SNAP INC. Q2 2022 TRANSCRIPT

OPERATOR

Good afternoon, everyone, and welcome to Snap Inc.’s Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. I would now like to turn the call over to David Ometer, Head of Investor Relations.

DAVID OMETER, HEAD OF INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Second Quarter 2022 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.

Today, we published our inaugural investor letter on our Investor Relations website and with the SEC shortly after market close. The investor letter includes full details of our results, and we hope that you've had a chance to read it. Please also refer to our Investor Relations website at investor.snap.com to find today's press release, slides, 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 back over to the Operator who will begin our analyst Q&A session.
ROSS SANDLER, BARCLAYS

Great. Maybe we could start with the macro environment. You stated in the letter that 3Q is roughly flattish thus far, and that's a pretty material slowdown from where you guys were 90 days ago, which I guess isn't surprising given kind of what's going on with the macro. So, could you parse out for us which categories are slowing the most in your ad business? You called out in the letter some high growth sectors cutting back. I assume you mean venture-backed start-up type companies that buy ads on Snap. How big of a revenue bucket is that for you guys and how does the trajectory there compare to the larger kind of Fortune 500 marketers on your platform? Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, Ross. It's Derek speaking. Thanks for the question. I think it's probably a good opportunity to step back and discuss how the overall demand environment is materializing. As you noted, we have seen a pretty good deceleration over the last 90 days, and as we noted in the shareholder letter, we've seen that across our DR and brand businesses, as well as a number of sectors. But over a longer trajectory here, we've observed a fairly steady deceleration in demand over the last year.

The deceleration began with the platform policy changes implemented in Q3 of last year. Those policy changes upended a decade of advertising industry standards, and in turn, the models used to drive the direct-response advertising business, as well as the tools used to measure the returns from that direct-response advertising. And then beginning later in Q4 and certainly through the first half of this year, we've seen macroeconomic challenges develop. While there have been lingering supply chain and labor supply issues impacting certain segments that began during the pandemic, more recently, we've seen the impact of persistently high inflation, then rising interest rates and rising geopolitical risks associated with the war in Ukraine.

Those macro headwinds have disrupted many of the industry segments that have been most critical to the growing demand for our advertising solutions over prior years. We're seeing these various headwinds put pressure on the earnings of a wide variety of companies, and this is directly impacting the demand for advertising. Specifically, advertising spending—in particular auction-driven direct-response advertising—is among the very few line items in a company's cost structure that they can reduce immediately in response to pressure on their top line or their input costs. As a result, many industries and verticals have come under top line or input cost pressure. Advertising spending has been amongst the first areas impacted.
To put a finer point on that, we've over time worked very hard to make it very easy for our clients to turn on advertising and to ramp their advertising and that's been particularly good for our business as budgets have grown over time, but in a period where we're seeing headwinds, it's also very easy to turn off and very quick to turn on. So, we see this dynamic within our business as advertisers have lowered their budgets and their bids per action to reflect their current willingness to pay.

So, for example, in some industries, where top line growth may remain strong, but the businesses are experiencing input cost pressure due to inflation, we've observed reduced marketing spending and lower bids per action, and then certain other high growth sectors, where businesses are seeing higher costs of capital, that's further reflected in their campaign budgets and their level of bids per action.

So, amid these various headwinds, we're also seeing increasing competition because the advertising dollars in aggregate are now growing more slowly and that intensifies the competition we see. So, because of these impacts from the platform policy changes and the macroeconomic and the competition all compound on one another, it can be difficult to sort of attribute the deceleration to any one factor. But in order to keep growing we've got to stay focused on the inputs that we control, and that means investing to improve our direct-response business, including our first- and third-party measurement solutions as well as improving ranking and optimization.

So, hopefully that gives you a little broader context of how we're seeing the demand environment evolve and how that's translating into our business more recently.

OPERATOR

Thank you. The next question is from the line of Brian Nowak with Morgan Stanley. Please proceed.

