

SNAP INC. Q4 2020 PREPARED REMARKS

BETSY FRANK, SENIOR DIRECTOR, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Fourth 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 fourth 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 fourth 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 us.

Our mission is to contribute to human progress by empowering people to express themselves, live in the moment, learn about the world, and have fun together. From start to finish, 2020 reinforced the importance of that mission. During one of the most challenging years in recent history for our global community and their loved ones, our team worked hard to find ways to bring people closer together. We've enabled relationships to deepen and flourish even as we're physically apart.

We added 16 million daily active users this quarter for a total of 265 million, up 22 percent year-over-year. This growth validates the broad appeal of our service and the role we play in the life of each member of the Snapchat community. Our quarterly revenue increased 62 percent year-over-year to \$911 million, showing the trust advertisers have placed in us and our community's receptiveness to brands with shared values. We expect our relationships with community members and business partners to become even stronger as our platform continues to evolve.

We set an internal goal for full-year Adjusted EBITDA profitability in 2020 and I'm excited to share that we achieved this with positive Adjusted EBITDA of \$45 million. As a result of exceptional efforts from our team members around the world and their disciplined execution, our fourth quarter Adjusted EBITDA was \$166 million. Achieving full-year profitability in the midst of such a difficult and destabilizing year proves the resilience of our business and represents an important milestone as we work towards being able to self-fund our investments in the future.

Snapchat is embraced by a generation that is driving the future. The Snapchat Generation, primarily Gen Z and Millennials, are 150 percent more likely to communicate with pictures than words, and 82 percent of them believe they have a personal responsibility to change the world. Our opportunities to serve and uplift this community in the coming decades will continue to grow, and we are inspired by the world that the Snapchat Generation is working to create.

At the core of this opportunity is the power of our camera. It is one of the world's most-used cameras, with an average of over 5 billion Snaps created every single day. Cameras are no longer only a means to capture a moment in time or a memory. They now enable a whole world of self-expression and visual communication and we have worked to drive this fundamental transformation since our founding. We've done this by putting the camera at the center of our application and the center of our strategy, and by building businesses around it.

Empowering people to communicate visually drives high frequency engagement with our application, with daily active users opening Snapchat 30 times per day on average. This means that improving speed, ease, and quality of visual communication are important for growing engagement. We finished rolling out new messaging infrastructure this quarter, making it easy to innovate and add new features within Chat while simultaneously improving performance and enabling regionalization of our Chat infrastructure. We also made significant improvements to the video quality for Snaps while still ensuring Snapchat is the fastest way to communicate and share a moment.

The first platform we built to extend the utility of the Snapchat camera beyond visual messaging was Stories, which allows Snapchatters, publishers, businesses, and influencers to express themselves in creative and compelling ways, without the pressures associated with traditional social media. Stories are ephemeral, display content in chronological order, and don't have public likes or comments. We have evolved Stories over time to embrace new formats like Shows, with total time spent watching Shows increasing nearly 70 percent year-over-year in 2020.

Our commitment to both the quality and integrity of content on our service has driven a lot of this product evolution. Initiatives like our 2018 redesign to separate social content from media content, our content guidelines that we enforce equally across publishers and all community members, and our early decision to create a hand-curated platform with Discover, proved valuable as we have been able to provide trusted and reliable content to our community. For example, during the week of the US Presidential election, nearly 30 million Snapchatters watched election-related coverage on Discover from our trusted media partners.

We're also excited to see the success that both new and traditional media companies are finding on our content platform. Partners ranging from digital natives like Wave.tv, Barcroft, Team Whistle, and Group Nine to more established media companies like NBCUniversal, ESPN and ViacomCBS have each reached over 25 million viewers across their Discover channels in Q4. We launched 10 new Snap Originals, including the second season of Will Smith's Will From Home, a show which has reached 43 million total viewers in its two seasons.

Offering relevant content to our diverse and growing user base is an important part of our strategy, and we launched a record 97 new international Discover channels this quarter. Furthermore, we continue to add Shows and publisher content offerings that appeal to older audiences, with a 25 percent year-over-year increase in viewership among our 35+ audience.

The camera also drives engagement on our Map. Our goal is to build the world's most personalized map, and we made investments years ago that are now paying dividends. Each month over 250 million Snapchatters open our Map, where they can find the people and places

that mean the most to them. Our community can engage with shared stories from around the globe and explore new places by tapping on the Map. There are now more than 35 million businesses on the Map for our community to discover, and connecting local businesses with prospective customers represents a substantial future revenue opportunity for our business.

