

Snapchat: March 2, 2017 –Founders Become Billionaires



By
**CAITLIN
HUSTON**

Snap Inc. co-founders Bobby Murphy, left, and Evan Spiegel rang the opening bell at the NYSE on Thursday, after cashing out more than a quarter of a billion dollars apiece in the company's IPO.

Snap Inc.'s initial public offering raised nearly \$2.5 billion for Snapchat's parent company, but it is also raising nearly \$1 billion for the founders and early investors.

Dr. Jack M. Wilson

Distinguished Professor of Higher Education, Emerging Technologies, and Innovation

Snapchat goes public

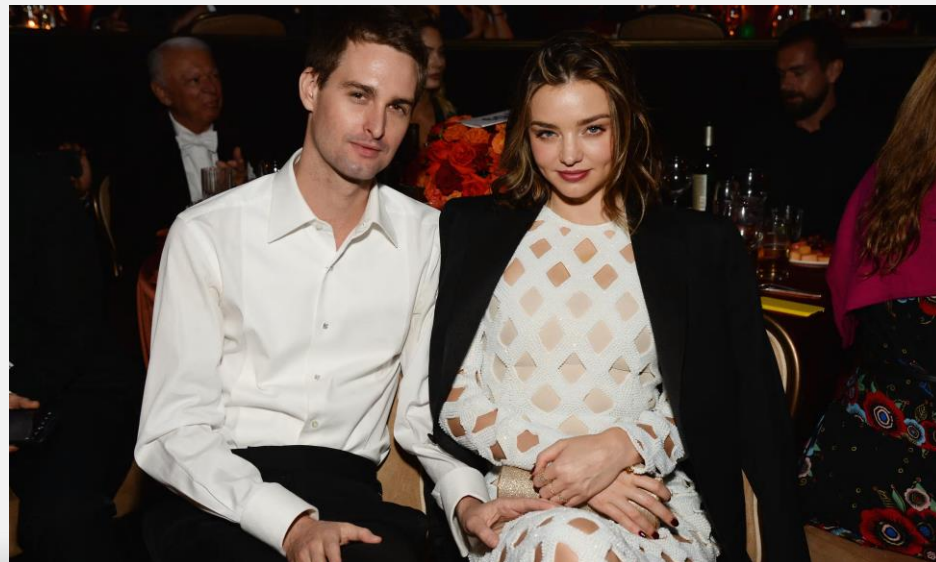
- Founded as Picaboo by Bobbie Murphy and Evan Spiegel
 - Reggie Brown claimed to be a founder - left in dispute, sued, and settled for \$157.5 M
- Sends pictures which would “disappear” in seconds.
 - The FTC asserted that this claim was exaggerated and put them under monitoring.
- Company name is now Snap Inc.
- Now has added other features like filters.
- 158 Million daily users
- 2.5 million snaps per day
- Growth: 48% in last year
- A very young (and some feel valuable) demographic
- Turned down \$3 B offer from Facebook
- Revenue in 2016: \$404.5 million
- Loss in 2016: \$514 million
- Market Value: \$28.3 B on March 2, 2016

MarketWatch: Snapchat founders, investors cash out...

- Marketwatch: Snapchat founders, investors cash out nearly \$1 billion in Snap IPO
 - Published: Mar 3, 2017 8:40 a.m. ET
 - “Snap CEO Evan Spiegel sells at least \$272 million worth of shares, still holds nearly \$3.6 billion in stock with more to come”
 - “Snap SNAP, +15.17% announced Wednesday evening that it will sell 200 million shares for \$17 apiece in the largest U.S. IPO since 2014. The company will sell 145 million of those shares, while executives and early investors will pitch in 55 million shares that they amassed before the IPO and take proceeds of \$935 million home.”
 - “Evan Spiegel and Bobby Murphy, co-founders of the social media company, both planned to sell 16 million shares in the offering, bringing in about \$272 million for each. Even after selling those shares, both co-founders will each own 210,970,819 shares, worth nearly \$3.6 billion at the IPO price, and will together control more than 88% of voting power in the company. Investors who bought class A common stock in the IPO will not have voting rights.”
 - <http://www.marketwatch.com/story/snapchat-founders-and-investors-sell-millions-of-shares-in-snap-ipo-2017-03-01>

Evan Spiegel

- Born: June 4, 1990
- Stanford Dropout
- Snapchat was a class project for him in a Stanford Product Design class.
- Dates *Victoria's Secret* Model Miranda Kerr
- Known to be reclusive –does not work from a company headquarters



