

SNAP INC. Q3 2020 PREPARED REMARKS

BETSY FRANK, SENIOR DIRECTOR, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Third Quarter 2020 Earnings Conference Call. With us today are Evan Spiegel, Chief Executive Officer and Co-Founder, Jeremi Gorman, Chief Business Officer, and Derek Andersen, Chief Financial Officer.

Earlier today we made a slide presentation available that provides an overview of our user and financial metrics for the third quarter 2020, which can be found on our Investor Relations website at investor.snap.com. Now I will cover the Safe Harbor. Today's call is to provide you with information regarding our third quarter 2020 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, future market conditions, or the impact of COVID-19 on our business and on the economy as a whole, 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 June 30, 2020, 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 and 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 Investor Relations website. 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

Hi everyone, and thank you for joining our call.

We added 11 million daily active users this quarter for a total of 249 million, up 4 percent quarter-over-quarter and 18 percent year-over-year, demonstrating the benefits of years of investment in our product and partnerships across a wide range of geographies. We generated \$679 million in revenue this quarter, up 52 percent year-over-year, outperforming our expectations and highlighting the substantial value we drive to both direct response and brand advertisers during this continued period of uncertainty. Our year-over-year growth rates for both daily active users and revenue were higher this quarter than they were in Q3 of the prior year. In fact, they represent our highest Q3 growth rates since 2017.

Our success underscores the excitement that our community and our advertising partners have around our innovative products and services. The adoption of augmented reality has happened faster than we had previously imagined, and we feel well positioned to execute on the many opportunities that lie ahead.

Two years ago we transformed our business by relentlessly focusing our attention on delivering return on investment for advertisers and building new products and experiences to serve our community. The revenue and community growth we have generated as a result of these efforts has afforded us the opportunity to double down and innovate even more, especially around our camera and augmented reality platform.

The creative and technical teams at Snap have worked hard to support Lens Studio creators, and evolve our camera's capacity to entertain our community and help our partners grow their businesses. For example, this quarter we introduced more Lenses for try-on and commerce, with Sally Hansen creating AR trial and purchase for nail polish, and Champs doing the same for sneakers.

Snapchat community engagement is strong, as we continue to grow in new markets, broaden our product offerings, and improve our underlying infrastructure. This was our fourth consecutive quarter of more than 15 percent year-over-year daily active user growth. We also saw strong retention in our vast community, and we continue to reach over 90 percent of the Gen Z population and 75 percent of the Gen Z and Millennial population in countries like the US, the UK, and France.

One key driver of growth across all of our markets has been product innovation and infrastructure improvements. Following the successful rebuild of our Android application last year, we are rolling out a newly streamlined messaging infrastructure that we expect will make messaging faster and more efficient, which will help drive increased engagement, especially as we expand our community across different countries and devices.

These foundational investments in our core architecture have also enabled us to innovate faster and release new product features at a rapid pace. In the last year alone we launched Brand Profiles, Minis, Places on the Map, Dynamic Ads, Bidded AR Lenses, Dynamic Lenses, Camera Kit, Snap ML Lenses, and new creative tools - with lots more to come.

We are currently rolling out a new five-tab navigation bar for Snapchat, which allows us to deepen the product experience for our Map and Discover platforms. We're excited to make the Snap Map more visible to new Snapchatters and invest in a better content experience for Discover - especially as we broaden our content offerings across popular creators, and professional studios. Our ability to launch a large-scale fundamental product transformation like this quickly and without disruption to our business is evidence of the progress we've made. In fact, it was the first major update where we prototyped and launched on Android first due to the structural improvements we made to our Android application last year.

Our investments in Lens Studio continue to drive the growth of our augmented reality platform, and we are especially excited to see Lenses created by our community driving a majority of the year-over-year growth in daily Lens views. Our Lens Studio platform allows people all over the world to create rich AR experiences that highlight the broad range of cultures represented by our community. Some of these Lenses are used by Snapchatters across the world, while others are notable for their extraordinary regional engagement. For example, a university student in India created a Lens with a 'smoke flare' effect which went viral in India and Southeast Asia, garnering billions of views on Snapchat and even more on other social platforms. This demonstrates the impact of the creativity of our community, which empowers self-expression with augmented reality at a volume and scale we could never achieve on our own.