BRIAN NOWAK, MORGAN STANLEY

Thanks for taking my questions. I have two. The first one, I appreciate the color around where we are. Sort of to start out, 3Q being flattish. I know there's a lot of moving pieces on here, Derek, on the month and things. Just remind us how we should think about the monthly comps, July versus August versus September and some of the platform changes impacting the year-on-year comp structure throughout this quarter. And then the second one, the last answer's pretty helpful, but just walk us through philosophically in this type of macro environment what do you have to execute on to really get the business back to growth? Do you have to add more advertisers? How do you get advertisers to expand ad budgets? What are sort of your key strategies you need to execute on to sort of get back to healthy growth in the next six months for the platform?
DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there. Thanks for the questions. I'll take both of those. First, as we enter Q3, a lot of the headwinds that I just talked about in the prior question continue to be as significant as they've been at any point recently, and it's not clear how those headwinds are going to evolve as we go through the quarter, whether they might abate or whether they may intensify. One of the reasons for that is the point I mentioned near the end there, which is, in particular, how easy it is to ramp-up spending on our platform and how flexible we've made it for folks to ramp-down their spending. So, the reaction within our business and our top line to a shift in those trends can be fairly rapid and that makes the visibility forward-looking particularly challenging.

So, given that, we believe the most prudent approach to giving folks some indication of what to expect going forward is to focus on providing transparency on how our business is performing right now, and our plans to better position our business for long-term growth.

So that sort of leads into your second question. And essentially to return to a higher rate of long-term revenue growth, we're focused on three priorities. The first is investing in our products and our platforms to sustain the growth of our community, which has been very healthy. The second is investing heavily in our direct-response advertising business, and we've articulated three key priorities there, including around investing in our first- and third-party measurement solutions as well as continuing to make improvements in our optimization and ranking and product innovation. And then lastly, as we shared a little bit in the letter, we're focused on cultivating new sources of revenue that will help diversify our top line revenue over time.

So, we believe that if we can stay committed and focused on these priorities and combine that with our unique reach and rapid product innovation that we've demonstrated over a long period of time here, that provides us a path to regain momentum over time.

So hopefully, that gives you a little bit of helpful additional context on your questions. Thank you.

OPERATOR

Our next question is from the line of Rich Greenfield with LightShed Partners. Please proceed.

RICH GREENFIELD, LIGHTSHELD PARTNERS

Hi. Thanks for taking the question. I'm going to struggle to keep it to one. But on Page 1, you called out growing competition for ad dollars on top of the slowing ad market. I'm curious, how much of that is sort of directly tied to TikTok, which has been a monster in terms of its growth, versus sort of the two juggernauts that exist today in terms of Google and Facebook? Any color on sort of where that competition is coming from? And then I guess sort of related to this on time spent. Is any of this people
spending less time, and it obviously relates to competition, but is this people spending less time on Snapchat every day, meaning less opportunities to monetize the user? Or is this just purely advertisers simply not spending as much as they were before? I'd be curious on both of those points.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Rich, it's Derek. I'll take the questions. So, on the competition side in terms of monetization, we face a number of very large and very sophisticated competitors. Today, we're seeing the overall advertising pie grow at a slower rate amid the macro headwinds I've mentioned earlier. So as competition, whether it's with TikTok or any of the other very large, sophisticated players in this space, has only intensified. So, it's hard to disentangle the numerous factors here impacting what's clearly a headwind driving deceleration in our business. But definitely, as you see that pie grow at a slower rate and you've got lots of folks competing very intensely over it, you're going to see the competitive factor be a bigger part of the overall discussion.

And then in terms of what we're seeing on engagement and how that's translating to revenue, one, you're correct that the community in aggregate continues to grow at a healthy rate. And we've also seen time spent with content, where we generate the majority of our revenue today, growing, and that's reflected in the approximately 9% impression growth that we shared in the letter.

The primary issue here is about how demand is materializing. And so, we talked a little extensively about this already, but we've definitely seen the deceleration in demand as we've—first, with the platform changes, then all of the macro issues that have compounded on top of that, which is really a significant factor at this point, and then the competition play into it.

So, I think from a perspective of seeing the growth materialize, this is really about the demand side of things. What we have to do is stay focused on the inputs that we control, and that's around investing in our direct-response business and making sure that we get improvements into our first- and third-party measurement solutions as well as continuing to invest in improving optimization and ranking and personalization.

And so certainly, the continued growth of our community is going to help over the long term and is very important to the long-term health of the business. But in the near term, this is about demand and us improving our direct-response advertising tools to serve that demand for the long term.

So hopefully, that provides a little helpful context to those questions. Thank you.

