SNAP INC. Q1 CONFERENCE CALL TRANSCRIPT

Operator: Good afternoon. Welcome to Snap Inc.'s first-quarter 2017 Earnings Call.

At this time, all participants are in a listen-only mode. After the prepared remarks, there will be a question and answer session. If you would like to ask a question during that time, please press star, then the number 1 on your telephone keypad.

This call will be recorded.

Thank you very much. Mrs. Sam Stewart, Investor Relations, you may begin.

Sam Stewart: Thank you, and good afternoon, everyone. Welcome to Snap Inc.'s first-quarter 2017 earnings conference call. With us today are Evan Spiegel, CEO; Imran Khan, Chief Strategy Officer; and Drew Vollero, CFO.

Earlier today we made a slide presentation available reviewing our key engagement and financial metrics for the first quarter of 2017, which can be found on our Investor Relations website. Now I will quickly cover the Safe Harbor.

Today's call is to provide you with information regarding our first-quarter 2017 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement. Actual results may differ materially from those expressed in these forward-looking statements, and we make no obligation to update our disclosures.

For more information about the factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today, as well as risks described in our prospectus dated March 1, 2017, particularly in the section entitled risk factors and our other filings with the SEC, when available.

Our commentary today will also include non-GAAP financial measures. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends. These measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our press release issued today, a copy of which can be found on our website.

At times in our prepared comments, or in response to your questions, we may offer additional metrics to provide greater insight to our business or our quarterly results. This additional detail may be one-time in nature, and we may or may not provide an update in the future on these metrics. I encourage you to visit our Investor Relations website at investor.snap.com to find the earnings press release issued today, a presentation that accompanies our earnings release, periodic SEC reports, a webcast replay of today's call, or to learn more about Snap. And now I'd like to turn the call over to Evan.

Evan Spiegel: Hi, everyone, and welcome to the call. During the first quarter, we focused our efforts primarily on the performance and quality of our Snapchat application and automation across our content products and advertising business. We are pleased with the early results from these performance and quality improvements, particularly on Android devices.

These improvements helped drive a significant increase in engagement, with now over 3 billion Snaps created every day with our cameras, generating an increase in overall sessions and time spent. We were also able to more than double the number of net additional users coming from Android devices compared to last quarter. And Android users accounted for over 30 percent of net additional users this quarter, up from 20 percent last quarter. We still have a lot of work to do, but we are excited by the amount of progress we've made in such a short time.

We averaged 166 million daily active users for the quarter. Worldwide net additional users in Q1 increased by 54 percent compared to Q4 as we continued to expand our community in North America and Europe. We also managed to make some headway in the Rest of World, largely due to improvements on Android. Towards the end of the first quarter, we began to roll out our search product. Search is exciting for us because it begins to expose the so-called long tail of content on our service.

With so many Snaps created every day, there really is a story for everything on Snapchat. Search surfaces interesting Stories created by machine learning and allows our community to find Stories for anything they might be interested in. We made significant progress in automating our advertising business this quarter, with more than 20 percent of Snap Ad impressions delivered programmatically through our API. Automating our ads platform means that advertisers get better pricing, our community sees better ads, and we are able to make more money per impression.

Overall, I feel we have executed well on our priorities for this quarter: performance, quality, and automation. Our progress this quarter should provide a strong foundation as we continue to build our business.

With that, I will turn it over to Imran and Drew for some business and financial highlights.

Imran Khan: Thanks, Evan. We are very pleased with our Q1 achievements. We are really excited about the progress we have made increasing engagement across Snapchat. We believe that great advertising starts with strong user engagement.

As Evan mentioned, time spent for our users continues to grow. On average, in Q1 our users spent over 30 minutes per day on Snapchat. This increase is largely because of the unique content on our platform. Snapchat offers exclusive content from several perspectives -- friends and family, our global community, and premium publishers. With User Stories, Snapchatters see the world through the eyes of their friends and family. Our community creates and sends billions of Snaps every day as a fun and easy way to communicate and stay up to date with their closest friends.

With Our Story, Snapchatters stay informed and connected to the world around them. This past quarter, we told over 450 Our Stories in over eight languages to our global community. Our expert teams curate Snaps submitted by Snapchatters around the world's biggest moments, such as breaking news, entertainment, and sports.

In February, Our Story coverage of the Oscars received over 250,000 submissions from Snapchatters. This allowed us to curate multi-perspective stories full of unique content that is exclusive to our platform. Over 21 million global unique viewers tuned in to watch our Oscars coverage, indicating to us that the power of these stories is resonating with our community.

With Publisher Stories, Snapchatters engage with premium content curated by some of the most credible media companies in the world. We expanded our offerings in Q1 by launching nine new partners in the US and one in Norway. This brings us to a total of 55 global partners as of Q1 2017. We work with Nielsen on custom analysis on Snapchat's unique daily reach in the US, when Nielsen found that 45

percent of 18- to 34-year-olds in the US are reached by Snapchat on any given day.

This is nine times more than the average daily reach of the top 15 TV networks, and nearly 5 times more than the top TV network. Additionally, 87 percent of our US daily active users between the ages of 18 and 34 cannot be reached by any top 15 TV network. Our platform allows us to engage an audience that research shows is difficult to reach. We believe that the ability to deliver this type of reach and engagement is the cornerstone of a great advertising business.

