SNAP INC. Q3 2020 TRANSCRIPT

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 September 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 Snapchatter 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 Snapchatter 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.

OPERATOR

And our first question will come from Ross Sandler of Barclays.

ROSS SANDLER, BARCLAYS

Evan, you mentioned that you're starting to roll out features on Android first before iOS. That seems like a pretty big milestone for you guys in terms of where the Android stack is. So I guess, how is faster product development on the Android side impacting your thinking on retaining and growing the audience in international? Is that where some of the 10 million of RoW users came from?

And then, Derek, one on the guidance. So just on the math for July and then what you did in the quarter, it would imply that you're growing 60%-ish over the last couple of months. So is the comment about 47% to 50% growth in the fourth quarter reflective of the mix up of brand advertising? Or anything else you would call out in terms of why you're expecting that to drop out – or drop off a little bit would be helpful.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks, Ross. We're really pleased with the progress we've made on Android. We've certainly learned a lot from our prior mistakes, and the client is in a much better place and has allowed us to experiment and iterate a lot more quickly on the Android platform. We do still see some upside in the back-end improvements we're making. So we're working a lot on improving our messaging infrastructure, for example, and that's been rolling out and really helps just improve the speed of communication, which we think can have a positive impact on engagement. So overall, big changes to the clients on Android, more changes coming on the back-end. And we're trying to do the same thing on iOS now. iOS was in a better place to start with, but we really believe that we can continue to improve the iOS architecture. We've got a big initiative underway there across the entire company, which should allow us to move at a similar pace to Android because believe it or not, we can actually move faster on Android now than iOS. So huge change. Obviously, we're really excited about it. And certainly, it's vital when we're thinking about unlocking growth in markets that are dominated by Android.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Ross, it's Derek speaking. I'll take the second part of the question. Thank you. Yes, as we look forward, we're really pleased with what we saw in terms of growth as we moved through Q3. We started a little slower at the beginning of that quarter, but we've enjoyed nicely elevated growth levels since August and through the quarter. Now as I look to Q4, one of the unique things about Q4 is that the revenue tends to be more back-ended than other quarters. And so you want to be a little bit more cautious about drawing too many inferences from the early days of Q4. It's a little bit different from other quarters in the year. But as I mentioned, look, there's obviously the potential for uncertainty in the operating environment. But if we're able to maintain the positive conditions we've seen recently, and we see a strong holiday season that's roughly around what we've seen in previous periods, we do believe that 47% to 50% range is attainable and wanted to share that so we could provide at least a little bit of an indication of how we thought the quarter could transpire. So hopefully, that gives you a little bit more context about what we're thinking there.

OPERATOR

Our next question comes from Doug Anmuth of J.P. Morgan.

DOUG ANMUTH, J.P. MORGAN

You talked about eCPMs increasing for the first time as a public company. I was just hoping you could talk about the drivers here. Curious how much that's a function of higher-value inventory like Commercials and Snap Select versus option density from a larger number of advertisers? And I'm curious if you have any thoughts on how far below you are versus market rates at this point?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Doug, it's Derek speaking. I'll take that question. Thank you. And yes, we did enjoy an increase in eCPM there. I think it's important to think of that very much as an output metric at this point in our business. One of the things that we look to there is that we've seen really robust demand for some of our higher eCPM products. So there are mix effects there, as you noted in your question. So Commercials being a very good example, where we saw revenue from Commercials more than double year-over-year in the most recent quarter, and that certainly contributes to the number there. And yes, we've seen an overall lift in absolute demand. But we continue to also invest very heavily as we have over the last year in our monetization optimization capabilities, making sure we're getting the right ad to the right Snapchatter at the right moment. And that contributes to our ability to deliver the actions that advertisers are seeking with fewer impressions, and that has the effect of raising the output metric of eCPM. But as long as we're able to continue to drive great optimization, we don't see a corresponding lift in the cost per action to the advertiser. And I shared in my prepared remarks, some metrics around, for example, what we saw with Pixel-verified purchases. So we're going to continue to invest there, but it's very early days in our monetization and realizing the potential monetization of the business.

