

SNAP INC. Q4 2025 QUARTERLY EARNINGS CALL TRANSCRIPT

OPERATOR

The first question comes from Eric Sheridan with Goldman Sachs. You may proceed.

ERIC SHERIDAN, GOLDMAN SACHS

Thanks so much for taking the question and thanks for all the depth of details in the updates on the quarterly results. I want to talk about one of the forward initiatives. Evan, you know, with Snap Specs as one of the key priorities in the next one to two years, can you just go a little bit deeper into what you've built on the platform and the application and use case side and how you think it feeds into where you want to take the hardware side of the business when we think about the next 12 to 18 months and how this fits into your broader strategic priorities for the company and more particularly for spatial computing longer term. Thanks so much.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey Eric, thanks so much for the question. We're super excited about what's ahead this year with the launch of Specs and obviously graduating from the R&D phase of Specs to broader consumer adoption and in preparation of that we've been working on several prior versions of Specs including most recently the version released in 2024 to developers who can subscribe to Specs and start building Lens experiences. We've seen some people build really spectacular things whether it's utilities or new educational tools for example like an at-home chemistry lab you can have in augmented reality to even some of the more interesting work we've been doing with the browser and the ability to stream video on a virtual screen grounded in the real world through your glasses.

So it's been really exciting to see all the new use cases that developers are building for Specs with the current version released back in 2024 and those will be able to run on the forthcoming version of Specs released later this year. So I think we'll be able to launch with a really wide variety of compelling experiences which I think is so important for the early success of a product like this and we're just really focused on getting it in the hands of early adopters. We're so fortunate to have this passionate base of developers, you know, hundreds of thousands of developers who've used Lens Studio to build Lenses and I think they're really excited about this forthcoming product. So really trying to engage them and early adopters with Specs later this year is super exciting and I think as we look out to future generations of the product through the end of this decade, we've got a really clear path here to lightweight, affordable, and incredibly powerful glasses that can deliver immersive experiences in the real world.

OPERATOR

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

ROSS SANDLER, BARCLAYS

The Q1 guide assumes a pickup in growth at the high end. And you guys mentioned that there's no Perplexity in there. Could you just talk about what's driving that between DR and Brand and how you're kind of expecting trends in 2026 in the ad business to play out.

Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, thanks for the question. On the ad side, the biggest focus is continuing to generate additional demand by demonstrating the strong performance of the ad platform. So, at the top of that, we're seeing really strong growth in active advertisers. They were up 28% year-over-year in Q4 as we continue to invest and scale our SMB go-to-market operations. And that's something you're going to see us build on into 2026. That's part of the investment plan for the year ahead is to continue to scale that out so that we can build on the momentum we have there. We've seen especially strong growth in the medium customer segment globally with medium customers in North America in particular being the largest contributor to absolute dollar growth there which is good. So that's the kind of momentum we want to build on in '26. We do continue to face some headwinds in the North America large customer business but there are some bright spots there including the US LCS financial services vertical as well as autos. You know we have new leadership in place over the North America LCS segment. We've got new products to connect brands with Snapchatters, including Sponsored Snaps and Promoted Places to build with there and smart campaign solutions to make it easier for advertisers to leverage the full set of Snapchat placements to make those connections easy and performant. So, those will be big themes that we'll be building on in '26 as well. In terms of the guide for Q1, you know, the macro operating environment has thus far remained relatively stable compared to what we saw in Q4. There's a lot of quarter left to go in Q1, of course. But our guidance range is built on the assumption that the macro environment continues to be stable. I hope that extra color helps a little bit.