Now I would like to share some of the progress we have made to benefit advertisers in three key areas -- one, enhancing our ad product suite; two, developing efficient tools for our advertisers; and, three, proving the effectiveness of our advertising. First, enhancing our ad product suite. We started our advertising business by servicing big brands. This strategy proved invaluable. These partners have high standards and provided great feedback that shaped our priorities. Universal Pictures was our first advertiser in the fall of 2014.

Since then, they have challenged us to find unique and effective ways to reach the right audience for each campaign. We have been a go-to partner for nearly every single title, helping them across a variety of objectives. From 2015 to 2016, Universal more than doubled their spend with us, which we feel is a testament to the returns they have seen on their early investment. And we continue to listen and develop new solutions to serve our advertisers. By listening to our partners, we learned that advertisers are hungry for more effective direct response advertising solutions.

This meant enhancing our Snap Ad brand's experience with interactive capabilities, which we call Snap Ads with Attachments. Attachments help advertisers accomplish specific goals by providing a way for users to engage with a Snap Ad. For example, a user who

watches a Snap Ad for a new Hollywood movie can swipe up to view the full trailer or buy a ticket, all without leaving Snapchat. I would like to share a couple of examples of how Snap Ads with Attachments are driving value for our performance advertisers.

Acorns, a micro-investing app, partnered with us on an app install campaign to drive both brand awareness and app installs. With this campaign we delivered a 300 percent increase in app installs. Fullscreen also continues to partner with us on various direct response initiatives. They consistently see higher active viewing rates from users who come in via Snap Ads compared to other platforms. And each time we collaborate together, they continue to see lower costs per acquisition. We have designed our ad products to work well on their own or when used together in integrated campaigns.

We have many advertisers that now leverage Snapchat with an always-on strategy. Throughout Q1, Snapchat was a strategic mobile partner to Anheuser-Busch's core brands, including Bud Light, Budweiser, Michelob Ultra, and Busch. Anheuser-Busch leveraged Snapchat as an always-on video partner, utilizing all of our ad products for a variety of initiatives.

This included sports partnership like NFL, MLB, and NASCAR, as well as holidays and temples, like St. Patrick's Day. L'Oreal USA is another great example. They have made us an always-on part of their strategy, augmenting Lens and Geofilters executions with Snap Ads. L'Oreal USA has taken advantage of Snapchat's premium, contextually relevant publisher content in combination with advanced targeting in User Stories, to keep their brands top of mind with customers.

The second area we have focused on is developing efficient tools for our advertisers. We want to make it easy and painless for both the largest brands and the smallest local businesses to advertise on Snapchat. This includes how advertisers buy, create, and manage

their ads. We are still in the early stages of building these tools and we are making good progress. In Q1 2016, we launched our On-Demand Geofilters tool, or ODG. To date we have tens of thousands of advertisers creating and managing their own geofilters campaigns. This past quarter, we launched line of credit for ODG to make it even easier for all advertisers to buy ads.

Our most significant step was with the launch of our API and auction in Q4 of last year. We have been working hard to scale our auction to make it something valuable to advertisers of all sizes. Today, our API is live in 24 countries and serving some of the world's largest brands in addition to small and medium-sized businesses.

Last week we announced our first Snap Ads self-service product, called Snapchat Ad Manager. Our goal is to put the power of our ad products into the hands of every advertiser, regardless of their size. This tool supports all of our ad products, targeting capabilities; and goal-based auction solutions, which allows advertisers to bid for swipes or bid for app installs.

The third area of focus is proving the effectiveness of our advertising. Delivering metrics and proving ROI to advertisers has been a massive area of progress over the past 12 months. Today we have 13 different third-party measurement partners, and this list will continue to grow. We also invested heavily in Snap to Store, our own first-of-its-kind measurement offering. Snap to Store allows advertisers to measure foot traffic and demographics for Snapchatters after they see ads on our platform.

This kind of location-based online to offline measurement is a strength for Snapchat, and in many ways a Holy Grail of ad measurement. During the 2016 holiday season, Hollister ran a Snap Ads campaign. And within seven days of seeing the ad, Snap to Store found that over 63,000 incremental Snapchatters visited a Hollister store nationally. Overall, we are excited about the progress

we have made as we scale our advertising business. We have a lot of work to do in the rest of 2017, and look forward to what's ahead.

Thanks, everyone, for the time. And now I will hand it over to Drew.

Drew Vollero: Thanks, Imran. Good afternoon, everyone. Growth in new users, engagement, and year-over-year revenues highlighted our first-quarter results. Revenues grew 286 percent year-over-year to $149.6 million, driven primarily by strong advertiser demand. Revenues in North America were $128.7 million in the first quarter, up 259 percent year-over-year. In Europe, revenues were $13.1 million, up 385 percent year-over-year.

Rest of World revenues were $7.8 million, up from only a couple hundred thousand dollars a year ago. Sequentially, first-quarter revenues were down 10 percent compared to Q4 2016. This anticipated decline was primarily driven by the expected seasonality from advertising, which comprises the bulk of our revenues.

Snap-sold revenue was $129 million, approximately 86 percent of total revenues. Partner-sold revenue was $12.3 million, and other revenues were $8.3 million, primarily driven by Spectacles. Total revenues outside North America for Q1 were 14 percent of sales, up from 7 percent of sales, a year ago. Average revenue per user, or ARPU, was $0.90 in the first quarter, up from $0.32 a year ago but sequentially lower than Q4.

We believe North America remains a leading indicator for the scale potential of our business. North American ARPU was $1.81, more than double our global average, which was up 170 percent versus last year. Both Snap Ads and Creative Tools were meaningful revenue drivers for the business. New products like the API were also key revenue drivers in Q1.

