

SNAP INC. Q2 2025 QUARTERLY EARNINGS CALL Q&A TRANSCRIPT

QUESTION AND ANSWER:

OPERATOR

The first question comes from Ross Sandler with Barclays. You may proceed.

ROSS SANDLER, BARCLAYS

Hey guys, just one question and one housekeeping question. I guess that's two total. So you sound pretty optimistic about what you're seeing early on with Sponsored Snaps. We know that's a big opportunity given how much traffic that surface sees within the app. So, could you talk about what you saw in Q2 and the longer term vision for this new ad unit? And then the housekeeping question is on the auction pricing issue in the quarter, could you just elaborate on what happened there and what would have ad revenue grown had that not happened? Thanks a lot.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey Ross, thanks so much for the question. The rollout of Sponsored Snaps is definitely a very meaningful and profound evolution of our ad business. Because Sponsored Snaps really bring a native and highly performant ad placement to the most frequently used surface in Snapchat. So, so far Sponsored Snaps have driven meaningful growth in both incremental reach and conversions for advertisers who utilize the placement. And we've been seeing some really great engagement from users as well. So, after opening a Sponsored Snap from the chat feed, users exhibit significantly higher engagement per full screen ad view, driving a two times increase in conversions, a 5x increase in click to convert ratios, and a 2x increase in website dwell times compared to other inventories. So, I think the early signs are very positive. Of course, this is a profound shift in terms of available inventory on the service. So, we've tried to be really thoughtful about managing the supply growth with things like frequency caps and relevancy filters as we work to build more demand against this new inventory. I'll let Derek speak to the sort of revenue pacing throughout the quarter.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, Ross. It's Derek speaking. So, I think digging in on the impact in the quarter on the revenue, there really multiple factors that we looked at in the quarter. One of them certainly is one you mentioned around the ad platform. We also had a factor around the timing of Ramadan which was less of a benefit in Q2 than in the prior year and as well there

was the impact of the De Minimis changes in the quarter. So each of those were a factor. I think maybe one of the things that could help a little bit in terms of understanding the relative impact of things would be to talk about the topography of ad revenue growth specifically over the last number of months as some of these shifts have come into the business. So if you recall we grew ad revenue at a rate of approximately 9% in Q1. And what we saw in April is that ad revenue growth declined to approximately 1% before largely recovering as we moved through May. And what you saw in May is number one, we'd gone through the work of reverting the ad platform change, but also the factor around Ramadan obviously being diminished during that period of time. So we saw the recovery as we went through May. That really gave us the confidence to be able to roll out Sponsored Snaps more broadly both from a regional and a bidding objective perspective as we moved into June. And so that's where we've seen a little bit of the impact of all of this inventory that Evan just spoke about and how that's translated into, lower platform wide eCPMs and some of you know obviously improved pricing for our advertisers where a lot of that benefit is occurring at the moment. So the big focus at this point is building demand. We have seen, post the rollback of the Ad change as we moved through June and into July, we've seen ad revenue specifically growing at a rate between 3 to 4%. So, give you a sense of how the topography sort of moved from 9% in Q1 to approximately 1% for ad revenue in April, then to a rate of, recovering largely in May and then we're looking at 3% to 4% post the rollback of that change. So, hopefully that gives you a better sense of how things have evolved as we've moved through these different factors and We're excited now about ramping the demand into these new ad units and the performance that we're delivering for our ad partners with this new inventory. Hopefully that's helpful. Thank you.

OPERATOR

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

RICH GREENFIELD, LIGHTSHED PARTNERS

Hi, thanks. I guess just to sort of play off on; let me just do a housekeeping first. You obviously just were talking about a lot of the factors that hit DR, Derek, in that last answer. Could you give us a sense of what brand looks like? Obviously, I assume most of the impact that we saw on the bidding related to DR and that drop from mid-teens to like 5% this quarter. If you could just give us a sense of like what's happening with brand advertising because I don't think you disclose it this quarter versus the past. And then maybe just a big picture question for Evan. I think watching you Evan, you know, you've spoken on a bunch of podcasts. You've been done a bunch of interviews in the last several months. You clearly

have a true passion for what you're building in AR and Specs which are going to roll out next year. If you could just maybe spend a minute, we've obviously heard both Meta and Google talk about their sort of plans for AR and glasses in the last several weeks. How does Snap's approach fundamentally differ? And then the piece of that is do you have the capital to pursue the vision on your own or do you need partners to bring this to fruition as you move forward? Thanks so much for taking the questions.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Rich, thanks for the questions. I'll take the first one. So yeah, correct. The majority of the deceleration quarter over quarter showed up in the DR advertising revenue. So we saw total ad revenue in Q2 was at 4% year-over-year. We saw the DR ad revenue up 5% year-over-year as you had mentioned. And brand advertising revenue was flat in Q2. So that slight improvement over the growth rate in the prior quarter. So hopefully that gives you a little bit of this sense of the topography of the revenue between the different splits there of DR and brand and obviously in terms of the auction impact issue. Yeah, that accrued largely to the DR advertising line. So hopefully that provides a little more context.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks Rich for the question. Yeah, we're incredibly passionate about the opportunity to reinvent the computer. People are spending more than seven hours a day now on average staring down at screens. And I think even just moving a couple hours of that to looking out at the world through, see-through lenses and a pair of glasses can make a meaningful difference for people's well-being, but also the way they interact with computing and AI in general. So, the opportunity is enormous. Obviously, this is a space we've been committed to actually since before Snapchat had chat. So, more than I guess 11 years now. And I think, you know, really fortunately that's given us the time to compound our technical advantage and to build out our fully vertically integrated stack. Obviously, to be able to achieve the performance in such a small form factor really controlling every aspect of the stack, from the developer tools to the rendering engine to the operating system to the optical engine really helps us deliver, I think, a really compelling product experience. And of course, we benefit from the huge developer ecosystem we have today. People use lenses in Snapchat more than 8 billion times every day. There's hundreds of thousands of developers who have built millions of lenses. And so I think to already have such a strong thriving developer community I think is a real advantage for us as we prepare for this launch next year. I think as it pertains to sort of the capital requirements. I guess what over the last trailing 12 months we've generated close to \$400 million in free cash flow while investing in our long-term vision for Specs and really reinventing computing. So I think from a capital

perspective, our own cash flow generation, obviously the core Snapchat business generates a lot of cash. We've been able to reinvest that and I think that's probably the lowest Cost of Capital we have. But from a partnership perspective, I think there's a real opportunity to work with partners to bring Spectacles to market. And so that'll be a big focus for us obviously in the leadup to the launch. Thanks.

