

Pinterest Q4 2022 Transcript

MANAGEMENT DISCUSSION

Operator:

Good afternoon. Thank you for attending today's Pinterest, Inc. Fourth Quarter and Fiscal Year 2022 Earnings Conference Call. My name is Hannah, and I will be your moderator for today's call. I would now like to pass the conference over to our host, Neil Doshi, Head of Investor Relations. Please go ahead.

Neil Doshi, Head of Investor Relations:

Good afternoon, and thank you for joining us. Welcome to Pinterest earnings call for the fourth quarter and full year ended December 31, 2022. I'm Neil Doshi, Head of Investor Relations for Pinterest. Joining me today on the call are Bill Ready, Pinterest CEO; and Todd Morgenfeld, our Chief Financial Officer and Head of Business Operations.

Now I'll cover the safe harbor. Some of the statements that we make today regarding our performance, operations and outlook may be considered forward-looking, and such statements involve a number of risks and uncertainties that could cause actual results to differ materially. In addition, our results, trends and outlook for Q1 2023 and beyond are preliminary and are not an indication of future performance.

We are making these forward-looking statements based on information available to us as of today, and we disclaim any duty to update them later unless required by law. For more information, please refer to the risk factors discussed in our most recent Forms 10-Q or 10-K filed with the SEC and available on the Investor Relations section of our website.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's earnings press release and presentation, which are distributed and available to the public through our Investor Relations website located at investor.pinterestinc.com.

Lastly, all growth rates discussed in today's prepared remarks should be considered year-over-year unless otherwise specified.

And now I'll turn the call over to Bill.

Bill Ready, Chief Executive Officer:

Thanks, Neil. Hi, everyone, and thank you for joining our Q4 earnings call. I'm proud of our team's focus and execution over the past year and in particular Q4. We reinvested in our core product experience that led to deepening engagement and a return to user growth. We built and shipped new ad tech and measurement solutions that resulted in improved returns for our advertisers. And we're just getting started. I have strong conviction that we will continue to innovate and deliver value to our users and business partners.

We grew global MAUs in Q4 to \$450 million, up both sequentially and year-over-year. Our global mobile app users, which account for over 80% of our impressions and revenue, grew 14%. And our U.S. and Canada mobile app users grew 5%, accelerating from last quarter. More importantly, sessions continue to grow significantly faster than users, demonstrating deepening engagement per user as we focus on driving greater per user monetization.

In Q4, we delivered revenue of \$877 million, growing 4% or 6% on a constant currency basis, roughly in line with our mid-single-digit guidance range. Strength came from large U.S. retail advertisers and international markets, excluding the impact of FX, as these advertisers leaned into our full funnel platform during the holiday season. However, this strength was partially offset by CPG advertisers as well as small and mid-market advertisers in the U.S., who faced headwinds from the macroeconomic environment. For the full year, we generated revenue of \$2.8 billion, growing 9% or 11% on a constant currency basis.

We're pleased with our results this quarter despite headwinds from the softening ad market, which Todd will speak to later. We remain confident in our long-term strategy and our ability to execute and drive value for users and advertisers. We're also increasing operational rigor and have taken actions to control costs in Q4. For example, we significantly slowed the pace of hiring such that our head count was flat quarter-over-quarter. We reduced our infrastructure spend, which declined sequentially despite strong engagement volume increases, and we closed some of our smaller offices for future cost savings. These actions put us on the path to meaningful EBITDA margin expansion in 2023 and demonstrate our focus on generating strong cash flow.

As we build upon the solid foundation we set in 2022, we're laser-focused on our 4 strategic priorities: one, growing monetization and engagement per user; two, integrating shopping into the core of the product experience; three, improving

operational rigor, and therefore, margin expansion; and four, strengthening our leadership as a positive and brand-safe platform.

First, as I mentioned last quarter, we're focused on growing monetization per user. Given that users come to our platform with intent to make, do or shop, we are well positioned to achieve this by deepening user engagement, driving more intent to action and helping advertisers better monetize our supply.

On deepening user engagement, we believe that we have a large opportunity to grow the frequency of engagement from episodic users. On top of our 450 million MAUs, hundreds of millions of logged-in users come to Pinterest episodically. In 2023, we're pursuing more ways to bring these users back more often and to find their next use case by leveraging our machine learning models and building new experiences for them.

We're also continuing the work we began last year to serve more personalized, relevant and ultimately more engaging content. This effort has already yielded results, including our return to MAU growth and double-digit growth in mobile app users. However, we have more opportunity to leverage the unique first-party signal on our platform. Our users save and organize content to boards, an active human curation at scale that is unique to Pinterest. This gives us insights into emerging trends and product associations as well as the ability to assist users when they have intent but have not yet decided what to buy. We're actively working to refresh the Pinterest Board experience to make it easier for users to organize their interest, which should yield more and higher-quality signals. This, in turn, enables us to deliver increasingly relevant and timely content recommendations.

I'm particularly excited about the work we've done to bring new and emerging demographics onto the platform. In Q4, Gen Z was once again our fastest-growing cohort, growing double digits and accelerating from Q3. We're building an experience that resonates with this audience on Pinterest, specifically around video. In fact, nearly half of all new videos pinned in Q4 were from Gen Z users. And in Q4, Gen Z sessions grew much faster than sessions from our other demographics.

As I discussed last quarter, video also drives deeper engagement. We remain focused on growing our supply of videos from multiple sources, including creators, brands and publishers. Last quarter, we grew our supply of video content 30% quarter-over-quarter. And we recently announced a deal with Conde Nast Entertainment to create high-quality video content aligned with Pinterest's key seasonal and cultural moments like

fashion months, wedding season, summer and back-to-school. We believe high-quality and inspiring content will further deepen engagement, especially for Gen Z.