OPERATOR

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

RICHARD GREENFIELD, LIGHTSHED PARTNERS

A couple questions. First, you know, on the subscription side, which I know Evan, if I go back to your letter a while ago, you sort of marked the importance of subscription. It seemed like it really accelerated this quarter. And I'm curious, are you marketing it differently? Are there new features that you added? I know you've talked about sort of charging for Memories and other things that will add to this. But just in terms of what happened in Q4, it'd be great to better understand what's happening inside of Snap. And then the other thing I think two years ago, Evan, you got on this earnings call and you talked about the fact that you were sort of refocusing user growth efforts from Android developing markets to the bigger markets like the US where the meat of your monetization was. And you know, if I look at sort of where US users, or sorry, North American users to fall into at 94 million. Do you need to put even more effort into those efforts to sort of drive US users or North American users just what's happening in the North American user market? It would be great to just better understand given your focus there. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, thanks Rich. We're definitely excited about what we're seeing on the subscriber side of the business. You know, certainly memory storage plans were a big driver of the subscriber growth that we've seen recently and also have helped improve retention rates overall. So that definitely has been really helpful to the subscription business and we've got some other great features on deck coming up this year for the direct pay segment of our business. So really excited about that overall and I think it really helps support our efforts to diversify our revenue in addition to the small-medium customer growth that Derek mentioned. So overall, really excited about the progress on subscriptions and the diversification of our revenue. As it pertains to user growth, I think, if you take a step back and look at the growth overall of the platform, you know, MAU now at 946 million. So we're pretty close to our goal of a billion MAU. And you know, over the past three years, our community growth has really outpaced our revenue growth and ARPU has actually declined while we've simultaneously increased the cost to serve which has put downward pressure on our margins. So as we look at this crucible moment and the pivot to profitability we have immense daily reach and engagement in many of the most valuable advertising markets including in North America and we think we can strike a much better balance between pursuing community growth and also growing ARPU. So in addition to that obviously we're working through some of the the regulatory landscape and some of the shifting user engagement patterns as we focus on organic growth but I think taking that all in in totality we've made some choices to reduce community growth marketing spend to adjust the cost to serve and to roll out additional paid features like the memory storage plans that we just

discussed and all of those can cause headwinds to user engagement. So those changes actually free up more resources to focus on our most valuable geographies so that we can continue innovating and delivering great customer experiences which we really believe is the most important driver of long-term growth.

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, I wanted to just talk a little bit more about, as you called it, the sort of litigation or regulatory risk caused by exactly, you know, changes in age verification policies, sort of broader teen smartphone and social media restrictions. You obviously commented on the actions that you took in Australia following the ban going into place there, but what I'm particularly interested to hear a little bit more about is the potential for those types of actions to impact North America. Obviously a 4 million step down in the DAU this quarter. Curious just maybe to unpack a little bit of what drove that more and what the outlook could be there during the year based on some of those litigation risks or regulatory risks you mentioned. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

We're certainly aware of some pending legislation. Obviously, there's quite a bit working its way through the court system right now that would further restrict the use of Snapchat for our community. I think as we look at, for example, global ad revenue from impressions served to users under the age of 18, that revenue is not material. So, I think looking at sort of the revenue generating potential of the business looking forward we're not overly concerned about the changing regulatory environment. I will say one of the things that's very interesting is that if you look at the research studies that look at Snapchat specifically as separate from some of the studies that look at social media in totality I think what we continue to see which makes us proud of the service we've developed is that Snapchat actually has a positive impact on people's well-being and people's friendships and that's actually in contrast to other services that don't necessarily have that positive impact. But I think we have had quite a bit of trouble as we look at the regulators explaining how different Snapchat is because there is really this moment where people are expressing concern about use of social media. So we have to continue making the case that Snapchat and its orientation around your close friends and your family can have a really positive impact. I think that's backed up by the research but certainly it's going to take time to prove

that out and especially as these regulations sort of work their way through the court system.