OPERATOR

Thank you. The following comes from Mark Shmulik with Bernstein. You may proceed.

MARK SHMULIK, BERNSTEIN

Yes. Thanks for taking the questions. I appreciate the color around how time spent with content is growing. Any color you can share on how kind of time spent with like snapping with friends and family has been tracking perhaps particularly in the US where I think users declined by about a million. And then secondly, Snapchat+ growth continues to track real well. I think it's mid-teens revenue contribution here. So I think we're now like three years into this product and just wondering how your thinking has kind of evolved around, how meaningful this business can be going forward. Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks Mark. You know certainly we're excited about the growth for example in things like calling we talked a bit about that earlier in the call. I think we've seen calling growth with friends and family growth something like 30% year over year, which is has been really encouraging. In North America, in particular, Snap Send unique users grew by 2% year-over-year. And North America MAU was flat year-over-year at 159 million. So, we did see a slight decline in active days. Our focus on driving daily engagement is really around supporting communication between friends and family and of course continuing to improve the content experience. As well, we've got some new products landing later this year. So, we're excited about that. The team's heads down focusing on getting that out the door. In terms of other revenue, our direct revenue business, the growth has really continued nicely. I mean, we've achieved a \$700 million annual run rate, grown 64% year-over-year. So, that revenue has become much more meaningful to the business, and we see a lot of opportunity to continue to develop the Snapchat+ product, but also new products like Lens+ and potentially some new offerings around creators on Snapchat as well. So, I think it's just a testament to the deep engagement people have with Snapchat and certainly our ability to continue to deliver new value that folks are willing to pay for. So, it's been a really exciting area of growth in the business and looking forward to investing more there.

OPERATOR

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

MARK MAHANEY, EVERCORE

Okay, two questions please. You talked about Derek at the end. Stock Based Compensation coming down. Just any color on the why? Is it just a new approach to how you're thinking about Stock Based Compensation as an expense item? And then secondly, going back to I know you've got a lot of interesting new monetization and Sponsored Snaps, but going back to just the core Spotlight monetization. Where are you on that? How do you feel about the progression of that? Maybe not just in a quarter, but for the next year or two your level of confidence in where you are in terms of load level of targeting, monetization, advertiser interest? Thank you very much.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there Mark, it's Derek speaking on the SBC side. Yeah, the note there is we took down the full year cost structure guidance for SBC at the midpoint of that range for the full year about 30 million lower than we'd been in the prior quarter. That's the second reduction we've made to that estimate for the full year this year. So we're trying to be very careful and focused in our hiring trying to make sure that our hiring is laser focused on our core strategic priorities. And so as we've been able to manage that ramp and balance out the level of investment in the business relative to our observed growth and topline to make sure that we're doing well on profitability and progress towards profitability over time, that balance is really showing up there. So, thanks for noticing that and we'll keep updating folks each quarter as we make progress there.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Mark. Yeah, on the Spotlight monetization front certainly Spotlight revenue has become an increasing share of revenue overall and that's been really exciting to see. We're doing some experiments around sort of more contextual placements which we're excited about and going to continue to explore further but overall that inventory tends to perform quite well. I think the dwell times and sort of high consideration of that inventory is helpful for Direct Response advertisers. So we're also iterating on formats but Yeah, generally excited to see the progress on Spotlight monetization and now that Spotlight total time spent is about 40% of time spent overall just becoming a more meaningful part of the business.

OPERATOR

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

JUSTIN POST, BANK OF AMERICA

Great. Thanks. Just wondering if maybe you could outline some initiatives that you're really excited about to kind of maybe re-accelerate US DAU. And then second on the guidance, it kind of implies similar growth despite the challenges in Q2. How are you thinking about the ad revenues embedded in there and do you see opportunity for acceleration as especially Sponsored Snaps gets more implemented? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

In terms of North America user engagement, I think one of the biggest shifts has really been, from posting stories for friends to sharing content that you find in Spotlight or stories and and sending that to your friends to start a conversation. So, historically, people would start conversations by replying to a friend's story. That obviously still happens quite frequently today, but we've also seen the rise in content sharing as really a conversation starter and catalyst. So, on the innovation front, we've been thinking a lot about new parts of the service that can help sort of inspire or kickstart conversations And as we think about innovation and landing some new products later in the year, that'll really be a focus area.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, and just in terms of what we're seeing in terms of opportunity for growth in Q3, you likely heard me say earlier that, since we've rolled back the ad platform issue, we're seeing ad revenue growth in the sort of 3 to 4% range. So, that correlates pretty closely to the guidance range that we're seeing for Q3 on total revenue, maybe room for a point of improvement as we move through the quarter. The big thing we see there obviously is number one continuing the momentum we're seeing in direct monetization and other revenue but also the work that we're going to be doing to build demand into Sponsored Snaps. The one thing I'll note there is too is just comps as we move through the quarter. There obviously some big items last year with Olympics and so on. So we're going to be working to overcome that too. And so the teams will be working hard to build demand into this new inventory and make sure that we power through those things as we go through the quarter. So, largely reflective of the rate of growth that we're seeing today. Maybe a little bit of improvement as we move through the quarter and execute. Hopefully that gives better context.

OPERATOR

Thank you. The following question comes from Eric Sheridan with Goldman Sachs. You may proceed.

