

Pinterest Q1 2023 Transcript

MANAGEMENT DISCUSSION

Operator:

Hello, and welcome to the Pinterest First Quarter 2023 Earnings Conference Call. My name is Elliott, I'll be coordinating your call today. I would now like to hand over to Neil Doshi, Head of Investor Relations. The floor is yours. Please go ahead.

Neil Doshi, Head of Investor Relations:

Thank you. Good afternoon and thank you for joining us. Welcome to Pinterest's earnings call for the first quarter ended March 31, 2023. I'm Neil Doshi, Head of Investor Relations for Pinterest. Joining me today on the call are Bill Ready, Pinterest's CEO, and Todd Morgenfeld, our Chief Financial Officer and Head of Business Operations. Now I'll cover the safe harbor.

Some of the statements 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 Q2 2023 and beyond are preliminary and are not indicative 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 Form 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:

Thank you, Neil, and thank you all for joining our first quarter 2023 earnings call. Q1 was a strong quarter as we continue to deliver growth driven by foundational improvements in the core Pinterest experience and by continued focus on our strategic priorities and unique differentiators.

We ended the quarter with 463 million monthly active users, up 7%. Furthermore, we accelerated growth among our global and UCAN, or U.S. and Canada mobile app users similar to last quarter and our measures of engagement, including impressions, sessions and time spend continue to grow significantly faster than overall users, a testament to our work to deepen engagement per user.

We generated revenue of \$603 million, up approximately 6% on a constant currency basis. This strength came from the top and bottom of the funnel, including demand from our brand and performance objectives. As you saw in our press release, we announced a multiyear strategic third-party ad demand partnership with Amazon, which we believe can, over time, improve monetization with relevant ad content on the platform and increase shopability for users. I'll discuss this later in my remarks.

While the overall demand environment remains challenging, we're demonstrating we can continue to grow our business, while also operating with more efficiency. We delivered \$27 million of adjusted EBITDA for the quarter, with an adjusted EBITDA margin of 4% as our operating expenses came in lower than expected. This is due to a variety of cost reductions we achieved in the quarter as well as timing shifts that moved some expenses to Q2 and later in the year. Even with those timing shifts, we have confidence that the operational rigor we are driving in the business, gives us a clear path to margin expansion in line with our prior commitments.

This quarter, we continued to execute on our key strategic priorities, including: 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, including taking further steps to enhance the well-being of our users, especially teams.

In Q1, we made solid progress in deepening engagement on the platform with our existing users. Users provide strong first-party signals to their actions on Pinterest, such as searching and browsing-related items as well as by saving pins on the curated boards that create product associations unique to our platform. This signal combined with our increasingly sophisticated AI models is driving improved relevancy and personalization for users. To that end, our mobile app users who are our most engaged

and monetizable users and account for more than 80% of our total impressions and revenue, grew 16% globally. U.S. and Canada mobile app user growth also accelerated to 7%, and our measures of engagement continued to grow faster than overall users, which is proof that users are coming back more frequently to Pinterest as they find more of what they're looking for on the platform.

We continue to make good headway in adding new users, especially Gen Z users who grew double digits and continue to be our fastest-growing demographic on the platform. Gen Z users are finding value in our positive and inspirational platform and are engaging with the full breadth of content, including video. During the quarter, our video content on the platform grew nearly 40% quarter-over-quarter on top of the 30% sequential growth we drove in Q4.

Furthermore, in March, we announced a new publisher deal with Dotdash Meredith, one of the largest publishers in America to bring video content to the platform across lifestyle, fashion and food categories with brands, including Better Homes and Gardens, Brides, Food & Wine, and Allrecipes. We're also finding that our blend of videos and images is resonating with users as images remain a vital part of the Pinterest value proposition. Images in addition to video help users find inspiration relevant to them, refine what they're looking for and take action. Our corpus of images continues to grow even off a very large base. And we saw that the number of boards grew double digits in Q1. The unique curation and depth of signal we drive speaks to the high intent of our audience and the lean forward experience we have on Pinterest.

We're also improving monetization by making Pinterest more valuable for advertisers as a full-funnel platform. At the top of the funnel, we're seeing strength and awareness objective as we bring greater performance for advertisers. Also, our engagement wins are contributing to this growth by delivering more supply and favorable pricing. We've been hard at work building new ad formats that our brand advertisers have been asking for. In Q1, we began testing Premiere Spotlight, our first premium awareness offering to showcase brands in an exclusive placement on our search page with advertisers like the Coca-Cola Company. Based on early testing results, Premiere Spotlight ads drive significantly higher click-through rates on average compared to standard video awareness ads on Pinterest.

We also remain focused on lower-funnel objectives where we believe we have a much larger opportunity to deliver conversions to advertisers looking for sales. We're doing this by growing supply, better matching that supply with relevant demand and innovating on formats, actionability and measurement capabilities. In Q1, whole page optimization, which we introduced in the prior quarter, continued to drive more relevant ad

impressions with impressions growing faster than sessions even as engagement improves. As a result, our ad marketplace is getting more efficient, contributing to an 8% reduction in CPAs for performance advertisers. We've also expanded our conversion ad products with mobile deep linking or MDL. We began beta testing MDL in Q3 of last year for shopping ads. And in Q1, MDL was the primary contributor to our shopping revenue growth, which was up 40% year-over-year.

Building new ad tools and formats is only part of the equation for monetization success. The other part is helping advertisers measure those results through conversion visibility and attribution solutions. In Q1, we integrated our API for conversion with [indiscernible] to drive further advertiser adoption and we're in the process of onboarding advertisers like Wayfair onto our LiveRamp clean room solution in Q2.