Now turning to expenses, we have two primary cost components -- cost of revenue and operating expenses. Please note that when I

discuss these expense figures, they will exclude stock-based compensation and related payroll taxes as well as depreciation and amortization. Cost of revenue is primarily comprised of hosting costs and revenue share expenses.

Operating expenses are driven by headcount costs. We utilize third-parties to provide our infrastructure. This strategy has allowed us to focus on product innovation while we leverage their expertise, their capital, and their operating efficiencies. We estimate this capital-light approach has saved us billions of dollars in capital expenditures to date, while delivering competitive daily costs to serve our users.

In the quarter, we made good progress against our hosting costs in two key areas. First, we started to migrate to a dual-cloud environment using both Google and Amazon to host our infrastructure. And second, we signed new contracts with each provider which lowered costs for most of our key services. As such, hosting expenses fell 12 percent in the quarter sequentially, down from $113 million to $99 million. These savings more than offset the increases we incurred from growing engagement.

Relatedly, total cost of revenue fell sequentially $10.3 million or 6 percent, driven by those hosting savings, partially offset by revenue share expenses, which grew slightly. Revenue share expenses increased by shifting the structure of certain revenue share contracts from variable to fixed-fee arrangements, which raised costs in the quarter but could create leverage as the year progresses and as revenues expand.

As mentioned, cost of revenue is closely linked to our capital expenditures. For the quarter, our capital expenditures were $18 million and were primarily spent on the expansion of our global office footprint. Capital expenditures were $20.4 million in Q4 2016, so Q1 expenses were down 12 percent sequentially. Operating expenses increased 18 percent sequentially to $196.2 million in the first quarter. We continue to invest in acquiring engineering talent

and scaling our global operations. Expenses related to headcount were over 75 percent of total operating expenses in the quarter.

We ended the quarter with 2,360 employees, up from 1,859 at the end of 2016. Our financial strategies for operating expenses are threefold -- first, to continue to invest in engineering and sales; second, to leverage G&A expenses; and, third, to moderate overall cost growth per head. In the quarter, we made progress against all three goals. Ninety percent of our new hires were in engineering and sales. Additionally, G&A expenses fell from 39 percent to 32 percent of total operating expenses. And third, operating expenses per head declined 7 percent sequentially.

Our overall business remains in investment mode. Scale operations related to recruiting and facilities are incurred upfront while monetization occurs more gradually. As such, nominal losses increased in the quarter. GAAP net loss was $2.2 billion for the quarter, which included the expected stock-based compensation expense and related payroll taxes of $2 billion as a result of our IPO. Stock-based compensation expense was significantly higher than prior periods due to two factors. First, the recognition of expenses related to RSUs for which the performance condition was triggered by the completion of our IPO in March. And second, an award granted to our CEO which we expensed in its entirety during the quarter. Total unrecognized compensation cost related to the 2017 RSUs at the end of Q1 is $1.3 billion, expected to be recognized over a period of slightly more than three years, of which about half of that expense we expect to recognize during the remainder of 2017. RSUs granted during 2017 will be an additional expense.

Adjusted EBITDA loss was $188.2 million in Q1 2017, compared to a loss of $152.3 million in the fourth quarter and a loss of $93.2 million in the first quarter of 2016. Total shares outstanding at the end of Q1 was 1,179 million and 1,432 million on a fully diluted basis. We remain in a strong cash position.

Cash and marketable securities increased sequentially from $987.4 million at the end of the fourth quarter to $3.2 billion at the end of Q1, primarily from the proceeds of our IPO in early March. Our strong balance sheet gives us the flexibility to continue to invest in the business. Product innovation and execution remain top priorities for 2017. I'll now turn the line back over to the operator to open up the call for questions.

Operator: Ladies and gentlemen at this time if you would like to ask an audio question please press star followed by the 1 on your telephone key pad. Again that is star 1 to ask an audio question. We'll pause for just one moment. Your first question comes from the line of Mark Mahaney with RBC.

Mark Mahaney: Thanks. Two sets of questions. Drew, would you care to comment at all about how to think about DAU growth near-term through the balance of the year? And any commentary on when we could see peak EBITDA losses? And then, Evan, if you think about the product roadmap are there particular areas you think that we as investors should focus on? I know you mentioned a couple of improvements you made to the Android platform. Other – on the Apple side, are there particular new features that have been rolled out recently or are about to be rolled out that you think could be meaningful in terms of user and engagement growth? Thank you.

Evan Spiegel: Thanks, Mark. I'd love to speak a little bit to the DAU question, because it's a question that we get all the time. And I think one of the reasons why it's such a popular question is because there's a lot of this thing in our industry called growth hacking, where you send a lot of push notifications to users, or you try to get them to do things that might be unnatural or something like that. And I think while that's the easy way to grow daily actives quickly, we don't think that those sorts of techniques are very sustainable over the long term. And I think that can ultimately impact our relationship with the customer.

And so I can give an example where if we had just in the beginning encouraged Snapchatters to add all their friends in the contact book instead of just a few of them, they might feel really uncomfortable creating Snaps and adding them to their Story, because they wouldn't know who was actually watching.

So, ultimately, I think the way that we try to help people understand how we think about daily active user growth is really through the lens of creativity and creation, because we've built our entire business on creation. So one of the things I think we've talked about a lot is this idea that anytime someone creates a Snap, they typically either send it to their friend, which brings that friend into the Snapchat ecosystem, or they add it to their Story, which obviously contributes to time spent as they provide that content to all their friends.

