SNAP INC. Q4 2024 EARNINGS CALL Q&A TRANSCRIPT

QUESTION AND ANSWER:

OPERATOR
Our first question today comes from Doug Anmuth with JP Morgan.

DOUG ANMUTH, JP MORGAN
Thanks so much for taking the question. Can you talk about the early results around Simple Snap, now that it's rolled out to more than 25 million users? Are you seeing any differences across user geos, and how are you managing any user or advertiser budget disruption or impact associated with the rollout? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER
Hi, Doug, thanks so much for the question. We're definitely continuing to see encouraging testing results, especially with engagement metrics like increased content active days. So, we are seeing more casual users enjoy our content experiences more frequently.

I think there are sort of two big puzzle pieces that we're still working on as it pertains to the rollout. The first is migrating story ad demand, which was typically filled in those tiles on the stories page, migrating that to the in-feed or to our Sponsored Snap unit. And so that's going to be a priority on the advertiser side.

And then in terms of engagement, there's still a cohort of users who really come to Snapchat for our stories page, for the current tile-based layout, to the creators and publishers that they love. And we still haven't been able to claw back some of the engagement losses we're seeing with that cohort.

So, we're very focused on continuing to iterate there. We've got a number of ideas on how we can solve both of those pieces, and we're going to work on rolling those out in the coming weeks and months.

OPERATOR
Our next question comes from Rich Greenfield with LightShed Partners.

RICHARD GREENFIELD, LIGHTSHED PARTNERS
Hi. I've got two kind of high-level questions. You're the only mobile ad platform that's built a robust subscription business in Snapchat+. I think it's now like almost 10% of total revenues. And it's by far your fastest driver of growth. I guess, Evan, how should we think about the growth potential in terms of not just subscribers and ARPU, but what are the

features that you can add that would make this an even more meaningful product going forward?

And then given everything that's happened with DeepSeek and sort of China-based AI in terms of innovations over the course of the past couple of weeks, just curious how you sense the cost curve may be changing for AI and how that impacts the Snap cost structure over the coming year.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER
Hey, thanks, Rich, for the questions. Yeah. On Snapchat+, we're really excited about the progress there. And there's definitely been a lot of adoption, especially of our personalization features. People really like feeling like the app is made for them and changing its appearance or the icon, those sorts of things.

I think as we look at the roadmap for our feature development, one of the areas we're focused on is just the core engagement loop with Snapping and how we can make that more differentiated with Snapchat+ features. So that'll be a priority this year.

And I also think there will be room for some price increases. I think the annual plan here in the US is about $2.50 a month. And I think folks have indicated that they're getting a lot of value from Snapchat+. So that may be another avenue in terms of growing ARPU over the longer term.

As it pertains to DeepSeek, I mean, first, I would just say it's been really inspiring to see the innovation there. I think the founder made a comment along the lines of how capital is just not a long-term mode in the technology business, and the way that constraints really can drive innovation and creativity. And so that was definitely an exciting development for the industry. But I think it just further validates our view that a lot of these models are going to continue to become commoditized over time and, obviously, are going to become more and more efficient to run.

So hopefully, that will have some impact for us over the longer term. I think right now, we're just sort of in early experimentation phase with some of their open-source work.

OPERATOR
Our next question comes from Mark Shmulik with Bernstein.

LUIZA NOBRE, BERNSTEIN
Hey, this is Luiza dialing in for Mark Shmulik. Can you provide any color on what you've seen around engagement and advertiser behavior since TikTok went dark in the app stores? And hopefully, we'll get an answer one way or another on TikTok resolution soon.

But how does it affect the way you think about priorities for the year, and where do you expect to be most nimble? Will it be on Simple Snapchat?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER
Hi, Luiza. Thanks so much for the question. I think, some of the changes with TikTok, they've sort of been an imperfect experiment. So, we're not trying to draw too many conclusions from some of the engagement lift we saw when the app went dark for that brief period of time. I would say that the overall environment of uncertainty is benefiting our business.

I mean, certainly advertisers are very focused on contingency planning and diversifying their spend. And I think the same goes for creators who are really thinking hard about how they can build the most diversified engagement with their fan base across various platforms, including Snapchat. So, a big priority for us is really just helping make sure we support advertisers and creators during this period of uncertainty.

And for creators in particular, we've been spending a lot of time working on just improving that overall creation flywheel. And that's why we're seeing 40% increase in the number of creators posting to Snapchat.

And I think in Q4, we actually reached 1 billion public posts a month on Snapchat. So, the public content ecosystem is growing in a really nice and healthy way. And so, we're just going to continue our focus there when it comes to our strategy and prioritization.

OPERATOR
Our next question comes from Dan Salmon with New Street Research.

DAN SALMON, NEW STREET RESEARCH
Great. Good afternoon. Thanks for taking the question. Evan, I'd love to just dig into small and medium-sized advertiser growth more. You noted it was the biggest contributor to ad revenue in 2024 in the letter, and Snap Promote remains a big part of that.

Could you just talk a little bit more about what the team is doing to leverage that growth, helping them extend beyond Snap Promote, build full ad manager accounts and start to get a little bit more sophisticated on the platform?

