SNAP INC. Q2 CONFERENCE CALL TRANSCRIPT

Operator: Good afternoon, everyone. Welcome to Snap Inc.'s Second Quarter 2017 Earnings Call. At this time, 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. Mrs. Sam Stewart, Investor Relations, you may begin.

Sam Stewart: Thank you, and good afternoon, everyone. Welcome to Snap Inc.'s Second Quarter 2017 Earnings Conference Call. With us today are Evan Spiegel, CEO; Imran Khan, Chief Strategy Officer; and Drew Vollero, CFO. Earlier today we made a slide presentation available reviewing our key engagements and financial metrics for the second quarter of 2017, which can be found on our Investor Relations website.

Now I will quickly cover the Safe Harbor. Today's call is to provide you with information regarding our second quarter 2017 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, or other characterization of future events, including financial projections or future market conditions, is a forward-looking statement. Actual results may differ materially from those expressed in these forward-looking statements, and we make no obligation to update our disclosures. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today, as well as risks described in our prospectus dated March 1, 2017, particularly in the section titled Risk Factors and our other filings with the SEC, when available.

Our commentary today will also include non-GAAP financial measures. We believe that the use of these non-GAAP financial measures provides an additional tool for Investors to use in evaluating ongoing operating results and trends. These measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our press release issued today, a copy of which can be found on our website at investor.snap.com. At times in our prepared comments, or in response to your questions, we may offer additional metrics to provide greater insight to our business or our quarterly results. This additional detail may be one-time in nature, and we may or may not provide an update in the future on these metrics.

Now I'd like to turn the call over to Evan.

Evan Spiegel: Good afternoon, and welcome to our Q2 earnings call. We made a lot of great progress this quarter.

Snapchatters now visit more frequently, spend more time, and create more Snaps than ever before, both in aggregate and on a per user basis. Daily active user growth remains solid, with 173 million people using Snapchat every day on average during the quarter, an increase of 4.4% from Q1. User growth was especially strong in North America, with 4 million net additional users since last quarter. We also reached an important milestone in our core markets, with over 25% of smartphone users in the U.S., U.K., and France now using Snapchat every day.

Monetization is also progressing nicely, although we are still in the very early stages as we continue to build out our self-serve and programmatic infrastructure. Quarterly revenue increased 153% year-over-year to $181.7 million. Adoption of our ads platform is increasing, with more than half of all Snap Ad impressions delivered through our self-service platform and our API this quarter. As our automated capabilities improve, we are running more campaigns from more advertisers, resulting in a greater variety of ads on our platform. This enables us to build a robust auction and drive more relevant ads, yielding better results for our advertisers and a better experience for our community. Additionally, this auction allows advertisers to optimize their campaigns across our inventory to achieve their specific objectives, further increasing ROI.

At the heart of this growth in engagement, daily active users, and revenue, is the creativity of our community, which is one of the things that makes Snapchat so unique. Each one of our daily active users creates over 20 Snaps per day on average to express themselves and communicate with their friends. The best part of working at Snap is leveraging the creativity of our community to build new products like Maps, Search, and Memories where we empower Snapchatters to do more with what they create.

We've found that the best way to grow our business is to build products that inspire our community to create Snaps, like Lenses and Creative Tools, and provide new outlets like Custom Stories, and Maps, so that our community can share their creations with their friends. When we are able to do both of these things well, we create a virtuous cycle where our community both creates and views more Snaps.

This quarter, we continued to invest in empowering creativity with new Lenses and Creative Tools.

To date, we have focused primarily on front-facing camera effects that augment selfies, but this quarter we announced a product designed specifically for the outward facing camera on smartphones. We call this product World Lenses, and we've worked hard to build the underlying technology to recognize the world and render interactive objects and experiences on top of it. It's early days, but we've had so much fun watching our community interact with World Lenses. Our dancing hotdog is most likely the world's first augmented reality superstar, viewed over 1.5 billion times in Snaps created by our community.

We released several new Creative Tools for our community to express themselves and have fun. People can now create custom stickers, use a magic eraser to remove an object, add a playful backdrop, or alter the background color of their Snaps. Creative Tools are particularly important on our platform because we want to empower people to express themselves and communicate visually, instead of simply taking a photograph. We have found that when we offer more Creative Tools, our community creates more content.

With so many Snaps created every day on our service, we want to make sure that our community has many different ways to share their Snaps both directly with friends and more broadly with the public. We launched Stories in 2013, and have constantly iterated on the product as engagement has grown over the years.

We created a new type of Story this quarter: Custom Stories. Custom Stories are perfect for occasions like parties, vacations, and weddings when you want to collaborate on a Story with a specific group of friends, or around a specific location. We've had so much fun watching Stories created by our friends for their own special events!

This quarter saw more Story Snap views than ever before, both in aggregate and per user--not only with regards to user generated content, but also premium content provided by our partners. There are more people watching more Publishers Stories than ever before, with Publisher Story Views increasing 30% quarter-over-quarter, and we continue to evolve our celebrated Stories format to serve the demand for different types of mobile content experiences.

One example of this evolution is the growing popularity of Shows on Snapchat. We are working with a growing number of partners that are embracing this mobile storytelling format, doubling the number of new Shows premiering on our service this quarter compared to Q1. The engagement around Shows is particularly exciting. For example, Phone Swap, a new show created through our joint venture with Vertical Networks, would often see over 10 million viewers for a single episode, putting it on par with some of the most popular shows on television. The success of Shows is already extending beyond our service. Phone Swap is getting picked up for television and The Voice on Snapchat was nominated for an Emmy award. We can't wait to see how Shows continue to evolve.

