

SNAP INC. Q2 2021 TRANSCRIPT

BETSY FRANK, SENIOR DIRECTOR, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Second 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.

Please refer to our investor relations website at investor.snap.com to find today's press release, slides, a copy of our prepared remarks, and our updated investor presentation.

This conference call includes forward-looking statements which are based on our assumptions as of 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 most recent Form 10-Q, particularly in the section titled Risk Factors.

Today's call will include both GAAP and non-GAAP measures. Reconciliations between the two can be found in today's press release. 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. Please refer to our filings with the SEC to understand how we calculate any of the metrics discussed on today's call.

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

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thank you all for joining us today.

Our second quarter results reflect the broad-based strength of our business and the hard work of our team as we execute to serve our community and partners.

This quarter we grew both revenue and daily active users at the highest rates we have achieved in the last four years. Daily active users grew 23 percent year-over-year to 293 million, and we more than doubled revenue year-over-year to \$982 million, generating \$117 million in Adjusted EBITDA. Adjusted EBITDA improved by \$213 million compared to last year, marking our third Adjusted EBITDA profitable quarter in the last 12 months as we continue to demonstrate the leverage in our business as we scale.

At our annual Partner Summit in May we introduced new product innovations for our community and partners, including the next generation of Spectacles augmented reality glasses that overlay computing on the world, and we are excited by the tremendous opportunity for our business in 2021 and beyond.

We made significant progress with our augmented reality platform this quarter. More than 200 million Snapchatters engage with AR every day on average, and over 200,000 creators use Lens Studio to build AR Lenses for our community. We are focused on learning from our large and engaged community of Snapchatters and creators, which allows us to continually improve our AR Lenses and the tools we provide to create them in Lens Studio. This quarter, our Cartoon 3D Style Lens, which uses machine learning to turn people into a 3D-animated cartoon in real-time, highlighted the power of Lenses to go viral both inside and outside of Snapchat. In the first week of release, it generated 2.8 billion impressions on Snapchat alone.

We rolled out Lens Studio 4.0 at our Partner Summit, with new features like visual classification, multi-person 3D body mesh, advanced cloth simulation, 'TrueSize' technology for eyewear try-on, and a new visual effects editor, which enables creators to build sophisticated Lenses without writing any code. We also launched Connected Lenses, which enables real-time shared experiences in augmented reality, like building a LEGO model together with your friends.

We are continuing to create value for businesses by reimagining the shopping experience through AR. By leveraging the long-term investments we've made in augmented reality and personalization, we are laying the groundwork for an improved online shopping experience. For example, we are making it easier to discover new fashion items through Scan by helping Snapchatters scan a friend's outfit, or a saved photo or screenshot, to shop similar looks and recommendations.

When it comes to purchases and returns, we believe that helping people find the right size and improving the try-on experience could both increase conversion rates for purchases as well as reduce the rate of returns for online shopping. We are excited about this opportunity because returned goods cost businesses hundreds of billions of dollars each year, and have a large environmental impact. We are pleased with our early progress in this space, and look forward to experimenting and learning more with our retail and e-commerce partners.

We are also collaborating with a variety of partners to power AR experiences in their own applications with Camera Kit, which brings the power of the Snapchat camera to partner applications using our SDK. This quarter, we rolled out a number of Camera Kit partnerships worldwide, including with Walt Disney World. We'll commemorate their 50th anniversary with an AR experience where visitors can place their own picture on Cinderella's Castle to create a virtual mosaic of shared moments, as well as access exclusive AR Lenses with Disney characters through the My Disney Experience app. We also partnered with Bumble and Viber to bring Lenses to their respective mobile apps, and are working with Google to bring our Lenses directly to the new JioPhone in India with a native camera integration.

We announced our next generation of Spectacles at our Partner Summit, which are available exclusively for creators. They are our first device with a built-in 3D augmented reality display, and represent another step forward toward our goal of overlaying computing on the world. We are investing heavily in augmented reality across Snapchat, Camera Kit, and Spectacles, and we are excited to continue learning and making progress toward our long-term vision.

We also announced a number of new products and partnerships at our Partner Summit for Maps, Minis, and Games. We are adding Layers to the Snap Map, so that Snapchatters can find personalized local experiences from our partners overlaid directly on the Map. For example, users will be able to see restaurant recommendations from The Infatuation or their own saved Snaps from Memories on the Map. We are also expanding our Minis platform, including a new Mini featuring daily shopping events hosted by Poshmark. Ticketmaster is partnering with us across a few of these products, with a Mini where you and your friends can discover different artists and shows and buy tickets, which also integrates directly with the Ticketmaster Layer on our Map that overlays different concerts and events directly on the Snap Map.

We are adding new titles and genres to Snap Games, with Voodoo launching five new games to Snapchat this year. We have learned that players who use their Bitmoji in a game spend twice as much time playing, which is one reason Unity is bringing 3D Bitmoji into their mobile, PC and console games with our new Unity plugin.

We have observed a number of changes in content engagement as we evolve our content products and manage through the mixed impacts of the pandemic. For example, global time spent watching content on Snap grew year-over-year, while lapping the boost in engagement we saw at the onset of the COVID-19 pandemic, but we have also observed a year-over-year decrease in daily time spent watching user-generated Stories created by friends, even as the number of daily viewers of that content has grown year-over-year. We believe this is due in part to a decline in the volume of daily Story posting activity on Snapchat coinciding with mobility restrictions and behaviors related to the COVID-19 pandemic, which reduces the amount of content created by friends that is available to watch. While it is unclear when these restrictions will end and how user behavior will evolve, we are seeing stabilization and early recovery in Story posting as some communities are reopening and reducing restrictions, and we are cautiously optimistic that this will lead to increased time spent watching Stories from friends as the world begins to open up.