OPERATOR

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

KEN GAWRELSKI, WELLS FARGO

Thanks. Maybe first I'll touch on Specs. Evan, could you talk about the kind of synergy between Specs and Snap services more broadly and the audience and kind of the developer base. And then talk about, you know, the right way to capitalize that entity. I mean, if you have confidence in the end product, how do you think about appropriately capitalizing that? Should it happen all within Snap? Should there be outside partners? And how do you accelerate the development and the deployment of Specs throughout the ecosystem? I'll stop there. Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah. Well, I think to maybe take a step back on why we started working on Specs in the first place, you know, when we invented Snap and we worked on things like ephemeral messaging or Stories that put content in chronological order or even things like opening to the camera. Our vision, our work was really designed to make computing or smartphones feel more human. And we think that's played a really important role in connecting people with their friends and their family. But we also saw a lot of limitations of the smartphone and of computers and I think today people are spending something like seven hours a day in front of a screen and so I think there is at this moment a real opportunity to change what the computer is instead of something that you're constantly operating using a keyboard and a mouse something that now powered by AI can actually get work done for you and so in that way it's really a continuation of this vision to try to work to make computing more human for folks. And so I think now that we are exiting the R&D phase of Specs development there's a couple important things. One is developing a strong standalone brand. I think Specs the product itself in many ways appeals to a different audience segment than the core Snapchat audience and it's going to be really important for us to develop a standalone brand identity for Specs and then I think longer term as we look at the roll out and broader deployment of Specs there may be opportunities to raise additional capital to accelerate balancing that obviously with our own sort of ownership interest and any potential dilution. So I think right now given that we're so close to launch that the key here is really just nailing the launch and making sure that we deliver an

extraordinary product and then I think we have a lot of flexibility to think about how we want to capitalize it moving forward.

OPERATOR

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

JUSTIN PATTERSON, KEYBANC

Great. Thank you. Good afternoon. I wanted to talk about agentic coding. We've seen more companies see meaningful improvements in engineering productivity from these tools. How is this thing deployed at Snap today? And how should we think about potential benefits whether it's product velocity, more engagement on the platform, more monetization opportunities or expense efficiency? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Yeah, there's just so much opportunity here. Obviously, I think now something like 40% of new code at Snap is AI generated. We made a ton of headway with, you know, trust and safety and customer service in terms of automating those workflows. I think there's a lot of opportunity for the sales workflow as well, you know, to empower our sales team, but also to automate quite a bit of that. So, certainly we're seeing gains across the board and how we're operating our business today. I also think, you know, this can be a real accelerant for our own creativity. I mean, one of the things we love to do is invent new services and we've got a bunch of ideas for new apps. For example, that we could build using these AI tools and deploy very very quickly leveraging of course the distribution we have our friend graph some of the unique assets we have like folks Memories for example so I think there's a lot of opportunity here for us to think about how we accelerate the growth of our business and actually develop new services quickly using these tools and you know I think you know in addition to that we're just running as fast as we can to roll out new agents across the enterprise new tools and it's you know especially for a small team like the one we've got at Snap. This is just a massive force multiplier and I think really will help accelerate a lot of the creative vision we have in terms of turning it into reality.

OPERATOR

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

BENJAMIN BLACK, DEUTSCHE BANK

Great. Thanks for taking my question. Can you talk about the decision to moderate infrastructure spending at a time when others are ramping spend to drive ad performance? Was there slack in the system? Maybe just talk us through that decision. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, it's a great question. Thanks for asking. I think the first thing I would say just for context the big driver in the ramp of infrastructure investment over the last couple of years has been really significant growth in our ML and AI investments and that was to both support the rebuild of the ad platform and the DR advertising business and also to support the content business and ranking and personalization and all of the work that we've done there. And I think I would say first and foremost, we intend to continue to invest pretty heavily there. And so that's not an area we're focused on pulling back. As it pertains to infrastructure specifically, there are really two big catalysts where we see a lot of opportunity and are already making progress in terms of driving margin efficiency for the business and margin expansion. The first there is our investments in how we handle cost to serve and getting that in a place where we're calibrating that better relative to the monetization potential of each of the markets in which we're operating. And there's a lot we can do to optimize that. And that's really about the theme that we've been talking about in terms of getting to profitable growth. And so translating that into the growth in infrastructure really being keyed in against the growth in monetization. The other real opportunity we see here is to take some of the infrastructure that are costs right now and turn them into revenue generating investments. And so I think the recent launch of the memory storage plans is a great example of that where we can take a cost and not only find ways to make it more efficient but then also turn it into a revenue generating source of top-line growth which is going to help with even further margin expansion. So a lot of this is about efficiency, a lot of it is about being really sensible about our cost to serve relative monetization potential in markets and then scaling efficiently. But those investments in AI and ML will continue to be really important to the performance of the business on both the ads and the content side. So hopefully that gives a little bit more context there. Thanks for asking.

OPERATOR

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

SNAP INC. Q4 2025 INVESTOR FOLLOW UP CALL TRANSCRIPT

OPERATOR

The first question comes from Youssef Squali with Truist. You may proceed.

