SNAP INC. Q1 2020 TRANSCRIPT

DAVID OMETER, INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's First Quarter 2020 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 first quarter 2020, 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 first quarter 2020 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, future market conditions, or the impact of COVID-19 on our business and on the economy as a whole, 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 annual report on Form 10-K for the year ended December 31, 2019, particularly in the section titled Risk Factors. This 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.

Lastly, in an effort to keep our team members safe, each member on the call is dialed in remotely. We hope everyone is staying safe and healthy during this time and we appreciate your understanding as we work through the call.

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

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi everyone and thanks for joining our call.

It has been a very difficult few months for the world, but we remain hopeful and optimistic about the future. As a team, we have been focused on doing our part to help as we all navigate this unimaginable tragedy. We're inspired that people are working together and staying home to save lives, and it gives us added faith in humanity to see how deeply we all care about supporting one another during this time. The shared compassion we have all demonstrated towards one another during this crisis gives us confidence that we will all be able to find the right path forward towards a safe, healthy, and positive future.

At Snap, our first priority is the health and safety of our community, our partners, and our team.

We closed our first office in January, and continued to close offices as COVID-19 spread around the globe. Our team has rallied around maintaining business continuity during this critical time, and I am in awe of how quickly our team adapted to the circumstances and continued to execute against our ongoing opportunities. We are monitoring the current situation daily, and are working towards a best case scenario for a rapid recovery, while also preparing for a worst case scenario.

Our team remains inspired and motivated despite the challenging circumstances because our product has never been more important in people's lives, especially for helping close friends and family stay together emotionally while they are separated physically. We are seeing sustained communication volumes on our service that eclipse the peaks we see during major holidays. For example, communication with friends increased by over 30 percent in the last week of March compared to the last week of January, with more than a 50 percent increase in some of our larger markets. Snapchat has always been focused on helping people build and maintain their friendships, which is especially critical as people practice physical distancing and shelter in their homes.

We are working hard to provide our community with factual and up-to-date information, as well as resources for their safety and mental health. In the early days of the crisis, we immediately launched multiple Filters and Lenses featuring safety tips and best practices, which quickly reached hundreds of millions of people around the world. We added a new feature, called Here For You, that provides proactive in-app support to Snapchatters who may be experiencing a mental health or emotional crisis, or who may be curious to learn more about these issues and how they can help their friends. We have

also published over 700 Discover editions featuring up-to-the-minute coverage on COVID-19 from our content partners, our in-house news teams, and agencies like the CDC and WHO. With more than half of the United States Gen Z population watching news content on Discover, we feel it is particularly important for us to educate our audience with curated and trustworthy information during these critical times.

We are also trying to help maintain positivity and help our community have fun together during this stressful time. We adapted our annual Snap Map Egg Hunt to encourage playing from home with friends rather than going out into the world. We have seen a sharp increase in group-related activities across chat, calling, and games. We launched five new games this quarter, and saw average daily time spent in games more than double in the month of March. In addition to news and information, Discover now includes programming that celebrates the doctors, teachers, store employees, and others in our community who are sharing their experiences from the front lines. This includes uplifting content like Will From Home, in which Will Smith shares his own shelter-in-place experience along with his friends, which garnered over 15 million viewers in its first three episodes. Our community has been incredibly engaged on Snapchat during this period across all of these areas, and average time spent is up over 20 percent in the last week of March compared to the last week of January, with some larger markets like France and the UK seeing more than a 30 percent increase. Additionally, as people turn to videoconferencing and livestreaming to work and hang out together, we have seen more than a 30x increase in the daily downloads of Snap Camera, a desktop app which allows people to add our suite of Lenses to whichever videoconferencing service they use.

While supporting our community and partners during the COVID-19 health crisis has been our top priority over the past few months, we remain focused on building on the momentum we've established in the growth of our community. Our community grew by 11 million Daily Active Users to an average of 229 million daily active users during Q1, up 5 percent quarter-over-quarter and 20 percent year-over-year. Our community is using Snapchat to express themselves and communicate visually, creating over four billion Snaps with our camera every day on average.

In addition to the increased usage of our camera, people are spending more and more time on Discover. Our editorial selectivity and curated approach has helped us bring best-in-class mobile content to our community that is accurate, timely, and topical. We are continuing to use engagement insights and data to drive our investments in Discover by regularly adding new channels to serve the varied needs and tastes of our audience, including 91 new channels around the world this quarter. This has allowed us to take a targeted approach to growing time spent on Discover amongst various demographics and geographies. For example, total daily time spent by Snapchatters over the age of 35 watching Discover content doubled year-over-year in Q1 2020. This ongoing investment in the expansion and diversification of our content offerings, including favorites like Comedy Central's The Daily Show with

Trevor Noah and original content like Nikita Unfiltered, a new docuseries, has helped deepen engagement on our Discover platform.

Augmented reality is continuing to play an important role in the lives of Snapchatters, with people now playing with Lenses 85 percent more each day than they did last year. A lot of this behavior is driven by our growing community of Lens creators using Lens Studio, with Lenses created by our community reaching 40 percent of our Daily Active Users every day on average. We've also built new, immersive Lenses powered by machine learning that transform the ground into lava or water. We believe that the recent acceleration in the adoption of communication technology and augmented reality during these travel restrictions will help support our longer-term trends in engagement growth.

We generated $462 million of revenue in Q1, representing a 44 percent year-over-year growth rate. While many advertising budgets declined due to COVID-19, we experienced high revenue growth rates in the first two months of the quarter which offset our lower growth in March. These high growth rates in the beginning of the quarter reflect our investments in our audience, ad products, and optimization, and give us confidence in our ability to grow revenue over the long term.

