

Citron Research Initiates Coverage on Snap Inc. Target Price \$17

Time to Spook the Shorts who have overstayed their welcome

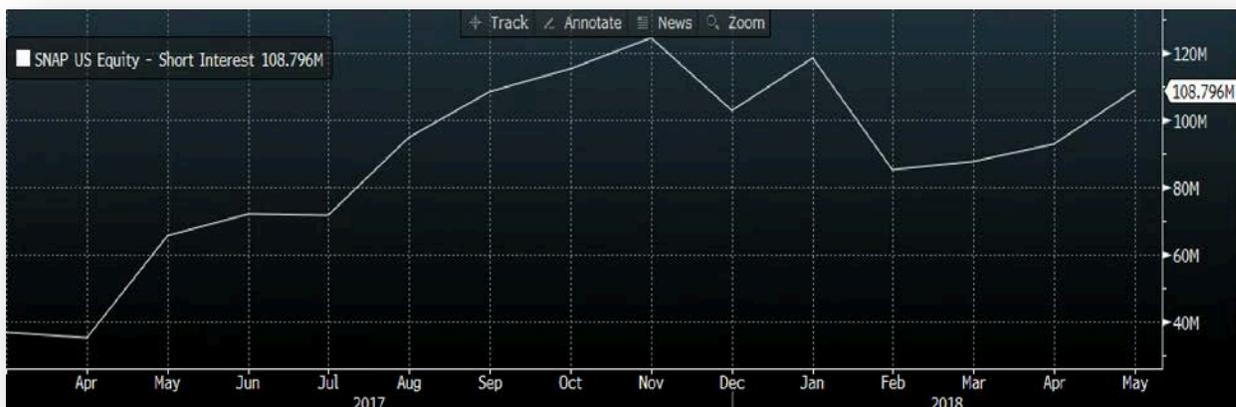
Over 17 years, Citron has battled companies with questionable business models, fraudulent practices and companies that are otherwise overvalued. However, staying short a stock where negative catalysts and news flow are baked in is a recipe for disaster that is often coupled with an inability to look past the headlines. We have seen this setup too many times and we have even fallen victim to it, but not this time!

For the past 4 months, Snap Inc. has been a wonderful short as the company has suffered from a controversial redesign, a disappointing quarter, and management which held a conference call that Jim Cramer likened to an SNL skit. And Snapchat's stock has the scars to show it, being down almost 50% over this period.

Shorts even received a \$1.3 billion gift from Kylie Jenner when she tweeted that it was so sad that she does not even open Snapchat anymore (because of the redesign).

The most heavily shorted social media site offers a compelling opportunity for investors as even no news is good news

All of this has taken the short interest of Snapchat to near record highs of 110 million shares short.



Citron believes that the SNAP shorts have overstayed their welcome.

News flow suggests it's time to take the contrarian view

The news flow on Snapchat has kept the shorts pressing the position but, in this case, Citron takes the contrarian view. Like many who spend a lot of time on the short side, we too often have been the “short sighted” short seller and have not paid close attention to the bull case and the potential for upside catalysts which, in the case of SNAP, are compelling.

Let us first look at how Snapchat's valuation has changed relative to its peers in the past few months.

Valuation vs Peers

Below is a chart of EV/Sales for SNAP, FB, and TWTR. SNAP is now trading at its largest-ever discount to social media peers despite generating the fastest revenue growth.



Shift From Most Expensive Social Media Company to Least Amongst Peer Group		
	EV / 2019 Sales ⁽¹⁾ 01-Mar-17	EV / 2021 Sales ⁽²⁾ Current
<i>Snapchat IPO Date</i>		
SNAP	8.5x	3.4x
FB	5.9x	5.0x
TWTR	3.4x	6.0x

(1) Based on Enterprise Value at March 1, 2017 and 2019 Goldman Sachs sales estimate in and around Mar 1, 2017

(2) Based on Enterprise Value currently and consensus 2021 sales estimates

Source: Bloomberg, Goldman Sachs

- On CY2021 EV/Sales, TWTR trades at 6x revenue, FB at 5x revenue, while SNAP is at a measly 3x revenue.
- SNAP currently has half the market cap of TWTR despite having more users.
- In 2018 TWTR is growing revenues at 18% while SNAP is growing at 43%

Despite this disparity in metrics, SNAP short interest is 21% of float compared to 4.7% for Twitter and 1.2% for Facebook.