As I've discussed previously, I also believe there's a meaningful opportunity for us to augment our auction with third-party ad demand. This is an important lever for us to increase the comprehensiveness of our ads, thereby leading to greater relevance and shopability for users and ultimately improve monetization on the platform. We believe Amazon is the right first partner as we bring third-party demand on to Pinterest because they offer a breadth of relevant shoppable ad content paired with a seamless consumer buying experience. Their broad coverage of brands and products will help accelerate our efforts to take users from inspiration to action, satisfying more of the commercial intent that users have on our platform. We're excited about this partnership and the value it can bring to users and advertisers. A partnership of this scale will be a multi-quarter implementation, and therefore, it may not be until next year that we see more meaningful revenue impact.

Moving to shopping. In Q1, we continue to execute on our vision to build the home of taste-based shopping. Our survey work consistently showed that over 50% of users view Pinterest as a place to shop, and our long-term goal is to make every Pin shoppable. In Q1, we started integrating shoppable pins for products you can take action on to the home feed and improving the overall distribution of this content through investments in our core relevancy algorithm. These changes are showing promising results. Click-through rates and saves of shoppable pins grew over 35% year-on-year. We're also exploring new formats to make shopping more fun and engaging. Earlier in the quarter, we announced that we were testing shoppable shuffles on Pinterest, with the goal of allowing users to more seamlessly access shoppable pins from their collages. As we started integrating more shuffled content into the main Pinterest app, we're seeing the shuffles with the highest number of saves have shoppable content like outfit, wedding and home ideas. As we make products more easily discoverable and shoppable, we're also enhancing merchant value on the platform. In the last 6 months,

we've seen nearly a 30% increase in attributed checkouts for merchants who upload their catalogs to the platform.

As I've mentioned in the past quarters, I believe our ability to execute on our key strategic priorities is enhanced by instilling a culture of operational rigor, including disciplined management of expenses. We're not a growth-at-all-cost company and our actions have proven that since I joined. Shortly after I arrived last summer, we took steps to significantly slow our pace of hiring. In Q3, we kept headcount flat and began driving meaningful improvement in infrastructure spend in Q4 while returning to user growth.

In Q1, we took further actions to drive longer-term efficiency in our business through our restructuring plan, which we announced at the end of March. As part of this restructuring, we reduced our real estate footprint by downsizing or completely closing several of our offices around the globe as our flexible work policies do not require our historical levels of capacity. In addition, we made a 4% reduction in our workforce in early February to better align our talent against our top strategic priorities. We remain committed to delivering meaningful margin expansion this year even if the demand environment takes longer to improve. Todd will address this further in his remarks.

As we grow users engagement, we're also investing in making Pinterest a more positive place on the Internet, which is important for our users and advertisers. For many of our users, Pinterest is a personal space online where they can discover, grow and manifest their dreams. Several third-party studies have shown that users feel safer on Pinterest and other platforms, and they feel more positive on Pinterest. We think that's worth investing in. To do that, we've taken steps to further enhance the safety and well-being of our users, especially minors. In late March, we made it mandatory for users to provide their birth dates so that we can provide age-appropriate features and functionality. Pinterest is now private by default for existing and new users under the age of 16, and their content and profiles won't be discoverable by others, setting a new bar for user well-being in this industry. Our investments in being a positive platform also makes good business sense as advertisers [indiscernible] brand safe environment as a reason for spending on the platform.

Lastly, we're excited that Sabrina Ellis will be joining Pinterest as our Chief Product Officer. Sabrina is passionate about our mission to create a world where inspiration and well-being go hand in hand. I also want to thank Naveen Gavini for his 11 years of service and dedication to Pinterest. I'll now turn the call over to Todd to go into more detail on our quarter and guidance.

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

Thanks, Bill. In my remarks today, I'll discuss our Q1 financial performance and our preliminary Q2 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.

Stepping back, this time last year, our users were declining and pricing on our platform was elevated. A lot has changed since then. Our investments in the core Pinterest experience, including improvements in relevance and personalization, our user reactivation engines and adding new content, including video, have been major contributors to user and engagement growth. Additionally, we saw pricing ease over the last 2 quarters as we unlocked more supply through engagement gains and ad load management on the platform. While digital advertising remains challenging, we're building for the long term, and we've made significant progress to turn Pinterest into an attractive platform for advertisers through lower, mid- and upper-funnel ad formats and tools, as well as new measurement solutions.

Turning to users. In Q1, 463 million monthly active users came to Pinterest, growing 7%, adding roughly 30 million users compared to a year ago and growing across all regions. In the U.S. and Canada, monthly active users were 95 million, growing 1%. We had 128 million monthly active users in Europe, which grew 7%, our strongest growth in 2 years. And in our Rest of World markets, we had 240 million monthly active users, up 9%. In addition to growing our users, our investments are driving more depth of engagement with our core and new users. We measure depth of engagement by looking at a basket of metrics such as impressions, sessions and time spent. In Q1, these metrics grew faster than our user base, which indicates that we're making good progress on this front.

