to deliver on $$ dreams."

Lasky also told Spiegel he could raise money at "any valuation he wanted" short of $4 billion. Spiegel replied that he'd like to keep it a more modest $800 million.

Lasky also suggested Spiegel hold an all-hands staff meeting to discuss rumors of Snapchat turning down a multi-billion-dollar acquisition offer from Facebook. Spiegel replied that the meeting had already taken place earlier that morning.

It's not easy to have enough confidence and business savvy to push back on someone with 20+ years of experience running and investing in businesses. Here's the respectful and smart exchange between the two.

Here are points Mitch Lasky made to Spiegel (Business Insider has bolded the bullets to make it easier to skim):

> Hey. Hope you had a good weekend. We should get on the phone at some point soon -- I'm around the balance of the week at your convenience, other than today, where I am locked in meetings until late tonight. Here are some of the things I think we should have on the agenda:
>
> **1) Financing.** At this point, we can take a couple of different paths:
>
> On the one hand, we could pull back and attempt to "prove it" to the market to get the higher valuation. I'm not exactly sure what that "proof" would be. We always run the risk that overall froth in the market declines, and we end up filling a leaking bucket -- doing everything right to "prove it" while macro valuations decline. I'm not that valuation-focused anyway, so this matters less to me.
>
> If we think we are going to change the market's perspective through revenue generation, I think that is quite dangerous to assume. Right now it's all about users and growth and engagement, which we know will go up and to the right for a while. Once you introduce revenue, that becomes the dominant paradigm. Take subscriptions: if you got ~2% MAU conversion to subscription at $1.99 for the balance of the year with no churn, which would be pretty good, it's $25-30MM post Apple/Google tax. It's going to take a while to come up with a cluster of monetization schemes that get you to the point where you want to be judged on revenue/earnings multiples. We have to assume there is no AdWords-like magic bullet. I want us to be able to be really, really patient and get it right.
>
> On the other hand, we could do a small financing now at any valuation you want (short of $4B) and put ~$50MM on the balance sheet. I am really not comfortable about going into next year with only 13 months of cash and the need to generate revenues to extend runway or do a 2014 financing when the sharks smell blood in the water in the form of a short runway. Remember that we also have the Reggie settlement to think about. Given that we could take in just one year's worth of runway money with only a little dilution, I personally think that this is the responsible path -- you will have your choice of investor for a smaller deal.
>
> I know you are coming off an emotionally fraught stretch of fundraising, but we should focus on what's best for the company. Given the leaks and FB offer, we are likely to end up having 409(a) issues anyway with stock option pricing for future hires. I say give yourself runway through 2015 and no more — keep the line tight and don't over-capitalize, but don't put a gun to your own head with the capital markets in 2014 when you are in the process of launching a suite of new products and monetization experiments.
>
> **2) Hiring.** If we are going to go for it and build the big company you want to build, we need to accelerate the hiring of the executive team. The IVP guys said they introduced you to Zander as a potential COO ... I think of him as more of a biz dev type but he's a good guy and very smart. Is Daversa formally retained on the COO search? We should get our GC search rekindled, too. We've passed on some good options and I want to make sure we aren't looking for a unicorn. And if we are planning to generate revenue early in 2014, we really need a CFO or at least a VP of Finance. Let's discuss.

3) FB. Confidentially, Zuck pinged Cohler during the peak of the news cycle on the acquisition leak. He was disappointed that the deal didn't get done, but also believes that you leaked this to the press in order to bolster your fundraising efforts. Cohler told him that he could easily make the argument that FB leaked it to put pressure on Snapchat, or that it was leaked by a third party. Regardless, my advice is to be the bigger person and call Zuck and apologize for the leak (even though it wasn't your fault) and deny any culpability. I know you have no interest in selling to him, but you want to keep on good terms with the enemy. :)

4) Lightspeed. Finally talked to Jeremy late yesterday. He clarified his position on selling. Said that he's a seller if you are a seller -- if you do any secondary he wants to sell pro rata. He denied that he's a seller into a 100% primary deal, but who knows — that could just be VC posturing.

5) All Hands Meeting. You've probably already done this, but if not you may want to consider getting your staff together briefly and telling them what's going on — well, maybe not everything, but these are key moments to communicate. They are reading about all this in the press and are probably wondering what's happening. It's totally natural. Good opportunity to remind everyone that you plan to build a big company together.

Anyway, I wanted to get this to you now because we may not talk until later in the week. Sorry for the long email.

—Mitch

And here's Spiegel's response.

