# Presentation

**Operator**

Good afternoon. Thank you for attending today's Pinterest Third Quarter 2023 Earnings Conference Call. My name is Hannah, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to our host, Neil Doshi, Head of Investor Relations. You may go ahead.

**Neil A. Doshi**
*Head of Investor Relations*

Good afternoon, and thank you for joining us. Welcome to Pinterest's Earnings Call for the Third Quarter ended September 30, 2023. I'm Neil Doshi, Head of Investor Relations for Pinterest. Joining me today on the call are Bill Ready, Pinterest's CEO; and Julia Donnelly, our CFO.

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 Q4 2023 and beyond are preliminary and are not an assurance 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 our Investor Relations 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.

**William J. Ready**
*CEO and Director*

Thanks, Neil, And thank you all for joining our third quarter 2023 earnings call. We made great progress in Q3 as we accelerated our revenue growth and strengthened our fundamentals. Our efforts in deepening engagement and growing monetization are yielding results. We ended the quarter with 482 million monthly active users, up 8% to an all-time high, exceeding our peak users from the pandemic period surge by refocusing on Pinterest's unique differentiators as a visual search, discovery and shopping platform.

Total revenue was $763 million, up 11% on a reported and constant currency basis. This represents the third quarter in a row of accelerating revenue growth. Finally, the strong revenue growth, coupled with disciplined expense management allowed us to deliver adjusted EBITDA of $185 million and an adjusted EBITDA margin of 24%, a 1,300 basis point improvement from the year ago quarter.

Last month, we hosted Pinterest's first ever Investor Day, where we shared an in-depth view of our strategy, the progress we've made to date and what we're building for the future. It was great to see many of you in person, and if you haven't seen it, you can watch the event on our Investor Relations website. You heard there from many members of our senior management on why Pinterest is unique and different from other platforms and why we have such a massive opportunity ahead of us.

Pinterest users engage in dynamic multi-session journeys that go from inspiration to action. In other words, people are saving and curating ideas and products they hope to make, do or buy today and in the future. That means they easily pick up where they left off every time they use Pinterest, with our recommendation getting increasingly relevant each time. These user journeys can span many verticals and include a wide variety of actionable outcomes like freshening up your wardrobe, finding gift ideas or creating a travel itinerary.

The inspiration to action journey we're furthest along in building is shopping. We know more than half our users view Pinterest as a place to shop, so our focus over the last year has been to make Pinterest more shoppable. When users are in a commercial mindset, we can drive better engagement through highly relevant ads, and we can grow monetization by delivering more views, clicks and conversions and customers to our advertising partners, thereby fueling our flywheel for engagement and revenue growth.

This ability to have a full funnel for users and advertisers on the same platform provides compounding benefits to both parties and is one of our core differentiators. We also laid out our financial targets for the future, where we expect to drive revenue growth at a mid- to high-teens compound annual growth rate and expand our adjusted EBITDA margins to reach the low 30% range in the next 3 to 5 years.

We plan to achieve this by focusing on 3 key priorities: growing users and deepening engagement per user, improving monetization, and delivering profitable growth through operational rigor. Today, Julia and I will provide you with an update on those priorities.

Let's start with our work on growing users and deepening engagement. We continue to use AI to improve the relevance and personalization of our content recommendations and satisfy user intent on our platform through improved shopping experiences.

As we noted at our Investor Day, we're seeing strength with our Gen Z users who are our fastest-growing and most engaged users. We are also seeing our strongest product market fit in years as evidenced by our recent cohorts who saved 2x more content in their first year on Pinterest relative to older cohorts. Let me walk you through some of the product updates we've made that are driving these outcomes.

Among our efforts to deepen engagement with our users is helping users rediscover existing use cases and find new use cases in categories on Pinterest. During the quarter, we launched the “more ideas” tab at the top of the home feed to allow users to easily access their board themes and quickly refocus on an ongoing use case. Our AI recommendation engine builds off of the saved content from those boards to recommend additional pins that provide users with more points of inspiration, resulting in strong growth and saving on the platform.

