

SNAP INC. Q1 2024 FOLLOW UP CALL TRANSCRIPT

OPERATOR

Good afternoon and welcome to SNAP Inc's Analyst Follow-Up Call. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. Please note this event is being recorded. This is a Q&A session only. There will not be any prepared remarks.

(Operator Instructions)

Our first question today comes from Ross Sandler with Barclays.

ROSS SANDLER, BARCLAYS

Hey, guys. Sorry about the confusion on the main call. I just got a couple questions here. So big picture, we're now growing our ad business kind of in line to slightly faster than the rest of the digital ad industry. And I think some would make the argument that you guys have easier comps compared to the field. But now that things are back on track, I guess, what's your confidence level in sustaining kind of market level or better growth rates for the next few years? And I guess, you know, stated differently, do we feel like we're fully back post-IDFA or is there still performance improvements to be had? That would be the first question.

And then I've got one more.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, Ross. Hey, thanks for the question. Much appreciated. I think that, you know, I would tackle this from a couple of different angles. The first is to look at, you know, the basis of the improvement we saw in the business in Q1. And I think the most important takeaway from that is just how broad based the improvement was.

You know, first, obviously, the largest contributor was the DR business and seeing, you know, that revenue really accelerate in the current quarter. So that's obviously critical, but also contributing on the brand side, significant step-up year over year and accelerating, you know, relative to the prior quarter growth rate. Also seeing the Snapchat Plus business growing at a very big clip and the sub-base there tripling year over year.

And if you get under the hood, you know, seeing that both pillars of the ad business accelerating in each of our three main regions. And then lastly, you know, drilling down on customers, really seeing the base of the advertising customers broadening out. And in particular, you know, the stat I'd mentioned on the prior call around the 85% growth in active small and medium sized customers.

So hopefully, you know, the important thing being that, you know, we've made really significant investments across each of these aspects of our business, whether that was the investments that we made in infrastructure and ad products and the models getting bigger and improvements to optimization and ranking and products and so on the DR side, seeing that translate into realize and then seeing that translate into demand.

You know, the improvements we made to the takeover products last year and seeing really strong response from that, from our customers on that and helping them to reach, you know, our large non-duplicated audience. And then the scaled self-serve products that are helping those SMB customers grow.

I think I would just look at each of those and say, I think we've made really fundamental improvements to each pillar of the company, and that hopefully speaks to the durability of that.

As we go forward, you know, we're early in a lot of these journeys. If I look specifically at the DR business, we've made a tremendous amount of progress around purchase optimizations. We began extending the 7-0 optimizations to some of the app-based GBBs in the prior quarter, and there's more of that to come in the quarter ahead. And that's going to help us expand our addressable market to a larger set of advertisers on the DR side.

And then as we get better and better at onboarding, integrating, and scaling SMB customers, that'll give us more opportunities set there. So there's simply a lot to do. And of course, it's very early on Snapchat+. We're very excited to have hit that 9 million subscriber milestone, but a lot of opportunity there to continue to grow that given the size of our audience globally. So I think lots to do, but we're really pleased with the breadth and the quality of the growth that we saw in Q1. And hopefully, you know, after backing off some of the anomalous seasonality elements that we, between Q1 and Q2, that I noted in the letter, the guide for Q2 gives you some confidence, you know, in our ability to sustain that momentum we established in Q1 and Q2.

So thanks for the question. Hopefully that gives you a little bit more context.

ROSS SANDLER, BARCLAYS

Yes, totally. And then I guess the second one would be, I guess a quick follow-up from the first one, the upgrade you've done on app campaigns, just remind us like back in the day, how big was the kind of app category at the peak versus where it is today? And then the second bigger question though is on brand. Any change or plans to change kind of go to market and brand or kind of a double down in light of what's playing out with TikTok right now? Just thoughts on that.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. You know, on the app campaigns or the app optimizations, I don't think we've ever, you know, disclosed a size in that business, but I would also say that that's not a category that was historically one of our top categories or a main focus. And so we're really excited to be starting to make progress in that area because I do think it is a large opportunity set and it's relatively new for us, not just post the changes we made to our DR business a year ago or post the ATT platform policy changes, but in general, in the history of our DR business, it's a relatively new opportunity set for us.

In terms of the brand business and, you know, our go to market efforts there, we've been really focused on making sure that we have well-staffed teams of experts here and the improvements that we've been making to our takeover products. When we first introduced those, you know, mid last year, we saw a pretty good uptake immediately in Q3. The brand environment was a little soft in Q4, but really pleased with the ongoing momentum we saw in those products in Q1.