ERIC SHERIDAN, GOLDMAN SACHS

Thanks so much for taking the question. Maybe building on Rich's question earlier that was sort of anchored around Spectacles and AR and where you're going longer term, Evan, I'd love to broaden out the question and talk a little bit more about the wider ecosystem when you think about how user interfaces might evolve from the current formatting to where you want to take them over the medium to long term and how you think about the role of content and AI at the center of some of those experiences they move more towards Spectacles and how much of those dynamics around content or AI you feel you need to own operate and build yourself rather than possibly build in partners and and other ways to possibly scale those initiatives. Thanks so much.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question. Obviously, it's been so exciting to see the developments in AI and I think they're really helping accelerate our vision around making computing more human. Our AI investments are really focused on areas where we think we can differentiate. So, we have done a lot around image and video generation especially with on-device models which are really helpful in terms of scaling that capability to our entire community without any incremental cost for them for example in things like 3D generation as well if you kind of think about the future of user interfaces or the future of lenses in general I think it's quite likely that a lot of those experiences will be generative as well so if you have a chance to try out our new Easy Lens tool there's a Lens Studio web tool that's available now where you can create an augmented reality lens with just a prompt and I think as we look forward to the types of experiences people will be able to have with AR glasses. I think we're quickly moving to a world where those sorts of experiences can be generated on the fly. And again, that's an opportunity where we think we can really differentiate especially because we have developed the developer tools ourselves and supported this developer ecosystem. Developers can actually plug into these various Lens Studio tools as well and design their own plugins. So I think just looking towards the future here, we're going to invest where we can differentiate. Of course having the glasses form factor allows you to provide much more contextually relevant computing experiences to understand not only what's on the screen or the lens per se, but also the world around you and we think that we can really build a competitive advantage there over time.

OPERATOR

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

DAN SALMON, NEW STREET RESEARCH

Great. Good afternoon everyone. Evan, could you take us a little deeper on your small and medium customer base? Maybe any color on the growth of the SMC count or broader total advertiser growth you can add. And it sounds like smart bidding has been a boost for SMCs. What other ad products are you seeing get the most traction with that group and any insights on your road map for them from here would be great. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, we're really excited about the progress with SMC segment. It's the largest contributor to ad revenue growth in Q2. And I think our improved go to market operations and the simplification of some of our ad products and ad manager have been really helpful there. When it comes to the smart solutions for advertisers, obviously budget optimization has been in testing and has driven some really strong results and then auto targeting as well. We're finding that AI can really assist advertisers with finding the right audience to convert on their products and lower funnel goals. So certainly excited about a lot of the automation improvements there and that's especially important for smaller advertisers who may not necessarily have the resources to manage campaigns in such a fine grained way. So I think automation will provide a big lift for SMCs but advertisers more broadly as well.

OPERATOR

Thank you. Our last question comes from Benjamin Black with Deutsche Bank. You may proceed.

BENJAMIN BLACK, DEUTSCHE BANK

Great. Thank you for taking my question. I just have one on Lens+ really. It would be great Evan if you could sort of talk a little bit about the reception. Maybe give us any sort of idea to how conversion metrics or engagement trends are being are sort of, panning out in the early innings. How big of an opportunity do you think this could ultimately be and perhaps more broadly, how do you think about the interplay between pricing and subscriptions to drive growth within Snapchat+? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks so much for the question. It's really early with Lens Plus, but we're super excited about it. Obviously, lenses are really heavily engaged with on Snapchat with people, using lenses more than 8 billion times every day. So I do think the opportunity to offer exclusive lenses and of course our AI lenses which have proven incredibly popular will be a strong driver of growth with Lens+. So I think there's a nice top of funnel there for sure. Looking more broadly at pricing we think there's room to experiment on pricing. I think our primary focus so far has just been on continuing to build the value proposition for customers. And we see obviously new features being a major driver for new subscriber acquisition and retention as well. So it's a small but mighty team and I think over time especially given the size of the revenue opportunity in front of us we'll be investing more in pricing experiments but I'd say the primary focus for us is just continuing to build value for our subscribers and our community.

OPERATOR

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

SNAP INC. Q2 2025 INVESTOR FOLLOW UP CALL Q&A TRANSCRIPT

QUESTION AND ANSWER:

OPERATOR

The first question comes from James Heaney with Jefferies. You may proceed.

JAMES HEANEY, JEFFERIES

Great. Thanks guys for taking the question. Could you just talk a little bit more about the change that caused the drop in auction pricing? Just trying to understand what the reason behind first maybe making that change and then just any context you can give around the improvement that you've seen grow since reverting. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, thanks for the question. Yeah, I mean, first of all, we're moving really fast to make improvements to the advertising platform. In this particular instance, we rolled out a change that allowed advertisers to clear the auction at reduced prices. And of course, in the process of rolling that back then, we did see recovery. But maybe just to talk about that in more detail, I'll go back to the topography details I provided earlier. We did see overall advertising revenue specifically up 9% year-over-year in Q1. We saw that drop to approximately 1% year-over-year in April or the first month of Q2. And obviously, this issue with the auction was a big part of that. We also had the timing issue associated with Ramadan happening during that month in particular. And then obviously also the De Minimis changes have been a factor throughout this period. So we did roll that change back and we saw advertising revenue largely recover after that and because of the recovery that we saw in advertising revenue and the strength of it in May that's what gave us the confidence to go ahead and roll out the incremental inventory of Sponsored Snaps to more regions and bidding objectives and that really led to the significant increase in inventory potential and the systemwide declines in eCPMs as a result of all that inventory. So the benefit of that new inventory really accruing to advertisers in the early going and in the form of lower pricing and improved performance and so as I mentioned on the call after the rollout of Sponsored Snaps in the in the time since and we rolled that out around mid-June we've been seeing ad revenue growing more in the range of 3 to 4% after that period of time. So the goal from here now is to build demand in that new ad unit and we're excited about the performance that that's delivering for advertisers and the reach that is delivering for advertisers. And so on the back of that, we'll be looking to build demand. But the growth rate that we've seen in advertising specifically, since we rolled out Sponsored

Snaps more broadly is essentially in line with the guide that you're seeing there for Q3. So hopefully that gives you a little bit more context on the issue with the ad platform, but also how the rate of growth in advertising revenue has been impacted by the different factors that have been then pushing it one direction or the other over the last number of months. Thank you.

