

SNAP INC. Q3 2018 TRANSCRIPT

OPERATOR

Good afternoon, everyone, and welcome to Snap Inc.'s Third Quarter 2018 Earnings Call. At this time, all participants are in a listen-only mode. After the prepared remarks, there will be a question and answer session. If you would like to ask a question during that time, please press star, then the number one on your telephone keypad. This call is being recorded.

Thank you very much. Ms. Kristin Southey of Investor Relations, you may begin.

KRISTIN SOUTHEY, VP OF INVESTOR RELATIONS

Thank you, and good afternoon, everyone. Welcome to Snap's Third Quarter 2018 Earnings Conference Call. With us today are Evan Spiegel, CEO and Co-Founder, and Tim Stone, CFO.

Earlier today we made a slide presentation available that provides an overview of our user and financial metrics for the third quarter of 2018, which can be found on our Investor Relations website. Now I will cover the Safe Harbor. Today's call is to provide you with information regarding our third quarter 2018 performance in addition to our financial outlook. This conference call includes forward-looking statements. Any statement that refers to expectations, projections, guidance, or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement based on assumptions today.

Actual results may differ materially from those expressed in these forward-looking statements, and we make no obligation to update our disclosures. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today, as well as risks described in our quarterly report on Form 10-Q for the quarter ended June 30, 2018, particularly in the section titled Risk Factors. This information can be found in our other filings with the SEC, when available. Our commentary today will also include non-GAAP financial measures and we believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends. These measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our press release issued today, a copy of which can be found on our website at investor.snap.com. Please note that when we discuss all of our expense figures they will exclude stock-based compensation and related payroll taxes as well as depreciation and amortization and non-recurring charges. At times in our prepared remarks, or in response to questions, we may offer additional metrics to provide greater insight into our business or our

quarterly and annual results. This additional detail may be one-time in nature, and we may or may not provide an update in the future on these metrics. Please refer to our filings with the SEC to understand how we calculate our metrics.

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

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hi, everyone, and welcome to our quarterly earnings call.

We recently celebrated our seventh anniversary, and I wanted to share some highlights of where we are today and how we plan to drive growth and profitability in the future.

Through the hard work, dedication, and innovation of our team, today we have one of the largest and most engaged mobile communities in the world.

We have grown our community and engagement because we are different:

- We are the fastest way to visually communicate with close friends and family. We built Snapchat from the ground up to empower people to express themselves instantly through our camera, resulting in over 3 billion Snaps created every day.
- We are a fun place to learn about the world on our Discover content platform. We have built a premium mobile content experience that complements content created by your friends.
- And, we are built for mobile. We believe that mobile devices present unique opportunities—like communicating visually—and we are excited about the future of innovation on mobile platforms.

We have attracted a large and loyal community because our core visual communication product is built to support people's close friendships. Over 60 percent of our Daily Active Users create Snaps every day because they use our service to talk with their close friends and family.

Every product we have is built around our core communications product. We have been successful in launching new products and features by expanding the use of our personal communications product into other areas like Memories or Discover that increase engagement and drive our advertising business.

Over the past two years, we have transformed our advertising model to self-service and we are now beginning to see the results. Trailing twelve month revenue has grown over 50 percent and now exceeds \$1 billion dollars as we continue to scale our business and deliver value to advertisers.

I am incredibly proud of our team and what we have accomplished in such a short time. We are excited about the future and we have just scratched the surface with respect to our long-term growth opportunities.

As we enter our next phase of growth and scale for the long term, I am happy to share that two new leaders are joining our team:

Jeremi Gorman will be starting mid-November as Chief Business Officer, with responsibilities including global business solutions, online sales and customer operations. She spent the last six years at Amazon where she was most recently Head of Global Advertising Sales.

Jared Grusd will be starting in early November as Chief Strategy Officer, with responsibilities including partnerships, content and business development. He was most recently CEO of HuffPost and Global Head of News and Information at Oath where he has been for more than three years and previously was general counsel and head of corporate development at Spotify for four years.

