

SNAP INC. Q1 2021 TRANSCRIPT

BETSY FRANK, SENIOR DIRECTOR, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's First Quarter 2021 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 first quarter 2021, 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 first quarter 2021 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 annual report on Form 10-K for the year ended December 31, 2021, 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.

We began 2021 by achieving our highest year-over-year revenue and daily active user growth rates in over three years during the quarter, and delivering positive free cash flow for the first time as a public company. We grew revenue 66 percent year-over-year to \$770 million, grew daily active users 22 percent year-over-year to 280 million, and generated \$126 million in free cash flow. The strength of our business underscores our relentless focus on product innovation and our team's ability to execute well together over the long term.

This momentum has also enabled us to increase our investments in product innovation and the longer-term future of our business. In addition to expanding our global community and growing our advertising business, we are also focused on improving our augmented reality capabilities and building on the early momentum we are seeing with Spotlight. We are thrilled with the progress we are seeing in these areas, and look forward to accelerating our efforts going forward.

We added 15 million daily active users in Q1. A lot of this growth has been unlocked through our ongoing investments in improving the performance and stability of our products across a wide variety of regions and devices. The vast majority of smartphones in the world are powered by Android, and our Android user base is now larger than our iOS user base -- a critical milestone that reflects the long-term value of the investment we made to rebuild our Android application.

Furthermore, as our user base continues to grow outside the United States, we are evolving our team and operations to be able to more nimbly and effectively support our global community. These efforts range from region-specific performance improvements of our underlying service to the localization of content, creative tools, and language support. We launched our first local-market Snap Original this March with Phone Swap India, and are dramatically expanding our partnerships and sales efforts to support new geographies where we are seeing increasing traction with our community. These efforts have helped drive steady and healthy growth around the world, with our daily active user base outside of North America and Europe now being our largest community.

Additionally, we are optimistic about the engagement trends we are seeing as the world is beginning to open up. As things began to open up in the United States in late February, we saw inflection points in key behaviors like Story posting and engagement with the Snap Map. More recently, we saw a rise in the rate of new friendships and bi-directional communication on Snapchat in late March as people have begun to socialize in broader groups. We designed Snapchat to be a useful complement to real-life friendships, and are excited about these optimistic trends developing with our audience.

Augmented reality remains one of our biggest opportunities as we look to the future, and we are investing heavily in both core technology and the community-facing AR experiences on our service. The number of Snapchatters engaging daily with our augmented reality Lenses grew more than 40 percent year-over-year in Q1, outpacing our daily active user growth by more than 80 percent as people interact more with augmented reality on Snapchat. A lot of this growth has been driven by the incredible creativity of our community. This quarter, Lenses created by our community accounted for more than half of all Lens views. We have also been expanding the capabilities of Lens Studio, where we continue to put powerful technology into the hands of creators to make more compelling experiences, such as Andre Pappas, who leveraged our machine learning platform to create a viral beard removal Lens.

We are now bringing our AR platform to cameras beyond Snapchat through Camera Kit. Over the years, we have invested deeply in both our fundamental technology platform and the creativity of our community and partners to make augmented reality a daily activity for over 200 million people around the world. While we are continuing to invest in improving our technology and growing our community on Snapchat, we believe that expanding the number of places where people can interact with these AR experiences is an opportunity to grow the overall augmented reality ecosystem. We are excited to expand our AR capabilities to the Samsung native camera on the latest Galaxy A series, which extends the reach of Lenses to a much larger global audience and complements our existing Bitmoji integration with the Samsung native keyboard.

We believe that our leadership in both AR capabilities and user engagement positions us well to expand augmented reality to new use cases and behaviors. For example, as the shift to online shopping continues to accelerate, we believe there is a massive untapped opportunity for AR-driven product innovation in eCommerce -- and that our young audience will continue to be early adopters of these new technologies and shopping experiences. One of the key verticals we are tailoring our solutions for is apparel and accessories, which is the largest shopping category by far among US teenagers. We believe that helping buyers find the right size, fit, and styles will reduce friction in their online shopping experience, which in turn will improve revenue and margins for our business partners while reducing the waste generated from returns. This is just one example among a variety of behaviors and use cases we believe we can support through our augmented reality platform.

We are also focusing on our ongoing rollout of Spotlight, which is gaining traction as we improve the experience for our community and creators. We launched Spotlight in India, Mexico, and Brazil during Q1, and are now live in over a dozen countries, reaching more than 125 million monthly active users on Spotlight in March. We are also seeing healthy increases in engagement across both creation and consumption on the platform. For example, daily video submissions have increased by over 40 percent from January to March, while the number of viewers watching Spotlight for at least 10 minutes per day grew by over 70 percent. We are also continuing to evolve the product itself. We

recently launched Public Profiles for our entire community, made improvements to ranking, and are seeing rapid adoption of our Sounds feature as we continue to expand our music library available on Snapchat.

Meanwhile, we continue to see healthy growth in viewership of Shows on Discover, which has become a go-to destination for credible and entertaining content for our community. We added over 300 new channels in Q1, including Ryan Doesn't Know, a new Snap Original Show starring Ryan Reynolds, which reached over 20 million viewers. This has helped us deepen our content offerings in genres that matter to our audience, including news, sports, entertainment, and beauty. For example, we now have over 75 million Snapchatters watching beauty content and over 85 million Snapchatters watching sports content each month on average on Discover.