OPERATOR

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

SHWETA KHAJURIA, WOLFE RESEARCH

Okay. Thanks. I just have a question on My AI. How do you think about the mode of My AI as some of the other scaled options are also growing pretty nicely. And how do you think monetization will work with My AI as it evolves? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there and thank you for the question. Yeah, My AI is something we rolled out a while back and is an interesting tool for our users. I think that you're seeing lots of investment in AI related assistance broadly in the marketplace. An investment in capacity around AI and the models that inform these assistants and tools broadly. I think one of the things that's really exciting about Snapchat is the distribution of these tools is so important and because we've gotten such a large audience obviously well over 900 million MAU in our path to a billion and because of the importance of chat generally and communication generally within our app it really lends itself more towards this type of chat communication which is so relevant to the distribution of these AI assistants. So we see the distribution and the audience that we've built as being really important to that. We've always been a multi-cloud or multi-model company in terms of how we think about approaching things like this but lots to go. It's really early going in terms of what we're doing with My AI here. But we're excited about how our community is responded and the opportunity that our large audience and their deep engagement with chat presents for us to innovate on their behalf and leverage what we're seeing in terms of AI development to bring new experiences and as you mentioned in time also monetization being a possibility there hopefully that's helpful. Thank you.

OPERATOR

Thank you. The next question comes from Doug Anmuth with JP Morgan. You may proceed.

DOUG ANMUTH, J.P. MORGAN

Thanks for taking the questions. I have two just going back for a second on the auction clearing change. Just trying to understand more was that like a bug or a mistake in the way that it rolled out or were you intentionally trying to bring down prices but it had some more negative impact than you expected. If you could just elaborate a little bit there. And then Derek it looks like there's another internal restructuring around engineering and kind of you know how you're splitting up the business in a way and and reporting structure and all of that. What's the takeaway there for us from your perspective? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Yeah. I think on the issue we had in the auction, I think the first thing I would sort of say in context is that we've been innovating really quickly in order to deliver improvements in advertising performance for our advertisers and to roll out, new bidding strategies, new ad units, and new models for different optimizations over time. And often these new capabilities, their adoption grows over time and you can see the performance that they're driving and in particular when you're making lots of changes internally in your ad platform, but at the same time, you're experiencing lots of external factors, whether that's De Minimis or tariffs or some of the other things we've seen around seasonality it can make disambiguating, what's driving different and demarcations and performance challenging and as your rollout gets broader becomes more apparent. So in this instance the change that had been made in the auction allowed some advertisers to clear the auction at substantially reduced prices and so we as we were able to roll that back then we started to see the performance recover particularly as we move through May which was which was nice to see and that obviously paved the way for us to be able to do more on the Sponsored Snap side late in the quarter which is exciting for the longer term future of the business. And then on the internal restructuring, yeah, what Evan spoke to there earlier is just distributing the engineering team in terms of how we support our customers and so having engineering team dedicated to monetization and having that roll up to Ajit which is really exciting to have a team that can support our advertising partners that's fully integrated between product and engineering and go to market. I think that helps us in terms of being responsive to our customers and similarly on core product being able to do the same and having the benefit of Bobby's leadership there as our CTO and co-founder to help support how we support our Snapchat community. So I think that that's an exciting change for the business and how we can better support our community and our advertisers. Thanks for the questions.

OPERATOR

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

KEN GAWRELSKI, WELLS FARGO

Thank you. Two, if I may, please. First, on the ad front, could you talk a little bit about how you expect kind of brand versus DR to evolve throughout the back half of the year? I know it's a little early and there's a lot of moving pieces, but I'm just curious as you saw, you know, you reported kind of weaker effective CPMs. Do you expect some improvement as maybe Q4 is more brand weighted quarter. That's question one. The second question please is as you think about the Specs rollout next year, how is there any kind of early look you can give us into how the cost and or margin structure may change for the business with that launch. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. I think speaking first to brand versus DR. One, we're still excited about the opportunity to better serve and grow our brand advertising business and better serve those customers. I think there we're focused really on making sure that we have innovative and performative ad products. I think in particular, some excitement there around the First Snap or First Sponsored Snap product that's rolling out and some of the work that we've done to better support agencies with tooling and client support and the ability to better support advertisers in that way and the agencies that support many of them on the upper funnel or brand side. So those are exciting developments there that'll better support them and it's nice to have that catalyst going into Q4 but it's obviously very early with Sponsored Snaps to have any thoughts about exactly how quickly that'll materialize on that side. On the DR side as you know heavily impacted by the auction issues that we had in the current quarter but huge focus there our investments in ML and AI to drive improved models and we shared a number of things in the letter about some of the significant improvement that we're seeing in the performance of pixel purchase and our app-based optimizations as a result of some of those model investments. Also the investments that we've been making in go to market around SMBs and SMBs continuing to be the largest driver of ad revenue growth in the most recent quarter as we continue to make it much easier for folks to onboard automated tools for campaign setup and optimization in order to drive that forward for those advertising partners. So excited to see how as we have a more performative ad platform and we have the benefit of growing inventory especially in some of our most highly monetized markets. It'll be exciting to see how we're able over time to build demand in response to that inventory and performance improvement in order to make that inventory growth accretive to the topline. In terms of how quickly that will materialize, obviously our guide reflects what we expect to see in Q3, but we'll be looking to

build on the momentum and the performance in the quarters ahead. Hopefully that gives you some good context there. In terms of the Specs rollout next year, we've been able to have really nice margins on the Snapchat business and as Evan mentioned earlier, we hit nearly 400 million in free cash flow generation over the trailing 12 months even after the investment that's going into Specs. So certainly significant progress on meaningful free cash flow against the Snapchat business already. And that's been more than able to fund the investments in Specs to date. As we go into the Specs rollout next year, we'll talk more as we get closer to that about exactly what to expect in terms of volumes and how that will impact the margin profile and so on over time. Thanks for the questions. I really appreciate it.

