

SNAP INC. Q1 2025 EARNINGS CALL TRANSCRIPT

QUESTION & ANSWER:

OPERATOR

The first question comes from Tom Champion with Piper Sandler. You may proceed.

TOM CHAMPION, PIPER SANDLER

Hi. Good afternoon, everyone. So guys, looks like a really solid result in North American revenue accelerating four points. Derek, I think you had some comments around DR there, but can you just elaborate on that improvement in growth and then if I could sneak a second one in around Simple Snap? I think there were 25 million users of the test as of 4Q. Seems like you've gone in a new direction. Can you talk about that a little bit? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah. Hi, and thanks so much for the question. Evan here. We're really excited about what we've been seeing in North America. We've obviously been very focused on advertiser performance and we've seen really strong growth in the small and medium customer segment. And of course a healthy contribution from Snapchat + as well. So really great to see the long-term investments we've been making in the ad platform and particularly in direct response and diversification with small and medium-sized customers beginning to pay off there. In terms of the simple Snapchat design, we learned a lot from the three tab design, but ultimately found that it was difficult especially for power users, folks who really love Snapchat the way that it is who use the map and stories all the time to really adopt the three tab design which made it harder to find stories and subscriptions and harder to find the map.

So ultimately we're taking a bunch of learnings from the three tab simple Snapchat design and evolving the fifth tab design with those learnings and I think as a result we've been seeing some more broad based gains and of course it'll be easier to navigate the transition on the monetization side because we won't have to deprecate the tile ad unit. So there's a benefit there as well. So overall, we learned a lot. but I think it's really important that we really paid attention to our community and how they were using the service and ultimately have ended up in a place where we're seeing more broad-based gains. And I think it'll be easier to navigate some of the monetization transitions there.

OPERATOR

Thank you. The next question comes from Ross Sandler with Barclays. You may proceed.

ROSS SANDLER, BARCLAYS

Great. I got to ask the obligatory macro question. So I think everybody is curious what you guys are seeing thus far here in the second quarter on both brand and DR. Sounds like you're growing, but you're starting to see some impact. So, I guess could you just give us a little bit more color on what categories or what segments of the business are seeing an impact? And then the second question is just the expense reduction is low single digit percentages here for 2025.

So is it fair to assume that, with that small of a reduction, things are kind of softening, but this is all kind of trending in line with what you're seeing on the revenue side.

Thank you very much.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Ross, thanks for the questions. It's Derek speaking. At a high level, the macro's changing quickly and I think the path we're concerned here, going forward, isn't entirely clear. That obviously impacts visibility on our end. We've learned from some of the big past macro events that we've experienced and external events to be thoughtful about how this can impact the operating environment and therefore our approach to guidance generally. We've had a really solid Q1, topline growth at the very high end of our guide range and then both adjusted EBITDA and net income, well above those ranges. So, we started the year really strong. Thus far in Q2, we're still growing, but we've seen some headwinds to our top-line growth so far.

As one example we've heard from a subset of advertisers that their spending has been impacted by the changes to the de minimis exemption. However, I'd caution here it's just really difficult to parse the drivers between the various potential factors there. We're just really focused on continuing to execute for our customers and to build on the momentum we saw in Q1 with active advertisers up 60%, DR advertising revenue reaching 75% of total ad revenue for the first time. We believe by continuing to shift our mix towards DR and lower funnel, by continuing to diversify our advertiser base through the growth in the SMB channel and by diversifying our revenue sources with the growth of Snapchat+, that we'll build a more resilient and stronger business over time as we continue to execute there.

On the cost side, I think our approach on costs and expenses and investments in the business in general is to carefully prioritize our investments to favor our core priorities and

to calibrate the overall level of investment relative to the realized revenue growth that we see in the business. And in order to continue to drive healthy flow through and to continue to make progress towards GAAP profitability over time, we were really pleased with how we did on this in Q1. We reached 37% flow through of incremental revenue to adjusted EBITDA in the quarter and of course as I said earlier above our ranges for both adjusted EBITDA and net income. But given what we're seeing in the operating environment we believe it's prudent to update our full-year cost structure guidance by lowering the adjusted operating expense expectations by about \$50 million at the midpoint and SBC by \$30 million at the midpoint.

We also reiterated our estimate for all other cost of revenue as a percentage of revenue as we expect that to largely flex with revenue growth rates over time. We'll stay vigilant on this to maintain reasonable balance and flow through to ensure we keep making financial progress as we have over the last year. Hopefully that gives you a little more context around those two questions and thank you.

OPERATOR

Thank you. The next comes from Rich Greenfield with Lightshed Partners. You may proceed.

RICH GREENFIELD, LIGHTSHED PARTNERS

Hi, thanks for taking the question. I guess one of the big questions that everyone's trying to understand, you've been sort of in that midteens-ish low to midteens-ish growth rate for direct response advertising. The comp was definitely harder this quarter than it's been in a long time. But I think as you sort of look at the investments you've been making, the roll out of new products like sponsored snaps, what will it take to deliver 20 plus percent growth in the DR business?