Turning to our financial performance. Q1 global revenue of \$603 million grew approximately 5% on a reported basis and 6% excluding the impact from foreign exchange rates. Our awareness objective demonstrated strong growth in the quarter as brand advertisers took advantage of higher engagement and lower CPMs on the platform. Revenue growth from our conversion objectives remain resilient as we continue to demonstrate the value of our lower-funnel format and measurement products. International was also a strong contributor to growth and accounted for nearly 20% of total revenue, buoyed by traction from large and SMB advertisers. Finally, emerging verticals were a source of strength with solid growth from several non-core categories such as travel and autos. Advertisers in these verticals are turning to Pinterest to harness the unique commercial intent that our users express on our

platform. For example, Southwest Airlines leaned into spring break search activity on Pinterest, by utilizing the Pinterest Trends tool as a planning guide. Southwest featured pins of exciting destinations that drove flight searches on their site.

Breaking out revenue by region. U.S. and Canada revenue was \$486 million, an increase of 3%. Total revenue from Europe was \$93 million, growing 12% on a constant currency basis or 6% on a reported basis. And total revenue from our Rest of World region was \$24 million, growing 42% on a constant currency basis and 38% on a reported basis.

We're confident that the intent-based shopping mindset that our users bring when they come to Pinterest, coupled with improvements in shopping on the platform and our conversion-based ads business will bode well for advertisers in the long term.

Now I'd like to discuss our expense profile and EBITDA. Cost of revenue came in at \$167 million and declined 6% sequentially as we continue to efficiently manage our infrastructure costs. Operating expenses were \$413 million for the quarter, a 15% increase year-over-year and a 19% decrease quarter-over-quarter. This was lower than our guidance for 2 reasons. First, we shifted some investments from Q1 into Q2 and later in the year. And second, we made further progress on our expense control across business functions. Adjusted EBITDA was \$27 million in the quarter with an adjusted EBITDA margin of 4%. As Bill mentioned, we announced a restructuring plan at the end of March in order to reallocate our resources against our highest priority areas. This resulted in a charge of approximately \$121 million of which \$113 million is noncash.

On our capital allocation strategy, as we mentioned last quarter, our Board of Directors authorized a share repurchase program of up to \$500 million to help manage dilution from stock-based compensation. We've made progress, repurchasing over \$100 million worth of shares through April 24. Finally, we ended the quarter with approximately \$2.7 billion in cash, cash equivalents and marketable securities.

Before I discuss our Q2 financial guidance, I wanted to provide some additional context on our monthly active user trends. Q2 is our seasonally softest quarter as people tend to travel and spend more time outside starting in June. This seasonality is particularly pronounced for us as we measure monthly active users on a 30-day look back from the last day in June. In addition, we expect that some of the recent updates we made like mandatory birthday collection, will moderate the rate of year-over-year growth in the second quarter. However, we continue to invest in product experiences that we believe will grow users, drive deeper engagement and improve monetizable supply over time.

Now on to our revenue guidance. The ads market continues to be uncertain given the macroeconomic environment. We've seen stabilization. And while Q1 growth was marginally better than Q4, we still do not have visibility into an acceleration in demand. As a result, we expect our second quarter year-over-year revenue growth to be roughly consistent with the growth we saw over the last 2 quarters in the fourth quarter of 2022 and the first quarter of 2023. While foreign exchange headwinds are moderating, we still expect a small impact in Q2, which is reflected in our guide.

Moving to our non-GAAP operating expense outlook. We expect our Q2 operating expenses to grow low-teens percentage points quarter-over-quarter, partially due to shifting some investments from Q1 to Q2. As a reminder, our OpEx outlook does not include the cost of revenue. Finally, as it relates to stock-based compensation, our annual employee equity merit awards will be granted in the second quarter, so we expect stock-based compensation to increase sequentially from Q1 levels.

Now I'll turn the call back over to Bill for some final comments.

Bill Ready, Chief Executive Officer:

I'm proud of our team's execution to deliver strong results in Q1. I'm confident that we're making the appropriate investments that will position us to gain share when the demand environment returns. Also, we're excited to share more about our progress and long-term strategy at our first Investor Day, which we're currently planning for September.

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

QUESTION AND ANSWER SECTION

Operator:

The first question is from Eric Sheridan with Goldman Sachs.

Eric Sheridan, Goldman Sachs:

I want to come back to the broader revenue commentary from the latter end and your comments on the call. Can you just help us parse out a little bit of how the outside environment or the environment outside of your control is impacting elements of verticals or types of advertising like brand advertising or direct response advertising versus the potential for tailwinds to build in your business around some of the initiatives that you've been trying to build in 2022, going into 2023? And how should we be thinking about those headwinds and tailwinds looking out over the next 2 to 3 quarters?

Bill Ready, Chief Executive Officer:

Thanks, Eric. I appreciate the question. So first thing I'd say, we feel really great about the quarter and the progress we've made on revenue from everything we've seen, we continue to grow faster than the industry on revenue. So while there's still some challenges in the macro environment, when we look at our performance relative to the broader advertising industry, we feel really good about that.

As we decompose what's happening in our revenue, what we're seeing is that there's a lot to be really excited about in terms of those advertisers that are implementing our measurement solutions like conversion API and clean rooms consistently find that they're getting better performance from Pinterest than what they had previously understood. And as they see that, they double down and invest more in Pinterest. So as the industry goes through an adoption curve on privacy safe measurement solutions, we think that bodes quite well for Pinterest, given the high intent on our platform and the way that we're leaning into better ad platform performance and seeing increasing engagement from our users so that there's great supply on the platform for those advertisers to connect with.