We are seeing some bright spots amongst direct response advertisers, especially those who provide activities or products that our community can enjoy at home. In the short-term, we are shifting sales resources and pulling forward some investments in direct response to better serve the advertisers who are trying to reach our audience during this time. For example, we can help movie studios pivot to digital releases by supporting them with a suite of products designed to track titles over a dynamic and flexible release window. We've also seen many large brands doing a lot of important things to help their community and the broader world, and we are helping these brands communicate their efforts to our audience in a thoughtful and approachable way that inspires others to make a positive impact.

In the medium term, we are helping our partners plan for the road to recovery, which we believe will be led in part by the younger generation. As people are sheltering in their homes, they are increasingly turning to digital behaviors across every aspect of their lives, including communication, commerce, entertainment, fitness, and learning. We believe that this will accelerate the digital transformation across many businesses, and that the heightened levels of activity we are seeing today will lead to a sustained uplift in the digital economy over time. The Snapchat Generation is digitally native and adopts new technologies quickly, which will help them continue to drive this transformation. This makes our audience uniquely positioned to help businesses recover, and we want to do our part to help jumpstart the recovery.

While it is difficult to predict the near-term impact of this unprecedented, complex, and global pandemic on our business, we believe that all of the long-term indicators we see in terms of our audience, their engagement, our momentum on product innovation, our auction dynamics, and advertiser ROI position us very well for success. Our deep investments in direct response advertising

over the past few years, including advanced bidding and campaign management tools, ad formats designed specifically for mobile apps and e-commerce, and backend performance optimization have positioned us well in this uncertain environment. Our strong cash position allows us to continue to hire and make long-term investments in innovation during this time, while simultaneously prioritizing the health and safety of our community, team, and partners.

We are beginning to see the light at the end of the tunnel in terms of the immediate health crisis, with the curve flattening in many cities and countries. The next chapter will be figuring out what the new normal will look like, both from a logistical perspective as well as in regard to the physical and mental well-being of our team. The third chapter will be the recovery, which we expect may be very fast for some businesses and much slower for others, and we are committed to helping our partners as we navigate this uncertain journey together.

The many difficult transitions and changes we made as a business over the past few years have positioned us well for the challenges ahead. We have strong, resilient leadership, a growing community that deeply values the service we provide, an efficient advertising platform that delivers value for our advertising partners, and a relentless pace of innovation driven by the creativity and operational excellence of our team. I am so proud of and inspired by our team and the way they have risen to this challenge while putting the health and safety of our community first.

Thanks again for joining the call, and with that I'll turn it over to Jeremi to share more about our business.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thank you Evan.

We're pleased with our results for this quarter amidst a challenging and rapidly evolving global health crisis, and we continue to see significant upside and opportunity for our business as we support our community and advertising partners through this difficult time. In Q1, we generated total revenue of $462 million dollars, an increase of 44 percent year-over-year, and consistent with our year-over-year growth rate in Q4 of last year. We are confident that our business is well-positioned for long-term success, evidenced by the high revenue growth rates we achieved in the first two months of the quarter, as well as our continued growth in the final month of Q1.

The global outbreak of COVID-19 has dramatically shifted the ways brands are thinking about reaching new audiences. While friends and families are physically separated from each other and their regular routines, Snapchatters are coming together virtually to maintain their friendships through visual communication, self-expression, and storytelling. Our sales teams have been focused on helping our brand partners craft thoughtful messages and create valuable experiences for Snapchatters during

these difficult times. We are partnering with brands on how to best speak with the Snapchat generation and help them discover new products and services as they spend more time at home and online.

We have identified many opportunities, and we know that Snapchat is a destination where people will discover brands for the first time as the global health crisis changes their buying behaviors. With this understanding, our team has pivoted quickly to focusing our sales resources on categories that are best positioned in the current environment, such as gaming, home entertainment, ecommerce, and consumer packaged goods, while also helping industries that have experienced outsized impacts to build long-term roadmaps to recovery.

We had the opportunity to work closely with Adidas to adapt a new campaign for Snapchat in response to the growing number of stay-at-home orders moving through Europe. With this in mind, Adidas booked a National Filter across the UK and Germany. They complemented this with Audience Filters and Commercials across other markets to encourage Snapchatters to stay home and to offer them creative, fit, and fun ways to stay active during this period. Our team worked quickly with Adidas to help create their #HomeTeam campaign within 24 hours, with the Filter being viewed more than 14 million times across the UK and Germany. Our large audience, creative formats, and advanced measurement tools provide a significant opportunity for brands such as Adidas to reach Snapchatters during these challenging and unprecedented times.

Our team has also been working to provide useful products and resources for businesses as they manage the current economic landscape. We've made our self-serve tools more accessible than ever, have lower minimum spends, and are experimenting with local ad formats such as "Swipe to Call," which we first launched in MENA specifically for local businesses, and then expanded to the US this quarter.

As evidenced by our strong performance in Q1, advertisers value our large, unduplicated, and hard-to-reach audience. In the US, we continue to reach more than 90 percent of 13 to 24 year-olds and more than 75 percent of 13 to 34 year-olds. In our more established international locales, such as the UK, France, Canada, and Australia, we reach more than 80 percent of 13 to 24 year-olds and more than 60 percent of 13 to 34 year-olds. We are also growing rapidly in other international markets such as India where we have recently been investing both time and resources to engage and grow our Snapchat community. Members of the Snapchat Generation are the consumers of the future, have significant lifetime values for our advertising partners, and are in the process of building brand loyalties, which makes our audience extremely attractive to advertisers.

While advertiser demand has been disrupted by the COVID-19 pandemic, we remain focused on making progress against our ARPU opportunity through our three key priorities: First, improving our ranking, optimization, and measurement to drive relevance and deliver ROI. Second, building out our sales and marketing functions to support the needs of our advertising partners around the world. And

third, delivering innovative ad experiences through video and augmented reality that deliver real business value. Our three priorities—along with our unique reach and growing, global audience—allow us to drive performance at scale for businesses around the world.