YOUSSEF SQUALI, TRUIST

Oh, thank you so much for taking the questions. Maybe first, can you maybe just talk on the main call, I just caught it on the tail end, but I think you guys talked a little about softness in brand. Can you maybe expand on what you're seeing there and did you break out the growth between DR and brand for the quarter and then how do you see the North American audience growth progressive in Q1 so far at least on the back of the strategy of the reduction in community growth market and spend that you've talked about in the letter. Thank you so much.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there, thanks for the question. Yeah, in terms of thinking about how we're doing with revenue and the growth that we saw in Q4 specifically, we saw 10% on the total top-line, but on the ads side, it was 5%. And you know, we talked a fair bit there about the direct response business really outperforming as a component of the ads business in the quarter. That's been driven by significant progress on the ad formats that connect brands directly with Snapchatters. The performance gains on our AI-driven ad platform and the continued growth of the SMB segment. So, if you sort of zoom in on the ad formats, the Sponsored Snaps unit continued to gain traction in Q4 and is one of our most differentiated ad placements because it does allow brands to engage directly with Snapchatters. Sponsored Snaps also benefited in the quarter from expanded objectives such as lead generation and we moved into early testing of DPA for that placement as well. Advertisers are seeing strong results from this placement with internal data showing Sponsored Snaps delivering approximately 30% higher click-through rates is just one example. And then if you switch to that sort of theme on our work to leverage AI to strengthen the ad platform, we made substantial progress on prediction, delivery and iteration speed all of which are helping to drive stronger ROAS. So you know as one example there the progress was evident on 7-0 Pixel Purchase related conversions which were up about 28% year-over-year in Q4 is just one example. Also really strong progress on the App advertising side. Led by revenue from our in-app optimizations which grew about 89% year-over-year there. And that's being driven both by the foundational App model improvements, but also really good adoption of the App Power Pack. So, you see a lot of strength across the DR advertising segment and as I mentioned on the main call, and seeing really good momentum on the SMB side.

In terms of the upper funnel side of things, I think we called out really specifically on the main call there that we do see some continued headwinds in the large client segment in North America specifically, we have seen a couple of verticals within that group with some bright spots there, including the LCS financial services and autos in the US. You know, importantly, we've got new leadership over that team and hoping to see some improvement as we move through the year and that team builds out. But certainly the biggest driver of growth for the business globally and in the US as well is specifically the SMB segment and the work that we're doing to grow active advertisers there. And then as it pertains to the guide for Q1 and what we're seeing, we've assumed the operating environment in Q1 will be relatively stable to what we saw in Q4. And that informs the guide there, which was 10% to 12% for total revenue for the quarter. So at the low end, that's in line with the growth rate we saw in Q4. And at the high end, that gives some room for a couple points of acceleration. So, hopefully that gives you a little bit more context on the topography of revenue growth.

OPERATOR

Thank you. The next question comes from Michael Morris with Guggenheim. You may proceed.

MICHAEL MORRIS, GUGGENHEIM

Thank you. Good afternoon. Can you expand a little bit on the current status of the Perplexity Partnership? You know, is the \$400 million in revenue that you referenced on the last call, is that at all at risk due to this lack of a mutual agreement on the roll out or is this just a timing element? And can you share any update on sort of the cash stock component and whether there's an exclusivity period. And then if I could just follow up on the DAU trends into '26. It seems like some of the drivers of pressure in 4Q may continue. But it'd be great to hear your thoughts on how long that pressure may persist and whether you're expecting another DAU decline in the first quarter. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey, thanks for your question. I'll refer you back to some of the comments from last quarter on just the duration of the deal and the exclusivity timeline. In terms of the status of the partnership, Perplexity has made some additional requests prior to the launch that we're determining if we can accommodate and therefore we have not included the revenue in our Q1 revenue guide. Our AI chatbot platform is a really large opportunity for Snap and we want to make sure we get this first integration right and that it's successful. So that's the

focus.

