

# Three Takeaways from Snap's Q1 2020 Earnings: What Advertisers Need to Know

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**Debra Aho Williamson**

**S**nap Inc. reported strong gains in both users and revenues in its Q1 2020 earnings on Tuesday, despite growing concerns about the impact of the coronavirus on worldwide ad budgets. Here are three takeaways for advertisers.

## **The coronavirus hasn't materially hurt Snap's ad revenues—yet.**

Snap **reported** \$462 million in revenues in Q1, up 44% from the previous year. That was far better performance than many had expected it would report. The company's worldwide revenues grew about 58% in January and February, and even though growth fell to just 25% in March (when the pandemic ramped up), the gains from the first two months helped the company end the quarter solidly.

However, the picture for Q2 is unclear. Snap didn't provide guidance for the full quarter, citing uncertainty related to the worldwide economic recovery. But it took the unusual step of providing revenue growth figures for the first few weeks of April. It said that from April 1 to 19, worldwide revenue grew an estimated 15% compared with the same period in 2019. In the most recent week, growth was an

estimated 11%. Although those percentages are well below what the company saw in Q1, the fact that Snap saw gains at all in the first few weeks of the quarter is a positive sign.

The advertiser mix on Snapchat may have helped its performance in Q1 and may continue to help it in Q2. It has relatively fewer small-business advertisers than Facebook and Instagram do, and more large advertisers have been willing to commit to using Snapchat on a regular basis. In [prepared remarks](#) delivered during the investor conference call, Jeremi Gorman, Snap's chief business officer, said the company "doubled the amount of money committed via upfronts in 2020 vs. 2019."

In our early-March forecast, we [estimated](#) that Snapchat would have worldwide ad revenues of \$2.20 billion this year, up from \$1.51 billion in 2019. That's an increase of 46.1%, the second-fastest growth rate for the social networks after Instagram. We will be updating our forecast again in June.

### **Direct-response advertising now makes up half of Snap's revenues.**

Snap said direct-response advertising now accounts for more than half of its worldwide revenues. That may come as a surprise to those who still think that Snapchat is mainly a brand-advertising platform. But Snap has worked hard over the past few years to build out measurement capabilities and ad products that appeal to direct marketers, causing direct-response revenues to nearly double as a share of total ad revenues in the past two years.

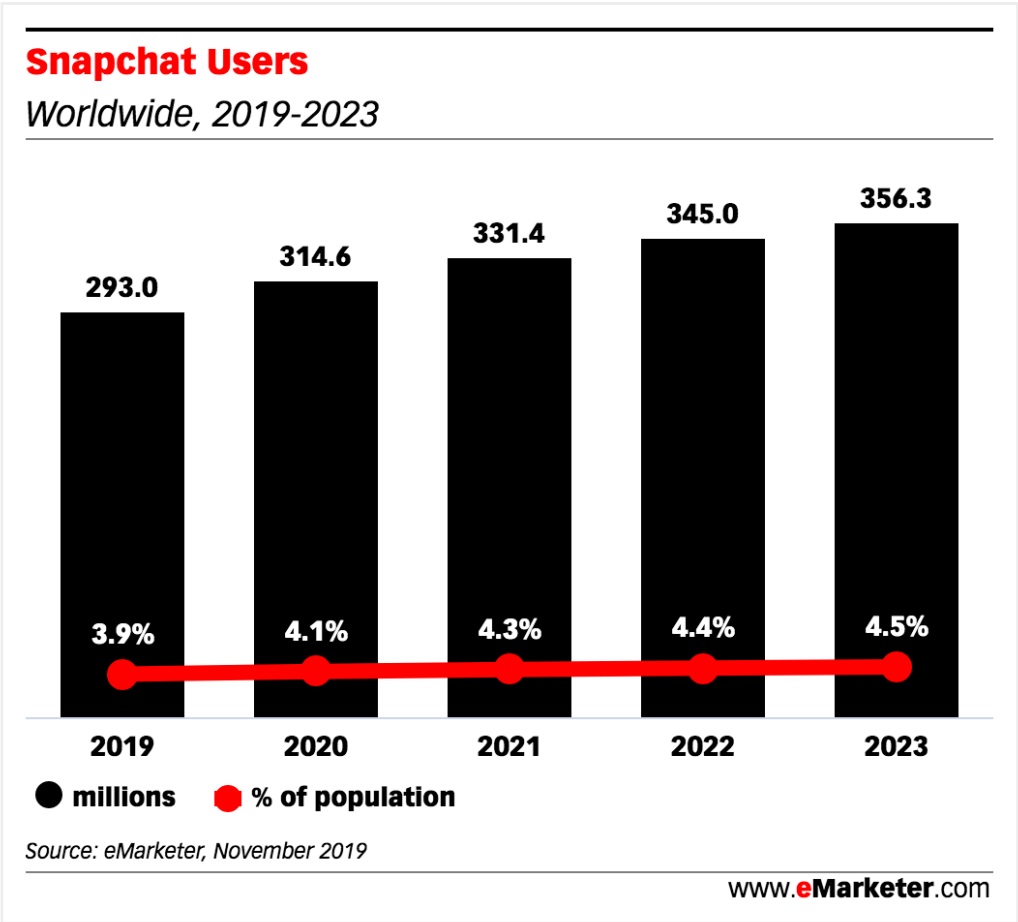
So, what has Snap done right? It has introduced some of the same ad products the other social platforms offer, such as a conversion-tracking advertising pixel, the ability to optimize ad bidding based on conversion events such as app installs, and improved ad-targeting capabilities. That has attracted performance advertisers who already buy those types of ads on the other platforms. But Snap also has focused on offering unique ad products that involve AR, and it has made it easier to buy those types of ads on a self-serve basis.

