SNAP INC. Q3 2019 TRANSCRIPT

OPERATOR

Good afternoon, everyone, and welcome to Snap Inc.'s Third Quarter 2019 Earnings Conference 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 one on your telephone keypad. This call will be recorded.

Thank you very much. Mr. David Ometer of Investor Relations, you may begin.

DAVID OMETER, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Third Quarter 2019 Earnings Conference Call. With us today are Evan Spiegel, Chief Executive Officer and Co-Founder, Jeremi Gorman, Chief Business Officer, and Derek Andersen, Chief Financial Officer.

Earlier today we made a slide presentation available that provides an overview of our user and financial metrics for the third quarter 2019, which can be found on our Investor Relations website at investor.snap.com. Now I will cover the Safe Harbor. Today's call is to provide you with information regarding our third quarter 2019 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, guidance, or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement based on assumptions today.

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 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 quarterly report on Form 10-Q for the quarter ended June 30, 2019, particularly in the section titled Risk Factors. Additional information can be found in our other filings with the SEC, when available. Our commentary today will also include non-GAAP financial measures and 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 Investor Relations website. Please note that when we discuss all of our expense figures they will exclude stock-based compensation and related

payroll taxes as well as depreciation and amortization and non-recurring charges. At times in our prepared remarks, or in response to questions, we may offer additional metrics to provide greater insight into our business or our quarterly and annual 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. Please refer to our filings with the SEC to understand how we calculate our metrics.

With that, I'd like to turn the call over to Evan.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi everyone and welcome to our call.

We delivered strong results this quarter and we are pleased that the investments we have made are continuing to drive the growth of our community and business. Building on the strong momentum we developed over the first half of the year, our community grew to 210 million daily active users, an increase of 13 percent year-over-year. Revenue increased 50 percent year-over-year to $446 million, marking the third consecutive quarter of year-over-year revenue growth acceleration. The growth in our business this year has put us on a clear path to Q4 Adjusted EBITDA profitability, and we are excited about reaching this important milestone as a team.

Snapchat turned eight years old in September, creating a moment for all of us to reflect on the progress we have made from building a small startup in my dad's house to operating a public company. Many of the choices we made when Bobby and I were just getting started have created significant tailwinds for our business today, including our focus on privacy, ephemerality, self expression—and most importantly, our decision to open Snapchat directly into the camera. I am proud of the way our team has grown together to build a business that is resilient, innovative, and focused on delivering value for our community over the long term.

We never could have imagined that Snapchat would evolve into the platform that it has become today, as our generation has embraced visual communication for staying in touch with real friends. As Snapchat's reach has grown over the years, so has the frequency with which people use our service. Today, each daily active user opens Snapchat 30 times per day on average. Empowering our community to communicate visually has enabled us to build a platform that is durable and retentive, because visual communication is faster, richer, and more fun than other ways of talking with friends over the Internet. Snapchat helps people build deeper relationships because they can see how their friends feel instead of just reading a text message.

We've worked hard to make Snapchat available globally so that everyone around the world can enjoy the power of visual communication. Following the rebuild of our Android app, Snapchat is now more performant on a wider variety of devices, and we have been working on localization and other efforts to

create a better user experience across international markets. This has helped us substantially increase the rate at which we onboard new Android users who not only download Snapchat but also use it on an ongoing basis to talk with their friends, contributing to our daily active user growth. We are continuing to invest in major improvements to our backend services which will help us to regionalize our application and better serve our community around the world. Fast, visual communication is the core product value that Snapchat provides and we are committed to bringing our unique messaging service to people around the world, regardless of their device or quality of connectivity.

Of course, Snapchat has become so much more than a messaging service, and over the years we have identified new ways to serve our community through experiences that improve their lives. The value we provide to our community has helped us reach 210 million daily active users and enabled us to expand our business by building a mobile content platform, an augmented reality platform, a social map, and most recently, a new gaming platform. The connections between real friends on Snapchat bring immediate value to each of the new platforms that we create.

Our content platform is the most mature of our platform businesses, and it is still growing very quickly. Following our redesign last year that paved the way for us to invest more in premium content while supporting relationships between real friends, we have more than doubled the number of media partners distributing content on Discover, while simultaneously deepening our relationships with our larger partners. For example, the NFL doubled down on live sports this season by breaking out Sunday football highlights into a separate Discover channel that is regularly updated throughout the day on a near-live basis. This has increased both the frequency at which viewers watch by 40 percent and the total time spent watching NFL highlights by 70 percent when compared to last year.

Time spent and viewership on our content platform continue to grow rapidly, with more than 100 Discover channels reaching a monthly audience of over 10 million viewers in Q3, and total time spent by Snapchatters watching Discover increasing 40 percent year-over-year. More broadly, this was the first year that time spent on mobile surpassed television in the US, which means that we have just reached the tipping point of this sea-change in content viewing behavior. We believe that this shift in behavior towards mobile content has created a large opportunity for our business, and we are excited about investing more to scale our content platform.

We have a significant lead in augmented reality due to the camera-first nature of Snapchat, and the frequent usage of our camera, and we believe that smartphone-based augmented reality will be an important driver of our business over the coming years. We have been investing heavily in tools like Lens Studio to help creators build augmented reality experiences, and evolving the ways that we distribute Lenses to our community through products like Scan and our AR Bar. Even though augmented reality is a relatively new technology, it provides real utility for our community and real results for advertisers, making it a natural growth opportunity for Snap.