In terms of DAU trends, you know, I want to reiterate something that Evan talked about in detail on the prior call, which is this pivot to focusing on profitable community growth and profitable growth overall. You know, we've reached a point where, with the MAU we reported for Q4, we've made incredible progress towards our longer-term goal of achieving 1 billion MAU globally. And, you know, we've made the pivot as we go forward to really be focusing on growing in places where we're confident that we can monetize and where we can drive that growth profitably. And so that's a big part of what you would have seen in the most recent quarter and it'll be a trend going into the coming year is to focus on that. So you're seeing that play out in a number of ways. Specifically in the most recent quarter we've made the decision to substantially pull back on community growth marketing and so you can see the impact of that on the business. We're also making changes to our cost to serve and how we approach the cost to serve for our community to make sure that we're calibrating that also with the monetization potential of each geography. And then of course we're also introducing products you know whether that be offers like the paid memories product and the infrastructure investments to serve them are contributing to top-line growth. So those are the big trends that you're seeing there. There's also the regulatory environment that we talked about at length on the call both in terms of the impact of regulation and as well age verification that can play into the trends for the year ahead. So, there's a lot of moving parts there and we've tried to lay that out in some detail for you there in the letter in terms of what you saw in Q4. So, hopefully that additional context is helpful.

OPERATOR

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

MARK ZGUTOWICZ, BENCHMARK

Thank you. Derek, I just curious real quick on the infrastructure spend in North America versus the rest of the world. Just curious how much you're pulling from between those two regions relatively speaking and then just in terms of Specs I'm curious what the concentration of R&D was just broadly speaking last year and I assume that there's some leverage this year but maybe balancing that with Evan's comment about looking at you know potential future outside investor investment there. So maybe just a balance between those two statements. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. Thanks for the questions. On the infra spend side, I think it's really country by country, geography by geography. And so what we're really looking to do there is make sure that we're optimizing the cost of serve relative to the monetization potential in each market. And so it's not necessarily, you know, that it would all be coming from rest of world and not North America or vice versa. It's really market by market within those regions. To be looking at what the really optimal approach that cost structure is and the community growth investment pullback on the marketing side is also being handled in a similar way. So I would expect impacts across regions just in terms of how we're doing that and the sort of counterbalance there is the ongoing substantial investments in ML and AI that will offset some of those savings and on our path to being hopefully close to flat or just a little bit up as you can see in the full-year cost guide for Infra and you know we're going to continue to make investments there but those will be focused on our most monetizable market so that that becomes part of the profitable growth story. On the Specs side, we talked about two cost drivers in terms of incremental cost growth from the Specs business in 2026. One of those is incremental investments in product development which you can expect to show up largely in R&D as an expense line and then the other is just the marketing and go to market resources and investments that will be in the cost structure in 2026 to bring that product to market for consumers later this year and that is incorporated into the full-year cost structure guidance. So hopefully that is a little bit incremental color to help there.

OPERATOR

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

JASON HELFSTEIN, OPPENHEIMER

Hey, thanks for taking the question. So just to start off I mean given your commentary about gross margin targets, we can kind of back into a revenue range. And it seems like it's pretty wide, like give or take 10 points. I guess, you know, help us think about Perplexity and the impact of one quarter delay, two quarter delay, like, you know, and just I guess, if you want to, I mean, you've given us first quarter guidance on Perplexity, but any other color on thinking about how to thread the needle on the revenue for the year. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there, thanks for the question. You know, I think we tried to make sure that you had clarity for Q1. We don't do full year revenue guidance, but we did, as you said, give a full year cost target so that you have really good clarity on our investment levels for the year. And there's a number of factors there that we're really focused on in terms of driving gross

margin improvement. Number one is accelerating the top line and there's multiple vectors on that. To be super clear, one is the improvements that we're making to the ads business to both improve our ad formats and in particular drive demand for Sponsored Snaps and Promoted Places which are ad units that are really optimized towards making direct connections between brands and Snapchatters. The investments in the AI ad platform as well to drive top-line and of course the investments to continue to build on the SMB go-to-market which we talked about earlier on the main call.

