SNAP INC. Q2 2018 PREPARED REMARKS

ARMAN PANJWANI, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap Inc's Second Quarter 2018 Earnings Conference Call. With us today are Evan Spiegel, CEO and Co-Founder; Imran Khan, Chief Strategy Officer; Tim Stone, CFO; and Kristin Southey, our new VP of Investor Relations.

Please note that the format of this call will be slightly different than the calls we have hosted previously. To allow more time for questions, Evan will provide a brief strategic update and Tim will provide a brief business overview and financial outlook for Q3 2018 before we open the line for Q&A. We have also included additional supplemental financial information and business metrics for reference in our press release.

Earlier today we made a slide presentation available that provides an overview of our user and financial metrics for the second 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 second quarter 2018 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, guidance, 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 quarterly report on Form 10-Q for the quarter ended March 31, 2018, 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. Please note that when we discuss all of our expense figures they will exclude Stock Based Compensation and related payroll taxes as well as Depreciation and Amortization and non-recurring charges. At times in our prepared remarks, or in response to questions, we may offer additional metrics to provide greater insight into 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 AND CO-FOUNDER

Hi everyone and welcome to our Q2 earnings call. I'm really excited by the progress we have been making at Snap, and I am optimistic about the opportunities ahead as we continue to improve our team, reinforce our culture, and invest in innovation.

We have focused a lot of our time and effort this past year on developing our team, culture, and leadership that we need to rapidly scale our business. Our team is passionate about our mission to contribute to human progress by empowering people to express themselves, live in the moment, learn about the world, and have fun together and we've redesigned our performance management processes to incorporate our values of being kind, smart, and creative. For us, it's not just about the work that we do – it's about the way that we do it – and we've worked hard to make sure that this positive attitude is reflected across our company. It has been so exciting to watch our team rise to the challenge of building a public company while continuing to innovate and drive long-term value. Our team is much stronger today than it has ever been before.

While our Monthly Active Users continued to grow this quarter, we saw a 2 percent decline in our Daily Active Users. This was primarily driven by a slightly lower frequency of use among our user base due to the disruption caused by our redesign. It has been approximately six months since we broadly rolled out the redesign of our application, and we have been working hard to iterate and improve Snapchat based on the feedback from our community. We feel that we have now addressed the biggest frustrations we've heard and are eager to make more progress on the tremendous opportunity we now have to show more of the right content to the right people. For example, the number of people that watch Publisher Stories and Shows on iOS every day has grown by more than 15 percent this year, and we are excited to bring the learnings from our iterations on iOS to our Android application. Additionally, more Snaps from Publisher Stories and Shows were viewed in July than any other month in our history.

With the updated redesign, we've been able to combine the strength of our close-friend network that brings people to Snapchat every day with an infinite scroll of personalized content. We're working hard to expand the long-tail of our content offering and we are making steady progress on improving personalization. Despite our DAU results this quarter, we believe that this is an important evolution of our product that will help drive future growth in engagement. Our users continue to spend an average of over 30 minutes on Snapchat on a daily basis, and we are already starting to see meaningful improvements in leading growth indicators like new user retention. For example, new user retention for people older than 35 has increased more than 8 percent since we launched the redesign.

We want Snapchat to work well everywhere for everyone, no matter the device or network, and we've been focused on improving the quality of our application on lower-end devices and partnering with carriers to make Snapchat more accessible for everyone. New Snapchat users are predominantly using Android, and we've been working for over a year to completely rewrite our Android application. Even though our iterative efforts to improve the existing application have helped increase new user retention on Android by nearly 20 percent since Q4 of 2016, we believe that rewriting the application presents a big opportunity because it takes advantage of the latest Android capabilities and has a modularized structure that will make it easier for us to innovate in the future. Our internal tests in our device lab show substantial improvements in important application performance metrics, like the time it takes to open Snapchat and create a Snap, and we are beginning to test a limited version with beta users in select countries.

Augmented reality continues to be a massive long-term opportunity for us and we recently started rolling out Lens Explorer that allows users to browse thousands of Lenses built by our community using Lens Studio. Lens Explorer celebrates the ingenuity of our community and increases the creative power of the Snapchat camera. We also released Snappables, new augmented reality experiences that can be shared with friends. Snappables help reduce the friction from self-expression and they're a ton of fun to use together. For example, Selfie Mix, one of our first Snappables, was used to create over 300 million Snaps.