This quarter, we also launched Snap Map, a whole new way to see the world. Snap Map isn't a traditional map designed to get you where you're going, it's a new type of map for figuring out where you want to go. Since the launch of Snap Map, content submitted to Our Story has increased 30%, demonstrating that providing new ways to distribute Snaps further incentivizes our community to create more Snaps and contribute their point of view.

Memories is another great example of how we have been able to methodically expand upon the Snap creation and consumption experience in Snapchat. Historically, Snapchat was always known, at least in part, for the ephemeral nature of the content on our service. Recently, however, we have been pleased with the growth of our Memories product that allows our community to save their creations and share them at a later date. Now, over 250 million Snaps are saved to Memories every day, creating a great foundation for products that make it easy to reminisce. It's always fun to look back on some of our favorite Snaps, and we believe that Memories will become an even more important part of the Snapchat experience in the future.

We've seen great traction with many of our new products, from Lenses and Creative Tools that inspire Snap creation, to Search, Maps, and Memories that provide new ways to view Snaps. Although many of these products are in their infancy, we should be able to improve them quickly as our community adopts them and lets us know how we can better serve their needs. We love that our community continues to experiment with and embrace new products, and we are excited that these new behaviors are driving more engagement on Snapchat.

We continued to make progress on Android performance this quarter, and we've been able to address of most of the low hanging fruit that we believe has impacted the customer experience. The remaining performance improvements will come from larger structural changes to our service that will take some time. This quarter we focused on building systems and processes to ensure we can maintain quality and performance over the long-term. We've defined key customer-facing metrics that we believe directly impact use and engagement, and we are working hard to improve them and, at a minimum, reach parity with our iOS application. We're still in the early stages of making these improvements, and I would estimate that we won't begin to see the meaningful results of these efforts until the second quarter of next year. This is an unfortunate side effect of the fast pace of innovation that prioritized product execution over the architectural integrity of our software. We've made some great additions to our team this quarter who can help us move as quickly as possible to improve the quality and performance of our service and we're looking forward to making more progress. We're committed to delivering a fantastic Android experience for our community.

As a final note, given the amount of speculation around the lockup expiration, I feel it is important to note that Bobby and I will not sell any of our shares this year. The company will withhold the shares needed to satisfy RSU tax withholding obligations. We believe deeply in the long-term success of Snap.

Thanks again for joining us today. I'll now turn the call over to Imran and Drew for some business and financial highlights.

Imran Khan: Thanks, Evan. We made great progress this quarter on the monetization side. Advertising revenue increased 146% year-over-year and 25% quarter-over-quarter. Our community grew to an average of 173 million Daily Active Users. This growth was primarily driven by users in the US and Canada, with over 40% of our net adds in Q2 coming from these countries. Today, we have over 69 million Daily Active Users in the US and Canada, which are two of the most monetizable markets in the world. Together, these two countries represent half of all global mobile advertising spend. Our traction in core markets like the US and Canada puts us in a great position as we scale our monetization by allowing advertisers to leverage our platform's reach. For example, an advertiser wanting to reach 13 to 34 year-olds in the US could access our publicly available Ad Manager tool and reach 75% of the total US population in that age group over the course of a multi-week campaign.

As Evan mentioned, we are seeing incredible engagement from our community which is very exciting for our advertising business. For example, Story Snap views are higher than they've ever been before. This is important because it generates more inventory, and we know advertisers have demand for compelling formats like our full screen video Snap Ads. An average daily active user that plays with Lenses spends over three minutes doing so daily, creating a unique opportunity for advertisers to get lots of engagement with a Sponsored Lens. These strong growth and engagement trends from our community will allow us to keep scaling our advertising business in the future.

We remain focused on the 3 key areas that I outlined last quarter: 1) enhancing our ad offerings for both brand and DR advertisers, 2) developing efficient tools for our advertisers, and 3) proving the effectiveness of our advertising.

First, enhancing our ad offerings. Building ad products that solve a variety of our advertiser's business objectives is a key priority for us. Over 75% of the Top 100 Ad Age Leading National Advertisers spent on our platform last quarter. And what's more important, our existing customers are spending more money with us. In fact, revenue from advertisers on a parent level that spent with us in the first half of 2016 grew 142% year-over-year during the first half of 2017. Despite significant investment growth by our existing partners, we still have a lot more room to grow. The recent launch of our self-service platform will help us not only tap into additional spend from our existing advertiser base but also onboard long-tail and mid-tail advertisers. We expect this combination of increasing spend by existing advertisers and increasing our advertiser count will help us drive solid revenue growth in the future. This quarter we also expanded our global capabilities with our ads now available in 10 additional countries including Hong Kong, India, and

Israel. With this expansion, our advertisers can reach users in 39 different countries.

I'd like to share an example of how we've worked with one partner, Time Warner, to become a larger part of their strategy. Time Warner was an early adopter of our platform, who went from experimenting on our platform to scaling their investments across all of our products and offerings.

On the advertising side, we've worked with their movie studio, Warner Brothers, on 48 movie releases since 2015. Most recently, we partnered with them on the release of Wonder Woman. We helped them reach Snapchatters in 26 countries globally. They used a multi-product approach to drive great results, including Geofilters, Lenses, and a Snap Ad Web View attachment with a custom built game. On average, Snapchatters spent nearly 1 minute engaging with this ad. Overall, the campaign was highly effective - more than half of Snapchatters exposed to both the Snap Ads and Lenses said they were likely to see the film in theaters.