Meanwhile, we are continuing to evolve our overall content products and business. As we learn more about the different types of content that our community wants to watch and that drive successful outcomes for our partners, we are doubling down on what is working well. Based on these learnings, we are adapting and expanding our content offerings from both our media partners and our creator community in order to appeal to the diverse variety of interests of our community. For example, Shows

are seeing ongoing success on our platform, and we aired eight new Snap Original Shows this quarter. Many of our partners reach a broad audience through several different channels, and nine different partners reached more than 30 million unique Snapchatters in the United States alone. We added 177 new international Discover channels this quarter to support our international growth strategy and deepen engagement. For example, total daily time spent by Snapchatters in India watching Shows and publisher content increased by 150 percent year-over-year.

Additionally, we are seeing early promise in showcasing the best and most entertaining Snaps from our community on Spotlight. While we are still in the early phases of launch and iteration, we are excited about our learnings and progress so far. Engagement is growing rapidly as we roll out Spotlight worldwide, with Spotlight DAU growing 49 percent quarter-over-quarter, and average daily content submissions more than tripling when compared to the prior quarter. We are also seeing time spent growing rapidly, with daily time spent per user on Spotlight in the United States growing more than 60 percent in the last quarter, giving us additional confidence in our ability to build Spotlight into a meaningful business over time.

There is still a lot of work to do as we build out Spotlight and innovate to improve the product experience. For viewers, we are adding new features like the Trending Page, while improving personalization and ranking, in order to show the right content to the right people based on their engagement and interests. For creators, we are making it easier to create compelling content using creative tools in our camera, and we launched Creative Kit for Spotlight so that creators can easily create and submit videos to Spotlight from applications like Voisey, Beat Leap, and Video Leap. We signed deals with Universal Music Group, Sony ATV, and DistroKid in the first half of 2021 to increase the availability of Sounds on our platform and to help our community discover new artists. We are also helping creators monetize and develop relationships with members of our community through products like Gifting, our Creator Marketplace, and by supporting them directly through our Creator Fund, which we are continuing to evolve as we move beyond our initial launch. While we are still very early on this journey, we are excited about our ongoing work with Spotlight to help our community discover new content and creators while also supporting our global creator community.

We've now spent over a year working from home, and we have learned so much as a team about how to execute remotely while continuing to deliver rapid product innovation. While we are excited to see each other in person after all this time, we are also planning to retain many of the behaviors and practices we developed during the pandemic so that we can continue benefiting from the flexibility of being able to work and collaborate remotely. This new way of working has brought us closer together as a team and helped us to work more effectively as a global business with team members and partners located around the world. I am deeply grateful for the resilience of our team during such a difficult period, and I am optimistic about the progress we are continuing to make in growing our company.

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're pleased with our results this quarter and believe our business is well-positioned for the future. In Q2, we generated total revenue of \$982 million, an increase of 116 percent year-over-year, reflecting the momentum in our advertising business and the hard work of our team serving our partners and helping them to generate return on their investment. We benefited from a favorable operating environment and continued success with both direct response and large brand advertisers, and we continue to leverage our performant ad products to grow our advertiser base globally. We are fully focused on making progress against our revenue and ARPU opportunities, which we believe will be driven by three key priorities. First, driving ROI through measurement, ranking, and optimization. Second, investing in our sales and marketing functions by continuing to train, hire, and build for scale. And Third, building innovative ad experiences around video and augmented reality, with a focus on shopping and commerce. Our commitment to these three priorities, along with our unique reach and large, engaged community, allows us to drive performance at scale for businesses around the world.

We believe all advertisers optimize for driving ROI and measuring performance. We have accelerated our efforts to drive ROI for our advertising partners via lower-funnel bidding capabilities, which allow advertisers to optimize for the objectives they are trying to achieve, and our innovative ad units, which are tailored for the most sophisticated performance advertisers. For example, Booking.com employed a strategy that used Dynamic Ads to reach new customers on Snapchat. By utilizing our Dynamic Ad solution for travel, they were able to dynamically pull images directly from their product catalog that displayed relevant and visually appealing destination photos and features. This helped Booking.com unlock an incremental audience within the United States, which resulted in a positive incremental lift in bookings across both their website and their app, and delivered a cost per incremental booking (CPIB) of approximately 36 percent lower than their goal.

Our ad platform is being utilized as an effective self-service tool to help advertisers of all types and sizes create, manage, and measure campaigns on Snapchat. Further, it is a reflection of our focus on privacy and innovation as we are delivering results for advertisers while also respecting the privacy of our community, which has been a core tenet since we launched ads on Snapchat. This year has clearly demonstrated how important it is to simultaneously meet these two objectives for our advertising partners. As Apple rolled-out its App Tracking Transparency-related changes near the end of Q2, we observed higher opt-in rates than we are seeing reported generally across the industry, which we believe is due in part to the trust our community has in our products and our business. Apple's rollout of the most recent iOS update came later in Q2 than initially anticipated, and the pace of updates by iPhone users has also been slower than we anticipated. This has given us more time with advertisers to

navigate the transition but also means the effects of these changes will come later than we initially expected.