More recently, the power and frequency of use of our camera allowed us to launch Spotlight. We're really excited about the opportunity that this new platform creates for our community to reach a large audience with their most compelling Snaps, and to be rewarded for their creativity. We've long watched as some of the best Snaps go viral on other platforms, and wished to provide a way for Snaps to reach a large audience on Snapchat, but we struggled to accomplish that in a way that aligns with our values. Spotlight combines a simple submission flow that allows people to submit their best Snaps in just one tap, with a rigorous review and ranking process that allows us to filter out content that is inconsistent with our guidelines. The result is a fun and safe product experience that surfaces the best of Snapchat all in one place.

Our primary goal in launching Spotlight was to build critical mass both in terms of video submissions and audience in a select set of countries so that we could begin to rapidly iterate on content ranking and the overall product experience. We are seeing over 175,000 video submissions per day, on average, in part due to our incentive program for creators, where we distribute over \$1 million per day to the top performing videos. Getting early momentum with creators is vital for attracting new viewers to the Spotlight experience, and these investments have helped Spotlight grow to over 100 million monthly active users in January. Our product and ranking teams have been able to quickly improve our ability to match Spotlight viewers with the right content, and we are now working on a broader rollout of Spotlight to our entire community.

Our commitment to reinventing the camera is most evident through our advances in augmented reality. Today, more than 200 million people engage with AR on Snapchat every day on average. We have co-developed our vision for augmented reality together with our growing community, and have created cutting-edge tools and capabilities that allow creators to build increasingly advanced Lenses and distribute them to the entire Snapchat community. We are inspired every day by the creativity of our creator community, who have made over 1.5 million Lenses using Lens Studio across a growing variety of use cases.

For example, during a year when physical gatherings were difficult for many, AR remained integral to empowering Snapchatters' self-expression, creativity, and connectivity with loved ones during the holidays. For Diwali this year, many Lenses leveraged new body tracking and segmentation capabilities so people could try on festive saris in AR. Our community played

with Diwali-themed Lenses more than 500 million times, more than eight times the engagement of our Diwali Lenses last year.

We are particularly excited about the ways that AR is evolving beyond self-expression, communication, and entertainment. For example, our beauty partners have been accelerating their investments in virtual discovery and try-on experiences in response to the COVID pandemic. The Estée Lauder Companies' brand, Too Faced Cosmetics, launched an eye makeup tutorial Lens through Lens Studio. The Lens overlays each step of makeup application in augmented reality and can be activated anytime by scanning the product packaging. The brand's Lens organically grew to become one of our top-performing Lenses, with millions of people using it to learn about the product.

Other examples include NYX Professional Makeup's virtual store they created in Lens Studio, where people can walk around and explore their products in AR. In addition to promoting this experience on their Snapchat Brand Profile, they are also leveraging Camera Kit to distribute their Lens to partners like Triller. We are doubling down on our solutions for beauty with our partnership with Perfect Corp, which will enable hundreds of makeup brands to seamlessly create high-quality makeup AR experiences.

Beauty is just one of the many areas where we see opportunities to provide valuable utility through augmented reality. We are excited to continue investing in experiences like trying on clothes, visualizing products in your home, learning about the items and locations around you, and so much more.

We're excited about the progress we're making in collaboration with our partners on Games, Minis, and Snap Kit. For example, Voodoo revamped one of its most popular games, Aquapark, so Snapchatters can play in real-time with their friends on Snapchat, complete with in-game Bitmojis. TurboVote supported our Gen Z and Millennial audience during the 2020 election with its voter registration Mini, which helped register more than 1.2 million US Snapchatters.

We recently launched an integration with Twitter using Creative Kit where Twitter users can share Tweets directly through Snaps and Stories on Snapchat. Bitmoji Kit helps personalize user experiences through people's beloved avatars, whether on the Samsung default keyboard or when you're sending money on Venmo. We are now powering AR experiences on other apps through Camera Kit, further expanding the opportunity of Lens Studio. In just the past two years since our first partner summit, we have launched several new capabilities and thousands of successful partner integrations, and we look forward to continuing this momentum as we expand our platform.

Looking forward, we are focused on continuing our disciplined execution on both our short and long term goals for growing our business. We plan to make additional progress on profitability and free cash flow, accelerate our full-year revenue growth beyond the 46 percent year-over-year growth achieved in 2020, and grow our community around the world by improving and localizing the Snapchat product experience.