On the content side, two of Time Warner's companies, CNN and Bleacher Report were among our first publishers when we launched Discover in January 2015. We worked closely with them to create engaging and effective content for our community. Both brands have seen great success to date. On Snapchat alone, CNN and Bleacher Report have global monthly audiences of over 12 million and 16 million, respectively.

It's also important that we offer ad formats to help solve direct response objectives. I want to talk about the progress we've made here, which we are very pleased with. Here are two examples of how Snap Ads with Attachments, our direct response product, continues to perform well.

First, The Economist used our Snap Ads with Attachment product to launch their first UK campaign in June. The campaign was a huge success. The average cost-per-lead on Snapchat was £10.28, compared to £62 on display – a 6x more efficient cost-per-lead than their other marketing channels!

Second, Aaptiv, an audio fitness app, also used our Snap Ads with Attachment product to drive installs by high quality users. With this campaign, we were able to deliver users at a 30% lower CPI than their other channels. But Aaptiv wasn't just looking for the lowest price, they were also looking for strong engagement. That is why we are thrilled that the users they acquired were highly engaged with Aaptiv's audio workout programs.

Another area that we continue to invest to allow advertisers to reach exactly the audience they want to reach.

For example, a theme park looking to advertise to both parents and young adults can leverage several of our targeting capabilities to ensure they reach the most relevant audience. They can use a combination of our native targeting capabilities, called Snap Lifestyle Categories, to reach "Family Travelers," as well as our third-party data to reach "Family Vacationers." This allows them to reach more than 8 million Snapchatters in the US. They can also narrow in on married moms over the age of 35 who control household budgets, an audience segment that we call "Moneyminders," and reach over 4 million Snapchatters with real buying power.

We are very excited that we can offer lower prices combined with high engagement–-a winning combination that continues to drive our advertising business.

The second area that we remain focused on is developing efficient tools for our advertisers. In order to scale our advertising business, we need to make it easy for any and all advertisers to buy on our platform.

60% of Snap Ad impressions are now being delivered programmatically, more than double from last quarter. Because we are still in early stages of monetization, we are focused on on-boarding as many advertisers as possible. Advertisers can bid for desired business objectives like App Installs or Video Views, and our platform will optimize that delivery in real time. Increasing automation on our ads platform is driving better ROI for our advertisers. In fact, for our App Install advertisers, the average cost per App

Install has decreased 80% since the launch of our auction. Over time though, we expect the auction dynamic and increased demand to drive up pricing levels. Our focus in the coming months will be making it even easier for advertisers to find exactly what they are looking for on our self-service platform.

And finally, the third area of focus is further proving the effectiveness of our advertising.

Over 90% of retail transactions still happen in physical stores. Advertisers are very eager to measure the effectiveness of their digital spending in the That's why in June, we announced the acquisition of a location-based analytics and ad measurement company called Placed. With Placed, we will be able to measure activity such as store visits and offline purchases that prove digital ads are driving real value for advertisers.

Placed is one of many measurement partners that we work with, including Nielsen, Oracle Data Cloud, Neustar, Millward Brown, Moat and several others. We are committed to working with the best third-party measurement companies to provide transparency to our advertisers.

Our investments in creating an offline sales measurement ecosystem are paying off. I would like to share measurement results from three different industry categories that show our advertising is driving profit for our customers. First, in the retail apparel category, Snapchat drove a ROAS, or return on ad spend, that was 2.7x the average ROAS across all online and offline media spend for the category, as measured by Neustar MarketShare. Second, in the movie theatrical release category, Snapchat drove a ROAS that was 5.1x the average ROAS for all media spend, as measured by Neustar MarketShare. Third, Snapchat drove an average ROAS of $3.53 across 16 Consumer Packaged Goods campaigns. This outperformed the average ROAS of $2.58 for mobile advertising campaigns for Q4 2016, as measured by Nielsen Catalina Solutions.

We're very pleased with what we've accomplished in the first half of the year. Looking ahead, we're going to stay focused on scaling our advertising business and investing in the right areas to succeed in the long-term. Thanks everyone for the time, and now I'll hand it over to Drew.

Drew Vollero: Thanks Imran, and good afternoon everyone.

Our second quarter results featured growing revenues and expanding gross margins with continued investments in people and acquisitions.

In the quarter, we made strong progress against our three financial goals, which are designed to pave our path to profitable growth and prioritize strategic investments along the way. As a quick reminder, we are focused on executing these financial strategies: first, driving both revenue and ARPU growth while expanding gross margins; second, moderating capital intensity to ensure strong EBITDA to Free Cash Flow conversion; and third, investing in front of house resources and M&A to build rapid scale in innovation and monetization.

Let me build on incremental revenues and growing gross margins. In the quarter, revenues grew 153% year over year, to $181.7 million and grew 21% sequentially. Looking regionally, revenues in North America were $147.6 million, up 126% year over year and 15% sequentially. Revenue outside North America showed nice progress. Total international revenues were $34.1M or 19% of sales, up from 9% a year ago and 14% in Q1.

Looking across the product line, revenue from both creative tools and Snap Ads increased year over year and sequentially.

In the quarter, revenue increases were driven by substantial gains in ad impressions partially offset by lower Snap Ad pricing. Impression gains were higher for both creative tools and Snap Ads. As Imran noted, more than half of Snap Ads were served via auction, more than double from last quarter. The mix shift fueled solid growth in Snap Ad impressions, but this mix shift also resulted in lower Snap Ad blended pricing as we moved selling reserved inventory at set prices to selling unreserved inventory at auction rates. Our goal over time will be to drive Snap Ad pricing higher through strong auction participation and improved targeting.