### **User growth was strong, and engagement was up as well.**

Snap reported another strong quarter of user gains; Snapchat had 229 million worldwide daily active users (DAUs) in Q1, up 17% from Q4 2019. However, the gains weren't due to the coronavirus; the company said that it was already on pace to see strong growth in DAUs in the quarter before the final weeks when the crisis accelerated.

Snapchat added new users in all of its regions, although DAU growth in North America was the lightest of all, rising just 10% year over year. Europe DAUs increased 14%, while DAUs in its Rest of World segment were up 45%.

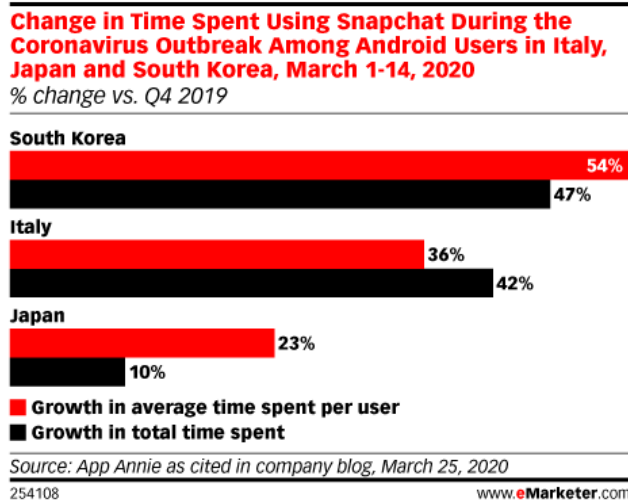
On a monthly basis, we estimate Snapchat will have 314.6 million worldwide users this year, up 4.1% from 2019.



In addition, time spent on Snapchat has increased due to the coronavirus. The company's CEO Evan Spiegel said average time spent was up more than 20% in the last week of March vs. the last week of

January. Some markets, such as France and the UK, saw more than a 30% increase, he said. He didn't provide data on time spent in the US, however.

According to [mobile app tracker App Annie](#), there was 54% growth in average time spent on Snapchat per user in South Korea from March 1–14, 2020, compared with Q4 2019. Italy saw a 36% increase, and Japan was up 23%.



Additionally, the pandemic contributed to increases in communication on Snapchat. Spiegel said communication with friends was up more than 30% in the last week of March vs. the last week of January—and in some markets there was an increase of more than 50%. Spiegel also noted that chat, calling and games were highlights for group engagement.