Monetization per user should also be driven by our ads initiatives. Pinterest is unique because users come to our platform with intent, and we are one of the few places where people can go from seeking inspiration to fulfilling that intent through action. And we've built a full ad solution that helps advertisers meet users in their journey across the funnel from top to middle to bottom. In fact, our revenue is roughly split across the funnel with 1/3 brand, 1/3 consideration and 1/3 conversion. We've seen advertisers who take a full funnel approach see more success than those who are only active on one campaign objective. In 2022, advertisers adopting a multi-objective media strategy saw up to a 50% improvement in sales lift compared to those who use one objective, based on our Conversion Lift Study.

I believe ads when relevant and personalized can be highly valuable content for users, fostering authentic interactions between brands and consumers. In Q4, we launched ad load management with whole page optimization, which flexes ad load opportunistically in context where ads are most well suited for the user. In our initial testing, this drove double-digit improvements in ad relevance on search while simultaneously reducing CPAs for advertisers. We expect the whole page optimization will enable us to continue to improve the efficiency with which we monetize our platform over time.

In addition, we continue to improve conversion visibility through our measurement solutions in a privacy-centric way to demonstrate the value that Pinterest brings to advertisers. For example, in Q4, we launched our conversion API, and we recently integrated this API with Shopify so their merchants can use our conversion measurement tool. Based on our tests, for advertisers using our conversion API with the Pinterest tag, we found an average of 28% lift in the attributed checkout conversions and 14% improvement in the checkout CPA metric.

At CES this January, we announced our new privacy safe clean room solution with LiveRamp and Albertsons. Pinterest's integration with LiveRamp provides a protected third-party space where brands can join the first-party data and Pinterest platform data in a secure, privacy safe environment.

Our second strategic goal for 2023 is to lean into the high intent that users express on Pinterest by integrating shopping into the core of the product experience. Based on surveys of our users, over 50% say they view Pinterest as a place to shop. Yet we haven't made it easy for them to shop historically as shoppable content was not integrated into core experiences.

In our endeavor to make Pinterest the home of taste-based shopping, we're integrating shopping across our most traffic surfaces, including Home feed, Search and Related pins to show users products most relevant to them. Over the long term, we also want to make every Pin shoppable. To that end, we're making video content on Pinterest more actionable using the same playbook we applied to static images. Over the course of this year, we will be deploying our computer vision technology across our video corpus to find products and videos and make them shoppable.

To make Pinterest more shoppable, we're creating a more seamless handoff by taking the user directly to the product detail page on the merchant's app. To this effort, we continue to deploy our mobile deep linking format, or MDL, on shopping ads. During the Black Friday, Cyber Monday period, MDL accounted for 40% of our shopping ad revenue, which grew 50% in Q4. People are shopping on Pinterest, and we are helping merchants find in-market consumers.

Third, we're driving operational rigor and are committed to delivering value to our shareholders. While 2022 started off as an investment year, we took steps to cut down on costs in this challenging macroeconomic environment starting in early Q3, and we are continuing to find ways to reduce our expenses so that we can meaningfully expand EBITDA margins. As I've said before, I'm a strong believer that constraints breed creativity, and I believe our teams will deliver more compelling products and experiences that set us up for sustainable growth long term.

Furthermore, Todd and I have been evaluating our broad capital allocation strategy, including investing in the business, maintaining flexibility for strategic acquisitions and options for returning capital to shareholders. Given the significant cash balance at Pinterest today, combined with our robust ongoing operating cash flow generation, we're planning to execute a stock buyback program of up to \$500 million, which we plan to commence this quarter to help mitigate dilution from stock-based compensation. Todd will go into more details on our buyback program.

Finally, one of the biggest differentiators of Pinterest is that we are an inspirational platform, and we're intentionally tuning our business to be a positive place on the Internet. Pinterest's mission is to bring everyone the inspiration to create a life they love. And I believe in an online environment that is increasingly full of toxicity, this is more important than ever. Not only does it help our users, but also our advertisers as they look for more brand-safe environments to attract customers.

From a user perspective, we've long been investing in being a more positive platform from products like inclusive search, to important business decisions like banning political ads, because we want our users to be in a positive space for inspiration and action. Users are noticing this investment. We have research confirming the positivity of our platform and emotional benefit to our users that we're planning to release in the coming weeks.

We're seeing this sentiment come through with our advertisers as well. Some of our latest research also shows that ads that appear in a more positive environment drive more purchases at every stage of the funnel. We believe that positivity makes people more open to brands, more likely to remember them, and more driven to purchase.

As I mentioned in our last call, I value the communication, input and feedback with the investor and analyst communities. As part of that, we plan to host an Investor Day later this year, and we'll update you in the future on timing and additional details.

Finally, as you may have seen in our press release today, Todd Morgenfeld, our CFO and Head of Business Operations, will transition from the company to pursue new career opportunities on July 1. Todd has been instrumental to Pinterest's growth over the last 6-plus years and is committed to ensuring a smooth transition while we search for a new CFO. I'd like to take a moment to recognize Todd for his dedication to our employees, our Pinners, advertisers and our shareholders. Todd has made significant contributions to our business over the last 6-plus years, including leading the company's IPO process, helping the company navigate the pandemic, advancing our revenue functions, maturing our business operations and partnering with me when I joined the company last year. So Todd, we thank you for your partnership and leadership. Everyone at Pinterest will be cheering for you in your future endeavors, and I intend to be cheering the loudest.

