

Keynote: Evan Spiegel, Snap Inc.

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Doug Anmuth: All right. We're going to go ahead and get started. I'm Doug Anmuth, J.P. Morgan's Internet analyst. We're pleased to have with us Snap co-founder and CEO Evan Spiegel. Snap is a technology company that leverages the camera to improve the way people live and communicate.

The company has more than 420 million daily active users, 800 million monthlies. We expect Snap to have more than $5.3 billion in revenue this year, the bulk of which is advertising, but there's also a nice emerging business in Snap Plus with more than nine million subscribers. Evan co-founded Snap in 2011 while studying at Stanford. Welcome, Evan.

Evan Spiegel: Thank you so much. Great to be here.

Doug: Were you here two years ago?

Evan: Two years ago, a fateful day.

Doug: OK. A lot has changed in the business since then. Maybe you can start by talking about how the team has changed, how the ad platform has changed, and where you are along this path.

Evan: Yeah, absolutely. We've made a lot of progress in the last two years. They were very disruptive for our business, whether it was the platform policy changes or...Obviously, the changing macroeconomic environment increased competition. So, it became very, very clear that we need to move quickly to improve our performance advertising platform.

Historically, we'd had direct response advertising, but our business was strongest with really upper and mid-funnel products, and with large advertising partners. We really needed to diversify our business and reach smaller and medium-sized businesses and we needed to go much lower funnel.

Really because I think that's where advertisers find the most value, where they can drive more causal purchases or conversions on our platform. That involved, in many cases, rebuilding parts of our team so we could really bring on that expertise in lower funnel advertising.

Of course, rebuilding our advertising platform, investing heavily in machine learning, where we had to build much larger models, leverage privacy safe signal, and of course, release a whole new set of offerings for advertisers, starting first with commerce products, with purchase-related conversions, and then more recently with app-based advertising.

It's certainly been a journey, but I'm excited by the progress the team is making. There's a lot more to do. We really are starting to see the fruits.

Doug: Let's dig in a little bit. 1Q in particular showed some meaningful progress. Maybe you can talk about what you think the biggest driver was there, how you're thinking about that through '24, and then also how you're thinking about ad backdrop and macro versus more company-specific Snap initiatives.

Evan: I think we really started to see progress, at least in terms of advertiser performance in the back half of last year, but that didn't immediately translate to increased budgets. The progress we saw in Q4 in particular, where advertisers were really able to measure their return on investment, translated into...I think maybe increased share or additional budgets in 2024 and certainly Q1 was an early indicator that we're making progress there.

We've just been laser focused on advertiser KPIs, especially with lower funnel performance. We found that if we're able to meet or exceed an advertiser KPI, they'll give us additional budget. In that regard, we just really have to be more effective than the last marginal dollar spent on another platform.

We definitely are beginning to see progress there, but that's really tied to the performance that advertisers are seeing. Looking at the broader macro backdrop, I do think it has been getting more constructive, largely because a lot of the consumer demand driven by the COVID pandemic, a lot of the supply chain issues as well have started to subside.

In fact, in many cases, I think you have excess supply and reduced demand, and so advertising is a really effective tool, especially performance advertising. for businesses who are looking to generate more demand in a cost-effective way. I do think that has been helpful and constructive.

We'll see, of course, what happens in the balance of the year. So far, off to a solid start, I would say.

Doug: When you think about the DR rebuild that you've embarked on, if you can talk about what inning you think you're in, what improvements specifically have really been strongest and what's driving that big increase in SMBs that you're seeing?

Evan: A lot of the foundational improvements have been completed over the last two years. As I mentioned, the investments we've made in our ML platform, of course, in conversions API to be able to utilize privacy-safe signals. Now, we're really going to each of our product offerings and to each of the different advertiser verticals and looking at how we can continue to improve.

In the case of our dynamic product ads, for example, we're doing a much better job with product selection. I think that's a real opportunity for us historically where we've underutilized the signals that we've had. I've not done a particularly compelling job presenting those catalog products. So that's an area of focus for us.