Margin improvement is going to come from a lot of different areas and hopefully you can see that. But the three main catalysts that I'd really call your attention to there, number one is as I've just mentioned in the prior question, the work that we're doing to optimize our cost to serve in each market so that we can get leverage on profitable growth by having infrastructure increasingly be concentrated into their most monetizable markets and sort of turning that less of a headwind to margin and more of an accretive investment. The other is incremental work that we're doing on the mix shift of impression delivery. So we've seen really good margin pickup in 2024 driven by the shift of impressions towards Sponsored Snaps and Spotlight and that's really helped and you can see that that is reflected further into the cost structure guidance for the full year. Those are big ones and then of course there's the work that we're doing to translate existing cost structures in the infrastructure side into incremental revenue which will further help expand margins and I think Memories is a really great example of that as one. So hopefully that gives you a little bit of context of the opportunities on the gross margin side and how that could contribute to flow through as we move through the year.

OPERATOR

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

TOM CHAMPION, PIPER SANDLER

Good afternoon. Derek, industrially this seems a time when new technologies are being rapidly adopted into consumer internet products and the products are evolving. Curious what the team thinks are the most compelling opportunities to evolve the Snap user experience. And then maybe quickly a second one would just be what's sort of your financial North Star for '26? Is it the 60% gross margin target, revenue growth, free cash flow? Just curious what your number one focus is? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there. Yeah, I'll take those in reverse order. On the second one just on financial North Star I refer you to the first page or so of the investor letter where we really sort of laid out how we're going to judge our own progress in the year ahead and the first one is making progress on the ads business and the top line and the three big catalysts I would point to there are, one, the work that we're doing to build demand for the ad units that make direct connections between brands and Snapchatters like Sponsored Snaps and Promoted Places. The work that we're going to do to improve the AI tooling and end-to-end flow of our ad platform that make those connections easier and more performant, and then the work that we're going to do to scale out the SMB go-to-market. So, that's a really big part of it.

You know, I'm going to judge our progress there based on the absolute growth in advertising revenue and be looking to make progress there and in particular, stabilizing and improving as we move through the year our North America LCS segment while we continue to build on the really strong momentum we've got in the SMB segment. So those are the big components there. On the Other Revenue side obviously the big focus is, one as an input metric we want to be really focused on the growth in subs. We had a great quarter in Q4 on subs getting to 24 million. You know we're seeing good momentum there on SC+ and a good start on the Memories product. We're going to want to continue to build on that momentum and then of course we've got some exciting stuff coming in terms of new and innovative offers there over time that'll help us build that momentum. But the main North Star that we'll have there is just building the annualized revenue run rate of the Other Revenue line so that we continue to diversify the business.

On the gross margin side, I've talked exhaustively already about the catalyst we see for the improvement in gross margin. We'd set a medium-term target last year in the Crucible moment letter to achieve 60% gross margins and we made a lot of progress. We got to 59% in Q4 and obviously that's a little seasonally impacted because of the revenue seasonality in Q4, but that was a two percentage point improvement year-over-year versus Q4 the prior year. So, it's a really good start towards that target, and we do see a path to exceed that in the year ahead. And then, from there, it's really going to depend on how we track on top-line revenue and our ability to outrun what we invest on a fixed basis and we've given you full-year cost guides for both adjusted opex and SBC and I would just say we've been I think pretty careful over the last couple of years to make sure that we balance our investment levels with realized revenue growth as we move through the year and you know we intend to do that again in the year ahead. Hopefully that gives you a little bit of context there.

In terms of the most compelling opportunities to evolve the Snap user experience of course a great question for Evan to delve into for but you know we see a lot of opportunities there the team's been extremely innovative really excited about the opportunities for content as a conversation starter and there's been a lot of investments in ranking and optimization and building out our creator ecosystem to do that and we've got good momentum there. I'm really pleased with the early momentum I'm seeing in games. We shared some stuff in the investor letter I'd point you to but the momentum on games is really exciting. The community is clearly loving the innovation there.

Evan's talked a little bit earlier about the work that we've been doing around generative AI Lenses and how much the community is loving that. We've got some great stats on the rapid adoption and utilization and sharing of that in the letter. So, I would point you to that. Of course, lots of innovation on the Map and other services across the app. So, it's a long list and lots of momentum there. The team's off to a great start in terms of progress on our roadmap to begin the new year.

