

Snapchat faces harsh reality check after earnings miss

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Snap's disappointing results prompted a big selloff

Snapchat's ambition to become the next big social media platform hit a brutal reality check with the first earnings report from parent company Snap Inc.

The \$2.2 billion loss reported Wednesday for the first quarter along with weaker-than-expected revenue and sluggish user growth prompted a

wave of selling and harsh comments from analysts about the firm known for its disappearing messages.

Snap shares plunged 21.5 percent to close Thursday at \$18.05, the lowest level since its March share offering, as optimism over its prospects to challenge Facebook faded.

Snap disappointed analysts with reported revenue of \$149.6 million in the three months ending in March.

That was up 286 percent from a year ago but below Wall Street estimates of around \$158 million, and a significant miss for the fast-evolving social media segment.

Snap said the number of daily active users grew to 166 million at the end of the quarter, a 36 percent increase from a year ago but just five percent higher than at the end of 2016.

'Niche' company

"The conclusion from all of this is that Snap's future is that of a niche company dominating narrow segments of the population rather than a company with broad mass market appeal, and that has significant implications for its valuation," Jan Dawson of Jackdaw Research said in a blog post.

Richard Windsor, an analyst who writes the Radio Free Mobile blog, said Snap's growth "is not nearly good enough" given its lofty valuation.

Snap's challenges are difficult because Facebook is introducing features based on Snapchat for its main social network as well as its Instagram platform.

"This is where the problems begin as Facebook can easily afford to outspend Snap in every instance," Windsor said.

Analysts also expressed surprise over Snap's apparent dismissal of the threat from Facebook.

Asked if he fears the social media titan could crush his company, Snap's chief executive Evan Spiegel said he remains committed to a strategy "to deliver value through creativity."

"You have to get comfortable with the fact that people are going to copy you if you make great stuff," he said.

Dawson said Spiegel and other Snap executives on the earnings call "seemed keener to talk trash about competitors, notably Facebook, than in really answering investors' pressing questions about user growth."

"The bombastic tone would have been justifiable if the company's growth hadn't slowed significantly since the introduction of Instagram Stories with no signs of recovery, but in the current context, it feels like naivety or denial instead," the analyst added.

Most of the loss came from \$2 billion in stock awards, including to CEO Spiegel, the financial results showed.

"What a disaster," tweeted Ross Gerber of the investment firm Gerber Kawasaki. "Lost \$2 bil!!!! Took the money from shareholders gave to management."

The loss from operations was \$188 million, excluding stock awards and other special items.

'Too early'

Snapchat is best known for its smartphone messaging, but has also developed partnerships with numerous media outlets eager to reach its audience with news, video and other content.

Some analysts remain upbeat about Snap despite the ugly earnings report.

It's "way too early" to write off Snap or compare it to Twitter, Mark Mahaney of RBC Capital Markets said.

"Snap has become an innovation leader—for both consumers and advertisers—in the single fastest advertising medium today, mobile," he wrote in a note to clients.

"It has also emerged as one of the leading media platforms for millennials," he added.

"We believe that if it sustains its current level of innovation, it can sustain premium growth for a long time and scale to profitability."

Snapchat is expected to generate \$900 million in worldwide revenue this year, accounting for just 0.4 percent of the worldwide digital ad market, eMarketer predicted this month.

But eMarketer analyst Cathy Boyle said the research firm may downgrade its estimates if Snapchat's growth fails to pick up.

"The competition is taking its toll on Snapchat," she told AFP.

Snapchat's innovations have been significant and it has a strong connection to the important youth market, Boyle added.

"They are very good at making things fun," she said.

"Some social networks have become mundane. If Snapchat can continue to introduce things that will surprise and delight consumers, they can attract more users."

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