Snap's Q1 earnings highlight monetization challenges

Article

The news: **Snap** reported lower-than-expected revenues for Q1, hurt by softer ad spending. Key figures include:

- Revenues were **$989 million, falling short of the expected $1.01 billion** from Refinitiv and a 7% decline from Q1 2022.

- 383 million global daily active users, slightly below the expected 384 million, as per StreetAccount.

- Average revenue per user of $2.58, less than the expected $2.63, according to StreetAccount.

- One bright spot: Net loss narrowed to $328.7 million, better than the $348 million analyst expectation and last year's $359.6 million loss.

The company's shares fell up to 20% in after-hours trading on Thursday due to these disappointing results, only to rebound somewhat but remain down.

Looking ahead: Snap didn't provide official guidance but mentioned in its shareholder letter that its internal forecast for Q2 revenue is $1.04 billion, a 6% year-over-year decline. Analysts had Q2 sales projections of $1.10 billion.

- It's worth noting that over the past year, Snap has been less accurate with guidance than many other digital advertising players.

Analyst insight: "Snapchat isn't a textbook ad-supported platform: Snapchat users primarily use the app for messaging, and messaging apps are notoriously difficult to monetize," said principal analyst **Jasmine Enberg**. "Snap's strong association with augmented reality, **Apple**'s privacy changes, and Snapchat's small size relative to the social platforms that advertisers bucket the app with have created additional headwinds to its ad business."

Our take: Social media companies have been hit hard as advertisers consolidate spending in a cautious environment. That's had an effect on smaller players like Snap. Last year, Snapchat accounted for 3.2% of all social network ad revenues, per our forecast; by 2025, that will have dropped to 2.9%.

- Snap's saving grace: The app is popular with younger, highly coveted consumers. If the platform's demographics were inversed and it overindexed with older users, the company would be even more of a niche player—if that.

Snapchat User Penetration, by Age

US, 2023

% of Population

18-24

81.4%

12-17

66.8%

25-34

54.0%

35-44

26.2%

45-54

13.0%

55-64

6.7%

0-11

3.2%

65+

2.4%

Note: mobile phone users who access their Snapchat account via mobile phone app at least once per month
Source: eMarketer, December 2022

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