OPERATOR

Thank you. The next question comes from Rob Sanderson with Loop Capital Markets. You may proceed.

ROB SANDERSON, LOOP CAPITAL MARKETS

Yes, thank you. Good evening everyone. So Derek, I missed part of the first half of the main call, so I apologize if this is redundant and if you've already talked about this. You know we're hearing more positive feedback from DR advertisers that are returning to Snap. You know, this is obviously reflected in your stronger results in DR and momentum in the SMB segment, but you know, large enterprise is obviously still struggling. So, I know you have new leadership here. What else needs to happen to turn this segment of your business around? Is it just sales execution? Are there new products that can drive a turnaround here? Do you need to win back large agencies? Maybe any call outs of headwinds in '25 that might not repeat in '26? What gives you confidence that you can actually return this important segment to reasonable growth?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Rob, thanks for the question. I think the first thing I'd say is if I step back and look at the business broadly and the catalyst for growth on advertising business overall, and you know, we talked to some like letter and me and Evan both earlier about, number one,

focusing on ad placements that are going to make really great direct connections between brands and advertisers. Two, the end-to-end improvements we're making to our AI-driven ad platform to make those connections easier and more performant. And then three, the real buildout and growth and scaling of the SMB segment where we have a lot of momentum. First I would just say like if you look at the growth rates that we're seeing in Europe and Rest of World and our ability to sustain those growth rates in aggregate across those regions with good momentum on both LCS and SMBs, SMCs, across those regions then I think we gives us a lot of confidence that the approach we're taking, the ad units, and the ad platform are working. Even if I look within North America, the progress that we're seeing on the underlying health of the mid-sized advertisers in North America is also really strong and we're seeing that across a lot of verticals, whether that be entertainment, RMG, auto, travel, media, and fintech, and so on. All doing really well for that mid SMB segment.

So, what we're you sort of alluded to, but we've made a lot of progress in terms of the leadership team there. Marian having joined us late last year and is building out her team as we move into the beginning of this year. So, job one there is to stabilize that large customer segment in the United States, North America in particular, and then to look to build on the momentum. We feel optimistic that the playbook that we've been running for that in the EU market and in the rest of the world market is working and we know our ad platform is working around the world. So, really getting that go-to-market motion going and leveraging these great ad units and the great the platform and the performance we're seeing on the platform to really demonstrate the ROAS to these advertisers and then build from there.

OPERATOR

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

JOHN BLACKLEDGE, TD COWEN

Great. Two questions. First on Sponsored Snaps. If you could just talk about pricing trends with the Sponsored Snaps ads and how is ROAS tracking for Sponsored Snaps versus other ad units at Snap and then just another quick one on Specs on the go to market. Just curious when Specs will be available for consumers. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey there. Um just making sure that you could hear I think we had an audio issue for a second there. So I'll start at the top and apologies if it's repetitive. You know just in terms of Sponsored Snaps we have seen really nice growth in demand there. So we did see revenue

and demand and grow meaningfully quarter over quarter for that ad placement and it's been supported by the work that the teams have been doing to expand the objectives there including lead generation and then we entered early testing on dynamic product ad integrations. Advertisers are, to your question, seeing really strong results from this placement in Q4 Sponsored Snaps click-through rates grew 7% and click-through purchases 17 from Q3 to Q4. Good work there in terms of demand. You talked about pricing dynamics and you know I think I would point you to some detail we put in the letter there, but we did see the pace of CPM decline mitigate by about five percentage points quarter over quarter. So the decline in aggregate CPMs across the whole platform slowed and you know that was driven in part by what we saw is the improving demand and improving yield from Sponsored Snaps quarter over quarter as well. So really excited with the momentum that we're seeing there and also pleased that we're seeing advertisers get great pricing and great ROAS which is contributing to the growth in the aggregate demand on the app platform. Hopefully that provides a little bit more color on what's happening with Sponsored Snaps. On the Specs go to market, Evan shared on the main call that we expect to have a consumer launch later this year but not a specific date or anything like that. So stay tuned. Thank you.