If you think about our content business first, very early stages there, but we're pleased with what we're seeing, and that's a big driver at the moment and optimization continues to help there. But also, we're seeing growth in engagement. And I mentioned the 50% year-over-year growth in terms of time spent with Shows, and we continue to invest there alongside the optimization. But a long way to go there to get close to market rates for our ad units and audiences. And then, of course, earlier stage at the Camera side. We're really pleased with some of the early indications we're seeing there, as I mentioned in my prepared remarks, around the growth in reach and frequency self-serve Lens products. They nearly doubled year-over-year in the quarter. So we've got good early traction there. And then, of course, we shared recently some of the metrics around the Map and how deep the density is there. And of course, that part of our engagement, we haven't begun to tap on monetization. So I think all of that sort of gives you an indication of just how early we are in realizing the full potential on monetization. And hopefully, that gives you a little more context around some of the specific dynamics on the eCPM in the period.

OPERATOR

Our next question comes from Michael Levine of Pivotal Research Group.

MICHAEL LEVINE, PIVOTAL

A question for both Evan and for Jeremi. I mean, Evan, in your prepared remarks, you guys had talked about seeing good growth with respect to sports viewing. I know that that had been an area that Derek had highlighted wasn't necessarily going to be a headwind, but you guys didn't maybe quite know what it looked like. But as I'm watching what's happening in the rest of the world of media, the traditional media companies are having just atrocious ratings. And I'm hearing that there's more dollars that are flowing in from guys who wanted to advertise in the games and the inventory doesn't – wasn't just there. So a couple of questions. One, I am curious, has that actually translated into an incremental tailwind for you guys? And then probably more for Jeremi, like if we actually have this big unlock of dollars that was going to be allocated to live sports in '21, I mean, do you have to make any further investment in the vertical sales efforts? Or do you feel like you got those key categories lined up?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks for the question. Yes, at a really high level, sports are just deeply interwoven into culture and they're really, really important to people, and therefore, they're very important to our community. So we worked really hard to think holistically about our sports partnerships across augmented reality, of course, content. Things like Bitmoji and all of that helps people talk about and express themselves in relation to the teams that they really care about. And driving that conversation is obviously really important for the leagues and also for our business. So we think we can continue to play a role there. It's obviously really important to our community. And Jeremi can speak to the implications that – for advertisers who obviously also really want to associate themselves with sports.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes. Thanks for the question, Michael. And certainly, I cannot let a good sports question go without mentioning how exciting it is for our teams here in Los Angeles, this season in particular. So we're all very excited about it over here. As Evan talked about, last month, more than 40% of the U.S. Gen Z population watched premium sports content on Snap specifically, and the NBA highlights channel saw over 20% more engagement so far this season than last year. So that helps speak to the trends. As you know, sports are absolutely highly visible to advertisers who are looking for both premium content, contextually relevant placements and then large package buys with ourselves and with our partners that are inclusive of things like augmented reality, Bitmoji and others, as Evan mentioned. Our Commercials ad unit is continuing to perform for us. It's allowed us to increase yield with some premium sports content, and we're really happy with both the audience and the revenue growth on that product. Of course, it's still early for us, and we're going to continue to experiment and work with our content partners to bring immersive sports experiences to Snapchatters. But in the meantime, go LA!

OPERATOR

Our next question comes from Heath Terry of Goldman Sachs.

HEATH TERRY, GOLDMAN SACHS

When we look at the acceleration in rest of world, is there a way that you could disaggregate for us what you feel like is driving that? How much of it is macro versus things that you've done with product or even just marketing that you feel like is driving that? And as we think kind of more specifically about what those users might look like longer term, how do you think about sort of the monetization of rest of world users? What's their long-term potential as you grow in those markets to monetize relative to, say, the U.S. or Europe?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Yes. Thanks for the question. We're really excited about the momentum we're seeing internationally. Obviously, a lot of that is following our major investments in things like the Android rewrite, but also our partnerships with telcos and OEMs that have been helpful in driving growth there and just removing friction from using our products. One of the big things that we're really excited about also is the way that things like augmented reality have really been localized for our community because creators in these different markets are building locally relevant Lenses and then sharing them with all their friends. And so there's this really sort of exciting and virtuous cycle that's happening here where local creators build really compelling AR experiences, share them with the broader community, people make Snaps with those and then share them with their friends or share them on other platforms, which helps support our growth overall. So I think as we look at localized content, augmented reality and the continued growth of our partners, we're just really excited about how that's all coming together. Obviously, it's been a long road to get here, but we're excited by what we're seeing.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

And I can take the part of rest of world monetization. So just to give you an example of what we're doing here is that we are deploying a strategic hybrid strategy. So we use resellers in a market, and we've done that for many years. We consider them to be extraordinary partners of ours and truly an extension of the Snap team. It's pretty remarkable to visit these markets and see how well they represent us. It's been a really exciting journey. But as engagement grows, certain criteria are met with DAU, we put Snap salespeople on the ground, including account executives, account managers, creative strategists and more. And then we work alongside our reseller partners to determine which point Snap is going to service directly and which they can -- which the resellers can best supplement. We're going to continue to deploy this hybrid strategy around the world. It's working, and we found it successful so far. So we look forward to continuing to do that as we grow globally.