We've been investing in our first priority of improving ranking, optimization, and measurement since 2016, when our team made a difficult and deliberate decision to transition our ad business to an auction-based self-serve platform. In the subsequent years, we invested heavily in performance-oriented products and services. As a result, we have made remarkable progress with advertisers looking to drive consistent, measurable ROI—launching dozens of new features over the last two years, such as bid optimizations for conversion events like app installs, as well as advanced targeting and measurement capabilities. This has helped scale our direct response revenue in particular, which has more than doubled as a share of our total ad revenue over the last two years. Consequently, this strategy has put us in a strong position for this immediate crisis as well as to continue to take share of the digital ad market on the road to recovery.

For example, advertisers such as Plarium—creators of titles such as Raid: Shadow Legends and Vikings: War of Clans—are finding that Snapchat is a unique and powerful way for marketers to engage with Millennials and Gen Z, which control over $1 trillion in direct spending power and have grown up using their mobile phones. Noam Sagie, Director of Marketing at Plarium, said: "Plarium's work with Snapchat is aimed at growing our penetration within the Gen Z and Millennial audiences, measured on profitability. We integrated with Snapchat's API and developed a technology for accurately reaching potential players. We heavily invested in the creative customization of our ads, focused on bidding with purchase optimization. Between Q2 2019 and Q1 2020, Plarium has grown its Snapchat quarterly investment by 310 percent. Players coming from Snapchat are 30 percent better than Plarium's average in terms of 7-day retention rates. Also, these players have significantly higher intent than the average player to convert from the free version of the app to paying users."

We are finding that more and more advertisers are adopting our down-funnel products such as pixel and app purchase bidding, which is continuing to drive meaningful ROAS for performance-oriented advertisers. Revenue from pixel and app purchase objectives have doubled year-over-year, and we continue to see huge opportunity with direct response advertisers as we are able to translate measurement and optimization improvements into meaningful conversions for advertisers.

Our second priority is to grow demand through better service of our advertising partners. The structural improvements we have made to our sales team and sales operations over the past year have enabled us to better support our advertising partners and improve advertiser demand. This includes building teams to work with not only our largest global advertisers, but also performance-oriented advertisers who are scaling their games or ecommerce businesses. We are all excited to build on this momentum with Peter Naylor as our new VP of the Americas, who will join Snap in early May.

Our teams are well aligned and have begun to go deep with verticals where we believe we can deliver strong performance and ROI due to the characteristics of our audience and how they use our service. One leading indicator of the success of our Sales team reorganization is that we have doubled the amount of money committed via upfronts in 2020 vs. 2019. This is an indication that brands and agencies have confidence in our platform and advertisers are committed to working with us in an always-on way given the return on advertising spend that they are experiencing.

Our third priority is to lead the way with innovative advertising products and services. We continue to invest heavily in innovative solutions that leverage our content and augmented reality platforms in order to drive better outcomes for advertisers and delight our Snapchat community. As an example, e.l.f. Cosmetics CMO Kory Marchisotto said, "our business is growing and our message is clearly resonating with Snap's core Gen Z and Millennial audience. In partnership with our media agency, Tinuiti, we utilized Snap Ads to efficiently help our consumers shop for new eye, lip, face and skin care products, and implemented Dynamic Ads to further optimize and personalize our ads for our customers. We continue to innovate and optimize across Snap's ecosystem, which has led to significant drops in CPAs, one of our priority performance marketing objectives."

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 and over the last year we have doubled down on our video advertising solutions with a robust rollout of products for video buyers. For example, we have been increasingly focused on our Snap Select offering for premium video ads. Snap Select allows brands to reserve our Commercials video product within select Discover Shows at a predictable, fixed price. It's designed for both Social Video and Online Video buyers and has the potential to attract incremental Online Video and TV budgets into our hand-curated, brand safe environment.

As Evan mentioned, we are seeing continued success with our augmented reality platform. We believe that augmented reality is the future of computing and holds tremendous potential for experiential, immersive advertising. Our self-serve AR buying tools have been scaling quickly since their launch less than two years ago, and we believe that advertisers will grow their investment in our ad platform as we continue driving new AR ad products, market education, and robust measurement. Self-serve is the dominant way our advertisers buy AR, which supports the investments we are making to improve Lens Studio and democratize the creation process.

We are at the beginning of building out our AR ecosystem and providing additional value beyond paid media. For example, in response to the global health crisis, we launched our first-ever fundraising AR Lens which uses our Scan camera search technology to drive donations from 33 countries to the World Health Organization's COVID-19 Solidarity Response Fund. We enabled the camera to recognize 23

currency notes to trigger different Lenses for each currency, with each experience visually representing how your money is 'raised' and transformed into the three pillars of the fund: a hospital to represent patient care, a mask to represent medical supplies, and beakers to represent research and development. Turning physical items, such as dollar bills, that are a part of Snapchatters' everyday lives into calls to action through immersive AR is a unique way to connect with our audience and an important milestone for this technology.

We entered 2020 with a full-featured ad platform and a sales team structured to support our business and we pivoted quickly to support our community and partners as the COVID-19 pandemic disrupted the global economy. We will continue to invest for the long-term in making product and marketplace improvements to help advertisers scale, building focused relationships with brands and agencies across verticals, and improving our direct response products for performance-centric businesses. Based on the size of our audience, their levels of engagement across our service, and our overall opportunity in the growing digital advertising market, we are well-positioned to play an important role in driving the recovery of businesses across the world.

With that, I'll turn the call over to Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Thanks Jeremi. Our Q1 financial results reflect our priorities of growing our community, making focused investments in the future of our business, and scaling our operations efficiently in order to drive towards profitability and positive free cash flow.