Today we are focusing our time and resources to expand our community, increase engagement, and improve monetization.

We have a significant opportunity to grow and broaden our global community over the long term. While we have incredible reach among our core demographic of 13- to 34-year-olds in the US and Europe, there are billions of people worldwide who do not yet use Snapchat.

Continuing to improve our user experience and creating awareness about our value proposition are key drivers in growing our community. This quarter, our Daily Active Users grew 5 percent over the prior year and were down 1 percent sequentially. The decline was primarily among Android users.

We have been developing a completely new version of our Android application to be lightweight, modular, and performant. The Android community represents a global growth opportunity for us and we are making good progress testing the application in select markets. We look forward to rolling it out when it's ready.

In addition to building our community, we are focused on increasing engagement across our products to drive growth. Our community continues to spend more than 30 minutes per day on average on Snapchat and we are working to provide even more value to our Snapchat community.

We recently surpassed a major milestone with Snapchatters saving more than 200 billion Memories. And Tic-Tac-Toe, one of our new Snappables, a shared augmented reality experience with friends, had over 80 million unique users in Q3.

Since we launched our redesign earlier this year, there are more people watching premium content than ever before.

Our new layout for Discover allows us to invest in both the quality and quantity of content available on our platform. Shows continue to attract more viewers, and in Q3, 21 unique shows in Discover reached a monthly active audience of over 10 million viewers.

On October 10th, we announced a new slate of 12 Snap Original Shows in a wide range of genres. Our content is tailor-made for mobile—it's vertical and fast-paced in an effort to draw you in quickly, with most shows running five minutes or less.

Our media platform, Discover, allows us the opportunity to increase engagement, expand our content library, and increase our premium offerings, all of which should benefit our advertising partners.

We continue to improve monetization as we scale our advertising business and our results demonstrate meaningful progress. Third quarter revenue grew 43 percent year-over-year and 14 percent sequentially, driven by traction in our Global Online Sales business, which includes small and medium-sized businesses and sales partners, and increased adoption of our self-service platform by performance-oriented advertisers. Our growth is being driven by improving ROI, onboarding additional advertisers, and expanding our suite of advertising products and tools.

In the third quarter, over 85 percent of our advertising revenue on Snapchat was transacted via self-service, up from 35 percent one year ago. The transition to self-service has allowed us to scale our sales efforts to smaller advertisers that we couldn't initially reach like FabFitFun, a subscription company, which improved their cost per acquisition by 36 percent this past quarter utilizing our new conversion optimization tools, and subsequently increased their lead generation budget by seven times.

We continue to see opportunities in improving our measurement, relevance, and optimization to drive growth. Our first-party measurement is helping advertisers quickly understand their return on investment, which helps unlock additional spend. The Snap Pixel continued to see impressive growth, with over 230 million purchase events in Q3, up from 70 million in Q2.

When we launched Ads Manager a year ago, we had one optimization goal: Swipes. Since then, we've added brand objectives such as Video Views; consideration objectives such as Website Visits and App Installs; and conversion objectives such as In-App Purchases. These additions help increase performance, improve relevance, and allow us to start to build an "always on" business where we consistently deliver ROI for our partners.

In Q3, we expanded our ad product offerings to address new customers with the launch of Collection Ads. Collection Ads allow commerce advertisers to showcase up to four products on

a standard Snap Ad. Wish, eBay, and Guess, who were part of the test group saw significantly higher engagement rates compared to typical Snap Ads. eBay's engagement rate, for example, was five times higher with their Collection Ad than their typical Snap Ad.

We believe Snapchat represents the best place for brand advertising on mobile, particularly for our young, highly-engaged audience. For instance, Wrigley's Starburst used Snapchat to create brand ambassadors for their "All Pink" campaign. The campaign successfully drove an over 3 percent increase in market penetration, with 91 percent coming from new buyers.

With the recent announcement of 12 Snap Original Shows, we are increasing inventory for premium commercials, our new six-second non-skippable ad format. A variety of brands, such as Chick-Fil-A, Boost Mobile and major studios like Warner Bros, Fox and Universal have been using the format and we have been pleased with their initial results.