Across the company, Snap-sold revenue was $164.8 million, Partner-sold revenue was $11.5 million and other revenues were $5.4 million, substantially all of which was driven by Spectacles.

Average Revenue per User, or ARPU, was $1.05 in the second quarter, up from $0.50 a year ago, and from $0.90 in Q1. North America remains a leading indicator for the potential of the business, and North American ARPU was $1.97, up 85% vs last year and up 9% in Q1.

Consistent with our first quarter strategy, gross margins grew nicely in the second quarter. Please note that when I discuss expense figures and gross margins, they will exclude Stock Based Compensation and related payroll taxes as well as Depreciation and Amortization.

Gross margins grew to 19%, up 5100 basis points from a year ago and 1400 basis points sequentially. Gross margins benefitted from three key drivers: first, strong profit flow through from incremental ad dollars; second, stable hosting costs per user; and third, cost leverage on revenue share expenses. In the quarter, user engagement, time spent, snaps created, and other metrics grew nicely, but our engineering savings initiatives nearly offset all of those cost increases. Sequential user hosting costs rose slightly from $.60 cents in Q1 to $.61 cents in Q2. Additionally, revenue share expenses fell sequentially from 16% of sales to 13% due to the expanded monetization of products without revenue shares, such as My Story.

Overall, the scale potential of our financial model is starting to take shape. Measuring year over year, we've seen over 50% flow through in our incremental sales to gross margin dollars, but sequentially, we saw an 83% flow through in the quarter as a $32.0 million dollar increase in sales drove $26.7 million dollars in incremental gross profit.

We made good progress against our second financial strategy, which is to moderate the capital intensity of our business. Our primary lever remains our cloud hosting strategy where we rely on partner expertise, scale, and capital to serve our customers. We continue to see both competitive costs to serve at $.61 cents in Q2 and a competitive advantage on capital spending. Capital expenses in the quarter were modest and consistent at $19.4 million, primarily driven by facility expansion to support our growing organization. For the last 12 months, our CAPEX was $75 million, which is less than 50 cents per current user, well below many other companies.

We made good progress on our third financial strategy, which is to make investments in front of house resources and M&A to rapidly scale innovation and monetization.

In the quarter, headcount grew from 2360 to approximately 2600 including acquisitions. 90% of new hires were in engineering and sales, similar to Q1.

Overall, operating expenses increased 17% sequentially to $228.7 million due to higher personnel costs. Annualized cost per employee were pretty consistent but up slightly versus prior periods at $351 thousand dollars

We also made additional investments in M&A, which the company will do selectively. During the quarter, we spent slightly more than $200 million in cash with some other performance considerations. In his remarks, Imran spoke to the strategic benefits of our recent acquisition of Placed. Please note that company was acquired in July, so we will reflect that acquisition in our Q3 financials.

Overall, Net loss was $443.1 million for the quarter, which included expected stock-based compensation expense and related payroll taxes of $242.4 million.

Adjusted EBITDA loss was $194.0 million, compared to a loss of $188.2 million in Q1 2017 and a loss of $105.1 million in the second quarter of 2016.

We remain in a strong cash position. Cash and marketable securities at the end of the second quarter was $2.8 billion.

As of June 30, 2017 total shares outstanding were 1.181 billion and 1.446 billion on a fully diluted basis.

Recently, with the expiration of the lock-up, RSUs vested were settled for employees between March 2, 2017 and July 29, 2017. As a result, we withheld from employees approximately 7.8 million shares or around $105 million based on the July 28, 2017 closing price. The tax payments were funded from cash on hand. These shares are no longer considered outstanding for accounting purposes. As future employee shares vest, we will periodically evaluate this net settle share strategy.

As we move forward, we want to share thoughts on the balance of 2017:

With respect to the seasonal trajectory of advertising revenue in the prior year, our Q3 2016 results benefited from demand related to the Summer Olympics and Elections. Normalizing for that increase, our revenue grew $39 million from Q2 2016 to Q3 2016.

For hosting expenses, we experienced a substantial increase in time spent late in Q2, coinciding with the Maps product launch. Increased time is a strategic benefit for our business, but we pay more for additional usage. Late in Q2, costs per user increased around 10% or so vs Q2 run rate.

Finally, our Q2 hiring pace was slower than recent quarters. In the short term, we plan to apply a similar approach and pace as we focus organic hiring primarily on engineering and sales, but keep in mind hiring can be lumpy quarter to quarter. Future acquisitions will likely be additive to the current pace.

With that, I will now turn the line back to the operator to open up the call for questions.

Operator: We will now begin the question-and-answer session. To ask a question you may press star, then one on your touchtone 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.

Our first question comes from Lloyd Walmsley with Deutsche Bank. Please go ahead.

Lloyd Walmsley: Thanks for taking the question, two, if I can, one on Ad product and one on engagement. First on Ad Product, wondering what you're seeing from the ramp in API buying, the rollout of self-service, and just better measurement in targeting; are you seeing a real tangible response from these tools such that you think you can kind of scale meaningfully in the second half from your largest advertisers?

Then second one, maybe for Evan, with the new product rolling out across Search and Maps, wondering if you can elaborate on what kind of uptake you're seeing here, whether this is driving really more engagement or DAU growth. I think Drew, you just indicated engagement really picked up recently; maybe you can elaborate on that. Thanks.