OPERATOR

Our next question is from the line of Eric Sheridan with Goldman Sachs. Please proceed.
ERIC SHERIDAN, GOLDMAN SACHS

Maybe I’ll ask this as a two-partner. As you look back over the last two years from when Apple first announced their policy changes and then implemented them a year ago, maybe talk a little bit about what your key learnings have been that you wish you had maybe done on a more accelerated timetable or how you might have positioned the Company differently looking backwards over the last two years.

And putting a finer point on the three elements of how to build and scale the DR business from here, can you put some sense around how far along you are on those initiatives and the amount of investment capacity that might be needed to achieve them and/or a timetable in which to achieve them? Thanks.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes. Sure. Thanks for the question. This is Jeremi talking. So, I think when you want to talk about the long term, I want to go back to what Derek was mentioning regarding our key priorities and where we’re focused on growing the business. So, in particular, focusing on our measurement strategies as well as integrating with both third-party and first-party measurement solutions to get everything back on track.

When you think of our advertising set more broadly, there are a litany of ways that they measure their advertising, including their own proprietary tools and then, of course, our first-party, privacy-centric tools but then the third-party tools that they prefer. So, continuing to optimize there and then continuing to drive demand in categories where we have [headwinds], I think, are particularly important in that regard.

OPERATOR

Our next question is from the line of Lloyd Walmsley with UBS. Please proceed.

LLOYD WALMSLEY, UBS

Thanks for taking the question. If I can ask two. I guess the first one would just be as we think about the divergence in tone between the major ad agency holdcos that continue to sound relatively upbeat versus what you guys are seeing, do you think that that's just a function of them being a lagging indicator? Is it a different customer base? Is digital brand just easier to cut faster? Like what do you think are some of the divergences you're seeing there? And are there customers still spending at healthy rates with you guys or maybe just moving budget?

1 Please note that this reference to “headwinds” was intended to be “tailwinds.”
And then the second one would just be as we think about moving through whatever form of downturn this is coming out on the other side, do you think that the 50% top line growth ambition is still attainable in this kind of environment of increased competition and diluted ad performance post ATT? Is it just going to be a tougher road structurally? Or do you think 50% is still on the table on the other side of this trough here? Thanks.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

This is Jeremi again. I will take the first part and then hand it over to Derek. We saw a lot of enthusiasm at Cannes as well and a lot of really great reaction to our incredible augmented reality exhibit that we had there. But in general, I'm kind of harking back to what Derek just said earlier in the call, that over the past few years, we've spent a lot of time removing friction from buying and selling on our platform.

You alluded to this in your question in terms of it making—when it turns—it's easier to turn on. It's definitely easier to turn off. So as companies are reevaluating their priorities and their cost structure, they are looking at things like digital ad spend. It's easy to pause, reevaluate and move forward there. So those same tools and services that make it easy to ramp up, make it easy to ramp down. And we know that our advertising partners are facing significant uncertainty, and we talked about that a few times. So, I'll focus on the others.

You mentioned this as well, but there is a pretty heavy selection bias for the kinds of team members and the types of clients that attend Cannes. We talk a lot about a balance between our DR business as well as our brand business. Large agencies as well as brands tend to be heavily represented at Cannes, whereas other companies like direct-to-consumer, e-commerce, for instance, or app install are less represented at Cannes.

So, I think that's part of the divergence that you're seeing, is, to your point, about them being kind of just a different mix of people that's less representative. And a lot of those brands that are bearing the brunt of these macro issues that we've talked about before, they aren't particularly well represented at Cannes. So, I think that's what you're seeing there.

But again, I think that one of the things that was really exciting for us and me personally being there was the excitement around the augmented reality advertising future. We had an exhibit with a lot of incredible brands there and we're able to showcase our capabilities and believe that, that will have a long-term halo effect on the AR business, where we remain incredibly committed in addition to our resilient performance business.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

And it's Derek. I can take the second part of that, which is with the long-term growth prospects. I think first, it's important to step back, and I think it's probably clear for all, but in order to achieve really
elevated growth rates, we're going to need an operating environment that is more cooperative than the one that we're experiencing right now. Having stable platform policies that we can build and optimize against are really important, but having a macro environment where clients are able to invest and grow their marketing budgets is really important, too. It's definitely easier to grow our top line in an environment where there are incremental budgets being deployed and we can capture incremental share versus simply having to take share of the existing pie in order to grow.