In fact, I think that's one of the real highlights of the quarter is that not only have we clearly demonstrated our return to user growth but as we've talked about before, there's sort of compounding layers there where our user growth being at 7% compares to our engagement growth that is solidly in the double-digit range and then our ad impressions aided by whole page optimization where we can bring dynamic ad load with greater relevance for users is north of 30% growth. And so there's multiple layers of growth there. And while the demand environment still has puts and takes in it, I think all that bodes really well for where we sit in the medium to long term.

And in the near term, visibility remains a challenge. And you have puts and takes, like, for example, consumer spending and retail broadly, for the whole retail industry down in

February and March. It's a bit -- in my mind, premature to call it acceleration when you still have those kinds of things out there in the macro.

But our relative performance, we've grown faster than others in the space. We feel like we continue to take share. And what we hear from advertisers implementing our latest best ad solutions, including things like conversion API and clean rooms, we performed really well and gain share of wallet as they've been pointing to those things. I think that's a very positive trend for us over the medium to long term, even though near-term visibility, given the macro remains a challenge.

I think on the second part of your question with regard to Amazon and the third-party ad demand partnership there. As I've shared on prior calls, relative to the significant amount of commercial intent on Pinterest, I think we are a platform that is still undermonetized relative to the amount of intent on the platform. And so you see us -- I mentioned, driving a 30% plus increase in ad impressions on the platform, even while driving up engagement, this shows as we bring more relevant ads onto the platform, that is not only aiding our revenue growth, aiding advertiser value, it's good for users and a commercial content, ads can be great content.

So coming back to the third-party ad demand opportunity, we see a significant opportunity to bring more relevant ads onto the platform from a greater breadth of brands and products. And when we look at Amazon as a first partner, they bring great breadth on brands and products paired with a really great consumer buying experience that we think can aid progress on shopability in our platform.

Finally, I'll just say, going back to your question of what's in our control. We've talked a lot about shopping on our platform. Our early indicators of success on shopping, we could not feel better about as we have brought more shoppable content into our core services. We've seen 30% plus increases in engagement on shoppable pins and 30%-plus year-on-year increase in attributed checkouts for merchants who are uploading their catalogs to us. So the question of, can we take users from window shopping to taking action. We have very strong signs of progress there. And while that will be a multiyear adoption curve, we couldn't feel better about the progress that we're making there.

Operator:

Your next question is from Brian Nowak with Morgan Stanley.

Brian Nowak, Morgan Stanley:

I have 2. The first one, kind of goes back to your comment you made about window shopping and sort of changing the user experience to more shoppable. It seems like a lot of generative AI and a lot of new tools that are coming could really help that in a material way. I guess talk to us about how long you think that could take to really have a meaningful impact on the revenue? And how should we think about the potential near-term investments in the gross margin pressure from pushing more machine learning and AI investment into the P&L?

And then Todd, just one on MAUs and users. As we're going through the 2Q commentary, are you expecting the North America users to be up sequentially sort of through those puts and takes? Or how are you -- how are you thinking through the users in the guidance?

Bill Ready, Chief Executive Officer:

Yes. Thanks for the question, Brian. On the impact of next-generation AI, it is here. You see it in our results. When we look at the significant progress we've made on user engagement, that is largely driven by improvements we have made in personalization and relevancy for users and really applying next-gen AI techniques, including things like GPUs, but pairing those with the really unique signal on our platform. Again, I think I've shared a little bit of commentary about this in the past. I think the primitives of generative AI are going to be broadly accessible via cloud compute. I think what's going to be real differentiators are one of the places that have really unique signal upon which to train that AI. AI is only as good as the signal on which it is acting. And we have really unique first-party signal, not just around the intent of the user, but about things like product associations from the real unique activity we have on our platform like boards and curation that associate products together in ways that let us make really great conclusions through our AI training on those signals you need to our platform. So when you look at the improvements in user relevancy in the personalization there, there's a lot of work around AI that is driving those things.

To your next part of the question around the gross margin impacts and what does that mean? Yes, these things are measured on their own and can provide additional expense, but we also see them linking to greater revenue for us already as well. So for example, using larger AI models and GPUs has been part of our progress in our ad stack. So a tangible example of that as we've been testing the deployment of significantly larger AI models for more relevant ads, our CPC campaign saw a greater than 5% increase in click-through rate. In the world of ad stack optimization, a 5% plus

increase in click-through rate is phenomenal. And so we're leaning heavily into that. It's been a core competency for us for a long time. So we're leaning heavily into that and then applying that to the unique signals on our platform.

And last point, the shopability progress that we've been making there. I hit a few of these points already, but it's another place where AI is helping us a lot on those product recommendations and relevancy. And again, as we've started to bring shoppable content into the core of our product into the main surfaces, we're seeing 35% -- greater than 35% increase and engagement on shoppable pins. And we're seeing things like our shopping ad revenue continue to grow 40% plus year-on-year, improvements in the buying experience like mobile deep linking being a significant driver of that 40% increase in shopping ad revenue.

So again, the proof points of are the users -- are the users not only going to window shop, but are they going to take action? Or are they going to engage further? Really strong, really clear proof points on that, and next-gen AI is a big part of how we're powering those things behind the scene, particularly when paired with the really unique signal on our platform. I'll hand it over to Todd for the other part of your question.

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

Yes. A couple -- one addition to what Bill had talked about, obviously, the investments in infrastructure, we'd expect to have a return. But from a financial perspective, Brian, you're probably looking at the gross margin being at 72% this quarter versus where we were a year ago. And to Bill's point, we're getting a return on that, but the Q1 revenue that we see is seasonally weakest, seasonally the softest quarter in the year. And while we would expect that we'll invest more dollars after 2 quarters of sequential declines in infrastructure, we would expect to start spending more absolute dollars in infrastructure or our cost of revenue. Given the seasonality in revenue, we would expect to see some operating leverage against that line. So I think that's the financial interpretation of the returns that Bill was describing.