Today we are delivering meaningful return on investment for businesses of all sizes. Looking ahead, we have significant opportunity to grow the number of active advertisers, increase the average spend per advertiser, and increase our inventory.

For the past seven years, we have been a leader in visual communication, ephemerality, vertical video, augmented reality, Stories, and much more. We are in this for the long term and we are just getting started. We offer a uniquely different user experience and we are excited about the many opportunities we have to drive growth.

Thank you, and I will now turn the call over to Tim.

TIM STONE, CHIEF FINANCIAL OFFICER

Thanks, Evan.

Our third quarter financial results reflect our focus on driving growth and operational efficiencies. This quarter we delivered strong financial performance compared to the prior year and the prior quarter. We generated significant growth and record results on the top line. We also had strong improvements in gross margin, adjusted EBITDA, adjusted EBITDA margin and free cash flow.

Our Q3 operating cash flow improved \$61 million to \$(133) million compared with Q3 2017, and improved \$67 million, compared to Q2 2018. The year-over-year change in operating cash flow is driven by a \$41 million improvement in adjusted EBITDA, and by changes in the timing of working capital. Similarly, the sequential change in operating cash flow is driven by a \$31 million improvement in adjusted EBITDA, and changes in the timing of working capital.

Our capital expenditures, which are nominal, are mainly associated with building out our office facilities. Q3 capital expenditures were \$26 million, flat from Q3 2017 and \$9 million lower than the prior quarter.

Q3 free cash flow improved \$61 million to \$(159) million compared with Q3 2017, and improved \$75 million compared with Q2 2018. Our current infrastructure model does not require capital investment, which results in strong adjusted EBITDA to free cash flow conversion as we continue to scale.

Common shares outstanding plus shares underlying stock-based awards outstanding totaled 1,476 million on September 30, 2018, compared with 1,441 million a year ago.

We ended the quarter with \$1.4 billion of cash and marketable securities. Our change in cash for the quarter was \$(156) million. The change in cash was \$344 million better than the prior year and improved \$96 million versus the prior quarter, as we continue to make progress towards generating free cash flow.

We have a number of drivers of revenue growth in our model. For the quarter, we generated record revenue of \$298 million, an increase of 43 percent year-over-year and 14 percent sequentially, and our trailing twelve month revenue was \$1.1 billion, up 53 percent year-over-year.

Our community grew 5 percent over the prior year to 186 million daily active users and was down 1 percent from the prior quarter.

Average revenue per user increased to \$1.60, an improvement of 37 percent year-over-year and 14 percent sequentially.

Countries outside of North America represented 30 percent of total revenue, compared with 20 percent in Q3 2017 and 32 percent in Q2 2018. In the quarter, North America had strong growth and there were an absence of one-time events in Rest of World, such as Ramadan and World Cup compared to Q2 2018.

In terms of monetization, this quarter we increased the number of active advertisers on our platform and expanded our product suite. Advertisers are achieving a high return on advertising spend, driving strong revenue growth. Total impressions were up 278 percent year-over-year and 37 percent sequentially, while pricing was down 61 percent year-over-year and 15 percent sequentially. We have now successfully transitioned to a self-service advertising model that can serve brand, direct response, and always-on advertisers. We will continue to improve our measurement capabilities, increase our advertiser partners, and build out our Discover media platform with new and exciting content, including our own premium content.

Q3 cost of revenue was \$191 million, an increase of 17 percent year-over-year and an increase of 3 percent sequentially. Cost of revenue increased at a slower rate than revenue growth of 43 percent year-over-year and 14 percent sequentially. Infrastructure costs were \$140 million, an increase of 15 percent year-over-year, and an increase of 3 percent sequentially. This quarter, unit cost improvements and engineering operating efficiencies were more than offset by higher

community activity over the prior quarter. Cost of revenue as a percentage of revenue declined meaningfully year-over-year from 79 percent to 64 percent and sequentially from 70 percent to 64 percent.

