SNAP INC. Q3 2026 QUARTERLY EARNINGS CALL TRANSCRIPT

OPERATOR

Your first question comes from the line of Ross Sandler with Barclays. Ross, your line is open. Please go ahead.

ROSS SANDLER, BARCLAYS

Great. One for Ronan and one for Evan, please. Ronan, looks like brand was once again the culprit in driving weakness in the third quarter. What are you guys doing to address that? And the 4Q guidance assumes a nice reacceleration in growth at the mid or the high end. Can you talk about what you're seeing quarter to date in 4Q? And then, Evan, any early read on SPECS out of the gate? Thank you.

RONAN HARRIS, CHIEF COMMERCIAL OFFICER

Ross, thank you for the question. To talk about brand, it declined mainly because of lower CPG spending driven by macro pressures in the US and also the Middle East. Q2 also benefited, I think, from easier comparisons and World Cup-related spending. So that's part of the sequential deceleration that you see. As we look ahead, we're seeing very positive signs of growth from diversified verticals like financial services in the US. So part of our strategy here is to look outside of the pressures in CPG and find traction in these other verticals, and I'm pleased to say we're seeing progress there. So I think that go-to-market shift together with other work we're doing on inventory, expanding the inventory that we've got available and also the formats, I think give us confidence that we're going to start to see the brand business regain ground over the course of 2027.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Ross, thanks for the question. It's been so exciting to finally have SPECS out in the world and we opened our First Look pop-up in October here in Los Angeles and it's just been so gratifying to see people try SPECS for the first time. We've had more than 10,000 demos to date at the pop-up and I think that's really a testament to the excitement around SPECS and what's possible. SPECS represent a totally new computing paradigm. So it's really, really important for people to try them to understand the value. So we're very focused now on all the new opportunities that SPECS create, including things like remote assistance or virtual workstations for on-the-go productivity and of course all the amazing location-based experiences, places like museums. So we think we've barely scratched the surface of what's possible with SPECS and we're really looking forward to beginning to ship SPECS later this fall and really to see what our community will build.

OPERATOR

Your next question comes from the line of Eric Sheridan with Goldman Sachs. Eric, your line is open. Please go ahead.

ERIC SHERIDAN, GOLDMAN SACHS

Thanks so much for taking the question. Maybe two if I could. I want to come back to the audience metric shift towards MAU and understand a little bit better just the thought process around that and how that's the indication you want to leave folks with in terms of measuring the business going forward. And then the second on Sponsored Snaps, you continue to show a lot of progress there and a lot of growth. How should we be thinking about the learnings and how they're scaling as to what the market opportunity is around Sponsored Snaps? Thank you.

DOUG HOTT, CHIEF FINANCIAL OFFICER

Hey Eric, this is Doug. Hello there. So, this goes back to the shift we outlined in 2025 towards more profitable growth. We reduced our investment in community growth marketing globally, put less emphasis on growing daily active users, and focused on building our direct revenue business. The changes here to our reporting reflect that strategy. If you remember back in Q2 2025, we introduced monthly active users as a reported metric. As we approach a billion people using Snapchat each month, we think MAU gives investors the clearest view of the scale of our community and our long-term revenue opportunity. So we're focused on three things: how many people we serve, how effectively we monetize that community, and how that translates into free cash flow per share. Global MAU, MAU-based ARPU, and free cash flow per share give investors a pretty straightforward way to follow that progress. We also want to give our teams the flexibility to make the right long-term decisions for our community. So daily engagement has historically been stable as a share of monthly engagement. But some decisions that improve the experience on Snap, keep people safe, or support long-term retention may actually affect daily active use in the near term. So we want to make those decisions with the long-term health of our community in mind. We'll continue to report revenue for North America, Europe, and Rest of World separately. We think regional revenue is the most direct way to understand financial performance across those markets. So investors will continue to have visibility into where revenue is growing alongside a global view of our audience and monetization.