In terms of the user question and what you're asking about in terms of seasonality, it's important to remember, the way we measure our users and report is a 30-day look back at the end of every quarter. And so in the second quarter this year, we'll look back across the month of June. That is the month where people tend to be out and about, and we've seen our seasonally softest quarter as a result of that in the second quarter.

So typically, Q1 to Q2 users, our MAU count has been seasonally our softest quarter. In addition to that, this year, we're making some product investments in a better user

experience and leading the industry around privacy centers with our user base. And that will moderate our year-over-year growth in our -- so we have a compounding impact of - - from a year-over-year perspective, some product investments that we think are good for our users over the long term, coupled with a seasonally soft quarter. Hopefully, that answers your question.

Operator:

The next question is from Ross Sandler with Barclays.

Ross Sandler, Barclays:

Bill, a quick question on the Amazon deal to follow up on the previous one. I think some folks on the line here, including me, probably a little surprised given your prior role that you guys went with Amazon. So can you walk us through like what was it about the set-up here that made them the first one? Is there exclusivity or not, which I think you had said previously that it wasn't going to be exclusive.

And then yes, what portion of inventory is this going to be applied to? Is it kind of across the border? Is there going to be certain like geos or product types that this kind of partnership makes the most sense? And is the CPM going to be on a net basis, I think that would be helpful to get a clarification on. And then Todd, just one quick follow-up on the macro. The U.S. decelerated a bit in the first quarter and given all the momentum in shopping ads, anything to call out there on the U.S. ad rev?

Bill Ready, Chief Executive Officer:

Thanks, Ross. Appreciate the questions. So on the Amazon deal, I've pretty consistently commented that in a future state, we'd imagine that we would adjust third-party demand from multiple different parties, which I think is consistent with what you would see from most mature ad platforms out there that you have multiple sources of third-party demand augment in the auction. So without commenting on any other party, we chose Amazon as our first partner because we saw not only a really great opportunity to bring more brands and more products onto the platform, which we think can help comprehensiveness and shopability, but it's also paired with a really great consumer buying experience.

I talked about the fantastic progress we're making in shopping overall as well as lower funnel -- lowerfunnel objectives where we're driving strength there also with shopping and conversion objectives. So having a great consumer buying experience, we think

really helps us take a step forward on our overall shopping efforts and is great for users, great for advertisers. So we felt like that was a key contributor to why Amazon is a great first partner for us [indiscernible] other partners. There's nothing that precludes us from that in the long term or the near term. But we want to make sure we get this first partnership really right, that share could be a multiquarter implementation. And so in the near term, we'll be focused on making sure that we get that really right in the medium to long term.

This is a broader move to leveraging third-party demand on the platform to enhance our comprehensiveness, our relevance for users and our shopability. And again, we feel great about this as a first step. You had some other detailed questions on the deal that might be a little bit more detailed and I can answer, but the overall -- I think we feel great that there's fantastic mutual value in this for us and our partner, Amazon. And we think that can be the same for how we continue to work with other partners across the industry. So again, we feel great about the progress there, not just in the partnership, but really what it means for users and bringing advertiser value onto our platform.

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

Yes. Ross, on the question about U.S. and Canada revenue growth. I would look back over a 2-year stack. And if you look at it on that basis, we had a little bit of a harder comp over a year ago period. So if you look at it over 2 years, we're pretty consistent at around 18%. However, within that, Bill talked about this at the outset around what we're seeing in pockets of our advertiser base.

For those advertisers who have capital, who value positivity and brand safety, they value the insights-led selling that we can offer against the commercial intent of our users and who have adopted and see quality performance using our latest measurement solutions. We talked a lot about conversion API. We talked about Clean Room solutions. Those advertisers are performing exceptionally well, but you can look at the headlines and see that not everyone in retail is performing as well. So there's a mix of performance in some of these segments.

Operator:

The next question is from Lloyd Walmsley from UBS.

Lloyd Walmsley, UBS:

I'm going to stick with this. The Amazon partnership and general partner monetization theme and perhaps drag you into the weeds here, Bill. But we talked to a lot of investors about this, who just don't understand the basic nuts and bolts of it. So to the extent you can elaborate more about how the Amazon partnership will work with the other like retail media network partnerships? How they'll work from a nuts and bolts perspective? Like is this Amazon kind of deploying their advertisers' budget on Pinterest? Is it also Amazon deploying their own budget or all of the kind of clicks kind of drive people back to Amazon? Anything you can share to just help explain at a basic level, how it's going to work in practice?

And then the second one related to this is just like thinking about the geographical benefit of this and other partnerships. I guess our impulse has been to think that you all have been kind of slow to migrate the ad business outside the U.S., and there's a lot of markets where you have a lot of engagement already, but you just don't have a big ad business yet. Is there any reason to think you can't leverage these partnerships to get kind of like a U.S. market share level of digital and other international markets on the back of these? Are we right to think that's one of the big benefits of these partnerships?

Bill Ready, Chief Executive Officer:

Yes. Thanks for the question, Lloyd. So a lot to unpack there. So your macro -- the macro point in your question, which is spot on, is that our platform -- I talked about this before, our platform overall, it's a nascent -- a more nascent ad platform. And relative to the very high consumer commercial intent on our platform, we're quite undermonetized. And there's a real opportunity for us to simultaneously drive better user engagement through highly relevant ads that help users satisfy commercial intent while also driving up revenue on the platform.