We are also reorganizing our product team around the five core platforms on Snapchat: Map, Communication, Camera, Stories, and Spotlight, which we believe will drive increased focus and operational excellence as we transition each platform into a monetizable business. We've successfully made that transition with Stories, which we monetize with full screen vertical videos ads, and with our Camera, where businesses can pay to promote their Lenses. All of our platforms share the same powerful monetization infrastructure which drives strong ROI for our advertising partners. In time, we look forward to creating new ways for businesses to reach customers on our Map, engage with their customers using Minis and Games in Chat, and extend the reach of their video campaigns on Spotlight.

Lastly, we see a tremendous opportunity to innovate in ecommerce, which to date has been largely driven by utilitarian benefits such as price, selection, and convenience. As we have learned from our progress in providing new ways for people to try-on and interact with products using augmented reality, improvements in the shopping experience to make it more entertaining and immersive can lead to powerful downstream results in terms of conversion. We plan to experiment rapidly and plant many seeds because we see this opportunity as very large and still very early in terms of maturity, despite the massive step change in adoption due to the global pandemic.

This year has shown us that there is nothing more important than the people we share our lives with. As the global health crisis is addressed and the world begins to reopen, we see opportunities to help strengthen the bonds of the Snapchat community all over the world and are committed to making sure Snap continues to play a positive and constructive role in people's lives.

I look forward to speaking with many of you in a few weeks at our first ever investor day, when you'll have the chance to meet more of our extraordinary team. Until then, take care and stay safe. I'll now turn it over to Jeremi to share more about our business.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks Evan. 2020 was an important year for us. We are in the early stages of an inflection point as we work towards becoming a cornerstone of advertisers' media plans and growing our always-on budgets, which positions Snap for a long runway of growth. Not only have we invested for the future, but we also delivered strong results amidst unforeseen challenges throughout the year and demonstrated the resilience of our team, our business, and our ability to deliver strong ROI through one of the most extranormal times in our industry's existence.

In 2020, our full-year revenue was \$2.5 billion, growing 46 percent year-over-year, an acceleration of one percent from 2019. In Q4 2020, we generated revenue of \$911 million, a significant acceleration of 18 percentage points to 62 percent year-over-year growth. These results are a byproduct of the hard work being done across all teams at Snap, and validate the decisions we've made around our business structure, our go-to-market strategy, and the products we have built for our community and advertisers.

While brand advertisers encountered some disruption during the year, direct response advertisers remained steady, as we continued to demonstrate that we are an efficient platform for driving results across down-funnel metrics. In Q1 of 2020, our business grew 58 percent year-over-year during January and February, but slowed in March and throughout Q2 as the realities of COVID-19 and subsequent economic impacts took hold. However, in Q3 and Q4 we saw many existing advertisers return to Snap and saw many new ones leverage our innovative ad formats and bidding capabilities to drive real business value on our platform. This drove active advertisers to an all time high.

In addition, our brand-safe environment and privacy-first approach has differentiated us from our peers. These emerged as important themes in 2020, we don't believe they are going away, and they have led to improved advertiser retention and increased demand. The recent audits of digital platforms and advertising spend by many brands has given us an opportunity to educate the highest levels of our industry on our points of differentiation and safety-by-design principles. We have been able to tell our story to an attentive, elevated audience that is re-evaluating marketing dollar allocations. While there is still more to do, we are excited to continue building on our recent results and investing to capitalize on our momentum.

We are fully focused on making progress against our revenue and ARPU opportunities, which we believe will be driven by our three key priorities. First, investing in our sales and marketing functions by continuing to train, hire, and build for scale. Second, driving ROI through measurement, relevance, and optimization. Third, building innovative ad experiences around video and augmented reality. Our unwavering commitment to these three priorities, along with

our unique reach and growing, global audience, allows us to drive performance at scale for businesses around the world.

The pandemic and stay-at-home orders accelerated a digital transformation, creating a new normal where brands are trying to determine the technology and trends that are here to stay. For instance, with a more limited ability to get physical products in the hands of consumers in-store, more brands are turning to augmented reality for virtual try-on, including combining AR and video tutorials for a best-in-class try-on experience. This trend is only accelerating with the Snapchat Generation. Our reach amongst 13-34 year-olds in many of our established markets continues to grow, which gives our business incredible insights on what these generations are looking for, and our priority is helping brands connect with the Snapchat Generation in new and unique ways.