Imran Khan: Hi. Thanks, Lloyd. I'll take the first question and Evan will take the second. We are very excited about the traction we saw from our self-service and API. Just to remind everyone that we launched our API in October and self-service was launched in Q2 and we're already seeing in Q2 60% of all Snap Ad buying--Snap Ad impressions--is what's delivered through our self-service and API platform. That's quite an accomplishment for us in really such a short period of time. We're also seeing that our direct response advertisers are seeing great traction, so as our brand advertisers—in my prepared remarks I talked about how costs per install had decreased 80% since the launch of our App Install business, so we're very, very excited and we think there's a great opportunity to scale the business as we brought in more and more advertisers on the platform.

Evan Spiegel: Yes. To your product question, we're actually super excited about Maps. It's early days. I don't have any additional metrics to share beyond what I mentioned earlier, but I think the most important thing for us, as it pertains to Maps, is introducing this concept that Maps can be used for discovery and not just for directions, and so we're really excited that people are using our Map to learn about the world.

I think the other thing that's important to note is that Maps is a great example of how we can use all the different unique pieces of Snapchat to make totally new products. For example, Maps combines our intimate friend graph, Bitmojis, and also Our Stories and all the Stories submissions from all over the world to create a product that's obviously very complex, but, yet, really simple to use. So, I think Maps is a great example of the innovation that really leverages the product foundation we've built over the years.

Lloyd Walmsley: Thank you.

Operator: Our next question is from Ron Josey with JMP Securities. Please go ahead.

Andrew Boone: This is Andrew Boone on for Ron. Thanks for taking our questions. Can you guys help us understand engagement with Search on Snapchat now that we're six months into the product? Then with the Snap Certified Partners program that you guys announced in June, how are you guys balancing that with the salesforce? Can you just help us understand the channel conflict and how you guys are doing with that? Thank you.

Evan Spiegel: Yes. Again, I think early days on Search. People are learning that they can search for Stories and not just their friends. The pre-type experience that we have when you tap into Search is a really important part of that learning process and I think we're getting better at showing really interesting content depending on who you are on that page. So, if you're interested in baseball, you see a bunch of baseball Stories and it also teaches this concept that there's a Story for everything. So early days there, but I think it's a great opportunity.

Imran Khan: With regards to our channel conflict, we view our salesforce as a consultant for our partners, so their job is to educate the market how to buy ads and how to leverage our platform to deliver the real ROI for them, and we want to make it incredibly easier for them to buy ads on our platform however they want to. They can buy directly through insertion order, or they can use our Certified Partners, or they can come to our self-service platform and buy through that. I think our salesforce gets credit regardless of how the client buys on our platform, but their job is to educate the market and solving the client's business problem, which they're doing a great job.

Andrew Boone: Thank you.

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

Brian Nowak: Thanks for taking my questions. I have two. The first one on the ad monetization, just curious if—I know it's very early in the monetization, but could you just talk about some of the main points of friction you still think you have to remove to draw more advertising dollars on the platform, and specifically around the API and the self-serve, just talk to what you have to change to really drive faster growth there.

Then the second one, Evan, could you talk about some of the structural changes you think you still have to make to improve the Android product over the next year? Thanks.

Imran Khan: Yes. I think, first of all, I think it's important to recognize that we launched the self-service in Q2, and so I think we're still very early days. But I think a few things we have to work on. Number one, onboard more advertisers - make it even easier for people to buy on our platform. Now people can buy a static image ad on our platform and other kind of things. The third thing is we need to train people how to leverage our platform. Ever platform is different, and what works in one platform doesn’t necessarily works on other platforms, so working on the education process. Those are the few things that we're working towards. As you saw, we on-boarded quite a significant amount of Certified Partners on our platform, and we continue to do so. But, I think we're pretty happy with what we have seen so far on our self-service platform.

Evan Spiegel: Yes. I'm hesitant to get sort of deep into the weeds of the technical stuff, but I can give sort of a simple example. We started testing this migration last week, migrating our Android application from a TextureView to a SurfaceView. It sounds sort of obtuse, but it makes a huge difference in performance, swiping, camera start, the frame rate of the camera, and that's an example of just sort of larger structural change. There's a number of changes we're making around threading in the application which should make a difference, but, again, this involves coordination across the entire platform, and so it sort of necessarily takes longer.

Brian Nowak: Okay. Thanks.

Operator: Our next question is from Scott Devitt with Stifel. Please go ahead.

Scott Devitt: Okay. Thanks. Thank you. Imran, one for you and, Evan, one for you. First, one, as the Ad platform continues to be built out, it does seem like the business potentially reaches these points where it can have monetization inflection and ARPU expands very quickly in a short period of time. I was wondering, Imran, if you can just explain whether there's any validity to that assertion on my behalf, and if so, what are the signposts we should be watching for in terms of products that you've discussed on the call or otherwise in the Ad business to look for in seeing that over the next 6 to 12 months?

Then secondly for Evan, we'd just be interested in how content density of location-based pictures or the discovery feature ramping in Maps, how that is changing the way that users are posting content to make content more publicly available into discovery features like that. Then finally, without giving away specifics, Evan, how do you feel about the product pipeline for the rest of the year? Thank you.