Gross profit and gross margin expanded substantially, which continues to demonstrate that our business model can scale profitably. Q3 gross margins were 36 percent, improving over 1,450 basis points year-over-year and over 630 basis points sequentially.

We are focused on driving operational efficiencies and improving the unit economics of our multi-cloud environment as we scale over time. Additionally, our model benefits from our cloud partners' continuous investments in technology innovation and cost efficiencies, which are typically passed along to customers over time.

The costs of our infrastructure model are included in adjusted EBITDA, as opposed to capital expenditures which are excluded from adjusted EBITDA. This should result in higher EBITDA to free cash flow conversion over time.

Over the long term, we will remain focused on operating efficiencies and unit-cost economics.

Operating expenses in the quarter were \$246 million, up 10 percent year-over-year, and down 1 percent sequentially compared to strong revenue growth of 43 percent year-over-year and 14 percent sequentially. We continue to focus on driving operating-cost productivity across our business. Our operating expenses are primarily driven by employee-related costs, which represent about two thirds of our operating expenses.

We saw fixed-cost leverage in employee-related costs, which grew 11 percent year-over-year, and slightly declined sequentially. Operating expenses as a percentage of revenue also continued to decline meaningfully, as compared to the prior year and sequentially.

Our total cost structure, which includes cost of revenue and operating expenses, was \$436 million, an increase of 13 percent year-over-year, and an increase of 1 percent sequentially, again well below our revenue growth in both periods.

Q3 adjusted EBITDA increased \$41 million to \$(138) million over the prior year and increased \$31 million over the prior quarter. This was the second consecutive quarter that we had an improvement in adjusted EBITDA both year-over-year and sequentially. Adjusted EBITDA margin for Q3 improved significantly to (46 percent), compared with (86 percent) in Q3 2017 and (64 percent) in Q2 2018. Adjusted EBITDA leverage was 45 percent in the quarter up versus 31 percent in the prior quarter.

Finally, Q3 operating loss improved \$138 million over the prior year to \$(323) million and improved \$35 million over the prior quarter. Within operating loss this quarter, we recorded a

lease exit charge of \$29 million primarily in connection with our relocation to Santa Monica. We have now incurred the majority of these lease exit charges mentioned in Q1.

With respect to the fourth quarter, we expect our financial momentum to continue.

These forward-looking statements reflect our expectations as of October 25th, and are subject to substantial uncertainty. As mentioned at the start of the call, our results are inherently unpredictable and may be materially affected by many factors.

We expect Q4 will be a record quarter:

- Revenue is expected to reach a new high of between \$355 million and \$380 million, or grow between 24 percent and 33 percent year-over-year.
- Adjusted EBITDA is expected to be between \$(100) million and \$(75) million, compared to \$(159) million in Q4 2017. Our internal stretch output goal was break-even in Q4, and the stretch goal helped get us closer than we would have been otherwise. We expect that Q4 will mark our third consecutive quarter of accelerating improvement in adjusted EBITDA.
- This guidance assumes, among other things, that no business acquisitions, investments, restructurings, or legal settlements are concluded in the quarter.

Similar to last quarter, we are not giving specific DAU guidance, although our outlook assumes that Q4 DAUs will decline sequentially.

Looking forward to 2019, our internal stretch output goal will be an acceleration of revenue growth and full year free cash flow and profitability. Bear in mind that an internal stretch goal is not a forecast, and it's not guidance.

That said, our 2018 internal stretch goal helped us achieve strong results this quarter and will ultimately move us closer to full year free cash flow and profitability. We are currently in the middle of our multi-year planning process and prioritizing our opportunities and areas of investment.

As a team of owners, we are focused on creating long-term shareholder value and are optimistic about the long-term potential for scale and leverage in our business. We are investing in innovation for our community, which we believe will enhance user experience and engagement as well as drive revenue growth. At the same time, we are executing on operating cost efficiency initiatives as we drive toward free cash flow generation and operating profitability over time. We feel good about our cash position as we move forward and scale our business.

With that, let's open up the line for questions.