Snapchat now powers billions of daily AR experiences, with each of our daily active users interacting with augmented reality nearly 30 times every day on average. This high level of engagement with augmented reality has made Snapchat an appealing platform for creators and developers to build and distribute new augmented reality experiences. To date, our community has created over 600,000 Lenses in Lens Studio, with top-performing Community Lenses reaching billions of views on Snapchat. In just a few years, we have built a thriving augmented reality ecosystem where users, creators, and businesses all benefit from using our platform and tools.

We've barely scratched the surface of the opportunity we have with maps and gaming, but both are important tools for bringing friends together and we are excited by the engagement we are seeing on both of these platforms. We expect to invest significantly in both maps and gaming over the coming years, and we view these as important opportunities for growth. In the future we plan to make both our map and our gaming platform more easily accessible for our community on Snapchat.

Looking at our business today, there are clear investment areas across short, medium, and long term time horizons that are incremental to our investments in enhancing our core communication platform and growing our community. In the short term, meaning the next 1-3 years, we are focused on scaling our content and augmented reality platforms, making Snapchat content and augmented reality easier to create, easier to monetize, and more personalized. Over the medium term, the next 3-5 years, we will work to further enhance, scale, and monetize our maps and gaming platforms. Looking out over the long term, the next 7-10 years, we will work towards realizing our vision of computing overlaid on the world through wearable augmented reality.

We took an important step forward towards an augmented reality future this quarter with the release of Spectacles 3, our new camera glasses. Spectacles 3 have two cameras that allow users to capture depth in their Snaps and relive their experiences from their perspective in 3D. Depth is an important building block for our augmented reality technology because it allows our camera to better understand the world and overlay experiences on top of it. We've made it easy for creators using Lens Studio to build new Lenses for Spectacles 3 that can be applied to Snaps after they are captured, layering augmented reality effects on top of Spectacles content. We are building low volumes of Spectacles 3 and using this iteration to test and learn more about wearable computing.

These incremental investments in the future of our business are one of the reasons why we are so excited about the operating leverage we have demonstrated over the past several quarters. We have a clear line of sight to self-funding our investments in the future, which is a strategic advantage that will allow us to invest over the long term and take risks to better serve our community and increase the value of our business. Our high-leverage business model will allow us to invest more and accelerate our innovation and leadership in mobile technology.

In short, we are executing well on the fundamentals of our business, which is giving us the flexibility to invest in the future and drive long-term growth.

On the product side, we are delivering our core product value of fast, visual communication to more people than ever before. The retentive, high-frequency, and durable utility of visual communication has helped us continue to grow our community and we've gotten better at delivering our core product value through our application redesign, Android rebuild, and many other product investments.

In terms of our business, the strong engagement of our unique community has created a large volume of inventory, and we're doing a better job of driving demand with effective ad products that deliver ROI for our advertising partners. The combination of our scalable ad platform and sales team reorganization allows us to reach a wide variety of advertisers to help them grow their businesses. We remain extremely under-monetized relative to our audience and engagement, and under-penetrated in terms of advertiser budgets. This has created a significant opportunity for ongoing revenue growth.

Lastly, we are excited about the operating leverage that we are developing in our business. We continue to improve our efficiency across our business, and our cloud-based infrastructure has dramatically reduced the need for ongoing capital expenditures, while simultaneously delivering low and declining infrastructure costs on a per user basis. Our teams are working well together and driving value for our business and community.

All of this leaves us in a very unique position. We are a high growth business, with strong operating leverage, a clear path to profitability, a distinct vision for the future, the ability to invest over the long term, and a proven history of execution through the ups and downs as a public company. We feel good about our team and momentum, and as we finish up our strategic planning process for next year, we are excited to share more about our business and what we believe we can accomplish together.

We are particularly grateful for the investor community that has supported us through the many changes we have made over the past few years to evolve our business and we are looking forward to building an enduring partnership with our investor base that will allow us to better serve our community and make a positive difference in the world. Thank you for the trust you have placed in us.

And with that, I'll turn the call over to Jeremi to share more about our advertising business.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks Evan. In Q3, we generated total revenue of $446 million dollars, our third straight quarter of revenue growth acceleration, an increase of 50 percent year-over-year. Average revenue per user was $2.12 in Q3, an increase of 33 percent year-over-year and 11 percent sequentially. I am confident we have the right core fundamentals to continue growing revenue at a pace significantly faster than the overall digital media industry. Our success is the result of planning, discipline, and deliberate decision-

making across many teams at Snap who are obsessively focused on ensuring our ad products are innovative and performant, our self-service marketplace is delivering ROI at scale, and that our team is operationally set up for success. Because of this, we are able to consistently deliver on Snapchat's large and growing audience worldwide.

With the confidence that we can deliver results across advertiser types and locales, we are now fully focused on optimizing and making progress against our ARPU opportunity, which we believe in the short to medium term will be largely driven by advertiser demand. We are driving against four key priorities to accelerate growth.

First, we will continue to demonstrate the value of our large, unduplicated, and otherwise hard-to-reach audience. Second, we will continue to launch innovative ad products that allow advertisers to reach our audience in an effective and immersive way. Third, we will relentlessly deliver ROI and help our advertisers measure their campaigns in the ways most meaningful to them. Finally, we will better service more advertising partners by improving our sales and marketing functions, expanding our go-to-market operations, and activating key partnerships.