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

Thanks, Bill. I appreciate the kind words and the partnership. I also want to thank the entire Pinterest team and the Board for the opportunity to contribute over the past 6 years. I look forward to watching the company continue to innovate, execute and grow. I'll now discuss our results.

In my remarks today, I'll talk about our Q4 financial performance and our preliminary Q1 outlook. All financial metrics except for revenue will be discussed in non-GAAP terms unless otherwise specified. And as a reminder, all comparisons will be discussed on a year-over-year basis unless otherwise noted.

In 2022, we made platform-wide innovations that resulted in improving the user experience through more personalized content, showing more relevant products that fit users' tastes and preferences and delivering increased value to advertisers through ad stack innovation, new measurement solutions and more seamless handoffs to merchant sites.

Even though softening demand lowered ad pricing across the industry, including on our platform, we grew revenue in the fourth quarter. Furthermore, we expect our 2022 investments in our ad stack to help deliver competitive cost per action as the demand environment normalizes in the future. As we continue to innovate on new products like mobile deep linking, whole page optimization and improved measurement solutions, we believe these investments will drive better returns on ad spend for our partners.

As Bill mentioned, we remain focused on deepening engagement with our existing and episodic users, which should allow us to grow our revenue per user over time. From Q4 2019 to Q4 2022, our revenue grew at a compound annual growth rate of 30%, while our monthly active users grew at a compound annual growth rate of 10%. Our growth opportunities should continue to be robust as we improve frequency of visitation, make Pinterest more shoppable to satisfy intent to action, deliver more solutions for advertisers and improve the relevance of our advertising to match our users' commercial intent.

During the quarter, 450 million global monthly active users came to Pinterest, growing 4% year-over-year and 1% sequentially. We believe that our investments in relevance and personalization are the primary drivers of our return to seasonal growth. In the U.S. and Canada, monthly active users were 95 million, back to year ago levels. As we've noted before, our mobile application users are our most monetizable users and account for over 80% of our total impressions and revenue. Global mobile application monthly active users accelerated to 14% growth, and U.S. and Canada mobile app MAUs accelerated to 5% growth after returning to growth for the first time this year in Q3 of 2022. Furthermore, global and U.S. and Canada sessions grew significantly faster than monthly active users and accelerated from the third quarter. In addition, we saw growth in many of our core verticals as well as some of our emerging verticals like travel, vehicles and men's fashion.

Turning to our financial performance. Q4 global revenue of \$877 million grew 6% on a constant currency basis or 4% on a reported basis. Strength came from large retailers looking to drive sales during the holiday season, and we had solid growth from our international markets when adjusting for foreign exchange headwinds. There was also

resilience in our awareness objective or brand ad spend as advertisers continue to lean into the brand safety and positivity on Pinterest. Furthermore, some emerging verticals, including automotive, travel and financial services, posted strong revenue growth. While we saw pockets of resilience from some CPG advertisers, many of our CPG partners and our U.S. mid-market and SMB advertisers continue to face some challenges stemming from the current macro climate.

In terms of revenue by region, U.S. and Canada revenue was \$722 million, an increase of 5%. Total revenue from Europe was \$123 million, growing 5% on a constant currency basis but declining 7% on a reported basis due to foreign exchange headwinds. Total revenue from our Rest of World region was \$32 million, growing 33% on a constant currency basis and 26% on a reported basis.

Turning to our EBITDA and expense profile. Adjusted EBITDA was \$196 million in Q4 with an adjusted EBITDA margin of 22%. This EBITDA figure includes several actions we took in the fourth quarter that we believe will reduce our expense profile for 2023 and beyond. Most notably, this included a realignment of our resources against our shopping strategy as well as reductions to our recruiting staff and closures of some of our smaller and less utilized office spaces. Collectively, these actions accounted for about 2 percentage points of EBITDA margin. I'd also like to provide more color on how these actions impacted some of our expenses. Total operating expenses were \$508 million, up 17% quarter-over-quarter. If you adjust for the costs associated with the actions I described during Q4, our operating expenses grew 13% quarter-over-quarter, in line with our guidance. These costs were spread across sales and marketing and G&A.

More specifically, our sales and marketing expenses grew 29% quarter-over-quarter. The actions I referenced accounted for approximately 5 points of that growth, while our brand marketing campaign that I've referenced on past calls drove the vast majority of the rest of the growth. G&A expenses grew 25% quarter-over-quarter. Over 80% of that growth was driven by the actions I previously mentioned as well as increased taxes and bad debt expense. Excluding all of these items, our G&A would have grown 4% sequentially. Finally, we ended the quarter with approximately \$2.7 billion in cash, cash equivalents and marketable securities.

As we look ahead, while the macroeconomic environment remains volatile and we're experiencing softer advertiser demand, we want to share our best judgment around our guide based on the signals we have today. For Q1, we expect revenue to grow in the low single-digit percentage range year-over-year. Quarter-to-date, our revenue growth

is trending nearly in line with our reported revenue growth from Q4. However, similar to last quarter, we believe the error bars are a bit wider given the volatility in the market. Our guide includes about 1 to 2 points of foreign exchange headwind, and we also expect headwinds to persist from our U.S. small and medium business and mid-market advertisers as they continue to face outsized challenges in this macro environment. While we've made significant progress in opening up more monetizable supply and reducing cost per action, these advertisers remain price-sensitive.

For the first quarter non-GAAP operating expense, we expect a sequential decline in the low double-digit percentage range. First, we're not planning to invest in a brand marketing campaign in the first quarter as we did in the fourth quarter. Second, the net impact of the actions we took in Q4 and to date in Q1 related to expense reductions are reflected in the guidance. While these actions resulted in additional costs within these quarters, we believe they will contribute to our full year goal of returning to margin expansion.