We also make continued progress on incorporating shopping into the forefront of the user experience on Pinterest, which is driving engagement by helping users seamlessly pick up where they left off from previous sessions and complete their inspiration to action journeys. Our new Shop the Look module, which we launched in Q2, helps users to easily shop what they see in lifestyle images.

When a user clicks on one of these lifestyle images, the Shop the Look module will appear as a carousel within the pin closeup. Within that module, we employ AI and computer vision to then recommend similar buyable items within our merchant catalog that users can easily shop. In fact, 70% products recommended in Shop the Look are rated as exact or highly relevant matches.

We've previously discussed the launch of a new AI-driven guided browsing experience to recommend new content from adjacent use cases based on user interest. In Q3, we expanded our guided browsing modules in the U.S. and Canada region to promote more shopping behavior by resurfacing relevant buyable pins based on content users have engaged with in the past.

For example, if you previously saved or clicked on a leather jacket and a pair of boots, we can serve a personalized carousel on the home feed, resurfacing those same pins or related items to encourage you to continue your shopping journey. These improvements enable us to show users shoppable content aligned with their interests, with seamless handoffs to the merchant app or website so users can easily purchase.

Next, I'd like to discuss how we're improving monetization by making Pinterest more valuable for advertisers as a full funnel platform. The continued innovation in our ad stack across formats, tools and measurement solutions enables us to improve performance for our advertisers and grow our revenue. At the lower end of the funnel, which now makes up roughly 2/3 of our revenue, we are focused on helping advertisers gain clicks, conversions and customers.

On past earnings calls, we've discussed the success we're seeing with mobile deep links, or MDL, where advertisers can now link users directly into the relevant product page and checkout experience in their mobile app. This is a great solution for merchants who have stand-alone apps with broad consumer penetration. As we've noted before, MDL is performing extremely well in our tests. Participating advertisers saw a 235% lift in conversion rates, along with a 35% improvement in their CPAs.

We're now bringing this solution to those advertisers who either don't have an app or rely primarily on their website for traffic and sales. This product is called direct links, which we launched in Q3. I'd like to spend a moment to dive deeper into direct links and why I believe this can become a significant unlock for advertiser value. Direct links brings a user experience similar to MDL to merchant websites, taking the user from an ad on Pinterest directly to a product purchase experience on the merchant website in just one click.

This simplified experience creates a more seamless shopping journey for the user and drives more website traffic and conversions for the advertiser. So far, we've migrated approximately 60% of our lower funnel revenue to direct links and have seen strong results. As we noted at our Investor Day, we saw 88% higher outbound click-through rates and a 39% decrease in cost per outbound click for CPC objectives from early adopters.

We plan to roll direct links out to the remaining eligible lower funnel objectives, including CPC video ads and conversion ads by the end of Q1 '24 to increase our penetration of direct links and lower funnel revenue. On the video side, we believe bringing direct links to video will be an important unlock for us given the strength we're seeing with video ads on the platform, especially in the lower funnel. And for conversion objectives, results from initial testing have been very strong, driving similarly substantial results as we saw with CPC campaigns.

In addition to lower funnel innovation, this year, we continued to launch new formats building on our strength at the top of the funnel, such as Premiere Spotlight, Showcase and Quiz ads. These formats help brands interact with the user and tell their story in an engaging way. In Q3, we expanded our Premiere Spotlight ads from search to the home feed, and we are seeing good traction from this ad unit among brand advertisers.

For example, Maybelline Canada leveraged both Premiere Spotlight on the home feed and search to promote their new concealer. This high-impact format drove a 2x higher video completion rate versus the average video campaign. Not only are we driving full funnel outcomes for advertisers, we are also helping them measure the value that Pinterest uniquely delivers in privacy-safe ways. This is a critical element to our success, especially as we look towards a cookieless future.