Snapchat helps brands reach Millennials and Gen Z, hard to reach and highly coveted audiences. Together, these generations have over $1 trillion dollars in direct spending power, and they are not as active on more traditional advertising mediums. Meaning to reach them, marketers need to find them on immersive mobile platforms, like Snapchat. In the US, we reach 90 percent of 13 to 24 year-olds and 75 percent of 13 to 34 year-olds. Given the uniqueness of our audience, we are seeing outsized impact when it comes to driving incremental reach, even among younger people via their influence on household purchasing decisions in categories like CPG. NCSolutions evaluated how our CPG advertisers in the US are driving offline sales by appealing to Snapchat users who are not necessarily the primary shopper for their household. The results were compelling: 76 percent of sales driven by our ads were from households where one of these 'purchase influencers' had been exposed to our ads, and 63 percent of incremental sales came from households where ads were seen only by a 'purchase influencer'. NCSolutions also found that Snap has been delivering an average ROAS of $2.92 across more than 80 studies over 2 years versus the $2.50 ROAS norm for mobile advertising. These data indicate the strong influence Gen Z and Millennials have over household purchase decisions and the strong on and offline results our ads are delivering because of it.

The continued rise of mobile content consumption, especially on mobile-native premium formats, presents us with a growing opportunity. Our market position as a leading platform focused on premium mobile video provides us better insights and data about what performs well on mobile devices. Nearly all ad formats on Snapchat are video-based, be it Snap Ads, Story Ads, or Commercials, and in this past quarter we doubled down on our video advertising solutions with a robust rollout of new products for video buyers.

We extended the maximum length of video ads on our platform, allowing advertisers to leverage videos up to three minutes in length. We added this capability to our unskippable Commercials as well, transitioning to a skippable video after the first six seconds. In addition, we have developed a product by which advertisers can bid in our auction against a goal of longer form video views. These capabilities together helped Universal Pictures get completed trailer views on Snap up to 9x more efficiently in early testing. This is extremely attractive to large advertisers across verticals like automotive brands and movie studios, who have longer stories to tell.

As Evan mentioned, we are seeing continued success with our augmented reality platform. We are early in our journey to help brands leverage AR to connect with customers. Self-serve is now the dominant way our advertisers buy AR, which supports the investments we are making to improve Lens Studio and democratize the Lens creation process. In addition, we will continue to partner with creative agencies to take the best learnings from Snap's AR team to teach a broad audience of creative talent what is possible for brand driven AR experiences. While early, the broad adoption of AR will lead advertisers to grow their investment in our platform as we continue to create engaging new experiences for Snapchatters and reach incremental customers.

Driving ROI is the best way to retain advertisers, and we are ensuring that advertisers can optimize their campaigns for the most impactful business outcomes. We are focused on improving advertiser ROI by investing in relevance, optimization, and measurement. In Q3, in addition to our new video view optimization, we launched new models for in-app and web purchases, allowing advertisers to better optimize for these results.

Based on our initial testing, for app-based purchases, these improved optimization models drove 71 percent more purchases and a 23 percent lower cost per purchase compared to the previous model. This translated into 32 percent higher revenue with only 11 percent more impressions. This means we simultaneously increased revenue, yield, and advertiser ROI. Maria Milenkova, Senior Acquisition Manager at Starling Bank, a mobile only, UK based bank, explained, "By optimizing towards App Purchases (people who were most likely to download and make a purchase), Snap was able to drive 17 percent of all paid app installs for Starling Bank. Snapchat has proved to be an efficient and scalable partner for us, achieving a 61 percent lower cost per install compared to other platforms."

Our advancements in optimization, coupled with the launch of product catalogs earlier this year, have set us up for our latest offering just in time for the holiday season: Dynamic Ads, which we started testing this past month and announced publicly just a few days ago. We now dynamically generate ad creatives based on product catalogs in combination with our optimization engine. Although it's early, we're seeing promising results: Princess Polly, an online fashion boutique, stated, "While we previously found success with Snap Ads, we loved the idea of combining personalized creative with promotional messaging to drive purchases. At this time, we are seeing our Dynamic Ads campaign drive a 66

percent decrease in cost per purchase and a 171 percent increase in ROAS compared to similar product-focused campaigns running in the US."

As we've shared over the past several quarters, in order to better service our advertisers, we've completed our sales re-org in both the US and International markets and we are already seeing strong results across vertical cohorts and countries. With our sales team set up for operational success, we will now have the ability to be strategic in how we choose to prioritize advertisers, on which verticals we focus, and how we will drive go-to-market strategies to improve advertiser demand. For example, for our Entertainment partners, we have added new measurement tactics and "direct to ticketing" calls to action so they can not only ascertain how a film is tracking, but also how they can directly attribute advertising on Snapchat to ticket sales. We have also seen strong growth with more always-on advertisers in our enterprise segment as a result of our new sales team reorganization.

With this vertical-focused structure now complete internationally as well, our advertising business is set up to be a fast-follow to the community growth we are seeing outside the US, something our advertisers are seeking. Our community grew 10 percent in Europe and 30 percent in Rest of World year-over-year. We've been hearing from our brand partners that many of them are interested in broadening their reach into markets where we are seeing growth in order to continue to invest in the future of their businesses, particularly in verticals such as CPG and Travel. Emirates Airlines recently used Story Ads to drive 50 percent more efficient cost per flight search versus other platforms. Boutros Boutros, the CMO of Emirates Airlines said, "Emirates achieved excellent results with Snapchat by adopting a media strategy that allowed us to deliver performance that exceeded our expectations. Using Snap's targeting products, Emirates was able to reach travelers that expressed a high level of travel intent which yielded outstanding results in driving interest for seat bookings."

We believe our advertising platform provides a compelling opportunity for businesses of all sizes to grow and we work with strategic partners in order to onboard new, high-quality advertisers that increase the diversity of our customer base. We continue to see success from our Shopify partnership, allowing eCommerce brands to reach incremental audiences at scale and efficiently gain new customers. We will continue to build similar partnerships globally, in which we are able to form symbiotic relationships with partners who interface with businesses at scale, giving them the tools and support to market to businesses on our behalf.