OPERATOR

That concludes the prepared remarks for today's earnings call and we will now begin the question and answer session. To ask a question, you may press star, then one on your 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. In the interest of time, we ask that you please limit yourself to one question. After your initial question is asked, your line will be muted. At this time, we will now pause for a moment to assemble our roster.

The first questioner today will be Ross Sandler with Barclays. Please go ahead.

MARIO LU, BARCLAYS

Hi, this Mario Lu on for Ross. I was just wondering if you could give us an update on the new Android rewrite called "Mushroom" that is being tested in a handful of markets. Anything you see that would suggest that the global roll-out of this rewrite could potentially reverse the trend that Android has had thus far on DAU growth? Just to piggyback on that, Evan, in your internal letter to employees last month, you mentioned that you expect DAUs to grow in 2019. What factors give you the confidence that it will grow, whether it be the Android rewrite or other factors?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Mario, thanks for the question. We're really excited about what we're seeing on the project codenamed "Mushroom". We still have a bunch of work to do there. I think quality takes time, and we really want to make sure that we have the right foundation for the application going forward, because that'll also help us innovate quickly, as well. So, excited about what we're seeing there and we're going to wait until we get it right before we roll it out broadly.

As we look at DAU growth going forward, I think the best way to think about it is really expanding from our core of 13- to 34-year-olds in the U.S. and Europe. In order to expand from that core, we basically have to do two things: 1) we have to grow up, you know, 34 plus, in those markets, which we think is more of a marketing and communications challenge around our core value proposition of being a fast way to communicate visually and with close friends, and then 2) also providing our core product value in Rest of World markets, and that we view, especially for the 13- to 34-year-old audience, which, in many developing markets, their demographics actually skew young, so that should help us. But, what we're seeing there is that it's a technical challenge, and so I think the rebuild of Android will help with that significantly. And then beyond that, we're continuing to make performance improvements, reduce the amount of bandwidth that our service uses, and that's how we're thinking about DAU growth going forward.

OPERATOR

Our next questioner today will be Lloyd Walmsley with Deutsche Bank. Please go ahead.

GREG VLAHAKIS, DEUTSCHE BANK

Hey, this is Greg Vlahakis on for Lloyd. I was just wondering, last quarter, you all had mentioned that users create over 3.5 billion Snaps per day, but last quarter and now this quarter, you are saying that users create 3.0 billion Snaps per day and the community is growing 5 percent year-over-year. So, I was just wondering why this phenomenon is happening? Is it the redesign or are people just watching more shows and not really creating content, they're more consuming content? Then, the second question is do you all feel that you can grow advertising count and spend without necessarily growing your user base a lot? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Thanks, Greg. Yes, so I think, as we look at the Snap create number, that's something that was ramping pretty significantly into the redesign and then fell with the redesign, and I think, as we explained previously, the redesign did hurt our core communications product. I think on iOS in particular, we're happy with what we're seeing after the redesign, we're making progress there, and we're going to bring those changes that we've made over to Android when we release the rebuild widely. So, that's sort of how to think about our progress. I think we also mentioned, at least in the remarks, that over 60 percent of our user base are creating Snaps every day, so we're excited about the creation we're seeing on the service, but of course there are lots of opportunities around Shows and the other content products, and I think what's really exciting is that the creation on our platform drives that content experience, so we're focused on both.

Then, as it relates to advertisers, there's a ton of room to onboard more advertisers. As I think you've seen over the past year and a half, as we've thought about programmatic, we really wanted to expand our ad products to all sorts of people all over the world, and the only way to do that was to move to self-service and our programmatic infrastructure. So, we've been really focused on expanding the base of advertisers and tons of room there.

OPERATOR

Our next questioner today will be Mark Mahaney with RBC Capital Markets. Please go ahead.

MARK MAHANEY, RBC CAPITAL MARKETS

Hey, it's Mark Mahaney on for Mark Mahaney. The two questions have to do with one, the decline in DAUs—why will DAUs decline sequentially in Q4? Then, this goal of acceleration, just go through—I know it's not guidance—but what would be the factors that would actually cause acceleration in revenue growth in 2019, just theoretically? Thank you.