You know, I think, as you know, we have a very large, you know, and in many cases unduplicated reach and really important demographics for a lot of brand advertisers. So these products are helping them reach that audience at scale at key moments with really significant reach in short periods of time around product launches and so on. So that's a great product. We've seen really good uptake on it and we're seeing results for those customers as well, which you can see demonstrated in the outputs on the revenue growth for the brand side of the business.

So the key for us is to continue to double down on those product and go to market improvements and continue to deliver results for those customers. And that'll be the key to realizing our full monetization potential over time on that side.

Operator^ Our next question comes from Eric Sheridan with Goldman Sachs.

ERIC SHERIDAN, GOLDMAN SACHS

Thanks so much for taking the question. I mean, following up on Ross's first one and kind of asking in a different way, would you go, when you guys go out and talk to advertisers, especially on the direct response side, what are they still looking for from you guys as a platform to either return as advertisers or to increase their budget of a DR nature materially that they're looking for in terms of either lower friction or unlock or return capabilities?

Like, what are you trying to solve for to sort of get direct response in a sort of more linear matter and to Ross's point, sort of growing at a minimum in line, if not well above industry growth rates, given the scale of the business? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Eric, sure. I think there's no one answer to this question specifically. I think you want to be thinking about this across a couple of different dimensions. One is, you know, on the DR side, you know, where are we from an optimization or ad product perspective for each individual customer or vertical of customers? And so for certain verticals, you know, in particular, some of the ones that we've seen some strength with recently, whether that's, you know, e-comm or some of the other areas that are more purchase oriented in terms of the optimizations that we shipped first as we were improving the ad platform last year. And so for those advertisers, in a lot of cases, you know, we're in a test, you know, drive out proven ROAS, help them scale their budgets. In some cases, you know, especially with larger advertisers that can involve more complex integrations that then need to be customized and optimized over time. Whereas when you're talking about more of the medium sized segment, it could be more about having great integration partners that make it easier for people to onboard and the scaled soft source solutions on the SMB side.

So it can be a variety of different answers and depending on where they are in their life cycle with us. So they're just getting started, in which case the answer might be helping them identify the right ad, the right ad optimization that meets their objectives, then

helping them, you know, fine tune signals and measurement, and then helping them scale against their specific ROAS objective.

But there could be other advertisers where it's more about helping to optimize the model for them, helping to fine tune and so they can scale, spend while still meeting ROAS objectives.

And of course, for large sets of advertisers, you know, we're still shipping new optimizations and taking the learnings we have from the first optimizations we've shipped and applying them to new ones. And of course, we made some important strides in that front with some of the app optimizations in Q1 with more of that to come in Q2.

And that kicks off a new cycle for a new set of advertisers, you know, where they'll be, you know, we'll be able to deliver to them optimizations that meet their objectives. And then we begin the cycle of, you know, integration, test, optimize and scale.

So hopefully that gives you a little bit of the answer. A lot of work to do, but it's exciting to see the business and the customer base broadening out and becoming more based on provable ROAS.

Eric Sheridan^ Thank you.

Operator^ Our next question comes from Rob Sanderson with Loop Capital Markets.

ROB SANDERSON, LOOP CAPITAL

Hey, thank you. Hello, Derek.

So clearly lots of good things happening in your ads business, but I want to ask a little bit of a question on DAUs, specifically North American DAUs.

We spoke last quarter. It seemed like you were pretty confident there was opportunity to re-engage with less frequent users and drive DAUs in the region. It was kind of a matter of where you focus your customer acquisition effort. But here we have DAUs flat again for, it looks like the sixth quarter in a row, pretty flattish. Is it that North America is kind of yet to become a renewed focus for customer acquisition or sort of, you know, what should we expect for user growth in the region?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, Rob, thanks for the question. Thanks for joining the call. I think, you know, first and foremost, yes, we shared a little bit last quarter that we were beginning, you know, to shift some of our focus and resource and investment into more of improvement of the app and the experience for folks in some of our more mature markets, including in North America. And for some of the reasons you noted, we think that there's opportunity to expand and deepen engagement with the teams have begun working on that. And we do think there's an important opportunity set there, especially when you consider just how important those markets are from a monetization perspective.

I do think that there is not an immediate, you know, within days or weeks turnaround between shifting focus, identifying the opportunity sets to make improvements there and then shipping and seeing that show up in results.