We continue to move along the adoption curve for our API for Conversions product. Adoption for this product comes from two avenues: direct implementation with advertisers and partner integrations. Our sales force continues to make great strides in getting advertisers to integrate with our API for Conversions, with revenue coverage being a top-level goal across the sales organization. We are also integrating with partners that many of our advertisers plug into.

For instance, in Q3, we onboarded several partners like Adobe Commerce and Salesforce Commerce Cloud to help drive more adoption of API for Conversions. Integrating with partners allows us to meet advertisers where they are and enables a more frictionless experience and improving conversion visibility. For example, PacSun, a leading U.S.-based retailer that is popular with Gen Z, seamlessly adopted our API for Conversions through our new Salesforce Commerce Cloud app. After installing API for Conversions, PacSun saw a 7x increase in attributed conversion rate.

And as we mentioned during our Investor Day, we are making solid progress here. Our API for Conversion solution accounted for 28% of our total revenue as of August, up from 14% at the start of the year. In addition to helping advertisers measure the value of Pinterest, we're also working towards fundamentally improving our ability to show the right ad to the right user at the right time, which feeds into the overall performance of our ads.

We've long said that ads, when relevant, are additive to the user experience. This year, we've made step function modeling improvements to better match ads to the users for whom they are most engaging and relevant. And as we flex up ad load with whole page optimization, we're able to serve more of these relevant ads to users who are displaying commercial intent, all while simultaneously growing engagement on the platform.

For example, in Q2, we expanded our use of GPU serving to our monetization engine, which enabled us to use models that were 100x larger. As a result, we're able to better use our first-party user signals to understand commercial intent and thus show more relevant ads to match that intent. In Q3, we began leveraging a longer history of users' on-platform behaviors in our ads models. Longer user history means more user signals, which in turn enables us to better predict and surface ads tailored to our users' preferences and tastes.

On search specifically, we made improvements in our ability to match relevant ads to user search queries. By utilizing AI and large language models, we were able to more precisely link product metadata to user queries to show ads that are visually and contextually relevant. These 2 launches drove meaningful improvements across cost per click and cost per action, and better ads relevance.

Improved capabilities in our ads delivery model are also important as we think about augmenting our first-party sales efforts. Opening up our platform to third-party ad partners will allow us to accelerate monetization by improving ad relevance and auction density. As we mentioned during our Investor Day, our first 3P partnership with Amazon Ads is ramping ahead of schedule, and we are pleased with early results with over 50% improvement in relevance on search and a 100% improvement in relevance on related items in early tests.

We noted that we were testing this on search in the U.S., and we are now beginning to roll out this test on our related item surface in the U.S. as well. Consistent with our prior comments on this topic, a partnership of this scale is a multi-quarter implementation, with the most meaningful revenue impact likely being in early 2024. Our extensive upfront work integrating third-party demand into our platform has laid the groundwork for more streamlined integrations of potential additional third-party partners in the future.

Finally, we're continuing to drive operational rigor through further cost discipline, which resulted in strong EBITDA and EBITDA margin expansion again this quarter. We are tracking nicely toward our mid- to long- term margin expansion goals. I'm proud of our teams for all their hard work and execution this past quarter, the results of which are abundantly clear.

I'll now turn the call over to Julia, who will provide further updates on our financials.

**Julia Brau Donnelly**
*Chief Financial Officer*

Thanks, Bill, and good afternoon, everyone. Today, I'll be discussing our third quarter financial results and provide an update on our preliminary fourth quarter outlook. All financial metrics, except for revenue, will be discussed in non-GAAP terms unless otherwise specified, and all comparisons will be discussed on a year-over-year basis unless otherwise noted.