In addition to these new partnerships and opportunities, our advertising continues to work for the most established brands in the world. L'Oreal Paris, part of L'Oreal USA, looked to Snapchat to recruit new customers and drive short term sales for the Colorista Hair Color Franchise. L'Oreal Paris was not only looking to launch a new product, but also establish a whole new category: hair makeup. Snap worked with L'Oreal Paris and the AOR Wavemaker to develop a strategy rooted in best practices. The campaign leveraged multiple ad products across Snap, including our non-skippable Commercials ad-

product and they exceeded expectations, delivering a ROAS nearly 2x higher than beauty category norms.

Delivering strong ROI for our advertisers is one of our most important goals. This goal dictates how we organize our teams, our strategy, and our vision, and executing against this goal is how we will accomplish our ARPU goals in the coming years. Strong ROI leads to growing budgets, more advertisers, stronger retention, and continuous renewals. Ultimately, advertisers set their budgets based on two things: performance and partnership. We deliver on performance, no matter how advertisers measure results, be it direct sales, brand affinity, or app downloads, and we are focused on improving every day.

Our ability to provide insightful direction on how to engage 13-34 year-olds worldwide make us the go-to partner when companies determine how their brands will best resonate with this critical and growing audience. It is because of this combination of performance and partnership that we are succeeding across sectors. We are not just winning with your typical "youth brands," but we are also earning budgets and trust from the world's most sophisticated marketers. As you've heard, we're seeing continued success in the CPG category, where our partners are voting with their dollars. Across Beauty, Beverage, Grocery, and more, advertisers are turning to Snap to win the hearts and minds of the world's 13-34 year-olds. We see this as a broad and continuing trend and are well positioned to continue to win across multiple categories as this audience becomes even more critical to marketers. We are only at the beginning of realizing our full potential, and I am thrilled that we have the teams, the structure, the products, and the audience to continue succeeding for years to come.

And now I'd like to turn the call over to Derek to discuss our Q3 financials.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q3 financial results reflect our priorities of making focused investments in the future of our business, and scaling our business efficiently in order to drive towards profitability and positive free cash flow.

As Evan mentioned earlier, daily active users increased to 210 million in Q3 2019, which represents an increase of 7 million or 4 percent growth sequentially, and 24 million or 13 percent growth year-over-year. The 7 million sequential increase in DAU was higher than we anticipated entering the quarter. We continue to benefit from improvements we have made to our application and sustained momentum with new Snapchatters. In addition, we estimate that seasonality headwinds came in at the lower end of our expectations for Q3. The growth in our community continues to be broad based, with year-over-year and sequential growth on both iOS and Android platforms, as well as year-over-year and sequential growth across each of North America, Europe, and Rest of World.

Rest of World represented 5 million of the sequential DAU growth as we continue to benefit from an improved Android application. We are doubling down on this via our efforts to localize the product experience through language support, local content, and local partnerships. North America and Europe each delivered DAU growth of 1 million sequentially and we are pleased to see continued expansion of our audience in these already well established markets.

In the quarter, we generated total revenue of $446 million, an increase of 50 percent year-over-year. Our year-over-year revenue growth rate accelerated by 2 percentage points versus the prior quarter, making this the third consecutive quarter of revenue growth acceleration. Average revenue per user was $2.12 in Q3, an increase of 33 percent year-over-year, with the highest rate of ARPU growth coming in North America at 43 percent.

We continue to see broad-based improvement in advertiser demand. Total impressions were up 121 percent year-over-year, driven primarily by growth in Snap Ads as we continue to see strong demand for down funnel bid optimization products such as app installs, as well as growing demand for our premium ad units such as Commercials. Our advertisers are able to achieve higher ROI when they combine Snap Ads with our Augmented Reality and Creative Tools products, and this is helping to drive strong adoption of our Self Serve Reach and Frequency Lens products, which grew more than 30 percent sequentially in Q3. We see significant potential for future revenue growth from Augmented Reality and Creative Tools products as we continue to innovate on behalf of our advertising partners.

On the yield side, we saw cost per impression decline modestly, down 6 percent sequentially. We benefited from year-over-year growth in user activity in Q3 including growth in Snapchatters posting and viewing Stories and continued strong growth in viewership of Premium content. The improvement in user activity, combined with optimizations to our self serve platform to utilize our inventory more efficiently, are driving continued expansion of our available supply at a rate that is above growth in advertiser demand, which has resulted in the modest decline in yield. As a result, we continue to have ample supply and lots of room to grow ARPU through both improved sell through rates and higher yields over time.

Gross margins were 51 percent in Q3 2019, up 15 percentage points year-over-year, and 5 percentage points sequentially, as we continue to focus on scaling our operations efficiently. Infrastructure costs per DAU were $0.70 in Q3 2019, down 3 cents sequentially and 5 cents year-over-year. We continue to make significant progress against our goal of driving down our underlying unit costs over time, including the cost to deliver a Snap, the cost to deliver an impression, and other key drivers of infrastructure costs. In Q3, our efficiency improvements more than offset improvements in user activity resulting in the decline in infrastructure costs per DAU.

Operating expenses were $271 million in Q3 2019, up 11 percent year-over-year and 5 percent sequentially. We shared last quarter that we expected to make investments in the growth of our

business in Q3, including in marketing to support advertiser and community growth, as well as investments to resume growth in our talent base. This is exactly what we executed on in Q3 with investments in our "Real Friends" marketing campaign, among other marketing initiatives focused on driving community and advertiser growth. In addition, we saw a sequential rise in our full time employee population in Q3, which has brought us back to roughly even with the prior year. We are pleased with the early momentum we are seeing from these investments and continue to see opportunity to invest productively in the growth of our business while maintaining positive Adjusted EBITDA leverage.