So you've seen that with like our whole page optimization and the fact that we're able to grow ad load 30% plus, while still having positive progress on engagement. This demonstrates that highly relevant ads that help the user satisfy their intent can be great content for the user and be enhancing both engagement and revenue simultaneously. So that's our macro opportunity. As you rightly called out, while we are undermonetized overall, we are really undermonetized internationally. And if you look at our results, you see really positive growth on a percentage basis internationally for us, which is evidence that there's a lot more potential there.

And so that's something we're investing in directly with our first-party sales, but also something where we think partnerships can certainly be helpful in accelerating that progress. And so we think that overall, there's a significant opportunity to drive the

monetization of our platform at a much greater rate than growth in not only users but also growth of engagement that we can drive monetization faster than that, particularly as we're demonstrating good results for advertisers, particularly as they implement new measurement tools, new priority safe tools. So we feel like that is a significant opportunity for us and partnerships can definitely be helpful there.

One other part -- I think -- sorry, one other part of your question, I didn't answer. You asked about sort of teasing apart the nuances of Amazon. Like one thing in your question that again, I can go into extremely nitty-gritty detail, but this is Amazon ads, not Amazon as a retailer. We certainly -- you could have found lots of Amazon ads on our platform previously from Amazon as a retailer. This is Amazon ads. And so this is bringing ads from brands and other products that are leveraging the Amazon ad platform. That Amazon ad platform, one of the things that we're quite excited about is that it does also bring great buying experiences. And those buying experiences can include things for other brands and retailers. And so that is part of what is compelling about this partnership is that in an ad platform with a lot of brands, a lot of products that can help drive comprehensiveness for our users, but also paired with a great buying experience for the many retailers and brands that are participating in the Amazon ad platform.

Operator:

The next question is from Rich Greenfield with LightShed Partners.

Rich Greenfield, LightShed Partners:

One, I guess when you think about video, I think, Bill, last quarter, you said something like 10% of time spent was video, but it was like 30% of your revenue. And I'm just wondering, as you think about sort of the power of video, you talked about sort of the increase in video content on the platform. But I guess I'm curious sort of how much time spent on how that 10% may have changed? As we look through the remainder of 2023, given the importance of video consumption, not video content, the consumption of the video is to driving your revenue. How should we think about like what you're doing and how the sort of the video transition of the content? I know it's not removing sort of pictures. But how do you think about that video transition over the course of 2023?

And then just a quick follow-up on Amazon. Just to try to synthesize everything you said is the ultimate takeaway is that we're going to end up seeing far more shoppable ads because of this Amazon partnership as it sort of gets implemented. If we look at

Pinterest, if we scroll through Pinterest where we feel like there'll be a far greater number of shoppable ads between now and the end of the year?

Bill Ready, Chief Executive Officer:

Yes. To the last part of your question, yes. You're already seeing that happen where previously, users -- more than half of users said they were coming to Pinterest for shop. Pinterest are really solving digital window shopping, but the actionability was low. So it's sort of like Pinterest is involving window shopping, but the stores were closed. We are opening the stores. And the comments I made around the progress that we already have with shopping ads growing 40% year-on-year, mobile deep linking driving great conversion and being a big driver behind that growth, the 35% increase in engagement on shoppable pins as we're bringing those on to our main surfaces.

It's already the case that users are starting to find that much more of the things that they were finding on Pinterest before that they would have found on Pinterest but couldn't take action on Pinterest, which was leaked engagement to other platforms and leaked monetization to other platforms, they're now able to take action on directly on Pinterest. And so our goal is to make every pin shoppable, that's a long-term goal. That won't all get solved in a single year.

But we feel really good about the progress that we're already making. And yes, we think this partnership absolutely can help contribute to that. As I said before, it's a multiquarter implementation. And so I think we'll see more of that effect coming into next year.

But separate from just the one partnership, just overall, we're already seeing your macro point of like will users see more actionability on the platform. They already are, great progress on it. And as we get to this holiday shopping season, we would expect that users are going to be able to engage with much more shoppable content on Pinterest than what they would have previously. That's due to efforts that we already have in flight that are already in front of users and that we're growing aggressively. But it will also be augmented by what we do with third-party partnerships like the one with Amazon.

On your video point, so video continues to be north of 10% of our engagement. It's also the case that it continues to be a significantly greater percentage of our monetization. So this dynamic that we described last quarter where last quarter, I talked about we've got 10% plus of our engagement on video, but 30% plus of our revenue. We continue to see that kind of dynamic. And your question about the interplay between video and

images, we feel like we're finding a really great balance between those 2 things. We have a format that is bringing both videos and images to the user in a simultaneously versus those being separate surfaces.

And as we're doing that, we're seeing that, that's resonating well with users because, again, users come here with intent and with purpose. And sometimes that intent and purpose is aided by video, and they have the option to engage with that. But oftentimes, as they want to go refine that intent to get closer to actionability, images can help them a lot with that as well. And so we continue to work through that optimization, but we feel like we're getting that balance to a good place, and we're going to continue to lean into the balance of those 2 things that gives the user the best of both worlds because we see that users absolutely want both. And both of those things help the users drive more actionability.