So, you know, we first started talking about that really in earnest in the prior quarter. You know, the teams are working hard on some things in that area and specifically, you know, some of the things that even we learned about how to optimize, you know, the relationships between, you know, our most active users and folks who maybe are more casually active.

I think we've shared before that our, you know, MAU reach in North America is really significant. So, there's a lot of opportunity to look at the dynamics of how we have our community engage with one another in order to help people find their friends on the platform and initiate conversations and lead to that flywheel of communication. And then subsequent to that, you know, the broadening out to the other services in the app.

So, the teams are hard at work on that. And I think, you know, I just ask is that you consider, you know, a little bit of time between the shifting of resources and focus to the expectation of the outputs, but know that the teams are at work on that and we do consider it an important priority. Thanks for the question.

Operator^ Our next question comes from Ron Josie with Citi.

RONALD JOSEY, CITI

Great. Thanks for taking the question. Hey, Derek.

I want to ask a few things, but maybe we'll start on just engagement and then we'll go from there. But I wanted to ask on engagement. With Snapchat+ members now at 9 million users, just talk to us about how the learnings of this user-basis cohort help to influence the products that launch on the core service that drives greater engagement. I'm trying to understand just overall engagement of these 9 million users because it's clearly a sizable amount.

And then the second question is just on infrastructure core, to decline sequentially in the quarter. We talked about that in the letter, but just talk just a little bit more to the drivers here. Is that something we should expect going forward or just sort of a new call at baseline?

Thanks, Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, Ron. Thanks for the question.

So first, on the Snapchat Plus side, I think a really fun question around the learnings and how this product is helping us with product development and launching. I think we've seen a number of instances where we've been able to leverage Snapchat+ as a place to experiment with new products, which help us, number one, learn about how our most passionate users are going to respond to those products and also how they're going to scale on our platform.

And I think the launch of MyAI not too long ago was a really good example of that, where we were able to test and learn on that product with our most passionate users, but also understand how an AI-backed product like that would scale so we could make sure that the unit economics of that would make sense for the business before considering how to roll it out.

So you're often seeing us launch products in that space that are really helping folks, for example, to personalize their experience, including in the communication space, so that we can learn about how that works and how people react to that and what the impact is on their engagement. And obviously, an exciting product for the community, too, to be able to get early access to some of the features that we're experiencing with and contribute to shaping the product in a way that's part of the benefit of being a Snapchat subscriber.

So hopefully that's good color there.

On the infra per DAU, I think I would really point you as you're looking forward to the full-year cost structure guidance that we gave. And one of the reasons that we provided that this quarter was to actually help folks see past single-quarter volatility on some of these metrics and understand how to look forward on the cost structure.

So we were \$0.84 on infra per DAU in Q4. We did see that come down in Q1. And that was driven by a number of factors. We kept the AI and ML investment relatively stable across those two quarters and, of course, saw some DAU growth. And so that helps on the denominator.

We also continue always on an ongoing basis to be working on engineering efficiency and product-by-product pricing negotiations, which help to improve our unit economics.

And then in particular in Q1, we noted we had a little bit higher than normal service provider credits that helped to offset some of the cost and further brought that down. So as we go forward, we tried to give ourselves, with that \$0.83 to \$0.85 range, number one, a little room to invest incrementally, especially around the ML and AI side to help build on the momentum we've established on the monetization side as well as the content engagement side. As we're investing in these larger models and incorporating more privacy-safe signals and refreshing those models more frequently, we're seeing those investments translate into better results for the business.

So we gave ourselves a little bit more room to invest in that as we moved to the back half of the year. And so you should expect us to be in that range.

We will continue to reassess that regularly as we move through the year and calibrate the investment based on the returns that we're seeing. But we did hope that giving you a range would help folks understand where our operating plan is for that level of investment at this time for the rest of the year.

So hopefully that's helpful, and thanks for the question.

Operator^ Our next question comes from Mark Zgutowicz with The Benchmark Company.

MARK ZGUTOWICZ, BENCHMARK

Thank you. Derek, just a question on the DR improvement that you saw in 1 Q. I was curious if you can maybe talk about the advertisers that you're seeing, I guess, seeing improvement in their DR campaigns. Is it a collective group, specific group of advertisers?

And the crux of the question is, why wouldn't you be seeing an inflection here if you are starting to see DR improvement, if it's not a specific vertical? Or just trying to understand why you wouldn't expect to see sort of sustainable growth through the remainder of this year, at least this level.