Nearly every aspect of our service, including each of the five screens of Snapchat, is supported by our partners, and we believe that working together we can offer the best and most innovative user experiences for our community. We have been working hard to improve our platform offering for our partners and to help them grow their businesses. For example, we more than doubled the revenue for our gaming partners over the past year as we continue to work closely toward launching new titles. Meanwhile, we are thrilled to see early progress as we continue to test Business Profiles, with partners like L'Oreal and Zenni Optical using them as an organic digital showroom of their AR try-on Lenses. We are also expanding the reach of Lens Studio through partners like Moj, one of India's top short video apps, who leverage our augmented reality platform by implementing CameraKit in their own application.

We have more to announce about these partnerships at our Snap Partner Summit on May 20, which will be broadcast on snappartnersummit.com. We are so excited to celebrate our partners and share more around what we've been working on together.

We are excited to see our long-term investments in our advertising business begin to pay off as we deliver higher ROI to advertisers. We still have a lot of upside in terms of the level of optimization and efficiency that we can deliver, and are investing heavily across the board to both improve our ad platform and support our growing global advertiser base. This has developed into a positive flywheel where our improved efficiency has driven more advertisers and larger budgets to our platform, leading to more impressions and learnings, which in turn increases the rate at which we are able to further improve efficiency and ROI.

Furthermore, we believe that our philosophy and early investments in building a business that is thoughtful about the privacy and the trust of our community positions us well as the overall digital advertising industry continues to move in that direction. While there are of course a lot of unknowns

to figure out along the way, we are excited to work together with our advertising partners to innovate together toward our vision for protecting user privacy while delivering great business results. It has now been over a year since we have been working from home and I am so proud of what our team has accomplished over this period. Furthermore, our financial performance has enabled us to increase our investments in growth and innovation, which positions us well for the future. We are extremely excited and optimistic about our ability to execute against our long-term goals, especially as we look toward working together and serving our community in a post-pandemic world.

Now I'd like to turn the call over to Jeremi to share more about our business

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks, Evan. We were pleased with our results this quarter and we continue to make progress against the many opportunities we have to support our community and our advertising partners globally. In Q1, we generated total revenue of \$770 million, growing 66 percent year-over-year.

More advertisers were active on our platform than ever as our active advertiser base approximately doubled year-over-year in Q1. We have a large opportunity to gain share of the global digital ad market, which is \$340 billion and growing. To capture this opportunity, we remain focused on our three key priorities: First, investing in our ad platform in order to drive improved relevance and deliver measurable ROI. Second, efficiently scaling our sales and marketing functions to support our advertising partners globally. And third, building innovative ad experiences through video and augmented reality that deliver real business value. Our three priorities—along with our unique reach and growing, global audience—allow us to drive performance at scale.

We believe firmly in performance-driven advertising, and continue to scale our measurement tools and goal-based bidding capabilities that allow advertisers to optimize for the objectives they are trying to achieve. We continue to see over half our revenue come from direct response campaigns. Revenue from our Pixel Purchase GBB was up over 3x year-over-year; revenue from our Subscription GBB was also up over 3x year-over-year; and revenue from our Pixel Signup GBB nearly doubled year-over-year. We are seeing more and more advertisers leverage our tools to drive measurable returns, and as a result increase spend incrementally. For example, we saw TechStyle leverage pixel purchase optimization to drive purchases for its portfolio of direct-to-consumer brands, resulting in an efficient cost per purchase up to 25 percent below goal in Q1. After seeing these results, they plan to invest more with Snap throughout 2021. This gives us confidence in our ability to grow budgets and increase our share of wallet over time.

In addition, as advertiser demand and diversity grow, we can serve more relevant ads to each Snapchatter, leading to improved ROI for our partners. We believe this will help us to quickly and

easily onboard many more advertisers while also driving ROI for them as we scale. This has also been accelerated by the improvements we continue to make to our ad products and backend optimization, which have increased the scale at which we're able to deliver results for advertisers. For example, our Dynamic Ads format enables retailers to run ecommerce campaigns on Snapchat that automatically optimizes across their entire catalog. Adidas Canada leveraged our Dynamic Ads as a part of their Always On e-commerce strategy, which resulted in a 4.4x incremental return on ad spend.

We are also committed to working with our advertisers as we navigate the App Tracking Transparency-related changes from Apple. We are supportive of Apple's approach because we have always believed that advertising should respect customers' privacy. The fact that these changes are coming later than we anticipated has provided additional time to adopt Apple's SKAdNetwork and begin implementing and testing with our partners. Advertisers that represent a majority of our direct response advertising revenue have successfully implemented SKAdNetwork for their Snap campaigns. Beyond that, we are currently designing an array of privacy-centric solutions, both short and long-term, to ensure we deliver a privacy-first experience for our community and best-in-class offerings for our partners.

Our sales team is finding success across a broad set of verticals. Top-performing verticals in Q1 included ecommerce, retail, entertainment, restaurants, tech, telco, apparel, streaming, gaming, and CPG. For example, Yoplait participated in our CPG Fast Track program to prove short term sales lift for advertisers who hadn't previously invested with Snapchat. Their campaign leveraged Snap Ads and Lenses, which resulted in new buyers driving nearly 30 percent of incremental sales, and exposure to their Sponsored Lens driving over 40 percent of incremental sales. We are also delighted to see some traditionally strong categories return, such as theatrical films, and we're beginning to tackle some large categories in which we're well positioned but haven't previously had a large presence, such as travel and leisure.