OPERATOR

Our next question comes from Rich Greenfield of LightShed Partners.

RICHARD GREENFIELD, LIGHTSHED

When you think about advertisers, it seems like you had a real sort of drop in sort of the quality of advertisers that you shifted to programmatic. And I think what Jeremi talked about was this audit that took place over the summer. And it does look like the brands that we're seeing, whether it's M&Ms or

Verizon Fios or Legos or Peacock or Bud Light, like it's incredible how many big brands we're seeing now on the service. Maybe if you could just spend a minute, like what actually happened that this audit took place and all of these brands came back fast? Like what were they looking at? Are these dollars shifting actually from TV? Are you still in sort of a non-TV sort of advertiser bucket? Like what's actually happening there? And then I've got a couple of follow-ups on housekeeping points.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question, Rich, and thank you for noticing the quality of the advertisers. You're right, our investments in optimization, measurement and ranking are paying off and big brands as well as our DR brands are finding success. And it's really exciting for our community who continues to see more and more relevant ads as we add to this demand across the board. Over the past 5 years, actually, we've been building a powerful video business with the goal of connecting advertisers to the Snapchat generation. And it's really getting increasingly difficult to reach this audience on linear television. They are watching TV, it's just in their pocket. We've made several key hires in the area, and our executives most responsible for video monetization have a lot of years of experience in this field. They know the strategy and they know the buyers.

Based on the strength of what we're seeing in our video business, we're continuing to invest in new products. So to give you an example of how we're continuing to capture these budgets more and more incrementally, we recently launched First Commercials, which gives our advertisers the very first ad and the very first product a Snapchatter sees. And every marketer knows how important it is to make that first impression. Our Commercials are designed for both social video and online video buyers. And the goal is really to just attract incremental TV budgets into our hand-curated, brand-safe curated content on Discover. So all of those things coming together after 5 years of long hard work is what you're seeing right now, and we're really excited about the future.

OPERATOR

Our next question comes from Justin Post of Bank of America Merrill Lynch.

JUSTIN POST, BANK OF AMERICA MERRILL LYNCH

Congrats on a great revenue quarter. I wanted to maybe focus more on users. First, can you talk more about the COVID impact on North American usage and whether you might be seeing any leakage to entertainment apps, TikTok or YouTube? And second, you mentioned you're testing the 5-tab navigation bar, which is pretty interesting. Can you talk about – is that increasing usage in your tests to other Snap applications? And what could that do to overall usage?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Yes. Thanks, Justin. As we look at competition more broadly, obviously, entertainment services do compete with the content section of our business. But obviously, the core driver of engagement on Snapchat is communication, and that has been impacted by COVID. In the areas that are more open, like in Europe and whatnot, we see less of an impact. We think some of that is due to the fact that maybe people are making fewer friendships or things like that when they're stuck in their houses. And that's one we're paying attention to. But overall, our audience in the U.S. and in North America is growing. We are seeing some slight shifts in engagement. But we think that as the U.S. continues to open up following COVID that we'll return to more normal engagement patterns there.

Looking at the 5-tab navigation bar, we've learned a lot from some of our prior redesigns. And so as we look at realizing this big opportunity of breaking out things like the Map and Discover, giving them more prominence in the service, our #1 goal is really to do no harm to core engagement. And so that's really what we focused on here. What we're excited about over the longer term, obviously, is that now we have two new areas to really play and experiment rapidly and servicing those areas to our entire community allows us to do that a lot faster. Previously, both Discover and the Map were relatively hidden inside of Snapchat. So we're excited about the long-term opportunity. The same way that separating social for media really made a big difference for our business. It took a little while to pay off obviously, but we've really seen the long-term impact. So this is another one of those changes that's designed to unlock longer-term opportunity. Of course, #1 priority is do no harm. But now we're really excited to iterate here and to continue to grow those platforms that are so important to us.