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. I want to ask about Simple Snap and Spotlight. Just progress of Simple Snap and wondering as Spotlight time spent continues to grow and is a large part of overall time spent. How is the team thinking about incorporating or changing Spotlight and making it more prominent maybe within Simple Snap or Snap overall? And then just progress with Simple Snap rollout would be helpful. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. Thanks for the question, Ron. It's Derek speaking again. In terms of Spotlight, we're really pleased with what we're seeing there. So, as we shared earlier, we're seeing that be a really nice grower in terms of overall time spent. Believe it's up to approximately 40 or more than 40% of overall time spent with content. So, really important driver to the overall business. So, we're doing well in terms of both, audience pickup their overall viewership and then the engagement in terms of overall time spent growth with that product. I think the focus there is we've been doing a lot of work to grow our creator community and we're seeing really nice progress there on growth in creators and creators posting. We're really pleased with what we're seeing in terms of our progress around freshness in that content which is related to the growth in creators and posting and and so making the content there fresh and current and then that contributes to sharing and the work that we want to see there in terms of content being the beginning of a conversation as friends are sharing content with one another and that being really important to how we think about Spotlight and certainly Simple Snapchat as we thought about how to organize tabs is one way to increase the top of funnel on Spotlight, but the sharing of content

amongst friends and making the content as relevant and personalized as possible so that folks feel like sharing is the natural thing to do there is something that I think you'll see us really focusing on there to continue to grow the top of funnel for Spotlight. So hopefully that gives you some sense of how we're thinking about evolving Spotlight and its vectors for growth in the near term. Thanks for the question.

OPERATOR

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

YOUSSEF SQUALI, TRUIST

Great. Thank you Derek. So just back to the change that you guys talked about. So the Snap auction that caused campaigns to clear at reduced prices. Was that a global change or was it limited to North America? Because when I looked at monetization last quarter, it seems that it was down in North America, it was down in rest of world but not in Europe. So maybe just clarify that a little bit if you don't mind. And then second and follow up to a question that was asked on the main call for Specs set to launch next year are there any like one or two key things that that you can highlight for us that you believe will differentiate the offering from what is potentially available either now or what's being worked on from from peers. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. You know, in terms of the revenue growth trajectory in the quarter, Q2 specifically, and the auction issue, one of the things I'd point out is just there were multiple factors impacting revenue and they'll have different impacts on the regions. So if you think about the auction issue that we talked about earlier, that's an issue that impacted, was more of a headwind to DR revenue and you can see that in the breakout where DR revenue growth in Q1, it decelerated by about 10 points from Q1 to Q2, whereas brand advertising revenue actually went from negative 3 to flat. So you'll see that issue showing up, really significantly more on the DR side but you also have these other factors including the De Minimis changes and obviously the De Minimis changes are more concentrated in terms of their regional impact and similarly Ramadan being a headwind in Q2 in terms of the timing of Ramadan doesn't show up evenly across regions and so that makes things a little bit trickier in terms of a) just attributing the headwinds we saw to any one specific factor but also how it shows up or across DR versus brand. So hopefully that gives you a little bit more context on that. In terms of Specs, I think the first thing I would say here is that we've been focused on delivering an immersive AR experience as a computing platform for 11 years here at Snap. Our North Star here throughout that period of time has been about AR as a

computing platform. Fully see-through AR glasses that are able to operate on a standalone basis and the development of a full stack AR product inclusive of the hardware that we have been moving early to develop as a fully immersive product but also operating system and creator platform and certainly because of our very large global audience with Snapchat and being one of the largest AR platforms in the world already with hundreds of millions of folks engaging with AR on the platform regularly and then having a very large creator community that has created an enormous volume of AR experiences with Lens Studio already. These are tools that mean that we enter this game with a very large creator ecosystem. And then of course we've been moving towards our AR hardware product for 11 years now. And so many of the things that we've had to solve in terms of product problems to deliver a fully immersive see-through AR experience are things that we've been developing, over time for a long time. So, we see a lot of excitement around that product being a full stack product that includes all three of those things and our ability to develop each of those in tandem to one another. So, obviously lots more to talk about there in the year ahead. But a lot of excitement around what we're seeing already from our developer community that's been working with the developer product we launched last year. And we'll be talking more about this in the year ahead as we get closer to our commercial launch. Thanks for the question.

OPERATOR

Thank you. The next comes from Tom Champion with Piper Sandler. You may proceed.

TOM CHAMPION, PIPER SANDLER

Good afternoon. Derek, always appreciate you showing up to answer the questions. I just wanted to go back to the shape of advertising growth here to date and I think you referenced 9% ad revenue growth in Q1 that declined to 1% and then recovered to more like 3 to 4% in the latter part of Q2. And I'm just kind of curious why you didn't see a more return to high single digit growth in the ads business. Maybe that would be an expectation for later in the year. Why isn't that run rate kind of the 9% kind of like the expectation of what you can get back to? And curious if there's been any moderation in headwinds from De Minimis that maybe emerged recently or whether that headwind remains in place. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Tom, thanks for the question. I appreciate the opportunity to clarify. So, one thing to maybe be more precise about is that yes, we saw about 9% ad growth in Q1. We saw that decelerate to about 1% in Q1 with all three of the factors I mentioned earlier, including the

ad platform issue, De Minimis, and the timing of Ramadan all in play during that period in April where we saw ad revenue decelerate to approximately 1%. But we did see ad revenue growth largely recover back up as we moved it through May. And we rolled back the ad platform issue and we saw advertisers adjust their bid strategies and so on. That it was actually the strength of that recovery in May that gave us the confidence to go ahead and roll out Sponsored Snaps more broadly in terms of both regions and bidding objectives in mid-June and then it's after the rollout of Sponsored Snaps more broadly in mid-June that we see the ad revenue then move down again to the 3 to 4% year-over-year growth rate that we've been seeing so far. And then that puts total revenue growth obviously during this more recent period approximately in line with the guide that we gave for Q3. So to your point, yes, we did actually see ad revenue largely recover after we rolled back the ad platform change. But then we rolled out Sponsored Snaps, which we're very excited about the incremental inventory that's coming with that. And obviously the benefit of all that incremental inventory in the early going is largely accruing to our advertising partners in the form of lower pricing and improved performance, but our job now is to build demand into the ecosystem, because we've seen the eCPMs post that wider rollout, be in decline across the the whole system, not just with that ad unit. And so that's a factor of reduced contestation with all of the significant new inventory. And so our job now is to rebuild demand even bigger to take advantage of all of this inventory and have that inventory become accretive to topline over time. So anyway, hopefully that gives you a little bit more detail to understand the nuance there.