Do you have line of sight to what needs to happen or how long it'll take to sort of get that to be a 20 plus percent growth business? And then just two housekeeping things Derek: one, on the de minimis that you just mentioned, anything that you could say in terms of how much China based advertisers is a percentage of your revenue and on the guidance comment the forward looking that April's continuing to grow, I've gotten a lot of questions is advertising growing or is it, if you look excluding Snap Plus, is it still growing excluding Snap Plus as you look into April because everyone's trying to isolate what's happening in core ad business given everything that's happening with tariffs? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Rich.

Yeah, we're really excited about the progress we've been making in the direct response business over the past couple of years. We've really invested heavily there. I think, just thinking big picture in terms of the contributors to accelerating to 20% from I think about 14% we're at today, of course we're going to continue the ongoing ad platform improvements we mentioned on the call including larger and fresher models and better signal utilization. I think in terms of the product roadmap and the product pieces we've got a really good roadmap for our app goal-based bidding objectives and for dynamic product ads as well that will land throughout the year.

And then I think bringing direct response goal-based bidding objectives to new placements like sponsored snaps will also be a contributing factor as well. And then I think one of the areas I'm really excited about is the consolidated go-to-market leadership under Ajit. We've already seen some improvements there and I'm really excited about all the work he's doing with our go-to-market teams. I think that can be a multiplier on top of all the foundational platform and product work that we've been doing.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Rich, it's Derek speaking on the second part of your question there. On the China based advertisers, we don't really break it down at that level of detail. We've not previously disclosed that market, as a breakout market in our Q's and K's. So, in some ways that perhaps is helpful in and of itself. Look, we're early in the quarter we're only a few weeks in. We're continuing to grow as a business, but we've seen some headwinds thus far. I think it's early and of course there's a lot of quarter ahead of us and the macro uncertainty and how that's going to evolve over time. So, we're going to keep watching it and monitoring the growth of the business and go from there. So, hopefully that gives you a little bit more color on the China based side of things.

OPERATOR

Thank you. The next question comes from Mark Shmulik with AB Bernstein. You may proceed.

MARK SHMULIK, AB BERNSTEIN

Yes, thanks for taking the question. Evan, I appreciate the color around kind of my AI usage growth, but I guess this kind of broader picture, where do you see my AI going in perhaps kind of standing out versus, the growing number of kind of AI chatbots we've seen? How do we think about potentially a standalone app or integration into Spectacles, but just, overall, where do you see it going? And then a follow-up question just around engagement domestically.

We saw that tick down a little bit, but there's color on spotlight growth for newer content kind of up. How's just overall spotlight engagement trending kind of against that fresher content? And any color on kind of what's happening domestically would be appreciated. Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question.

I'm particularly excited about the new ways that people are going to want to interface with AI. Of course, chat is a popular interface. I think voice to some degree is growing as well. As we look at the areas where we really want to differentiate it, it's really around that visual communication. And so, as we look at the way that people are interacting with My AI by sending snaps and either receiving snaps or a chat response in return, I think that that really starts to show the way that these multimodal models are going to play a really powerful role in people's lives.

I think looking even longer term beyond that, the way that people are going to integrate AI into augmented reality and, I think, provide a totally new user interface powered by AI is something that we're investing a lot in. We'll have more announcements around that later this year because we really do believe that augmented reality is the ideal interface for AI. In terms of spotlight, certainly a lot of progress there. We're now reaching more than 500 million monthly active users there and view time I think grew about 25% year-over-year in Q1. So certainly some good momentum and the team's focus on timely and fresh content I think is really important because it just increases the probability that folks will see really unique and relevant content as they're using the spotlight service.

OPERATOR

Thank you. The next comes from Dan Salmon with New Street Research. You may proceed.

DAN SALMON, NEW STREET RESEARCH

Great. Good afternoon, everyone. Evan, you highlighted once again the growth in your total advertiser base up 60% this quarter. Again, the big theme there being more small and medium-sized business advertisers. Also noted you're lapping the launch of Snap Promote. So, I would just like to hear a little bit more about the next steps for SMB advertiser growth. Do you expect that rate of growth to slow or does Snap promote have legs beyond that maybe internationally more? Are there other initiatives you'd highlight? And then just a follow up to it, I think I've asked you this one before, but how much are you starting to see those advertisers that come in through Snap Promote move over to the

Snap Ads platform and start to do a little bit more with your advertising from there?
Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question.

We're excited about what we've seen with Snap Promote and we've got a whole string of product updates there. We plan to really streamline the Snap Promote product within the app and of course try to ease that transition to the full-fledged ads manager, including a lot of work that we've been doing to simplify ads manager overall. I think looking at the small medium customer segment, I'd say, in terms of our acquisition focus, we're really trying to ramp up those medium-sized advertisers.

I think in terms of the dollar volume overall certainly in terms of active advertiser count Snap Promote is very important but in terms of the dollar volume I think those medium customers can really help accelerate the growth of our direct response business and we're seeing some really good product market fit there. So, certainly a lot to do on the snap promote side and in terms of the product and we're excited about the momentum we're seeing there, but I think in terms of the team's focus right now and the evolution of our go to market efforts, I'd say the team's probably more focused on the midsize customer segment.

OPERATOR

Thank you. The next question comes from Ken Gawrelski with Wells Fargo. You may proceed.