Our sales model allows us to build deep domain expertise, and to prioritize and pivot resources when certain verticals accelerate or decelerate with macro trends. This approach proved its value in 2020, and we were able to focus our investments on top-performing verticals, which included ecommerce, CPG, tech, telco, gaming, streaming, financial services, and restaurants. For example, even while films were largely out of theaters, because we have highly performant ad products, we saw impressive growth in streaming and were pleased to see our entertainment advertising partners increase spend as they pivoted to direct response. In addition, we also saw QSR brands such as Chipotle leverage our location-based technology to encourage customers to order and pick up meals from their restaurants at scale.

Our ad platform is maturing to a place where, as advertisers move their dollars, they see strong ROI, giving us increased confidence that budgets will build over time. We are also offering more down-funnel bidding capabilities that allow advertisers to optimize for the objectives they are trying to achieve and we continued to scale these products in 2020. For example, revenue from our pixel verified sign-up goal based bidding product increased more than 4x year-over-year in Q4, one of four down funnel optimizations that saw year-over-year revenue growth in excess of 4x, as we have continued to see strong advertiser adoption of our GBB optimizations. We believe this is one of the clearest ways for us to scale revenue and close the ARPU gap relative to our peers.

The COVID-19 pandemic has brought rapid change in shopping patterns as people have moved their consumption online. Direct to consumer businesses are flourishing and consumers are looking for new ways to discover products at home. We are committed to finding new ways to support businesses via our ad products and tooling capabilities, while providing our community with new ways of experiencing the products and brands that they love. Many advertisers were able to leverage our ad formats that naturally support the ecommerce opportunity. For example, UGG, a part of Decker's brands, started testing Dynamic Ads in

October 2019. After initial testing proved to be extremely successful, they increased investment by over 10x in Q4 2020, during one of the most competitive times of the year for shoppers. This solution not only helped them drive relevance during the holiday period, but they've shared this will be a key performance driver throughout the year.

Brands are also exploring new ways to drive social commerce. In Q4, Ralph Lauren leveraged multiple components of our platform to drive both awareness and business results. First, they invested in creating a collection of Bitmoji outfits as an inspired effort to engage a younger audience, which proved to be extremely successful. Over 20 million users dressed their Bitmoji in Ralph Lauren and tried on the collection over 550 million times in the first five months of the partnership. Next, they utilized our scan camera technology to enable an AR shopping experience after Snapchatters scanned their ubiquitous pony logo; and finally, they built a new Brand Profile, which offers a permanent home for their brand, content, and AR experiences on Snapchat.

We continue to invest heavily to grow our video advertising business—the primary way we monetize Snapchat. We see more opportunity over time to grow video inventory, particularly via the growth in viewership of Spotlight and Stories, where using multiple products shows incremental results. For instance, Marc Jacobs leveraged Snap Ads and Commercials to drive sales of their new fragrance line. Their Commercials campaign resulted in a 43pt lift in ad awareness and a 6pt lift in purchase intent.

Beyond video ads, we are focused on using Augmented Reality to solve real business problems for brands, allowing advertisers to engage with our audience directly via our camera. Adoption of our AR Lenses has benefited from virtual try-on: consumers are in need of new ways to experience products and brands need to reach consumers where they are—at home. With both consumers and brands open to these new experiences, our platform is perfect for this moment. For example, Dior recently launched an AR try-on Lens featuring 6 different products for their new B27 sneaker launch. Internationally, OnePlus (India) created Lenses for Diwali as a means to bring people together safely during a pandemic. Their Lenses garnered over 80 million impressions and reached over 14 million Snapchatters in India. Overall the campaign was highly successful and drove a 9pt lift in both Ad Awareness and a 7pt lift in Message Awareness.

We've also been investing in optimization algorithms that dynamically serve AR experiences to Snapchatters who are most likely to meet a brand's goal. We've seen Shoppable Lens campaigns drive a 2.4x higher Intent lift than the average across all Snapchat campaigns measured in Q3.

Lastly, businesses leveraging AR as one component of a larger, multi-product campaign on Snapchat tend to achieve stronger results. For example, Activision's Call of Duty: Black Ops ran one of the most successful campaigns we have seen in Console Gaming. They leveraged Snap Ads, Commercials, and a Reach and Frequency Lens, and saw an +11pt lift in favorability and +5 lift in purchase intent. Moreover, Snapchatters exposed to multiple ad products saw a +10pt lift in intent, and the Lens drove a +17pt lift in intent.