And so, I think the most important thing to understand is that really we think of this Daily Active User growth as a function or a derivative of the growth in creation. And so we're really excited about the momentum there. And then I think we also talked about two things that are really important to the growth of our service.

The first is affordable cell service - broadband cell service - and decent to high-end smartphones. So historically we've really focused our efforts on markets where both of those are available because we can really deliver value through our products that way. So I think we think, over time, as connectivity grows, that more people will be able to use our products and really get value from them.

So the last thing I will say is that the way we talk about DAU growth in our company really as it pertains to creativity is about removing friction from the creative process. So we've talked about Lenses, which I think are a great product. And the reason why I think that prompted such an explosion in creativity is because it really lowered the barrier to creation on our service, because people enjoy looking like a puppy, and things like that.

So another example we gave recently was the improvements to our Android product. And so I think the more we are able to reduce friction from the creative process by improving the way our camera works in terms of creative tools and also just functionality, more people will feel empowered to express themselves.

And I think we believe that that translates to DAU growth.

Drew Vollero: Mark, as it relates to your question on guidance, whether it's DAUs or peak EBITDA losses, we're going to run the company here for the long-term. We want the flexibility to make the right decision in the long-term. So we're not going to be short-sighted about profit decisions to make a quarter or whatever that would end up being. So at this point, there is not going to be any financial guidance coming from Snap.

Mark Mahaney: Thank you, Evan. Thank you, Drew.

Operator: Your next question comes from the line of Ross Sandler with Barclays.

Ross Sandler: Great. Evan, just one follow-up on the DAU and then one for either Imran or Drew. So it sounded like the Android activations are picking up. So I guess the question is, why isn't the rest of world region keeping pace with maybe the historical trend that you've seen in that geo, or what you're seeing right now in North America and Europe, with around 3 million added each quarter? And then do you expect that to pick up at some point in the future? And any color – you guys just launched the World Lenses product about a month ago, so any initial read on how that uptake has been going? And then I have one follow-up.

Evan Spiegel: Sure. So, you know, I think the connectivity issue is a real problem in the developing world, because it really changes the use-case of our service and the behavior of people that use Snapchat. So, for example, in certain developing world markets, people tend to use

their wi-fi at home or in an internet cafe because the broadband cell service is so expensive. And what that means is that you can't use Snap to communicate in the moment, really. You have to go use Snap at a wireless cafe.

And that turns Snap into much more of a broadcast, lean-back kind of service. And so I think we can invest in growing those sorts of products in those markets. But the way that our service works, I think, is by empowering this sort of visual communication. And that is just really tough if you don't have cell service wherever you go.

Ross Sandler: Got it, okay. And then the question for Imran or Drew is just on the revenue breakdown. The $150 million, can you just – Drew, you mentioned that both the creative tools and Snap Ads were growing rapidly. Can you just give us a little sense on how much of that came from those two buckets, and where we are today on ad load for Discover?

Imran Khan: Yes, I think – look, we built the best mobile ad product. I fundamentally believe that. If you look at our Snap Ad product, they are full-screen; they play with sound. And if you look at our Sponsored Creative Tools – those are the Lenses and Filters – people are actually putting it on their pictures and videos, and sharing with their friends. So they are – that actually has very superior ROI that we have seen with many, many advertisers. And both of those Sponsored Creative Tools and our Snap Ads are contributing meaningful revenue. We are not breaking those down at this point.

With regards to ad load, look, we are very, very early days. If you look at – as Evan mentioned, we now have more than 3 billion Snaps getting created on our platform. I talked about how we have our average users are spending 30 minutes – more than 30 minutes on our platform. So we are just scratching the surface in terms of ad load.

Ross Sandler: Great. Thanks, guys.

Operator: Your next question comes from the line of Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley: I have one for Evan and one for Imran, if I can. Evan, when you think about the creative process behind product development, how much of this focus is really on products for your core audience versus products perhaps for a more mass audience, including older demographics?

Maybe you can give us a sense of what you're seeing from those folks in terms of today, and what products might be in the pipeline that appeal more to older audiences. And then, Imran, wondering if you can give us a sense of what you're seeing in terms of adoption around the self-service platform, and in particular around direct response versus brand advertisers. Do you see evidence that the mix is increasingly shifting more to the DR side? Thanks.

Evan Spiegel: Yes, so, you know I think in terms of the way we develop product, the important thing to understand is that we're always trying to do our best to build products that are universally appealing. So things like talking with pictures or telling Stories, those are the things that we really believe are universally appealing. Although we do tend to market our products directly to younger people because, frankly, they are more interested in learning how to use new technology products. And that's sort of – is partly inspired by trying to teach my grandma how to use email; and she'd really prefer to just talk on the phone. So I think now a lot of grandparents are using email, but 20 years ago it was a little different.

And so I think, over time, that strategy has worked for us. This quarter, with the 25-plus demo, time spent, and sessions are up, and it continues to be a larger portion of our audience. So I really do believe we've done a good job delivering products with universal appeal, even if they are initially adopted by people who are excited about new ways to use cameras and communicate.

Imran Khan: Yes, and with regards to self-service, our journey for self-service started in October of last year when we launched our API. Now we have 24 API partners. And in Q1, 20 percent of our Snap Ad impressions were served through the API platform. So that is pretty – we are very pleased with that adoption within six months of launching the product. And the self-service, we announced last week that we made it available. We are very excited about the initial reaction and excitement about this product. It will be broadly available first week of June, so I think it's too early to comment about it.