Adjusted EBITDA losses were $42 million in Q3 2019, an improvement of $96 million over the prior year, and $36 million over the prior quarter. Consistent with our prior guidance, this was the sixth consecutive quarter that we reported a year-over-year improvement in Adjusted EBITDA. In Q3, we delivered Adjusted EBITDA leverage of 65 percent, which as we expected was down from 72 percent in the prior quarter, but up significantly from 45 percent in the prior year as we continue to invest in the future of our business while making progress towards profitability and positive free cash flow.

Net Income was negative $227 million in Q3, an improvement of $98 million over the prior year, and $28 million over the prior quarter. The year-over-year and sequential improvements in Net Income largely reflect the flow through of improvements in Adjusted EBITDA.

Free Cash Flow for Q3 was negative $84 million, an improvement of $75 million year-over-year, and $19 million quarter-over-quarter, driven by the significant improvements in Adjusted EBITDA, that were partially offset by growth in net working capital. Working capital has continued to scale efficiently year-over-year driven by improvement in both days of accounts receivable outstanding and days of accounts payable outstanding. Ensuring that our working capital scales efficiently has been an important goal over the past year and we are pleased to see that these efforts are now contributing to our progress towards positive free cash flow.

We ended the quarter with $2.3 billion in cash and marketable securities, an increase of $1.1 billion versus the prior quarter, which largely reflects the net proceeds of our Convertible Notes offering completed in Q3 of this year. When combined with our existing revolving credit facility we now have access to a total of $3.5 billion in capital.

As we look forward to Q4 we expect to continue to invest in the future of our business, to scale our business efficiently, and to make additional progress towards profitability and positive free cash flow. To begin, I will share with you that our financial guidance assumes DAU of 214 to 215 million in Q4, which implies a sequential increase in DAU of 4 to 5 million.

In terms of our financial guidance, we are guiding to a range of between $540 million and $560 million for revenue in Q4. For Adjusted EBITDA in Q4, we are guiding to a range of between breakeven and

positive $20 million, which would mark our seventh consecutive quarter of year-over-year improvement in Adjusted EBITDA.

Achieving breakeven in 2019 is a stretch goal that we set last fall as part of our strategic planning process. We are pleased to see that disciplined execution over a sustained period of time has put us on a path to reach this milestone in the 4th quarter. With revenue growth having accelerated for three consecutive quarters to reach 50 percent year-over-year in Q3, and continued strong adjusted EBITDA leverage of 65 percent in the most recent quarter, we believe that we have a clear path to achieve sustained Adjusted EBITDA profitability over time. With limited Capex requirements, due to our efficient cloud infrastructure strategy, we believe that the path from Adjusted EBITDA profitability to positive Free Cash Flow will be short and direct. All of this means that we are now well positioned to fund our growth and investments in the future of our business from our future operating cash flows. We are particularly pleased that we have been able to achieve these financial milestones while maintaining the trust and privacy of our community, and while executing in a manner that is consistent with the values of our company, as we believe these are essential inputs to the long term success and sustainability of our business.

Thank you for joining our call today and we will now take your questions.

OPERATOR

That concludes the prepared remarks for today's earning call and we will now begin the question-and-answer session. To ask a question, you may press star, then one on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. In the interest of time, we ask that you please limit yourself to one question. After your initial question is asked, your line will be muted. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Ross Sandler of Barclays. Please go ahead.

ROSS SANDLER, RBC CAPITAL MARKETS

Hey guys, one question on the user trajectory and one on international advertising revenue if I can. Evan, can you provide some color on where the upside in RoW DAU net adds is coming from? Is that from new countries where you're getting better traction or is that from reactivations of some of your existing users in existing countries? Any color there on what's driving that upside?

Then on the flipside, is the plus one that we're seeing in U.S. and Europe the right kind of trajectory to think about going forward now that we've passed some of the upside from the filters and things last quarter?

Then, Jeremi, on the International revenue, so North America beat our numbers and the Street estimates pretty nicely, but International was a miss by a tad, so can you talk about how much of that was currency driven versus maybe something else in the International ad cadence and how do you feel about the opportunity for International ARPU to close the gap with the U.S. over time? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Ross, it's Derek speaking. Thanks for the questions. I'll start with the question on DAU. On the International side on DAU I think what we're seeing is really nice momentum actually and even globally we're really pleased with the momentum that we're seeing in the business. We've made a number of improvements to the app including the rebuild of Android and then on the International side we've done some additional improvements around language support. You're seeing local content being added and local partnerships and each of these things are contributing to what we're seeing as the very robust growth on the Rest of World side.

Obviously we're more penetrated in North America and Europe than we are in Rest of World and so the opportunity set in Rest of World is higher but we're pleased to see that we were able to put up sequential growth in each of North America and Europe as well, so really pleased with that.

As we mentioned, we've seen sustained momentum with new Snapchatters but also we're pleased with the underlying growth momentum and user activity driven by all the improvements we've made. So, really broad based on the DAU growth and pleased to see it.