1) I 100% understand your perspective on the raise. That said, I would prefer to keep the valuation of the co at $800mm going into a potentially turbulent time in the market. We have 13 months runway, and with a minimally successful monetization scheme we will be able to comfortably extend that. I don't think that monetizing the business will affect our ability to raise at high valuations -- Facebook was bringing in money in the very early days and didn't have any problem attracting high valuations. If anything, we need to monetize the business in order to create leverage for future financings as needed. In the next two weeks I want to focus on the monetization product rather than a potential financing. It's almost there and it's really awesome. If we have a business that is sustainable over the next 2-3 years we will be in a much stronger position. I think 409(a) issues are overstated and that we will benefit from having lower strike price as we hire over next few years. Especially if that price becomes based on revenue rather than VC valuations. I don't think $3bn valuation for fundraising is going to go away - esp because TC and others are already pricing in market volatility. You've seen the data - we have high engagement and high retention product with tremendous growth ahead of us. Monetizing the business now only makes a stronger case for the permanence of our product. I think most important thing I want to communicate to you is that this is not an emotional decision and is not about "proving it" - this business needs to make money. The argument of grow now, monetize later doesn't make sense because we have reached abnormal levels of growth and our monetization product is value-added. I'd rather not burn another $100mm of OPM before we find out whether or not we have a business. If we can build profitable biz w Twitter-scale, 30-person headcount, and major growth ahead we are not going to have a problem attracting additional capital. (This does not preclude necessity of building a much larger team).

2) I completely agree. Not interested in Zander. I am working with Daversa on CAO/COO role and meeting with 4 terrific candidates this week. Will report back on those meetings. As far as GC goes, I have my dream candidate and I think we can make it happen. I am calling him today to discuss but don't feel comfortable bringing him on until we are making

money. We will be able to attract best (and risk-adverse) candidates if we can show a path to real revenues. I am moving Philippe to internal operations (we can discuss this on the phone, please do not discuss with him as I have not yet had this conversation with him) and I think he will be able to monitor cash flow while we look for CFO or VP Finance. We're not doing anything fancy - we just need to know if the amount of money in our accounts is increasing or decreasing. We have outsource CFO resource in Keating Consulting and the combo of Philippe+ Keating will get the job done for now.

3) We texted last week, planning on calling him today.

4) Talked to David this am, sounds like Jeremy will be following up with Tencent later in the week. David seemed to think deal could get done. As I mentioned earlier, I don'tcare either way but we would probably have to offer it to all shareholders to avoid potential lawsuit down the road. Could be more trouble than it's worth.

5) Happened at 10am.

As a note: my view of the market is as follows --

Fed has created abnormal market conditions by printing money and keeping interest rates low. Investors are looking for growth anywhere they can find it and tech companies are good targets - at these values, however, all tech stocks are expensive - even looking at 5+ years of revenue growth down the road. This means that most value-driven investors have left the market and the remaining 5-10%+ increase in market value will be driven by momentum investors. At some point there won't be any momentum investors left buying at higher prices, and the market begins to tumble. May be 10-20% correction or something more significant, especially in tech stocks. Facebook has continued to perform in the market despite declining user engagement and pullback of brand advertising dollars -- largely due to mobile advertising performance - especially App Install advertisements. This is a huge red flag because it indicates that sustainable brand dollars have not yet moved to Facebook mobile platform and mobile revenue growth has been driven by technology companies (many of which are VC funded). VC dollars are being spent on user acquisition despite unknown LTV of users - a recipe for disaster. This props up Facebook share price and continues to justify VC investment in technology products based on abnormally large mkt cap companies (i.e. "If this company attracts just 5% of users that FB has, it will be HUGE" - fuels spend on user acquisition as user growth is tied to values). When the market for tech stocks cools, Facebook market cap will plummet, access to capital for unproven businesses will become inaccessible, and ad spend on user acquisition will rapidly decrease - compounding problems for Facebook and driving stock even lower. Instagram may be only saving grace if they are able to ramp advertising product fast enough. Total internet advertising spend cannot justify outsized valuations of social media products that derive revenue from advertising. Feed-based advertising units will plummet in value (in the case of Twitter, advertising spend may not move beyond experimental dollars) similar to earlier devaluing of Internet display advertising.

THAT SAID, we are still in very early days in mobile application market. I remember growing up wishing I had been a part of PC revolution - and I feel very fortunate to havethe opportunity to watch smartphones take off. Snapchat has become one of the top 5 mobile phone brands with Facebook, Twitter, YouTube, and Instagram.

For Snapchat to capitalize on market conditions in next 3 years, it is imperative that we become a revenue-generating company. That will allow us to attract the best talent and prosper despite extreme scrutiny on traditional social media that will have failed to deliver on $$ dreams. Team is working overtime to drive revenue and innovate on core product - we have a solid 3-year roadmap that we intend to follow.

As a profitable growth company with a focus on mobile we will not suffer from opportunities to raise capital at outsized valuations despite market conditions. Strategically it is important for us to keep expectations low with an understanding that Snapchat may be valued on revenues going forward and that $800mm valuation for a two year old company is remarkable and already more than enough to grow into. With 13-15 months of runway extended by minimally successful revenue generation activities I think we are positioned to capture the mobile communication market.

I disagree wholeheartedly with the notion that mobile will be forever fragmented - we are the only differentiated messaging service in the United States and we will continue to provide a unique and innovative product experience. Snapchat is not valuable in the long-term because it is used by teens or because it is a threat to Facebook. It is valuable because it has fundamentally changed the nature of digital communication in <2 years and will continue to do so for the life of the Company (may it be long and prosperous).

Our focus in the immediate term is revenue generation, growth and product development.

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