As Evan mentioned earlier, our community grew to 229 million daily active users in Q1, with year-over-year growth accelerating to 20 percent, up from 17 percent in the prior quarter. While we observed higher engagement in the final weeks of the quarter, as many in our community sought to stay connected and entertained from home, this had little impact on our Q1 result as we calculate this metric using a daily average. As a result, we were already on pace to accelerate year-over-year growth in daily active users absent this impact. The accelerating growth in our community reflects the cumulative impact of improvements we have made to our application, which are contributing to higher levels of engagement and the sustained retention of new Snapchatters.

The growth in our community continues to be broad based, with year-over-year growth rates accelerating on both iOS and Android platforms as well as across each of our North America, Europe, and Rest of World regions. In North America, DAU grew by 10 percent year-over-year, compared to 9 percent in the prior quarter. In Europe, DAU grew by 14 percent year-over-year, up from 12 percent in the prior quarter. In Rest of World, DAU grew by 45 percent year-over-year, compared to 36 percent in the prior quarter. We believe the accelerating growth of our community, in an increasingly competitive market for attention on mobile, clearly demonstrates the value of our differentiated platform.

Q1 Revenue was $462 million, an increase of 44 percent year-over-year, which is consistent with our growth rate in Q4, and just above the midpoint of our guidance range. The economic environment has become challenging for many of our advertising partners and this has had an impact on the rate of growth in our business. For example, year-over-year growth in January and February was approximately 58 percent, before declining to approximately 25 percent in March. We believe that the elevated growth rates we observed at the beginning of the quarter are a strong indication of our ability to accelerate growth under normal market conditions, and that our Q1 results in total provide additional evidence of our ability to continue to grow our share of the advertising ecosystem over the long term.

In North America, revenue grew 40 percent year-over-year in Q1, compared to 42 percent in the prior quarter. The modest deceleration in North America revenue growth reflects the impact of the lower growth rates observed in March. In Europe, revenue grew 61 percent year-over-year in Q1 compared to 47 percent in Q4. We were pleased to see that year-over-year revenue growth accelerated in Europe as this was just the second full quarter following our International sales team reorganization. In Rest of World, revenue grew 49 percent year-over-year in Q1, which was consistent with the prior quarter. All regions saw their growth rates decline in the month of March and by roughly equivalent magnitudes.

We continue to see strong adoption of our ad products, including our goal based bidding products, which are driving increased demand from direct response advertisers. Over the past two years we've continued to add more objectives to our self-serve platform that advertisers can use to optimize their campaigns, including app installs, video views, and purchases tracked via our pixel. We have also made significant improvements to our measurement capabilities and optimization models. As a result of these enhancements, direct response advertising has nearly doubled as a share of our revenue over the past two years, and represents more than half of our total revenue. Delivering a direct return on investment to our advertising partners ensures that we are well positioned to defend and grow our share of advertising budgets in any macro environment.

Total impressions nearly doubled year-over-year in Q1, while cost per impression continued to stabilize with a year-over-year decline in eCPM of 23 percent in Q1, which is a modest improvement over the 24 percent decline observed in the prior quarter. The ongoing growth in engagement, combined with optimizations to our self-serve platform to utilize our inventory more efficiently, are driving continued expansion of our available supply, which has placed downward pressure on eCPM's despite rapid growth in overall advertiser demand.

Gross margins were 47 percent in Q1, up 8 percentage points year-over-year. Infrastructure costs per DAU were $0.71 in Q1, down from $0.72 in the prior year as we continue to make 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. On the content side, we have been

doubling down on our investments in premium content, and we were pleased to see that total time spent with Discover content grew by more than 35 percent year-over-year. Time spent with Shows, which includes scripted and unscripted series as well as daily news shows, more than doubled year-over-year in Q1, with more than 60 of our Shows reaching monthly audiences of over 10 million viewers. We are particularly pleased that we have been able to make these investments in content while continuing to expand our gross margins, which reflects our overall approach of scaling our operations efficiently, while making investments in the future of our business.

Operating expenses were $298 million in Q1, up 20 percent year-over-year. The increase in operating expenses reflects continued investment in our talent base, which has been focused on our monetization and engineering teams. We have also made investments in marketing to grow our advertiser base and Snapchatter community, which have contributed in part to robust growth in these areas. While there is typically a lag between these investments and improved output metrics, we are pleased with the results we are seeing thus far.

Adjusted EBITDA was negative $81 million in Q1, an improvement of $42 million over the prior year, and in line with the midpoint of our guidance range. In Q1, we delivered Adjusted EBITDA leverage of 30 percent which is meaningfully positive, but down from 54 percent in the prior quarter. We have continued to invest in the long-term growth of our business in order to build on the momentum we have established with our community, and our advertising partners, despite the near term impacts of the COVID-19 crisis on revenue growth rates. While this has put downward pressure on Adjusted EBITDA leverage in the near term, we believe it is the right decision for the long-term growth of our business given the strength of our balance sheet and improving cash flow.

Q1 marked our first quarter of positive Operating Cash Flow at $6 million for the quarter, an improvement of $72 million year-over-year, driven by the improvement in Adjusted EBITDA and the collection of seasonally higher Q4 advertising revenue. Free cash flow was negative $5 million for the quarter, an improvement of $73 million year-over-year. We ended the quarter with $2.1 billion in cash and marketable securities, which was roughly flat vs. the prior quarter. We also have access to more than $1 billion in additional capital via our credit facility.