From a regional perspective, North America represents our largest revenue base, and it's also our fastest growing. We doubled down on our investments in sales and sales support in North America over the past 18 months and we've observed higher growth in this region in recent quarters. We see a lot of opportunity to repeat this effort outside of North America in order to accelerate our growth internationally. As we shared at our recent investor day, we also have a lot of room to grow in some of the world's most established advertising markets outside of North America. For example, in the countries that comprise over half the world's digital ad spend, Snapchat reaches 70 percent of 13-34 year olds, so we already have deep penetration of critical demographics that our advertising partners are eager to reach in the most important digital ad markets beyond North America. We will be making the investments to capture this opportunity in the coming quarters in order to grow our sales teams and enhance sales support in international markets, and we are excited about the opportunity to accelerate our top line growth in these markets in the years ahead.

We continue to invest heavily to grow our video advertising business, which currently represents our largest revenue driver. As mobile content consumption continues to rise, we've seen growing demand for our video ad products such as Commercials. A study with IPG Media Lab showed that on Snapchat, the short form six-second ads persuaded more customers to consider purchasing the products featured in the commercials compared to 15-second ads. Another study, produced jointly with Omnicom Media Group, showed that Gen Z and Millennials significantly increased their video consumption in 2020, and say that they spend over one hour per day watching video on social media apps alone. Lastly, our work with brands over the past year has resulted in upfront commitments for our Commercials ad format from our Brand advertising partners more than tripling year-over-year for 2021. We'll be doubling down on our outreach to video advertisers in just a few weeks when we present at the annual Newfronts conference to further capture the opportunity we see in video advertising.

During the pandemic advertisers accelerated their adoption of our AR products to enable product sampling and try-on when they were forced to find alternatives to traditional methods. This has accelerated the adoption of these use cases and helped pull forward adoption of AR-driven ecommerce. We are excited about the new ways that our advertising partners will leverage AR as the world re-opens. As Evan mentioned, AR can deliver truly immersive experiences when overlaid on the world around you, and we are eager to continue to innovate as more people get out of the house and begin to explore more places.

One of the primary reasons for the acceleration in adoption is because brands have learned how to utilize augmented reality to drive real business results. One of our goals is to combine AR experiences like fit and try-on with personalization and customers' preferences to vastly improve the shopping experience, while driving purchases and reducing returns. We believe we are going after a large opportunity: 94 percent of people are expecting to use AR for shopping the same or more in 2022 versus 2021, according to a study we commissioned with Deloitte. For example, Dior launched a Lens campaign that enabled Snapchatters to try on six pairs of B27 sneakers through augmented reality. The Lenses were promoted directly in the Lens Carousel within the Snapchat camera and via Snap Ads, with videos showing runway models and users playing with the Lens and encouraging Snapchatters to try on the sneakers—which they could do just by swiping up. The AR Lens that was promoted in our Lens Carousel was well received by Snapchatters and resulted in a 6.2x return on ad spend. Dior also leveraged their business profile, effectively turning its home on Snapchat into a digital showroom, complete with virtual try-ons, at the product's launch. In addition, Zenni Optical sought to engage Snapchatters this Valentine's Day with a Shoppable Lens experience that enabled them to try on and purchase from their large, online selection of affordable glasses. The Lens resulted in a significant lift in purchases and drove a 7.9x return on ad spend. We have a great opportunity to

help brands reach their customers in unique and innovative ways while continuing to deliver measurable ROI.

Businesses leveraging AR as one component of a larger, multi-product campaign on Snapchat tend to achieve stronger results. For example, The CW's Superman and Lois campaign utilized Snap Ads, Commercials, and a Lens to generate double-digit lifts in Ad Awareness and a +9 lift in Show Awareness. When Snapchatters were exposed to multiple products, Show Awareness for the campaign increased by 2.7x. We have a lot more work to do in helping businesses understand the value of our many offerings on Snapchat, but we are thrilled with the early successes that our partners are seeing and we are going to continue to invest in this opportunity.

This quarter was a strong start to 2021 as we saw the momentum we built in the back half of last year continue. The amount of money committed via upfronts for 2021 is already more than 50 percent above the total upfront commitments made in 2020, which is a strong signal that brands and agencies have confidence in our platform, and are committed to working with us in an always-on manner because they value the return on ad spend that they are receiving. Based on the size of our audience, their level of engagement across our service, and our overall opportunity in the growing digital ad market, we are well positioned to play an important role in driving results for our advertising partners across the world. In summary, I couldn't be more excited about the opportunities for our business in 2021 and beyond and I look forward to sharing progress with you throughout the year.

With that, I'd like to turn the call over to Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q1 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 280 million daily active users in Q1, an increase of 51 million or 22 percent year-over-year. 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 5 million or 5 percent year-over-year to reach 93 million. In Europe, DAU grew by 7 million or 9 percent year-over-year to reach 77 million. In Rest of World, DAU grew by 40 million or 57 percent year-over-year to reach 111 million. We believe Snapchat is a complement to real friendships, and the easing of COVID-19 related restrictions in many communities was a modest tailwind to engagement as we moved through Q1 that contributed in part to the growth in our Snapchat community. The continued robust growth in Rest of World reflects the benefit of our ongoing investments to better serve our community including investments in local content, local language

support, marketing partnerships, and the popularity of augmented reality Lenses created by our community.

Total revenue for Q1 was \$770 million, an increase of 66 percent year-over-year, representing a 4 percentage point acceleration over the prior quarter. We benefited from continued improvement in the operating environment in Q1 and strong momentum with our advertising products and partners. In addition, the iOS platform policy changes that we expected could cause interruptions to demand in Q1 did not occur in the quarter, and thus were not a headwind in the period.