To your question on International revenue, I think probably you're zeroing in on ARPU there and what I would do is point you to what we've been talking about a lot on the last couple of calls about the fact that we really have ample supply on the inventory side and so the constraint here is really to grow demand and so we've had really strong growth on DAU in the Rest of World segment and so that's obviously going to impact your ARPU a little in the short term. What you should expect is that absolute revenue growth is what we're going to be focused on in RoW when we've got really robust DAU in the short term. If you look at the absolute growth in revenue on Rest of World, that actually, the year-over-year growth rate actually accelerated versus the prior quarter, so we're really pleased actually with what we're seeing on the monetization side in Rest of World. We started as self-serve first in Rest of World. We've seen really strong adoption of the ad platform and like the momentum we've got there, so hopefully focus on that on an absolute basis. There will be a lag effect of DAU growth as we grow into our growing supply in that region.

Hopefully that adds a little bit more context for your questions.

OPERATOR

The next question comes from Michael Levine of Pivotal Research Group. Please go ahead.

MICHAEL LEVINE, PIVOTAL RESEARCH GROUP

With regards to the revenue guidance, terrific results for the U.S., as Ross was also mentioning about International. What I'd love to understand is do you feel like you've seen the impact from the Sales reorg to the same degree that you've seen at this point in the United States?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi Michael, it's Derek. Thanks for the question. I think in general we're really pleased with what we're seeing in terms of momentum on the monetization side. We've had really strong adoption of our ad products, Commercials and self-serve Lenses amongst other products. We're delivering ROI to our DR advertisers and we have good momentum with that segment, and we've made really good progress deepening our advertiser relationships, especially post re-org in North America, as you point out.

When you think about our guide on revenue, it reflects both the known tailwinds and the potential for headwinds, so we've had three quarters of accelerating revenue growth and obviously that points to the fact that we've got really strong tailwinds in the business and we're pleased to see that and that reflects the optimism we've had about the monetization in the business.

For Q4 we also have reflected in some of what we think are potential headwinds to the business. One of them is how the quarter really shapes up calendar-wise this year. If you think about the peak demand season in our business for advertising revenue, that really runs from Black Friday period through to the December holidays in North America and that's really a peak demand period for us.

The way the calendar falls this year there's one fewer week of activity between those two holidays and so that's a potential of a headwind for us and obviously the guide reflects that.

Another possible headwind for our business when we think about year-over-year growth rates in Q4 is the really strong growth we've had in our 'always on' advertising business over the last year. We've really seen demand from always on advertisers build this year and that's become a bigger part of the growth story in terms of driving year-over-year growth in Q1 through Q3 this year, and I think one of the things that we'll be watching for is to see how that factor develops in the second half of Q4 as we've typically had pretty strong demand around tentpole events and holidays which would in particular be around the holidays in Q4, so we'll see how that impacts our year-over-year growth rates in the second

half of the quarter. But in general, at a very high level, we're very optimistic about what we're seeing on the monetization front.

Both of the examples I've mentioned here about potential headwinds are isolated to Q4 and they're short term so the results we're seeing in our business are only building confidence in a long-term ARPU thesis for our business and we're pretty optimistic there.

Thanks for the question. Hope that gives you a little extra context.

OPERATOR

Our next question comes from Heath Terry of Goldman Sachs. Please go ahead.

HEATH TERRY, GOLDMAN SACHS

Great, thanks. You guys noted that engagement was up to 30 times a day and I think the last time you gave that number it was around 25 times, so curious as you look at the type of engagement within that if you can help us break it down in terms of how that has evolved between Games and content creation and content consumption, especially as you've added more professionally created content to the platform, messaging, and then also as we think about the growth in ARPU in the U.S. this quarter, particularly given the acceleration that we saw against a significantly more difficult comp, how that's informing what you think about the potential ceiling for growth, such that there is one, on North American ARPU and the pace of ARPU in the International markets, what should we expect as the ripple effect into those markets on monetization. Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks for the question, Heath. I think at a really high level what we're seeing are that the core improvements to the product are improving the ability of our users to communicate with their friends and that's driving that really high frequency over 30 times a day on average that you're seeing, but the engagement on the platform is very broad based. So, in the U.S., for example, roughly 80% of our daily active users are on our Discover content platform and so I think as we look at the ARPU opportunity over a very long period of time it's obviously very early. We've mentioned before that we have ample supply on our platform, and so what we really need to focus on now is driving demand for advertisers and I think we've done a lot not only with the sales reorg but also with the ad platform and the underlying improvements we made in optimization and measurement. I think that's what you're seeing with the revenue ramp and we're really excited to sustain our revenue growth into the future.

OPERATOR

Our next question comes from Rich Greenfield of Lightshed. Please go ahead.

RICH GREENFIELD, LIGHTSHED

Hi. It's Rich Greenfield. Thanks for taking the questions. I've got a few. First off, the elephant in the room that I think everyone listening to this call is interested in, is TikTok friend or foe? They obviously spend a lot of money advertising across your platform. Is it a risk? It is really just helping people spend more time on mobile, which is overall good for you? How do we just think about what you're seeing from users that use both platforms, etc.?

Two, U.S. DAU growth is obviously growing but relatively slow. Are you seeing a meaningful uptick in overall engagement? Has the U.S. essentially—are you mature or is there still a lot of potential for you to grow U.S. DAUs? How do you think about that over the long term?

Then just lastly, for Jeremi, on Snap Select, what exactly are you trying to achieve with Snap Select? I know it's still very early days but we hear from a lot of brands that they're excited about the potential, just being Google preferred-like. What is the opportunity that you are doing? Why are you doing Snap Select and how should we think about its impact on your business over the next couple of years? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks Rich. I think at a high level looking at TikTok we definitely consider them a friend. They're a developer partner with Snap Kit, they're an advertising partner for us and I think most importantly the value they provide their community is very different than the value we provide ours to really empower communication with real friends, so I think overall, as you mentioned, time spent on mobile is growing. We're both growing our businesses in a very rapidly growing industry overall. We're excited to continue deepening that partnership and working together to provide great products to our respective communities.