We continue to work with our advertising partners on privacy-safe solutions and other attribution techniques. For example, we fully rolled out support of SKAdnetwork version 3.0, which we believe will aid in improving attribution for advertisers who have implemented Apple's API. We also launched Advanced Conversions in Ads Manager, which allows advertisers to measure their campaigns via our privacy-protecting measurement stack. We are dedicated to delivering value for our advertising partners while respecting the privacy of our community, as we have worked to do for many years. That said, it remains very early in the adoption of the iOS platform changes, and we will continue to learn how these changes may impact our advertising partners, business, and the industry as a whole. We are seeing some initial signals as advertisers test and learn in this new environment and this is causing some interruptions to demand that we had anticipated would be part of the adoption process, particularly in the direct response e-commerce and gaming sectors. It is too early to determine how long it will take until these changes are fully adopted, the scale of the potential interruptions to demand, or the ultimate impact on the longer term growth of our business.

We have proven through our efforts in North America that with a robust team, surrounding resources, and a local focus, we can accelerate revenue. We are now taking that model and replicating it in several markets that we have identified as having a large digital advertising market and significant levels of existing Snapchat adoption. We have a lot of room to grow in some of the world's most established ad markets outside of North America, especially in Europe. For example, in the UK, France, and the Netherlands, we reach over 90 percent of 13-24 year olds and 75 percent of 13-34 year olds. We will continue to make progress on hiring and investing in our team globally across sales, marketing, and partnerships, among many others, as we believe this investment will position us well to grow our business over the long term.

We continue to invest heavily in video advertising, with the goal of driving results for our advertising partners and connecting them to the Snapchat Generation. For example, we worked with Nielsen to help US advertisers understand how to more efficiently reach their target audiences via Snap Ads. The Total Ad Ratings (TAR) study analyzed how over thirty cross-platform advertising campaigns reached people on both Snapchat and television. The analysis showed that Snapchat campaigns contributed an average of 16 percent incremental reach to advertisers' target audiences, and over 70 percent of the Gen Z audience that was reached by Snapchat was not reached by TV-only campaigns. This is especially important as people are increasingly cutting the cord, and mobile content consumption continues to grow, presenting us with a large opportunity to help advertisers reach the Snapchat Generation at scale.

Augmented reality advertising is delivering a return on investment that is measurable and repeatable, which is encouraging more and more businesses to invest in AR. For example, Smile Direct Club leveraged our Goal-Based Bidding (GBB) Click optimization for AR, which drove 49 percent of Snap customer leads in Q2 and was the most effective ad unit at driving traffic for their business compared to other social channels. The success of the Lens ultimately encouraged Smile Direct Club to include AR Lenses as part of their long-term business strategy. We are doubling down on our efforts to help advertisers improve conversions and ROI, and recently launched our GBB Purchase optimization for AR, which allows advertisers to optimize their AR campaigns for down-funnel purchases and fits well into our shopping strategy.

We continue to roll out a number of products and features to help empower AR commerce on Snapchat. We recently launched Public Profiles for all businesses, which give businesses of all sizes a free, permanent home on Snapchat where they can highlight engaging content, showcase compelling AR experiences even after a campaign is finished, and share shoppable products directly within the app. Public Profiles allow brands to build a direct relationship with our community, and we are already seeing some of the largest brands investing in their Profile. For example, Nike leveraged our AR Lenses as part of its 'Play New' campaign to encourage Snapchatters to get active, and the company is planning to build additional Lenses for its Public Profile.

In addition, at our Partner Summit in May we launched unique new try-on capabilities, such as wrist tracking technology for watches and jewelry, and 'TrueSize' technology for eyewear, which complement our existing foot tracking technology, and are all designed to give Snapchatters more confidence in the ability for AR try-on to emulate a physical shopping experience. For example, watchmaker Piaget is using wrist tracking technology to make it possible to try on a variety of different timepieces, and businesses like Zenni Optical are using our 'TrueSize' technology to help Snapchatters find frames that fit them perfectly. Through new 3D body mesh capabilities, retailers now have the ability to showcase products realistically on the body. This has come to life for brands like Prada that created a bag try-on experience for Snapchatters to shop directly in the camera. Additionally, brands like Farfetch are tapping into these technologies to allow our community to try on and shop a variety of jackets from its catalog. All of these technologies and more are available in Lens Studio for the world's leading creators and agencies to build for brands.

We also recently built a new AR beauty template in Lens Web Builder, which allows beauty brands to upload their entire catalog and publish AR Lenses quickly and in a cost effective manner. For example, e.l.f. Cosmetics is able to pull in many of their 800 product SKUs to create unique makeup try-on experiences; and with the Lenses they've built thus far, are already seeing Snapchatters engage with their products in new ways. We are in the process of onboarding hundreds of emerging Gen Z-focused beauty brands who will be able to leverage this technology for their AR campaigns. We have a lot more

work ahead to build out our technology and increase AR adoption, but we are thrilled with the results that our partners are seeing as we invest in our long-term camera opportunity.

When brands utilize a portfolio approach of combining Sponsored AR Lenses with Snap Ads, they result in higher ROI and lower costs per outcome. For example, global sports streaming service DAZN launched a multi-product campaign that utilized AR Lenses, Snap Ads, Story Ads and Commercials in order to drive awareness for its live sports channels, installs for its app, and subscriptions for its streaming service. DAZN leveraged our new GBB App Install optimization for AR, which not only drove incremental installs, but also reached millions of unique Snapchatters. The overall campaign resulted in lifts in installs and subscriptions and drove incremental Snapchatters to its platform, ultimately reinforcing the value of leveraging our ad formats together to drive performance and ROI.

We will continue to invest for the long-term by demonstrating measurable ROI for our advertising partners, providing support through our sales and marketing functions, and leading the way with innovative advertising products and services to help advertisers scale. We are confident in our long-term opportunity, and are excited to double down on shopping and commerce via augmented reality. Given our community, their depth of engagement on our platform, and our overall opportunity to take share of the growing digital advertising market, we believe we are well positioned to drive business results for advertisers over the long term.