In North America, revenue grew 75 percent year-over-year in Q1, while ARPU grew 66 percent year-over-year as we continue to benefit from the significant investments we made in our sales teams and sales support in the prior year. In Europe, revenue grew 49 percent year-over-year in Q1, while ARPU grew 36 percent year-over-year. In Rest of World, revenue grew 46 percent year-over-year in Q1, representing a 19 percentage point acceleration in growth over the prior quarter, as we began to see the operating environment recover in this region, which was relatively more impacted by COVID-19 related disruptions to demand in the second half of 2020. As indicated during our recent investor day we are accelerating our investments in sales and sales support beyond North America in 2021 in order to capture our global ARPU opportunity faster in the years ahead.

Average eCPM increased 67 percent year-over-year in Q1. Rising eCPM relative to the prior year is driven by a combination of improved optimization capabilities within our auction, a mix shift toward relatively higher eCPM products such as Commercials, as well as a mix shift toward relatively higher eCPM regions such as North America. While our topline has benefitted from year-over-year growth in eCPM in recent quarters, the cost per action for our advertising partners declined sequentially for 3 of our top 4 goal based bidding objectives in Q1 as we continue to enhance our optimization capabilities in order to use our inventory more efficiently. 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. In addition, the ongoing growth of our community, and strong engagement in areas of our application that we have not yet begun to monetize, provide significant room to expand our inventory and expand our long term ARPU opportunity over time.

Gross margins were 47 percent in Q1, an increase of approximately 1 percentage point year-over-year. We continue to make significant progress against our goal of driving down our underlying infrastructure unit costs over time. In Q1, our infrastructure costs per DAU benefitted from several factors with the most significant being efficiency improvements delivered by our engineering teams including the re-architecture of our messaging platform that we mentioned during our recent investor day. In addition, we continued to benefit in Q1 from negotiated rate improvements for several of our cloud services. Lastly, the acceleration in growth of our community has been a modest benefit to infrastructure cost per DAU in recent quarters as new users tend to have lower initial marginal cloud

infrastructure costs relative to longer tenured Snapchatters. These factors combined to deliver the lowest infrastructure costs per DAU we have reported as a public company at just \$0.62 in Q1, down from \$0.69 in the prior quarter and \$0.71 in the prior year.

On the content side we continued to invest to support the launch of Spotlight in Q1 and this contributed approximately \$90 million to our cost of revenue in the quarter, representing a 12 percentage point headwind to gross margin expansion in the quarter. We are highly encouraged by the early returns from our investments in Spotlight with this new platform reaching over 125 million monthly active users in March. While it is still very early for this new platform, we are excited about the potential for Spotlight to further expand our monetization opportunity in the future. In addition, we are pleased that we have been able to support the launch of Spotlight while continuing to expand our gross margins year-over-year, which reflects our overall approach of scaling our operations efficiently, while making investments in the future of our business.

Operating expenses were \$367 million in Q1, up 23 percent year-over-year. Average full time headcount grew 19 percent year-over-year in Q1 as we continued to make focused investments in our monetization and engineering teams. The rate of growth in headcount in Q1 was several percentage points below our operating plan expectations and we expect this will step up modestly in future quarters as we invest to accelerate our roadmap as discussed at our recent investor day. In addition, we continued to grow our investments in marketing in order to build on the momentum we have established with our advertising and Snapchat communities and we are pleased with the results we are seeing from these efforts thus far as evidenced by the growth in our active advertiser base and Snapchat community.

Adjusted EBITDA was negative \$2 million in Q1, an improvement of \$80 million year-over-year as we continue to grow our topline rapidly while scaling our cost structure efficiently. We delivered Adjusted EBITDA leverage of 26 percent in Q1 as we continue to invest in the future of our business, while making progress towards sustained profitability and positive free cash flow.

Net income was negative \$287 million in Q1, an improvement of \$19 million over the prior year. The year-over-year improvement in net income primarily reflects the flow through of the \$80 million improvement in Adjusted EBITDA, and \$34 million higher net investment gains versus the prior year due to a combination of realized and unrealized gains on various strategic investments. These favorable impacts were partially offset by \$94 million higher stock based compensation driven by several factors, including approximately \$43 million attributable to the 19 percent growth in headcount and retention of our existing team, approximately \$29 million related to payroll taxes on SBC driven by our higher stock price, as well as approximately \$19 million driven by higher SBC related to long term retention associated with several acquisitions completed in the last year. While we have continued to grow our team, and leverage stock based compensation strategically to foster

an ownership culture and drive long term retention, we have remained focused on managing these programs responsibly. Total fully diluted shares outstanding grew 2.6 percent year-over-year in Q1, down from 3.4 percent in the prior quarter, and below the 3 percent estimate we shared during our recent investor day.

Q1 marked our first ever quarter of positive free cash flow as a public company at \$126 million, an improvement of \$131 million year-over-year. The improvement was driven primarily by the \$80 million improvement in Adjusted EBITDA and an approximately \$75 million improvement in net working capital as we continue to focus on enhancing our cash conversion cycle. This was partially offset by the approximately \$29 million increase in SBC related payroll taxes noted earlier. We ended the quarter with \$2.6 billion in cash and marketable securities, up from \$2.1 billion in the prior year, as the proceeds of convertible notes issued in Q2 2020 more than offset the investments we have made to grow the business over the past year.