TIM STONE, CHIEF FINANCIAL OFFICER

Sure. Thanks, Mark, and I'm glad to see you on for you. As it relates to DAU, we're not giving any further commentary beyond what was already said. We do expect DAUs to decline sequentially, but we are excited about the opportunity to grow the community over time. Growing and broadening the community, we think comes from, as Evan mentioned earlier, improving the application, the user experience with Android, and increasing awareness of the value proposition, not just with 13- to 34-year-olds in developing markets, but also 35-plus in developed markets. So, I think there is opportunity for us to grow DAU over time and we're excited to continue to build Snap for our users.

As it relates to 2019, I do want to emphasize, as I am sure you are aware by the nature of your question, that internal goals are just that, they're internal goals. They're not a plan, they're not a forecast or an expectation, and they're certainly not guidance. We had an internal stretch goal for 2018, for example, that talked about breaking even in 2018, and as a result of that stretch goal, we were able to produce the results that you've seen in Q2 and Q3 this year, with improvement in EBITDA year-over-year and strong revenue growth. And the forecast for Q4 suggesting a continuation of the same, with EBITDA momentum accelerating, and the third consecutive quarter of EBITDA improvement, as we drive toward operating profitability and free cash flow generation.

On the growth front, what would cause growth to accelerate in our internal stretch goal scenario, it would be the things we've been talking about: expanding the community, increasing engagement, and then also improving monetization. With advertisers, for example, better measurement, more optimization and better relevance, as we continue to innovate on the formats for advertisers. On the engagement side, we talked about our premium content and how the redesign has resulted in more users than ever before engaging in our premium content and the quantity and quality of content on Discover, making that more relevant to users all the time, with Snap Originals and 21 unique shows with over 10 million monthly viewers. Then, again, on the community side, there is an opportunity to expand the community over time.

Those are some of the things we factor into revenue growth acceleration and we'll have to wait and see how things play out over time.

OPERATOR

The next questioner today will be Justin Post with Bank of America. Please go ahead.

RYAN GOODMAN, BANK OF AMERICA MERRILL LYNCH

Hey, thanks for the call. This is Ryan Goodman on for Justin. A couple questions: one, just as you focus the application back to core speed of communications functionality, can you talk about the strategy to monetize that time spent, and then longer term, just how you envision

communications evolving as a driver to total revenue? Then, second one, just a quick one. The premium ads, you mentioned it briefly in the prepared comments, it sounds like advertisers are responding favorably. Non-skippable is still relatively new to Snapchat. So, just any sense as to how, if at all, that's impacting user engagement with the underlying content?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

I think, at a high level, when we talk about the communications product, it's important to understand that communications product is really what drives that high frequency engagement and growth of the service as friends communicate with one another, and then what we've done is basically built other platforms around that core communication. So, whether that's our content business, whether that's our Maps product, or even Memories, we continue to innovate on the platform and use that communication to drive the growth of other revenue generating products. While we do monetize communication with Creative Tools and augmented reality, we also see a huge opportunity to build other businesses around that core communication flow, and so I think it's just important to understand that the communication flow is what creates these other opportunities for our business.

Then, I think, when it comes to non-skippable, the most important thing for us was really having high-quality content and a lean-back content experience, because that's what allows non-skippable to work really well. So, that's what we've been focused on, creating Shows and creating high-quality content, onboarding more creators, and I think once we saw that lean-back behavior emerge with Shows, which is something we're really excited about, we thought that was a great opportunity to introduce the Commercials ad unit. So, really, really happy to see how that's performing and I think that'll be great for us going forward.

OPERATOR

The next questioner today will be Jason Helfstein with Oppenheimer. Please go ahead.