OPERATOR

Thank you. The next question comes from Stephen Ju with UBS. You may proceed.

STEPHEN JU, UBS

Hi Derek. Thanks for doing this. So I think we've talked about the success that you've had with the Smaller-advertisers and in growing their spend with you. But you know not to sound too churlish here but I wanted to see if you can update us on what you are hearing from some of the larger advertisers some of whom may have churned in early 2023. And it seems like they are the ones who are going to be your most discerning customers. So it seems like winning them back over to your side should be more positive for your revenue growth versus the effort that you're exerting for the SMBs. So, what do you think is holding them back? And, what do you think you need to do to win them back, especially the ones that might have decreased spend with you? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, Stephen. Thanks for the question. Yeah, we're really excited about the progress we're making with SMBs. So, obviously, that's been the largest driver of ad revenue growth in recent quarters and really important to building the contestation and the auction and having a diversified portfolio of advertising offers for our Snapchatter community that really helps us personalize the ad experience and that density leads to contestation which leads to improved pricing and yield over time. In terms of larger advertisers I think that the thing to understand here is one it's not so much that we've seen large advertisers churn over the period, it's just about how relatively quickly we're growing spend and some of that is about focus. Our focus in our business has been around building scaled solutions that can be performant for a large number of advertisers and investing in the ad platform to deliver that. Certainly that's working for lots of large advertisers and if you sort of look through the last four to eight quarters of case studies we've shared about sources of success or examples of pixel purchase or our app optimizations being performant for advertisers. We see that performance across the spectrum of advertisers. However, there are a small number of large advertisers, especially more so in North America where they're looking for very bespoke tooling, or very bespoke measurement solutions. And we're investing in those things, but we have to balance how much we're investing in very specific, one off solutions versus how much we're investing in performance and tools and bidding strategies and measurement solutions that can benefit the broader advertiser landscape which is going to be better for scaling our business long term. And so it's just been around us balancing our relative investment there in order to build a much larger business over the long term we see a lot of opportunity in building a scale DR business with scaled advertising solutions. And so that's where you've seen a lot of the focus. It's not that it isn't working or the platform isn't working well for large advertisers. Just where we're putting our resources and our focus on on a relative basis at the margin. Hopefully that context helps you a little bit.

OPERATOR

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

JUSTIN PATTERSON, KEYBANC

Great. Thanks. Derek, you're within striking distance of that 1 billion MAU target. You work toward that goal likely over the next 12 months or so. What are really the steps to drive more daily engagement here? More sub conversion and how does that change your conversation with advertisers and then maybe to hit that \$3 billion of AR investment in a different way? Could you give us just a sense of how that's been changing in recent years? Is that still growing pretty meaningfully or is that starting to moderate? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there, thanks for the question. Yeah, I'm really excited about the progress that we're making towards this 1 billion MAU goal. We set that out two or three years ago and the progress the team has made globally to drive towards that goal has been really impressive. So really pleased with that. We're going to keep pushing towards that. There are very few 1 billion MAU platforms in the world. So that is, it makes us relatively unique from a reach perspective and a scale perspective and of course that is important for advertisers. And one of the things we're very conscious of is that over time we've been very focused on the DAU metric because we believe communicating with your best friends and family is a daily habit but I think because of that often folks lose sight of the fact of just how enormous the MAU audience is, especially compared to other platforms that talk exclusively on an MAU basis. So, it's exciting to see the progress towards that headline goal and the energy that builds around that in terms of the scale of our community. Hopefully, that helps a lot in terms of just understanding how then advertisers view that and understanding how unique we are in terms of the scale of our platform. Whether it's in a given market like North America where we just shared in the letter today that we reached 100 we're at 150 million MAU there which is obviously enormous penetration or whether it's a billion globally there's not a lot of platforms that have that kind of reach and depth especially with the really critical advertising demographics in the sort of 18 to 35 year old demos and of course younger audience that are emerging with their their first brand affinity and so on. So very important there and that's exciting to see the progress. In terms of the investment in AR over the last 11 years, yeah, I think we shared earlier at AWE, that we've invested over three billion over that period of time. This has been a concerted area of investment for a long time as we've built towards an immersive AR product. Building one of the world's largest AR developer communities with purpose-built developer tools, a proprietary rendering engine, our own highly optimized operating system, our own optical engine as well as the design of the hardware itself. Our tight control over each aspect of the hardware and the software really is allowing us to deliver an experience that is immersive, see-through AR with a developer community paired to it. That I think is really exciting and it has been a big area of investment for a number of years. However, as you can see in our financials, Snapchat itself has been growing in terms of its cash flow generation. And so if you look even just at the last trailing 12 months, even after funding the investment and Spectacles, we put up almost \$400 million in free cash flow over the trailing 12 months. So we've been able to scale the Snapchat business in order to fund this investment. If you look over a longer time horizon, I believe the first year after IPO revenue is it's approximately 8x from where we are we were after IPO on topline and revenue and now generating really meaningful cash flow for the

business overall. So certainly it's a large investment but one that we've been able to scale into over time by growing a very big Snapchat business and improving the margins on that business and the free cash flow generation out of that business over time. Hopefully that provides a little bit more information to your question.

OPERATOR

Thank you. The following question comes from Jason Helfstein with Oppenheimer. You may proceed.

JASON HELFSTEIN, OPPENHEIMER

Thanks. So Derek, do you need to react to the North America DAU right being down sequentially the past two quarters? I mean obviously there's a lot of metrics you look at, but do you need to lean into marketing in the US marketing customer acquisition? And then just second just housekeeping, can you tell us what Sponsored Snap revenues were this quarter? I think you disclosed it last quarter. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, thanks for the question. On North America engagement, one of the things I'd point you to importantly is that North America MAU were flat year-over-year. And in terms of SNAP senders, we actually saw those up 2% year-over-year and that's really important because one of the things you've heard Evan talk about a lot over the last year is that in terms of driving sustained growth in the North America business over time, the key there we believe is the focus on bidirectional communication. And of course, snapping with friends being at the very heart of the retentive end of bidirectional communication. So that's been the focus there and it's good to see, number one the MAU holding flat and then two, the improvement in the Snap sending which is the key element of the bidirectional communication that we see as being at the heart of getting to growth there over time because communicating with and snapping with your close friends and family is a daily activity. So, no, we didn't quantify the Sponsored Snap revenue in Q2, although I think, just to give you a little bit more context, what I shared earlier is that we didn't do the broader rollout of Sponsored Snaps until the middle of June, so the final couple weeks of the quarter there. So, as you can imagine, the change in its contribution was not significant quarter to quarter. So, hopefully that at least gives you a little bit better sense. Thanks for the questions.