As we look forward to Q2, we estimate that DAU will grow at a rate consistent with the prior quarter, or approximately 22 percent year-over-year, to reach 290 million in Q2. On the monetization side, we are cautiously optimistic that the operating environment will continue to improve. Our guidance range is for revenue of \$820 million to \$840 million implying year-over-year revenue growth of approximately 80 to 85 percent in Q2. This range reflects our best current estimate of the potential impact of anticipated disruptions associated with the iOS platform changes. It is not clear yet what the longer term impact of the iOS platform 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. Until then, we remain focused on helping our partners navigate these changes while optimizing return on ad spend across our advertising products and platform. On the expense side in Q2, we intend to continue to invest in the long-term growth of our business, and 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. While we see a path to Adjusted EBITDA breakeven in Q2 we are also cognizant that there are a number of cost drivers for our business, including travel and event related costs, that have been lower over the past year due to COVID-related restrictions. It is likely that these activities will begin to resume in the coming months as restrictions ease and that the related costs will begin to return to our cost structure as a result. Given this, our guidance range is for Adjusted EBITDA to be between negative \$20 million and breakeven for Q2. Thank you for joining our call today and we will now take your questions.

OPERATOR

That concludes the prepared remarks for today's earnings call, and we will now begin the question-and-answer session. Our first question comes from Richard Greenfield with LightShed.

RICHARD GREENFIELD, LIGHTSHED

First one for Jeremi. Monetization overseas is at -- still at a much earlier stage when you look at your ARPU, yet the past couple of quarters, North America grew far faster than both Europe and Rest of World. You talk about investments, but I guess what is holding back overseas monetization just given where the starting point is of ARPU? Like what is going to be the trigger for international to grow at a much faster rate year-over-year than -- or Europe and Rest of World than North America? Like what do you need to do to make that change?

And then just a quick follow-up or a quick question for Evan. There's a lot of kind of noise or chatter about sort of the device side of what Snapchat may or may not be working on. Could you just maybe give us from a very high level, like, why is devices something you should be doing given just how successful you've been on the software side of building sort of the app and monetization? Like why is hardware part of what you need to do longer term?

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Rich, thanks for the question. You are definitely right that our North America business has been both our largest and our fastest-growing revenue base. I think one of the most exciting things about that is that we have doubled down on the investments in sales and sales support in North America over the past 18 months since verticalization actually, and we've observed higher growth in this region as a result because -- in these recent quarters. We did verticalize our international sales teams, but generally speaking, the sales and sales support teams in our international regions are smaller. So it was more difficult to kind of perfectly execute this verticalization and specialist in terms of different vertical -- or measurement specialists or marketing specialists or communication specialists by vertical. But I think what's so exciting about the opportunity is that we now know the playbook. You're seeing it show up in our strong results in North America. And so we're going to replicate it in Europe and the rest of the world and those investments we were talking about to accelerate our growth internationally.

We talked about this at our recent Investor Day that I know a lot of you are listening to, but we do have so much room to grow in one of the world's -- in some of the world's most established advertising markets outside of North America, where we have really strong smartphone penetration. In countries that comprise over half the world's digital ad spend, Snapchat reaches 70% of 13- to 34-year-olds. So we're already there with the penetration of critical demographics that our advertising partners are eager to reach. So in 2021, to answer your question, we're going to be making these investments in sales and sales support teams to capture the opportunity the way that we have in North America in the coming quarters and going to grow those teams to grow top line growth in the years ahead.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Rich, thanks for the question on hardware. I think as we think about the future of augmented reality, really the promise of augmented reality is that you can interact with computing in a way that's similar to how you interact with the physical world around you. And so I think ultimately, over a longer period of time, hardware will be a constraint on our ability to fulfill that vision. So today, with your smartphone, you can enjoy augmented reality but you're limited to this really tiny screen. You have to use the touchscreen. And I think as we think longer term about the future of hardware, there's an opportunity to overlay computing on the world around you in a way that's much more immersive. It allows you to interact with it in terms of -- using both your hands, having a much -- a larger display size in front of you. And I think as we think about the future of our platform overall, experimenting with hardware informs that software road map and helps us think about what we need to be building over the next several years as we work towards this vision really for a new hardware platform that brings AR to life in a totally different way.

OPERATOR

Our next question comes from Justin Post with Bank of America.

JUSTIN POST, BANK OF AMERICA

Maybe one for Evan and one for Derek. Evan, you made some interesting comments on reopening on the call, and we have a survey that says people may use Snap more upon reopening. So maybe you could expand a little bit on what you're seeing in countries or states that are reopening and what areas of Snap might benefit and maybe where could you see a little less usage.

And Derek, the entire DR advertising sector has tougher second half comps. I don't think Snap's alone in that. How would you think about modeling the second half? And could platforms like Spotlight and Maps help on a sequential or a year-over-year basis if you could turn those on?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks for the question, and great to hear about your survey. I guess that lines up definitely with what I've experienced personally. During the pandemic, a lot of folks sort of shrunk their social graph. They started talking more to their family members or really close friends. And what we're seeing now in the United States, which is really exciting, is that people are going out more and they're seeing more friends or they're returning to school or work. And so their social graph and the people they're interacting with on a regular basis is starting to expand. And that sort of communication with that

wider social graph drives a lot of the frequency of use of Snapchat and then, of course, the conversion then to our other platforms and products that we offer.

So we're super excited that people are out and about and they're taking Snaps with our camera. We mentioned Story posting has increased. And we've been investing a ton in the Snap Map, and sadly, over the last year, there haven't been a lot of reasons to use the Snap Map as everyone's been staying at home. So we're really excited to see people engaging more with that product, and there's a really exciting road map there looking forward. So great to see that adoption.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Justin, it's Derek. I'll take the other part of your question there. First, I'd say we're really pleased with the momentum we're seeing in the business overall. The year-over-year growth rate accelerated sequentially. It's the third quarter in a row that we've grown the top line more than 50% year-over-year. And obviously, the guide going into Q2 is to accelerate that further. You're right, the comps in the Q2, for sure, are a little bit easier. But as you get into the second half, those comps are going to look a little bit more like what we saw in Q1. So obviously, they're a little tougher. We feel good about the results we put up in Q1 on relatively tougher comps.