We've also continued to invest in the technology that underlies our AR platform to empower new experiences for our community. We drew on several years of technical investment and creative experience to launch a number of extremely popular Lenses this quarter. For example, our recently-launched Anime Lens uses our Snap ML technology to turn people into anime characters in real time and our community engaged with this Lens three billion times in its first week. As we push the envelope on what is possible in augmented reality with these new Lenses, we are even more excited to contribute these new learnings and capabilities to Lens Studio so our community can leverage them in their own creations.

Our content platform continues to mature following our investments in regionalized content and the expansion of our partnerships with both traditional media partners and newer mobile-focused content studios. Our premium Shows format continues to grow rapidly around the world, with time spent watching Shows increasing more than 50 percent this quarter compared to Q3 of last year. Our successful VS The World docuseries franchise launched its second season featuring Conor McGregor,

and has already reached 14 million viewers. Additionally, large media companies continue to find success bringing their top linear TV shows to Snapchat to reach our differentiated audience. Over 50 million Snapchatters watch content derived from TV on Snapchat each month on average, and this familiar programming has helped drive an 80 percent year-over-year increase in the average number of people watching Shows every day that are over the age of 35.

Additionally, as various sports leagues are resuming their seasons, our community has turned to Snap to watch the action. Last month, more than 40 percent of the US Gen Z population watched premium sports content on Snap. The NBA highlights channel saw over 20 percent more engagement so far this season than last year, and SportsCenter viewership on Snapchat increased by 80 percent from July to September.

We are also seeing dramatic growth in content engagement in markets like India, where Discover viewership grew nearly 50 percent quarter-over-quarter. Furthermore, in markets like France and the UK, young people turn to Discover as their destination for premium mobile content, with more than two thirds of the Gen Z and Millennial population in both markets watching premium content on Discover.

Finally, as our content business develops, we are also providing our partners with better monetization. This quarter, due to growth in Shows and improved monetization, we paid our partners 85 percent more than we did in Q3 of last year.

In addition to AR and content, we are also building new ways to empower creators, developers, brands, and others to improve the entire Snapchat experience for our community. For example, we have partnered with TurboVote to launch a Snap Mini to help our Gen Z and Millennial audience register for the upcoming US election. Over one million US users have signed up for the Mini, where they can get help registering to vote. According to Democracy Works, more than 50 percent are likely first-time voters.

Additionally, we are continuing to make early progress on our gaming platform by launching three new games this quarter. Many of our early developers are deepening their investment as they explore new genres, monetization models, and game types. For example, Mojiworks, developer of the popular 'Ready Chef Go', is doubling down on the Snap Games opportunity and exploring new genres like music and trivia. We have also been working hard to help our developers find financial success on our platform, and have more than doubled the revenue our developers are generating this quarter compared to Q3 last year.

As we look to the future, we believe that the fundamental changes we made to our products and business over the past two years have put us in a strong position to continue executing in a rapidly-evolving world. Our improvements to both our core product infrastructure and our internal team and

operations have enabled us to accelerate the velocity of our product innovation. Meanwhile, our deep investments in building a scalable advertising platform have allowed us to focus more of our attention on these big future opportunities. We are so excited about our progress in AR, content, and our growing platform, especially as we look to build on our momentum in these areas going forward.

Thanks again for joining the call. I'll hand it over to Jeremi to talk about our business.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thank you Evan. We delivered strong results this quarter and we're even more excited about the opportunities ahead of us. In Q3, we generated total revenue of \$679 million, an increase of 52 percent year-over-year. The strength in our business reflects the deliberate and structurally sound investments we have made in our ad platform, ad products, and team. We remained nimble and responded to the difficult and rapidly changing macro conditions by supporting our advertising partners in achieving their business goals. We saw the beginnings of a recovery from brand advertisers, and continued resilience from direct response advertisers, reinforcing our confidence in the long-term positioning of our business.