To echo Bill's sentiment, I am proud of our team's execution, which resulted in a great quarter, marked by strong monthly active user growth, continued revenue acceleration and significant year-over-year adjusted EBITDA margin expansion. It is clear that the strategic shifts we have implemented in our business over the last year, leaning into the differentiators of our platform and accelerating our ads product velocity are resonating with users and advertisers alike.

We ended the quarter with 482 million global monthly active users, growing 8% and reaching a new all- time high. Our investments in increasing shoppability and deploying AI across our recommendation engine are paying off. In the U.S. and Canada, we had 96 million monthly active users, up 1% year-over-year, and we added approximately 1 million users versus last quarter. In Europe, we finished the quarter with 128 million monthly active users, up 7%, an acceleration from last quarter. In our rest of world markets, monthly active users were 258 million, up 12%, continuing the trend of acceleration throughout 2023.

Now to revenue. The strength we saw this quarter further demonstrates how we are driving value for advertisers across the full funnel. Total revenue came in at $763 million, up 11% on a reported and constant currency basis. Strength in overall revenue was driven by our awareness objectives and conversion objectives, including our lowest funnel shopping ads format.

In the U.S. and Canada, revenue was $618 million, an increase of 8%, accelerating to the highest growth we've seen since Q3'22. Strength came from CPG, retail and certain emerging categories like financial services and restaurants. Europe revenue was $114 million, growing 33%, or 25% on a constant currency basis. We experienced strong growth across CPG, emerging verticals such as travel, technology and auto and from large agencies. Revenue from Rest of World was $31 million, growing 29% or 28% on a constant currency basis.

It is also useful to look at revenue through the lens of ad impressions and ad pricing trends. As we mentioned at our Investor Day, ad impressions growth is driven by total impressions, both organic and paid, and ad load. Over the last several quarters, we've been able to drive increases in both total impressions and in ad load simultaneously, thereby demonstrating that relevant ads can be synergistic with engagement.

In Q3, we continued this trend, with ad impressions growing 26%, driven from both increases in total impressions and increases in ad load. Meanwhile, the price of ads declined 12% this quarter. While pricing still remains under pressure, this is an improvement from the 20% decline we saw last quarter, driven by industry-wide demand stabilization as well as the AI-fueled ad stack efficiencies we drove on the platform in Q3.

Now let's turn to expenses. Cost of revenue was $167 million, down 7% year-over-year and roughly flat versus Q2. This result is due to efficiencies being driven across storage and compute infrastructure, even amidst our strong user and engagement growth and continued AI deployment throughout our business. Overall, non-GAAP operating expense was $415 million, down 4% year-over-year and down 6% quarter-over-quarter. This outperformed our expectations and is a reflection of our overall focus on expense management as we realized additional cost savings in the quarter on lower spend in technology and outside services. We have been pleased by our ability to drive double-digit revenue growth even as operating expenses declined year-over-year.

Adjusted EBITDA had a strong quarter, coming in at $185 million or a 24% margin, up 13 percentage points versus a year ago, driven by strong revenue performance, efficiency in our cost of revenue and the year-over-year decline in operating expenses. We ended the quarter with approximately $2.3 billion in cash, cash equivalents and marketable securities.

Now I'd like to provide preliminary financial guidance for the fourth quarter. For the fourth quarter 2023, we expect revenue to grow in the 11% to 13% range, continuing the trajectory of accelerating year-over- year revenue growth throughout 2023. Our revenue guidance also takes into account a modest foreign exchange impact.

Moving down the P&L. While we don't guide cost of revenue specifically, we do want to remind everyone that cost of revenue as a percentage of total revenue typically runs lower in Q4 due to the higher seasonal revenue we see in the fourth quarter. We expect Q4 non-GAAP operating expenses to decline in the 9% to 13% range year-over-year as we lap our large brand marketing campaign in Q4 last year. Please note that our operating expense guidance does not include cost of revenue.