Right now, what we're really focused on is making the investments in our sales and sales support to build on the momentum. We like what we're seeing on the active advertiser growth. We're liking what we see on the upfront commitments. And we're focused on delivering return on ad spend, investing in our optimization capabilities so that we can deliver return on ad spend for those advertising partners just to continue to build on the momentum we're seeing.

Look, while we're excited about the momentum that we're seeing there on the Spotlight side, it's early there. We're really excited about the product and the momentum. In terms of the need to open that up to advertising, I think we continue to be more demand-constrained than supply-constrained. So we're going to continue to focus on improving the experience for our Snapchatter community and for creators in the near term, and we've got lots of room to grow the top line in the areas that we're already monetizing today over the near term. Thanks for the question.

OPERATOR

Our next question comes from Brian Nowak with Morgan Stanley.

BRIAN NOWAK, MORGAN STANLEY

I have two. I guess the first one, I want to go back to the recent Analyst Day where you talked about potential low-50s revenue growth for the next few years without any contribution from Spotlight or Maps. Maybe just talk to us a little more about what are you seeing or assuming from an advertiser growth, multi-quarter advertiser spend adoption cycle or even sort of the use cases that give you confidence to be able to grow faster the next 3 years than the last 3.

And then the second one. You mentioned the upfront commitments up 50% year-on-year. I think that's after doubling last year. Maybe talk to us about what types of advertiser verticals you're seeing join the platform and grow their spend now that you weren't seeing a year ago.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Brian, it's Derek speaking. I'll take the first half and then kick it to Jeremi to talk a little bit about what we're seeing with advertisers. Yes. I think one of the things that we do see is we're excited about the potential to grow the business at elevated rates for an extended period of time and we're -- we see a lot of opportunity just looking at the screens that we're monetizing today in particular.

So if I think about the various screens in the app, first, I would zero in on the content business. We're really pleased with what we've been able to do in terms of growing the Commercials product over time. And obviously, you're starting to see some improvement in eCPMs and a lot of that driven around us getting much better at optimization and helping get the right ad in front of the right Snapchat user at the right moment, which allows us to use our inventory more efficiently, deliver the actions that advertisers are looking for with fewer impressions. And that continues to, therefore, expand our ARPU opportunity on the screen that we're monetizing. So that's the most mature part of the business but still very early. If I move over to the Camera, we're really excited about some of the momentum that we're seeing around our AR products and our ability to deliver unique advertising experiences there. And obviously, with over 280 million DAU opening the app 30 times a day, the inventory potential of the Map is already immense.

So we're excited about the momentum that we're seeing with our advertising partners and with the inventory potential of those screens. We continue to execute well. And I think if you look at what's happened with the business, as you said, maybe 3 years ago versus where we are today, we've got a much more sophisticated advertising platform. We've reached feature parity with the largest advertising platform from sophistication and targeting abilities in terms of the goal-based bidding optimizations and the ad products that are available in terms of driving towards ROI. And so you can see now the build of the momentum 3 quarters in a row of growth over 50%, elevated growth even all the way back to Q1 of last year. So we continue to build on that and deliver returns for our advertisers,

and you can see that coming through now in some of the outputs and leading indicators around active advertisers and, of course, upfront commitments.

So hopefully, that gives you a little bit of a sense. And of course, as you look longer term, the opportunity to grow the business by starting to tap into other areas of the app that are more greenfield at this point in time, whether that be the Map where we're focused on building utility for advertisers in the near term or eventually over time to realize the opportunity to expand our ARPU with Spotlight and other product innovation. So hopefully, that gives you a little bit of a sense of where we are and where we're seeing the momentum in the near term.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

And then I can take the part about upfront, so in -- specific around the upfront commitments that are up over 50% year-over-year even after doubling in 2020. So we're very excited about that. Obviously, I think one of the most compelling reasons to do upfronts is to really understand what part of a media plan you make up for a large advertiser. And these are incredible signals to say that we have definitely moved out of the experimental budget and into the fabric of their always-on media plans. And that comes from a lot of the hard work that's been done over the last several years and ensuring that we're focusing on ROI and optimization and measurement. We know that retaining advertisers is -- really comes down to ROI. So retaining them and then growing them at this rate is -- are all really good signals for us.

In terms of verticals specifically, we've had a lot of success in e-commerce, CPG, tech, streaming, online education, telco, a lot of these verticals over the last 18 months, 12 months or thereabout. And we're really excited to see the return of some of the categories in which we are historically strong. Theatrical movies would be a really good example of that. They are incredible advertisers when it comes to AR. It's a perfect use case for that. So we're really excited about that. And then in addition, we've been spending a lot of time working on the ad tech stack, working with large partners to be very ready for categories in which we aren't historically strong, travel and leisure being a really good example, something that will come back, we believe, with a fury. And then we have been really preparing for that on the ad side -- on the ad tech side as well as on the sales side. So we're really excited about that.

And then of course, we continue to be very bullish on the e-commerce opportunity. Derek just mentioned that our ad tech is at parity with the largest players with table stakes, with goal-based bidding, with Pixel-based conversion, et cetera, and we're going to continue to invest there. And then when I think of e-commerce and the kinds of things where we can double down, there is no doubt that we think of augmented reality as a huge opportunity in e-commerce, and we're excited to bring more of that innovation to our partners at SPS.

OPERATOR

Our next question comes from Ross Sandler with Barclays.