Imran Khan: Yes. Scott, on your first question, you are absolutely right and we feel the same way. I think if you look at our business, there are multiple drivers. We started our business focusing on large advertisers and we're pleased with the traction we've been seeing. I talked about how on a parent level, advertisers' spending on our platform grew 142% year-over-year during the first half of 2017 compared to first half of 2016. One of the big friction points for many advertisers to buy ads on our platform was they wanted self-service platform access, and we launched the self-service platform and we are transitioning our Snap Ad buying to our self-service platform, and we talked about 60% of Snap Ad impression buying happened through self-service and API.

But as we bring in more and more advertisers on an auction platform, that will be a significant driver for our growth on our platforms, so there's a lot of small business and medium-sized business that we need to onboard and that will drive significant growth for that. So, I think what I'm really, really excited about, and what you should think about is that continued progress in the self-service and our progress on bringing these SMB businesses on our platform.

Evan Spiegel: As it pertains to Maps, obviously I mentioned the increases in submissions to Our Story, which is the publicly available content, following the release of Maps, and I think that's just an example of this virtuous cycle where people, when they submit their Snaps and they see that it's being viewed by folks all over the world and then they see that view can go up when we release products like Maps, I think it's sort of self-fulfilling, so very excited about that and sort of excited to continue to expand on these different outlets for creativity for folks on our service.

You mentioned sort of the broader product pipeline, very excited about that and it's what we love to do over here, so we're having a great time.

Operator: Our next question is from Ross Sandler with Barclays. Please go ahead.

Ross Sandler: Great. I had two questions on ad seasonality and on Discover. Drew, just to follow-up, you said that last year in 3Q we had the Olympics and the election. Currently the street expects about 50% quarter-on-quarter growth in the third quarter and you just did 21% in the second quarter, so given that we won't have seasonality or we won't have the Olympics and election, can you speak to that 50%, how comfortable you feel about that?

Then based on our math, Discover revenue was flat quarter-on-quarter at around $60 million, so can you just talk about where the ad-load is in Discover and, if that math is correct, where the acceleration is happening between Stories of then the Filters, Lenses on the left-hand side of the app? Thank you.

Drew Vollero: Thanks. I appreciate the question. Look, a couple of levels here. We don't get into the sales forecasting business, so what we try to do is give you visibility to the comp from last year. We grew last year revenues from $71 million in the second quarter last year to $128 million in the third quarter of last year. We did have a nice benefit from the two things that I called out, with the summer Olympics and then also we had a little bit of an election bump as well. If you normalize for that, that gain was more like a $39 million gain, so you can get a sense on sort of the size of that bump in the quarter. So, we thought that would help provide some perspective as you think about sales in the back half of the year.

As it relates to where the advertising is being placed, it's hard for me to comment on a particular product line. I will say, though, that we certainly had a lot of success with Snap Ads, broadening them across the platform. You can see that in our revenue share expenses. Our revenue share expenses fell 300 basis points and that really was just advertisements being placed more on places where we don't have revenue share agreements, like Custom Stories. Anyway, that was really the way you could put those pieces together. But, overall, we saw a good breadth of Snap Ads across both the Discover platform and the My Story platform.

Operator: Our next question is from Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson: Thanks. I'm following up just—I think it's interesting on Ross' questions, one for Imran on seasonality, and one for Drew on the same question of revenue share expenses. Imran, you said in May at the JP Morgan conference that we should consider the Company more like we look at an agency or a television company, and there's seasonality—3Q to 2Q, 2Q to Q1. Given your mix is changing in 2Q, is that comment still valid or do you think that we're going to see seasonality that looks more akin to maybe some of your bigger digital peers?

Imran Khan: Yes. I think we are still early. I think if you look at our big-brand business, it's two years old and our self-service business, it was just launched in Q2. While we're very excited about the traction we're seeing and the growth we're seeing, but it'll take some time to get the equilibrium, and so it'll take some time. So, over the years, yes, seasonality will be more and more muted in the business, but it'll take some time.

Michael Nathanson: Okay. Then for Drew, going on Ross' last question, what can we learn—if we look at the last three quarters on Page 6 on the revenue share cost, it's been flat. I know you've done a good job of finding other places to monetize, but what can we learn more broadly about the flatness there; what's going on, and underlying maybe usage trends or just selling against whatever that is Discover, I guess, the past three quarters?

Drew Vollero: I think the big thing to remember about Discover at a high level is it's a good partnership between the Company and the publishers. That business works because both sides of the equation make money. I think we continue to slide an awful lot of ads within the Discover platform. I think the difference over time has really been broadening other avenues for distribution outside of the Discover platform, and so really what you're seeing is that the revenue gains are being placed sometimes on different platforms.

There's a little bit that I talked about in the first quarter call as well where we restructured a couple of agreements to be sort of more fixed-fee arrangements, so there's a little bit of something in that as well, but for the most part, really the ability to leverage that expense has been our ability to put advertisements outside of the Discover partnerships as we grow. But first and foremost, the Discover partnerships, we believe, are a long-term partnership and it's important that both sides, both the publishers and the

Company make money doing that, and that's really what we're focused on first and foremost.

Michael Nathanson: Okay. Thank you both.

Operator: Our next question is from Doug Anmuth with JP Morgan. Please go ahead.

Douglas Anmuth: Thanks for taking the question. First, you talked about more than 50% of the impressions, I think, coming from the auction and just that it means lower price in app ads, right, as the auction is dragging it down. Now that you have more market-based priced discoveries, is there further risk to Snap Ad as pricing in the near-term, and how does that change or alter your direct sales efforts if it does? Then, secondly, Drew, is there anything that you can talk about just on 4Q? It certainly seems like the NFL and holiday should return, so I don't think there's anything abnormal there, but anything to call out as we look deeper into the year? Thanks.