With regards to DR versus brand, I think we took a deliberate approach to start our business with the brand advertising. And the reason is we've listened – we heard from our advertisers that there was not enough good solutions for brand advertising on mobile. And a lot of the brand advertisers are also the very large advertisers, and they have very high standards. So I think by proving the ROI to the large brand advertisers, we have been able to create a very good, strong, mobile ad product on the marketplace.

We have been making great progress on the DR side. In the call, I talked about the example of Acorn where they saw a 300 percent increase; or Fullscreen where they are seeing very healthy customer acquisition costs. We are seeing more and more DR customers adopting our platform and seeing great results.

Lloyd Walmsley: Thanks.

Operator: Your next question comes from the line of Eric Sheridan with UBS.

Eric Sheridan: Thanks for taking the question. Maybe two, both around, sort of, long-term strategy and shorter-term, as well, on the hardware side. Evan, would love to get your sense of how you think about hardware that needs to be made by Snap itself versus leveraging, especially areas like AR and VR that we might see from third parties, sort of a

follow-up on Mark's question from earlier. And then one around the financials. With the stepdown in revenue quarter over quarter, Q1 over Q4, is there any way you could call out the impact that Spectacles might have had in that stepdown quarter over quarter? Thanks, guys.

Evan Spiegel: Yes, so, I think in terms of our hardware strategy, our approach when we're exploring new technology is to usually work on it ourselves. So if you remember back even when we started building Publisher Stories, we really created a lot of our own content. And that's usually the best way for us to explore something really, really quickly and really learn from it. And so that's been our strategy today with Spectacles.

I think it's been really exciting to see people capture memories from their perspective. There's obviously something really exciting about that. Over, I guess, 5 million Snaps have been created with Spectacles to date. And so I think we're going to keep experimenting there. And then at some point obviously, I think as we've shown with our other products, we like being a good partner, and I think that's always an interesting avenue to explore.

Drew Vollero: So, financially, Eric, on the Spectacles side again, we launched the Spectacles.com website during the quarter. It's a modest program for us right now. We report that in other revenue. We don't break out Spectacles, per se, but it was a little more than $8 million for the quarter.

Eric Sheridan: Thank you.

Operator: Your next question comes from the line of Douglas Anmuth with JPMorgan.

Douglas Anmuth: Thanks for taking the question. I had two. First one for Imran, can you just talk about what kind of content you're looking for on the Snap platform, and how you ensure that you get the discoverability

of that video or content in what's becoming a more crowded Discover tab? And then second, Drew, just understanding that there's seasonality, of course, in 1Q in brand spending. You're also just very early in your trajectory. But is there anything else to think about here as we go through 2017, in terms of seasonal or other kinds of comp issues through the year? Thanks.

Evan Spiegel: You know, I'd actually love to take this opportunity to talk a little more broadly about our content strategy in general. I mean the simple answer to the discoverability problem for our publishers to date has been really the application of machine learning, which has really helped us show the right content to the right person in terms of the Publisher Stories content. But I think more broadly, we have really three great types of content on our service.

The first obviously, the User Stories product that we initially created where people feel comfortable expressing themselves, and they don't feel like they're part of a popularity contest. And I think that product has been really terrific. And I think after that, obviously, we developed Publisher Stories. And Publisher Stories I think are really interesting because we were able to really create an ecosystem that works where publishers have an incremental audience, where they can monetize their content; but also build a relationship with the customers that are viewing that content that we've seen also impact their business outside of the Snap ecosystem and that relationship is really, really important to us. And we have a loyalty metric that we share with those partners because I think they've really been able to build a relationship on Snap.

And then I think the last one that's really fun for us, and is really a new one, are the new Stories that are being created in our Search product. And that's really exciting because people all over the world are experiencing really fun things.

And just by contributing their Snap to Our Story, we do all the hard work on the back end to basically collect all these perspectives

together, compile them into interesting Stories that everyone can enjoy. So I think this is yet another type of relationship that's being built on Snap where people around the world are seeing things from new perspectives. So, I think, broadly speaking, the content strategy is working well. And then I think we have some other things we are interested in building out in the future.

Drew Vollero: On the second part of your question, I mean obviously the business is scaling quite rapidly. We were up 286 percent year-over-year, if you look at the revenues. As you look at the back half of the year, obviously we're building an international business. We have a salesforce now that's really starting to get traction. There were a couple of the events in the back half of 2016 from a seasonal perspective.

We did have the Olympics in the third quarter of 2016. That was a nice bump for us. And then in the fourth quarter, we have good partnerships with college football and the NFL on the sporting side. And so you can think about that a little bit. There also was a little bit of election upside, as well, in 2016. But, overall, the business is just in a very different place in terms of the resources and the size of the reach that we have right now with the salesforce.

Douglas Anmuth: Great. Thank you, guys.

Operator: Your next question comes from the line of Brian Nowak with Morgan Stanley.

Brian Nowak: Thanks for taking my questions. I have two. The first one is to Evan. There is very strong engagement and time spent on the platform, but the ad deceleration was pretty steep. You talked about removing friction in engagement. I'd be curious to hear about what are the main points of friction that you have to remove to draw more advertising dollars onto the platform? What excites you most to fix that over the next couple years? And then on Discover, can you just talk about the type of engagement or user adoption you're seeing

on Discover, and what are the main ways you can drive faster Discover adoption? Thanks.

