SNAP IPO

Damion Rallis

February 2017

OH SNAP! TECH FIRM'S IPO BREAKS SHAKY NEW GROUND IN OWNERSHIP RISK

In a first for a US initial public offering (IPO), Snap Inc is offering only non-voting shares to public investors. While only 14% of the Software & Services constituents of the MSCI ACWI Index have a Controlling Shareholder—just 7% in the entire ACWI—nearly half of those (45%) utilize multiple share classes. While all ten of these controlled Technology firms have at least one stock class worth 10 votes per share, only one firm's controlling shareholder holds more voting power than Snap's co-founders (VMware). Most importantly, **Snap is the only company among this subset that does not offer its minority investors a say in company matters** (see Figure 1).

Figure 1: Software & Services Ownership Profiles

Company	Home Market	Public Investor Voting Power	Controlling Shareholder Voting Power	Class A Votes per Share	Class A Voting Power	Class B Votes per Share	Class B Voting Power	Class C Votes per Share	Class C Voting Power
Snap	**US**	**0.0%***	**88.7%**	**0**	**0.0%**	**1**	**4.1%**	**10**	**95.9%**
VMware	US	2.6%	97.4%	1	4.0%	10	96.0%	n/a	n/a
YY	China	16.5%	83.5%	1	16.5%	10	83.5%	n/a	n/a
Workday	US	18.0%	82.0%	1	13.2%	10	86.8%	n/a	n/a
Weibo	China	21.6%	78.4%	1	21.6%	3	78.4%	n/a	n/a
First Data	US	27.4%	72.6%	1	2.5%	10	97.5%	n/a	n/a
Facebook	US	39.9%	60.1%	1	29.7%	10	70.3%	n/a	n/a
Zillow Group	US	45.5%	54.5%	1	46.2%	10	53.8%	n/a	n/a
Baidu	China	46.2%	53.8%	1	26.6%	10	73.4%	n/a	n/a
Alphabet	US	47.5%	52.5%	1	37.3%	10	62.7%	0	0.0%

**While there are other voting shares not held by Snap's co-founders, they are explicitly not available to the public.*
Source: MSCI ESG Research

© 2017 MSCI Inc. All rights reserved. Please refer to the disclaimer at the end of this document.

While there is some precedent where Tech firm IPOs are heavily controlled by founders through multiple class share structures—think of firms like Alphabet and Facebook—Snap is the only one to offer its public investors no voting power. In fact, as the firm disclosed in its IPO filing, "Although other US-based companies have publicly traded classes of non-voting stock, to our knowledge, no other company has completed an initial public offering of non-voting stock on a U.S. stock exchange."

Snap's ownership profile presents two significant governance risks: 1) investors in the company's class A stock will have no say in company matters, no rights to elect board directors, and no say on the company's pay policies and 2) the company's co-founders' voting privileges, executive positions, and board seats give them complete control over the company.

The non-voting shares will effectively make Snap a private company. The only shares available for public purchase have no voting rights. Snap's tri-class stock structure provides its co-founders—CEO Evan Spiegel and CTO Robert Murphy—with 89% of the total voting power over all matters requiring stockholder approval, including the election of directors and significant corporate transactions. In fact, even if one or both of the co-founders' employment is terminated, they will continue to have the ability to exercise the same significant voting power. Moreover, in the event of death or incapacity, the other will gain control. Despite their firm grip, no contingencies or succession plans have been disclosed.

Additionally, since Snap is classified as an "emerging growth company," as defined by the US JOBS Act, the company is not required to have its internal control over financial reporting audited by an independent registered public accountant under Section 404 of the Sarbanes-Oxley (SOX) Act. Lack of assurances around Snap's financial health paired with inability of public investors to influence strategic decisions at the firm produce an unsettling mixture.

MSCI ESG Research initiated coverage of Snap Inc. on February 27, 2017, with a rating of 'B.' In addition to high levels of governance concerns, Snap is facing challenges in upholding its strong privacy commitment as its flagship application Snapchat adds features that allow for personal data storage and retention, making Snap a more prominent target for cyber-attacks and government requests for data access. Overnight increase in personal wealth for employees owning equity in the firm paired with rapid expansion in the overall employee pool could impact the structure and the culture of the company, adding more hierarchical layers that are not common for start-up cultures.

© 2017 MSCI Inc. All rights reserved. Please refer to the disclaimer at the end of this document.

CONTACT US

esgclientservice@msci.com

AMERICAS

+ 1 212 804 5299

EUROPE, MIDDLE EAST & AFRICA

+ 44 20 7618 2510

ASIA PACIFIC

+ 612 9033 9339

ABOUT MSCI ESG RESEARCH PRODUCTS AND SERVICES

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.

© 2017 MSCI Inc. All rights reserved. Please refer to the disclaimer at the end of this document.

NOTICE AND DISCLAIMER

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

© 2017 MSCI Inc. All rights reserved.