Evan Spiegel: Yes. Imran mentioned over 60% of Snap Ads were purchased through our auction, which is more than double last quarter. We believe overall that the transition to a bidded auction is the best way to grow our business over the long-term, but you're right; even though pricing is lower in the short-term, as we on-board more advertisers. I think lower pricing is an important driver of growth at this stage, especially in the short-term because it provides incentives for advertisers to get over the hurdle of having to learn how to use Snap, and given the dynamics that we're seeing in the industry and the marketplace where mobile ad pricing seems to be increasing pretty quickly due to limited impressions, we think that this offering of low prices and high engagement is really attractive to advertisers and, hopefully, as we're saying, will incentivize them to onboard quickly and take advantage of this.

Drew Vollero: As it relates to your second question, I think you're thinking about the right key drivers seasonally in the fourth quarter of 2016. Revenues went from $128 million to $166 million. Our drivers really were, at that point, the holiday bump that you get. We do have, as you mentioned, strong partnerships with both the NFL and college football. Their strongest parts are really in that fall season as well. So those were really the two key big drivers. We did have a little bump from an election standpoint, but not enough to call out, but those are really the two key drivers. We do think there will be a Christmas and our deals with both the NFL and college football are even deeper partnerships this year, so I think we'll look forward to the fourth quarter.

Douglas Anmuth: Okay. Thank you both.

Operator: Our next question is from Mark May with Citi. Please go ahead.

Mark May: Thanks for taking my questions. Appreciate it. Another one along the lines of the auction dynamic and how it impacts pricing; just given how quickly the self-service platform has ramped, would you say that the bulk of the pricing pressure that you'll see on the overall business will be largely behind us by the end of the year, or is this something that will likely continue to be a headwind for a bit longer than that?

Then another question; your monetization relative to your public peers' is significantly lower. One of the questions that we get is out of the significant daily usage that you have on the platform, how much of that is spent doing things that might be more difficult to directly monetize versus activities where you have a real opportunity to monetize? Thanks.

Imran Khan: Yes. I think on your second question, I think if you go to our self-service platform, you can see that a significant portion of our DAU is actually—you can reach them through our self-service platform, so it's a fairly monetizable audience space. The fact that we don't do growth hacking like modification and things like that, our users actually come to our platform on their own and they spend a lot of time on it, and that makes us great opportunity to monetize them.

With regards to pricing, look, we don't want to get into the guidance, but one of the things is that we are super excited with the kind of ROI that some of our advertisers are seeing on our platform. We are only two years into monetization and we want to onboard as many advertisers as possible on our platform and deliver incredible ROI for them, primarily in an environment when there's not enough mobile video inventory on the marketplace. So, we're thrilled with where we are with that.

Drew, I don't know if you want to add anything.

Douglas Anmuth: Imran, just to clarify your first answer, I wasn't talking about the total users that can be monetized. I was talking about the time that they spend of that 30 minutes plus; how much of that time is spent in activities where you can naturally monetize that activity, that time spent.

Evan Spiegel: Yes. This is Evan here. I think there's an important thing to understand about our business. Obviously, we monetize creation with our Creation Tools and then that fans out into communication and into our Stories products, and so in that sense, the communication products and the Stories products create the audience for the Creative Tools. Then, obviously, we monetize Stories with Snap Ads. So, I think you're seeing the behavior across the platform being monetized. Again, as Imran's mentioned, very early stages, but we are monetizing the engagement across the service.

Douglas Anmuth: Thanks.

Operator: Our next question is from Eric Sheridan with UBS. Please go ahead.

Eric Sheridan: Thanks for taking the question, maybe two. One, going back to the auction dynamic, is there any sense you can give us about the pace of growth of breadth in the advertiser base over the last 12 months and how you see that trending over the next 12 months, so we can get a good sense of some of the tailwinds around the base of advertisers that are coming into the platform?

Second, one of the big areas for hiring within ad salesforce, Imran, I wanted to know if you could give us an update on efficiency in the Ad Sales team, how that ramps, and what that might mean for tailwinds in the business over the next 6 to 18 months as people get up to productivity. Thanks.

Imran Khan: Yes. On your first question, I think we're seeing more and more direct response advertisers that come into our platform, and now that we have self-service, that was one of the biggest asks when we talked with them, what they wanted to see from us. They are coming to our platform and they're seeing great results and we're pretty pleased with it, and we continue to optimize it. I think we launched self-service, again, in Q2 and we're seeing a good start and I'm very excited what's possible in terms of number of advertisers onboard on our platform.

With regards to sales efficiencies, I think as Drew pointed out, that in Q2 our headcount growth rate moderated significantly. A big reason is moderation in sales and marketing organization. I think you will see that—we should expect to continue to see improved productivity out of our sales organization as we roll out all of these efficient buying tools for our advertisers. I think that will be a growing trend going forward.

Operator: Our next question is from Jason Helfstein with Oppenheimer. Please go ahead.

Jason Helfstein: Thanks. I just kind of want to dig into kind of scale versus measurement. How much of the friction on the advertiser's side is because advertisers want to run more of a display ad that they're running in other platforms as opposed to a more engaging video ad that you guys tend to prefer; then whether those video ads need to be custom-created as opposed to the advertisers who are just looking for more and different measurement that you don't offer? Thanks.