We're really excited about the progress we are making with Spectacles, our sunglasses that Snap. We released a new version of Spectacles this quarter and we are learning a lot as we continue to iterate based on customer feedback. When combined with our efforts in augmented reality, we believe Spectacles represent an exciting opportunity as we build towards a future where computing is overlaid on the world.

It has been almost two years since we began the transition to programmatic advertising, and our team has moved quickly to build out advanced targeting, measurement, goal-based bidding, near real-time analytics and insights, and so much more. All of this has resulted in lower cost-per-impression, cost-per-swipe, and cost-per-install for advertisers, while simultaneously growing our advertising revenue 48 percent year-over-year. Our advertising is now cost-effective, easy to buy, and easy to measure. This has removed friction from our advertising business and allowed us to scale to many more advertisers than we could have reached with our direct sales force. Even though this transition wasn't easy, it was the right thing to do for our business over the long-term, even at the expense of short-term revenue growth. These are the types of opportunities that inspire our team and play to our strengths because they require strong conviction and a belief in the long-term.

I'm really proud of the progress we're making towards building a sustainable business and generating free cash flow. We feel good about our cash position as we move forward and scale our business.

I'd also like to take this opportunity to introduce Tim Stone. He has brought a wealth of operational experience and a new perspective to our business and we are grateful to have him on our team. I'm going to turn the call over to Tim to share more about the progress that we are making.

TIM STONE, CHIEF FINANCIAL OFFICER

Thanks, Evan.

Our second quarter financial results reflect our focus on growth and operational efficiencies.

Q2 2018 operating cash flow was ($199) million, an improvement of $10 million compared with Q2 2017 and an improvement of $33 million compared with Q1 2018. The year-over-year change in operating cash flow is driven by a $25 million improvement in Adjusted EBITDA, offset by changes in the timing of working capital. Similarly, the sequential change in operating cash flow is driven by a $49 million improvement in Adjusted EBITDA, again offset by changes in the timing of working capital.

Q2 2018 capital expenditures were $35 million, up from $19 million in Q2 2017 and down from $36 million in Q1 2018. As a reminder, the substantial majority of our capital expenditures are associated with office facilities. The additional capital expenditures this year are related to the build-out of our leased Santa Monica office facilities, which we expect to moderate over the next several quarters.

Q2 2018 free cash flow was ($234) million, a decline of $5 million compared with Q2 2017 and an improvement of $34 million compared with Q1 2018. As a result of our relatively low capital expenditures, we should see strong Adjusted EBITDA to free cash flow conversion over time.

Common shares outstanding plus shares underlying stock-based awards outstanding totaled roughly 1.5 billion on June 30, 2018, compared with 1.4 billion a year ago.

Q2 2018 DAUs were 188 million, up 8 percent from 173 million in Q2 2017 and down from 191 million in Q1 2018; North America DAU were 80 million, up 7 percent from 75 million in Q2 2017 and down from 81 million in Q1 2018.

Total revenue for the quarter was $262 million, an increase of 44 percent year-over-year and 14 percent sequentially, and our trailing twelve month revenue was $987 million, up 58 percent year-over-year.

International countries represented 32 percent of total revenue, up from 19 percent in Q2 2017 and 26 percent in Q1 2018. As a reminder, we define international as revenue apportioned to countries outside of North America.

ARPU increased to $1.40, an improvement of 34 percent year-over-year and 16 percent sequentially.

Advertising revenue for the quarter was $260 million, an increase of 48 percent year-over-year and 14 percent sequentially, driven by traction in our Global Online Sales business, which includes SMBs and Sales Partners, and strong growth in international countries. Impressions were up 191 percent year-over-year and 26 percent sequentially. Pricing was down 52 percent year-over-year and 9 percent sequentially. It's also interesting to look back two years, before our shift to programmatic—advertising revenue has increased more than 2.5x from $72 million in Q2 2016 and pricing is down over 90 percent.