RONAN HARRIS, CHIEF COMMERCIAL OFFICER

And I'll take the question on Sponsored Snaps. On the platform, clearly our community is coming and spending huge amounts of time within the chat environment. So when we introduced this, it was a tremendous opportunity to give advertisers more ways to go out and reach people in experiences that they're already using on the platform. So when you look at the numbers, I think it's showing up in the growth. Sponsored Snaps revenue grew 56% sequentially in Q3. And we've continued to innovate. So we've introduced the auction-based Sponsored Snaps into Europe. So we continue to expand geographically, and Dynamic Product Ads are now also available in Chat. So these additions, I think, expand the use cases and the advertisers that the format can serve. So we'll continue to see that in the coming quarters.

OPERATOR

Your next question comes from the line of Doug Anmuth with JPMorgan. Doug, your line is open. Please go ahead.

DOUG ANMUTH, JPMORGAN

Great. Thanks for taking the questions. Evan, I know in your annual letter you talked about the ambition to ultimately move ad growth toward the mid-teens. Was just hoping you could elaborate on what you think the three most important things you need to do are to really accelerate advertising growth in a material way. And perhaps in conjunction with that, we're obviously seeing lots of benefits across the space in terms of AI tools and driving greater engagement and ad targeting, higher conversion rates. If you could give us an update there, where you are with AI-driven ad improvements. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Absolutely. Thanks, Doug. Certainly 4% ad growth is below our ambitions and I'm cautiously optimistic about the progress we're seeing here in Q4 as you know we're seeing a bit of acceleration on the ad side. We do continue to see strong growth in direct response, which I think is really the durable underpinning of the business, but upper-funnel brand advertising did decline year-over-year and that weighed on the overall results. So I think what gives me confidence looking forward is really the progress in advertiser performance. So if you look at Q3, purchase volume for app purchase campaigns more than doubled, cost per purchase declined approximately 24%, and revenue grew over 54%. When we look at web purchase campaigns, they delivered more purchases at a lower cost, with revenue growing 11%. So we're really seeing these better outcomes for advertisers translate into revenue growth. And so we just need to translate that progress in terms of performance into broader adoption and a larger share of advertiser budgets. I do think AI is a meaningful accelerant there. So as we look into 2027 and beyond, we're continuing to improve performance with better AI-powered recommendations and we're making it easier

for advertisers to measure those results using the tools they already rely on, which we know is really important to their confidence in putting more budget behind Snapchat. So we'll also be expanding the ways that advertisers can reach our community across Chat, Spotlight, and the Map. Ronan mentioned the progress with Sponsored Snaps, but we're also seeing meaningful progress with Promoted Places, where revenue and advertiser adoption both more than doubled sequentially. So I think bringing our performance and measurement capabilities into these new placements and experiences gives us more opportunities to help advertisers turn discovery into purchases. So I think taking it all together, we've got better tools to deliver results. We've got more ways for advertisers to reach our community, and now Ronan and the team are working really hard to get these improved capabilities into advertisers' hands, demonstrate that they really work and drive results, and ultimately earn larger and sustained commitments from our advertising partners.

OPERATOR

Your next question comes from the line of Rich Greenfield with LightShed Partners. Rich, your line is open. Please go ahead.

RICHARD GREENFIELD, LIGHTSHED PARTNERS

Hi, thanks for taking the questions. I got two. Evan, the letter talks about how Snap is not going to optimize daily use at the expense of long-term value. I was just wondering, I think everyone would appreciate some examples of something that you're choosing not to do. And what does that mean for time spent and ad revenue going forward? Like, is there a tension between those two? And just how should we think about sort of how you're trying to optimize the company for the long term? And then I guess you've been talking a lot about the improvements in DR and the pressures on brand advertising. Anything you could give us a sense of like where are we in the transition? Like, when do we get to the point where DR performance is a large enough piece of the pie that it actually can overwhelm the pressure and you actually start to see a meaningful acceleration in the growth back to what you used to see years ago? What size is brand still in terms of the overall company; would be really helpful. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey Rich, thanks so much for the question. I can speak a little bit to user engagement and then Ronan can share a little bit on his thoughts on brand advertising. I think looking maybe at a couple examples. One might be the choice to engage in user acquisition or costly user engagement in a geography that we don't currently monetize or don't effectively monetize. Another example might be deciding not to send certain notifications or to add new features to Snapchat that might generate another app open, but don't ultimately lead