JASON HELFSTEIN, OPPENHEIMER

Thanks. I have two. Besides performance issues that specifically relate to Android that presumably get addressed in Mushroom, are there any other product issues that you feel need to be addressed in the near term that could be impacting DAU? Then, I guess in the last question you kind of touched on it, but I just wanted to get more thoughts on the importance of curated versus user content, and what you've learned over the last few months on the curated-content side. Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

On the product side, specifically, I think one thing I mentioned a little bit earlier, we do see a lot of room to improve our bandwidth consumption. One of the things we hear from customers

today is that we use a huge amount of bandwidth as they communicate visually and I think we've identified a bunch of opportunities over the next year to reduce that bandwidth consumption, which we think could make a difference for the product. That's one thing that we're seeing on the product side, in addition to "Mushroom".

Then, as it pertains to curated versus user content, we've seen a huge opportunity in premium content. One of the ways for us to think about content at least is how exclusive it is to the platform, and so for us, the content created by friends for a small group of friends is exclusive to Snap inherently, because that content isn't seeking a broader audience, and premium content is also exclusive to Snap, and I think there's a lot of room to invest in both. Then, in the middle, you have influencer content, which is also important to our business and a part of that mix, and I think we're still trying to figure out the best tools to build. We've announced, in a very limited group, some analytics tools for those types of creators, and going forward, we're going to be building more tools to help them create content. So, I think those are sort of the three buckets, and we're working on making sure they all integrate well together, because different people like watching different things.

OPERATOR

The next questioner today will be John Egbert with Stifel. Please go ahead.

JOHN EGBERT, STIFEL

Great. The redesign obviously brought some challenges, but it sounds like there were some tangible benefits from the change as well. Is there any way to quantify the impact to premium content viewing in terms of either audience traction or time spent with publisher content? And I was also wondering if this is having a meaningful impact on available advertising inventory?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

We're really excited about the opportunities that the redesign has created. Kind of similar to the way that our programmatic change was difficult at first, but ultimately the right thing for the long term, we see the redesign the same way and we're investing for the future of our content business. So, I can't quantify that specifically for you. I think earlier in the remarks we mentioned that more people are watching more premium content, and that's something we're excited about. Maybe we can quantify that for you in the future, but certainly there's a lot of opportunity there and there's just huge demand for premium mobile content. I think one of the things we're specifically excited about is how much we've innovated and iterated on the narrative format of mobile content. A lot of people have been trying to figure out what mobile video really works, and now with Shows we're seeing a bunch of engagement, because I think the narrative structure is made for mobile in a way that resonates totally differently than videos made either for Internet or for television.

OPERATOR

The next questioner today will be Rich Greenfield with BTIG. Please go ahead.

RICH GREENFIELD, BTIG

Hi, thanks for taking the question. I guess a few things when you think about the product. Evan, you mentioned that you think your main issue in growing users, it sounds like, is a marketing and communications challenge and not a product problem, but in the leaked memo that came out, it sounded like you were going to be making some pretty meaningful product changes. I'm just wondering how you square those two things?

Two, when we look at Discover, I still remember you being very focused, when it initially launched with kind of the beauty and elegance and simplicity of Discover, and now so much of Discover, and I realize you're separating out Shows or Series, but most of Discover seems very much kind of racy, 'clickbait-y' content focused around who can promote the most T&A to drive a click. I'm wondering, from a user standpoint, does that make it harder to grow more mature users on the platform and how do advertisers react to that type of clickbait content that they're seeing throughout the platform, and do you have to change that in terms of product changes over the coming year to drive advertising and users further?

Then, just a quick housekeeping comment. Tim, I think on the last call you had mentioned over 100 million MAUs. It was the first time you ever broke it out for North America. Is that number up or down this quarter? I don't see any disclosure in your prepared remarks or in the release. Thanks so much.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

Hey, Rich. I think as I mentioned earlier on the call, we're really thinking about DAU growth in two ways. The first, obviously, is broadening our 13- to 34-year-old base in the U.S. and Europe to include 34-plus users, which, as you mentioned, is a marketing and communications challenge. Then we're also thinking about all the people outside of the U.S. and Europe who are predominantly on Android devices, oftentimes in low-connectivity environments, and how we can improve the product to better serve those customers. Of course, we're handling that with the Mushroom rebuild. We're also working on that, as I mentioned, on the bandwidth-consumption issue. So, I think there are a bunch of product improvements that we can make, especially for the 13- to 34-year-old market outside of the U.S. and Europe, and that may involve changing some features as well, or otherwise changing the application. Obviously, we want to make sure that we're doing our best to serve Snapchatters.