ROSS SANDLER, BARCLAYS

I just want to ask one on what Jeremi just talked about, the shopping experience. So you've got a lot of e-commerce advertisers buying ads. Some of those are click out, and some of those are these new AR Lenses and these new kind of in-app experiences. So the question is, what do you see as the future of Snap's in-app shopping experience? Can you help us size how big this category or this opportunity could be?

And then you recently acquired Fit Analytics and Ariel AI. How do those 2 acquisitions fit into the strategy?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks, Ross, for the questions. Certainly, a lot of stuff that's super exciting in commerce, especially with the big acceleration we saw through COVID. So I think I can talk about a couple of things that we're working on. Maybe I can start with augmented reality because it's such an interesting opportunity to really differentiate the shopping experience and make it more engaging for consumers. But what we're seeing that's really compelling for retailers is that AR try-on can dramatically improve conversion. And as you mentioned, we acquired Fit Analytics to try to take that a step further to help people find the right styles and fit for what they're purchasing, which we believe can also help reduce returns overall, which should improve margins for retailers. So we believe that AR can really help retailers on the top and bottom line and also provide a really compelling shopping experience for consumers as well.

We're experimenting in many other areas though. I can highlight Minis as an example or native checkout where we're really trying to remove friction from the checkout process overall so that brands who want to host their own store on Snap can make it really easy for folks who want to buy their products to essentially tap and buy in one click with saved credit card data and things like that. So our investments are really across the board. We're trying to remove friction from the shopping experience and reflect the fact that consumer behavior has shifted. I think there will certainly be folks who go to a destination to shop, but more and more, what we're seeing is that content and things like augmented reality experiences can drive new types of behavior, and then shopping actually happens downstream of that. So people are discovering products and interacting with them in new ways through content and through augmented reality, and then we're going to work really hard to make the conversion as seamless as possible.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

I can talk a little bit about that from the advertiser perspective, from augmented reality and the Lenses. It's that really during the lockdowns, during the pandemic, advertisers accelerated their adoption of AR products out of necessity. They had to. They had to ensure that they could get the products into the proverbial hands of their customers when things like malls and showrooms were closed. And this really accelerated a trend that we think is really important. And the best part about it is that our Snapchat community was already there. They're already using augmented reality quite a bit every day. We have over 5 billion videos and pictures taken in the Camera every day. And so the shoppers are already there and the advertisers are meeting them where they were. It's very rare to be in a position where marketing opportunity is such wide-open spaces. So we're really excited to see the acceleration of that.

And I think most importantly, what we're seeing, as Evan talked about, is that AR is driving real business results. So this isn't just a stunt. This isn't just a brand campaign. Our goal-based bidding products work with augmented reality, and the performance is there. We've seen it with Dior. We saw it with Zenni. We saw it with a number of others. And we've learned, of course, that when we deliver this ROI, we will continue to grow, and so we are very optimistic about the space.

OPERATOR

Our next question comes from Lloyd Walmsley with Deutsche Bank.

LLOYD WALMSLEY, DEUTSCHE BANK

One, I guess, for Jeremi and one for Evan. Jeremi, what are you seeing in terms of just advertiser adoption and budget scaling specifically since pushing the AR Lens ads into the self-service platform and allowing advertisers to buy those across more objectives?

And then, Evan, maybe you can talk about the expansion of the Snap Camera functionalities to Samsung devices. What is the ultimate kind of business implication for that? Is that driving activity back to the core app? Is that Sponsored Lenses and Filters getting distribution more broadly? Kind of help us understand that kind of strategically and how it impacts the business.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Sure. Thank you so much for the question. As far as AR Lens is scaling, it's still early, but we're expanding the range of use cases that AR can solve for businesses. We've talked a little bit about the e-commerce opportunity, the retail opportunity. There's a big beauty opportunity. We've had a lot of

advertisers with makeup try-on, with nail polish try-on, et cetera. But we're continuing to expand that range of use cases and ensure that it is performance along the way. So this includes the addition of new goal-based bidding options for augmented reality products.

But really as the shopping -- online shopping continues to accelerate, we just believe there is a massive untapped opportunity for AR-driven product innovation in e-commerce, but we're seeing it with automotive as well really just getting across the board. Travel is a really exciting one when we start to think about how we can have our Snapchat community experience places or what does the new travel experience look like on a plane and a hotel, et cetera. All of those things can be experimented with in augmented reality and experienced, which is great. But really, what we are focused on is tailoring our solutions for apparel and accessories since it's the largest shopping category by far amongst U.S. teenagers.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

Thanks, Lloyd, for the question about Camera Kit. It's certainly something we're really excited about. And even beyond Samsung, we're now expanding Camera Kit into many partner applications, including, as I mentioned, Moj in India who's -- which is integrated into their application. I think what's really exciting for us is that because augmented reality is so new, there are still so many people in the world who haven't actually experienced it or played with it. And so the more that we can extend augmented reality into different cameras and other services that people use, the more they can try it, find out how fun it is, realize the power of augmented reality and then ultimately, hopefully come to Snapchat for a much bigger selection of our Lenses and to really engage with our entire Lens creator community. So we're really excited to get that out there. And hopefully, we've got some more interesting partnerships along the way. We've got our Snap Partner Summit on May 20 that we're really looking forward to, and hopefully, you can join us there.

OPERATOR

Our next question comes from Brent Thill with Jefferies.