Last thing I'll say on video. I talked about how the video corpus is growing. Our image corpus continues to grow as well. The fact that our boards are growing 10% plus is also a good indication of the core activities that user engage with on the platform as we're leaning into those. Those are not only alive and well, but things that users are engaging with more and more and I talk about Gen Z as our fastest-growing demographic. There are also Gen Z, Gen Z is the fastest growing demographic. It's not just about a big growth rate on a small denominator. Gen Z is the largest contributor of engagement growth as we talk about engagement growth. So we -- to put it very pointedly, we are winning with Gen Z.

And I think this was a big question about the platform a year ago. We've returned to user growth. We're clearly winning with Gen Z and winning with Gen Z in a unique way, where we don't need to win with them on where they go for entertainment. We're winning with them on where they go [indiscernible] where they go when they have intent and purpose and where they go and they're looking for an oasis away from the toxicity of the rest of social media. And that's working quite well for us, including how we're leaning into more investments in their well-being on our platform.

Rich Greenfield, LightShed Partners:

But we shouldn't think about video being 20% or plus percent, that's not your goal for a year from now. It's more about balance versus a dramatic scaling up of time spent.

Bill Ready, Chief Executive Officer:

Yes. We're very focused on what gives the user the best satisfaction of their intent and their purpose. And what we're finding with that is that's a balance of video and images. And you can expect us to continue progressing that in a thoughtful, methodical way that helps the user satisfy their intent and in a way, a big contrast from us with other platforms. Most of the platforms are talking about video as a headwind to revenue. And you're hearing us talk about video is helping to drive engagement, but we have more revenue on video than we have on engagement. So that's sort of the inverse of what you see on other platforms. We think we can continue to manage it in that kind of fashion. Hopefully, that helps.

Operator:

The next question is from Colin Sebastian with Baird.

Colin Sebastian, Baird:

I guess a couple of questions for me as well. I guess, first off, curious if there's anything else to call out with respect to the acceleration in international users and revenues. Obviously, I think as Lloyd mentioned, and you guys mentioned that's a huge monetization opportunity and showing good progress there.

And then we're getting a few questions on the expense guide for Q2, the sequential increase. I think it might be helpful, Todd, to understand a little bit more about the moving parts there, some of the timing shift and then does that serve as the baseline for modeling the sequential trend in expenses for the rest of the year? I think more color there might be helpful.

Bill Ready, Chief Executive Officer

Yes. On the international side, I'd say, first thing is back to the user point. What we're doing to deliver great engagement for users is working well across geographies. So our return to user growth is happening across geographies, both U.S. and international. And so in terms of our platform returning to user growth and bring more supply onto the platform, that's consistent across geographies, we feel great about that. I think your point on monetization, we're a fraction of the monetization that we could be internationally. And particularly when you look at places like Europe, that there's clear line of sight to how there's more monetization opportunity in places like Europe. Our growth rates -- you can see the growth rates there are high, but the denominators are low. And we think that's a lot of go-forward potential with us. But those high-growth

rates, even on a small denominate, I think, are the good indications of as we build out those investments, as we build out our ad capabilities in those international markets, our sales teams are able to go make effective progress there, and we think there's a lot more of that to come. Finally, on international, we called out large advertisers are growing with us there, and we have SMB growth in international as well. So a good balanced mix of where we think there's opportunity in international for us.

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

And then, Colin, on the expense guide. If you remember back, we've talked about this for a couple of quarters. We had a big increase in expenses last year that were largely payroll driven or headcount based. So in the first half of last year, we had a lot of attrition in the first quarter. We backfilled and accelerated hiring going into the end of Q2. And then as Bill referenced in his opening comments, we paused the rate of hiring in early Q3 and then that -- those efforts kind of accelerated as we moved into the end of last year and then through Q1. We also have called out historically that we had a lot of marketing spend that was variable in nature in the back half of last year that drove a lot of our expense growth in Q3 and Q4. We're lapping as a result of all of those comments. We're lapping the payroll expense growth as we go into Q3 and Q4.

And then in the back half of the year, we're lapping a lot of variable marketing spend. The implication of all of that is that we will see a deceleration in year-over-year expense growth that will pick up next quarter and then accelerate going to Q3 and Q4, which will drive the margin improvement that we've been talking about now for a few quarters. So I know the guide suggests that we'll see a step-up in sequential expenses. A lot of that is timing around a couple of marketing programs and other investments that we're making, but we would not expect to see that continue to grow in absolute dollar terms. And certainly, as a percentage of revenue, we would expect to see that decelerate dramatically over the course of especially the back half of the year.

Operator:

The next question is from the line of Doug Anmuth from JP Morgan.

Doug Anmuth, JP Morgan:

I just wanted to take another stab at the 2Q revenue outlook. I guess, just trying to understand, is it really purely just caution on macro that kind of keep you a little bit more muted perhaps and in the range of 4Q and 1Q versus acceleration that we're seeing from others in the industry? And as part of that, are you seeing any notable differences

between omnichannel and just pure e-comm? And then second, just related to AI, can you just kind of parse out how it's clear you're using AI, how to think about it across rankings and recommendations and ad monetization. But then also, how will users of Pinterest take advantage of generative AI tools going forward?

Bill Ready, Chief Executive Officer:

Yes. So I think on sort of what we're seeing on the macro, as I shared before, there's a lot that we feel great about, but there are puts and takes out there. I think in the fact that we're growing revenue faster than the broader industry, I think it's something that we certainly feel great about. That's hard thought, but we feel great that we're growing revenue faster than the industry. And we have shared earlier, the number of things that give us confidence that we're demonstrating good value for advertisers, even as those advertisers are digesting a lot of change. I think as you compare us to others. I think there are places that maybe -- there are strengths for others, like international small business and international, those kinds of things. But those are a smaller portion of our overall business. But you do see those accelerating for us as well. They're just a smaller portion of our overall business.