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

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q2 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 293 million daily active users in Q2, an increase of 55 million or 23 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 6 percent year-over-year to reach 95 million. In Europe, DAU grew by 7 million or 10 percent year-over-year to reach 78 million. In Rest of World, DAU grew by 43 million or 55 percent year-over-year to reach 120 million. The continued robust growth in Rest of World reflects the benefit of our ongoing investments in local content, local language support, marketing partnerships, and the popularity of augmented reality Lenses created by our global community.

Total revenue for Q2 was \$982 million, an increase of 116 percent year-over-year as we lapped the quarter in the prior year where the pandemic most significantly impacted advertising demand. We benefited from an improved operating environment in Q2 and strong momentum with our advertising

products and partners. In addition, the iOS platform policy changes that we anticipated could disrupt advertising demand in Q2 of this year did not materialize as expected in Q2 as the changes were rolled out later and adoption occurred at a slower than expected pace.

In North America, revenue grew 129 percent year-over-year in Q2, while ARPU grew 116 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 94 percent year-over-year in Q2, while ARPU grew 76 percent year-over-year. In Rest of World, revenue grew 86 percent year-over-year in Q2, while ARPU grew 20 percent year-over-year. As indicated in the prior quarter, we are continuing to accelerate our investments in sales and sales support beyond North America in order to capture our global ARPU opportunity faster in the years ahead.

Average eCPM increased 122 percent year-over-year in Q2. Rising eCPM relative to the prior year reflects the rapid rise in overall demand, improved optimization capabilities within our auction, a mix shift toward relatively higher eCPM products, as well as a mix shift toward relatively higher eCPM regions such as North America. Dynamic Ads are a great example of an ad product where we are seeing the power of product innovation and auction optimization to deliver return on ad spend while achieving relatively higher yields for our inventory with revenue from Dynamic Ads more than doubling sequentially. With the rapid rise in total revenue of 116 percent year over year, and 28 percent sequentially, the rate of growth in demand outpaced the rate of new optimizations delivered in the quarter and we observed sequential increases in cost per action for our goal based bidding products in the quarter as a result. We continue to invest heavily in our teams and tools to continually enhance our optimization capabilities over time and this is a top priority as we seek to deliver attractive returns on advertising spend for our advertising partners 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 us with the opportunity to expand our inventory and grow our long-term ARPU opportunity over time.

Gross margins were 55 percent in Q2, an increase of approximately 9 percentage points year-over-year and 8 percentage points sequentially. We continue to make significant progress against our goal of driving down our underlying infrastructure unit costs over time. In Q2, we continued to benefit from several recent efficiency improvements delivered by our engineering teams, as well as negotiated rate improvements for several of our cloud services. In addition, 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 infrastructure costs per DAU of \$0.62 in Q2, which was consistent with the prior quarter and down from \$0.69 in the prior year.

On the content side we continued to invest to support the launch of Spotlight in Q2 and this contributed approximately \$76 million to our cost of revenue in the quarter, which is a modest sequential decline in cost as we continue to evolve the cost structure for this program to promote more content diversity by rewarding top performing content creators while also seeding new content categories. We are pleased with our progress on this front as we've observed all time highs in daily submissions after making these changes to the incentive program. We also continue to be highly encouraged by the early returns from our investments in Spotlight with daily time spent per user on Spotlight in the US growing more than 60 percent in the last quarter. 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. We are particularly pleased that we have been able to continue to invest in Spotlight and Discover while expanding our gross margins year-over-year, which reflects our overall approach of scaling our operations efficiently over time, while making investments in the future of our business.

Operating expenses were \$427 million in Q2, up 39 percent year-over-year. As we anticipated last quarter, our rate of hiring stepped up in Q2 and the growth in employee related costs was the single largest driver of growth in operating expenses in Q2. Total employee related costs, which represent more than 60 percent of operating expenses, were up 35 percent year-over-year driven by a 31 percent increase in full time headcount that reflects the ongoing investments in our team as well as the integration of recent acquisitions which contributed approximately 8 percentage points to the year-over-year growth in full time headcount in Q2. We have also continued to invest in marketing to build on the momentum we have established with our advertising partners, and in our community, with growth in these investment areas contributing in part to the growth in overall operating costs. As we anticipated last quarter, we are also beginning to see certain costs returning to our cost structure that were significantly diminished due to the pandemic related restrictions over the past year, including travel and event related costs among others. The partial return of these costs to our cost structure in Q2 was an additional factor driving the acceleration in the rate of expense growth in the quarter.

Adjusted EBITDA was \$117 million in Q2, an improvement of \$213 million year-over-year as we continue to grow our topline rapidly while scaling our cost structure efficiently. We delivered Adjusted EBITDA leverage of 40 percent in Q2 as we continue to invest in the future of our business, while making progress toward sustained profitability and positive free cash flow.

Net Income was negative \$152 million in Q2, an improvement of \$174 million over the prior year and representing Net Income leverage of 33 percent as we continue to make progress towards achieving profitability and sustained positive free cash flow generation. The year-over-year improvement in Net Income primarily reflects the flow through of the \$213 million improvement in Adjusted EBITDA as well as \$80 million higher net gains on investments in the quarter. This was partially offset by \$88 million higher stock based compensation driven by several factors, including approximately \$43 million

attributable to growth in our team due to hiring over the past year, \$25 million driven by higher payroll taxes due to our higher stock price, and \$13 million 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 4 percent year-over-year in Q2. However, excluding the shares we issued in exchange for early conversion of approximately \$840 million of our convertible notes, the rate of growth in shares outstanding was just 1.7 percent year over year, down from 2.6 percent in the prior quarter, and below the 3 percent estimate we shared during our recent investor day that was noted to be exclusive of any dilution related to convertible notes.