As I mentioned, we've been working a lot on releasing our app products. Those have now been GA'd broadly. We're very excited. Our teams have been going to market with those products this quarter. Excited to see some traction on the app side. Of course, that's very early and we've got some work to do there, but exciting to have those products out.

Yeah, I think there's a lot more to do, but the foundational pieces are in place. Now, we're really going vertical by vertical to make sure we have the right product offering for our advertising partners.

Doug: Maybe you can talk a little bit about the role that AI plays in your ad stack, how you think about it in terms of automating campaign creation process, and then also building out a more fully automated end-to-end solution.

Evan: The primary focus to date has really been around personalization and recommendation of advertising, showing the right ad to the right person and being able to start consolidating our goal-based bidding models into several much larger models. In the past, we were running many small models, often for related GBBs.

I think those larger models, at least from what we've seen, are able to drive better performance. Certainly, that model consolidation process has been really helpful for us in addition to leveraging

more signals, as I mentioned, of course, in a privacy-safe way.

As it pertains to generative AI and campaign creation, there's definitely some opportunity around creative. As I mentioned, the dynamic product ads and catalog ads, we can make them look a lot more appealing, leveraging generative AI. It can also help advertisers get through campaign setup a lot faster whether it's generating copy or things like that. Those have been helpful tools as well.

The big performance gains we've seen so far are less in campaign setup and things like that and more on the model side. Then really actually just making sure that we can configure campaigns correctly, or at least default advertisers into the right campaign configuration based on their vertical.

Doug: OK, great. China-based advertisers have certainly driven some strength in the US across digital ads more broadly. When you think about a potential TikTok ban or divestment, any sense just in terms of how marketers might be rethinking budgets and what is Snap seeing along these issues?

Evan: I think that China export advertising is certainly a large opportunity for us. I don't think we've benefited as much as other players from that opportunity at least over the past couple of quarters.

As we continue to evolve our product offering and work closely with the advertising partners in China, I do think that we can deliver results whether it's for e-commerce folks or gaming companies. I am excited about the way that our product is evolving and some of the work that we're doing with our advertising partners over there.

As it pertains to TikTok, obviously, still a long road ahead. I do think we've looked to India, for example, where when TikTok was banned in India, that was a tailwind for our business in terms of engagement. I do think depending on the outcome here, that could change the dynamic.

Doug: Let me shift gears to Snap Plus, now at more than nine million subscribers, about seven percent of overall revenue in the quarter. Maybe you could just talk a little bit about the product, some of the features that really differentiate it, how you think it's resonating most with users.

Evan: It's been really fun building the Snapchat Plus product. Our team really loves to innovate, and we get all these requests all the time for our community for specific features that they want.

Historically, we had a hard time justifying some of those features because we knew they wouldn't be used by a lot of people.

We knew they'd only be used by some of the most passionate Snapchatters, and so building Snapchat Plus was, I think, a really helpful way to align the interests of our community and all the features they want with the investments we've been able to make on the product and design side to be able to continue innovating and testing new products with people who really love our service and are willing to pay a little bit to get access to some of those features.

So far, the traction has been surprising to us. In the beginning, we really just started because we knew we had to meaningfully ramp our ML investments, and so we wanted to take a little bit of the edge off the ML investments while the ad business overall was experiencing some challenges.

So far, it's been helpful, certainly, in doing that and has been contributing more to revenue. We'll continue to iterate on that product. It's definitely been a pleasant surprise.

Doug: Taking a step back, when you think about the changes that you've made in the business over the last couple of years, certainly some of that has been just around teams in terms of geographic heads and engineering, for example. How do you think about where the overall leadership team is now and the key strengths?

Evan: Over the last couple of years, we've really built a strong leadership team. As you mentioned, on the go-to-market side, one of the challenges we had historically is we had a global leader of our go-to-market functions.