Think about this:

FB has 1.45 billion DAU globally and an enterprise value of \$500 billion vs. SNAP with 191 million DAU and an EV of \$12 billion.

In other words, **FB is valued at \$345 per DAU vs. SNAP at \$63 per DAU.**

FB's valuation per DAU implies that SNAP could be worth about 5-6x its current value.

Not to mention that SNAP has the concentration of its users in the more desirable ad markets with the most desirable demographic in Generation Z- the generation that is defining their purchasing habits.

While we are not saying that SNAP is going to \$50, we do believe if the company can continue to grow users and stay on plan with automated programmatic ad buying, any positive upside can cause the stock to spike (look at February of 2018).

A Compelling Case for Snapchat

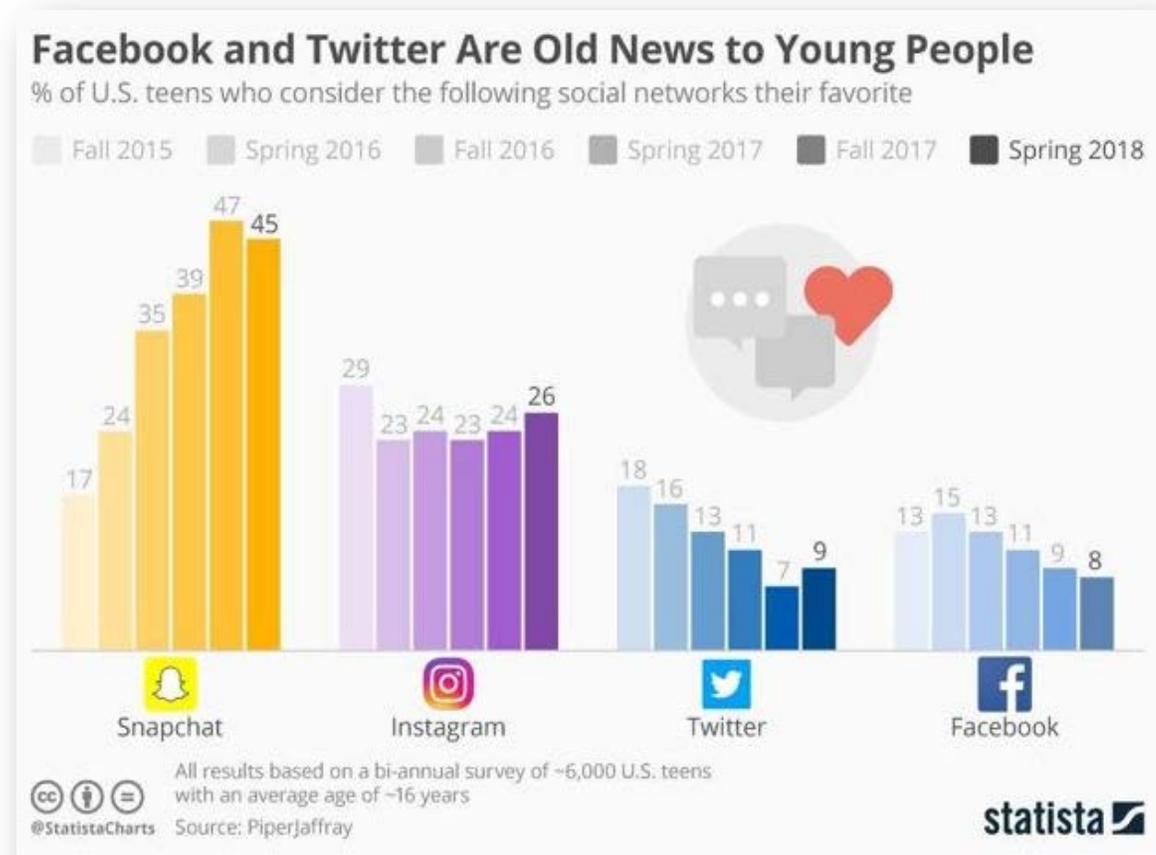
While none of these reasons considered separately would make us go long, together Citron will present a mosaic of what we believe to be the key points that are overlooked by shorts and why the stock is heading back to \$17:

Ad Impressions Up Up and Away: Snap transitioned ~90% of its Snap Ad business to a self-serve ad platform in 2017. Prices dropped 70% YoY (which have now stabilized), masking a 575% growth in ad impressions.