As brands and other organizations used this period of uncertainty as an opportunity to evaluate their advertising spend, we saw many brands look to align their marketing efforts with platforms who share their corporate values. This gave us an opportunity to engage with advertisers and agencies in real time to ensure that our existing partners as well as new prospects understood our offering in relation to our values. Our sales teams were able to hold many productive C-level conversations to discuss our brand safety positioning and privacy-by-design principles, which provided an opportunity for us to prove our efficacy and ability to scale. We implemented a strategy to ensure advertisers investing in Snap found early and sustained success on our platform as they scaled with us, and we believe that the customer service our teams provided, the alignment on our brand safety principles, and the strong ROI that our advertising partners achieved all contributed to our growth this quarter.

As businesses adapted and began to look for opportunities to increase their marketing budgets in Q3, we were pleased to see existing advertisers resume and even increase their budgets, as well as new advertisers allocate spend to drive real business value via our self-serve ad platform. The success we saw in our business in Q3 is the result of many long term investments we have made to improve our sales and marketing functions, drive ROI through measurement, relevance, and optimization, and build innovative ad experiences through video and AR. It was our continued focus on these three priorities—along with our unique reach and growing, global audience—which allowed us to accelerate our growth as more of the world opened up and brands returned to marketing.

Across all sectors and verticals, brands are leveraging our Millennial and Gen Z audience to reach new customers around the globe. In the US, UK, and France, we reach over 75 percent of 13-34 year olds,

and we are making progress on growing our reach in other priority markets. To help advertisers better understand the Snapchat Generation, in August we launched our first-ever, global business-to-business marketing campaign showcasing the values and behaviors that characterize our community. Through our research, we have substantiated that the Snapchat Generation is deeply purpose-driven. We found that over 80 percent of Snapchatters in the US believe they have a personal responsibility to create positive change in the world, and they are more likely than non-Snapchatters to buy from brands which support local communities. Overall, the B2B campaign was received positively by our advertising partners and has allowed our teams to engage more productively with marketing executives at leading consumer brands as we help businesses learn how to communicate with the Snapchat Generation.

We continued to add deep domain expertise under our verticalized sales model, allowing us to effectively serve advertisers of all types and sizes. This structure provided us with the flexibility to pivot resources this quarter to some of our fastest growing verticals including CPG, Streaming, Tech, Telco, Financial Services, and eCommerce. As an example, brands such as Pepsico, MGM, HiSmile, Starling Bank, and Depop as well as agency partners, Publicis and 360i, participated in our B2B marketing campaign where they provided testimonials around the positive results they achieved while partnering with our team. In addition, to support our partners through the pandemic and improve our marketing efforts, we launched Snap Focus, an online learning course for advertisers looking to create their first ad campaign on Snapchat, and Snap Connect, a new marketing program to educate global marketers about direct response advertising on Snapchat. Combined with our webinars and education sessions, our sales and marketing teams have continued to scale and serve our partners in this virtual environment.

We continue to invest heavily in ranking, optimization, and measurement in order to deliver measurable ROI for our advertising partners. It was our investments in our self-serve ad platform and our ability to service our customers during a challenging time that allowed us to onboard a record number of advertisers this quarter. Ultimately, all advertisers set their budgets based on performance, be it brand affinity, purchases, or app downloads, and we continue to prove the efficacy of our ad platform by helping our advertising partners achieve their goals.

eCommerce remains an exciting opportunity for us and we are doubling down on our efforts in this area. We are taking a holistic approach to eCommerce across sales, native commerce products, and ad tech—including our self-serve tools, lower-funnel optimization goals, and video ad formats. For example, last quarter we launched Dynamic Ads globally, which combine product catalogs with our optimization capabilities to reward advertisers who invest in our platform with ROI at scale, and we are already seeing strong adoption rates from Retail, CPG, Restaurant, and Gaming verticals, among others. More brands have pivoted in this direction, including Sephora investing in Dynamic Ads as a part of their long-term strategy, and Techstyle optimizing for their Fabletics Women's marketing campaign with pixel purchase optimizations.

