SNAP INC. Q1 2018 EARNINGS

PREPARED REMARKS

ARMAN PANJWANI, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap Inc.'s First Quarter 2018 Earnings Conference Call. With us today are Evan Spiegel, CEO; Imran Khan, Chief Strategy Officer; and Drew Vollero, CFO.

Earlier today we made a slide presentation available reviewing our key engagement and financial metrics for the first quarter of 2018, which can be found on our Investor Relations website. Now I will quickly cover the Safe Harbor.

Today's call is to provide you with information regarding our first quarter 2018 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement based on assumptions today. Actual results may differ materially from those expressed in these forward-looking statements, and we make no obligation to update our disclosures. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today, as well as risks described in our annual report on Form 10-K for the year ended December 31, 2017, particularly in the section titled Risk Factors. This information can be found in our other filings with the SEC, when available.

Our commentary today will also include non-GAAP financial measures. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends. These measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our press release issued today, a copy of which can be found on our website at investor.snap.com. At times in our prepared remarks, or in response to questions, we may offer additional metrics to provide greater insight to our business or our quarterly and annual results. This additional detail may be one-time in nature, and we may or may not provide an update in the future on these metrics. Please refer to our filings with the SEC to understand how we calculate our metrics.

With that, I'd like to turn the call over to Evan.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Hi everyone, and thanks for joining us today. We began 2018 with several major Snapchat updates, and we continue to make progress in growing our advertising business and building tools for advertisers.

This quarter, we rolled out the redesign of our application. This new design is driven by our fundamental belief that separating friends from professional content creators is important to both our mission and the long-term growth of our business.

For example, we have known for a long time that creating public-facing content is a very different behavior from interacting with close friends, which makes it challenging for both to exist successfully in the same ecosystem. Before the redesign, Stories were sorted by recency, meaning that people who post most frequently were usually at the top of the list. Naturally, the most frequently-posting users tended to be people who create content as part of their job, compared to users who are just sharing their day with friends. As our community continued to grow, keeping friends and creators in the same feed made Snapchat feel less personal, because close friends were constantly buried below creators.

We addressed these issues by separating friends from creators and by making it easier to find Stories from the people closest to you. Now personal friends no longer have to compete with creators, and people can find Stories based on the depth of their relationships rather than who is posting most often. We also built a new home for creators in a newly expanded Discover section. This enables us to properly invest in products, discovery, and monetization for our creators, while also supporting a larger variety of content on Snapchat. The redesign lays the foundation for the future of both our communication products and our media platform, and we look forward to doubling down on both.

As we have mentioned on our past two earnings calls, a change this big to existing behavior comes with some disruption, especially given the high frequency of daily engagement of our community. While we had an average of 191 million daily active users in Q1, our March average was lower, but still above our Q4 average. We are already starting to see early signs of stabilization among our iOS users as people get used to the changes, but still have a lot of work to do to optimize the new design, especially for our Android users. Our time spent remained more than 30 minutes per day on average following the redesign, and we have also started to realize some of the positive benefits, including increased new user retention for older users.

We are now focused on optimizing the redesign based on our ongoing experimentation and learning. For example, when we separated friends' Stories from creator Stories, we also moved them to the left side of the camera and merged them into the Chat feed. We learned that combining watching Stories and communicating with friends into the same place made it harder to optimize for both competing behaviors. We are currently rolling out an update to address this by sorting communication by recency and moving Stories from friends to the right side of the application, while maintaining the structural changes we have made around separating friends from creators and sorting friends' Stories by relationships. The redesign created a lot of new opportunities, and we look forward to continuing our efforts to refine and improve Snapchat.