And then, you talked a little bit last quarter about how that Snap Promote list goes sort of straight into the go-to-market team to help facilitate that. Any other initiatives that you'd highlight to help accelerate that growth or other ad products in general that you see that group really taking up strongly? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey, Dan, it's Derek speaking. I'll take that one. First, we are really pleased with what we're seeing with the SMB segment. It's been a big focus area over the last year. There's sort of a combination here of more performant DR ad products. The improvements we made to our go-to-market operations are specifically optimizing them for the SMB segment.

And then we've done a lot of work to simplify the ad buying experience, including elements that are automated, make it a lot easier for SMB advertisers to get started. Advertisers, in the SMB segment in particular, have benefited from our growing number of CAPI integration partners, including, for example, Snowflake, Datahash, Tealium and LiveRamp that make it really fast and easy to integrate and benefit from the improved performance that CAPI can deliver.

Snap Promote, as you noted, is also a key driver of the SMB advertiser growth. It makes it really easy for folks to get started right within the app, and this contributed in part to the active advertisers from the segment more than doubling year-over-year in Q4.

To build on this momentum, we've got a pretty robust roadmap of enhancements on the way for our SMB clients. Just as an example there, we'll be testing in Q1 our new smart budget optimization feature, which will automatically adjust campaign budgets across ad sets to deliver the best results for the advertiser. And so that's a big part of it.

You'll also note in some of our investments that we're looking at in the year ahead, not just the investments in product and to deliver the advertising roadmap, but also more resources specifically to help scale the SMB segment. So hopefully that gives you a little bit of color about what's been driving the success there and how we'll be investing going forward.

OPERATOR
Our next question comes from James Heaney with Jefferies.

JAMES HEANEY, JEFFERIES
Great, guys. Thanks for the question. What, if anything, is factored into your Q1 revenue and user growth guides as it relates to the rollout of Simple Snapchat? Is it fair to say we're just too early for that to be meaningfully impacting results right now, and – or that maybe it could kind of occur later in the quarter? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey there. Thanks for the question. As it pertains to the guide both for revenue and user growth and Simple Snapchat, there's really nothing material factored into either of those around Simple Snapchat. We're being really thoughtful, as Evan mentioned earlier, around

the testing and learning and some of the things that we're rolling out to sort of optimize that experience.

And so that's not really a big factor in how we're thinking about either the engagement growth or the revenue growth in the coming quarter. It's really about the momentum that we're seeing in the business both in terms of the momentum on the DR side overall, some of the SMB strength that I just mentioned earlier and the growth that we're seeing in the global community more recently. So hopefully that helps a little bit. And we'll continue to test and learn going forward.

OPERATOR
Our next question comes from Shweta Khajuria with Wolfe Research.

SHWETA KHAJURIA, WOLFE RESEARCH
Okay. Thank you for taking my questions. Let me try two, please.
The first one is just generally on verticals. Could you please comment on the overall demand environment as you see it for both across Brand and DR? And then anything that jumped out to you that was – in terms of demand trend that was specifically muted, trends that you saw or strengths?

And then my second question is on compute cost, and I think this was asked a bit earlier, but let me try it one more time. When you think about efficiency gains in your compute costs over the next year or two years or three years, how are you thinking about where you'd realize them the most and how are you positioned to realize those gains? Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey there. Thanks for the question. It's Derek speaking. On verticals specifically, what we're really seeing there is that we get the best results in verticals where we've really built out great product market fit.

So, if you think, for example, it's been about a year and a half since we rolled out the new 7-0 pixel purchase optimization, and that's been a very big driver of the DR business over the last year.

And we're seeing really good results in retail, CPG and health and wellness, with that particular optimization and, of course, broadening out from there. As we've been able to make progress on rolling out through testing and then general availability, some of the improvements to other optimizations, we see the product market did expand.

So, for example, we added a number of enhanced app-based optimizations around mid-year of 2024 based on our new sort of ML architecture and product stack. And we're seeing that work really well for more verticals.

So, for example, we saw more than 70% year-over-year growth with app purchase optimizations in Q4. And we're seeing that work for our gaming our retail, e-com and financial services verticals. And so, as we're able to make more progress and rolling out our improved ad stack against different optimizations, that really helps us expand the applicability of those to more verticals and make more progress.

On compute costs, I think what we've seen over the long-term is a couple of things really go our way there. Number one, our teams have been very good about innovating very quickly, getting products out to our community really quickly. And then based on what we see in utilization, being able to migrate between SKUs with cloud partners and to optimize our own codebase in order to use the infrastructure as efficiently as possible.

And I think what you're seeing is us being able to get better and better over time, and it allows us to move really quickly and then come behind ourselves and be more efficient. And it's one of the wonderful things about having a cloud first model is that you're not making these fixed commitments to infrastructure that are hard to then roll off from.

I think the other thing is that our own scale is helping us, and we've seen that through our own pricing improvements most recently. And as we're able to take advantage of really advanced SKUs early in the going, and then as we grow the scale on those and they become more commoditized, we're able to bring our rates down. And you're seeing that both in the Q4 result frame for DAU.

And of course, what we indicated, our estimate would be for Q1 as well. So, the key here is just to keep vigilant on that, to constantly be pushing for the best pricing in market, and to work with our teams to really optimize our code structure and SKUs that we're using over time in order to have the most efficient possible infrastructure stack. Thanks for the question. Much appreciate it.