As you think about our operating expense cadence through the year, you should expect a meaningful deceleration each quarter and year-over-year growth in OpEx, especially as we move into the second half of the year as we will be lapping the significant investment in hiring we made into the business in the first half of 2022.

On monthly active users, as you know, we generally do not provide guidance. We are encouraged that our investments in relevance and personalization brought us back to top line MAU growth, and we're focusing on deepening engagement within our core and episodic users.

As Bill mentioned earlier, we're focused on providing long-term shareholder value, including through our capital allocation strategy. Our Board of Directors has authorized a share repurchase program of up to \$500 million. We plan to commence repurchasing shares this quarter, and we intend to complete the program over the following 12 months. We believe it's important to have equity as a portion of our overall compensation program as it fosters an ownership culture with our employees, and this share repurchase program will help offset the dilutive impact of this equity compensation. Our repurchase program is in addition to an operational approach to mitigate dilution that we implemented in the second quarter of last year, called Net Settlement, under which we, as a company, hold back shares to cover the taxes on employees vested RSUs, where the company pays for the taxes from our own cash reserve on behalf of the employees. Net Settlement could amount to a use of cash of approximately \$275 million in 2023, depending on a variety of factors, including the stock price and the number of grants that vest through the year.

Finally, I want to thank our team at Pinterest, our advertising partners and all of the people that come to Pinterest to find inspiration. And with that, we can open it up for questions.

QUESTION AND ANSWER SECTION

Operator:

The first question is from Eric Sheridan with Goldman Sachs.

Eric Sheridan, Goldman Sachs:

Maybe 2, if I can. And first, Todd, congratulations on future endeavors. I'm sure we'll probably have one more earnings call together, but just wishing you best of luck in future endeavors. Maybe on the first question, obviously, visibility remains low in the overall advertising environment. Can you give us your perspective on how you're managing through that sort of low visibility that you're seeing right now versus managing towards building what you want to build on the advertising side for the long term and how we should expect the interplay of those factors in the coming quarters?

And then second, as we exit '22, and you guys sprinkled a lot of this into your prepared remarks, but how should we think about what the top priorities are for investment into 2023 and how, again, that maybe plays back against sort of the broader growth environment that you're seeing?

Bill Ready, Chief Executive Officer:

Thanks, Eric. So if I step back and sort of address your questions on the broader landscape and sort of where we are in progressing along our objectives there, first, I'd say, while 4% to 6% revenue growth typically wouldn't be something to write home about, we're actually outperforming compared to a lot of our peers. And we believe we're gaining share, especially with our larger and most sophisticated advertisers, where we're gaining more share of wallet.

So as we talked about, we have huge growth potential in front of us, and I'll try to frame out that potential. So when I came to Pinterest 2 quarters ago, analysts and investors

had a few questions. Could we regain share with our core user base after the pandemic unwind? Could we compete in a world of more short-form video? And could we build a monetization engine at scale?

After a little over 6 months, I'm more confident than ever that we can do all of the above, and we're focusing our investments in employing operational discipline across the organization to get there. So on the first question, can we return to user growth? Yes. We've returned to year-over-year MAU growth. And better than that, we're seeing double-digit growth in our most monetizable and stickiest mobile app MAUs. And we're also seeing that our engagement overall is growing double-digit percentages. So we feel really good about the growing sessions and the fact that sessions are growing even faster than users, and that growth is accelerating. In fact, in our 10-K, which will be filed today, you'll see that our weekly active to monthly active user ratio is at its highest level ever at 61%. That's clear evidence that we're deepening engagement as we've been talking about for the last couple of quarters and finding really good success there.

Second, we can compete in a world where our peers -- the second question was, can we compete in a world where our peers are all in on short-form video? And I think we're answering that question with a clear yes as well but doing it on our own terms. Our supply of content is growing. Video content is up 30% quarter-on-quarter. We're finding more efficient ways to get engaging content on Pinterest, serve the needs of our Pinners from inspiration to action.

And importantly, while we're seeing more than 10% of our engagement is on video, it's more than 30% of our revenue that is on short-form video. So when we think about monetizing that short-form video, which I think has been an open question broadly, we're seeing really good success in the monetization of short-form video, which I think is unique and stands out.

And so further to that point, the question of can we build a monetization engine at scale. Absolutely. I couldn't be more excited about the advancements we've made in our ad stack and how that's allowed us to grow monetizable supply north of 15%, higher than overall engagement gains because of tech innovation like whole page optimization, which opportunistically increases ad load when a consumer is in a shopping mode or has a commercial intent. We're building solutions to help advertisers measure results on our platform like our conversion API and our new clean room solution. And while we're early in the adoption curve on those measurement capabilities and those new tools for advertisers, we're seeing that our best share gains, our best growth is coming from the advertisers that are implementing those tools. And the more they see visibility into our

performance, the more we see that, that performance is clear. And I think that bodes well for our future as more and more of those advertisers adopt those tools from us.

So while we remain in a demand-challenged environment, I think the improvements we've made to deliver advertiser value are paying off. I think that's why you see us growing faster than many in the peer set. And while demand doesn't flip overnight, we think the setup that we have of deepening engagement, the supply on our platform growing even faster than the deepening engagement with innovations like whole page optimization are making sure we have really great relevance of those ads and allowing us to serve more relevant ads in commercial context, that, coupled with the progress we're making on measurement tools and the performance we're seeing there early in that adoption curve with discerning advertisers, we think all that sets us up really well for the medium to long term, even as we're fighting through a lot of choppiness in the near term, just as everybody else is. And then one final point. I think, Eric, you also asked about top priorities. I think I addressed many of these in the call, so I won't belabor those. But I think on each of these points, while we have really great progress, we continue to proceed forward on those. I talked about making sure that we're making our -- all of our core experience as shoppable as well as driving further improvements to engagement and our ad stack.