This overall process is indicative of how we approach product development at Snap. We start with a core belief that builds on our mission of empowering people to express themselves, live in the moment, learn about the world, and have fun together. In this case, it is our long-standing belief that separating social interactions from media content encourages people to create and share Snaps with each other, while also providing better opportunities and incentives for media partners. We then build and optimize our products around these underlying values, prioritizing them over short-term growth. While doing so can often lead our company to take bigger risks and endure the accompanying volatility, we do this for two reasons. First, we firmly believe that it's the right thing to do for our community, because it ensures that our various products maintain a cohesive vision and stay true to our mission. Second, starting from first principles often leads us to create novel and unexpected experiences, which naturally tend to be longer-term opportunities that are difficult to optimize based on short-term results. For example, our focus on self-expression and living in the moment from the very beginning took a long time for people to understand and get used to, but over the years has helped Snapchat become one of the most-used cameras in the world—with more than 60 percent of our daily active users creating Snaps with our camera, even as we doubled our userbase over the past two and a half years. Furthermore, one of the great things about our software products is that we can modify and update them any time. This makes it easier for us to take these risks, knowing that we are constantly learning and optimizing our products to better achieve our mission over the long term.

Android performance is still a weakness for us, but we are making significant progress. Given the volume of changes we made with the redesign, a number of performance regressions contributed to a disproportionately negative impact among Android users, and we are currently working on addressing them. While the investments we made in our performance automation systems have significantly improved the speed and scale at which we are able to identify and fix these kinds of issues, our legacy codebase remains a problem. I'm really excited about the new version of the Android application that I talked about last year, which has been completely rebuilt from the ground up to be lightweight, performant, and modular, which we hope will alleviate many of the performance-related issues we see with new product launches and updates. We have been testing the rebuilt application internally and we have quite a bit more work to do before our expected launch in Q3 of this year. In the meantime, we are incorporating some of the new modular components like Discover and the Friend Feed into the existing application, which we hope will improve performance in the near term.

We continue to lead in mobile content and augmented reality, with a lot of progress in both this quarter. During the Winter Olympics, more than 81 million people watched our coverage on Discover in nine different languages, quickly surpassing the reach of our Rio Summer Olympics coverage. In the

United States alone, over 10 million people on average tuned in every day of the Olympic Games. The redesign also enabled us to experiment with our first live streaming experience so that our users could watch key moments of the Olympics in real time wherever they were.

Additionally, our content is starting to find its way outside of our application and into the world. During March Madness, Snaps submitted to Our Story appeared on stadium jumbotrons at each of the 67 games, as well as on local and national broadcast television coverage of the tournament. Over 200 media organizations have featured Snaps or embedded the Snap Map in their online, social, and broadcast television channels since we enabled the functionality just a few months ago. We believe that broadening the distribution of the unique Snaps created by our community will inspire more people to download Snapchat and create Snaps using our camera.

We expanded our augmented reality platform and offerings significantly this quarter. Lens Studio has seen incredible adoption. Over 200 of the Lenses created by our community were viewed over a million times in the few months since launch. Our community has used these tools in ways we would have never imagined, and they have inspired us to invest more in empowering their creativity. We recently upgraded Lens Studio to now support the creation of new experiences like soundboards, interactive paths, and face Lenses. We're also expanding the underlying architecture of Lenses with Snappables, our latest Lens format that helps our community collaborate and interact with their friends through augmented reality experiences.

Despite some headwinds from our redesign, our advertising business has continued to grow. While our decision to migrate our Snap Ads business to our programmatic auction led to a short-term slowdown in our revenue growth last year, we made the transition quickly and the company is far better for it. We are now better able to manage and optimize our overall advertising business and auction dynamics, which has accelerated the pace with which we can improve ROI for our advertisers. In Q1, both the average cost per app install and the average cost per swipe in the United States were well under half of what they were the year before, and we are continuing to make improvements.

Our self-serve products helped us increase the number of advertisers actively spending on our platform by twenty times over the past year, and we still have a lot of opportunity to expand from here. With a growing advertiser base, we are now also introducing both paid and organic tools and experiences for companies of all sizes. Snapcodes unlock experiences like creative tools and sticker packs, and we are seeing brands experimenting with Lens Studio to create unique campaigns. Additionally, our product roadmap for empowering creators will also benefit small and large businesses alike and give them a better organic presence on our service.

Our total revenue for the quarter was $230.7 million, up 54 percent from last year. Our redesign created some headwinds in our revenue this quarter by disrupting user behavior and creating some apprehension among our advertising partners. We believe that our current path forward will address both issues, and that our advertising business has benefitted and will continue to benefit from the tough decisions we make in order to create and maintain a positive and healthy environment for our community over the long term.