OPERATOR
Our next question comes from Ken Gawrelski with Wells Fargo.

KEN GAWRELSKI, WELLS FARGO
Thank you very much. Two questions please on the ad side. First, kind of on the upper funnel Brand side, continued weakness there, could you talk a little bit about, from a category perspective, are you continuing to see pressure in the same category as you

talked about food and beverage in the past? But has that broadened out or is that roughly similar?

And where do you see the opportunities? Are there new categories that are potential opportunities there on the upper funnel Brand side?

And then the second one on the lower funnel side, nice progress on doubling the number of advertisers. Could you talk about just the typical ramp period for those advertisers in terms of getting to kind of what maybe a full run rate? Because the volume increases is great. The question is, should we see continued momentum there on the direct response side and on the lower funnel side from that volume increase? Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey there, Ken. Thanks for the question. As it pertains to the sort of upper funnel business and the source of the weakness there specifically, it continues to be concentrated in a relatively small number of larger upper funnel-oriented advertisers. I think our real focus there in terms of being able to reignite growth in this category and make progress is, number one, we're focused on accelerating our product innovation.

And specifically, we're encouraged by the incremental reach that advertisers have realized in the early rollout of Sponsored Snaps and the positive feedback we're hearing from clients and agencies on those products. So, looking forward to making that solution available to more partners over the course of the year ahead.

We're also prioritizing support for large Brands and agencies by offering enhanced client support, easier platform integrations, and advanced measurement tools. So, for example, last year, we launched a partnership with VideoAmp to provide agencies with reach, planning and measurement tools that enable agencies to build multi-channel media plans and then have the visibility to key metrics such as incremental reach.

And so, we're going to keep leaning into those innovations in order to be able to deliver improved performance for those advertisers. I also think it's just important to maintain our real focus and priority around diversifying the business and leaning into the places that are the focus of our roadmap.

So as much as we'd like to see this category grow a lot faster, I think it's important that we have our resources focused on doubling down on the momentum that we're seeing with our direct response business, doubling down on the momentum that we're seeing with the SMB category. And of course, continuing to invest in Snapchat+ so that over time we continue to build a business that is more resilient, more performance based and more diversified.

And that sort of gets into your second question around the drivers of growth and what we're seeing around customer ramps on the lower funnel. And I think it's important to think about the dichotomy between the growth and the active advertisers. We're really excited to see, once again, that we were able to more than double the active advertisers. And you are seeing that being driven from a count perspective by smaller customers, which is really exciting.

And Snap Promote is a very helpful tool in that regard. But then the overall growth in revenue, of course, is going to come even more from folks as they either grow into the medium advertiser segment or that start out there. And the key there is really about ease of getting started.

So automated campaigns set up, helping advertisers choose the right optimization right out of the gate, helping them choose the right measurement solution with automated tooling, and then of course, the ability to realize really good results.

And that's where the improved DR ad stack really makes the difference, because that's going to be the key in order for us to continue growing the active advertisers or growing the top line, we need to be delivering the returns on advertising spend that folks see that on the advertising expense that folks see that in their ROI, and that's going to have them retain and grow their spend over time. So hopefully that gives you a little context around what we're seeing there on both the upper and the lower funnel. Thank you.

OPERATOR
Our last question comes from Deepak Mathivanan with Cantor Fitzgerald

DEEPAK MATHIVANAN, CANTOR FITZGERALD
Great. Thanks for taking the questions. Two ad product questions. First on Sponsored Snaps. The reach – some of the advertisers are seeing on the early campaigns looks very strong. Can you talk about the go-to-market strategy this year for Sponsored Snap? How fast can you wrap the adoption of this in 2025?

And then second one on DR ads, we're seeing companies like Meta and others deploy kind of GPUs to improve relevance beyond areas like creative iterations for their ad products. How do you think about that opportunity to kind of deploy additional compute and drive performance for us? And that's DR ad products. Thank you very much.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER
Yeah. Thanks so much for the question. In terms of Sponsored Snaps, we're really excited about what we're seeing there. And one of the reasons why is I think the creative execution

by advertisers has been really thoughtful, which is made for a really sort of native and organic feeling experience for folks who have received Sponsored Snaps.

So, I think for us, as we look at scaling out demand for Sponsored Snaps, we want to do that in a way that's thoughtful and that really maintains a high bar for relevance. So, we'll be starting with our pixel purchase GBB, where we've got quite a significant diversity of advertisers and a wide range of creatives and really holding a high bar for relevance as we bring that product to our auction. So that'll be the first step and we'll learn from that. We've already been doing some preliminary testing there. And then of course, expand to other GBBs over time.

As it pertains to our investments in machine learning for our advertising business, this is certainly a huge focus area for the company. Our ad business benefits a lot from the broader ML platform investments we've been making across the company, and we're definitely experimenting with things like sequence models, and other techniques to drive improved relevance.

But some of these other themes, like much larger models and fresher models really benefit our advertising business as well, in addition to our content business, even though, of course, the corpus of ads is much smaller than the corpus of content that we need to recommend to our community.

OPERATOR
Thank you. This concludes our Q&A session as well as well as Snap Inc.'s third quarter 2024 earnings conference call. Thank you for attending today's session. You may now disconnect.