We think we're early in those journeys. We're going to have really good proof points. Those continue to be our priorities. And then finally, the operational rigor where we've implemented a program around operational rigor, we're seeing good results from that. And importantly, even as we're implementing more operational rigor, we're seeing really good product innovation. And so the comments I've made multiple times around constraints leading to creativity, we're seeing that in action. And we feel really good about the progress on that.

Operator:

Your next question is from Ross Sandler with Barclays.

Ross Sandler, Barclays:

Just following up on the prior question on priorities and investment levels. So Todd, if revenue -- I know we don't have a ton of visibility, but let's just say low single digits is what we see in the first half and then it improves to something higher than that in the second half of the year, what kind of margin expansion might we see based on the planned investment levels that you talked about for '23?

And then the second question, Bill, you guys have talked about using an ad partnership idea as a kind of supplement to your direct ad sales, where you bring in demand from some of these retail media networks and DSPs and other third parties. So could you just talk a little bit more about timing and magnitude of something like this? It didn't come up on that prior checklist. So is that more of a '24 event? And then how do you -- if you do implement that balance, the partnership idea with direct ad sales?

Bill Ready, Chief Executive Officer:

Yes. I'll answer your second question first. So we definitely think about sourcing ad demand as an opportunity for us. Our first priority is always going to be our direct sales and the partnerships that we're driving there. And we feel really good about the progress that our sales team is making on that and how we're winning with those advertisers that have implemented our latest tools and the most sophisticated and discerning advertisers seeing our performance be the strongest. We feel really good about that first-party selling motion. But we do believe there's an opportunity to augment our demand with third parties. And you mentioned one of those that we've done already around Retail Media Networks. We think there's a lot more opportunity in those.

And we also think that leveraging third-party demand has been an underutilized lever here, particularly compared to other platforms. And so that is something that we will continue to explore. While no specific updates on specific deals or specific partners or those kinds of things, I do think that is something that we'll look to take more action on. We're already taking action on it with Retail Media Networks and something that we'll look to continue taking action on more in the near term.

It is not something that I'd put into 2024. It's something that we're actively exploring. And again, no specific updates or specific announcements on what we do there. But we are very much looking at that as a meaningful opportunity in the near term versus something that would be relevant to the medium or long term.

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

And Ross, on your margin question, not to be too basic about it, but in a world where we have a volatile demand picture and some uncertainty on the year, generally from a top line perspective, we know revenue needs to outgrow costs. We talked about meaningful margin expansion a few quarters ago, and that's something we're still committed to and understand the levers that are needed to get there.

Ideally, we can grow as the demand environment hopefully normalizes given all the factors that Bill described. Deepening engagement, that strategy is working. We've opened up more monetizable supply at lower prices. We've built tools, including whole page optimization and mobile deep linking to better utilize that monetizable supply. And our measurement tools are proving that those ads are working better and better. So I'm confident that we'll -- as the demand picture normalizes, we'll see some upside from a revenue perspective.

But we also know that there's another part of this equation that's on the cost side. And from a gross margin perspective, you saw in this current quarter that our cost of revenue declined quarter-over-quarter after meaningful expansion through the year. That's a product of more discipline from an infrastructure standpoint and hope to continue to invest in further optimizations through the year, which creates a little bit more headroom for OpEx.

And as Bill mentioned, we slowed hiring pretty significantly in the summer of last year. We took some actions in the fourth quarter. We've taken more actions already, and we continue to evaluate other levers, including things like our real estate portfolio, to make sure we're on track to deliver that margin expansion. If I'm in your shoes thinking about modeling how the year will unfold, you probably can sense from my guide that year-over-year OpEx growth for the first quarter is a huge step down from the year-over-year growth that we posted in the fourth quarter on OpEx. You'll see another meaningful step down and further step down as the year unfolds because we're lapping in each of the 4 quarters because we're lapping a lot of headcount-related investments that we made in the first half of last year. And then we're lapping a lot of our brand and marketing campaigns in the back half of the year, including some creator rewards programs, which we would dial back and are discretionary.

When you think about that from a modeling perspective, that means that we would be able to post much, much, much reduced OpEx growth through the course of the year that should support even low levels of revenue growth, driving margin expansion.

Operator:

The next question is from Brian Nowak with Morgan Stanley.

Brian Nowak, Morgan Stanley:

I have 2. The first one, you've made a lot of progress around users and sessions and engagement. Was just wondering if you have any stats to share at all about clicks to

advertisers, interaction with advertisers or anything on transaction. I know it's early, but just any way you can quantify sort of some of the early progress you're making on your users engaging more with your advertisers?

And the second one, Bill, I guess, if you sort of look at your user behavior as well as the key merchants and inventory you're putting on the platform, what are sort of 2 or 3 of the most important verticals in e-commerce that you think are going to really catalyze the advertising growth to materially faster growth over the course of the year into next year?

Bill Ready, Chief Executive Officer:

Maybe on the first question, on the progress we're seeing there, I mentioned in my remarks, shopping ad is growing 50% year-on-year as well as not only solving for shopping but giving easier conversions, easier ability for the user to connect with the place to buy through our mobile deep linking capabilities.