Thanks again for joining the call, and I will now turn it over to Imran to talk about our business.

IMRAN KHAN, CHIEF STRATEGY OFFICER

Thank you, Evan, and hi, everyone. Total advertising revenue for the quarter was $229 million, an increase of 62 percent year-over-year. Evan talked about the philosophy behind the redesign, which is ongoing and a learning process. In Q1, we learned a lot based on how our users reacted to the redesign. But because of that, we also experienced some short-term disruptions to the business. The rapid pace at which we changed the core product introduced increased volatility into our ads marketplace. While we did not grow as quickly as we wanted, our Snap Ad revenue grew 102 percent year-over-year, and was down only 6 percent sequentially in a seasonally tough quarter.

Additionally, during the quarter, we had many conversations with our advertisers about the redesign. These have been challenging conversations, as we made the proactive and deliberate decision to prioritize our long-term consumer product goals over our short-term monetization goals. The impact was primarily felt in our Sponsored Creative Tools business. On top of the expected seasonally weaker demand, our Lens and Filter products—which generally have a higher average selling price—were challenged by a negative market narrative. We're also in the middle of transitioning these products to a programmatic, audience-based buy model, which has negatively impacted the average order value, or AOV, for the products. For example, in Q1, the total number of Lenses sold was up 16 percent year-over-year but AOV was down 37 percent This is similar to what we experienced during our Snap Ad transition. As we transition all products to our self-service tool, we believe we can drive broader advertiser adoption and ultimately, a long-term, sustainable business.

While we anticipate that some of these factors may continue to impact our business in Q2, I'm very excited about the second half of this year. This is because of the progress we are making in our 3 focus areas: number 1) enhancing our ad product suite, 2) developing efficient tools for our advertisers, and 3) proving the effectiveness of our advertising.

First, enhancing our ad product suite.

In December, we launched a new ad format called Promoted Stories, which allows advertisers to leverage the familiar Stories format that our community knows and loves. But, to better reflect the storytelling capabilities of this format, we're now calling them Story Ads. We recently brought Story Ads to our self-service tool so that advertisers can use the same advanced targeting that they use for Snap Ads. Since launching this format in the auction, users that chose to watch Story Ads viewed them for an average of over 20 seconds. We believe this is a strong indication that our community is continuing to embrace this format.

On the direct response side, we continue to make great progress. We believe that when we show the right ad to the right user, it creates a win-win situation. Swipe rates are one indication of whether or not we are creating this win-win situation. Quarter-over-quarter, for campaigns optimized for swipes, we increased our swipe rates by 8 percentage points, while also increasing total swipes by nearly 14 percentage points. This is a testament to the great work that our ad ranking team is doing to show the right ad to the right person.

We're also continuing to evolve our formats, and I'm really excited about our recent launch of shoppable Augmented Reality. Since bringing Lenses to market in 2015, we have seen this product drive tons of engagement and even create pop culture moments. But we wanted to bring the power of creative tools to our direct response advertisers. While users are playing with a Lens in the camera, advertisers can now include a button that will redirect them to a long-form video, website, or the app store. The first brands to try this new format include sports company Adidas, maker of the Candy Crush video games King, and make-up brand Clairol. As we scale adoption of this product, we are confident that it will help accelerate the growth of our Lens business as well.

Our second area of focus is developing efficient tools for advertisers.

As we have outlined before, one of our key priorities is to grow our SMB, or Online Sales, business. The vast majority of businesses are SMBs, and they are increasingly adopting digital marketing platforms to grow their businesses. In order to onboard these advertisers, we have been rolling out our self-serve tools and investing to create a frictionless ad buying experience. We made good progress this quarter as evidenced by 30 percent quarter-over-quarter revenue growth for our SMB business.

We are also launching sophisticated tools for our large advertisers. For example, we recently launched our Reach and Frequency tool for Snap Ads to a handful of select advertisers in the US and UK. This has been a key request from advertisers looking to plan and buy in advance on Snapchat. Only a few other scaled platforms have brought this tool to market, and it offers predictable delivery and pricing—something that is very valuable for larger brand-focused campaigns. We launched Reach and Frequency within our self-service platform and are partnering closely with Unilever UK, P&G US, Google US and UK, and Microsoft UK. There's still a lot of work to do to fully bring this tool to market, but we're excited that this new buying method will empower advertisers to efficiently share their stories on our platform.