But when you look at multiple major platforms, still having year-on-year declines, and we're putting up solid growth, and we feel like we got even though visibility is limited, we feel like we've got visibility to continue growth even as other larger platforms, some of which are still seeing year-on-year declines. I think that's a good indication of our relative performance. And I don't see that changing. We just see that visibility is limited, and it feels premature to call a bottom when you have things like consumer spending on retail, still declining year-on-year.

So our view of the medium and long term, we could not feel better about. In fact, if I go back to our strategic priorities and where we were a year ago, as Todd mentioned in his script, a year ago, we had multiple quarters of year-on-year decline with users. We were a supply-constrained platform. Advertiser value was in question because that -- the supply constraints, where we sit today, we have returned to user growth. We are clearly growing with Gen Z as our fastest-growing demographic. We're delivering great value for advertisers and the more advertisers implement better measurement, the more they see that we're delivering value for them, shopping on the platform that was a real question a year ago and like could we drive more shopping behavior, very strong proof points on that, even though we're early on an adoption curve.

All those things on every one of our strategic imperatives where we've executed and I think are beyond the progress we would have expected. And with ad impressions up

30% plus. Had demand been constant, the growth will be screaming, right? But we can't predict when that demand volatility sort of goes back to normal better than anybody else. And there continue to be a lot of puts and takes. And I think you've seen that reflected in others' commentary with -- these are also calling either experiencing year-on-year declines or calling that visibility is still poor for them as well as evidenced by wide ranges and outcomes and those kinds of things.

Neil Doshi, Head of Investor Relations:

Can you just repeat your second question?

Doug Anmuth, JP Morgan:

Just on AI, kind of how users will take advantage of generative AI tools on the Pinterest platform?

Bill Ready, Chief Executive Officer:

Yes. I think we're looking at this with generative AI, we think there's a lot we can do to deliver better experiences in ways that the user that will feel natural for the user. And I think that's what you're seeing from us already that we're using next-generation AI to bring better recommendations, more shopability, better product experience, ads that are more relevant and convert better. So you're already seeing that in the platform.

So we're thinking about ways that we can bring next-generation AI to users in ways that feels natural to them. And given that we're a highly visual platform, we think we'll have a lot more of those kinds of opportunities around great recommendations. Users making collages on shuffles. There's a lot of great AI that's behind the way that we're doing those kind of things.

So there's a lot of that kind of stuff that you already are seeing from us, where we're going to be methodical about it. There's still a lot of open questions out there around how do you make sure there's good value exchange between platforms and publishers. How do you make sure that there are image rights and all these kinds of things. These are meaningful issues that we're going to be thoughtful and methodical about and we're not going to rush into sort of headfirst, but we're finding really great ways to leverage this technology that's already driving user benefits, and you can expect to see more of that from us.

Neil Doshi, Head of Investor Relations:

Operator, we'll take one last question.

Operator Our final question comes from Tom Champion from Piper Sandler.

Thomas Champion, Piper Sandler:

It sounds like you're seeing really strong growth on mobile. And Bill, just curious how mobile or location becomes an element of the customer signal that maybe you're able to leverage in addition to the lean forward behavior element or the growth in boards. I'm just curious if that figures into your thinking at all?

And then maybe just a second one. Curious how you feel about assembling your team and leadership at the company. I'm curious if the Analyst Day announcement tentative plan precedes another announcement.

Bill Ready, Chief Executive Officer:

So -- so on your second question around the team, feel great about the team that we have. This is a team that's winning. This is a team that's delivering great results. And you've seen us doing that consistently over the last 3 quarters. And so these things are oftentimes relay races. And so even in places where we've had somebody who's led a strong leg of the race, we've brought in great talent to augment the next leg of the race. And so if part of your question there was around our CFO transition. I'd say it's a good opportunity for what I was already planning to do, which is to thank Todd again for having ran a really strong leg of the race, given how long he's been here and how thoughtful he's been in the transition.

And so while we don't have new news to share there right now, we've seen exceptional engagement from a number of candidates. And we feel quite confident that, that process is progressing on track, both in terms of how thoughtful and engaged Todd has been managing that transition as well as our ability to make sure that we're going to have great talent going forward there as well.

Sabrina, who I mentioned in my prepared remarks, I think, is going to be a fantastic addition to the team, even as we also say thank you to Navin, who also ran multiple really strong legs of the race for us as well. So that part we feel great about.

And so on the mobile part of it, the first part of your question, again, another really positive part of our progress, as I shared, 80% plus of our engagement and revenue comes from mobile app users. And those mobile app users, both in UCAN and international growing much faster for us than users overall. So our most engaged users are growing the fastest, and that's giving us the opportunity to have greater depth of

engagement. So the progress on mobile feels great. Without commenting on sort of future product enhancements for those kinds of things, having the user in our mobile app lets us control our destiny much more, and we feel fantastic about the progress there and what that lets us do to drive deeper and deeper engagement for users and deliver your value for advertisers.

So with that, again, thank you, everybody, for the questions. Thank you, again, Todd. Since this is the last earnings call, thank you again for a fantastic tenure here at Pinterest. Very much appreciate the partnership. Thank you to everyone on the call. Thank you to all our customers, our team members, and we look forward to continuing the conversation with all of you. Thank you.

Operator

Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.