Bobby Murphy

- Robert Cornelius Murphy
- Born: July 19, 1988
- Mother from the Philippines and father from the US
- Stanford University BS (2010)
Mathematical and Computational Science
- Was the primary coder for Picaboo which became Snapchat



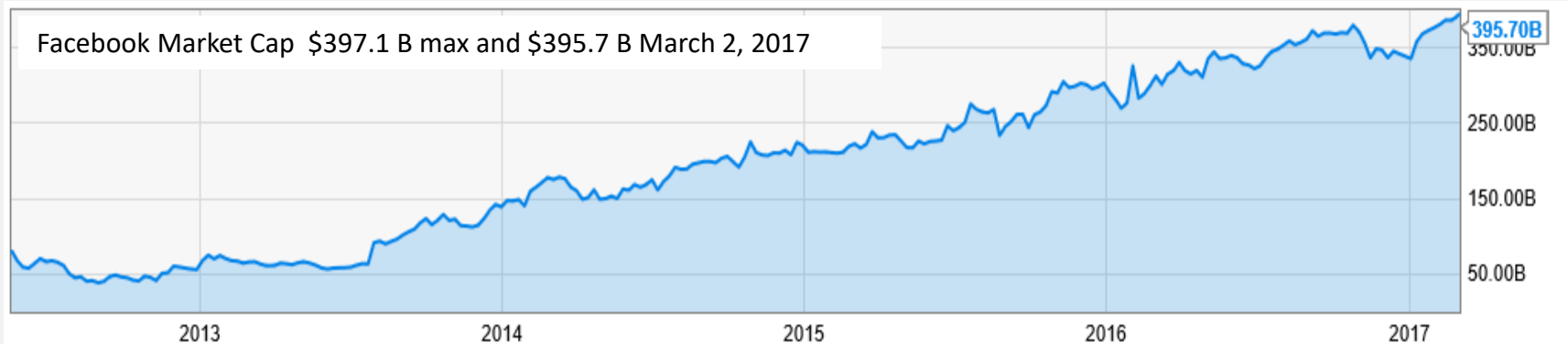
Photo -J. Emilio Flores - New York Times

How can you get that value (\$28.3 B) ?

- Based upon the total revenues of \$404.5 million?
- Based upon the losses of \$ 514 million?
 - With no profits once cannot calculate a price to earning ration (P/E)
- Based upon faith in the team leading the organization?
- Based upon Metcalfe's Law?
- How will Snap compare to other Social Media IPOs like Facebook and Twitter?

Market Capitalization

- The Market Cap of Snap after the first day was \$28.3 B
- Below are graphs of the Market Cap of Twitter and Facebook after their IPOs. (Graphs are from ycharts.com)



Facebook Historical Market Cap Data

New York Times

- *Snap Shares Leap 44% in Debut as Investors Doubt Value Will Vanish*
 - Michael J. de la Merced March 2, 2017
 - <https://www.nytimes.com/2017/03/02/business/dealbook/snap-snapchat-ipo.html?hpw&rref=technology&action=click&pgtype=Homepage&module=well-region®ion=bottom-well&WT.nav=bottom-well>
- “Some analysts have already shown skepticism about the newest publicly traded tech giant. One, Brian Wieser of Pivotal Research Group, says the share price should be \$10, far below the company’s offering price of \$17, which itself was above the initial range predicted. Snap faces competition from larger companies and the challenge of a slow-growing user base, he said.”
- “Boosters of Snap’s prospects argue instead that Snap has the potential to become less like Twitter and more like its biggest rival, the \$395 billion Facebook. These supporters point to some of the company’s obvious strengths: the 158 million people on average who used Snapchat each day by the end of 2016; the roughly 18 times a day that those users opened the app on average; the \$404 million in sales that it collected last year, up from nothing three years ago.”

References

- Snapchat Goes Public In Largest Tech IPO Since Alibaba; March 2, 2017 4:35 PM ET
 - <http://www.npr.org/2017/03/02/518197167/snapchat-goes-public-in-largest-tech-ipo-since-alibaba>
- <http://www.economist.com/blogs/economist-explains/2017/03/economist-explains-0?fsrc=scn/fb/te/bl/ed/howtomakesenseofsnapchat>
- <https://www.theguardian.com/technology/2017/mar/02/snapchat-ipo-valuation-evan-spiegel-bobby-murphy-snap-inc>
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Questions

- Do you feel that the value given to Snap Inc. is realistic?
 - What evidence would you cite for your opinion?
- Do you expect Snap to hold its value over the next few years?
 - Why or why not?
- Is it good corporate governance to leave all the control in the founders hands and give none to investors?