One of the products I'm most excited about is Snap Pro for Business and Creators. This product will be made for public entities—from public figures to local businesses to charitable causes—that want to use our platform to organically reach an audience beyond friends and family. With Snap Pro, it will be easier to manage a public profile, create and distribute content, understand audience insights, and ultimately, advertise with us. We're still extremely early in our roll-out plan and just recently onboarded a select group of brands and creators.

For our third area of focus, we remain strongly committed to proving the effectiveness of our advertising. ROI is the best incentive that we can offer our advertisers, and we have been working tirelessly to show it across multiple products and verticals.

This quarter, we made great progress scaling adoption and usage of Snap Pixel. We nearly tripled the number of advertisers using the pixel quarter-over-quarter. We're seeing that this capability drives strong results, primarily for our SMB and commerce advertisers.

One great example is the Ridge, a wallet brand that used Snap Pixel to create both custom and lookalike audiences based on people who made a purchase on their eCommerce site. This strategy delivered. They drove a 4.1x Return on Ad Spend. It also delivered a 55 percent decrease in Cost per Action, or CPA, allowing the company to achieve an overall CPA that was more than 20 percent lower than on other ad platforms.

We are excited for the future of Snap Pixel as we continue investing in improvements such as the ability to optimize delivery based on lower-funnel events.

We also understand how important it is for advertisers to measure impact across platforms. From television to social platforms, we want to demonstrate that advertising on Snapchat increases value to an advertiser's overall strategy. We recently collaborated with Nielsen, using their Total Ad Ratings, which allow advertisers to measure the incremental reach of their Snapchat campaigns relative to TV campaigns. Despite being outspent 25:1 by television, Snapchat campaigns were able to deliver 8 percent incremental reach on top of TV campaigns for the same set of brands.

Finally, we are continuing to work with our third-party ecosystem to demonstrate ROI for all verticals. We conducted a series of custom marketing mix model studies with Nielsen to measure the effectiveness of Snapchat advertising within the beer category. The studies showed that Snapchat was more efficient than both traditional channels and other forms of digital media. Snap Ads outperformed the category media average Return on Ad Spend by 4.7x, while Lenses and Filters outperformed the media average Return on Ad Spend by 4.3x.

Overall, I'm really pleased with the progress we're making and I'm optimistic about the future of our business. Thank you for your time. I will now hand it off to Drew for a financial update.

DREW VOLLERO, CHIEF FINANCIAL OFFICER

Thanks, Imran, and good afternoon, everyone.

In the quarter, we made continued progress against our three financial goals: first, grow users and sales; second, leverage our cost structure; and third, soundly manage cash.

As Imran mentioned, sales grew meaningfully year-over-year. Equally important, sales growth continues to well outpace our cost growth year-over-year.

Over the past few years, we've worked hard to make the right long-term decisions for our business. One of our core financial strategies was to invest early ahead of the sales curve to build the right cost structure that we could both scale with our growth and leverage over time.

In the first quarter, we successfully leveraged our cost structure. Year-over-year sales growth was over one and a half times our cost growth, and sequential costs were up only 1 percent in the quarter. On a per-user basis, ARPU increased 34 percent year-over-year, twice as fast as our CoRPU growth. Cost of revenue grew modestly, and operating expenses were sequentially down for the second time in three quarters, excluding restructuring charges.

An efficient cost structure is a central part of our financial roadmap. We will continue to invest in strategic areas like innovation, new products, and people to fuel future growth. That said, we believe many of these opportunities can be funded by running our business more effectively, in areas like the back of house and hosting infrastructure. As we continue to successfully manage our cost structure, it should continue to yield two key benefits: first, we see strong incremental flow-through on revenue growth; and second, we can continue to moderate our cash burn, which we did again in Q1, as cash burn was less than half the rate from a few quarters ago.

Let me now expand on the results from the quarter.

First, global revenues were $231 million in the first quarter, and we saw growth in every region. International markets now represent 26 percent of our total revenue, up from 14 percent a year ago and 23 percent in Q4.