Free cash flow for Q2 was negative \$116 million, or \$33 million unfavorable versus the prior year. This was driven primarily by a \$233 million increase in net working capital driven by the rapid sequential and year-over-year growth in revenue that was partially offset by improvements in our cash conversion cycle, including an approximately 2 day reduction in our days sales outstanding metric, which reflects our broader initiative to scale our operations efficiently. The impact of top line growth on our net working capital position was largely offset by the \$213 million improvement in Adjusted EBITDA noted earlier. We ended the quarter with \$3.5 billion in cash and marketable securities, up from \$2.8 billion in the prior year, as the proceeds of convertible notes issued over the past year more than offset the investments we have made to grow the business over the past year.

As we look forward to Q3, we are observing a resurgence of COVID-19 cases and the ongoing impact of the pandemic around the world, which continues to present an uncertain operating environment. We currently estimate that DAU will grow at a rate of approximately 21 percent year-over-year, to reach approximately 301 million in Q3. On the monetization side, we note that the comparisons will be more challenging in the second half as we begin to lap the acceleration in top line growth that we experienced in the prior year. Our guidance range is for year-over-year revenue growth of approximately 58 to 60 percent in Q3. This range reflects our best current estimate of the potential impact of anticipated disruptions associated with the iOS platform changes. As I mentioned earlier, the iOS platform changes have been adopted more slowly than we had anticipated, and the interruptions to demand are therefore expected to come later than we initially anticipated. As a result, it is still not clear what the longer term impact of the iOS platform changes may be, and this may not be clear until at least several months or more after the changes are fully 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 Q3, we intend to continue to invest in the long-term growth of our business in order to build on the momentum we have established with our community, our partners, and our top

line growth. In addition, we expect to continue to see certain costs that were diminished during the pandemic, such as travel and event costs, continue to return to our cost structure in the quarters ahead which will impact operating expense growth. Our estimates for Q3 Adjusted EBITDA reflect our revenue guidance and our expected level of investments resulting in a range of \$100 million to \$120 million for Q3.

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 Doug Anmuth with J.P. Morgan. Please go ahead.

DOUG ANMUTH, J.P. MORGAN

Thanks for taking the question. Question for Jeremi. Average eCPM was up more than 120 percent year-over-year related to higher demand and ROI and then also product and geo mix shift. And I realize eCPM is an output for Snap and not a pure indicator of the prices that advertisers are paying, but we've also heard a lot about price inflation across the online ad market. So just wanted to get your views on whether you think there are any risks around price inflation and how you think about sustainability going forward.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Hey, Doug. It's Derek speaking. I can take that one on the eCPM question. You're right. We did observe rising eCPMs in Q2. They were up 122 percent year-over-year. And we do think of eCPM, at least in part, as an output metric at this stage in our growth and we expect that it could fluctuate as our business evolves over time. That said, in Q2 in particular we did see a rise in eCPMs driven by several factors. You know, one of them is just the rapid rise in the overall advertising demand we've experienced, which is up 116 percent year-over-year and 28% sequentially.

Mix shift towards higher eCPM products is also a factor here, such as Dynamic Ads, the revenue from which doubled sequentially in Q2, and then we do see mix shift across some regions with North America growing at a relatively higher rate as well. Over time, however, there are several competing forces, many of which we have influence over that can put downward pressure on eCPM, including, you know, one is the growth in our overall community. And we've seen this accelerate in recent quarters with global DAU reaching 23 percent growth year-over-year in the most recent quarter.

Second, there's the potential to expand our inventory opportunity by expanding monetization of highly engaged areas within our application. Examples include the Camera, and given that our app opens to the Camera, our audience creates billions of Snaps per day, the inventory potential of the Camera is

already immense. So we're investing heavily in our capabilities to capture that opportunity, as you can see with our recent product announcements and acquisitions and so on.

Spotlight is another example. And it remains early days for this new platform, but engagement has grown rapidly and we're excited about the potential for Spotlight to expand our ARPU opportunity over time. And the Map is another really good similar sort of example of an entirely new revenue opportunity with very attractive levels of engagement and the opportunity to serve as an on ramp for a new audience of advertising partners over time.

Last but not least, you know, we've been investing really heavily in our ad product and optimization capabilities in order to deliver our goal based outcomes for advertisers, such as Pixel verified purchases, as efficiently as possible, which allows us to expand our inventory opportunity. And then, you know, look, lastly, I hope all that would give you a little bit of a framework of how we're thinking about this evolving over time as these dynamics play out. So hopefully that gives you a little more context. Thank you.

OPERATOR

Our next question comes from Brian Nowak with Morgan Stanley, please go ahead.

BRIAN NOWAK, MORGAN STANLEY

Great. Thanks for taking my questions, I have two. First one, just on the strength of the ad business in 2Q and then with the 3Q guide, I'd love to sort of peel back for any more detail on the product level drivers of the ad business here. What is sort of seeing the most incremental amount in between Lenses and AR versus Stories versus Discover, or is versus anything else that I'm missing? That'd be super helpful.

Then the second one, Evan, just on AR shopping, talk to us about sort of where you think you've made the most progress there. And then, in your mind, what are sort of some of the key hurdles and friction points you need to overcome from an execution perspective to really realize that opportunity?