Evan Spiegel: Yes, sure. I think the big issue with advertising over the next decade or so, frankly, is going to be education. I think we have world-class ad units. They are delivering ROI. We've done a lot of work this year to build out the measurement side of the business. And so I think now really it's an education process, and I think early adopters are seeing great results. And so we've just got to keep showing people how Snap can really work for them and drive ROI. And then – sorry. As far as the Discover content is concerned, I think one of the things we're really excited about is our new Shows product.

I don't know if you had a chance to see it, but basically it is total – it is content created just for Snap. So rather than a lot of the video content you're seeing I think on mobile right now, which is repurposed from TV or repurposed from the Internet, we've worked with some really outstanding partners to create some awesome shows. And I think right now, we have about one show a day. I think that will grow through the end of the year. And these are episodes like – Second Chance, I think what was on today; and these are the types of shows that are drawing audiences over 8 million. So we're excited about that.

Brian Nowak: Thanks.

Operator: Your next question comes from the line of Stephen Ju with Credit Suisse.

Stephen Ju: OK, thanks, Imran, it seems like you have around 11 office locations right now around the globe. It seems like the vast majority of those are in the US, as well as the English-speaking countries. So, when can we start to see you guys start to go more aggressively after the other large ad markets in Continental Europe and elsewhere, so that we will start seeing the monetization gap between North America and Europe close? It seems like the users are catching up, but the

revenue in Europe still seems to be about 1/10th of what you're reporting in North America right now. Thanks.

Imran Khan: Yes. I think we are very pleased with our international growth. I think if you look at in Q1, 14 percent of our revenue came from international market. That is up from 7 percent a year ago. I think we are still early on with many markets, like for example, in Germany we're just getting started. We're just getting started in Nordic markets and Netherlands, and things like that. So I think as we continue to expand more sellers in those markets, and continue to invest, I think you will see international continue to grow as a percentage of revenue.

Stephen Ju: Thank you.

Operator: Our next question comes from the line of Ron Josey, JMP Securities.

Ron Josey: Great, thanks for taking the question. I just wanted to drill a little bit more into self-service, with 20 percent of ads delivered through the API in the first quarter, and then the pending launch of the Ads Manager, can you just talk about the roadmap for self-service? The tools appear to be there with support across the ad formats, and want to know if Lenses is included. And then how do you manage the channel conflict between Snap's salesforce and an Ad Manager? Thanks.

Imran Khan: Yes, I think -- first of all, 20 percent of Snap Ads is what flowed through the API, not Lenses and Filters. And I think what we are really committed to is to make it very easy for any advertiser to buy a Snapchat ad. And I think a lot of the large advertisers also want to use our self-service platform because they want to try out different creatives; they want to get more real-time result. And as well as a lot of small businesses who doesn't necessarily have access to sellers or agencies -- they also want to try it out.

I think what you will see is that over the next year or two, and on an ongoing basis, is a continued investment to make it as frictionless as possible for everybody to buy ad on our platform. And with regards to channel conflict, the way we manage our channel conflict is the sellers have their clientele, and regardless what clientele, what platform, and how they buy ads on the platform; they get credited towards that. So we have a pretty good -- we feel very good about the channel conflict management on that.

Ron Josey: Great, thanks.

Operator: Your next question comes from the line of Scott Devitt with Stifel.

Scott Devitt: I was wondering if you can just talk a little bit about geographic mix in terms of user growth. North America and Europe continue to outperform Rest of World in terms of absolute DAU ads, and how to think about that throughout 2017 and future years. And then secondly, just a clarification on the Spectacles revenue that Eric asked about earlier. Could you give the number for Spectacles in 4Q? And then also in 1Q just to make sure -- understood what that $8 million was -- which quarter that was in. Thank you.

Drew Vollero: Yes, on the Spectacles side, just as a quick clarification, other revenue in the fourth quarter was I think a little bit more than $4.5 million. And so the numbers I gave earlier to Eric were first-quarter other revenues were a little bit more than $8 million. So that will give you a little context. And really the program began in the fourth quarter.

Evan Spiegel: And as far as DAU growth, we're going to continue to focus on North America and Europe where we think we can deliver the most value for customers, based on their devices and the network. And longer-term, obviously, we really believe that Snapchat is for everyone. And it's just early days for us, so we're focused in North America and Europe first.

Operator: Your next question comes from the line of John Blackledge with Cowen.

John Blackledge: Two questions. Evan, in terms of the upcoming product roadmap, could you maybe discuss what you're excited about, and perhaps how you see the cadence of product innovations progressing throughout the course of the year? And then maybe for Imran, you mentioned Universal doubled ad spend, 2016 versus 2015. Just your thoughts on ad demand in the US in 1Q -- were you pleased with it? And then how is ad demand trending, thus far in 2Q? Thank you.

Evan Spiegel: So I think at this point we're kind of famous for not giving guidance on the product pipeline. But we're obviously really excited about it, and we love surprising our community; so should be a fun rest of the year.

Imran Khan: With regards to ad business in Q1, I was very pleased with our Q1 ad performance. And I think, as you know, our business has more focus on brand advertising. That's how we got started, and the brand business is very seasonal. But despite that on a year-over-year basis our business grew 286 percent on a year-over-year basis. And we continue to invest in both DR and brand, and continue to make the advertising business as frictionless as possible, which will help us to onboard many, many advertisers on the platform which should bode well for our future advertising business.

Operator: Your next question comes from the line of Heath Terry with Goldman Sachs.

Heath Terry: Great, thanks. On the DAU number, can you unpack for us a little bit? A DAU, Daily Active User, is obviously an incredibly high bar. Can you unpack for us a little bit how much of the growth came from adding additional users to the platform versus engaging -- increasing engagement on the platform? And then from an advertising perspective, was there any impact to the quarter from changes in the

sales organization, or any sort of disruption there that you felt like would have allowed the company to potentially grow advertising faster, had you seen more stability in the quarter?