OPERATOR

Thank you. The next comes from Deepak Mathivanan with Cantor Fitzgerald. You may proceed.

DEEPAK MATHIVANAN, CANTOR FITZGERALD

Hey Derek, just a follow up on a couple of those on the DAUs decline. Maybe asking it a different way, is there a broad implication of user growth and engagement on these AI assistants and chatbots particularly in Western markets you think is weighing on some of your use cases inside Snap? How do you view the direct competition two times spent from some of these at this point? And then the housekeeping one, is it fair to assume advertising revenue growth in August and September somewhat accelerating in your guidance compared to the July trends? Essentially because you would have some form of value capture from Sponsored Snaps and then maybe the comps from Olympics and some other stuff east.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Yeah. So on the DAU side, I don't see AI assistance being a big factor there. I think what we've talked about over a longer time horizon is the historic importance of stories and friend stories in particular in North America and how bidirectional communication and snapping has been a bigger part of the core use case as we've grown in markets that emerged later in the development of the company. And that's why we've had such a big focus, in terms of retentive behaviors and growing the audience in North America on bidirectional communication and the importance of snapping because we know that as we look broadly across the community that we've built over time that that's a very retentive behavior and then getting folks snapping with their close friends and family, and Snap sending as being the metric that was up 2% year-over-year in the most recent quarter in North America. That's the metric we're really focusing on to drive this bidirectional communication behavior. So that's the one that I think is really important. There are other aspects of that of course including content sharing and other things that are good conversation starters. Obviously AR sharing and some of the exciting emerging behaviors we shared in the letter around AR game, AR lens games, and the really big uptick we've seen in usage of those. These are all things that are conversation starters or that enrich this bidirectional communication in ways that we think can contribute to growth over time. So hopefully that gives you a little bit of a sense of how we're thinking about that. When I look at ads revenue growth as we move through the quarter, I would say that the guide implies that we can make a little bit of progress as we move through the quarter. As I said earlier on the call, the comps in August in particular with the Olympics and some other things that occurred in the prior year are a little tough. But we've given in that guide a little bit of room

for us to make some progress on building demand into the platform as we move through the quarter. So that's the real focus. I think here in terms of the big upside that we would hope to see over time with Sponsored Snaps, it'll take time for us to build demand in that inventory and build contestation back to a higher level. And so the teams are really focused on that and it's something that we're excited to see the contribution from over a time horizon here, so hopefully that context helps a little bit. The guide for Q3 is the guide and it is what we currently expect for the quarter and hopefully that gives you a good sense of where we are there.

OPERATOR

Thank you. The following comes from Rohid Kulkarni with Roth Capital Partners. You may proceed.

ROHID KULKARNI, ROTH CAPITAL PARTNERS

Hey, thanks. A couple questions. One on the spend on AR Specs. Do you think you would consider calling out how much of this roughly \$2.7 [inaudible] is being spent on AR? Obviously Meta gives us color on core ads, profitability, and then how much they're spending on metaverse and all the variables. I think it would be helpful to just understand kind of how much Operating Expenses goes towards the Specs. And second, is on the DR segment of app downloads. A couple interesting tidbits there. Any color on what's the scale, scope, growth rate of this part of the DR business? Is it getting large enough to drive more acceleration in DR?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Yeah. Hey, thanks for the question. In terms of what we're investing in AR and Specs, I think one thing that's really important to understand there is that there are big aspects of the investment in our AR stack, whether that is Lens Core or Lens Studio or the Creator Universe and so on that serve, both platforms and, obviously power the camera for Snapchat and power significant portions of our camera engagement and snapping and communication behaviors on Snapchat, but that, are also relevant to the Spectacles stack. So, drawing a clean line there is a little bit more challenging. But as we get further to a more mature state on the Spectacles business and get to a scaled consumer commercial product, we'll probably talk a little bit more in detail about these things. In terms of the app side of the advertising business driving DR, we've seen really good improvements to the ad platform. We've seen strong demand for both the pixel and app purchase objectives and combined and purchase related ad revenue grew over 25% year-over-year in Q2, so certainly a big part of it. The improved app purchase optimizations are helping with a

number of verticals and specifically gaming, e-commerce and on-demand delivery services, food delivery, and ticketing apps are all examples of app-based advertisers that are really benefiting from the improvements we're making to the ad platform and the app optimization specifically. So hopefully that gives you a little bit more context there.

OPERATOR

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

JOHN BLACKLEDGE, TD COWEN

Great. Thanks. One question, I'm just curious about the initial advertiser adoption of smart campaign solutions and how we should think about Ad adoption in the second half. Could it be scaled up enough to benefit during the seasonally strong Q4 this year? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, great question. We've been really focused on these automation tools in particular in the context of our SMB advertisers, but in DR advertisers overall. A lot of that is investments in automation related to campaign setup, getting folks into the right advertising objective, and our AI powered suite designed time to enhance campaign performance and simplify the overall workflows that advertisers are going through. So we've seen really good adoption of those products and they've been a big part of the story in terms of driving how performant our advertiser funnel is on the SMB side, both in terms of helping us think about where to focus our advertiser acquisition efforts but then the onboarding process, getting folks set up and then helping them scale quickly from both a creative advertiser objective and campaign setup and measurement solution perspective. So, it's a broad effort but pleased with what we're seeing there in particular as it pertains to us serving our SMB advertisers well. Thanks for the question.

OPERATOR

Thank you. The next question comes from Brian Fitz with BMO. You may proceed.

