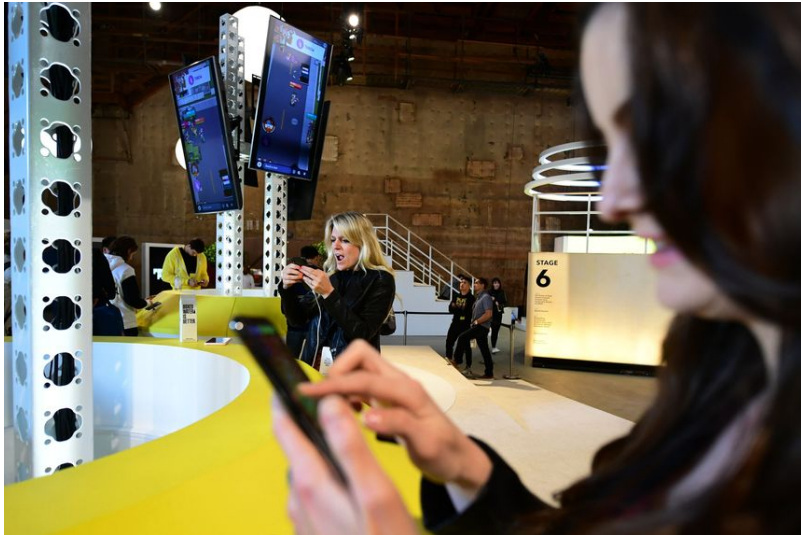


## EARNINGS

# Snap Posts Gains in Users, Revenue

Changes to its social-media app and new tools for advertisers appear to be paying off



The company said the number of daily Snapchat users rose by seven million from the prior quarter to 210 million. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

*By Sarah E. Needleman*

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Snap Inc. [SNAP -5.86%](#) ▼ reported another quarterly increase in users and revenue, signaling that changes made earlier this year to its social-media app and the launch of new tools for advertisers are helping its fortunes.

The Santa Monica, Calif., company said Tuesday the number of daily Snapchat users rose by seven million in the third quarter to 210 million, marking the third consecutive period of growth. But the latest increase was smaller than the 13 million users gained in the second quarter, when it updated its Android app, unveiled new augmented-reality glasses and released several games.

Adding more users is critical for Snap as it looks to attract more advertisers and, in turn, generate more revenue. Analysts polled by FactSet had expected Snap to have 207 million as of September.

Snap's third-quarter revenue rose 50% from a year earlier to \$446 million, beating the \$435 million in revenue expected from analysts polled by FactSet and the company's own forecast. Average revenue per user—a key gauge reflecting the health of Snap's ad business—rose 33%

from the prior-year period, but the pace of growth was the slowest since Snap went public in 2017.

In the latest quarter, Snap's loss narrowed to \$227.4 million, or 16 cents a share, from \$325.1 million, or 25 cents a share, a year earlier. Analysts had expected a loss of \$266 million.

Shares of Snap were down more than 1% in extended trading. The company's stock, which has more than doubled in value this year, fell 4% to \$14 during regular trading Tuesday.

"It was a pretty good quarter but investors had higher expectations" for user growth and average revenue per user, said Cascend analyst Eric Ross.

Snap is the first social-media company to report earnings this week. Twitter Inc.'s third-quarter report is due out Thursday, while Facebook Inc. is scheduled to release its quarterly results next week. Twitter counted 139 million daily users in the second quarter, while Facebook counted 1.59 billion people who used its "blue" app, the company's oldest and largest product. Neither company has increased its number of daily users at the pace Snap posted in years.

Snap's latest results continue to mark a major turnaround from 2018, a year plagued by a redesign that users initially panned and a string of executive departures. With one quarter now remaining for the year, Snap appears poised to close out 2019 in a much stronger position. Still, the company continues to face stiff competition from longstanding rivals Facebook, Instagram and YouTube, as well as social-media upstarts including TikTok.

Snap considers TikTok, a video-sharing app from Chinese startup Bytedance, a friend, Chief Executive Evan Spiegel said on an earnings call with analysts.

"They're an advertising partner for us and I think most importantly the value they provide their community is very different than the value we provide ours," he said.

Snap, whose Snapchat app turned eight years old in September, has yet to turn a profit as a public company. Mr. Spiegel has said it is his "stretch" goal for Snap to be profitable this year in terms of earnings before interest, taxes, depreciation and amortization, and he thinks the company is on track to reach that milestone.

In the third quarter, Snap introduced a way for companies to create ads promoting their current product catalogs. Snap also made it possible for companies to post longer video ads—up to three minutes—and it populated its Discover section with more curated stories from publishers such as NBC News, ESPN and The Wall Street Journal.

The company's newest ad tool, which moved out of several months of early-stage testing last week, has the potential to help attract new advertisers because it links Snapchat users directly to

where they can purchase consumer goods, said Barry Lee, an executive with ad giant WPP PLC's Mindshare unit. "What advertisers care about most are demonstrable results," as opposed to just spreading their brand's message, he said.

Snap, which describes itself as a camera company, also said it plans to spend more money on augmented-reality features for Snapchat over the next few years, as it believes that the various ways it uses the technology help differentiate it from its competitors.

"The platform is definitely improving its operations and we expect that to continue," said SunTrust Robinson Humphrey analyst Youssef H. Squali. "But the question remains about the level of investment required to grow at a faster rate and how they will tackle the competitive landscape."

For the fourth quarter, Snap said it expects revenue of between \$540 million and \$560 million, compared with \$390 million in the final quarter of 2018. Analysts polled by FactSet were expecting \$555 million in revenue. Mr. Spiegel said the company is very optimistic about the progress its ad business is showing.

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