OPERATOR

Our next question comes from Eric Sheridan of UBS.

ERIC SHERIDAN, UBS

Jeremi, maybe if I can direct one to you. You guys started the year with a lot of growth and a big step-up in January and February. And earlier in the year, we talked about sort of an unlock at the agency side and with bigger advertisers as you exit in '19 and went into '20, and you've had a lot of success with direct response this year. Can you just maybe put a finer point on the arc we've seen this year against the backdrop of COVID-19 in terms of how you feel you're positioned with respect to the dialogue with ad agencies, large advertisers? And how sustainable you think some of the depth and advertiser growth you've seen this quarter is as we turn the page from 2020 into '21?

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question, Eric. Yes, we are incredibly excited to see that our growth is returning to the levels that we saw at the beginning of the year. So thank you for making mention of that. To give you more specifics around your question, some of our fastest-growing verticals include CPG, streaming, tech, telco, financial services and e-commerce. In particular, e-commerce remains a very exciting opportunity for us. When you start to think of things like AR try-ons, the utility of being able to put shoes on your feet or sunglasses on your face or hats on your head and utilize that for utility-based advertising in AR, we are absolutely doubling down on our efforts in that area.

As everybody knows, last quarter, we launched Dynamic Ads globally, and that continues to combine our product catalogs – or the advertisers' product catalogs with optimization capabilities to reward advertisers who invest in our platform with ROI at scale. In that particular area, we're seeing strong adoption rates from retail, CPG and restaurants. And we have been working alongside travel partners, and we are ready for them when the world starts traveling again. But ultimately, we know that all of our advertisers set their budgets based on performance, whether that's brand affinity, purchases or app downloads. And we're going to continue to prove the efficacy of our platform and know that we can continue to grow and build budgets. It's important to note that it was these investments in our self-service ad platform and our ability to service our customers during this challenging time that allowed us to onboard a record number of advertisers this quarter.

OPERATOR

Our next question comes from Brian Nowak of Morgan Stanley.

BRIAN NOWAK, MORGAN STANLEY

I have two, one for Jeremi, one for Evan. Jeremi, so going back to the discussion of what the world looked like in January and February versus August, September. Talk to us about – so if you look back in January and February, what did your advertiser vertical mix look like? And are there still large buckets of verticals of advertisers who were material spenders in January and February who are not yet back spending because of macro factors? Or is that not something we should be thinking about from a recovery standpoint heading into '21?

And then on games, Evan, I wanted to ask you, you guys are doing a good job of sort of starting to blur the lines between social and gaming. Maybe just talk to us about what your multiyear vision is for Snap Gaming and the investments you need to really build out the gaming metaverse.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Sure. Thanks for the question, Brian. As I just mentioned, we are seeing a lot of success with CPG, streaming, tech, telco, financial services and e-commerce, in particular. In terms of large buckets that we had at the beginning of the year that we are no longer seeing a lot of momentum from, it's not something that we are concerned about. We obviously know that in the macro conditions, there are categories like travel and automotive that are suffering a little bit more given the macro conditions. But relative to how they fare at Snap, it's not something that we're concerned about because we continue to grow in these other incredible areas that are where people are finding success on the platform. I just talked about e-commerce a little bit. I will continue to put a finer point on that. I can't say enough about how important that opportunity is for us as it pertains to not only the performance that we're able to deliver for those advertisers with our great products like Dynamic Ads. But in addition, our ability to really make sure that our goal-based bidding products are serving them with the right ROI. So we're going to continue to focus there. And when categories like travel and automotive come back, we will be welcoming them with open arms, and we're really excited to work with them.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks for the question on games, something we're definitely very excited about. I think the best way to think about it is there's a lot of little experiments that we're running right now. Games are still hidden in chat, and so you got to really look for them to play. And so that allows us to really focus on iterating and building engagement, learning what sort of content works, learning what types of services our developers really need in order to grow games and monetize them and reengage their communities. So there's definitely a lot of work to do there. One of the experiments that we're trying right now that's pretty fun is around Snap Token. So that helps our community engage with in-app purchases inside of games, which provides another revenue stream to gaming companies and our partners. And so really what we're doing is just listening to our community, listening to our partners and working hard to build the platform. And this is the approach we've taken with some of the other platforms we've built like content or AR, where we start with a select set of partners and just do our best to listen and learn and iterate until it really clicks. So lots of exciting things. Some games obviously are doing better than others, and we're learning from the ones that are working and the ones that aren't working and helping our partners pivot and continue to grow engagement around gaming.