KEN GAWRELSKI, WELLS FARGO

Thank you. I appreciate the opportunity. Maybe first you could talk a little bit about the kind of progression through the first quarter on the ad side and as you go into April any particular categories that you're seeing or geographies that you're seeing changes in performance? Maybe we'll start there and one follow up after that. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Ken, it's Derek speaking. I think first we're really pleased with what we saw in Q1. We continue to execute against our road map and priorities on the ad platform. You know, pleased to see the progress we were able to make on model freshness and model size and signal incorporation and the progress we're seeing in CAPI adoption. You're seeing that, translate into the outputs of the business. Both, not just the topline revenue that was at the very high end of our range, but also the progress on the DR growth rate and what we're

seeing with the growth of active advertisers and the progress in the SMB channel, specifically, which we're really pleased with.

So off to a good start. We are really focused on executing for our customers and delivering ROAS for them. In terms of what we're seeing early here in the new quarter, we're just a few weeks in. It's very early in the going and as I said earlier the business is continuing to grow but we have seen some headwinds to start the quarter to the growth rate. As I mentioned earlier, one example of a factor that we've seen as a driver there is, some advertisers that have been impacted by the changes to the de minimis exemption. But, as I also said earlier, it's really difficult this early in the going to parse the different drivers, you know, that can be impacting that. So, we're going to continue to watch it really carefully and of course, you know, where we head from here on the macro and some of the factors there is also uncertain.

So the key is that we stay focused on executing for our customers, improving the ad platform and that we continue to be thoughtful about balancing our investment levels over time to make progress for the business financially. So hopefully that gives you a little bit more color on your question. Thank you.

OPERATOR

Thank you. The following comes from Benjamin Black with Deutsche Bank. You may proceed.

BENJAMIN BLACK, DEUTSCHE BANK

Great. Thank you for taking my question. You mentioned hitting 900 million MAUs and that you're approaching a billion, yet North America DAU contracted sequentially.

I know you've been working on a number of initiatives to restimulate growth in North America. So, curious to hear, what is potentially not working and what gives you confidence that those trends can inflect positively again? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question.

We're really excited about hitting that milestone of 900 million monthly active users and really looking forward to crossing a billion at some point here in the future. That'll be a really exciting moment for the company. In North America in particular, we sort of trended around this 100 million 99 million DAU sort of number. We're not expecting further declines here in Q2 in North America.

The things that sort of make us confident or that we're excited about are really the engagement around snapping that is so core to the service. People making and sending

snaps with their friends. So we've seen some positive trends there. We're continuing to build on those overall and then continuing to invest in the content business as well. Some of the things we mentioned earlier around content freshness around homegrown creators and engagement around content overall. That's a real priority for us as well.

OPERATOR

Thank you. The next question comes from Justin Post with Bank of America. You may proceed.

JUSTIN POST, BANK OF AMERICA

Great. Thank you. Just want to go back to prior comments that you might have been a little bit demand constrained and when you think about your supply and demand, how do you feel about that balance right now? And if you are demand constrained, obviously ignoring the macro, what do you think are the keys to unlocking that over the next year or two? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question.

We certainly see a lot of opportunity to continue to grow demand on the service. Although I do think we are taking some steps to increase inventory overall especially with Sponsored Snaps which not only expand reach for advertisers to connect with folks who are primarily using that chat surface, but also just given the overall engagement with chat and the chat page on Snapchat I think should provide a pretty substantial meaningful amount of incremental inventory for us.

So, the keys right now are really bringing more goal-based bidding objectives to that inventory. It's taken a bit of time. We brought pixel purchase to Sponsored Snaps and we've been working on training the models on this new placement and we'll be bringing more GBBs to Sponsored Snaps in the coming months.

OPERATOR

Thank you. The final question comes from Mark Mahaney with Evercore. You may proceed.

MARK MAHANEY, EVERCORE

Thank you. I'll just ask a cost question related to headcount. I think this quarter you had one of the biggest additions you've had in I don't know a year, two years, I guess. With the

kind of the new trim down of the cost guidance for the full year, does that mean that the headcount kind of pace should slow from what we saw in the March quarter? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Mark,

Thanks for the question. Yeah, look, we're trying to be really thoughtful here in terms of managing the cost structure over time and balancing that. We were pretty pleased with what we were able to do in Q1 with a 37% flow through and also, being able to come over the top of our range in both adjusted EBITDA and net income. So, demonstrating the ability to balance it there in Q1.

Yeah, we have done some hiring in Q1 and the focus there has been really around our core priorities and bringing people into the building that can help us with our go-to-market efforts especially around the SMB client space and help around supporting clients with [inaudible] measurement and things like that and also around engineering and specifically ML and AI competencies as well. So there's big focus there in supporting the business and supporting our top line growth and our roadmap for the year. Approximately 2/3 of our adjusted operating expenses or roughly thereabout are people or people related costs. So certainly anytime that we're adjusting our cost outlook for the year, that's going to be part of the mix and we're sort of being thoughtful there to make sure that our pace of hiring makes sense relative to the balance that I spoke about earlier.

So, hopefully that gives you some sense of how we're thinking about the cost structure and balancing it there. Thank you.

OPERATOR

Thank you. This concludes our question and answer session as well as SNAP Inc.'s first quarter 2025 earnings conference call. Thank you for attending today's session. You may now disconnect.