There is a lot more work to do in helping businesses achieve their goals via AR, but we are thrilled with the results that our partners are seeing and we're going to continue investing in this opportunity.

In conclusion, we started 2020 on a high note, and we ended it with accelerating momentum, which we plan to carry forward in 2021, continuing to drive ROI and performance for our advertising partners, investing in innovative ad units, and providing support through our sales and marketing functions. I am confident in our long-term trajectory and I look forward to sharing even more at our investor day in a few weeks. With that, I'd like to turn the call over to Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q4 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 265 million daily active users in Q4, an increase of 47 million or 22 percent year-over-year, which represents an acceleration over the prior quarter growth rate of 18 percent. The growth in our community continues to be broad based, with year-over-year and sequential growth on both iOS and Android platforms and in each of North America, Europe, and Rest of World. In North America, DAU grew by 5 million or 6 percent year-over-year to reach 92 million. In Europe, DAU grew by 7 million or 10 percent to reach 74 million. In Rest of World, DAU grew by 35 million or 55 percent to reach 99 million. The acceleration of growth in Rest of World reflects the benefit of improved application performance in local markets, the popularity of augmented reality Lenses created by our community, and investments to better serve our community including local content, local marketing partnerships, and broader language support.

Total revenue for Q4 was \$911 million, an increase of 62 percent year-over-year, representing a 10 percentage point acceleration over the prior quarter, while global ARPU grew 33 percent over the same period. We continued to see strong adoption of our advertising products in Q4. Revenue from our Commercials ad product more than doubled year-over-year in Q4 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, revenue from our pixel verified purchase goal based bidding product more than tripled year-over-year in Q4 as we have continued to benefit from strong adoption of our pixel by our advertising partners over the past year.

Overall eCPM in Q4 increased 46 percent year-over-year driven by a combination of mix shift towards higher eCPM products such as Commercials, mix shift towards higher eCPM regions with the relatively higher growth in North America, as well as a rapid rise in overall demand sequentially. Despite this growth in eCPM, we believe our eCPM's remain well below market rates for our audiences and ad units. The ongoing growth of our community, combined with deep engagement within our app, including deep engagement across platforms we have not yet begun to monetize, gives us ample opportunity to expand inventory and our ARPU opportunity over time. We continue to make improvements to our targeting and optimization capabilities that allow us to utilize our inventory more efficiently. In addition, we more than doubled the number of active advertisers year-over-year in Q4, which further contributed to our ability to optimize our targeting by providing a greater diversity of advertising offers for our models to select from. For example, while eCPM's for inventory monetized via pixel verified

purchases rose by 41 percent sequentially in Q4, the cost per purchase for our advertising partners declined by 11 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 59 percent in Q4, up 3 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 Q4 these efforts resulted in infrastructure costs per DAU of \$0.69, down from \$0.72 in the prior year. On the content side we invested to support the launch of Spotlight in Q4 and this contributed approximately \$40 million to our Cost of Revenue in Q4, representing a 5 pts headwind to gross margin expansion in the quarter. While it is still very early in the development of this new content platform, we are highly encouraged by the initial results and excited about the potential for Spotlight to further expand our monetization opportunity in the future. We are particularly pleased that we have been able to support the launch of Spotlight 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 \$369 million in Q4, up 36 percent year-over-year. People and related costs grew 33 percent year-over-year in Q4 driven by a 24 percent increase in average full time headcount and higher cash compensation costs per team member. Growth in our average full time headcount was driven primarily by continued focused investments in our monetization and engineering teams to scale our top line growth and accelerate the pace of our product innovation. As we noted earlier this year, we have invested incrementally in our cash based compensation programs in 2020; however, this investment is offset by a lower rate of dilution. In addition, we have continued to grow our investments in marketing in order to build on the momentum we have established with our advertising and Snapchatter communities. While it typically takes time for the benefit of these investments to become evident in our output metrics, we are encouraged with the progress we have observed thus far.

Q4 marked our second consecutive quarter of Adjusted EBITDA profitability at \$166 million for the quarter, an improvement of \$123 million year-over-year. We noted on our prior call that our cost structure would grow at a faster rate in Q4 than in any recent quarter, and this was the case as we invested in content to support the launch of Spotlight, in hiring to grow our talent base, and in marketing as I noted earlier. That said, we were particularly pleased that we were able to make these investments while still delivering Adjusted EBITDA leverage of 35 percent in Q4 as we continue to make progress towards profitability and sustained positive free cash flow.