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Hey, Brian, thanks so much for the question. We're really happy, actually, with the products across the board and the adoption. So as Derek spoke to, we've seen a robust increase in just overall demand of our innovative ad formats and improved self-service model, which has very much enabled us to scale demand globally. To be specific about your question and the products that we released over the last three years that continue to see strong growth, it's really in Dynamic Ads, down funnel GBBs, an example being Pixel purchase and app purchase, Commercials and Shows and games and then, self-service AR as well. So again, kind of runs the gamut there.

But additionally, we continue to invest in ad measurement and optimization, which is the most important thing for us, because it helps us derive outcomes more efficiently and increase yield, but also increase performance for advertisers. This particular flywheel is why we're so excited about our future potential across all of these products as we scale our advertising business. And I will let Evan take the second part.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Brian. Thanks for the question. We're super excited about AR shopping. In particular, we're focused on apparel and accessories. It's obviously a huge spending category for young people. But more importantly, it's a real opportunity for us to differentiate. So if you think about the in store experience in a changing room, it's not particularly pleasant. And at home, trying to shop online and find the right size and, you know, scroll through thousands of little tiles of models wearing clothing, none of those feel personal and none of them really capture the experience of trying something on, which is so important for consideration with apparel and accessories.

So AR can really solve this problem in an interesting way. There are some, you know, places where I think, from a product perspective, we have solved the technical challenge. So trying on a pair of shoes or a watch, sunglasses, those are all areas where, today, we see really great results for retailers. And that's where we're focused on scaling. So you know, helping people create and manage their 3D models and make sure that they can easily turn them into Lenses.

And then, there are other problems that we're still working on solving. So for example, trying on a t-shirt and making sure the cloth looks really realistic and drapes over your shoulders in the right way. That's much more complicated to do from a technical perspective, and we're making good progress there, but it's not perfect yet. So I'd say you know, what we've tried to do is focus on the areas where we've got a great technical solution and the product works and delivers results and, of course, brands are seeing success with the Lenses that they're creating. And then, we're making much longer term investments with things like Fit Analytics to find the right fit and the right size with all of our efforts around clothing try-on, and we released some really great new features in Lens Studio 4.0 recently that help get us part of the way there, but it may take a little longer for full on apparel try-on. But nevertheless, we think AR is going to play a really important role. There's lots of stuff we can do to scale today, and you may have seen some of our efforts to make our beauty AR Lenses more scalable so that we can ingest someone's entire catalog of beauty skews and help people try them on really easily through Lens Web Builder. So you know, a lot of effort to reduce friction and make it easier to scale and then a lot of really exciting technical and product opportunities for the future.

OPERATOR

Our next question comes from Rich Greenfield with LightShed Partners. Please go ahead.

RICH GREENFIELD, LIGHTSHED

Hi, thanks for taking the questions. I've got a few. First, and they'll be quick. There's huge advertiser demand for Spotlight, which sort of replicates the TikTok and Facebook Reels sort of user mechanic. What's holding you back from starting advertising within the feed, especially when ads are already being created in similar sort of form factors on other sites?

Two, Story Studio, I know, you announced it at the Partner Summit, it hasn't launched yet. Curious, I guess for Evan, specifically, how do you think it's going to change the quality of the content on Snap? And maybe even since it can be used for any, you know, app, how do you think it sort of leads to the use of Snap content across the broader mobile web? And then, just the last piece for Jeremi, specifically, curious, what are the key building blocks you need, ad product wise, to drive small and medium businesses to advertise in much larger numbers? Like what should we be looking for in terms of your ad products or tech stack that needs to be done to really ramp those numbers? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey Rich, thanks for the great questions. Yeah, as you pointed out, you know, we really pioneered that vertical video format with Stories and of course, now use that format in Spotlight. And so it's something that I think, will transition to monetization really easily. And of course, leverage our full ad stack and all the optimizations and measurement capabilities that we offer today.

We've done some small testing with advertising in Spotlight so that we're ready when we want to turn on. But for now, we're just really focused on the core experience. There's so much opportunity there. We've got a great roadmap of improvements and we just don't want the team to get distracted, frankly, with monetization at this point, when there's so much upside in the core user experience and core user engagement. So we've chosen to focus on the product experience for now. And then, you know, over time, we'll think about monetization. But you know, we're testing and learning. So we're ready, when the time comes out.

And then, you know, when it comes to Story Studio, I'm so glad you asked this question, it's something we're really excited about. If you think about the core Snapchat Camera, we're always optimizing it around communication. So we want it to work really, really quickly. And oftentimes, that means we don't offer some of the more sophisticated creative tools that you might want to use when you know you're making the perfect video. And maybe you want to spend 20 minutes really, you know, perfecting the transitions and the text overlays, and the audio and things like that.

And so what we wanted to do is create a separate application, Story Studio, to really focus on some of those more fine grained editing use cases to help people make really beautiful videos. And we think they're going to use them in a bunch of different ways after they create them, of course, contributing

them to Spotlight or you know, even, you know, to make Stories for Discover. So, you know, we don't know what folks will make yet but it is a really great opportunity for us to invest in great creative tools. And over time, we may invent new creative tools in Story Studio and bring them over to Snapchat. So it's a great new way to experiment with video editing. And we're really excited to get it out there.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Hi, Rich. Thanks for the great questions, as always. I will take the small, medium business question. So specifically as it pertains to small and medium businesses, I think one of the things that can kind of get conflated is that talking about local or is that talking about e-commerce and app install, et cetera? So I'll give you an answer kind of in two parts here.