SNAP INC. Q4 2024 FOLLOW UP CALL TRANSCRIPT

OPERATOR
Good afternoon and welcome to Snap Inc analyst follow up call. Our first question today comes from Ross Sandler with Barclays.

ROSS SANDLER, BARCLAYS
Hey, guys, just two questions on the ad business, please. So it looks like the e-commerce category with pixel purchase and the app install category is, you call that, up 70%. Both doing quite well. So I guess if you just add those two together, what percent of the DR business do they represent?

And if you kind of look at the rest of DR, what's going on in those other categories? It seems like e-commerce and app install are growing well above average. And these other areas aren't quite keeping up. So is that the right characterization?

And then the second question is on the Brand side. So you talked about Sponsored Snaps and measurement initiatives that could help the North America Brand business in 2025. Do you feel like you got enough going on here with that? And with the new Chief Business Officer and some of the go-to-market changes to actually get that back to growth, closer to the industry for Brand advertising. Any thoughts there?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hi there. Thanks for the questions. I think what you're seeing in the DR business generally, and as we think through the different optimizations and the verticals that apply to each one, is - about two years ago, after the ATT platform policy changes, and then as we began the rebuild of our DR ad platform and focusing more on the immediate in-session conversions and then working through each optimization on our new ML stack, we were seeing initially with that disruption a couple of years ago was a little bit of a migration up funnel and mid funnel.

And so I think what you're seeing a little bit now is we're able to roll out these more performant optimizations that are getting to more lower funnel, or at least mid to lower funnel. There's a little bit of migration through initially. And then you're seeing growth at the account level. And then on the overall optimization and the business.

So generally speaking what you're seeing there is a little bit of migration, which is really positive for the business because you're seeing people get more towards their actual advertising objective. Whether that's driving an actual purchase, what you're seeing on the 7-0 pixel purchase optimization, or app purchase or some of the other optimizations that are starting to perform a little bit better. So that's a little bit of what's going on under the hood.

And then as we're able to hit people's objectives, then of course, in terms of like CPA on the exact optimization we're looking for, then we're able to grow their spend with us and then evangelize those results to other folks and then use that to grow the overall business.

And so that's really why you're seeing this elevated growth rate from the DR business, and in particular in the segments where we have the best product market fit, whether that be with the SMB segment broadly or with specific verticals, where the optimizations that are performing best are the best fit with those advertisers. So hopefully that gives you a little bit of a sense of what's going on there.

On the Brand side, we're definitely still investing there and we definitely have a robust product roadmap there. I mentioned a few things on the main call - certainly being able to deliver Sponsored Snaps and the incremental reach that we're seeing with that product is really exciting, and some of the positive early feedback. So I'm excited about that.

We're continuing to see really good demand for our first products, and then some of the things that we're doing to better support agencies and upper funnel advertisers around integrations and tooling in order to measure incremental reach and so on are really important. And then, yeah, I do think that some of the investments in our go-to-market initiatives and the success that we've seen, you know, with Ajit, with his clients and verticals and regions that he's been looking after today, I'm really excited about his leadership of the overall go-to-market operations and our ability to support our clients globally and in these categories specifically as a result.

So I'm looking forward to that as well. And together, these things are the key to driving the overall top line on the ad side. Thanks for the question.

OPERATOR
The next question comes from Tom Champion with Piper Sandler.

TOM CHAMPION, PIPER SANDLER
Good evening Derek. I'd be curious about your view. It's a very dynamic period in Washington. And not to ask too pointed a question, but just curious if the regime change there has impacted business activity, in your view, whether anything has changed materially with what you can see.

And then second, just I guess a question on share repurchases and thoughts into next year. It didn't look like there were any repurchases in 4Q; how are you thinking about that into next year?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey, thanks for the questions. I think that we're watching the economic environment really closely and economic policy as it relates to that. Obviously, to a certain extent, the advertising business surfs the macro a little bit. And then you're looking to pick up share based on the performance of your products. So with our roadmap and our execution and investments this year, obviously looking to take share.

But you know, paying a lot of attention to the economic environment. And so definitely looking at the risks and opportunities that you see, whether that's through economic policy around tariffs or around the overall interest rate environment and things like that. So we're watching very carefully, but it's obviously very early. So we'll be watching to see how things play out and how that impacts the macro. But it's a little early at this point to draw much conclusions there.

But we are paying attention on the share repurchase side. Yeah you're correct. We did not make repurchases in Q4. We've always historically been pretty opportunistic there and looking to make sure that we're managing our dilution rate carefully. And so we're going to continue to watch that.

You saw we were just a tick over 1% on the dilution rate in Q4. So certainly that's you know, you don't want any dilution, obviously, but that's not an elevated level. We're going to continue to watch on a go forward basis. Both, you know, our valuation and our multiple and the rate of dilution and try to manage this carefully.

We also want to have a keen eye on our leverage ratios and keep those in check as well. And we try to balance these things as we go along. But we do want to make sure that the dilution rate is at a sustainable low level over time. And so that's part of the reason why we always sort of have an opportunistic view on on how to handle repurchases. Hopefully that color helps. Thank you.

OPERATOR
The next question comes from Jason Helfstein with Oppenheimer.