BRIAN FITZ, BMO CAPITAL MARKETS

Thanks. Derek, first on Sponsored Snaps, can you help us think through possible challenges in scaling that inventory given that it does impact mission critical pages for users. Is there any fear of possibly introducing a high ad load in what I guess would be a more sacred area for users? And then, I think I heard it through a lot of your responses to other questions. I know Tom and Jason were asking, lost US users and 4% ad growth, but I've got a couple emails in my inbox asking about share loss more broadly. How do you kind of change the

narrative here with investors and with the street and are there any additional data points or success stories or what would your response be to those suggesting that there's significant share loss here to peers? I know you and I had talked a while ago about a lot of the initiatives for creators to drive engagement and users to the platform, but I think that narrative is very different in terms of the investors on the street. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. On Sponsored Snaps, I think what you'll see there is we've been really thoughtful here about the rollout of that product. Both in terms of making sure that we were really careful to thoroughly test the product, but then also as we've begun to scale it up, looking at things like frequency caps and how we're targeting and personalizing what folks are seeing, so that's a big part of the story. Obviously, it's an immense amount of inventory potential and so trying to be responsible about how we roll that out. As I mentioned on the call earlier, we're not seeing any meaningful impact to the user experience thus far in terms of engagement impact. And so that's a hopeful sign, but obviously it's very early in the going and we're going to continue to monitor that carefully. And of course, the focus we we've had on building our DR advertising business and building our active base of advertisers, helps us in terms of personalization and the investment in our advertising models to make sure that we're putting relevant messages in front of Snapchatters also helps in terms of the perceived ad load as we as we carefully dial things up there. In terms of the moment of the business, I would say a number of things here. Number one, we have made really steady progress in building our global community. We are approaching the 1 billion user mark, certainly well North of 900 million here. There are very very few platforms in the world with audiences at a billion or more. And we've grown that business very rapidly over these years and I'm really pleased with the momentum that we've seen in the community globally. I think a lot of the focus tends to be on North America specifically and even there I would say that obviously the business grew earlier in North America and we've reached a place where we have an enormous audience in North America and some of the most important advertising markets in the world including obviously the United States. In the most recent quarter we're sitting at 159 million MAU in North America alone and that is flat versus the prior year. So certainly not going backwards and core behaviors like snapping actually growing year-over-year. For a really big platform like this, we're going to be growing and investing and evolving over time, and that's what you're seeing us do right now with the investment in bidirectional communication and also in the investments to broaden the utility of the app, through innovations over the years like the map, where we shared the enormous MAU that we've grown with that product over the years, and the continued innovation on AR that makes our camera more relevant. We just recently shared

the massive MAU we built with Lens Games very recently and of course the innovations that we've made across our content stack including how enormous the Spotlight business has become over the last number of years. So I think the story that you've got on the core Snapchat experience is one of continued innovation, continued invention, us building enormous audiences in some of the most valuable markets from an advertising perspective in the world, and us continuing to build huge audiences around new innovative in products like the map and Spotlight and so on. The other is we've also quietly built an enormous one of the largest direct monetization businesses in the mobile space hitting a run rate of more than \$700 million annually on our direct monetization or other revenue as we call it through our large subscription and transactional businesses as we continue to innovate on behalf of our community with subscription products and not just Snapchat+ or Platinum, but also the recent rollout of Lens+ as we continue to innovate there. So, what I would say is that we've gotten to be a very enormous platform with incredibly deep engagement across a very diversified platform and we continue to roll out more experiences to our community. I look forward to us continuing to invest in direct communication and the path to accelerating our growth in North America, but we are already deeply deeply penetrated there. I think sometimes people get a little hung up looking at the DAU number and they compare it to other platform's MAU number, but there are very very few platforms in the world that have reached the scale that we have and we're focused on continuing to innovate there and build the community. I'd be front-footed there in terms of our our thoughts about the progress we've made with our community and growing it, but there's more to do and we're doubling down on many of these areas where we're starting to see really good success in order to continue to innovate for our community and grow value for our shareholders. Thanks for the question.

OPERATOR

Thank you. The final question comes from Barton Crockett with Rosenblatt. You may proceed.

BARTON CROCKETT, ROSENBLATT

Okay, thanks for taking the question. I was just wanting to get a little bit better sense of how you're feeling about the ad market just more broadly. I would note that out of the first quarter going into the second quarter, you guys didn't provide a revenue guidance range citing some of the uncertainty around tariffs and what that could mean for the environment. Now going into the third quarter, you are providing revenue range guidance again. So that would suggest you feel, maybe better, firmer about the environment more broadly. So I was wondering if you could comment on that and maybe give us some color

on, if there were some ad categories that were stronger or weaker and maybe quantify some of the things you highlighted like quantify the impact of Ramadan and de minimis. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Sure. Hey, thanks for the question. I think one of the things that in Q2 in particular was challenging is that these different factors that we cited including the issue with our ad platform as well as de minimis and the timing of Ramadan is that many of these factors are advertisers, any given advertiser is hit with more than one of those issues. Verticals are hit with more than one of these issues. Regions are hit with more than one of these issues and so disambiguating them is a little bit tricky and so, we've tried to give you a really good topography of how revenue moved through the quarter to help you understand the relative impacts of these things. Hopefully that's been constructive and helpful to your understanding of things. In terms of the ad market broadly, I think, cautious obviously. The macro has been reasonably constructive thus far, but obviously lots of volatility and what tariff policy is going to be the de minimis issue is an enduring factor as we move along here so that's obviously not optimal. Our focus really here has to be on continuing to innovate for our advertisers and to provide Return on Advertising Spending to them so that they see performance in their own business. I think that's why it's been so important that we've leaned into building our Direct Response advertising business and diversifying our advertiser base by leaning into SMBs so that we get to a point where we have a more resilient advertising business. It's also why it's been so important for us to build our subscription and direct monetization efforts including transactional revenue such that it becomes a more meaningful part of our revenue and further diversifies our revenue sources. So, regardless of what we see in the macro over time, we can continue to execute as a business. So, we're going to stay focused on what we can control on our own end and try to execute as best we can. The guide that we provided for Q3 reflects our feelings about the macro and what's going on in our business at the moment as best we can see it. So hopefully that's helpful. Thank you.

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.