Consistent with prior quarters, the fastest growing product in Q1 was Snap Ads, and specifically, Snap Ads sold programmatically. Strength in Snap Ads more than offset softness in Creative Tools sales, which were down in the quarter.

As expected, auction revenue gains were driven by growth in ad impressions, partially offset by Snap Ad pricing. Let me share some numbers with you:

1. First, Snap Ad impressions, excluding Story Ads, were up over 450 percent year-over-year and over 15 percent sequentially.

2. Second, overall Snap Ad pricing, excluding Story Ads, was down nearly 65 percent year-over-year and nearly 20 percent sequentially.

3. Third, we ended the quarter with 95 percent of our Snaps Ad impressions, excluding Story Ads, served programmatically, up from 90 percent in the prior quarter.

In the quarter, we added many new programs to the Discover page. In February, we partnered with NBC to bring the Winter Olympics to Snapchat users. We offered a series of creative ad products and packages to our advertisers, which drove incremental revenues for the business. Financially, the Olympics were a nice revenue boost, but comprised less than 10 percent of total revenues for the quarter.

Now let me talk about expenses. Please note that when I discuss all of our expense figures, including gross margins, they will exclude Stock Based Compensation and related payroll taxes as well as Depreciation and Amortization and non-recurring charges.

Cost of Revenue expenses grew $7 million in the quarter, driven by three factors: first, higher revenue share on Olympic content; second, incremental infrastructure costs related to the launch of the app redesign; and third, the addition of 4.2 million new DAUs. Hosting costs per user increased from $0.70 in Q4 to $0.73 in Q1, but hosting cost increases moderated during the quarter as our engineering team continued to optimize new code to reduce infrastructure expenses.

On operating expenses, the primary driver remains people cost. Over the last few years, we have consistently invested to build an organization with the scale to compete. We hired over 2,400 people in the last two years and we're now digesting that rapid growth in an evolving world. As a result, during Q1 we had a 7 percent reduction in force, in order to better align resources around our top strategic priorities and reflect structural changes in our business. Consistent with earlier disclosures, the company recorded a charge of $9.9 million in the first quarter, but those charges have been adjusted out of EBITDA. We expect to realize $7-$8 million in ongoing savings per quarter. In the first quarter, opex costs were $257 million, down 1 percent sequentially, and overall headcount declined 3 percent for the period.

Let me briefly touch on our capital-deployment priorities, which remain reinvesting in strategic areas of our business like product, content, AR, automation, and international expansion as well as opportunistic M&A. Q1 capex remained modest at $36 million and we ended the first quarter with $1.8 billion in cash and marketable securities.

As of March 31, 2018, total shares outstanding were 1.254 billion and 1.457 billion on a fully diluted basis.

Let me now share some near-term observations on our business:

First, as we think about our year-over-year revenue growth rates, we are planning for our Q2 growth rate to decelerate substantially from Q1 levels, with growth in auction impressions, partially offset by pricing for both Snap Ads and Creative Tools.

We are planning for infrastructure costs to increase modestly in the short-term as we continue to test and rollout further changes to the application, partially offset by hosting cost efficiency programs.

Revenue share expenses should moderate without Olympic content.

We continue to plan for modest operating expense growth in the near term. Consistent with last quarter, we are planning for the first half of 2018 to grow by low double-digits versus the back half of 2017, excluding one-time charges. Please note operating expenses exclude cost of revenue, stock-based compensation, and our move to Santa Monica.

Consistent with prior disclosures on the Venice exit, we expect to incur $25-45 million in charges throughout 2018, primarily in the second and third quarters, to reflect the exit cost of these Venice buildings. The majority of these charges are cash payments due on remaining lease terms.

We are planning for capex to be slightly elevated in the near term, as we continue our buildout of leased Santa Monica facilities and execute our move throughout 2018.

With respect to stock-based compensation and related payroll tax expense, our Q1 expense was $143.2 million. Please note that this number included a one-time benefit of $32 million, as a result of the reduction in force plan we implemented during the quarter. We believe the stock-based compensation rate in the second half of 2017 is a good proxy for the short-term. Future acquisitions will likely be additive to this amount.

With that, I will now turn the line back over to the operator to open up the call for questions.