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# Don't Expect Snap To Single-Handedly Revive IPO Market

By **Tom Zanki**

*Law360, New York (February 24, 2017, 7:27 PM EST)* -- Snapchat maker Snap Inc. plans to price its eagerly watched $3 billion initial public offering in the coming week, providing a rare blockbuster offering to an otherwise stagnant market, but experts caution the heavily hyped deal contains too many distinct qualities to be assumed a forerunner of a revival.

Represented by Cooley LLP, Snap expects to price 200 million shares between $14 and $16, a range that would raise $3 billion if it prices at midpoint. That represents the largest technology offering since Chinese e-commerce giant Alibaba Group Holding Ltd.'s smash $25 billion IPO in 2014 and comes during a relative dearth of IPOs in general, particularly among multibillion-dollar offerings.

The deal is also being closely watched because many richly valued technology startups are waiting from the sidelines in private markets, looking for clues about public investor sentiment. But in terms of the broader IPO market, experts note that Snap is distinct in several respects that make it wise not to read too much into its results.

Notably, the company is going public at an extraordinary valuation estimated between $19 billion and $22 billion — a range that few companies except a handful of Silicon Valley elites can relate to. Plus, Snap is testing the market with a public offering that gives common shareholders no votes, something never tried before.

"There are so many unusual aspects to this offering that it's going to be hard to draw any conclusions from it," Covington & Burling LLP partner Don Murray said.

Gunderson Dettmer Stough Villeneuve Franklin & Hachigian LLP partner Heidi Mayon said Snap "stands alone just because it is such a unique and big-name offering." A company preparing a more traditional IPO in the range of $100 million won't find much to compare itself when looking at Snap, she said.

"That being said, we are in a really strange IPO window, and anything can kickstart it at this point," Mayon said, referring to the traditionally slow part of the year for IPOs because companies that didn't price by Feb. 14 are required to update their financial statements to include year-end audited figures, a calendar quirk that typically slows deals for several weeks.

To what extent Snap lifts the mood of prospective IPO candidates will depend on how its shares fare in aftermarket trading. A well-received offering from a high-profile company could lift an IPO market that is coming off its weakest year since the financial crisis.

Snap has set IPO pricing terms in a conservative range, potentially giving its shares room to rally. Though figures can still be revised, Snap's current $14 to $16 per-share estimate would value the company between about $19 billion and $22 billion, less than a maximum $25 billion valuation the company was reportedly considering.

Those figures are unheard of outside of Silicon Valley's world of flashy technology startups, but at least five private companies are valued at $20 billion or more, and several more are approaching that threshold, according to a list compiled by venture capital database CB Insights. Several of those companies, including Uber Technologies Inc., Airbnb Inc. and Palantir Technologies Inc., are believed to be mulling IPOs, so the outcome of a Snap deal could reveal important signals for them.

"If Snap goes successfully, or even moderately successful, then there is a whole raft of others that are in the pipeline," Cleary Gottlieb Steen & Hamilton LLP partner Adam Fleisher said.

Snap's challenge will to be live up to the hype surrounding both the company and its offering. Best known for its vanishing-photo app, Snap commands a loyal following of millennial-aged fans and relates to consumers in ways few IPO candidates can. The company has seen explosive growth, reporting 158 million daily users, though the rate of growth has begun to flatten in recent quarters.

Venice, California-based Snap is also running up huge revenue growth, reporting $404.5 million in revenue in 2016, nearly all from advertising. That's nearly seven times its prior-year total of $58.7 million in revenue.

But the social media darling is also losing money at an enormous clip. Snap recorded a $514.6 million deficit last year as it ramped up spending on research, development, sales and marketing. The company is also betting future growth will come from efforts to branch into hardware launching a line of camera-equipped sunglasses. It calls itself a "camera company" in its prospectus.

Snap also drew attention from becoming the first company to pursue an IPO with no-vote shares. The setup is designed to consolidate long-term control in the hands of its founders, Evan Spiegel and Bobby Murphy, who will hold onto a separate set of Class C shares that carry 10 votes per share.

Certain existing shareholders, including venture firms Benchmark Capital Partners and Lightspeed Venture Partners, will own Class B shares that carry one vote per share while the public buys Class A shares that don't have any voting rights, giving common shareholders no say in corporate governance.

But the economic value of all classes of shares remains similar, so common shareholders will prosper if the stock performs well. Some deal makers say Snap has become so heavily publicized that it is vital that the offering not flop so as not to put a cloud over future IPO candidates.

"I think it's far more important not to stink up the place than hit the ball out of the park, just because of the hype," Murray said.

Snap is expected to price after trading Wednesday on the New York Stock Exchange under symbol "SNAP." It is one of two IPOs set to price this upcoming week, joined by alternative asset manager Hamilton Lane Inc., which is preparing an estimated $190 million IPO on the Nasdaq.

Morgan Stanley, Goldman Sachs, JPMorgan, Deutsche Bank Securities, Barclays, Credit Suisse and Allen & Co. LLC  are lead underwriters for the Snap IPO.

Snap is being advised by a Cooley team led by partners Eric Jensen, David Peinsipp, Seth Gottlieb and associates Alex Kassai, Kate Nichols and Allison Peth. Cooley partners Barbara Mirza and Renee Deming, compensation and benefits; Mark Windfeld-Hansen, tax; Craig Menden, mergers and acquisitions/public companies; and John Dwyer, securities litigation, are also working on the deal.

A Goodwin Procter team led by partners Richard Kline, Anthony J. McCusker and An-Yen Hu are advising the underwriters.

Hamilton Lane is advised by a Drinker Biddle & Reath LLP team led by partners John Michel and Kimberly Rubel.

JPMorgan and Morgan Stanley are underwriting Hamilton Lane's IPO, advised by a Davis Polk & Wardwell LLP team led by partners Richard Truesdell and John Crowley.

--Editing by Christine Chun and Aaron Pelc.