JASON HELFSTEIN, OPPENHEIMER
Thanks for taking the question, Derek. So I just maybe try to dig in a little more on Sponsored. Snap ads. You know, is this something that could you think could be a catalyst this year? Or we should think about it like this is the year of testing and proving the ads, and it's more of a catalyst for next year. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Oh great question. No. Look, I think number one, we're really encouraged by the early results we're seeing. Certainly the magnitude of the reach that advertisers are getting. And the incrementality of that reach is really exciting. And we definitely have heard positive feedback in the early going on this product.

Ttoday we've sold it as a sponsored product and on a relatively limited basis as we've been doing testing. So there's a lot of opportunity as that moves into general availability and in more markets for that to be a bigger contributor over time, and certainly with the level of reach that that product has and the incrementality of that reach, you can imagine that that will be a popular product.

I think the other thing that we're really watching for there, too, is over time for that product to become a buildable product, and therefore the offers to be more personalized and more relevant to the user who is seeing those in their inbox. And I think that is both really exciting from a business and an advertiser point of view, in terms of the ability to have that be a really performant ad product.

So I do think that's really interesting, and I do think you're going to see more of a contribution from that over time as we move, you know, out of sort of limited testing and into more general availability over time. Thank you very much for the question.

OPERATOR
The next question comes from Naved with B Riley Securities.

NAVED KHAN, B RILEY SECURITIES
Yeah. Great. Thanks. We've seen you test ad-free tier with platinum, which is priced at 14.99. Just want to get your thoughts on the opportunity there. What kind of users are you targeting and how big can this get?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Sure. Hey, thanks for the question. Evan talked about this a little bit on the call, just in terms of the ability to think of price, as well as some growth, as levers for the growth of Snapchat+ over time. So whether that's the price of the base tier of Snapchat+, which is currently quite low in most of our markets, but then also, yes, the addition of new SKUs, including Snapchat+ Platinum. And obviously you've seen us innovate over time with more benefits in the Snapchat+ product with platinum. It gives us the opportunity with a higher price point, to think about more features that can go in there that would potentially be more costly or interesting there for the user. So I do think that's exciting. And we're testing and learning. So it's very early here. But I like this product as an opportunity to experiment, look to drive up the ARPU over time as we innovate and provide features there. And it also provides a little bit of a safety valve for, you know, your most passionate, deeply engaged users, for whom the load might be a little a little high if they're really, really deeply engaged and it gives them a safety valve, if that's a point of high friction for them. So like this product is an experiment and also is an opportunity to grow our ARPU over time. Thanks for the question.

OPERATOR
The next question comes from Mark Mahaney with Evercore.

MARK MAHANEY, EVERCORE
Okay. Thanks. Hey, Derek, I'm sorry about the losses down there. I know how close knit the community is, and especially given how close the fires were to your offices. So I just wanted

to say that I thought Evan had a great letter to LA. I thought that was very appropriate and very well done.

A couple of quick questions. Simple Snap rollout. So just given some of the commentary about 25 million, in a couple of months having a full rollout this summer, does that seem about like a realistic timeline?

Secondly, the gross margin trends look pretty positive in the December quarter. Like I think it was 200 bps up year over year, first time in a while. And is that a way to think about the gross margin expansion going forward?

And then third, if you don't mind, Brand advertising is now negative on negative, like it's declining on a base that was declining last year. So like how do you how do you turn this thing around? It seems like this has been a kind of an underperforming area for you for a good, solid two years, and I don't know whether it's something structural or what, but just, you know, riff on that a little bit please. Thanks a lot.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey, Mark, you know, first, thanks for the kind words about the fire and the thoughts about the team. You know, I'll just take a moment to say how proud I am of our team for how they responded to our community, how we supported firefighters here and what the team has done to support one another. And just really proud of our team for not only supporting one another, but also not taking the eye off the ball and on execution at the same time, which is really impressive.

Got a remarkable team on the simple Snapchat rollout. I think Evan spoke about this quite a bit earlier, but you know, we're being very thoughtful here. I think there's a lot that we've learned in the early testing here about, some of the things that are really working for more lightly engaged users and how we can benefit from that as a business and make the experience better for those cohorts.

But then also some of the friction points that we've observed for our most passionate, most power users and some of the things that we've already gotten the pipeline to test there. So I think that, number one, there's an opportunity to think about rollouts to cohorts of users or geographies or what have you where it is optimized already or where we're seeing benefit.

And so you've seen us expand testing as a result of that and wanting to get more of a read in different markets and so on. We don't have a specific timeline of when you can expect it to roll out. But I do think you could see rollouts to cohorts and then broader rollouts over time.

And certainly that's something that we're aiming to do this year on gross margin expansion. We're really proud of what we saw from the execution this year from a margin expansion and cost control point of view. In Q4 in particular, we really demonstrated the leverage inherent in our business model with the both the gross margin improvement, but then the flow through. We saw 60% of year over year revenue growth flow through to adjusted EBITDA. That's a little bit higher than what we generally considered to be a healthy, sustainable, you know, rate over time.

But if you look at the full year, we saw again good margin expansion, but also a 46% flow through of incremental revenue year over year. And we've historically said like, hey, we think 30 to 50 is sort of the healthy ballpark there. So we want to make sure that we're continuing to balance our investment levels over time in order to keep reinvesting in the business to drive the growth and help scale to serve our community, but also in order to make sure that we're making progress towards profitability.