SNAP INC. Q2 2024 INVESTOR FOLLOW UP TRANSCRIPT

QUESTION & ANSWER:

OPERATOR

The first question comes from Deepak Mathivanan with Cantor Fitzgerald. You may proceed.

DEEPAK MATHIVANAN, CANTOR FITZGERALD

Great. Thanks for taking the questions. If I can ask two, so, first just going back to a question on the main call: Can you remind us what the category mix is and how we should think about the exposure to some of the categories that could be impacted by tariffs? Initially, how big maybe is retail CPG and some of these others compared to a more insulated categories like digital apps, entertainment and tech within your advertising business. And then second one, with the recent testing for a five-tab layout for Simple Snapchat, is the best way to think about the product experience for both Android and iOS going forward to be kind of the five-tab layout that you're testing now? How does this affect your other goals of driving consumption towards spotlight with a new product experience? Any color on how we should think about the product strategy for simple Snapchat would be great. Thank you so much.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there Deepak, thanks for the questions. I really appreciate it. We've not historically disclosed a lot of details about those specific category or vertical mix, but we have talked a lot about the categories that we've been doing well with over time. At a high level, we've talked about CPG and entertainment and tech, often as categories, that were growers for us over the years. I think generally speaking, when I think about, growth as well, I'm also thinking about the verticals that have really good product market fit for the optimizations that are performing best for us and where we've made the most progress with our roadmap, so of course that includes CPG and more recently things like wellness and financial services. There's other things that we're working on that we've been making more recent progress with around app-based optimization which gives us better product market

fit with areas like gaming and even more into the e-comm area and media verticals also. So hopefully that gives you some context there to help. And then, in terms of simple Snapchat and the five tab layout, I think we've taken a really thoughtful approach here to test and learn over time, and experimenting with some different treatments, to try and, find something that's really optimal, especially something that works really well for both our power users and more casually engaged users both.

And I think what we've found is there's some things that we tested in the three-tab or Simple Snapchat layout that worked particularly well and there were some aspects of that that were tougher for power users. And so, what we've been working on more recently is a version of five-tab that, takes some of what we learned about, having Spotlight, for example, to the right of the camera and having, stories carousel on the chat tab with your friends and how that's been, particularly, positive. But we've also learned that there's groups of users that really like the tile layout and the easy egress to their subscriptions and discovery of creators and publishers that come with that tile experience. So, maintaining that is important to a subset of the community. And we've also learned about the optimal egress point for the map as well from this, and so it's allowed us to really zero in on some potential treatments to test here that are benefiting from the sort of the best of both worlds in terms of what worked well and was important to a subset of the community in the five-tab layout but also some of the innovations and simple Snapchat that also were really beneficial and so working on things that bring the best of those two things together. So hopefully that provides a little more context.

OPERATOR

Thank you. The next question comes from Shweta Khajuria with Wolfe Research. You may proceed.

SHWETA KHAJURIA, WOLFE RESEARCH

Thanks for taking my questions. Let me try two please. How is the brand spend or brand revenue diversified over the recent past for you? how much is it more diversified now than perhaps a year or a year and a half ago? And then, thanks for calling out some headwinds from APAC based advertisers maybe from de minimis changes, but anything you saw particularly in North America and Europe in terms of headwinds as well any color on that? Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, thanks for the question. I think when you're thinking about the diversification in the business, probably really the biggest factors in driving diversification in the business

are actually what we're doing around sales channels and the growth in the active advertiser base and the growth in particular in the SMB channel. And then the diversification of the revenue and moving down funnel on DR and shifting more of the mix with now 75% of the ad revenue coming from DR and then the growth in the active advertisers. So I think that's probably the biggest factor in terms of diversifying the business. Secondly, the introduction and the rapid growth of Snapchat Plus which hit a \$600 million annualized run rate in the most recent quarter and how that diversifies our revenue sources further. So those are probably the biggest factors to consider when you're thinking about the increased diversification of the business. And then, look, it's really early, in the going. We're a few weeks into the new quarter. So, breaking the business down and slicing and dicing it, on a few weeks of data is probably a little more than we would go into at this point in the quarter. But hopefully the commentary that we gave you on the main call that gives you a sense of how things are going in aggregate gives you a little direction on how things are going so far. Thanks for your question, really appreciate it.

OPERATOR

Thank you. The following comes from Michael Nathanson with Moffett Nathanson, you may proceed.

MICHAEL NATHANSON, MOFFETT NATHANSON

Thanks. Hey Derek, I just have two for you. We went back and we read some comments Evan made at JPM last year at conference saying that Chinese export advertising wasn't, there's an opportunity, but it wasn't as big a benefit for you guys. Is there anything to help us kind of just, prior to mentioning that comment that it wasn't as big of a driver for you as others, because we kind of dismissed it as a major factor here. And then secondly, we noted that you issued debt that was not convertible for the first time ever. Can you talk a bit about your thinking on the debt side? Why did you go for more traditional debt versus take the convertible path that you've taken in the past? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi, Michael. Thanks for the question. Yeah, Evan's comments from a year ago were bang on. You'll probably notice if you follow our Q's and K's closely that we don't break out China as an individual market. So, sort of the lack of disclosure there isn't in a way disclosure because it's not hitting the threshold for that. As a market in aggregate and certainly when we're thinking about the headwinds for the quarter we talked a little bit about the de minimis impacted advertisers is one factor but also just that it's very difficult especially this

early on the going to parse the different drivers of what we're seeing in the headwinds it's really going there.