The rise of mobile content consumption, especially on mobile-native premium formats, presents us with a growing opportunity. The first building block was Discover, our video content business which we launched in 2015. We continue to invest heavily in video advertising through Commercials—our non-skippable, full-screen video ad unit—and Snap Select, which enables buying of Commercials in pre-packaged, fixed-price, premium inventory. First Commercial, which gives advertisers a way to reserve the first Commercial a Snapchatter sees during a Show, is now available to all advertisers in our Ads Manager following our beta launch last quarter, and we have already seen many advertisers from different verticals invest in this format. For example, we saw Entertainment brands such as NBCUniversal’s Peacock invest in our First Commercial format as the world shifted to direct-to-consumer viewership and theatrical releases were put on pause.

We believe augmented reality is the future of immersive customer experiences like try-on, catalog browsing, and showrooming. We invested heavily in our self-serve AR tools to provide advertisers with what they need to create, manage, and optimize an augmented reality campaign that drives measurable ROI. While this form of advertising is still nascent, we are encouraged by the early adoption we are seeing from advertisers. This quarter alone, we partnered with several leading consumer brands, such as Champs Sports, Clearly, Essie, Kohl’s, Levi’s, Jordan Brand, Sally Hansen, and Hoka One One, to leverage our AR and machine learning technologies to power virtual try-on experiences. While Dynamic Ads recommends items to Snapchatters based on their interests, AR try-on takes this a step further and allows Snapchatters to visualize the item in real life. For example, Clearly, an eyewear retailer, leveraged our sponsored AR Lenses to enable our community to try on different pairs of glasses, which resulted in 33 seconds of average playtime and a 5.3 percent share rate. Clearly was able to drive a full-funnel impact for their brand, achieving a 7 point lift in brand awareness and 5 point lift in brand consideration while also driving a 46 percent lift in unique page viewers on their site and a 3.3 percent lift in purchases.

Longer-term, we believe our Map represents an exciting opportunity to innovate and provide new experiences for our community and to grow revenue. We recently added Places to our Map, which helps people learn more about the businesses around them and view hours and store reviews. We also built a dedicated Local Ads objective to Ads Manager to ease the sign up flow for local businesses. Since its launch in July, we have been encouraged by the number of local businesses experimenting with the product. Though it’s still early, building connections between our community and the places they visit will be instrumental in supporting local advertising in the future.

Our investments in our self-serve platform, verticalized sales teams, and engaging ad experiences provide the tools necessary for advertisers to reach our valuable community. While the foundation is in place, we have a huge opportunity to scale our business as we continue to demonstrate measurable ROI for our partners, educate businesses on our unique reach—all while leading the way with innovative, digital-first ad products. In particular, eCommerce remains a focus area as we look to build upon the

early momentum of our newer offerings. Longer-term, we believe Snapchatters will engage naturally with businesses of all sizes across our service, whether that be engaging with a brand's profile, finding store hours on the Map, or interacting with products using an AR Lens. Overall, this was a productive quarter for our business, and we look forward to building on our momentum as we progress toward our short-term and long-term opportunities.

And with that, I'll turn the call over to Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q3 financial results reflect our priorities of growing our community, making focused investments in the future of our business, and scaling our operations efficiently in order to drive towards profitability and positive free cash flow.