And so look, as it relates to GM specifically, you know, heading into the new year, we've made some pricing improvements on the infrastructure side that are really going to help us to afford the investments in incremental infrastructure to support getting to larger models and near real time model refreshes for our ML stack. And that's really going to help us in terms of supporting the content business so that we can have better personalization and more immediate responses to what people are engaging with.

And of course, that's critical to deepening engagement, but also to driving ARPU over time across both the content and the monetization stacks. On the Brand revenue side, I think there's a couple of things here.

One, I do think that you're seeing us invest in a lot of innovation. Certainly the new ad units are helpful here in terms of return to top line, I think we're making some investments in our go-to-market efforts and also around integrations and products that make it easier for agencies and large advertisers to see incrementality so that they can actually more easily measure the performance of these products, whether that be the first products or some of the new things that we have coming around Sponsored Snaps and Promoted Places, which should be a great ad unit for multi-location advertisers.

And I think that I'm looking forward to what Ajit And his leadership can bring to this area as well, in terms of helping us gain share on the Brand side. So a lot of opportunity there to make progress.

But I do also want to just emphasize that it's incredibly important that we keep our eyes on what's going to take this company to a much larger level of scale long term. And that means we have to keep balancing our resources and have focus on growing the lower funnel DR business, building the ad stack to support that customer base, making sure that we're tilting our investments toward the go-to-market for the SMB segment so that we can build our way to a more performance based, more diversified, lower funnel business that's serving a much larger advertiser base.

And so where we are investing in Brand, we need to be doing that with solutions that are going to scale. And so as we've been pivoting our focus to things that are going to scale, going to serve a much larger client base, it does naturally mean that some of the solutions that are oriented to towards a much smaller subset of very large customers are getting an appropriate share of investment so that we can focus on growing the portions of our business that are really going to get us to the next level of scale. Hopefully, that context on each of your questions is helpful.

OPERATOR
The next question comes from Youssef Squali with Truist.

YOUSSEF SQUALI, TRUIST
Awesome. Thank you so much. So on Snapchat+ you're at 14 million now. How many of those are international? And as we look at 2025 and the potential growth there, should we just look at 2024 as kind of a good blueprint for the evolution of that product and the subscription base?

And then I know the TikTok ban lasted all of 14 hours, I think. But in the days and weeks into that ban, have you seen any uptake in either ad spend or in engagement, please? Thanks, Derek.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey, thanks for the questions. Look, we continue to be really pleased with what we're seeing with Snapchat+. You mentioned it, but we hit 14 million subscribers in Q4, and that was up from seven in the prior year. We've continued to see really elevated revenue growth for the other revenue category broadly, at north of 100% in the most recent quarter. So we're really pleased with what we're seeing there.

I do think that as we go forward, we're still relatively early with this product. We're a couple of years in. relative to what we've seen in the industry broadly, our penetration has ramped, you know, pretty quickly. And we've got a good roadmap of innovations here. And you see us testing not only features for the Snapchat+ tier, but you also see us now with the second tier to try out, you know, different pricing and benefit experiments. I think, you know, we're going to keep focusing on executing here. We think that this really appeals to our most passionate users and folks who really want to make sure that they can personalize and differentiate their experience. And so you're going to see us continue to lean into that.

We don't set full year revenue guidance or anything like that, so in terms of an outlook, I think you can just expect us to continue to execute and experiment here. And with a real focus on continuing to scale the revenue here, you know, so focus on ARPU, focus on revenue.

And we had a north of a 500 million annualized run rate in Q4. And so we’re pleased to see that level of scale and are going to focus on realizing the full potential there over time.

As you mentioned, in terms of the ban, it was incredibly short lived. And in many markets, those 12 or 14 hours it lasted were overnight in many Western markets. So there's a limited read through there, but certainly from an advertiser perspective, the uncertainty is not helpful for advertisers. And so we want to be there to make sure that we can help folks with growth plans. And, you know, their own plans to make sure that they can hit their reach goals and deliver their campaigns, regardless of the uncertainty that might be in this market. And certainly, you know, that's helpful in some ways for our business.

You know, longer term though, we've got to be focused on delivering returns on ad spend and great performance for our advertisers, because that's the key to where our ad business is going to be over the medium and long term.

OPERATOR
The next question comes from Rohit Kulkarni with Roth Capital Partners.

ROHIT KULKARNI, ROTH CAPITAL PARTNERS
Hey thank you. Actually, taking the TikTok question in a different direction – the app is still not available on Apple and Google App Store. And I think can't help but wonder that the biggest overlap in mouse is between Snap and TikTok. So I'm wondering if you if you have seen any changes in behavior, be it time spent, or, the app has been disabled on the app stores, and how users are engaging, and maybe they're reengaging with Snap right now.

And second, again on TikTok, almost every app has been kind of incentivizing creators. I've seen news from Meta, you guys, Pinterest, all those guys maybe talk about how do you see that benefit in terms of getting creators on board, or if you have any anecdotes to share on how TikTok creators are now engaging with Snap?