And then to your capital mixed question and the decision to pursue high yield in the most recent quarter instead of convertible which is what we thought about previously. I think it reflects the maturity of the business and the progress that we've made on being consistently positive free cash flow and to shore up the balance sheet over time and our ability to make progress even towards GAAP profitability over time. So, when we thought about the cost of capital and certainly, one trade-off when you're thinking about raising high yield debt is obviously that comes with coupon payments and so the consistent and significantly larger free cash flow that the business is generating, makes you a little bit more comfortable taking on capital of that nature. And then also, it's helpful not to have the dilutive aspects of convertible notes.

So, we'll continue, as we think about the capital mix of the business over time, we'll try to be really thoughtful about making sure that we're taking advantage of markets when they're attractive and they provide the opportunity to get capital at advantageous terms and then also try to make sure that we're thoughtful about, going after the cheapest cost of capital while still managing, risk levels in the business. By making sure that we're thoughtful about spacing our maturities and making sure our maturities are not just spaced out, but further into the future and addressing upcoming maturities really proactively and when the market gives us attractive terms, we think that helps ensure that our business is sustainable and that we keep the cost of capital low.

So hopefully that gives you a little bit of insight into how we think about it and why we made the decision when we did a couple of months ago to raise capital and in the way that we did.

OPERATOR

Thank you. The next comes from Mark Kelley with Stifel. You may proceed.

MARK KELLEY, STIFEL

Great. Thank you very much. The first question is, certainly I understand that there are headwinds in aggregate from all the moving pieces of tariffs de minimis etc. I'm curious if you're seeing any pockets of advertisers maybe stepping in a little bit more than they typically do to take advantage of some of their competitors where their products are sourced outside of the US. that offsets it a bit. That's my first question. And then the second one, just quick one on opex, as we think about the rest of the year, is it fair to assume that it's mostly G&A where the slowdown in headcount growth will come from, or am I not thinking about that the right way? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Mark, thanks for the question. I think it's really difficult when you're thinking about the headwinds that we've seen early going in the new quarter to really parse the drivers and when you consider what's going on in the macro, but also we continue to innovate on our ad platform. So, it's difficult to sort of parse drivers in various sectors. Obviously as we get further into it and have more data under our belt with a full quarter it'll be easier to do a breakdown and parse trends and things like that.

In terms of how we're thinking about the investment, I think what I would say most clearly is that anytime we're balancing our investments or thinking about prioritizing them, what we're trying to do most importantly is to be laser focused on any incremental investments being directly pointed at our top strategic priorities. So, in this instance, there's a couple of things I would point out. Number one, we reiterated our ranges for infrastructure investments and in specifically there because we're prioritizing the continuing investment in ML and AI that's so important to driving the progress that we're making with the ad platform as well as the depth of engagement on the content side and so on. So that's one area that we'll really look to preserve the investment.

And then on the sort of people capital, human capital, side of things the investments that we're making to support ML and AI advancements and DR client support on the engineering side and so on is really important. So, there'll be a big focus on that and then also a focus on the go to market resources and support of our growing customer base on the advertising side including in particular go to market support for SMBs. So that's where you'll see us really focus any incremental investment, as we have to prioritize it over the year ahead. So hopefully that gives you a little extra context on each of those questions and thank you for asking them.

OPERATOR

Thank you. The following comes from Justin Patterson with Keybanc. You may proceed.

JUSTIN PATTERSON, KEYBANC

Great. Thank you for taking the question. Derek, I wanted to go back to your comments just on subscription being a \$600 million run rate now. You've made a lot of progress there adding subscribers. Comps do get a little tougher in the back half of the year. So, how are you thinking about other levers just like pricing as a means of growing that business? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there Justin, thanks for the question. I think that we're very focused on both sides of the opportunity there. Certainly, we have a very large global community. We shared this quarter that we reached more than 900 million on the MAU side in the most recent quarter and we've had nice growth on DAU as well. So, the opportunity set there for Snapchat+ subscribers is certainly still significant, but I do think it's smart for us to maintain some balance here and be thinking about the best way to optimize price and optimize revenue as well over time. So, we continue to be thoughtful there and make sure that we're testing pricing carefully.

But we do see that as a leverage point in addition to the ability to continue to make progress on subscribers and pleased to see what we saw in the most recent quarter, coming very close to 15 million and up approximately I believe 5 million year-over-year. So good progress there in the subscribers and obviously it's continuing to be a point of, or a driver, of growth for the overall business on the top line as well as a source of diversification which we think is helpful to the health of the business over time.

OPERATOR

Thank you. The following comes from Youssef Squali with Truist. You may proceed.