And so I shared how significant the percentage of revenue from shopping ads is coming from mobile deep linking. I think that is an early indicator of just how much we can do not only to make more of our content shoppable, but also our ability to drive that full funnel engagement where we've historically been much stronger at the upper and mid-funnel. But at the lower end of that funnel, we're seeing that low-funnel conversion objective being about 1/3 of our revenue overall in things like mobile deep linking, which we have not adopted across the board, but the early adopters of that have seen really strong performance.

So I mentioned that part of what gives me a lot of confidence in our future is much of our performance is coming from early adoption of new conversion tools like -- or new measurement tools like our conversion API and new capabilities like mobile deep linking that right now have been adopted by a smaller set of our larger, more sophisticated advertisers as we move along that adoption curve, I think that bodes well for how we can compete more broadly, particularly on shopping-type actions, conversion objectives and these lower-funnel objectives. So those are really good early indicators that as we move on the adoption curve I feel quite good about.

You asked also about which categories we think of. Shopping is pretty broad based on our platform. There are some obvious ones that you would think about, women's fashion and apparel and those kinds of things, that are definitely places where we have very large engagement, significant opportunity. We have other large moment engagement,

things like weddings and home redesigns and these kinds of things, are meaningful user behaviors as well.

We have some really interesting emerging behavior also. Todd mentioned growth in things like autos and men's fashion, Gen Z being our fastest-growing demographic. So we feel like shopping is a broad-based opportunity. While there are some categories that we will lean into first, we see it as quite broad-based, probably more broad-based than many may appreciate on our platform.

Todd, I don't know, anything you would add to that?

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

Yes. I mean, I think there's a different way of cutting it too. I think everything Bill said is absolutely right. The other way of thinking about it is just in terms of these joint business partnerships that we signed. So if you cut the market by large versus small as opposed to category of retail or category of shopping marketplace, we've seen -- I think I talked about it a couple of quarters ago that we saw 25% growth in joint business partnerships first half of 2022 versus first half of 2021. And we talked at the time about how that was a source of confidence in that the ad stack and the experience, the full funnel model here was working for the largest, most sophisticated advertisers.

We ended the year up 27% year-over-year on joint business partnerships. So we saw that tick up. And so from the standpoint of what Bill was describing, some of the largest, most sophisticated specialty e-commerce and specialty retailers are seeing great success on the platform. And that expands from brand through consideration, through purchase behavior. So really high confidence in success being driven by some of these larger players through the cycle where there's been a lot more resilience.

Operator:

The next question is from Rich Greenfield with LightShed Partners.

Rich Greenfield, LightShed Partners:

Bill, how should we think about your comments around time spent in deepening engagement. I mean, is there -- I know you're only reporting sort of -- you sort of give us overview metrics, like you haven't gotten to DAU yet. But it does feel like -- I mean, is that the metric that you're sort of solving for is to get people to be using Pinterest on a daily basis?

And like you made these comments about sort of Gen Z and video. And I'm curious if a user touches video Pin, do they end up spending a lot more time on Pinterest if they create X number of boards? Like I guess what I'm trying to understand is what the unlock it gets someone to spend meaningfully more time? Is it engaging with video, creating a board?

Like what have you learned since you sort of took over Pinterest? Because I guess we're all trying to understand, like what are you solving for that ends up leading to a far more engaged user who comes back -- I guess I'm sort of curious, like is the goal daily, every few hours, every week? Like what are you trying to solve for? I know that's a long-winded question.

Bill Ready, Chief Executive Officer:

Yes. Thanks for the question, Rich. As I mentioned in my remarks earlier, we think there's a huge opportunity in moving Pinterest users from episodic usage to more frequent usage. And certainly, when you think about something like shopping as a behavior, those become the kinds of use cases that can be more daily-type use cases versus monthly or quarterly use cases.

And so a lot of the progress you've seen from us over the last multiple quarters has been around using good AI and machine learning to get better recommendations, better personalization and using that to provide better recommendations to our users. And we think there's a lot more opportunity to use those nudges to the user to help them find new use cases on Pinterest. And we've got some really good early evidence of that. Again, it's our personalization and the AI capabilities behind that are a lot of what's been driving our improvements in engagement. But yes, we want to move people from episodic use cases to things that are weekly and daily use cases. And again, we feel like we're well on our way there.

We are by no means done. But to see things like engagement sessions and multiple measures of engagement at 10%-plus, we feel really great about that. I think the other thing that -- I mentioned this before, underscore gains, I think it's a big unlock, which is the work that we've done around whole page optimization and demonstrating that ads can be valuable content to the user.

If you think about the levers of growth in the businesses, yes, we're going to grow MAUs. But more than that, there's so much what I would call leaked engagement from the platform, where somebody couldn't satisfy their intent here and monetization would

occur someplace else. So as we get more and more ability to take action on the things that people are already finding here that's plugging a lot of leaked engagement, a lot of leaked monetization, but then also give the use of reasons to want to come back to us more and then our ability to monetize that as we've made progress with whole page optimization that we launched in Q4.

What that's really showing is that in those commercial context, we can actually serve a lot more ads -- a lot more relevant ads in ways that are good for the user, helps satisfy their intent and very highly monetizable for us. So I think that makes me feel really good about our long-term prospects is that we have multiple levers of growth there, like yes, getting from episodic to more monthly, weekly, daily usage, but then within that, playing a lot of that leaked engagement, playing a lot of that leaked monetization and actually being able to bring much more ad load and much more relevant ad load to the platform than what we've had historically. So that's how I think about the way that unfolds over time.

And while we've had good early indicators, we are at the very beginning of the potential from that. And I think there's -- if you thought about our monetization on these sort of commercial interactions, I think we're at a fraction of the ad load that you would see in a lot of other places that have these highly commercial intents. So there's a lot more we can do there. We've set the foundation for how we can dynamically take that ad load up in a way that's good for the user, good for the advertiser. That's a foundation that will allow us to grow quite a bit more.