to long-term value. So those are the types of examples of actions that can be costly either financially or in terms of user satisfaction. While they might increase daily active use, they don't actually help us achieve our long-term goals of developing a more engaged community or expanding our monetization opportunity. So I think Doug spoke earlier about this shift from DAU to monthly active users. That's really because we want to focus on the lasting utility of Snapchat and durable audience growth, not just daily frequency for its own sake. So it certainly doesn't mean we're trying to reduce time spent or accept lower ad revenue. On the contrary, I think what this means is that we're focusing on earning engagement through useful experiences and really demonstrating that this stronger, more durable engagement supports the monetization opportunity over time.

RONAN HARRIS, CHIEF COMMERCIAL OFFICER

Hi Rich. Thanks for the question. So it's very exciting to see the increased engagement across the platform, so across both Spotlight and Chat. We've already talked about what the Chat engagement does in terms of our Sponsored Snaps product. Our increase in Spotlight engagement is also super encouraging. And when you look at that and the advertiser interest, you can see the resulting eCPM increase on Spotlight, which is up over 22% year-over-year. Today we are definitely seeing stronger growth on the direct response side of the business. And it continues to grow as a percentage of our overall business. Direct response is up to about 77% of our revenues at this stage. So that's a substantial increase versus last year, and we think that'll continue in the short term as we continue to expand the focus on those direct response products. But we do see the improvements on our brand go-to-market and our brand product innovations, which I talked to earlier, kicking in as we move into 2027.

OPERATOR

Your next question comes from the line of Justin Post with Bank of America. Justin, your line is open. Please go ahead.

JUSTIN POST, BANK OF AMERICA

Great. Thank you. I'll start with Spotlight. Impressive growth there. What are people doing more of this year than they were? And just how do you feel about the pipeline of additions over the next 12 months? And then just a general question that the Spotlight and Chat metrics look really good, but it doesn't seem like it's translating to US and Europe DAU. Any reason why that increasing engagement would show up in monthly, but maybe not daily? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks so much for the question. We're really excited about the progress with Spotlight, and our strategy has been to focus on what makes Snapchat special, which is this real content made by real creators. And so earlier this year, we really worked hard to remove AI-generated content or reposted content from the service and really focused on our community and the things that they were creating. And what that led to was, I think, a really meaningful growth in the number of Spotlight posters, which has really helped increase inventory overall for Spotlight, which then obviously helps us show the right videos to the right folks on the service. So we continue to think Spotlight's a really meaningful opportunity. One of the things we're particularly focused on right now is the way that it can strengthen connections and relationships between friends as people share content with each other to start conversations on the service. So it'll certainly continue to be a priority. We're doing a lot of work right now on the ranking architecture overall and exploring some of the new generative techniques which may help us leapfrog our current architecture. But overall, I think it's really that focus on what makes Snapchat unique and that authentic content that's helping us drive the growth of Spotlight.

RONAN HARRIS, CHIEF COMMERCIAL OFFICER

Just to take the question on which products and ad formats are resonating most with our advertisers at the moment. In Q3, we've talked to the strong results for both web DR and app DR. So that continues to capture a lot of attention. We are seeing really material increases in return on ad spend and also in reach as people experiment and expand into these new products. We've also been bringing really what we're trying to do is to bring more AI in behind making the purchase easier, making the measurement easier, and as a result being able to demonstrate durable performance and then expand budgets over time. So things like DPA generative retrieval and agentic recommendations that help match products with those interests of our community beyond keyword matching are really having a big impact, and our new Commerce Power Pack is also getting a lot of traction as a way to optimize for purchase value and advertiser preferred measurement. So alongside all of that product work, we're also focusing our teams and partners on adoption and consistent advertiser outcomes. So I think those focus areas will help us to increase that share of wallet over time.

OPERATOR

Your next question comes from the line of Dan Salmon with New Street Research. Dan, your line is open. Please go ahead.