I think when we look at daily active users, we continue to see a lot of opportunity there, both in the U.S. but also internationally, and we've been making a lot of investments to continue that growth and we are especially pleased to put up the numbers that we did on a much higher base following the prior quarter. I think great underlying trends there that we're excited to continue.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Then just quickly on Snap Select, we're continuously hearing from advertisers that they want us to win, they're seeking more options and beyond that they're seeking options with performant and innovative ads. I don't think there's any slowing down in the growth of digital video and Snap Select is a cornerstone to our winning strategy. That market is growing rapidly and given our brand safety and continued growth in viewership of our Originals and brand safe content, we are in a great position to capture this demand.

We've actually seen a number of mid-year upfronts for Snap Select inventory. As you mentioned, brands are getting really excited about it and these are incremental investments in our platform. This is why we continue to innovate with our video ad products like longer form video and goal-based bidding. I think really worth noting is that while Commercials and Snap Select and everything in Discover are incredible video products, actually almost every product on Snapchat is video ad products, from Stories to Snap ads as well, and we're continuing to innovate in that space to capture video demand across the entirety of the app.

OPERATOR

Our next question is from Brian Nowak of Morgan Stanley. Please go ahead.

BRIAN NOWAK, MORGAN STANLEY

Thanks for taking my questions; I have two. The first one, Evan, it seems like every quarter we go through this discussion of are you going to add 5 million, 6 million users? What's the number? I'd be curious to hear your perspective. If you just step back and say what do you think are one or two of the key factors to really continue to add 5 or 6 million people per quarter or 20 million for next year and keep growing the U.S. base? Just the two big factors you're really focused on.

Then, Jeremi, a similar question around bringing more advertisers onto the platform. You've done so many great things over the course of the last year. What are still one or two of the big hurdles you have to clear to bring more advertisers into the auction market? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Brian. I think what we've been focused on is just continuing to deliver our core product value of visual communication to our community because that's highly differentiated, and then of course to continue our innovation and to really deliver additional value to our community, whether that's through augmented reality or content, maps, gaming and so I think we'll continue to do a combination of both going forward. As we look especially internationally we see a huge opportunity to continue to grow our community and we're excited about what we're seeing.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question regarding demand. We do continue to see this as our number one priority and our biggest opportunity as you discussed there. We are accomplishing it in multiple ways, all of which are benefitting our advertising partners. You're seeing the benefits of that in North America ARPU right now which is up 43% year-over-year which is the market in which our reorg has been in effect the longest, so we have very high hopes for that level of trajectory across the rest of the world as well.

The way that we're going to continue to bring demand onto the platform is in four key ways. The first is that we want to demonstrate the value of our audience and that they are unduplicated and hard to reach. We know that advertisers will continue to want to reach Millennials and Gen Z and that we have that audience in spades. We are able to articulate that audience and their value through B2B marketing campaigns at a scale we've never executed them before, through presence at trade shows and then through press.

Secondly, we will continue to launch innovative products for our new and existing advertisers. We've talked about the long form video, goal-based bidding, and there are so many more to come on the back of that, particularly on a vertical-by-vertical basis.

As we continue to say, we are relentless about delivering ROI for advertisers because we believe that that is the most retentive tool that we have at our disposal.

Then, lastly, we're going to continue to invest in our sales team, their skills and their education, so that they can deliver best-in-class customer service.

OPERATOR

Our next question comes from Mark Mahaney of RBC. Please go ahead.

MARK MAHANEY, RBC CAPITAL MARKETS

Thanks. Derek, can you talk about gross margins in the future and what will be the drivers of gross margin expansion from here. My guess is that you won't quantify, but how much higher could gross margins go, even if qualitatively you could talk about that.

Then, Evan, can you shed any numbers on Maps and Games and just how widely used they've been? Maps have been around for a reasonable period of time. How broad is the adoption and is there anything you want to do to push that adoption? Is it at a point now where you could actually push it and surface that feature more? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hey Mark, it's Derek speaking. Thanks for the question. As for the margins, we see a lot of opportunity to invest productively in the business as we go forward. There's a couple of different fronts on which we see that. One is marketing to drive advertiser and community growth. Another is talent to drive our monetization efforts including the sales org and also engineering teams to drive optimization. We see some opportunities to invest in talent for leadership on the AR front, and of course we continue to make investments in content and that spend is going to scale as we continue to grow the revenue associated with it and our content partners continue to find success on the platform.

I think what's really important here is what we're seeing from these investments is that they are productive and so we're seeing growth in our community and growth in our monetization off of these investments, and we believe that we can continue to invest in the growth of our business and drive positive operating leverage which will contribute to margin expansion over time.

That's really going to be our focus is to continue to make disciplined but productive investments in the business and drive out positive operating leverage as we scale forward.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Mark, we're really excited about what we're seeing in terms of Maps and Games. I don't have any specifics to share with you, but Maps in particular has become quite a large platform for us despite its relative obscurity, which I think really speaks to the value that Maps provides our community. As we look out over next year, we're definitely thinking about ways that we're going to lift up Maps and integrate it more to the core experience for Snapchat, which I think will be a great evolution.

OPERATOR

Our next question comes from Stephen Ju of Credit Suisse. Please go ahead.

STEPHEN JU, CREDIT SUISSE

Thanks. Jeremi, as you said in the prepared remarks, you're starting to take the wrapping paper off things like dynamic ads, so is there a way to characterize how much of your engineering resources are now being dedicated to consumer-facing products versus the more ad-facing product, and subsequently, whether you believe the pace of ad unit product rollouts will pick up from here?