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Sure. As it relates to the first part of your question, in most of our more mature markets, they've already got very, very deep penetration. And so even if they're not available in the App Store for new downloads, their penetration is sort of very deep already. The ban was so short lived that it's really difficult to see a read through on impacts there. Certainly over a

longer period of time, or if we were to return to a full ban situation, perhaps it would be different.

But in terms of creators, number one, I think that we do see a lot of creators active on multiple platforms. I think one of the things that is really terrific about Snap is you see that creators are focused on sharing their authentic selves and their own life and day to day story. And so, often the content that they'll be posting is differentiated and is more authentic and more in the moment. And so it gives them, through Snapchat and Spotlight, the ability to discover and build their audience on Snap and then to also be able to build a subscriber base that they have a deep relationship with and they can share their life with and be authentic with.

And of course, through our mid-roll programs, the ability to generate revenue and profit from their content. And so that's a really compelling offering for these creators. And we've been working hard to evangelize that. Evan shared some stats earlier around what we've been seeing in terms of the lists and the app creators and the posting that sort of demonstrate regardless of a ban.

We've been making a lot of really good progress there. Super proud of what the teams have been able to do there and more to do. This is going to be a very competitive space. Short form video has always been a very competitive space, and I expect it will continue to be regardless of what happens with this particular situation. And so our focus has to be on providing a really compelling product, giving folks an opportunity to connect with their audience and to earn based on the engagement and the audience that they build. And I think we have a compelling.

OPERATOR
The next question comes from John Blackledge with TD Cowan.

JOHN BLACKLEDGE, TD COWAN
Oh, great. Thank you. On Snapchat+ could you provide the rough revenue mix between North America, Europe and Rest of World?

And then second question, just any thoughts on the expected headcount growth this year and the key areas of investment there would be. Great. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
I don't think we've ever broken down Snapchat+ in that way. And you know we can consider that over time as it becomes a more material portion of the business. But we are breaking it out for you so you can follow the numbers and the overall other revenue category. And hopefully that is helping folks in terms of modeling their business.

Then in terms of areas of headcount growth, over the course of the year here, we did include in the full year cost structure guide, the growth that we're expecting in headcount over the course of the year from where we are now and until the end of the year. And in terms of where I expect those investments to go, our priorities are still very crisply focused.

So number one, we're staying very focused on the more narrow set of priorities we zeroed in on, so laser focused on number one more performant ad platform. Number two deepening engagement. And then three, continued leadership in the AR space.

So expect the investments to be going into our engineering and product teams to support the really robust roadmap. We have to support the ad platform, whether that's the investments in ML and AI and ad tooling for both our DR and Brand advertisers, you know, to the investments we're making in the infrastructure stack in order to improve content and content engagement and to scale out our creator ecosystem. And then, in addition, the go-to-market area, and in particular with the traction we've got with the SMB segment, targeted investments into the support and scaling of our SMB clients, as well as some additional support for agencies and large Brand advertisers.

So very much a focus on the investments that we need in order to deliver our roadmap as quick as we can, because we definitely are viewing a lot of opportunity to invest productively in areas of the business where we have high confidence that can translate into better, more performant ad products and therefore revenue or better deeper engagement, and therefore ARPU, over time. And then, of course, the go-to-market scaling to support a rapidly growing advertiser base. S

o that's where you can expect a lot of the investment from a headcount perspective to go. And I think the last thing I'll just say on that is, I hope that you would agree that we did a pretty good job balancing our level of investment with the realized revenue growth in 2024. And we remain committed to making additional forward financial progress in 2025. And we're going to stay laser focused on balancing - that we have the investments we need to grow the top line, but also that we make progress on free cash flow and our path to profitability. Thank you.

OPERATOR
The next question comes from Mark Zgutowicz with Benchmark Company.

MARK ZGUTOWICZ, BENCHMARK COMPANY
Thanks, Derek. Just first, in case I missed it, hoping you could share impressions and pricing for Q. And then looking at your comp for Q1on the Brand side, it looks like you have a rather tough comp. And I was hoping you could maybe characterize that in terms of your guidance.

Does suggest for Q1 a meaningful acceleration in DR to sort of offset that comp or anything you could help with there would be appreciated.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER

Hi there. In terms of what we're seeing on inventory and CPMs, we had another really robust quarter on impression growth; impressions were up 24% year over year, I believe. And obviously good traction on the stories revenue share program continuing to be a contributor. And then of course, we're continuing to see a ramp in spotlight monetization, which is a really helpful contributor there on inventory. And over time, as we can move some of these new ad units into general availability. And what we've seen on the magnitude of the reach of the newer products and their incrementality, obviously excited about that as an opportunity to drive there too.

Obviously, with impressions growing at that rate, they've been expanding faster than demand on the platform, so we do see eCPMs down about 12% in the most recent quarter. So, hopefully that gives you a little bit of a ballpark on the dynamics there.

In terms of the comps in Q1, we're really not breaking our guide down by product, but I would say, obviously, comps are tougher, but the guide does reflect that we're comparing to that tougher guide, as you've noted. And so, under the hood, obviously, that implies some strength there.

In terms of mix of business, we're just laser-focused on delivering returns for advertisers. The focus here is driving broader and broader adoption of the 7-0 Pixel Purchase. We've seen some really good results last year, again, the second half on some of these new app optimizations and then really meaningful contribution from app purchase in particular in Q4 with the big growth there. So, evangelizing those products to a wider base and getting those out there.