And then a more specific question, when you talk about active SMB customers, just I was curious what the spend threshold is to be active. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there. Thanks for the question, Mark. Much appreciated.

On the DR improvement, we're seeing that really focused on essentially where we have a lot of product market fit, and so where folks are able to leverage some of the purchase-related conversions. So we're seeing good there. Everything from consideration through the purchase funnel, working relatively well. We've talked over the last sort of three or four quarters about some of the verticals that we're seeing particularly good results for, including CBG, restaurants, travel, e-com, and retail, obviously, in particular, on those purchase optimizations, all being categories that are working quite well.

And then from a customer segmentation point of view, we're seeing it across customer sizes. So further to your second question, we're seeing that for large advertisers who maybe have more complex integrations, medium-sized advertisers, they might be working with an integration partner directly, and small, medium-sized advertisers, similarly, either with a partner directly through some of our scaled self-service products.

And so obviously, that is a fairly broad-based set of customers. What I'm excited about is our ability to broaden out from here in terms of being able to ship more optimizations that are part performance that are going to address more advertiser objectives.

We've made some progress in the most recent quarter, rolling out the 7-0 optimization to app install and app purchase in Q1, and we see opportunity that can expand in the future to some different optimizations that will appeal to even more advertisers, whether that's value optimization or custom event optimization and so on.

So there's a lot of opportunity to continue to broaden out the addressable market here with performant products, and then, of course, backing that up with go-to-market to help those customers through the journey. And integration partners that can make that even easier and less friction in the process.

So hopefully that gives you a sense for how we expect to continue to expand the opportunity going forward. Appreciate the question.

Operator^ Moderator: Our next question comes from Rohit Kulkarni with Roth MKM.

ROHIT KULKARNI, ROTH CAPITAL

Hey, thank you. A couple of questions. One on just TikTok. Are you seeing any impact given all the media things happening with TikTok, any advertisers or users or even employees from TikTok trying to reach out to you?

And second, just on how do you measure the ROI of the infrastructure spend that you started in Q2 of last year? It's been almost a year. And just wanted to see, are you already seeing the return on that incremental investment? So how is that manifesting? Or also, what gives you confidence that it seems that the infrastructure spend over the next nine months is also going to be slightly higher than what we saw in 1Q?

So just wanted to see how you're feeling about the ramp in AI investments last year and still continuing this year and the ROI around it.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Hey, thanks for the question. Much appreciated.

When I think about the ramp of the investments in ML and AI, two of the biggest factors there for us were around improvements to the DR ad platform and improvements to the content platform in terms of driving depth of engagement.

I think some of the investments that we've been making are somewhat infrastructure in nature, and some of them are model and scaling in nature. So number one is incorporating much higher levels of privacy-safe signals into our models, so bringing more into them, and making sure we have increasingly a more unified understanding of user interests in a privacy-safe way as well.

And then translating that into much larger models that we can refresh more frequently, and just knowing that that's the state of the art, and then being able to see those investments start to translate into models that deliver clearly, measurably better optimization and ranking so that we know the models are more effective. And then ultimately seeing that translate into, for example, the kind of really significant growth we've seen in spotlight engagement on the depth of content side, or much better performance against ROAS objectives for advertisers on the DR side.

And so when I'm looking at the investments they were making there and being able to see the team get much more efficient in their use of that infrastructure, and then see it show up in the outputs of higher ROAS for advertisers and improving depth of engagement in products like Spotlight, that's what gives us the confidence to know that those investments are performant, and obviously gives us the proof points necessary to want to step up those investments and sort of maintain that \$0.83 to \$0.85 range as we move to the rest of this year.

So I hope that gives you a little bit of context in how we think about those very significant investments.

In terms of how we're focused on executing on our business and the potential of a changing competitive environment, I think we're very focused on execution. We have a very clear roadmap for the year, whether that's the investments we're making in our ad platform and ad products, and the improvements we're making to go to market to serve our advertising partners, or the work that we're doing to make our content platform more performant and innovate for our customers and drive depth of engagement. The team very focused on executing on those things as we move forward to the rest of the year.

So that's where our focus is and how we think we can best serve our community and our advertisers.

Operator^ Our next question comes from Tom Champion with Piper Sandler.

TOM CHAMPION, PIPER SANDLER

Hi, Derek. Good afternoon. The 85% increase in SMB customers really stands out from the letter, and I think that was up from 20% in 4Q.