The key here is being focused on the inputs that we control and the things that are critical to long-term growth. We've articulated some of those in our letter. So, to be super clear, one is continuing the growth of our global community at a rapid pace. We already reach very deep penetration in many of the world's most attractive advertising markets, but continuing to deepen our engagement and our penetration of those advertising markets and the overall global community is input one.

And the second is, as we've discussed earlier here today, is continuing to invest in our direct-response business and improving that consistently over time. Number one, through improving our first- and third-party measurement solutions; and two, through better ranking and optimization that delivers better optimization for our advertising partners and therefore return on ad spend over time; and then three is really about continuing to cultivate new sources of revenue across our business, and there's lots of opportunity for that.

Obviously, we have a number of screens in our application that are currently undermonetized that present a lot of opportunity to grow over time, whether that's Spotlight or the Camera that's very early in its monetization, or over the longer term, the Map and, of course, the future of AR and many other formats. And of course, we've got other endeavors that are earlier and are going that could provide growth, including the recently launched Snapchat+.

So, continuing to invest in diversifying our top line growth to drive resiliency into our business and being well positioned for the long term is the key. And if we stay focused on those priorities, we believe we'll be well positioned over time.

OPERATOR

Our next question is from the line of Justin Post with Bank of America. Please proceed.

JUSTIN POST, BANK OF AMERICA

Great. You've talked a lot about measurement in both the letter and on the comments here. I guess the first question is, did measurement deteriorate in the quarter? Any changes from Apple or Google, either in the quarter or looking forward to the second half? And then second, when you look at the measurement opportunity, how would you say you do versus peers today? And what is the timing for starting to see real improvement there? Thank you.
JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes, no problem. Hi, this is Jeremi. So, we'll talk about the measurement tools here, particularly as it pertains to the peers. Thank you for the question. So, there are a couple of things to keep in mind, that measurement, targeting, optimization and engagement all together are important for driving performance. And measurable performance in particular is what we have always been focused on.

We still see a lot of headroom in improving our optimization and engagement, and we talked about that, and Derek just covered it as one of our core priorities. But I can give you an answer specifically to measurement in particular, which we have called out for a while, and this is where we're focused on our two key priorities.

So, as we talked about kind of over the last year as platform changes have happened, driving adoption, utilization and trust in our first-party privacy-preserving measurement solutions such as Estimated Conversions, for example, is a key part of this journey. So near term, our focus is growing—on growing the adoption of those privacy performing integration technologies, and those help feed both measurement and optimization such as the Conversions API that we've had for quite some time.

And then from there, we have to focus on building trust in those Estimated Conversions. As I mentioned in one of my earlier example—in one of my earlier answers, advertisers are playing around with new measurement as well, triangulating on first-party, third-party and proprietary solutions. These statistically modeled conversions—when we're building trust, these statistically modeled conversions can augment some of those third-party tools—an example of that would be SKAN—in a privacy-preserving manner and giving advertisers more information to act quickly.

But in general, we believe that Estimated Conversions are going to become an increasingly important part of a privacy-centric advertising world, which feeds into the second measurement priority that we have, which is ensuring that our advertising performance is well represented in advertisers' preferred third-party measurement solutions. So that—what I mean by that is that this is a core component of building trust.

So regardless of the impact of our advertising, if our first-party measurement tools are not in alignment with advertisers' preferred, trusted third-party tools, we're still fighting an uphill battle. And those third-party tools across both web and app have been impacted by platform policy changes. This has been particularly acute for web-based advertisers and has led to an increase and a relative emphasis on same session, last click-based advertising, where we need to show that we are performant.

We're still early in this journey. The platform policy changes, as you know, are an ever-evolving environment, but we do feel confident in our solutions and the opportunity ahead of us. We're going to focus on this problem holistically, and we believe that we're going to improve performance in parallel
with how we're represented within third-party tools, so we get credit for the conversions that we do drive. In turn, that will drive trust in our first-party solutions, which will then enable us to focus on optimizing towards these privacy-safe observable actions, and that will drive our advertising flywheel.

OPERATOR

Our next question is from Brent Thill with Jefferies. Please proceed.