But the first is really the small and medium businesses as it pertains to app install and e-commerce, so digitally native businesses to be specific. We believe that we already have a lot of the tools focused on measurement, ROI, that flywheel that we talked about in the last question in terms of optimization and ensuring that people get results when they use things like our goal based bidding strategies. And those products are already in place, but we believe that we have a significant opportunity with smaller growing companies in this particular space.

And then, looking longer term, we believe that the Snap Map and Public Profiles for businesses will be really key features to unlock growth in the local SMB space different than the e-comm and the app install businesses. But we're still really, really early on in this particular journey. The good news is though, that Snapchatters are starting to interact with local businesses organically on the service. So as we improve the utility of those core services, we're going to be investing in more local specific advertising products. But we're not there yet. So that's what you should be looking for.

OPERATOR

Our next question comes from Ross Sandler with Barclays. Please go ahead.

ROSS SANDLER, BARCLAYS

Hey, guys. Evan, just a question on engagement. You noted that time spent watching content is up overall, but it's down for user Stories. So is that from less mobility or is that being cannibalized by the Spotlight engagement? And do you think you can grow both areas in tandem, or should we expect that dynamic to continue?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Ross, thanks for the question. You know, I think the best way to think about it, Spotlight is not going to be purely incremental. But so far, what we've seen is that it's largely incremental. And the

reason why we think that is, is because Spotlight and Discover, you know, and our Stories products are really different purposes. So what we're seeing is that Spotlight is a great way to discover new content, to find creators you've never heard of before, or even someone who just submitted a really funny Snap that they created.

And then Stories is a much more high intent product. So people, you know, make friends and want to see exactly what their friends are up to, or they've subscribed to their favorite publishers. And so what we're really interested in over time is actually the relationship between the two. So people might discover new influencers, new creators in Spotlight, add them and then go view them on Discover.

So you know, I think you're right. It's not going to be purely incremental. But so far, it has been largely incremental. And we're really excited about the long term opportunity for the, you know, for us to evolve the relationship between the two. So Spotlight has really opened up a whole new canvas for us, you know, to explore this way of distributing content and actually help people find things that, frankly, are pretty hard to find today on the Stories page.

OPERATOR

Our next question comes from Mark Mahaney with Evercore ISI. Please go ahead.

MARK MAHANEY, EVERCORE

Thanks. I'll throw a couple questions too, please. One on Spotlight. Your level of investment in continuing to incentivize content, do you expect to keep that at roughly the same level or do you think you've reached enough critical mass where you don't need to incentivize content? Secondly, could you talk a little bit about monetization of Maps and where you are versus the path and lay out some expectations, please, for that.

And then maybe third, the high level question for you, Evan, which is, do you think about augmented reality and virtual reality also as a potentially new compute platform over the next 5 to 10 years? I know you've talked about this in the past, but just your updated thinking on how much of a new, you know, "compute platform" that could be and the extent to which you think that we will just fundamentally change or at least a significant segment of the population will fundamentally change how they interact because of AR and VR? Do you think about it as complimentary or supplementary or, you know, actually substantially replacing current interactions? Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, Mark. It's Derek. I'll take the first part of your question on Spotlight, then I'll turn it over to Evan on the other parts of your question. You know, on Spotlight in particular, you know, one, we're continuing to improve the experience for our community and for our creators. For viewers, we're adding

new features like the trending page while improving personalization and ranking in order to show the right content to the right people based on their engagement interests. And for creators, we are making it easier to create compelling content using creator tools and our Camera, and we launched Creative Kit for Spotlight so that creators can easily create and submit videos to Spotlight from applications like Voisey and so on.

We're really excited about the momentum we're seeing on Spotlight. Submissions have tripled sequentially. We're also seeing positive engagement trends with 49% sequential increase in DAU. We're also seeing time spent growing rapidly with daily time spent per user on Spotlight in the U.S. growing more than 60% in the last quarter. On the creator fund and the level of investment, we remain dedicated to rewarding our community for what they contribute to Spotlight. We have evolved the crater fund in the most recent quarter in order to continue to reward top creators. We're also seeding new content categories.

And we're pleased with what we're seeing in the results of that so far – we made over the last quarter as we've observed all-time highs in daily submissions to Spotlight after making these changes. We're still very early on in this journey, though. We're excited about our ongoing work with Spotlight to help our community discover new content and creators while also supporting our global creator community. On the monetization side of that, it's very early and we don't feel pressure to do that at this time. But hopefully, that gives you a little bit of a sense of where we are on Spotlight and our commitment to investing in that product over time. I'll turn it over to Evan to handle the next parts of your question.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Mark. Thanks for the questions. Two things I love talking about. With Maps, we're really focused on the product opportunity and just continuing to evolve the platform. We see this as a huge long term opportunity. And so it's just critical that we remain focused on delivering value, you know, to the people that use our Map. It started out with answering basic questions like, you know, what are my friends up to? Where are they? Or, you know, are they on their way home yet? And now has evolved to really show people what's happening around them.

And of course, most recently, with our Map Layers, you know, really to even find events nearby or restaurant recommendations. And so, you know, what we're going to focus on now is expanding that functionality to more partners making the Map, you know, much, much richer in terms of its content, and then, doing an even better job personalizing. So over time, of course, we're going to have to filter through all the possible Layers that you can engage with on the Snap Map and really find the relevant, you know, concerts or restaurants or, you know, local parks, that maybe are most interesting or important for you.

So the big focus right now is, is continuing to evolve people's relationships with the places around them. We've also released some really cool products that will, you know, allow people to favorite places or find ones that are popular with their friends. And so we're just focused on growing that engagement. And then, you know, of course, over time, you know, we think we can provide a lot of organic value to local businesses, help show them, you know, who their customers are, how frequently they visit, help them understand foot traffic trends, and then, of course, you know, eventually help them market to reach their local customers.