YOUSSEF SQUALI, TRUIST

Awesome. Thank you very much. Hey Derek, so two quick ones for me. I know on the main call you guys talked about how overall user engagement was up year on year. I was wondering if you could maybe comment on user engagement in the US and Europe in particular, what you've seen there. And apologies for maybe to try to split hair, but in your comment about April revenue growth being still positive, is that statement correct even if you excluded SNAP Plus revenue? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there. A little tricky to hear, but we'll do our best here. On the engagement side, I believe your first question was just around what we're seeing with DAU growth and some of the drivers within the regions. Number one I think the U.S. in particular we've been in a very tight range around 100 for a couple of years now and as Evan mentioned on the call, while we dip down to 99 there in the most recent quarter not expecting to have any further descent there in the coming quarter based on what we see so far. I think the big opportunity to, when you're thinking about is, we have this very large and deep penetration in some of our most mature markets.

So, when you're thinking about while there's still room to grow in those mature markets, the real magnitude of the growth on the overall DAU population and MAU population,

obviously there's just a lot more opportunity in the rest of world region. So over time, that's where you would expect the magnitude of the growth to come from.

And then it was a little hard to hear your second question, but I believe it was again around what we're seeing so far in the current quarter on the demand side. Not a lot more to share in terms of parsing the business or sub subdividing the business into segments just a few weeks into the quarter. We shared a fair bit here on the main call about what we're seeing so far and obviously we'll have more to parse out and dissect as we get through a full quarter. Hopefully that gives you a little bit more detail on what we're seeing on the engagement side. Thanks very much.

OPERATOR

Thank you. The next question comes from Mark Zgutowicz with Benchmark. You may proceed.

MARK ZGUTOWICZ, BENCHMARK

Thank you. Good evening, Derek. Just a question on the momentum that you saw in North America in a seasonally weak first quarter and then the removal of guidance. I'm just trying to maybe connect the dots there on what perhaps accelerated trends in one Q and that may be slowing that down given it's your largest and most profitable segment and then perhaps tied to that question is if you think about your DR implementations I assume a significant number of them are in what I'd characterize as sort of test budgets and I'm just curious if you think about the slowdown that you're seeing in 2Q that's more pronounced or more based in terms of just pullback in test or experimental budgets. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. On the momentum in North America and Q1, we're really pleased to see that, the 4 percentage point acceleration in the revenue in that region in the quarter up to double digits at 12% there. Really nice progress. As we said in the letter the largest or primary driver of that was improving direct response advertising revenue in the region and there's a number of factors driving that. We continue to execute really well on the monetization side overall with our ad platform. We talked a little bit about this but we improved the freshness of our models and the scale of the training data.

We increased the rate of model learning by 6x and we grew the volume of historical interaction data used for training by over 5x. We also advanced and unified our app-based advertising models to better optimize for app conversion events. And due in part to that work, we saw SKAdNetwork reported app purchases grew more than 30% year-over-year in Q1. We also enhanced our datacentric engineering stack to improve the timeliness and

fidelity of data signals that we use, and we now have over 60% of all DR ad revenue coming from advertisers that have completed a CAPI integration. In addition, we've seen improvements to our tCPA or automated target cost bidding strategy, which helps advertisers scale efficiently and dynamically by automatically adjusting bids to meet their desired cost.

So there's just a lot of progress and execution on the ad platform overall that's helping to drive the DR business globally and of course then the go to market efforts on SMC and lower funnel more broadly in support of that and it's nice to see that finally begin to show up and the outputs for everyone to see and aggregate in North America where that accelerated by four percentage points. And in terms of your other question which is another angle on trying to break down what we're seeing a few weeks into the current quarter, there's not much more to add there. It's very early in the going and obviously tricky to disambiguate the various drivers of what we're seeing.

I think at a higher level though just on DR and the mix of test budgets and at scale budgets and so on, obviously, just the DR business being 75% of the total and the scale of it overall, obviously we've got lots of advertisers well beyond test budgets there. So not much more detail to share there, but hopefully that gives you a little perspective just given the scale and size of that as a portion of the overall business. Thanks for the question.

OPERATOR

Thank you. The following comes from Brian Nowak with Morgan Stanley. You may proceed.

BRIAN NOWAK, MORGAN STANLEY

Great. Thanks for taking my questions. There'll be two Derek. The first one, can you just sort of remind us how do you think about sort of your average visibility or sort of how far ahead you have visibility into the ad business at this point? Just so you can kind of get an idea of what's informing the decision to pull guide. And then secondly, I hate to go back to it, but I'm going to try to do you and you and David a service. Is advertising still growing in the quarter? It's a lot easier if we just kind of confirm that that way we can all write it and you guys won't be asked that all quarter, but when you say your guide is advertising X, the subscription revenue is still growing quarter to date.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Brian, thanks for the questions. I think reminding us on visibility, I think what we've learned over time with various big events in the macro as well as shifts in the operating environment is that things can change very quickly and so we've just learned to be

thoughtful about how those things can impact the operating environment and therefore our overall approach to guidance.

So, we talked about that a fair bit on the call earlier and hopefully you can understand that and see our perspective on it. In terms of another attempt to think about how to dissect the first three weeks of revenue we're seeing in the quarter, we're not going to go into a whole lot more detail there. Obviously, we're in a spot where we don't think it makes sense to provide guidance. So it doesn't make sense to slice and dice three weeks or so of revenue data. So hopefully you can appreciate that. We'll talk a lot more, when we have a full quarter to go through and we see how the rest of the quarter unfolds. Thank you for the question. Hope you appreciate that.