Imran Khan: Yes, look, I'm not sure what sales organization change you are mentioning, but I think we continue to grow our sales organization and continue to add a lot more people in the organization. And that continues to do very well. I think we are very fortunate to hire a lot of great talent in the organization throughout the quarter. And I think the salesforce remained really, very focused. And I'm very pleased with the execution we are doing. Evan, do you want to take DAU?

Evan Spiegel: I think we talk a lot about DAU as an engagement metric. Obviously we provided a couple extra metrics this quarter, like time spent, which is over 30 minutes. And obviously an overall increase in sessions on a per user basis, so those are things we're excited about. And as I mentioned, I think the more that we can remove friction from this creative process, the more people want to use our service. And that's our strategy.

Heath Terry: Great. Thanks.

Operator: Your next question comes from the line of Richard Greenfield with BTIG.

Richard Greenfield: Hi, thanks for taking the question. Mark Zuckerberg opened up F8 essentially saying that they are now a camera company with an augmented reality API designed to let the whole world in and innovate. And while he didn't ever say it directly, it really sounded like he wants to bury Snapchat. So, I think the question that's on every investor's mind is does Facebook scare you? Why or why not? And then I have a follow-up for Imran.

Evan Spiegel: Thanks, Rich. Look, I think if there's one thing that I'd want to communicate today, it's probably just the overall importance of creativity to our business. And I mean this from every perspective,

from the team that we hire, to how they work together; the creative culture that we have, the products that we have that inspire people to create. And I think our overall strategy, obviously, is to deliver value through creativity.

I think the bottom line is, like, if you want to be a creative company you've got to get comfortable with, and basically enjoy the fact that people are going to copy your products if you make great stuff.

And I think we've seen this happen a lot in technology. When Google came along, everyone really felt like they needed a search strategy. When Facebook came along, everyone felt they needed a social strategy. And now I think with Snap, with our company, we believe that everyone is going to develop a camera strategy. Because I think we really help people understand how valuable the camera is, because it's really the center of everything that we do. And I think, at the end of the day, just because Yahoo, for example, has a search box, it doesn't mean they are Google.

Richard Greenfield: So just to follow up on the advertising side, either for you, Evan, or for Imran. Why should an advertiser, just given the magnitude of the scale of Facebook versus Snapchat -- not to mention the advertising tools -- why advertise on Snapchat versus just dumping more money into Facebook?

Imran Khan: Yes. Look, I think a bunch of reasons. Number one, we have incremental audience that we talked about. Number two, we have created, I would argue, probably the best mobile ad product on the marketplace, which is what many, many, many of our advertisers are seeing; superior ROI. Third, I think, fundamentally, advertisers want to advertise in many different platforms so that they can reach the -- advertise at different context.

And fourth, we also have a very difficult to reach audience and a very, very engaged audience, as we talked about in my prepared remarks. All advertising starts with a strong engagement, and we provide

incredibly strong engagement. An average user is spending more than 30 minutes on the platform. So all of those reasons I think is very, very attractive to advertisers to be on our platform.

Richard Greenfield: Thank you for the answers.

Operator: Your next question comes from the line of Mark May with Citi.

Mark May: Just a DAU question again. Just wondering if you could comment a bit on the month-to-month trends, how you exited the quarter and early Q2. And maybe just remind us a little bit of the seasonality of your user growth and user engagement. And then in terms of host costs per DAU, I was under the impression those were largely a function of engagement. But you said that that wasn't necessarily the case in Q1. You talked about some savings from what you're doing on the partner and side. Should we expect that those kind of savings to continue at least for the foreseeable future? Thanks.

Imran Khan: Yes. Look, in terms of guidance, we don't want to give intra-quarter guidance. As you know that advertising business is a seasonally -- seasonal business, where Q1 is seasonally weaker. And so our business will continue to face the seasonality that we see on the broader advertising market. With regards to -- I think one of the things I keep wanting to highlight is that I have been feeling very strongly about our ad business.

Again, I think in addition to the ROI we are driving for advertisers, we're also providing a lot of powerful location data. Because Snapchat is a messaging app, and people open the app many times, you see an incredible amount of location data, and that's also very, very valuable. That's also driving a very strong ROI for everything -- in addition to everything I just talked about. So we feel very good about our advertising business. And beyond that, I can't really comment specific to the quarter.

Mark May: I was talking about the DAU seasonality, how to think about that in Q2, and seasonality combined with how you exited the quarter, DAU seasonality?

Imran Khan: Again, I think if you look at our business, our user growth was driven by innovation. And as we continue to improve the performance and quality, that's also driving the DAU growth. And I think in terms of beyond that, I don't think we should think too much about seasonality on that.

Drew Vollero: So as it relates to cost of revenue and your question, cost of revenue was $141 million in the quarter. $99 millions of it is hosting costs. Another $23 million is revenue share, so those really are the two primary components of what drive it. Hosting costs are paid directly to our third-party infrastructure providers.

We have primary business with Google and we've also brought Amazon over as well recently. There are a series of headwinds and tailwinds in that business. Growing engagement, to your point, and new users cost us more because they are variable cost contracts. The more that consumers use our app -- the more that they open it, the more that they Snap on it, the more they download content, the more that we incur charges.