BRENT THILL, JEFFERIES

Derek, can you talk to the trade-off to profitability? And what are the steps you're taking, as you highlight in the letter, to emerge as a more focused Company?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Brent, thanks for the question. First, I think it's clear, our rate of revenue growth has slowed considerably, and we are acknowledging we must adapt our investment strategy accordingly. So first, we intend to substantially slow our rate of hiring to effectively pause growth in our headcount, which is a significant portion of our Opex. In addition, we'll be looking at the rate of operating expense growth that is non-personnel-related in order to stem the rate of growth in our overall operating expenses. The objective there being to get to a place where we can carve out a path to free cash flow breakeven or better even at reduced rates of top line growth.

As we implement these changes, we'll be reprioritizing our investments and driving renewed focus on productivity in particular. And in addition, we'll focus our go-forward investments around sustaining the investments we believe are most critical to capitalizing on the future of AR and executing on the priorities we articulated in the letter and that I've shared here today. We may incur some transition costs along the way as we execute on these changes, but we expect to emerge from all of that with a more focused cost structure as a result.

So hopefully, that gives you a sense of how we're thinking about it in terms of both a priority perspective and how to bring the growth both in our Opex and overall cost structure under control.

Thanks for the question. I hope that provides some additional insight.

OPERATOR

Our next question comes from Mark Mahaney with Evercore. Please proceed.
MARK MAHANEY, EVERCORE

Thanks. When you talk about diversifying your revenue streams, I think, Derek, you mentioned a couple of different areas, Maps, Spotlight, etc. Could you triage those a little bit? Of those different areas, which do you think has got the greatest potential to the least potential in terms of diversification?

And then I want to get back to one macro question. In the script here, you talked about macroeconomic challenges that have disrupted many of the industries that have been most critical to your advertising solutions. Is there a particular reason why the macro pressures would have impacted your advertiser base more than what would happen with other companies? Is there something about your advertiser base that may be more economically sensitive than what we would see in the general economy? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Mark, it's Derek speaking. Thanks for the questions, and I'll jump in there on those. I think in terms of—taking them in reverse order, your second question there around our composition of advertising and why it might be more or less challenging for us. I think, first of all, it's difficult to know what the composition of other folks' businesses are. Certainly, we have a relatively lower exposure to small- and medium-sized, brick-and-mortar businesses. So that's part of the substance there.

But I think more than anything, when you're thinking about us decelerating from what was a very rapid rate of growth to nearly flat or approximately flat growth currently, one of the challenges, I think, that is clearly difficult is that it's much easier to gain share when budgets are growing and when investment levels are growing. And so, it's easier to take share, whereas as we're seeing the overall advertising pie grow at a smaller rate, then that essentially intensifies the competition over that bit.

And then the last thing that I would share just here in terms of the composition of revenue is that obviously, we've shared previously that the significant majority of our revenue is direct-response related. And as I've mentioned earlier, one of the things we've tried very hard to do on behalf of our advertising partners in recent years is to make it very easy to turn on and off direct-response advertising and to scale that advertising very quickly.

And so, as our partners were able to grow their marketing budgets and grow their rates of investment, they were able to very easily and with very high return on investment scale their advertising with us. But that works in the opposite way when folks have to retrench their budgets, and it's very easy to shrink down. And so, to the extent that we maybe skew in those two ways differently than other folks, that might impact relative growth rates.

And then over the long term, the question on where we see opportunity, one, I think we've got a significant amount of green space on the application. We've talked about that over recent years. One,
we still obviously have room to go on our content business that we monetize today, but Spotlight is a relatively new product for us. We shared last quarter that we have begun testing monetization there. Certainly, we’re excited about that opportunity over the long term and expect that we’ll expand the testing there into the back half of the year, especially later in the year when that sort of inventory will be more helpful.

Obviously, the longest—long term, the most exciting opportunity is AR. And we’re investing heavily around the future of AR to drive AR monetization and enterprise solutions for our AR partners, and we’re very excited about that opportunity to contribute to the business over the long term.

And of course, medium to long term is the Map, and we’re very excited about what we’re seeing there on engagement. We shared some stats in the letter and some of the engagement that we’re driving around Maps. And so those are all exciting avenues to expand monetization across our ad business.

And then if you look further into other diversification opportunities that we’ve been discussing more recently, including the launch of Snapchat+, obviously, a lot of opportunities here. Staying focused on our core priorities is going to be the key in order to execute on those and resume long-term growth.