As it pertains to Discover, as you mentioned, I think there's a lot of opportunity to continue improving that product. We're trying to get the right mix of content. There's a lot of demand for premium content. There still remains a lot of demand for Popular Stories, for influencer content,

for what we call official accounts. Right now, those different types of Stories are all blended together in a personalized “For You” feed, and I think there are opportunities to improve that layout and potentially separate out that content in a way that makes sense for users.

I think one of the problems that you identified is that cold-start experience—so what does it look like when you first come into the service and how does it get personalized for you over time—and that’s definitely a problem that we’re working on. We just released the redesign this year, so I view this as just the beginning of really improving our content business. But I think, unequivocally, it’s created a really terrific opportunity to expand into premium content, but also Popular Stories.

TIM STONE, CHIEF FINANCIAL OFFICER

Rich, it’s Tim. On the MAU question, that was a spot metric we shared last quarter, it’s not something we intend to share on a regular basis, and in the U.S. and Canada, as you said, we shared that we had over 100 million MAU, and that remains the case.

OPERATOR

Our next questioner today will be Brent Thill with Jefferies. Please go ahead.

JOHN STREPPA, JEFFERIES

Hi, yes, this is John Streppa on for Brent. You noted in your prepared remarks that you crossed 85 percent of revenue being transacted through self-service. Just curious about when you think that might start to plateau as a percentage of revenue? Then, also following up on that, you noted pricing down 15 percent sequentially, after being down 9 percent last quarter. Could you maybe walk us through what you’re seeing in the auction dynamics in terms of competitiveness of those auctions, and as you get more advertisers, how you expect that to change over time? Thank you.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

I think when we talk about that transition to programmatic, I think we’re effectively there. We’ll continue to transition a little bit over the next couple quarters, but at 85 percent, we feel like we’re pretty much there, which is really exciting for us. Then, as you mentioned pricing coming down, a lot of that has to do with how we’re optimizing. We’re doing a much better job now helping people bid against conversion events, and all sorts of important objectives. So, I think as we get better at optimization over time, hopefully we’ll continue to be able to drive pricing down even further for those advertisers, while still increasing revenue overall.

OPERATOR

The next questioner today will be Mark Kelley with Nomura. Please go ahead.

MARK KELLEY, NOMURA

Hey guys, thanks for taking the question. We've heard some positive feedback from advertisers in terms of the ROI they're getting when they use the SDK. I'm just curious if you think advertisers using Pixel see similar results, given that it's not as tailored to their needs? Then, second, do you have any early thoughts on the EU copyright directives that are kind of in the works right now, especially on the cost side of things? Thanks.

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

As we look at the Pixel, we're really focused right now on the early stages of Pixel, which is really just about getting it adopted widely. We're making great progress there. Then, over time, we'll be able to do a better job bidding against those conversion events that the Pixel observes. Then, over time, we should see a lower cost-per-outcome for advertisers using the Pixel.

Then, no thoughts at this time on the EU directive.

OPERATOR

Our last questioner for today will be Brian Wieser with Pivotal Research. Please go ahead.

BRIAN WIESER, PIVOTAL RESEARCH

Thanks for taking the question. I was wondering if you could talk a bit about churn trends, and to the extent you can provide any characterization on gross additions versus net additions, is that a factor? I'm just wondering if you can give us any color on how that might be trending?

EVAN SPIEGEL, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER

I couldn't tell if that was about users or advertisers, but we're not able to give any guidance on churn.

OPERATOR

This will conclude our question and answer session, as well as Snap Inc.'s Third Quarter 2018 Earnings Conference Call. Thank you for attending today's session and you may now disconnect your lines.