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## Analysts: The market is 'disenchanted' with Snapchat

By Haseeb Ali

Snap Inc. faces a number of challenges related to its ability to monetize its platform and improve ad targeting.

Since its IPO in March, Snap has received a series of analyst  **downgrades**. A  **recent** one from Morgan Stanley, which served as lead underwriter for the company, noted that the company's ad platform is not "improving/evolving as quickly as expected, and competition from Instagram is rising."



Though Snap has been busy striking video  **content deals** for its Snapchat Discover feature with major media companies such as [Viacom Inc.](#), [Comcast Corp.](#)'s [NBCUniversal Media LLC](#), [Time Warner Inc.](#) and [Walt Disney Co.](#), the downgrades have still  **continued**.

Brice Longnos, industry analyst at Strategy Analytics, believes the downgrades reflect a "disenchantment from the market toward the speed at which Snapchat can generate high returns."



**Snapchat glasses**

Source: Snapchat

Snap, which a few years ago turned down a takeover offer from [Facebook Inc.](#), entered the market through the Snapchat app allowing users to send messages that automatically disappeared. The company also unveiled its video-recording  **glasses** in 2016 and now is reportedly  **working** on a second version of those.

In May, Snap acknowledged that sales of its smartglasses had been modest to date. Through the end of first quarter 2017, Snap's reported revenues indicated that it sold fewer than 100,000 sets of Spectacles.

Isaac Rogers, CEO of 20|20 Research Inc., said in an interview that the self-proclaimed "camera company" will have to find a technology to better target its user base with ads and to introduce a "killer" feature that could attract millennials. Rogers does not think Snap is of much value to Facebook at the moment but thinks Snapchat could be attractive to other tech giants, such as [Amazon.com Inc.](#), [Microsoft Corp.](#) or [Google Inc.](#)

Independent tech analyst Jeff Kagan agreed Snap could be a takeover target, but it depends on how a potential suitor could see Snap helping them grow.

"They won't be interested in trying to catch a falling knife," Kagan cautioned.

Snap's advertising efforts specifically have drawn criticism from users surveyed by 20|20 Research, as its new Snap Map feature with geolocation technology was

found to be "invasive." The survey, citing a dataset of 1,000 millennials, discovered users found the ads to be "off target" and "poorly implemented," and were the main reason many stopped using Snapchat.

More than 93% of the surveyed users who said they were using Snapchat less today than six months ago have started using Facebook and Instagram more instead.

In May, Snap **reported** a big jump in revenue for the first quarter, though its net losses widened year over year. The company noted that its first-quarter losses included the impact of \$2.0 billion in stock-based compensation expenses following its IPO.

Snap will report second-quarter earnings on Aug. 10.



Adelaide Klonicki contributed to this article.