So hopefully, that gives you a little bit of context to how we’re thinking about it over the longer term.

OPERATOR

Our next question is from the line of Mark Shmulik with Bernstein. Please proceed.

MARK SHMULIK, BERNSTEIN

Derek, I know you mentioned a few times, I think, the ability for Snap to grow as ad budgets grow. And I guess what I’m wondering is in conversations with some of your core advertisers, how much of the impact that they’re seeing to their ad budgets would you say are transitory versus a real permanent rebasing in how they think about performance marketing and digital advertising spend?

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question. This is Jeremi. I can take this one. I think we’re looking at macro pressures from a litany of different angles. We’re hearing supply chain pressure, inflationary costs, of course, that are impacting unit economics as it pertains to moving product. They’re getting pressure from the cost of capital, as we’ve talked about before, capital being more expensive as well as drying up in different areas.

So insofar as any of those are transitory, I think that’s yet to play out in the overall macro. But what we’re hearing from advertisers, I think, more specifically as it pertains to advertising budgets is what we
said before, which is that they are taking this time, given all of those other macro pressures, to
reevaluate their priorities to ensure that they're making the right investments in the right places. And
when we talk about digital advertising, it is the easiest thing to turn off.

I know we said that a couple of different times, but I think it's important to reiterate here, is that it is the
most important thing to turn off. But it is also one of the most performant tools in their tool chest. So as
things start to rebound for some of these advertisers in the areas where the macro pressures are a little
bit more transitory, it's also the first thing to get turned back on. So, we remain optimistic that as things
hopefully start to improve in the macro that we can capture that opportunity by remaining focused on
the three key priorities that we've articulated in the call earlier.

OPERATOR

Thank you. Our next question is from Doug Anmuth with J.P. Morgan. Please proceed.

DOUG ANMUTH, J.P. MORGAN

Thanks for taking the question. Just when you think about the new sources of revenue, you talked
about some of the new services, including Spotlight and Camera and perhaps Map further out. How do
you think about balancing opening up more inventory there with what's essentially more of a demand
problem near term? And then on a related question, can you just talk about Spotlight engagement and
the extent to which you think it's incremental versus a shift for users within the platform? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Doug, it's Derek speaking. I can take the first one there. Just in terms of—from a very short-term
perspective, I would say that the primary issue, as you've alluded, is about demand generation. So, in
the near term, we're very focused on demand generation. I think that opening up new sources of
inventory and new sources of supply over time are really critical to the long-term growth and the long-
term health of the business, which is why we're focused on continuing to invest in the growth of the
community and continuing to invest in our content businesses and the Map and, of course, our AR
capabilities so that we can generate more effective inventory over time.

And of course, as we're thinking about ramping testing, of the monetization of Spotlight, of course, we
think about the course of the year and where demand generation peaks over the course of the year.
And so, in the very near term, I think you're right that predominantly, this is about demand. The extent
to which incremental supply is going to be helpful is really over the medium and long term. And so
fortunately, the healthy growth in the community and the healthy engagement we're seeing across our
platform is really helpful to driving that long-term opportunity.
And then in terms of Spotlight versus—incremental versus within the platform, when we look at content engagement, we’re very focused on continuing to see people engaging with Stories from their friends and family. That's one of the things that brings them into Discover and then helping them segue into additional entertaining content from Discover or Spotlight. We've been pleased to see the overall time spent watching content grew globally year-over-year. And, of course, Spotlight, itself, also doing very well, growing 59% year-over-year in time and MAU growing 46% year-over-year to reach more than 270 million.

So certainly, being able to grow the overall content engagement and then being able to grow Spotlight at accelerated rates is encouraging for the overall engagement piece. At the same time, we’re still seeing Discover do very well, including generating very wide viewership growth on users over the age of 25, which is exciting for growing and aging up with our communities.

So overall, as we step back and look at the service, we’re particularly excited about the growth in our overall community. That’s the key input to then driving people into each of our products, and having DAU up 18% year-over-year or 54 million is a great sign of health in the overall community, and then working people into our products from there is the key.

So hopefully, that gives a little bit more context. And thank you very much for the question.

OPERATOR

This concludes our question-and-answer session as well as Snap Inc.'s Second Quarter 2022 Earnings Conference Call. Thank you for attending today's session. You may now disconnect.