And actually tying back into the questions around third-party demand, one of the things you need to do first before you bring in more demand is make sure you've got the supply to be able to serve that demand. With our supply growing -- engagement is growing faster than users, supply is growing faster than engagement, we now very clearly have the supply and the ability to go serve that ad content in a way that's relevant and helpful to the user that we think lets us unlock a lot more potential in the ad platform going forward.

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

The only other thing I would add on that, so we -- I've had an aspiration -- over the last few years, you may think back to the IPO, we talked about bringing people back to Pinterest for more things in their life because we know that, that drives stickiness with our user base. We invested a lot in personalization and relevance last year because we wanted to address deepening engagement. You've seen the results of that this quarter

with growing MAUs, our mobile application user growth at 14% globally, up 5% year-over-year in the U.S. and Canada.

Bill referenced the weekly to monthly active user ratio at an all-time high, sessions growing faster than all of the above. So the deepening engagement story is working because we were investing heavily in personalization and relevance. You saw that in the financials because our gross margin and cost of revenue climbed last year.

Why did it climb? It climbed because we built 100x the size of our machine learning models last year to power that experience based on unique first-party signal. We're now seeing the results of that in the engagement figures, and that gives us a different foundation on which to deliver new use cases to our users going forward.

Operator:

The next question is from Colin Sebastian with Baird..

Colin Sebastian, Baird:

Maybe first, just as a follow-up on the comments around the episodic users. I know this is in early stages, but what's sort of the time frame you'd expect where we could see an acceleration in MAUs above sort of the seasonal trends? I think, Todd, you talked about that you saw in Q4.

And then secondly, regarding features like Watch and Pinterest TV, which you're gaining more visibility on the app, curious how these are impacting monetization or ARPU? Bill, I think you mentioned a stat around video and the portion of monetization growth. So I didn't quite catch exactly what that was, though.

Bill Ready, Chief Executive Officer:

Great. Thanks, Colin. So on the shift from episodic to more frequent usage, I think you're seeing some of that reflected already. The progress we've made, as Todd and I both mentioned, around greater personalization, giving you just more reasons to come back, I think that's part of why we're seeing engagement grow much faster than MAUs overall.

You asked about a time frame for MAUs to move beyond seasonal. Again, I would point to focus more towards the overall engagement and the revenue per user rather than MAUs. As I mentioned in my prepared remarks, we have hundreds of millions of users that come to Pinterest that are not in our MAU count that come to us on an episodic

basis. And so we're much more focused on how do we drive deeper engagement with the users we have. You can imagine we have a very good view as to where those other users are, which ones monetize well.

If we wanted to chase MAUs as a vanity metric, we will chase it as a vanity metric, but they may not be the users that would monetize the best or where we need to go defend our platform the most. And so we're much more focused on deepening the engagement with the users that are in places where we know we need to compete most and where we also have the best monetization opportunity. And so I'd point your attention more towards the accelerating engagement and the accelerating revenue per user on where we go there.

And on video, and especially the monetization around video, I think this is a place -- it's one of the most exciting things that I've seen in our work here is that -- prior to my joining Pinterest, a -- I think a commonly held viewpoint on short-form video that I held as well was that the engagement is fantastic. But do the unit economics actually work, can you make money off of it in a way that more than outstrips the significant increase in the expense was very much an open question.

And to say that we have more than 10% of our engagement on video but more than 30% of our revenue on video, I think, just puts us in a very different place than many others in terms of having found that right balance of how to monetize short-form video and make sure that's driving both engagement and monetization. And we think there's a lot more we can do there. Because we're a lean-forward platform rather than an entertainment platform, the lean-forward nature of our platform, we think we have a lot of license from users to do much more with short-form video.

So a question I've been posing to the team is in the same way that images existed on the web before Pinterest that Pinterest brought new utilities to those images, short-form video has existed independent of Pinterest. But we believe we can bring utility to those short-form videos in ways that others may not, and others may not have user license to do because they have the user in a lean-back entertainment mode. We have the user in a lean-forward intent mode, where we think shoppable content and these kinds of things can be much more well received by our users.

And so that's a big part of what comes next for us is that we're looking at how we make video shoppable. We have a really great strength in our team on computer vision. There's lots of talk about AI and how it's advancing. One of the most exciting areas of the next generation of AI is around computer vision. And that's a core competency for

us. And so we're using computer vision to make video more shoppable, and some really good early results there.

So our new core computer vision model that has over 1 billion-plus parameters has led to an 8% increase in visual search shopping relevance. So these are the kinds of things that we think we can do -- that we think we're already doing quite well in the balance of how to benefit from short-form video, driving gate from that but monetize it well, and we think there's a lot more to come there. Hopefully that helps.

Operator:

The next question is from Mark Mahaney with Evercore ISI.

Mark Mahaney, Evercore ISI:

When you talk about sessions growing faster than users, can you provide a little bit more color on that? Is that users are spending more sessions, more time within the current categories that they're interested in? Or is there any -- is there evidence that they're starting to look across different categories? That's one question.

Then the second one, just in terms of -- you talked about meaningful margin expansion in '23. I know in the past, you talked about non-GAAP OpEx growth in fiscal '23 would be slower than in '22. So I'm sort of hoping you could qualitatively or quantitatively talk a little bit more about what fiscal '23 looks like. And does meaningful margin expansion mean a couple of hundred bps of EBITDA margin expansion? Anything else there would be really helpful.