As Evan mentioned earlier, our community grew to 249 million daily active users in Q3, an increase of 39 million or 18 percent year-over-year, which exceeded our expectations entering the quarter and represents an acceleration over the prior quarter growth rate. The growth in our community continues to be broad based, with year-over-year and sequential growth on both iOS and Android platforms. In North America, DAU grew by 6 million or 7 percent year-over-year to reach 90 million. In Europe, DAU grew by 7 million or 10 percent to reach 72 million. In Rest of World, DAU grew by 26 million or 43 percent to reach 87 million. We believe Snapchat is a complement to real friendships, and the easing of COVID-19 related restrictions in many communities was a modest tail wind to engagement as we moved through Q3. We observed that restrictions were lifted earlier in Europe and this contributed in part to the higher growth rate in this region relative to North America. The acceleration of growth in Rest of World reflects the benefit of our ongoing investments to better serve our community including investments in local content, language support, marketing partnerships, the popularity of augmented reality Lenses created by our community, and changing competitive dynamics.

Total revenue for Q3 was \$679 million, an increase of 52 percent year-over-year, representing a 35 percentage point acceleration over the prior quarter. We benefited from an operating environment that exceeded our expectations entering the quarter as many of the potential headwinds we noted on our last call did not fully materialize. In addition, the auditing of social media platforms by many advertisers and agencies, which occurred throughout the summer, was ultimately constructive towards building and expanding our relationships with many of these advertising partners. These favorable operating conditions led to rapid growth in demand from our brand advertising partners, that built on top of the already strong growth trajectory of our direct response business, and together contributed to record high active advertisers and revenues in the quarter. While we were pleasantly surprised by the favorable operating environment in Q3, we were not surprised by the growth we delivered under these conditions. We demonstrated early in Q1 that our platform is capable of delivering growth over 50

percent under more normal operating conditions, and we were pleased to see operating conditions significantly improve in Q3.

In North America, revenue grew 56 percent year-over-year in Q3, while ARPU grew 46 percent year-over-year. In Europe, revenue grew 49 percent year-over-year in Q3, while ARPU grew 36 percent year-over-year. The relatively higher rates of growth in North America and Europe in Q3 reflect the ramp in demand from brand advertisers beginning relatively earlier and stronger in these regions. In Rest of World, revenue grew 35 percent year-over-year in Q3, while ARPU declined 6 percent year-over-year as accelerating growth in DAU modestly outpaced growth in absolute advertising demand. Rest of World revenue growth accelerated by 21 percentage points over the prior quarter, as demand has begun to recover from the relatively more severe impact of COVID-19 related disruptions to demand in this region. As we noted previously, ARPU in Rest of World is best viewed as an output metric at this stage given the simultaneous rapid growth in our community and advertising demand.

We continue to see strong adoption of our ad products. Revenue from our Commercials ad product more than doubled year-over-year in Q3 as we continue to see building demand from advertisers seeking to reach Gen Z and Millennial audiences at scale, and with a full screen video advertising product that is delivered adjacent to brand safe content. In addition, our revenue from Camera products nearly doubled year-over-year in Q3 driven by strong adoption of our self-serve Reach and Frequency Lenses and Filters that offer brands an opportunity to interact with Snapchatters through engaging augmented reality experiences.

For the first time as a public company we observed a rise in overall eCPM in Q3 driven by a combination of mix shift towards higher eCPM products such as Commercials, as well as a rapid rise in overall demand. Average eCPM's increased 20 percent year-over-year, however, we believe our eCPM's remain well below market rates for our audiences and ad units. The ongoing growth of our community, as well as deepening engagement within our app, continues to add more inventory opportunity to our ecosystem over time. In addition, we continue to make improvements to our targeting and optimization capabilities that allow us to show more relevant ads to Snapchatters and utilize our inventory more efficiently. For example, while eCPM's for inventory monetized via Pixel Verified Purchases rose by 71 percent sequentially in Q3, the cost per purchase for our advertising partners rose by just 1 percent over the same period. Consequently, we believe that we will be able to deliver attractive returns on ad spend to our advertising partners as eCPM grows over the long term.