Approximately 75 percent of our advertising revenue was transacted programmatically this quarter, compared to 18 percent in Q2 2017. Programmatic advertising revenue grew 485 percent year-over-year and 34 percent sequentially, driven by the transition of all ad formats to our programmatic marketplace, traction in our Global Online Sales business, and strength in international countries. Programmatic impressions were up 722 percent year-over-year and 47 percent sequentially, while pricing was down 29 percent year-over-year and down 9 percent sequentially. These results exclude our On-Demand Geofilters product and minimum guarantees. We will continue to transition our Creative Tools business to the programmatic platform throughout 2018.

Cost of revenue was $184 million, an increase of 26 percent year-over-year, and a decrease of 4 percent sequentially. Infrastructure costs were $136 million, an increase of 28 percent year-over-year, and a decrease of 2 percent sequentially. We are focused on driving operational efficiencies and improving the unit economics of our multi-cloud environment as we scale over time. Additionally, our model benefits from our cloud partners' continuous investments in technology innovation and cost efficiencies, which are typically passed along to customers over time. The costs of our infrastructure model are included in EBITDA as opposed to capital expenditures, which should result in higher EBITDA to free cash flow conversion over time. This year, we have seen several million dollars in cloud unit cost reductions and tens of millions of dollars in engineering operating efficiency. These improvements in our cost structure resulted in leverage in our infrastructure in Q2 2018 and we will remain focused on operating efficiencies and unit-cost economics over the long term.

Operating expenses were $247 million, up 8 percent year-over-year, and down 4 percent sequentially. We continue to focus on driving operating-cost productivity across our business. Our operating expenses are primarily driven by labor costs, which represent about 60 percent of operating expenses excluding stock-based compensation and related payroll taxes. We saw fixed-cost leverage in people costs, which grew 9 percent year-over-year, and were down 7 percent sequentially, compared to revenue growth of 44 percent year-over-year and 14 percent sequentially.

Our cost structure, which includes cost of revenue and operating expenses, was $431 million, an increase of 15 percent year-over-year, and a decrease of 4 percent sequentially.

Q2 2018 Adjusted EBITDA was ($169) million, an improvement of 13 percent year-over-year and 22 percent sequentially. Adjusted EBITDA margin for Q2 2018 improved to (64%), compared with (107%) in Q2 2017 and (94%) in Q1 2018.

We are focused on creating long-term shareholder value and are optimistic about the long-term potential for scale and leverage in our business. We are investing in many innovation initiatives for our users, which we believe will enhance user experience and engagement as well as drive revenue growth. At the same time, we are executing on operating-cost efficiency initiatives as we drive toward free cash flow generation and operating profitability over time.

For the first time, we are providing quarterly financial guidance for revenue and Adjusted EBITDA. We believe that sharing our thoughts on our near-term financial outputs will be helpful to investors and inform external expectations.

The following forward-looking statements reflect our expectations as of August 7, 2018, and are subject to substantial uncertainty. As mentioned at the start of the call, our results are inherently unpredictable and may be materially affected by many factors.

Now I will share our Q3 2018 Outlook

- Revenue is expected to be between $265 million and $290 million, or to grow between 27 percent and 39 percent year-over-year.
- Adjusted EBITDA is expected to be between ($185) million and ($160) million, compared to ($179) million in Q3 2017
- While we are not going to give DAU guidance, as a reminder, historically Q3 DAU growth rates have trended down both year-over-year and sequentially compared with Q2.
- This guidance assumes, among other things, that no business acquisitions, investments, restructurings, or legal settlements are concluded in the quarter.

And finally, I thought I'd also mention how glad I am that I joined Snap—it's a great fit for me to be partnering with a leadership team that is so focused on the long-term. There are many opportunities for us to drive growth initiatives and operational excellence over time.

One learning since joining Snap that enhanced my enthusiasm for our long-term opportunity is the reach of our global audience, which continued to grow and was higher than ever. In the US and Canada, for example, we have over 100 million Monthly Active Users—a noteworthy achievement for a company that is less than seven years old.

I am happy to introduce Kristin Southey who recently joined Snap as VP of Investor Relations. Some of you may already know her from her prior technology finance roles. I would also like to thank Arman for leading Investor Relations for the last year.

KRISTIN SOUTHEY, VP OF INVESTOR RELATIONS

Thanks Tim. It's great to be here and I look forward to working with everyone.

With that, let's open up the call for questions.