Given the rapidly changing environment, we do not intend to share financial guidance for Q2 in the same manner that we have in recent prior quarters, but we do want to provide a sense for where we are today and how we plan to invest in our business. Thus far in Q2 we estimate year-over-year revenue growth to be 15 percent through April 19th, and our estimated growth rate in the most recent week is 11 percent. Today we have less visibility into Q2's results because so much depends on factors beyond our control, principally how the world continues to manage the COVID-19 crisis and if, or when, the world's economy begins to recover. Therefore it is not clear at this point how growth rates may evolve as we move through the quarter. We are cautiously optimistic that trends could improve over time if

conditions begin to normalize, but we are also conscious that economic conditions may not improve and some of our advertising partners could continue to face headwinds caused by the crisis. Given this, we will not be sharing revenue or Adjusted EBITDA guidance for Q2. We will, however, be sharing estimates on our cost structure and these estimates assume that daily active users will be approximately 239 million in Q2, which implies year-over-year growth of approximately 18 percent against a tougher comparison period that included the benefit of engagement growth related to last year's launch of the new Lenses powered by deep neural networks. On the expense side, we currently expect that our combined cost of revenue and operating costs will grow year-over-year in Q2 at rates roughly equivalent to what we observed in Q1. This implies the potential for modest sequential growth in the combined expense base, which we expect would be driven by the impact of higher engagement on infrastructure costs and the impact of investments in our talent base on operating costs. Given that a small minority of our cost structure varies directly with revenue in the short term, we do not currently expect substantial variance in these cost estimates regardless of the ultimate revenue outcome in Q2.

While there is uncertainty about near term revenue growth rates, we remain highly optimistic about the long term prospects for our business. We remain optimistic because we believe that there are numerous factors that position our business to perform relatively well in the current environment: 1) our team has thus far managed the transition to remote working conditions seamlessly and with a high degree of productivity, such that we have been able to continue to deliver for our community and our partners; 2) we are experiencing strong community and engagement growth which provides more inventory and wider reach for our advertising partners; 3) we have built a robust ad platform where our advertisers can optimize for a positive return on their advertising investments; 4) our cloud-based infrastructure has allowed us to scale seamlessly, and without incremental capital expenditure, as user engagement has scaled across our platform; 5) we have put significant effort into establishing an efficient cost structure and building the mechanisms to ensure that the investments we put into our business are highly productive; 6) we have made significant progress in reducing our operating cash burn and as a result have just produced our first quarter of positive operating cash flow; and 7) with $2.1 billion in cash and marketable securities, and an available credit line of over $1 billion, we have the working capital necessary to stay focused on the long term and be opportunistic in this challenging environment.

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

OPERATOR

That concludes the prepared remarks for today's earnings 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 the roster.

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

ROSS SANDLER, BARCLAYS

Great. Congrats, guys, and happy to hear everybody is safe and sound. A question on the revenue run rate that you flagged for April. It actually looks pretty solid in light of what's going on broadly in digital advertising. So, can you talk about the overall 2Q pipeline? Do you think you can sustain this mid-teens growth rate? And what about your category mix, or your DR mix, gives you the kind of confidence that you can see these types of growth rates, when a lot of your peers are seeing far worse and negative growth? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi, Ross, it's Derek speaking. I'll take the first part of that and then I'll probably kick it over to Jeremi for the second part. I think one of the things that's important here is that we've got a challenging and rapidly evolving environment. So, a lot depends on how the world and our governments manage the situation going forward and how the macro environment reacts to that. I think, as you pointed out, we're really pleased that the business has continued to grow under these conditions. I think that's a very big positive for the business.

We're also cautiously optimistic that, as we return to some sense of normalcy, we could see the business recover. And so, we're cautiously optimistic about that. But I also want to point out there's a lot we don't know. And so, because of that, I think it's difficult to predict with great confidence exactly what trends look like going forward. But in this situation, we really wanted to make sure that we were transparent and gave folks as much insight as to how things are going today as possible.

And I'll turn it over to Jeremi to handle some of these mix issues.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question, Ross. Snap at its core is a communications platform meant for our community to visually connect with their closest friends and family, something that's critically important as physical distancing remains. And while it's extremely challenging for the world to stay at home, it does accelerate the move to a digital economy, where people are buying and discovering new brands.

Given Snap's overall market share and share of digital wallet, we do have a unique opportunity to increase our market share as advertisers look for cost effective ways to advertise in this environment. To take advantage of that, we've pivoted our sales teams and product teams to focus on categories that are best positioned in the current environment, such as gaming, home entertainment, e-commerce, and CPG, and continue to help industries that have experienced outsized impact to build long-term roadmaps to recovery with them as our partner.

OPERATOR

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

RICH GREENFIELD, LIGHTSHED

Hi. Thanks for taking the question. When you think about Discover, there's no doubt that you've got a lot more users using it. You put a lot more content – the algorithm is clearly getting better in terms of the quality of the content you're showing. But, with TV sort of running out of content and with productions shut down, it seems like there's a pretty big opportunity for you to take TV ad dollars.

And that may be difficult during the current pandemic and what's happening to ad spend, but curious – you brought on Pete Naylor, who – his expertise has obviously been stealing or taking TV ad dollars and bringing them over to Hulu. Curious, what's the plan with Pete Naylor? What are you actually trying to do, and should we expect a meaningful increase in the amount of content on Discover as we head into 2021?

And maybe just attached to that – I guess that's partly from an advertising standpoint a question for Jeremi – but I'm also curious from a content-creation standpoint, do you have partners that are actually struggling to create content for Discover? I saw Good Luck America the other day was shot from Peter Hamby's house. What does the content pipeline look like? Can you keep Discover robust during the pandemic? Thanks.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes. Thanks for the question, Rich. Video is absolutely a top priority for us. As TV budgets migrate to digital, they typically move to places that carry some of the same advantages as traditional linear TV. And we've been investing in those things for a number of years. We are, to your point, investing in more curated premium Discover content, such as our lineup of Snap Originals.