And then, of course, some of these new ad units and some changes in go-to-market and some of the support tooling we've put in place for agencies, looking to build on that to help get all parts of the business firing here in Q1.

So, hopefully, you can sort of see that the intention here is we've got a really clear roadmap of what we're doing on the DR side, the different optimizations we're rolling out, and then the process of evangelizing those to wider customer bases and ramping the volume that you can see a bit of a machine developing there in terms of building out that DR business and therefore the drivers of the overall revenue growth. And that's really what's informing how we're thinking about Q1.

OPERATOR
The next question comes from Stephen Ju with UBS. Your line is now open.

VANESSA FONG, UBS
Hi, this is Vanessa Fong dialing for Stephen. I just wanted to follow up on some language in the shareholder letter, and this is mainly about the improvement in time spent from Spotlight.

So, the wording was a little bit unclear, but it sounds like your plan is to shift focus from Spotlight to drive Simple Snapchat. So, I just wanted to be clear that the engagement benefits that you're getting from there, such as like what users are watching on Spotlight and delivering improved content recommendations, that's something that will continue to happen or that's something that's already been tapped into. Thank you.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Hey great question. Yes, I think, first of all, we continue to see a really good traction with Spotlight. That's a product that's been growing from a reach and time perspective for quite a long time now.

I think one of the things we're talking about in the letter there is our real focus on making sure that we are delivering authentic creators from the platform and making sure that our models are really focused on recent new content, fresh content, and that our models are becoming more and more adept at identifying quickly the content that is starting to trend on the platform and expanding the reach of that content quicker.

And so, part of what we're talking about there is making sure that we're making good trade-offs to grow the long-term health of that business, despite any short-term headwinds that should result, and so, really focusing on that recency and freshness in the content.

And that also ties back in to some of what we talked about in the infrastructure area with the focus on investing in our ML and AI stacks to have not just larger models but models that over time over the course of this year are going to get to a point where we're going to have near real-time model refreshes.

And all of that, whether it's the growth in the creators that we're seeing that are submitting content, the growth in the overall content that's being submitted, and then our focus in our ranking and optimization to make sure that we're able to identify and surface that content really quickly as it begins to trend on the platform and then having models that can refresh here instantaneously.

And so, obviously, that's introducing change into the content that's being presented and delivered in the platform. And we have high conviction that over time, that focus on freshness and focus on the authentic creators in our platform is the key to growing depth of engagement and overall time spent over time.

And so, as we're making these experiments and making these optimizations in the models, just making sure that we're balancing those trade-offs with an eye on the long-term is the thing that we want to stay focused on there. Hopefully that provides a little bit extra color on sort of the overall moving pieces there.

Operator
Our last question today comes from Michael Nathanson with MoffettNathanson. Your line is now open.

MICHAEL NATHANSON, MOFFETTNATHANSON
Hey, thanks, Derek, I really appreciate you guys gave us guidance on stock-based comp because I always ask that question, so thanks for that. Following on that, any sense of where dilution looks like this year? You, guys, have got it down to like a 3% to 4% range, so, hey, think about dilution.

And then how big of an expense is your legal-related cost, right? And we've seen it in a lot of your bigger competitors spend millions and millions of dollars to billions of dollars. So, how are you sizing that for people in '25? Thanks.

DEREK ANDERSEN, CHIEF FINANCIAL OFFICER
Okay, great question. On the dilution side, I think our CAGR on dilution since the IPO is in a low 3% range. We do take that really seriously and want to make sure that we've got dilution at a healthy level certainly in the most recent quarter, just to tick over 1% is a little more sustainable, obviously.

So, we're going to keep watching that really carefully. We try to be opportunistic with the repurchases. But certainly, we saw revenue growth on the business accelerate to 16% for the full year last year, obviously, a huge improvement over the year before.

We're focused on making progress on top-line growth and improving our profitability. We put up meaningful adjusted EBITDA north of $500 million last year, incremental flow through at 46%.

So, if we can keep making progress on the ad stack, if we can grow revenue at a good clip, and we can have expanding margins like we delivered in 2024, that is the key obviously to having a business that is more valuable.

The market obviously gets a vote in what our multiples should be, and that, of course, impacts the market cap and what solution will look like over time. But having a really clean balance sheet with a lot of liquidity puts us in a position where when the market maybe isn't rational around our evaluation, we have the ability to defend dilution. And so, we've tried to be opportunistic there and thoughtful to make sure that we defend the returns for our long-term shareholders.

In the terms of how impactful legal costs are, certainly, definitely, the combination of increased legal costs driven by litigation and discovery but also driven by compliance with really an increasingly complex regulatory environment, increased reporting requirements and compliance has become a bigger factor in the cost structure, and certainly, that's factored into the guiding Q1 and it's also factored into the full year cost structure guide.

Obviously, you don't have perfect visibility to that. And so, we'll be sure to update folks on our pacing there as we move through the year quarter by quarter. But we've done our best to reflect that into the cost structure guide for the full year.

And hopefully everyone finds that helpful from a visibility perspective to be able to understand what our investment plans are from the outset. Thanks for the question, I really appreciate it.

OPERATOR
This concludes our follow-up question-and-answer session as well as today's conference. Thank you for attending today's session.