Related to that, you reported an ad impression growth of 122 percent, so clearly the unit growth is the greater driver of your revenue growth, so the ad load is not that high and there's a high ceiling there but you have to be thinking about ways to drive ad pricing growth as well, so can you talk about any targeting or ad unit improvements you may be working on in the background so that you decrease the risk of user churn? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Stephen, at a really high level I can speak to how we're thinking about our engineering resources. I think that our investments in monetization will be ongoing, so I don't necessarily think about moving engineering resources back and forth between consumer product and monetization. I think actually if we look at the future of the business, one of the important levers in terms of managing impression growth is actually optimization and so we're going to continue to invest heavily in engineering to

improve optimization on our platform which should improve relevance overall for our advertising products and I think that will contribute to the way that our community perceives ad load.

OPERATOR

Our next question comes from John Egbert of Stifel. Please go ahead.

JOHN EGBERT, STIFEL

Great. Thanks for taking the question. You've made some impressive strides toward profitability over the last several quarters. EBITDA breakeven would be a great milestone for the company, obviously. As you approach positive free cash flow, can you talk about your philosophy in regards to balancing investments in growth versus continued operating leverage once your business reaches that self-funding milestone?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks for the question. It's Derek speaking. Yeah, I think what we're really focused on is making sure that we continue to invest in the areas of the business where we can see productive returns, and I think we've demonstrated that fairly clearly over a few quarters now of continuing to invest in the business but continuing to make positive progress towards both profitability and positive free cash flow.

We do, as I mentioned earlier, see a lot of opportunity to invest productively in the business and you should expect us to do that, but those investments are really focused on areas that we are seeing returns and where we're seeing productivity on the investment, whether that is marketing that's driving advertiser growth as well as community growth, whether it's investments in our engineering teams and sales teams to drive monetization, or investments in AR in order to drive leadership there, and each of those things are turning around and delivering results back to the business and that's allowing us to really invest in our business but also still see positive operating leverage as we do it. Our expectation is that you should see more of the same as we go forward.

OPERATOR

Our next question comes from Lloyd Walmsley of Deutsche Bank. Please go ahead.

LLOYD WALMSLEY, DEUTSCHE BANK

Thanks. Two, if I can. First, you guys mentioned users posting to Stories grew but it sounds more muted than growth in premium content, so can you just talk about how posting and viewing of friend Stories has ebbed and flowed, and how important is that to add inventory versus say, Discover or Lenses and Filters? Can you give us a rough sense of the breakout?

Then, secondly, you mentioned in the prepared remarks the NCSolutions study pointing to ROAS premium to the mobile average but it looked like it was only about 16% higher than the mobile average, yet your ARPU is so much lower than more established platforms. Your CPMs are lower, so just surprised it wasn't more meaningfully above the industry average, so, wondering why you think it's not higher and should we be concerned at all the upside is capped by that? What are the key drivers for getting that ROAS higher over the next few years?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Lloyd. Yes, users posting to Stories continues to be an important driver of our business and I think one of the things that's been exciting about our investments in premium content has been that we can continue to offer additional forms of content and new Stories after our community has consumed all the friends posted by their users, and so what we have now after our redesign is an infinite scroll of content, and so users come to check out Stories from their friends but then stay for more premium content, so we've actually been very excited about the relationship between the two in terms of what they unlock for time spent and for monetization.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Pertaining to the NCSolutions study, it's still very early. The intent of putting it in the prepared remarks was to show that our early results are certainly positive but we have a lot of room to grow to continue to invest in products, in optimization and in measurement, but we are very pleased with the early results. Still a lot of room to grow there and lot of opportunity for us and for our advertising partners.

OPERATOR

Our last question will come from Justin Post of Bank of America Merrill Lynch. Please go ahead.

JUSTIN POST, BANK OF AMERICA MERRILL LYNCH

Great, thank you. A couple of questions. Evan, in your prepared remarks you highlighted again that Snap was undermonetized and it certainly seems that way based on ARPU. There continues to be some concerns on where ARPU can go based on Snap's use of communication. Just wondering if there's some areas of the platform where ad loads are especially low and you see a big monetization opportunity over the next couple of years.

Then, secondly, I thought it was interesting you highlighted building a partnership with investors. Just wondering if that's new thinking around the company, how you're thinking about investing and supporting the stock, and what partnership with investors could mean going forward. Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Justin. Yes, as we look at the advertising business, there's opportunity across augmented reality and content and I think there's a ton of headroom there, as you know, relative to our time spent and frequency of engagement. I think the really important and exciting thing about operating a communications business is that we have a really durable source of distribution that brings our community into our service every day and that we can support that community with additional services like augmented reality or our content business. So, I think a lot of room to run on both of those.

Then I think in terms of our partnership with investors, I think when the company was private we got to build those relationships with our investors over quite a long period of time, and as the company became public and the investor base transitioned, we've invested a lot time getting to know the folks who are going to be supporting our business over the next couple of decades, and while those relationships are still new, we've learned a lot and we're grateful for that opportunity.

I think we certainly went through a difficult and challenging transition as a business over the last year or two as a public company, and really with a lot of the insight and support from the investor community I think we've been able to demonstrate that the business is moving in the right direction, we're executing really well on the fundamentals and that makes us excited about what we can accomplish together in the future.

OPERATOR

This concludes our question-and-answer session as well as Snap Inc.'s Third Quarter 2019 Earnings Conference Call. Thank you for attending today's session. You may now disconnect.