So in terms of the prices that we pay for those services, because we signed two new contracts, we got lower prices with both of those providers. And so that provided a significant tailwind for us. And it really was the upside that you saw in sequential costs. Our costs went from $113 million last quarter to $99 million there. And that is in a quarter where we saw significant growth in engagement in some of the main attributes as well as we saw the user growth. You can see we added another eight million users in the quarter.

So it really was that offset in pricing that we got from the two contract providers that really drove hosting costs lower. And revenue share is a piece of that. Revenue share was up slightly in the quarter. We

had restructured a couple of deals. They are now more fixed-fee deals as opposed to percentage of revenue deals. Those will give us leverage if we are able to grow sales in the back half of the year; but, in the short term, raised our expenses in the first quarter.

Mark May: And I guess my question is as we look forward over the next couple of quarters, are you -- is host costs going to more than closely align with DAU and engagement growth? Or some of these cost savings from the new contracts going to continue to be a tailwind for the next couple of quarters?

Drew Vollero: The contractual pricing is, going forward, we signed a five-year deal with each of the companies, so it's new pricing that goes forward from this point. As it relates to where it all comes out, as I said, there is a series of headwinds and tailwinds. It really is a function, first and foremost, about engagement and how much engagement happens on the site, and how many users that we add. Those really are what drive the costs. In terms of the year-over-year changes in the contract, the contract does have lower prices for our key services as we move forward.

Mark May: Thank you.

Operator: Your next question is from the line of Justin Post with Merrill Lynch.

Justin Post: A couple questions. Get a lot of questions on competition, so wondering if you can comment at all on churn as you look at your user base in Q4 or Q1. Any notable changes there, either Android or Apple platforms, would help us understand if competition is having any impact. And then on advertisers, just any thoughts on -- we saw the sequential decline, but how did you do on adding new advertisers in the first quarter? Did your total number of advertisers grow sequentially in Q1? Thank you.

Evan Spiegel: Overall, especially in the last half of last year, we had a really tough time with Android. That's still showing up in the numbers, as we

mentioned. We added roughly 20 percent of our net ads from Android in Q4, and 30 percent in Q1, so we're making progress. But it's taking time and we're definitely digging out of a performance hole on Android. The low-hanging fruit, I would say, has been tackled in this past quarter, but we're making some larger structural changes that I think will make a big difference on Android over time.

Imran Khan: Yes, with regards to advertising, as we are -- continuing to educate the market, one thing to keep in mind is that our ad business -- we really start monetizing our business. The first ad ran on Snapchat in Q4 of 2014, and our ad business is still very, very nascent. So as we continue to educate the market, expand the sales force, opening up new markets, we continue to see more and more advertisers coming to our platform.

Justin Post: Thank you.

Operator: Your next question comes from the line of Brian White with Drexel.

Brian White: Evan, I wonder if you could comment a little bit about the smartphone market. More smartphones are going to come with 3D sensors. It's going to support more AR activities. So I'm wondering how we should think about this as either a threat or an opportunity for Snap. So that's one question. Second question is just long-term thoughts on China and also on Japan.

Evan Spiegel: Obviously all of these improvements and sensors, et cetera, are really exciting for us, and obviously fun to play with. The tough thing with any of these sort of device-specific improvements is that they are really hard for all of our community to enjoy. So instead, we've really invested in building a lot of our own technology that works well with a single camera. So you see that technology in World Lenses. It looks simple, but that surface detection is tricky to do with single-camera devices. And so we invested a lot in making these next-generation AR products available to our user base. But, yes,

obviously always excited about new technology. And then -- sorry, the second question?

Brian White: Just on China. The long-term thoughts on China and Japan.

Evan Spiegel: Yes, thanks. Sorry about that. In terms of China, we've learned so much from the Chinese market. In the very early days, Tencent invested in our business, and we had the chance to spend a lot of time with them. We've always been in awe, frankly, of the innovation happening over there.

And that's really as far as our relationship with China has progressed today. But we've invested in building out some engineering there, and obviously it's really exciting for our business. And then Japan -- obviously a great market, and we've been working more recently to develop content that specifically appeals - Lenses and Creative Tools that appeal specifically to the Japanese market. So that's a market we're excited about over time.

Brian White: Great, thanks.

Operator: And your final question comes from the line of Brian Fitzgerald with Jefferies.

Brian Fitzgerald: Thanks, guys. Maybe a quick one on the infrastructure side of things. You mentioned the deals with Google and Amazon. Maybe thinking about how you feel about the interchangeability between the two services. When you think about how you engineer, do you build stuff in a modular fashion so you can quickly move it over from one cloud to another? And any color or comments around that? Thanks.

Evan Spiegel: So, the thing you're talking about, sort of like containerization, I think is definitely the long-term goal with products like this. But the interesting thing about the state of the cloud market today is really how these different providers have entered the market. So you have AWS, which was really created because Amazon was trying to meet

the needs of their customers around Christmas time. They built all this excess capacity and then rented it out.

And Google, obviously, who has entered the market, and they have a totally different and very specific use case around search. And so what ends up happening is that both of these companies build different services.

And so, for example, recently we've moved some of our operations to an Amazon Datastore that's a little bit less redundant than a Google Datastore, for example, but saves us a bunch of money. So right now, I think we're really picking and choosing the different products we want to use based on the offerings from the two providers. But I do think, yes, long-term, obviously, the dream for the cloud is this idea of containerization. And that's something we continue to invest in, but that's sort of a step-by-step, not an overnight kind of thing.

Brian Fitzgerald: Got it. Thank you, Evan.

Evan Spiegel: Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference call. You may now disconnect.