Net Income was negative \$113 million in Q4, an improvement of \$128 million over the prior year, and \$87 million over the prior quarter. The year-over-year improvement in Net Income reflects the flow through of improved Adjusted EBITDA and a favorable comparison against the one time legal expense that was accrued in the prior year. These factors were partially offset by the impact of interest expense related to the convertible notes issued over the past year, and higher stock based compensation driven by higher headcount and higher payroll taxes that vary with the stock price. Total fully diluted shares outstanding grew just 3 percent year-over-year in Q4, down from 5 percent in the same quarter of last year. We consider careful management of our fully diluted shares outstanding to be a key input to building shareholder value over the long term and are pleased to see our output metrics reflect the progress we have made in this area.

Free Cash Flow for Q4 was negative \$69 million, an improvement of \$7 million year-over-year, driven by the improvements in Adjusted EBITDA that were largely offset by the timing of a \$98 million legal settlement payment made in Q4, and the net increase in working capital that resulted from accelerating revenue growth. Notably, absent the one time legal settlement payment in Q4, we would have generated approximately \$29 million in Free Cash Flow in Q4, which we view as a positive demonstration of our progress towards sustained Free Cash Flow generation. We ended the quarter with \$2.5 billion in cash and marketable securities, up from \$2.1 billion in the prior year as the proceeds of convertible notes issued in Q2 of 2020 more than offset the investments we have made to grow the business over the past year.

Before we discuss the quarter ahead, I'd like to take a moment to reflect on the remarkable progress we have made as a business. Growth in our community is accelerating and we have now delivered five consecutive quarters of year-over-year DAU growth in excess of 15 percent. Full-year revenue for 2020 was \$2.5 billion, an increase of 46 percent year-over-year, and we exited 2020 with the highest year-over-year revenue growth rate we have reported since 2017. Our revenue has more than doubled since 2018, and while we have invested aggressively in the future of our business, we have expanded our Gross Margins by 19 percentage points and delivered 47 percent of our incremental revenue to the Adjusted EBITDA line over this same two year period. We set a goal to achieve full-year Adjusted EBITDA profitability at the outset of 2020, and while the past year presented many unexpected challenges and opportunities, we are tremendously proud of the way our teams executed this year in order to reach this milestone by delivering \$45 million in Adjusted EBITDA profit in 2020. We are closer than ever to achieving our goal of delivering sustained positive free cash flow, and being able to self fund our investments in the future as a result. We have also strengthened our balance sheet materially over the past two years and ended 2020 with more than \$3.5B in available working capital inclusive of cash, marketable securities, and our existing credit facilities. We close out 2020 with strong momentum across our platforms and well positioned for the future.

We look forward to speaking with you more about the future of our business, and our long-term financial opportunity, during our first Investor Day on February 23rd. Until then, I would like to share a little bit about how we expect Q1 may unfold. While we have benefited from an improving operating environment in the second half of 2020, and remain optimistic about the momentum we have established in our business, we are conscious that external factors may emerge that could impact our momentum. For example, we experienced a period of interruption to advertising demand in the first two weeks of January as many Brand advertisers paused campaigns during this period amid events at the US Capitol, and thus we started the quarter slower than we would have otherwise expected. We anticipate that the iOS platform policy changes to be implemented later this quarter will present another risk of interruption to demand in the period immediately after they are implemented. It is not clear yet what the longer term impact of those changes may be for the topline momentum of our business, and this may not be clear until several months or more after the changes are implemented.

As we look forward to Q1, we estimate that Daily Active Users will grow year-over-year in Q1 at a rate of approximately 20 percent to reach 275 million. On the revenue side, if we are able to sustain the momentum we have observed in recent weeks, we believe that a revenue growth rate approximately equal to what we reported in Q4 could be attainable in Q1. That said, our guidance range is for year-over-year revenue growth of 56 percent to 60 percent, and this range reflects our best estimate of the potential impact of interruptions to demand associated with the iOS platform changes that we anticipate will be implemented in the final month of the quarter. This would result in revenue of approximately \$720 to \$740 million in Q1. On the expense side, we intend to continue to invest in the long term growth of our business, and we will continue to support the launch of Spotlight with our \$1 million per day creator fund in order to build on the momentum we are seeing with this exciting new platform. As a result, we estimate that Adjusted EBITDA will be approximately negative \$70 to negative \$50 million in Q1. Thank you for joining our call today and we will now take your questions.