So that's definitely an exciting opportunity for us. But it's really important that we focus on the core of that product opportunity, because it's a really big one, and something that we're really excited about. You know, and then, as it comes to augmented reality, we're really excited about the potential for AR, mostly because it makes computing much more human. It's overlaid on the world around you. You don't have to look down at a tiny screen. You can look up and be immersed in a computing experience. But that said, I don't think it's a replacement at all for existing computing devices, which, frankly, are much more oriented around information retrieval and information organization.

And I think what we're going to see instead is that augmented reality is much more oriented around human experiences. And so whether that's, you know, more recently, we did a partnership with LACMA to create new monuments in Los Angeles, or learning about the world and walking through the solar system to see what it looks like. And of course, many of the other Lenses we referenced earlier around commerce and try-on. I think augmented reality can provide a totally new way to interact with computing that's experiential and very different than the way that we interact with computing today.

So I don't think it will be a replacement, but I certainly think it's an exciting way to experience the world. And that's why we're investing so heavily, of course, in the near term on smartphone augmented reality, but then in the longer term as well with wearable AR, which is something we're really excited about.

OPERATOR

Our next question comes from Mark Shmulik with Bernstein. Please go ahead.

MARK SHMULIK, BERNSTEIN

Yes. Hi, thanks for taking the question. One follow up, if I may, around e-commerce. And so you know, lots of deals and efforts taking place on that front. You know, we've heard around the Business Profiles, AR try-ons, et cetera. You know, there's obviously a lot of different ways for brands and sellers to reach their customers that are being tested within Snapchat. But is there anything you could share about how and where Snapchatters are engaging and shopping with that content and potentially what the

roadmap could look like towards perhaps like a more permanent e-store within the application? Thank you.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yeah, sure. Thanks for the question. This is Jeremi. Appreciate it. As Evan mentioned, we really think that the shift towards e-commerce is a long term secular trend and we know that AR can play a really pivotal role in improving the e-commerce experience for shoppers that's been beneficial to both the retailer and the customer. We've talked a little bit about this in past calls, but when you take a look at the trends that accelerated during lockdowns, it was really an interesting period of time because we had a lot of people in the Snapchat community that are fully engaged in AR. 200 million people engaging in AR every single day. And brands really needed to find a replacement for malls and for showrooms and these kinds of things, which accelerated the trends in AR.

We don't look at it as necessarily one specific destination on Snapchat where people can go and experience AR or brands can have a presence, but rather the AR shopping in its entirety is a huge focus for us. But we're also looking at commerce and shopping as the type of experience that can be threaded throughout the service. So not like a specific destination, although, of course, that will be available on Public Profiles as well. But we've experimented with shopping your screenshots via Screenshop, native commerce for publishers and creators in Discover, and even Scan to shop with our Amazon partnership that we launched a few years ago.

We work with advertisers all the time, spend a lot of time with them, and they consistently tell us that Snapchat and talking with their best friends comes up as a really important part of the shopping experience. When you think of kind of the evergreen question that's been going on for years as "does this look good on me?" Imagine how much more effective that is in AR without having to buy something or return it later. And we're going to look to leverage those close friends, that type of sentiment as we weave shopping experiences throughout the Snapchat service and in just a really natural and engaging way.

OPERATOR

Our last question comes from Justin Post with Bank of America. Please go ahead.

JUSTIN POST, BANK OF AMERICA

Great, thank you. A couple questions. First, what were the key drivers of revenue upside versus your expectations? Obviously a very good quarter. Were there any unusual positive impacts in May or June or actually even a benefit to Snap shift and spend because of IDFA? And then, secondly, just maybe you can provide a little bit more details on what you're thinking around IDFA. Is it actually affecting

targeting? And how do you think about some of the workarounds you're seeing or you're implementing so far? Thank you.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yeah, sure. Thank you for the question. So I think when we're kind of talking specifically about what drove the success, this is my favorite question. So I'm excited that you asked it. Thank you. It was really broad based across all of our sectors as well as our regions. So when we look at different areas of success when you take vertical by vertical by vertical, we had a lot of success in areas where we've seen that type of acceleration during lockdowns, like streaming, for instance. But then, as the world started to reopen a bit, we also started to see success in areas like retail and restaurants and little bit of life back into the travel sector, which has been nice and exciting as well. I will let Derek talk to anything specific that was kind of May-June related, if he'd like, but I can also take the IDFA question.

I think the important thing about IDFA is to really understand that the solutions are not yet fully finalized. Everyone is still evolving, Apple, the entire industry is still evolving. And we've said this before, and I just want to reiterate that we genuinely support Apple's approach. We've always believed that advertising should respect customer's privacy at its core at Snap and the products that this amazing team has built for the last almost 10 years now. And we've been working really hard to make this transition smooth for our advertising partners as well as our businesses.

So where we are in the cycle right now is that we rolled out full support of SKAdnetwork version 3.0, which we know will aid or we believe will aid in attribution for advertisers. And we've also implemented Apple's API. In addition, we launched Advanced Conversions in Ads Manager so advertisers can measure their campaigns with our privacy conscious measurement stack. And then, you know, I think one of the things that we're observing here is that our opt in rates have been above what is sort of widely reported in both the press as well as with the analyst community.

So that's, that's good, but it remains so early in these iOS changes and there's no question that it will be a change for the industry in and of itself. But you know, I think we prepared it the best that we can. The product teams and the engineering teams have been working really closely with all of our partners and our sales teams to make sure that this transition for our advertisers is as smooth as possible.