Expectations Can't Get Worse: After disappointing investors in 4 out of 5 quarters as a public company, expectations can only improve from here. Especially with a new CFO Tim Stone, an Amazon veteran, to help guide the story.

SNAP - the Relative Value Play: SNAP trades at the largest discount to market cap in the Goldman Sachs and RBC Internet universe.

Best Rating Amongst Teens: Snapchat has the highest rating amongst social media platforms at almost 2 times higher than Instagram ([Source: Piper Taking Stock with Teens](#)).



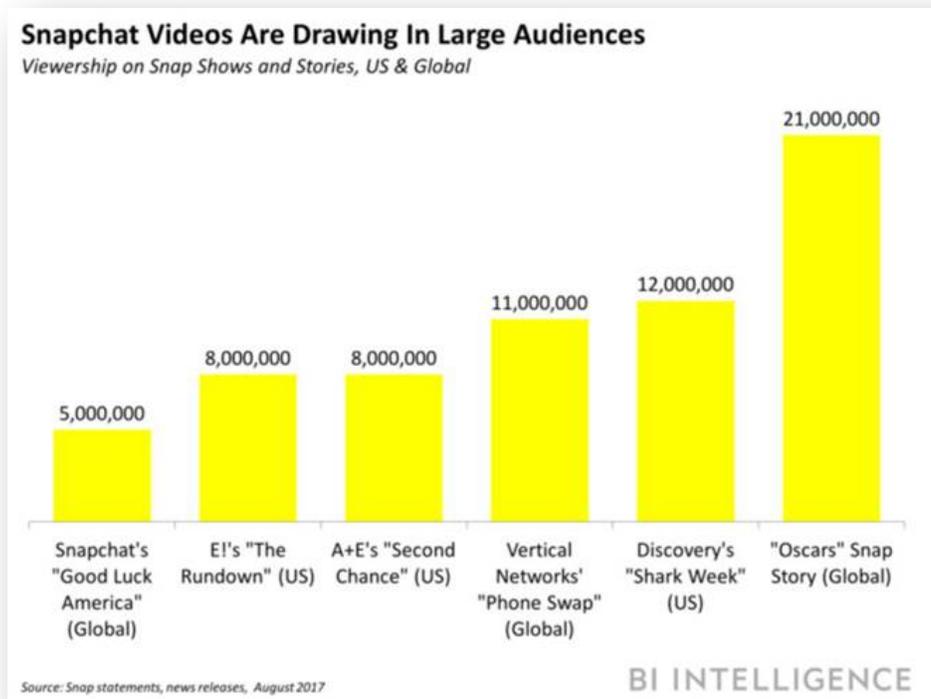
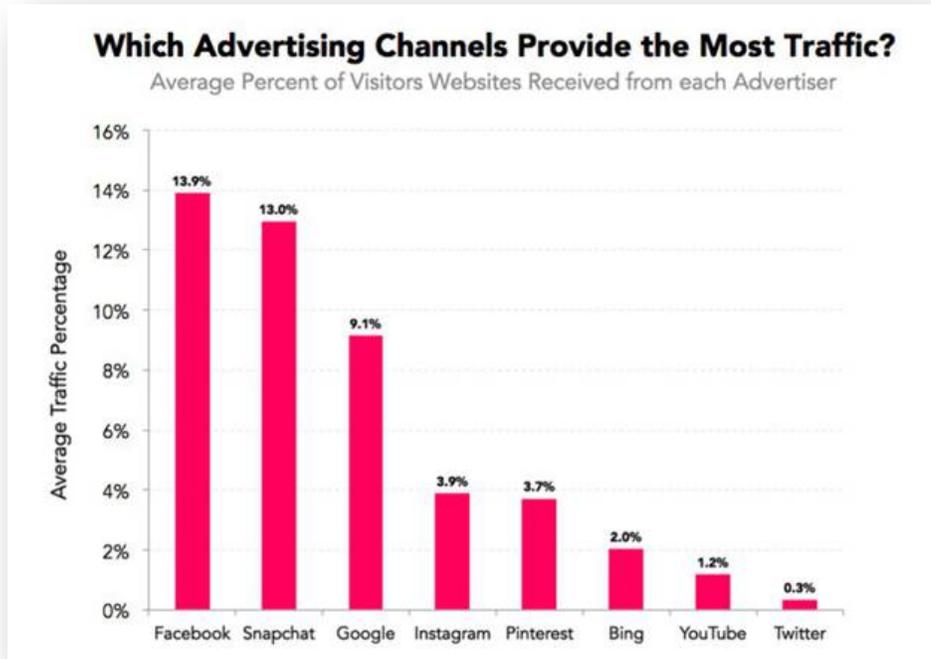
No Privacy Scandal: Over the last three months, FB, TWTR, and GOOG have come under major scrutiny for not protecting users' data privacy. On the other hand, SNAP is the ONLY social media stock WITHOUT data privacy issues.