What we found is that we weren't doing a great job of meeting market-specific needs, whether that was in APAC, the China export business, for example, or in EMEA, and so we built out a new structure with three regional presidents -- president of the Americas, of EMEA, and of the APAC region.

So far, that's just driven a lot more focus in the countries where we have strong penetration. we reach more than 75 percent of 13 to 34-year-olds in more than 28 countries. Making sure we have the right level of leadership and attention in market has really been helpful for us.

On the engineering side as well, on revenue product, we certainly have made a number of leadership changes, again, just to build that expertise around lower funnel performance

advertising.

Doug: Maybe you can talk a little bit about the transition, how you're doing in terms of capturing more always-on type of budgets for marketers. That's something where we've seen certainly with other companies when they've been able to really grasp that and get scale there that you can see a real change in terms of the numbers. Maybe you can talk about that for Snap.

Evan: Yeah, at this point, I think it's really advertiser specific. In terms of what we're seeing, some advertisers have already gone through a test-and-learn phase with us and been working with us for many, many years and already allocate a very significant percent of their digital advertising budget to Snap.

A lot of it, what it is in terms of our focus as a team is looking at those advertisers where we have been successful, understanding that there are a lot of similarly situated advertisers or lookalike advertisers who aren't yet utilizing our solutions and helping them go through that same test and learn process to ramp with us.

That's definitely relevant in terms of our large advertisers, but we have an enormous long tail of small, medium-sized businesses that can utilize our tools to grow and that's been a very big focus as well.

We're now at a place where we have product market fit in many of these important verticals. We've seen a lot of traction with advertisers and it's about scaling that out to more and more partners.

Doug: Shifting to product more broadly, user growth has remained solid. Time spent with content in North America has stabilized. What do you think the biggest driver of DAU growth and improvements in engagement have been and will be going forward?

Evan: Snapchat is about communicating with your close friends and family. It's designed to enhance the relationships that you have with the people that are closest to you. What we continue to see is when people onboard to Snap and they add their close friends, their best friends, they find that this new way of communicating visually is just incredibly enriching, and they stay with us over a long period of time.

What continues to drive the growth of Snapchat is really that connection that people are able to make with their close friends when they use our service because it's just so much more

expressive than a text message or something like that.

That, I think, is where we continue to focus, how we continue to evolve our products to deepen and strengthen those relationships.

Doug: Does anything stand out there, just geographically in terms of users? It sounds like you're refocusing efforts somewhat more in some of the more highly monetized regions to drive more user growth and deepen engagement, some of those areas where you have been more penetrated.

Evan: Yeah. Our overall focus over the last five or so years, I would say, has really been around emerging markets, typically Android devices, and lots of net new users to Snap. Recently, we've really just felt like there's more headroom for us to grow in North America even though we reach more than 75 percent of 13 to 34-year-olds in the US, for example.

We can obviously continue to grow with the community that we already have, but also acquire new customers. As part of that, we've really had to shift our efforts and our engineering and product focus more towards iOS, for example, here in the United States, more towards the resurrected user experience, meaning that a lot of people here in the United States have already downloaded Snapchat once.

It's more about helping them re-onboard to Snapchat, reconnect with the friends that are most important to them to make sure that we drive that engagement and retention. There's a big opportunity there. We are beginning to shift more resource and focus there, and that does represent a higher opportunity.

Doug: I have more questions, obviously, but we're going to also go to the audience for questions. If you have any, please raise your hands and mics will come by.

Evan, maybe you can talk about some of the features and products that are within the core set, certainly within the app, but are more emerging, like Spotlight, for example, maps, where you see biggest opportunities there.

Evan: On the content side of our business, historically, our service started with messaging. People were sending photos and videos to one another really just to have a conversation.

Over time, we realized there was a big opportunity that some percent of the time, people would

post those photos and videos to stories to put them in chronological order and share not just with one or two friends, but with all of their friends on Snapchat.