BRENT THILL, JEFFERIES

You mentioned the user behavior really started picking up as things started to open up again. I'm curious, did you see a subsequent advertiser behavior pickup? Anything to point out in terms of linearity throughout the quarter or the start of Q2.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

It's Derek speaking. Yes, I think, one, really pleased with the momentum. And Jeremi mentioned in her prepared remarks and a little earlier just about how we're seeing some positive momentum with some categories as we see reopening and how we're excited to serve some of the categories that maybe had a little tougher go through some of the restrictions that you'd expect to return. And so obviously, we've made a lot of progress with our platforms over the last year, too, so optimistic about the reopening and the momentum that we're seeing in the business.

And I spoke a little bit earlier about the trajectory in terms of comps. And obviously, our guide reflects the fact that comps get a little bit easier as we go into Q2, and that's why we've guided to a pretty significant acceleration there. So hopefully, that gives you a little bit of a sense of how we're feeling about the reopening and the momentum we've got with our partners and then also sort of the topography of things as we move into Q2.

OPERATOR

Our next question comes from Michael Morris with Guggenheim.

MICHAEL MORRIS, GUGGENHEIM

A couple of questions. First, you referenced the successful implementation of the SKAdNetwork for certain Snap campaigns with your partners. I'm curious what defined success of that implementation. And does this mean similar feedback to what you saw previously? Do you expect this to mitigate some of the IDFA headwinds that have been a source of investor concern?

And then second, I just want to ask you maybe more tactically about the AR opportunity you've spoken about a lot. And I'm curious if you -- how you see the adoption curve by your advertiser partners. Are there certain sort of milestones that you think you can accomplish this year on the sort of education or implementation front for your partners that can accelerate that curve? Do you think it's sort of a steady growth trajectory? Just curious how you see that playing out.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Sure. Thank you so much for the question. I can take the part about SKAdNetwork. We are really focused on helping our advertisers make the transition to the best possible measurement and optimization tools smoothly. The change happened later than we expected, which gave us a lot of time to prepare, and SKAdNetwork is one part of that. So we're really pleased to see that advertisers that represent the majority of our direct response revenue have implemented it so far. But we know

that there's a lot of work to be done to transition smoothly. We're working closely with Apple to understand the rules of the road, and we're prepared to follow them. And I think importantly, we really support Apple's approach because we've always believed that great advertising and customer privacy are not mutually exclusive. And it's a huge core value of Snap -- privacy. So we're excited to be implementing this alongside our partners. It's been a huge cross-functional effort between products, engineering, the sales teams, the marketing teams to work with our customers to ensure that this transition goes as smoothly as possible.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER

I guess I can speak a little bit to the AR opportunity. I think what's really interesting is despite the fact that 200 million people are using augmented reality every single day. It's still very, very early for augmented reality advertising and for businesses as a whole to understand how it can really drive results for them. So I think one of the most important things is to continue to really inspire businesses with the creative execution and the AR interaction. And one of the ways that we're doing that is helping to connect them with creators. There are now thousands and thousands of people around the world making incredible AR experiences, and they can work very closely with brands to bring their ideas to life. And then I think the other important thing that we've spent a lot of time on is making sure that when brands do experiment with AR that they have a positive experience, that measurement is really easy and they can see the results very quickly for their campaigns and, of course, then showcase those augmented reality experiences on their brand profile.

So I'd say overall, it's really early, but the results for advertisers that are experimenting with AR are extremely promising, and the engagement we see from our community is truly staggering. So I think that bodes well for the long term. But given it's such a new technology despite the tremendous level of engagement, it's just going to take time to really work to educate advertisers and remove friction from the creation process.

OPERATOR

Our last question comes from Doug Anmuth with J.P. Morgan.

DOUG ANMUTH, J.P. MORGAN

Great. Derek, I just wanted to ask you about infra costs. They were down on a per-DAU basis, about 13% year-over-year. I know you talked about the biggest part of that perhaps coming from the messaging efficiency improvement. But as you look out over a multiyear period, do you still see room for meaningful further improvement in infra cost per DAU? And where do you think those could come from? Or do we run into kind of flattening out more there?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Doug, thanks for the question. Yes, we're really pleased with what we saw in infrastructure costs here. We've been able to keep them relatively flat on a per-DAU basis for a few years now and now a pretty good step down in Q1 with the drop to \$0.62 per DAU from \$0.69, so really nice improvement there. As you noted, we're making a lot of progress on efficiency here. And I would say that there's no one, single improvement that tends to move the needle in a big way. This is a long game of really good work by the engineering and product teams to continue to find efficiency.

And one of the really important flywheels that we're experiencing there is that when we make the product work better and faster and more efficiently for our Snapchat community, that tends to also make it more efficient for us on an infrastructure utilization perspective. And of course, that helps to drive engagement and lower our costs. And when we have engagement grow, that gives us more volume. And of course, that gives us more scale with our partners, which gives us more ability to negotiate and drive down our rates. And so what you're really seeing is that flywheel demonstrated in Q1 really well, where we've had a number of efficiency improvements that were engineered by our teams, compounded by some negotiated rate improvements all delivering together to give us a really nice result.

Over the long term, there's going to be a battle here. We've got a really healthy engagement with our community. And so that puts upward pressure on the infrastructure cost per DAU in a good way but, of course, contributes to the ARPU opportunity at the same time. But our teams continue to grind at our unit metrics and our rates with our partners. And so to the extent that you see infra go up in any period, that's a great sign for engagement. And to the extent that you see it go down, it's because we're doing a good job managing our unit costs and our partners. So hopefully, that helps explain what we're seeing and really pleased with the results from our team. So thanks for noticing.

OPERATOR

This concludes our question-and-answer session as well as Snap Inc.'s First Quarter 2021 Earnings Conference Call. Thank you for attending today's session. You may now disconnect.