As you know, we introduced Commercials, which are non-skippable for the first six seconds, and then importantly, we also have introduced new products that mirror the television format. So, for instance, we now allow for longer video ads, including the standard 15 and 30 seconds, which is a complement to

the 6 that we've had for a number of years. We bundled our curated Discover content Commercials into Snap Select, which allows brands to reserve within select Discover Shows at predictable, fixed prices.

And we continue to invest in the team. You noted Peter Naylor, and of course with over 20 years of TV and video experience, he is the most recent investment in the strategy, and we're thrilled to have him on board. But we've invested in both sales and product leaders from the video space for a number of years, and it remains critically important to us.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi, Rich, thanks for the question. As it pertains to production, so far, we've been really impressed by the innovative approach that our partners have taken, including shows like Will From Home, which is a super-cool quarantine-based show from Will Smith. And our daily Originals have continued production – yes, as you noted from home – but with really compelling content.

There are some Shows that are non-daily Originals, and some of that production has been delayed. For timeline today, if principal photography can resume in July, those Shows will still release before the end of 2020. I think the way to think about the timing is really normal release volume through June, maybe slightly lighter release volume in July and August, and then more releases than usual in the fall. So, that's really how we're thinking about production. But overall, our partners have really risen to the challenge in an incredibly impressive way, and that's driving a lot of the engagement that we're seeing.

OPERATOR

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

HEATH TERRY, GOLDMAN SACHS

Great. Thanks – really appreciate the level of detail here. I was wondering if you could give us a sense of how you've seen the profile of your advertisers evolve from mid-March through the first few weeks of April. I would imagine there's a lot more behind that shift from 44 to 25 and then 15 percent that we've seen. Just in terms of the verticals that they represent, the mix of brand versus direct response – and then particularly how you've seen pricing and participation density in the auction evolve. And more specifically, what you've seen in your app download business. I know you've referenced direct response several times – curious how much of that direct response app download is representing. And then within that, you've referenced a few times goal-based advertising, the return on advertising spend platform that you have launched. What kind of adoption are you seeing there? And has it brought any new types of advertisers or profile of advertisers to Snap that you've seen before? Appreciate any level of detail that you can share there.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Sure. Thanks for the question, Heath. Like everyone, we're hearing from advertisers that the global outbreak has dramatically shifted the way that they are thinking about marketing. Some have paused while they're rethinking their messaging, and others are cutting spending to save jobs. It's a tough time for the industry, but we are very fortunate to have a well-diversified business across both brand and DR, which is exactly what you mentioned.

In fact, DR now accounts for over 50 percent of our overall revenue, and that always-on business has been incredible for us during this time. Right now, we're focused primarily on our partner needs and helping them craft thoughtful messages and create valuable experiences. We talked a little bit about the sales teams pivoting and they've done that. And, to your point, app install is one of the areas in which we are seeing this level of success.

That includes apps that are about in-home entertainment, apps that are about gaming, apps that are about at-home fitness, and really anything that you can do when you do not need to physically leave your home. We've seen extraordinary success there – ecommerce and down the line on the app install pieces.

And when we look at the launch of our return on ad spend opportunities and what we've built, we've consistently innovated towards lower funnel goals, like return on ad spend, because it allows advertisers to see stable results and scale with confidence. Once advertisers join with us, they continue to retain and grow, and that again has also been incredibly helpful here.

In addition, it's still early, but we're working with our sophisticated advertising partners to build out our return on ad spend offerings, which is in beta, but it shows promising early results. And then lastly, when we look at our ROAS platform, it's really just one of a whole suite of features that we continue to develop for the most sophisticated performance-driven advertisers in the world. Even in just the past few weeks, we've been testing new products, such as worldwide targeting, advertiser split testing, and improvements to Dynamic Ads. And our sales team will continue to grow our capabilities to learn and help advertisers achieve the best ROI possible.

OPERATOR

Our next question comes from Mike Levine of Pivotal Research Group. Please go ahead.

MICHAEL LEVINE, PIVOTAL RESEARCH GROUP

Thanks for the question and great results, guys. Jeremi, if you could talk a little bit more about why you feel the direct response product is doing as well as it is. I mean, is some of this just the fact that the platform is a bit more nascent than some of your competitors, because the growth rates are fabulous.

That and obviously partners and a lot of advertisers are struggling right now. So, I'd love to hear more about initiatives, aside from just the categorization focus that your team is doing so that you can be better positioned to come out on the other side of the crisis in a stronger position.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes. Thanks for the question, Michael. Specifically, we have many strengths, the most important of which is our large, growing, and unduplicated audience. We've been focusing for years on improving measurement, ranking, and optimization to drive relevance and deliver ROI. We're changing and building out our sales and marketing structures to support the needs of our advertising partners and continue to create the innovative ad experiences around video and augmented reality that deliver the real business value.

I think most importantly we are really doubling down on that unique and unduplicated audience, which gives us an inherent advantage at scale. And as we look at our advertisers that we talked about, all of this has really just been acceleration into an economy that the Snapchat generation has adopted for years, which is the digital economy. So, we're feeling that as a very, very strong win for us right now.

OPERATOR

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

MARK MAHANEY, RBC CAPITAL MARKETS

Great, thanks. Two questions. I want to ask about any learnings you've had from gaming – games that are being played on the side. You threw out some metrics. You disclosed some metrics about seeing a surge in activity. You've had games kind of integrated into the platform for about a year, but I'm sure there's been a recent surge. Any learnings from that about whether that makes you more constructive on the games outlook on Snap or things you need to do differently?