OPERATOR

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

ROHIT KULKARNI, ROTH CAPITAL PARTNERS

Hey thanks a couple questions. First on the advertising side, did you happen to share the split between performance and brand? Sorry if I missed that. And regarding smart campaigns, just the overall suite I'm just curious to understand what tangible results are you seeing on the ad performance and what does the road map look like from building on the more kind of AI related tools for advertisers. The second topic is just on the blog that you published recently on Specs Inc around potential for minority investment. Perhaps talk about what are the capital requirements of Specs to the extent you can provide any more color and why external investment could be contemplated. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. Thanks for the questions. You know in terms of the demand mix on the advertising side, the DR side of the business really is the lion's share of the business now and it did outperform in terms of its contribution to the overall advertising growth in the

quarter. So that is the primary driver there from a DR versus brand mix. It's the lion's share and it was the largest driver of the growth.

In terms of the smart campaign tools and solutions, we're really pleased with what the team's been able to build out there. You know, that includes things like Smart Targeting, a Smart Budget, using AI to identify incremental high-value audiences and dynamically allocate client spend across objectives which reduces the need for manual setup and ongoing optimization of those campaigns. In Q4, these tools contributed to a more than 8% lift in conversions, making performance advertising on Snap both more accessible and efficient across different advertiser segments. So, I am really pleased with the work the team is doing there. Lots on the roadmap for '26. We're excited to make that work better for our clients.

And then, in terms of the blog post on Specs, and the work that we've done to set that up as a fully owned subsidiary. You know Evan talked a little bit about that on the main call but number one establishing Specs as an independent brand is important. Having an entity set up like that drives focus and clarity operationally and for our teams. And then of course there's a lot of strategic optionality over time for us to think about partners or whether that be outside investment that could either increase the odds of success for that business and really improve our ability to win in the long-term AR computing platform and also if appropriate optimize cost of capital. So the optionality there is the point that we're focused on. So hopefully that provides a little bit more context for you.

OPERATOR

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

MARK MAHANEY, EVERCORE

Okay, thanks. Two questions, please. I think you mentioned Perplexity, I think you said you're not including it in your Q1 guidance. Should we include the Perplexity contribution for the balance of the year in our models? And then the second question is the North American ad revenue growth, you know, if you take out from North America revenue, some allocation, most of the allocation I guess for subscriptions. Yeah, for subscriptions, is it still kind of like very low single-digit percent growth? Is that what North American ad revenue growth is looking like? Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there, Mark. Thanks for the question. Yeah, to your question on Perplexity, we've chosen not to include it in the guide for Q1. And as I mentioned earlier, we don't provide full-year revenue guidance on North America ad revenue growth. Yeah, in total, that's been relatively stable over time. So, in terms of you've got a breakout there of what you've seen in Q4, and I alluded earlier that in terms of our guide for Q1, we're looking at an assumption of a relatively stable macro operating environment that is contributing to our overall assumptions about the growth rate for total revenue in Q1. So hopefully that provides a little extra color.

OPERATOR

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

SHWETA KHAJURIA, WOLFE RESEARCH

Okay. Thank you for taking my questions. Let me try two please. Derek, of all these new opportunities that you called out in this call back as well as during in the letter and on the call, which ones do you think will have the biggest impact assuming successful execution around product and monetization opportunity. Then second is again on Perplexity. So is it fair to assume that Perplexity partnership is not off the table? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there, thanks for your question. You know, I think in terms of the biggest impact on product and monetization, part of that is just the absolute scale of the advertising business is still so large that the opportunity there is going to be extremely large. So, we've made a lot of progress on diversifying revenue and I'm pretty excited about the work that we did to get to 24 million subs, for example, in Q4. So, really good momentum on the other revenue line and that is helping to diversify the business but the opportunity set on advertising just because the scale of that business is really significant in terms of the potential contribution to absolute revenue growth in the year ahead. So very focused on the work that the teams are doing in order to build on our strategic objectives there around both ad placements the AI ad platform and building out the SMB business to really maximize that opportunity in the year ahead and look out to your question on Perplexity as I said earlier, Perplexity has made some additional requests prior to the launch that we are determining if we can accommodate and therefore we've not included the revenue in our Q1 revenue guide. Our AI chatbot platform is a large opportunity for Snap. We want to make sure we get this first integration right and that it's successful and that's the real focus. So, 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.