We also recognized that there was a real constraint to building a content business around friends because people only have a certain number of real friends, only a small percent overall of those real friends are posting all the time. Naturally, the content supply is limited if you want to build a content business around your real friends.

We focused on building a business that would supplement content from your friends with recommended content. We made a unique choice at the time to moderate that content, to make sure that the content on our platform is appropriate for the audiences that are watching it, that it didn't contain hate speech or misinformation, these sorts of things that I think other more open platforms have really struggled with.

We built a business around recommended content, first with Stories, more recently with Spotlight, which consists of short-form video. We've now been in the process of reconciling those two content stacks because they were built separately and historically didn't share signal.

We're quite excited about the progress we've been making of bringing Stories and Spotlight together into one unified content experience to share that signal across both of those platforms. We think that'll lead to a much better user experience overall.

Doug: I'm sure there are questions in here somewhere, but let me ask you about...you run a really interesting ad campaign, which is basically like, "Snap is not really social media," for example. You'll correct me if I have it slightly off.

First, what do you really mean by that? What are you trying to get across in that campaign, which I think actually really stands out? Then second, your platform is unique, and then it doesn't really have a feed, for example, which, of course, others have been able to monetize really well. How do you kind of resist that urge to do something like that?

Evan: I think at this moment in time, people are really questioning the way that social media makes them feel about themselves, about their relationships. Oftentimes, it can feel like a popularity contest. That was certainly what Bobby and I experienced when we were growing up.

We grew up with social media and we just found that people only shared what was pretty or perfect, the best moments in their day and not the whole of human experience.

In building Snapchat, we created a place where people could express themselves more completely and share with friends, whether it's a great day or a bad day and share that full range of human emotion without the judgment of public likes and comments and these sorts of things.

When we look at the data and we hear back from our community about all the different types of products they use, they consistently say that Snapchat is the happiest platform.

That's something that we really wanted to help the broader public understand, that there is an alternative to social media that can help you connect more deeply with your friends, but do it in a way that's visual and I think helps people convey that full range of emotion that's so important to deepening relationships.

I think as it pertains to growing our business and monetizing over time, making sure that we have a differentiated position in what is a very competitive market is critically important to us.

I think that's why over the last 13 years, we have been able to consistently grow even in the face of very intense competition because we offer a product experience that's fundamentally different. That extends to some of our early choices around data privacy, around deleting message contents by default.

In the past, everything was saved forever and made public to things like Stories, of course. It's been a really important moment to remind people that you don't have to use social media and feel bad about yourself to connect with your friends. In fact, Snapchat's there to support those relationships.

Doug: Let's shift to costs and investments a little bit. Maybe you can talk about the recent step up in infrastructure investments and where you see the highest returns from those.

Evan: Yeah, we were confronted, I think, with some difficult strategic choices. We rent our infrastructure, we leverage the cloud, which I think has been really helpful and brought a lot of flexibility to our business.

We were very focused on managing infrastructure costs per user very tightly for a long period of time and help create a lot of leverage in the business, which has helped us reinvest and continue to innovate.

What we found was that by managing those infrastructure costs so tightly, we were really hamstringing a lot of the most important work we needed to be doing on our ML platform. It was clear that we were going to have to meaningfully step up the investment. We ramped the investment by $100 million a quarter or something like that.

I'm not sure what the capex equivalent would be, but it's certainly a meaningful investment in our ML platform. That was really needed to make some of these step-change technical improvements. Over time, we found that we're able to look at different pieces of our infrastructure and cost optimize.

That's why now, as we look out through the rest of the year, we estimate infrastructure expense to be in the range of 83 to 85 cents per user. So that gives us some room to continue to invest. We're seeing certainly that the investments we have made so far are driving better performance for advertisers. Those investments are starting to stabilize.

Doug: Maybe you can talk a little bit about AR, obviously an area that you've been very focused on over the years. Not just some of the products that are most interesting to you, but also how it plays into the advertising business as well. It's really differentiated for marketers.