And then just briefly, could you talk about India? I know you called it out as one of the international markets where you seem to be getting some good traction. Just talk a little bit more about learnings from that market. That's an unusual one, I think, for Snap, given its history. So just what you've learned from there and whether you think that kind of success that you may be seeing there – how replicable that is in other markets. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Mark. Yes, as it pertains to games, really excited to see the accelerated adoption there. I think this also validates our strategy to build games around playing with friends, because I think that's especially relevant during this period of time. People want activities to do together. And so, our games

platform allows people to play at the same time as they're talking and chatting and hanging out together.

So, we released five new titles. We're learning a lot title-by-title and rolling that back into updates and new releases. So, lots of learnings going on. And of course, it's very early, but we have seen acceleration, given this period of time, including from folks who are discovering games for the first time and playing with their friends. So, that's certainly exciting in terms of development of our games platform.

As it pertains to India, it's definitely a market we're really excited about and investing a lot into. One of the things that we've seen really work well there has been releasing custom and culturally relevant augmented reality experiences and increasingly more content. So, we're definitely investing in evolving the product for India specifically. And one of the things we've been happy to see is that people there have really embraced talking visually. There's this fluency with visual communication that's really exciting, and that bodes well for our future growth in India.

OPERATOR

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

STEPHEN JU, CREDIT SUISSE

Thanks very much. So, Evan, I think you shared some specific commentary about what your users are doing on the app right now. And maybe this is a bit early, but consumer habits are changing as we speak. So, what do you think you can do to ensure that the lift that you're seeing in terms of users and engagement will continue to work in your favor?

And Jeremi, I think in the past the Olympics have been a positive catalyst for you guys, but the business has since grown pretty significantly around that type of spend. So, with the Tokyo Olympics being postponed into next year, we have to think about what that budget that was earmarked is going to do. So, any thoughts or feedback from your partners in terms of where that budget is going to go? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi, Stephen. It is early to guess where the long-term engagement patterns will land, but what we're really paying attention to are the structural changes that you alluded to. So, one of the examples here, I think, is around augmented reality. One of the things we've been really investing a lot in is this transition from augmented reality being something that's entertainment based to something that provides increasing utility.

And we believe that that transition has been accelerated by this crisis. And I can give an example. Beauty companies spend a huge amount of time and money with trialing and testing their products, and we really believe that, due to concerns about transmission, it has become a business imperative to evolve the testing paradigm and move that to technological platforms like augmented reality.

And so, I think that's one example of the structural changes we're seeing in terms of behavior, so we're really excited about what that means for augmented reality. And in general, across our platform, people are adopting more of our products, using them more, and so we believe that will provide a tailwind. It's just too early to say what that will look like.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks. And I'll take the second part of the question, as it pertains to events. With the majority of our revenue being direct response, we are less impacted by single events than we were a couple of years ago. Of course, we benefit from big branding moments like the Super Bowl or Olympics or March Madness, but these events now have become more of a bonus on top of our steady, self-service business into which we've invested heavily by focusing on ROI, measurement, and optimization that we talked about earlier.

That puts us in a strong position to continue to win always-on budgets. Whereas experimental and event budgets are always the way to test and learn any platform, we've moved largely out of that bucket. Once advertisers try our platform, they discover meaningful ROI and strong results. This is evidenced by the doubling of our upfronts from 2019 to 2020, and we have simply become a core part of the fabric of the media strategy for brands and agencies worldwide, independent of events or experiments.

OPERATOR

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

BRIAN NOWAK, MORGAN STANLEY

Great. Thanks for taking my question, guys. I have two. Just the first one – maybe help us out a little bit on the type of growth you're seeing in April. How do we think about the growth in the direct response business, which seems to be really strong, compared to the non-DR business that quarter – in the month? So, what are you seeing sort of DR, non-DR in April?

And then, I guess the strength of DR really I think it's surprising to a lot of people on this call. Maybe talk to us a little bit about how big app installs have been within that as a big driver of it and other examples of ecommerce where you're really seeing strength within DR. Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi, there. I can have Jeremi fill in some of the details about some aspects of this that are working really well, but what I would say is obviously we've built this very big DR business, and that's really an important driver of the growth in this moment. And if you go back a couple of quarters, we talked last year about our growth being driven by the build of this always-on business. And I think what you're seeing is that starting to pay off for the business today in terms of us having built this big DR business and become more of a core part of people's buying.

And as Jeremi just mentioned, the doubling of the upfronts year-over-year really tells you that in addition to a very solid DR business, we're becoming more of a core part of folks' always-on business. So, Jeremi, I'll let you take over in terms of talking about the specific aspects of that that are working.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Yes, absolutely. Thanks for the question. As mentioned before app install is absolutely an important part of the growth that we're seeing with our steady always-on businesses, because they are getting the ROI that they seek by focusing on and being able to bid on down funnel activities, such as goal-based bidding for app installs or bidding for people who are completing videos, and so on and so forth.

That benefits all app install advertisers as well as all of our DR advertisers. And to be honest, during this time, advertisers are really looking for ways to make a dollar go further. We have efficient pricing, and we are a great place for advertisers to come to get the return on ad spend that they're looking for and the same amount of impressions that they would get for that same dollar elsewhere, which is really exciting.

In addition to that, the trends that we see in the overall space have been really helpful for us as we talked about with mobile outpacing desktop, video outpacing non-video, and digital buying outpacing our TVs. All of those advertisers are seeing success on the platform, and very much include app install.

OPERATOR

Our next question will come from Eric Sheridan of UBS. Please go ahead.

ERIC SHERIDAN, UBS

Thanks so much – maybe two questions, if I can, both follow-ups. Jeremi, is it possible to get a better understanding, as price per impression has dropped in March and April as a function of sort of budget decisions by advertisers, are you seeing new advertisers come in or new categories wanting to engage with Snapchat as a result of the return on ad spend dynamic you laid out both in your script and in some of the interest tonight – want to understand that dynamic a little bit better.