OPERATOR

Our last question will come from Mark Shmulik of Bernstein.

MARK SHMULIK, BERNSTEIN

Evan, you called it at the top of the call that AR traction and adoption is kind of above of expectations. Obviously, we've seen some of the AR virtual try-on pick up some speed and the launch of local Lenses. But how are you now thinking about the road map of where AR goes over the next few years from both like a user and a monetization perspective?

And then one for Jeremi, if I may. It's certainly a nice problem now for Snapchat to have with the rapidly growing portfolio of all these new ad products. How are you thinking about making sure that the right ad products get to the right advertiser in this verticalized sales model? Are these some of the changes where that domain expertise roles that you mentioned earlier play a role?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Well, as you mentioned, the stars are really aligning on our augmented reality business at the moment, which is super exciting. So the last 5 years, we've obviously worked very hard to evolve the technology, and we've gotten to a place where we're capable some pretty sophisticated rendering. Things like SnapML, for example, like really represent a step change in augmented reality because you go from sort of overlaying 3D graphics on a scene to fundamentally re-rendering reality, and that's unlocked a lot of really compelling new use cases. Of course, our community, their engagement with augmented reality has just exploded over the past few years. So it's become really an everyday behavior for Snapchatters and that's something that's really important. But I think the big change really that's accelerated with COVID has been that businesses are coming to the table and really understanding how AR can drive their business. And frankly, I think businesses were just less open to these types of experiments when retail was open and widely accessible and things like that. And so we've just seen a lot of like openness and excitement from brands to try new things and help customers trial their products. Trial is a hugely important part of driving sales in retail. And so being able to power these try-on experiences, whether that's shoes or nail polish or beauty products or whatever, and then convert directly to a purchase, I think, achieves two goals for businesses. One, of course, it helps them build their brand and things like that, but also, it really drives ROI. And so I think businesses are open-minded to trying ROI and they're open-minded to trying AR and they're finding ROI when they do that. And so that's really exciting for us. As we look at the next couple of years, there's still just a massive, massive road map in terms of the overall platform improvements we're trying to make that should enable even more and deeply engaging AR experiences. So we'll be really focused on just building the platform, helping people learn how AR can help them achieve their business goals. But overall, we're just excited because this change happened faster than we expected. And it's just exciting to see so many brands playing around with this totally new category.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes. And to follow up on that. Yes, we definitely believe that our verticalized sales model has helped us get through this unique time with the macro conditions, in particular, because our teams deeply understand the needs of their advertisers at this time and there has been no more important time for that to be true. They are studying everything from tariffs to understand the impact on downstream profitability of a particular CPG company, all the way through how many people are passing through TSA every single day to know how travel is going to be recovering. And they're doing an extraordinary job, I couldn't be more proud of the team. To make sure that the right products get to the right advertisers, we've launched a lot of B2B marketing efforts, including Snap Focus and Snap Connect, which serve different purposes, one of which is to get the first advertisement going and the second is to continue to grow it. But as it pertains to the product specifically, you listed a few of them, but you're right. We couldn't be more lucky to be in the position to be able to talk about things like Map, shoppable AR, Dynamic Ads, goal-based bidding, globalization of our products and so on. And that team has done an incredible job of launching performant products. We know that our products work better together and they serve different purposes. Video ads, augmented reality, they both reach users, but they reach them in different contexts on the app. We're continuing to see case studies where combining AR with video ads yields better results for the advertisers and so there's lots of opportunity to make our service and products more approachable and easier to use and more performant over time. But for us, the most critical thing is that our video ads, they’re performant, they're engaging. And it's really exciting to see advertisers continuing to invest more and more in our core video ad products. We're still early in the journey for augmented reality advertising, as Evan said, but we think we can keep building on our lead here. Derek talked about the success of our self-service AR, and that is really going to lead us to connect all of the innovation happening with our Lens Studio products and our advertising technology set.

OPERATOR

This concludes our question-and-answer session as well as Snap Inc.'s Third Quarter 2020 Earnings Conference Call. Thank you for attending today's session, and you may now disconnect.