Gross margins were 58 percent in Q3, up 7 percentage points year-over-year. We continue to make significant progress against our goal of driving down our underlying infrastructure unit costs over time. In Q3, our efficiency improvements fully offset the year-over-year increase in user activity, resulting in infrastructure costs per DAU of \$0.70. On the content side we have been doubling down on our investments in premium content and we were pleased to see that these investments drove a more than

50 percent year-over-year increase in total daily time spent watching Shows in Q3, which contributed to our ability to grow revenue, ARPU, and eCPM's at the rates we observed in Q3. The focus on scaling our infrastructure costs efficiently has allowed us to make these investments in premium content, while continuing to expand our gross margins, which reflects our overall approach of scaling our operations efficiently while making investments in the future of our business.

Operating expenses were \$338 million in Q3, up 24 percent year-over-year, and in line with the estimates we shared on our prior call. Full time headcount grew at a rate roughly in line with the growth in operating expenses as we continued to make focused investments in our monetization and engineering teams. In addition, we continued to grow our investments in marketing in order to build on the momentum we have established with our advertising and Snapchat communities. We continued to invest in the long term health of our business, even as the operating environment became more challenging earlier this year, and we believe that the growth we observed in our community and in our top line in Q3 have validated this approach.

Q3 marked our second quarter of Adjusted EBITDA profitability at \$56 million for the quarter, an improvement of \$99 million year-over-year, and \$152 million over the prior quarter. In Q3, we delivered Adjusted EBITDA leverage of 42 percent as we continue to invest in the future of our business, while making progress towards profitability and positive free cash flow.

Net Income was negative \$200 million in Q3, an improvement of \$28 million over the prior year, and \$126 million over the prior quarter. The year-over-year improvement in Net Income reflects the flow through of improved Adjusted EBITDA, offset by the impact of interest expense related to the convertible notes issued over the past year, and higher stock based compensation. While we have continued to grow our team, stock based compensation declined on a per capita basis in Q3 as our team continues to migrate towards sustainable and competitive compensation structures that we have put in place in the years following our IPO. Total fully diluted shares outstanding grew 4 percent year-over-year in Q3, flat from the prior quarter and down from 6 percent in the same quarter of last year. We consider careful management of our stock based compensation programs to be a key input to efficiently managing our fully diluted shares outstanding as we seek to build shareholder value over the long term.

Free Cash Flow for Q3 was negative \$70 million, an improvement of \$15 million year-over-year, primarily driven by the improvements in Adjusted EBITDA that were partially offset by changes in net working capital. We ended the quarter with \$2.7 billion in cash and marketable securities, up from \$2.3 billion in the prior year as the proceeds of convertible notes issued in Q2 more than offset the investments we have made to grow the business over the past year.

Similar to last quarter, we do not intend to provide financial guidance for Q4, but we do want to share some perspective on how we believe the quarter might unfold. While we have benefitted from an

improving operating environment in recent months, we are conscious that external factors, similar to those that produced more volatile operating conditions earlier this year, could emerge and impact our momentum. In addition, advertising demand in Q4 has historically been bolstered by the holiday season in the latter portion of the quarter, and it is not clear at this time whether that key source of advertising demand will materialize in the same way this year as in prior years. Assuming that the current favorable operating conditions persist, and that the holiday season materializes in line with what we have experienced in prior years, we believe that year-over-year revenue growth of 47 percent to 50 percent is attainable in Q4. On the expense side we intend to continue to invest in the long term growth of our business, and are currently contemplating incremental investments to double down on the momentum we have established. Consequently we expect that year-over-year expense growth is likely to be higher in Q4 than we have observed year to date.

While there is continued uncertainty about the macro operating environment, we are pleased with the strength of the underlying momentum we have established with our advertising partners, and we remain highly optimistic about the long term prospects for our business. In addition, we are pleased with the growth trends we have observed in our Snapchat community and believe that momentum will continue into Q4 with DAU of approximately 257 million, implying year-over-year growth of approximately 18 percent, which is consistent with the growth rate observed in Q3. Thank you for joining our call today and we will now take your questions.