Imran Khan: On the measurement side, I think we made quite a bit of progress. I think the vast majority and a significant portion of advertising that happens on the platform and the dollars that people spend, there is a measurement attached to it, so I think advertisers have seen good ROI from that. I gave quite a few examples with Nielsen Catalina or Neustar, the kind of ROI that advertisers are seeing from our platform. We now have more than 15 different third-party partners that we are partnering with on our platform, providing a transparency to advertisers. We are incredibly committed to providing transparency and I think the kind of results that advertisers are seeing on our platform, we want to celebrate them and we want to share that with other advertisers.

Can you repeat your first question please?

Evan Spiegel: Yes. I can take that. As it pertains to the creative, I don't think that's a barrier at all for big brands. I think people are seeing the value of full screen vertical video. It's pretty obvious across the industry. I think the barrier is definitely more of an issue for small businesses and direct response, which is why we created the Snap Publisher tool that we just released. It's pretty fun to play with, if you want to check it out. But you can see how easy it is to create vertical video from all of your existing assets, and so I think that'll be a really important part of on-boarding more advertisers.

Operator: Our next question is from Rich Greenfield with BTIG. Please go ahead.

Richard Greenfield: Hi. I've got two questions for Evan. Evan, on your first investor call—and, actually, Imran just mentioned it earlier as well—you have both spoken about how others use growth hacking to inflate DAUs and how it really hurts kind of the platform's relationship with users, yet we definitely, over the past quarter, have begun to see push notifications from Snapchat, essentially alerting us to one of our friends or one of our connections has published a Story; would you like to go see it. Wondering, despite Imran's comments earlier, has your philosophy on growth hacking begun to change?

Then, two, time spent on Snapchat and Instagram, based on the recent comments from Instagram, seems like it's fairly similar. My sense is there's very little direct messaging that happens on Instagram, implying that most of their time spent is actually content consumption. When you think about Snapchat's 30 minutes of usage per day, how much of that is actually Stories, including Discover versus basically communications? Thanks.

Evan Spiegel: Yes. On the first question, we've been sending notifications like that for Stories for friends since 2014, so I'm not sure why you're just seeing that now. On the time spent—I think time spent is definitely an interesting metric because unlike daily actives, time spent is zero sum. So, for us, in Q2 we saw over 40 minutes spent per day for users under 25, and over 20 minutes per day for users over 25, so I think that's some strong growth for us on the time-spent side. We don't break out Stories versus communication but I think the important thing is we've done a very good job innovating around monetizing communication. I think historically that's been challenging for folks, so we're really excited about the way we've monetized communication with our creative tools.

Richard Greenfield: Maybe just be clear: what exactly is the growth hacking that others do? If you sending push notifications is not growth hacking, what are others doing that you consider to be growth hacking and not real DAU growth?

Evan Spiegel: Yes. I think there are plenty of examples online, if you want to go for a google, but I think the most important thing for us is that when we're telling you about content on this service that is really highly relevant to you and from your very close friends, and I think people, as they become more reliant on push notifications, they sort of relax the standards there and I think it's important for our business.

Richard Greenfield: Thank you.

Operator: Our next question is from Mark Mahaney with RBC. Please go ahead.

Mark Mahaney: Okay. I'm just going to limit myself to one question. Evan, you talked about probably not seeing a meaningful impact from these Android innovations changes until the second quarter of next year. What does a meaningful impact mean? I think for Investors, they'd love to see some sort of inflection up in the rest of world DAUs, and maybe that was handicapped by the Android problems over the last year. So, is that what we should see; was that what you meant by a meaningful impact or just describe what you meant. Thanks a lot.

Evan Spiegel: Yes. Sure. I think for us, meaningful impact definitely—we definitely look at engagement. We'd really like to see Android users more engaged and I think a lot of that is focused on the camera functionality. It's really tough across all the different camera hardware on all these different phones and the different camera APIs, so we'd really like to see that improve and that takes a lot of work. Obviously, because our service is so focused on creation, that's something that's really important.

I think, just because you mentioned the rest of the world DAUs, I kind of want to take this opportunity to talk a little bit about that because I do think that the market continues to focus on Daily Active Users as a proxy metric for revenue opportunity, which is why we always encourage folks to look at the ARPU numbers in our industry across different geos. Just for some examples, looking at other folks in the industry, mobile advertising business as a comp, we'd have to add more than 10 million daily active users in the rest of the world for every 1 million daily active daily users in the U.S. and Canada in order to make the same amount of money. Obviously with 10 times the number of users, we'd also incur 10 times the hosting cost to make the same amount of money, so that would impact the cash flow profile of our business, I think, in a way that's just not appealing at this stage of our business.

I think if we look down the road a little bit over the next 5 to 10 years, many of the markets that today would post challenges to the structure of our business, will become more appealing as the mobile ad markets develop, mobile devices improve and reach parity, and faster connectivity becomes cheap and hopefully ubiquitous. At that point, we'll necessarily focus our growth efforts outside of the core markets.

I believe that Snapchat is one of about six platforms with over 150 million daily actives, outside of China, and the other five or so platforms are owned by two companies with an aggregate market cap in excess of $1 trillion. The reason why I say this is to illustrate that we've always been last to market competing against giant companies and we've historically been able to grow our business in markets that are highly competitive and saturated by our competitors because we're so focused on innovation. So, I think that explains why we're willing to take wait-and-see approach in markets like the rest of the world that don't make financial sense for our business at this point, but may make sense in the future. We'll continue to reevaluate our opportunities there and keep you posted.

Mark Mahaney: Okay. Got it. Thanks, Evan

Operator: This concludes our question-and-answer session, as well as today's conference. We thank you for attending today's presentation and you may now disconnect.