Evan: Advertising is really important to us because it represents the future of computing. Today, even just looking around this room, in order to leverage the power of computing, people have to bury their heads in a smartphone or bury their heads in a laptop.

Increasingly, as we hear from our community and people around the world, they feel like technology is actually taking them out of the real-world experiences that are most important to them, or getting in the way of their ability to connect with other people.

Augmented reality is really exciting to us because it allows people to leverage the benefits of computing, but to share them together in person.

I think as we look at the future of things like education, for example, and the way that people are going to learn, the ability to leverage augmented reality to do that together and to learn by doing, which is really different than the way I think people experience learning today, whether it's in front of a whiteboard or behind a computer screen, I think those sorts of opportunities are incredibly compelling and exciting for us.

As we've been thinking about investing in augmented reality, of course, we've started with the

smartphone, which is very constrained, this tiny little screen that doesn't allow you to directly interact with your hands or move around or even to share that experience with other people, but already 300 million people engage with augmented reality on Snapchat.

We have this really strong base of engagement and a very large group of developers. As we think about the way that the form factor will evolve and the platform will evolve, we have this really strong base of engagement of our community using augmented reality, developers building augmented reality.

We've really been going on a step-by-step journey with them, whether it's releasing iterative versions of our glasses. The first version we released maybe back in 2016 to our more recent pair that included an AR display so developers can begin experimenting with what the glasses form factor will enable.

Ultimately, as we look at the long-term, augmented reality for us is really about the future of computing, which is why it's such a critical investment for us.

Doug: From a form factor perspective, like over time, what do you think that that looks like?

Evan: We think see-through glasses are a really important enabler of augmented reality. A lot of folks have been experimenting with VR headsets or pass-through augmented reality where you look at a screen that has a video feed of the world around you.

We just don't think that that really does justice to the AR experience and I think is also disconcerting for folks even when they can see a video view of what's happening around them. It just feels like there's a screen in front of your face.

We think in order for computing technology to be successful, it has to really ground people in the real world. That's why see-through glasses are going to be just a critical component of that.

Doug: Questions in the audience? There's a mic somewhere. Just looking around. OK. How does Snap evolve when you think...what does the business look like over five to seven years, for example, in your view from both advertising perspective, technology, how the platform is really different for users?

Evan: In the near term, we have a huge amount of opportunity with the Snapchat application, whether that's just continuing to support people's relationships with their close friends and family

through our communication service or continuing to grow our content business.

Of course, our map where people can see what their friends are doing, who they're with, what they're up to. These are all really compelling opportunities for user engagement and ultimately in terms of monetization, whether it's with advertising or subscription service. I think that's where the vast majority of our focus will be for the next five to seven years.

I certainly think as we look at five to seven years, we're going to begin to see the glimmers of the next generation of computing and the transition from smartphone-based computing to augmented reality and wearables. I think that's going to create an incredible amount of opportunity as new platforms emerge.

We always have been interested in and looking for those platform shifts because in the technology business, that's where a huge amount of the value creation happens, whether it's with artificial intelligence today, smartphones before that, or augmented reality in the future.

Businesses that work towards those major platform shifts are really the ones that can be successful and grow meaningfully over the long term.

Doug: All right. We're going to wrap up with a quick word association. Direct response.

Evan: Vitally important.

Doug: Gen AI.

Evan: Creative and fun.

Doug: Spotlight.

Evan: Lots of opportunity.

Doug: Social media.

Evan: Snapchat.

Doug: AR.

Evan: AR, the platform of the future.

Doug: Snap Plus.

Evan: Sign up today.

Doug: Stories.

Evan: Stories. I think being yourself.

Doug: TikTok.

Evan: To be determined.

Doug: Diplomatic.

[laughter]

Doug: Close friends.

Evan: That's what life's all about.

Doug: All right, cool. We're going to leave it there. Thank you, Evan.

Evan: Thank you.

[applause]