OPERATOR

Thank you. The next question comes from John Blackledge with TD Cowen. You may proceed.

JOHN BLACKLEDGE, TD COWEN

Great. Thank you. Within cost of revenue, you maintain the infrastructure costs per DAU guide. But just given the volatile macro, are there any kind of cost optimizations you could do with your cloud vendors to limit costs if the volatility lingers into the back half of the year? And then just second quick question, the 60% active advertiser growth obviously as you guys called out continues to be very strong. Was that broad based across the GEOs or is there kind of any one GEO driving outsized growth? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi John. Thanks for the questions. Yeah, on cost of revenue, we look at cost of revenue in sort of two buckets there when we're providing the full year cost structure guidance. One is around infrastructure costs per DAU and then the other is around all other cost of revenue which we typically give as a percentage of revenue and we expect that to be within 19 to 20%. It was 19% in Q1, we expect it to stay in that 19 to 20% range. So obviously that therefore flexes with revenue over time. So as you're thinking about modeling that's typically how we think about it. On the infrastructure side specifically to your question there, we have an immense amount of focus on really carefully managing our investments there both in terms of how efficiently we're using the cloud infrastructure products that we're using for various products and making sure that we're coming around behind us and constantly making those more efficient, and also migrating between different services for specific use cases to make sure that we're using the most efficient and the most performant cloud product. So of course there's always opportunity over time to keep

optimizing that and that's happening under the hood at all times and of course we stay really vigilant on that as we try to make sure that we're driving a gross margin improvement which was up a point in the most recent quarter. So there's some progress. In terms of the advertiser growth, I think the biggest thing I would say about the growth in the active advertisers is that we're making a lot of progress our go to market on small and medium-sized customers as a cohort and making sure that we're supporting them with automated solution and easy campaign setup and optimization and continuing to focus on that is going to be a real key to continuing to grow and diversify the advertiser base. So hopefully that provides a little extra context.

OPERATOR

Thank you. The next question comes from Rohit Kulkarni with Roth Capital Partners. You may proceed.

ROHIT KULKARNI, ROTH CAPITAL PARTNERS

Hey, thanks Derek for all the clarity. I guess one quick question. Did you clarify whether ad revenues are growing sequentially or on a year on year basis so far in April? And then just a qualitative question as you and Snap have gone through so many kind of experiences up and downs and roller coasters, if you could qualitatively talk about what you're seeing in the last maybe four to six weeks and how does that stack up versus when we reached peak inflation in the US back in 22 or maybe when Apple launched ATT or any other experiences that you think what you are seeing right now is the most comparable to what perhaps Snap as a company or you as a financial leader has seen?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Hi Rohit. Thanks for the questions. Appreciate it. Look, I want to sort of come back to the high level here, of what we're seeing, early in the quarter. Obviously the macro environment is changing really quickly and there's a lot of uncertainty, about how the macro environment may unfold, over time.

And we've learned, over time from what we've seen with prior, macro shifts or big events in the external environment that they can have significant impacts on the operating environment over time and that can be a little difficult to predict. And so, that's why we've taken the approach that we don't think it makes sense to provide guidance for the current quarter and hopefully you can appreciate that and that approach. And so, we've provided a little extra color on what we're seeing so far in terms of the fact that we've had some headwinds to start the quarter, but that the business is still growing. I think perhaps one of

the reasons why many of you are coming back to a lot of questions about what we're seeing so far is that in some cases in the past when we've not been able to provide formal financial guidance for the quarter, we've provided a specific quarter-to-date growth rate for the business.

I want to be clear that one of the reasons that we didn't do that in this instance is that there's a little bit of choppiness in the comps in the current year just because of where certain holidays fell early in the year. And so, it makes the comps and the quarter to date really tricky. And so, we didn't feel that necessarily that was a really good indicator of the current run rate of the business and of course given all of the uncertainty about what's happening in the forward look on the macro that it may not be indicative of the future either. So we've tried to be thoughtful here to make sure that the information that we're giving you all is useful and helpful. So I hope you can appreciate that additional context about what we've shared today.

OPERATOR

Thank you. The next question comes from Ron Josey with CITI. You may proceed.

RON JOSEY, CITI

Great. Thanks for taking the question. Derek, maybe just a follow-up on the active advertiser question. I think you were clear to say still growing and mostly SMBs. Talk to us maybe in a normalized environment if you could of just what a typical ramp of a newer advertiser is on the platform. Meaning, you learn the platform, does it take one quarter or two quarters? Is it pretty quick? And a lot of that obviously has to do with performance, but any thoughts there would be helpful. And then on Snapchat+, just with now 15 million subs, understood sort of where we are there, but talk a little bit more about the usage of those customers. Are you seeing them being more engaged, lasting longer, are they remaining on the platform for a longer period of time in terms of cohorts and ages? That would be helpful. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Ron, thanks for the questions. In terms of active advertisers, I think the journey of each advertiser is a little bit different. One of the things that we are really excited about when we think about the SMC funnel really or SMB funnel specifically is how much we've been able to do around automating the advertiser onboarding process, making it really easier with some of our integration partners to get CAPI integrated and then automating campaign setup and optimization selection so that advertisers can get started very easily and start to

see returns on their advertising spend relatively quickly and then scale on their own journey as their budget allows and as we're able to deliver performance for them. Certainly that's for different sizes and scales of advertisers. Very large complex enterprise advertisers tend to have more complex integrations and obviously because they're dealing with a larger amount of scale, tend to go through a different journey of testing and validation. And then as you get to the middle and upper funnel, certainly people have studies that they're doing periodically to further validate what they're seeing in 1P and 3P measurement over time. So it's very different for different types of advertisers. I think the critical thing here is that we continue to make progress with the ad platform, make it easier to onboard, make it easier to get started, make it more performant, and allow people to hit their CPA targets and scale.