Tencent's One Social Media Investment: Out of all the social media companies in the world, Tencent has chosen to make SNAP one of its largest investments. Tencent could easily help SNAP better monetize its platform and has even called out video games as a new potential area of focus.

Reversing the Redesign a Success: Lastly and most importantly, SNAP has moved away from its redesign and made it more friendly to their traditional user base.

https://www.washingtonpost.com/news/the-switch/wp/2018/05/11/snapchat-rolls-out-a-redesign-of-its-redesign/?utm_term=.00ab48f75dd4

The numbers are just so damn compelling.



We Still Got the Kardashians!!!

Not only is Kylie Jenner back on SNAP but even better, we have the Kardashian and Jenner children on Snapchat. Why? **'Cause Snap has the best filters**

<https://people.com/tv/why-kardashian-jenners-use-snapchat-filters-on-babies/>

(Note to reader: if Kylie came back, we know Snapchat's stock will too).

Looks like the Kardashian breakup with Snapchat lasted as long as a Kardashian relationship.

Most importantly, and what the stock market is forgetting, is that Snapchat is a bridge to Generation Z...and that cannot fit into a financial model. [Source: Business Insider](#)

Some 79 percent of U.S. 13- to 18-year-olds surveyed said they have a Snapchat account, more than any other type of social media. Of that age group, 73 percent have an Instagram account and just 57 percent say they are on Facebook. ([Source: Recode - Snapchat is still the network of choice for U.S. teens by RBC](#))

And SNAP is now opening up for developers for it to become the gateway to the internet for its loyalists, the way Facebook has. ([Source: May 2018: Snapchat preps snapkit platform](#))

For Those investors skeptical of Snapchat just click this link

<https://blog.makemereach.com/not-using-snapchat-in-your-marketing-why-thats-a-mistake>

Once Wall Street catches up to the marketing world.....takeoff.

Acquisition? So who buys Snap?? Google?? or Maybe Apple???

Citron believes that SNAP does not even get to grow up before it gets acquired.

In 2016 it was widely reported that GOOG offered to buy SNAP for "at least \$30 billion". ([Source: Google reportedly offered \\$30bn to acquire Snapchat](#)). Remember that Google does not have a meaningful "social media" presence.

Since 2016 revenues have tripled and Daily Active Users have almost doubled yet the current market cap ex cash is around \$12 billion. Google could easily give Snap the "grownup" it needs while also saving close to \$100 million (the majority of the SNAP COGS spend a year) ([source: business insider](#))

Although we now find out that SNAP has plans for profitability in the next 12 months, we still question if it will remain independent for that long ([Source: Snap's Next Surprise May be earlier than expected profit](#)).

Conclusion

Snapchat is not a fad. It is one stabilizing quarter from giving investors a 30% or more return -- more than you can see in any FANG stock in our opinion. Whatever criticism shorts might have of the SNAP stock, you cannot ignore the size, scale, and reach of the product which has the mindshare of the most important demographic in the market. See you back at \$17

Cautious Investing to All

******** For those who still need more information on the power of Snapchat, we recommend you view [this info graphic](#).

For additional reading, please see the following article that illustrates Snapchat is underappreciated.

<https://blog.makemereach.com/not-using-snapchat-in-your-marketing-why-thats-a-mistake>