And then, Derek, how should we think about some of the investments that are being made over the short term against your long-term profitability goals? Are these sort of pull-forward investments to take advantage of the opportunity you find yourself in, and there will be a smoothing out of the investments in longer duration periods? Or is this sort of a new level of investment you want to call out for investors? Just wanted some clarity around both. Thanks so much.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Sure. Thanks for the question. I will take the first part here. As I mentioned just in my previous answer, the price per impression has dropped, and that is allowing both our existing advertisers as well as new advertisers to see highly performant advertising and really strong ROI. So, while we are seeing new advertisers come in, we are actually really focused on growing the categories on which we've doubled down during this period, such as gaming, home entertainment, e-commerce, and CPG, but helping our industries that have outsized impact build long-term road maps to recovery.

I think the important thing is that with so much opportunity to earn market share in any vertical or any client type – including small businesses, app install, e-commerce, CPG, and the list continues – the upside for us remains despite market conditions facing our partners, and we'll be here for them.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there, it's Derek speaking, just to go further on the investment side, I think part of the backdrop here is that we've done a tremendous amount of work over the last two years to really make the cost structure here lean. We've done a lot of work to make our infrastructure extremely efficient. As our user engagement has improved, we've been able to hold the line on cost per DAU by driving down our unit costs. And we've had relatively modest growth in headcount – and so you've seen us really get smart about how to deploy the capital that we have invested in the business as efficiently and productively as possible.

We've put a lot of mechanisms in place to ensure that we're getting a big return on the investment for the cost that we are investing into the business. I think we see a lot of opportunity at the moment. And so, you can see that we're continuing to hire and invest in our talent base. We've been investing in marketing to grow our advertising community as well as our Snapchatter community. And so, I think you can expect us to continue to do that to make sure that we're investing in the long-term health of the business.

We are going to be prudent, though. I think that you'll see us continue to look at growth rates and how the business progresses. And we'll be appropriately cautious. But we do want to make sure that, given the strength of our balance sheet, given all the progress we've made on the cost structure and managing our operating cash flow higher, we want to make sure that we're cautious but that we

continue to invest for the long term, so that we can continue to build on and sustain the momentum that we've built with our advertisers and our community. So, I think you see that in what you've observed this quarter as well and what we've indicated for Q2. I hope that helps.

OPERATOR

Our next question comes from Justin Post of Bank of America. Please go ahead.

JUSTIN POST, BANK OF AMERICA MERRILL LYNCH

Great. Thank you. A couple on usage. We definitely see a surge in users in March and April in the Internet space. How does that translate to DAUs in Q2? I know you're thinking about average for the quarter in that 239, but should that help in Q2? How are you thinking about that? And then second, maybe for Evan, no secret TikTok downloads are up a lot, but your metrics look like they're really strong. Can you talk about what metrics you look at in that category? Is it Discover time spent, is it overall users, or time spent on Snap? How do you think about that on the metric side? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi, there. It's Derek speaking. Thanks for the question. Talking about users in Q2, I think one of the really important things here is all of the work that we've done to improve the app and the performance of the app in order to drive retention over time. And so, as we see these moments where we're able to have growth in DAU and the ability to build on that and sustain that over time is really important. And so, there has been a lot of work by the teams to really drive that out and make that possible over the last few years.

I think we've put together our estimate for Q2 that our costs are based on. And I think that that demonstrates that. In addition, we've shared some metrics just around how user engagement on a per DAU basis has improved, including some of the aspects of the app that have done particularly well. We saw really good growth on content engagement and so on. And so, it's having the content and the investments we've made in the app that are driving that through. And I think you can see that come through on our estimate there for Q2.

I'll turn it over to Evan for the second part of the question.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi, Justin. Yes, as we look at the business, one of the things that has made our business and our community so resilient over time are the really close relationships people have with their friends on our service and the use of our service to communicate in a differentiated way.

And so, we look a lot at the input metrics, making sure people are finding their friends, that they can start a conversation. And you see that show up in things like daily active users and Snap creation, which reached 4 billion Snaps created on average during this quarter. So, that hopefully gives you some context. But, of course, we pay attention to all sorts of metrics across the business, and we're very focused on continuing to innovate and provide a great service to our community.

OPERATOR

Our next question comes from Doug Anmuth of JP Morgan. Please go ahead.

DOUG ANMUTH, J.P. MORGAN

Thanks for taking the question – just wanted to follow up on DR. DR comes obviously across bigger brands and then also SMBs, so I was just hoping you could help us overlay your SMB exposure on top of that. Is it reasonable to think that SMBs are also a majority of revenue at this point, or would that not be accurate? Thanks.

JEREMI GORMAN, CHIEF BUSINESS OFFICER

Thanks for the question. You're right. We actually look at all of our advertisers like DR advertisers. We believe that it is absolutely our responsibility to provide the best return on ad spend, no matter what their goals are, be it video consumption, app install, big brand lift, these kinds of things. As it pertains to small and medium businesses specifically, that is not the majority of our DR business, but it is a really hard time for those advertisers. Businesses are getting hit hard across the whole industry, and we can and will continue to help small businesses in any way we can.

Right now, that looks like helping them understand how to talk to this generation, so that when the doors open, and this generation comes back into stores and is able to support them, then they have the right messages and have built the brand equity during this period of time. But as it pertains to our exposure, with so much opportunity to earn market share and our diversification across verticals as well as segments, including big brands to SMB to direct response advertisers that are more online focused, we really have an opportunity to continue to grow, despite these market conditions.

We're going to execute for the best and plan for the worst, but the most important thing that we can do for small businesses during this time is just to support them. And we're really pleased with our diversification, so that it doesn't impact us at this time. Thank you for the question.

OPERATOR

This concludes our question-and-answer session as well as Snap Inc.'s first quarter 2020 earnings conference call. Thank you for attending today's session, and you may now disconnect.