SC plus is obviously doing very well with the continued growth in the subscriber base. As I said, up approximately 5 million year-over-year in the most recent quarter and obviously a very nice revenue growth rate clip for all other revenue that's predominantly driven by a SC plus. We're seeing a lot around features. We've shipped a pretty regular cadence of new features over time. Always experimenting with new things. Lots of uptake around the ability to customize your app experience which is particularly exciting for our power users which is fun for them and allows them to make the app a little bit more personalized. I think you can see how we're doing in retention in a lot of ways and the ongoing growth in the subscriber base and the scale we've been able to get to. So hopefully that gives you a little bit of insight into that side of things. Thanks for the question.

OPERATOR

Thank you. The next comes from Barton Crockett with Rosenblatt Securities. You may proceed.

BARTON CROCKETT, ROSENBLATT SECURITIES

Okay, great. Thanks for taking the questions. Two really quickly if I can. One is just hearkening back to the commentary about the De minimis advertiser experience. You cited that as an example of headwinds. Is that the only example or is it just that there are other examples but you just don't want to get into the weeds? And then the second thing is on Snapchat +, I'm just wondering are you seeing any macro impacts there? I mean, is there anything happening with churn or uptake that might become more pronounced if the macro turns more sharply negative. And how do you feel about the opportunity over time for there to be ARPU growth on that?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. Thanks for the questions. Yeah, in terms of what we're seeing and any headwinds in the business, early in the new quarter, as I said earlier, it's very difficult to parse the different drivers of what's driving things. I did share the de minimis as one example and in that we've heard from some advertising partners specifically that that's a factor for their spending but more broadly it's very difficult to parse the different headwinds especially this early in the growing just a few weeks into the quarter. On SC plus, we've not gone through any major sort of macro events since the SC business has been at scale. We're only a couple years or so into that business and it's really reached scale over the last 18 to 24 months in terms of both subscriber base and the revenue run rate. In general, we're excited about how that business diversifies our revenue sources and how it's added to growth over time.

And as you noted from an ARPU perspective, there's the potential for that to contribute not just through subscriber growth, but ARPU over time. So, we're going to learn a lot over time about how that product behaves, given that it's relatively unique in the industry and it's relatively new to our business.

OPERATOR

Thank you. The next question comes from Ross Walthall with Cleveland Research. You may proceed.

ROSS WALTHALL, CLEVELAND RESEARCH

Yeah, thanks. Just a quick question. Some of your competitors have seen success with AI based optimization or campaign types. Does Snap have ambitions to launch something in this regard or have you made any progress in building kind of a more top-down AI optimization campaign?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, great question. I think you've seen us do a lot in utilizing this form of technology in how we're approaching the funnel and how folks are optimizing campaigns and whatnot. So, we've actually got a fair amount of stuff on the IR site that goes into some of the announcements we've made in the space. And so, I'll have the team point you to that so that you can see some of the specifics that we've been sharing with advertisers in the community to go a little deeper.

OPERATOR

Thank you. The final question comes from Naved Khan with B. Riley Securities. You may proceed.

NAVED KHAN, B. RILEY SECURITIES

Great. Thanks a lot. Maybe just on the de minimis commentary, just, can you give some color on if this is more limited to large size advertisers or is it spread across small and medium size as well? And then on the Simple Snapchat, where you guys are kind of realizing there's an opportunity with the five-tabbed experience as well, how should we think about how large simple Snapchat exposure can be or and how close you are to kind of rolling it out to that base?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks for the question. In terms of how the de minimis factor impacts different types of advertisers, as I said before, it's really difficult to parse this early in the going the specific drivers, across the business and how it breaks down between different drivers. I think one of the reasons why we called out that factor specifically is just that we've heard that from some specific advertisers but obviously in a broader sense it's very difficult to parse out the different drivers. So hopefully that helps. In terms of simple Snapchat and the learnings that we're taking from Simple Snapchat and how we're building that into some different versions of five-tab that we're testing. That's ongoing. We're excited about some of what we're seeing there both in terms of how we were able to take some of the best of what we've seen from Simple Snapchat testing and incorporate that into a five-tab version while still preserving some of the aspects of the existing five-tab that have worked so well and are so loved by some of our power users. And so that's in testing now and we'll continue to update you and the community over time as we make more progress with that. Thanks for the question.

OPERATOR

Thank you. This concludes our follow up question and answer session as well as today's conference. Thank you for attending today's session. You may now disconnect.