Was there a product change or some other unlock that kind of enabled that? I'm just kind of curious if you could talk to what the process looks like for a new customer to ramp up in spend. What does that maturation look like? Is that over a couple quarters, or do they get to kind of full levels of spend relatively fast?

Any comments around that would be interesting to hear. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi, Tom, and thanks for the question. Yes, I think we're very excited about this, too. I think if you look at businesses that have gotten to scale on direct response advertising over time and in general in the digital advertising space, having a really large customer base is a really critical input. And so small and medium-sized advertisers are a critical ingredient to us realizing our full monetization potential over the long term.

So to see that customer base start to scale on our platform is really exciting. We're early in this journey, but we are really pleased that some of the more scaled solutions that are more self-serving in nature are starting to work there. And so I think you're going to see us addressing this across the full funnel, so less of pointing to maybe one single thing that's contributing to the growth and more of a broader discussion of the work that we've done to make some of our scaled ad solutions very performant, whether that's the 7-0 product or making it very easy to adopt things like CAPI. Some of the work that we've done with various integration partners to make it easier for certain advertisers to onboard, so it takes friction out of the funnel.

I think we're learning a lot about how to operate our funnel, so making it much easier for people to complete account sign-up and creation. And then through to getting smarter about how to identify what the objective of that business is based on what we know about them and helping them to then identify the advertising product that we have that is most likely to drive results for them in a performant way.

And we're seeing that when our customers respond and adopt those recommendations that they're seeing improved ROAS and that's helping them to grow their spend. And then down through the work that we're doing to make our advertiser support more sophisticated and to resolve the questions that arise naturally from customers over time. And there's been a lot of focus and attention here, and it might be early in the going, but it is exciting to see that making incremental progress across all stages of that funnel is

contributing to the customers being able to onboard easier, retain better, and see better results.

So it's going to be a journey here, but we're excited what we're seeing early in the going, and hopefully that gives you a little bit more perspective of how we've tackle that.

Operator^ Our last question comes from Youssef Squali with Truist.

YOUSSEF SQUALI, TRUIST

All right, thank you guys for squeezing me in. So, Derek, Evan talked about seeing positive month-on-month growth, I think, in North America DAUs. So does your 431 million guide for Q2 imply sequential growth in North America? And what exactly are you doing to inflect that number?

And then on Snapchat+, how many of the 9 million subs are international now, and what's the rollout look like internationally? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, thanks for the question. I think that as we talk about the improvements and the increased focus in North America, I think there's a lot of opportunity here to look at the very deep penetration that we already have in this market, and to be helping those folks who are maybe relatively lighter users on the platform, find their friends, start conversations, and to help the folks who are really highly engaged with the product find their friends who maybe are a little more loosely engaged.

And there's lots of things that we can do throughout the product to help folks with that, whether that's how we're recommending that they discover their friends, how we rank and optimize sentient contact lists, and things like that. And frankly, lots of things we've learned about how to optimize and make the product better on Android that we can carry over to iOS and so on.

So there's a long list of things that we can do here. As you can imagine, and as we learned optimizing the product for new markets, it's not often one single tweak that makes big step function improvements. It's lots and lots of little learnings that are then compounded on one another over time.

And so the focus here is, number one, moving attention and focus and investment over to the North America product experience, and then executing on some of the optimizations that will improve the product and help us move more of the MAU and the DAU, and take users who are maybe more lightly engaged and help them find their friends, become active, and start that core product value flywheel around communication. And then of course, the fan out to other products, including content and map and so on. So hopefully that helps.

On the rollout of Snapchat+, obviously we're pretty happy with the progress we've made in the early going. Certainly, for a relatively young product like this to have hit 9 million subscribers in the most recent quarter is an important milestone. And the rate of growth with that more than tripling year over year is obviously exciting.

We are rolling this out in more markets and taking learnings as we go from the markets that have already rolled out. And we think that increasingly we've identified a fairly large set of features that are appealing. And so we've tested lots of angles here around personalization and early access to new features and other features of Snapchat+for folks to try and then in some ways personalizing that to different markets so that, for example, when you're customizing screen backgrounds to make sure that we've got things that are locally relevant and so on.

It's exciting to see the progress there. And obviously when you think about our global MAU and our global DAU, the potential here on the subscriber base is exciting.

So happy to see the team executing well there and learning to optimize their funnels and a lot more to come.

Thanks for the question. Hopefully that gives you some more perspective.

Operator^ This concludes the follow-up Q&A session as well as today's conference. Thank you for attending today's session. You may now disconnect.