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

Thanks, Mark. So a couple of things. We -- when we say sessions, we're looking at what we consider to be a meaningful engagement with the platform. So you're not just coming here and bouncing, but you're on for more than a minute in general. And so those are quality engagements largely from people on mobile application -- mobile app

and even more impressions and revenue opportunity from those sessions than what we have seen from kind of our web-based users historically.

We've seen good engagement across a number of verticals, some of our core verticals. But we've also seen, as I mentioned in my script, that there are some areas where we're seeing some cross-fertilization into some new areas. So I'm highly encouraged. In fact, one of the things I called out was men's fashion, which may come as a surprise to some on the call. We're actually seeing some of that use case diversification into things like automotive, travel, which is something we started calling out as people went out and about post-COVID.

And so to answer your question, yes, we're seeing some use case diversification not only across our core verticals but also into some emerging ones, which gives us a lot of confidence in the kind of next journey toward use case diversification.

On the non-GAAP margin, we had said a couple of quarters ago that we thought that could be around a couple of hundred basis points of margin improvement, and we're committed to delivering that. It's going to take us stepping down from where we were in the fourth quarter meaningfully in terms of year-over-year growth.

I think the year-over-year OpEx growth implied by my low double-digit sequential decline is probably in the low 20s on a year-over-year basis versus 40% growth from Q4. You should expect another big step down in the second quarter, another big step down in the third quarter and another big step down in the fourth quarter. So when you do the math on what that implies for the year, it's not just a little deceleration from this year. It's a complete reset.

Operator:

The next question is from the line of Lloyd Walmsley with UBS.

Lloyd Walmsley, UBS:

Two questions, if I can. First, just kind of going back to that earlier comments around partnerships around monetization with the likes of Retail Media Networks or other DSPs. How much do you guys see that as an opportunity around like billing in ad coverage on certain categories, helping monetize new geographies or even just on a pure pricing? Like do you think you benchmark so low that using other platforms can drive up pricing? Anything you can share there would be helpful.

And then going back to the notion that you monetize, I think you said video is 30% of monetization, 10% of engagement. Appreciate some of the color you've already shared. But is that SKU brand? Or is that also kind of match your overall DR mix? Are you selling those ads or media partners, in some cases, selling ads on that content? Like -- or is it just a function of the ad creative working where you just get a higher click-through rate on those ads? Like anything you can share there to help us understand that better would be great.

Bill Ready, Chief Executive Officer:

Thanks for the question. So on partnerships, I mean, I think each of the dimensions you mentioned are part of the opportunity. If you use the platform, you can see that there's an opportunity for us to drive increased ad relevance. I feel really great about the progress our sales team has made. But as a smaller platform, even really large, really dense auctions will augment their demand with third-party sources.

And so as a smaller player, as great as our sales team has done in driving first-party ad demand, which we are absolutely committed to continuing to do, it's a real asset. We're going to continue to invest in that. If even the largest auctions benefit from augmenting demand with third-party sources, certainly, we can as well. And in doing that, that should give you greater relevance.

I think I made the comment earlier around the sort of foundation we've laid with whole page optimization. That sets us up to think about in an integrated way how we bring ads to the user in a way where those ads are relevant content, which we think is -- has a twofold benefit. One is drive engagement when it truly is -- particularly in a commercial context where that ad could be relevant content for the user. But then secondarily, it lets us serve more ads and take our ad load up from where it's been. And our ad loads has previously been a fraction of what you would expect in other places with the kind of commercial intent that we have.

So ad coverage, increasing relevancy, ad load, these are things that will naturally improve with us over time. But as we think about the benefits potentially of augment third-party sources, retail gate networks or otherwise, we think that's an opportunity, geographies can be an opportunity.

And then your final point on pricing, I think -- one of the things that I think is hard to overstate and the progress we've made here is that the whole industry is going through a rewiring on ad measurement and moving from cookies to privacy safe ad measurement solutions. So while the whole industry is going through that rewiring, we

are -- we've provided our conversion API. We've launched our clean room efforts. And our early indications there are really positive, but we are very early on that adoption curve.

And as we think we move along that adoption curve, we think we actually are performing far better than many advertisers realize, far better than what they've been able to measure. And so bringing that greater measurement is a real opportunity. Those are things that we're absolutely going to do first party, but those are also things that as we think about the potential for partnership across the industry, there's multiple different ways that, that can play out.

And you've seen us talk about some of those already, like what we did in our clean room efforts with LiveRamp and Albertsons. And we think we'll have more of those kinds of opportunities going forward that will help with measurement, and therefore, also help with pricing as advertisers have better visibility into the value we're creating for them.

And then on your other question on video, we're kind of not breaking it down quite to the level of specificity that you're asking for. But we're seeing good broad-based engagement on video. I'll give it to Todd, if there's anything more you want to share about video generally.

Todd Morgenfeld, Chief Financial Officer & Head of Business Operations:

No. I would say we -- in general that it tends to be more of an awareness opportunity. That's kind of where it started. We have built performance video and have seen decent returns there. But I think the opportunity going forward is, as Bill has talked about before, building a real full funnel video advertising experience, it takes people through conversion.

I think there's a unique opportunity given the shopping mindset where more than half of the people come to Pinterest to shop. Video advertising can take you through the full funnel in a super compelling way. So I'm excited about the opportunity there.

Neil Doshi, Head of Investor Relations:

Operator, we are out of time now. Thank you.

Bill Ready, Chief Executive Officer:

Yes. So thanks again to all of you for joining the call and for your questions. We look forward to keeping the dialogue going, and hope everyone enjoys the rest of your day. Thank you.

Operator:

That concludes today's call. Thank you for your participation. You may now disconnect your lines.