DAN SALMON, NEW STREET RESEARCH

All right. Great. Good afternoon, everyone. I want to follow up on direct response with Ronan as well. As you move to overseeing the global business, I guess I'd like to hear just a

little bit more on your high-level views on the state of the DR business. Obviously lots of updates on the ad stack that you talked about. Much stronger growth there lately, but maybe just to come back and talk a little bit more about what Evan spoke to about the sustainability there and in particular, I think of things like growing the number of advertisers on the platform. That's always an important metric. I'd love to hear your ambitions on that. And then maybe a little bit, that's more about your small advertisers, maybe a little bit about your largest DR advertisers. How do you help move them into really everyday performance budgets that they can continue to lean into and become a bit more sustainable for Snap over time? Thanks.

RONAN HARRIS, CHIEF COMMERCIAL OFFICER

Thanks for the question. So my focus is on making the performance we deliver easier for advertisers to both see and measure, to be able to buy it, so making sure that we've integrated with the right buying platforms, and then to be able to scale. So I think if it's easy to buy, they're getting great results that they can rely on, then they're happily going to scale and we're going to be able to increase our share of wallet. So that's where our teams are focused on, both in terms of product innovation and also in terms of our go-to-market. So I've already mentioned that the introduction of things like DPA generative retrieval, agentic recommendations, they're really capturing the minds of advertisers in terms of using the power of AI to help match products with the interests of our community. So that's making the purchasing easier. We've also talked about Unified Attribution and how we're making third-party measurement of performance on Snap again much, much easier, much more reliable. Those two things alone are giving us tremendous traction with the advertiser base. You mentioned the distinction between large and small advertisers. For small advertisers, this is super important. They are typically resource and time constrained. So being able to make it super easy for them to come onto the platform, get that first conversion, measure it, and rely on it, and for that buying process to be easy is critical. So we're continuing to put a lot of work into that to make sure that, again, they can do it directly on Snap, they can self-serve, or they can have a managed experience. We're also integrating further with lots of partners to make sure that their clients can use those third-party platforms to buy into Snap as well. So I think those two things are definitely making the buying process for SMBs an awful lot easier. For the larger advertisers, it's about that dependable performance time and time again, making sure that the third-party measurement systems are super reliable, and making sure that our performance stays consistent. Again, introducing all of these new signals and AI technologies to help drive that incremental performance is critical to giving them those results. And as you'll have seen in the results we discussed, particularly of course web and app DR, that growth is super strong and we expect that to continue to be positive over the coming quarters.

OPERATOR

Our final question comes from the line of Alice Duska with Loop Capital. Alice, your line is open. Please go ahead.

ALICE DUSKA, LOOP CAPITAL

Hi, Alice here on for Rob Sanderson. Thank you so much for taking the question. I was just wondering, so you've made significant progress in improving margins and controlling costs throughout 2026, about 93% of incremental EBITDA margins and seven points of gross margin expansion. Could you provide some color on how much more room there is for cost optimization and if we can expect similar margin improvements in 2027? Thank you.

DOUG HOTT, CHIEF FINANCIAL OFFICER

Hey Alice, thanks for the question. This is Doug. Look, Q3 really demonstrates the earning power of Snap when our revenue grows faster than our cost base. Revenue increased 14% while our total cost structure grew just 1%. Our gross margin, as you noted, reached 62%. That translated into positive net income of $56 million. So really positive results for the quarter. One thing to call out, the 93% flow-through is a measure of this quarter's year-over-year operating leverage. So the revenue mix, seasonality, timing of expenses, and investment levels affect that outcome. That said, unequivocally, our objective is to translate that earnings progress into sustained free cash flow per share rather than really optimize a single quarter's margin. And we're going to then use that cash against our three priorities. So we're really happy with the flow-through this quarter. But there's obviously timing impacts from our cost base that impact that. But I think if you look over the last several quarters, we've been able to take all of the savings that we had mentioned in Q1 and roll that through the year. So, I’m really happy about the results there. Thank you.

OPERATOR

This concludes our question and answer session as well as Snap, Inc.'s third quarter 2026 earnings conference call. Thank you for attending today's session. You may now disconnect.