Finally, our focus on revenue growth and operational rigor has allowed us to meaningfully expand adjusted EBITDA margins over the course of this year. At the beginning of this year, we committed to 200 basis points of adjusted EBITDA margin expansion year-over-year for full year 2023. As the year progressed, we felt confident in our ability to exceed 200 basis points based on our expense discipline, and we doubled our commitment to roughly 400 basis points.

Based on our progress in accelerating revenue growth and further controlling costs, we now expect to see significant adjusted EBITDA margin expansion again in Q4, which would put us on track to achieve approximately 600 basis points of adjusted EBITDA margin expansion for full year 2023.

To close, our Q3 performance tells an impressive story - significant monthly active user growth, strong and accelerating revenue generation and effective cost management, all of which continues to put us on the path to deliver on the longer-term financial targets we recently provided.

I'll now turn the call over to Bill.

**William J. Ready**
*CEO & Director*
Thanks, Julia. We've made great progress across our business in the past year, and we're just getting started. I want to thank our teams at Pinterest, our advertising partners and all the people that come to Pinterest to find inspiration and to shop. And with that, we can open the call up for questions.

# Question and Answer

**Operator**

[Operator Instructions] The first question is from the line of Eric Sheridan at Goldman Sachs.

**Eric James Sheridan**
*Goldman Sachs Group, Inc., Research Division*

Thanks so much for taking the questions. And thanks for all the details and prepared remarks. Maybe two, if I can. Bill, this year has been dominated by elements of some of the headwinds the advertising industry has faced, brand advertising, the macroeconomic conditions. How would you characterize the headwinds from those dynamics versus the tailwinds building on the shopping and the direct response side, when you think about the exit velocity investors should have in mind in terms of revenue moving out of 2023 and into 2024?

And then Julia, at the Investor Day, we talked a lot about long-term margin potential. Can you balance the margin potential you see in the business against some of the investments that you and Bill see as critical to make in the short to medium term to set up for that revenue success?

**William J. Ready**
*CEO & Director*

Thanks for the question, Eric. So in terms of the broader ad environment, we've seen some stabilization there. And for us, particularly, retail has been an area of strength. I think it's been most pronounced with the larger, more sophisticated advertisers. And in addition to that stabilization in the broader ad market, as we've been improving our performance solutions, particularly at the lower funnel and better measurement, I think that's been reflected in our results with steady acceleration each quarter.

And so you saw that in our Q3 results, you see it reflected in our Q4 guide as well around that steady acceleration. And I'll give it over to Julia for the other part of your question.

**Julia Brau Donnelly**
*Chief Financial Officer*

Yes, Eric. So thanks so much for the question. So as we think about kind of margin expansion potential from here, maybe stepping back for a minute, we feel really good about the progress we've made so far in delivering margin expansion. We started the year with a 200 basis points margin expansion goal and we're on track now to triple that to 600 basis points for 2023. You're right that at Investor Day, we said we plan to get to the low 30s percent range in 3 to 5 years from now, and we get there with a steady progression. We are still planning for that.

This year, the combination of revenue acceleration and cost discipline led to outperformance on margin expansion. However, there are a lot of investment opportunities with high ROI, particularly in staffing our R&D and product focus and technology areas that we want to fund as we think about balancing investment in the business and capturing the opportunity ahead of us, and flowing through profitability to the bottom line.

So given that, for next year, we're not providing specific guidance, but we do expect further margin expansion that will be more modest than the 600 basis points we are delivering this year in particular. And overall, we remain committed to steadily expanding our margins as we march up to that low 30% range over the next 3 to 5 years.

**Operator**

Our next question comes from Ross Sandler with Barclays.

**Ross Adam Sandler**
*Barclays Bank PLC, Research Division*

For Bill or Julia, just going back to the Investor Day, there was a slide, I believe it was in Julia's section, that showed kind of these colored bar charts around how much of the growth has been coming from ad load increase versus usage growth following the WPO change.

And the question is, as we bring on Amazon and other third-party partners in the future, what do you think is the sustainability of that trend of increasing ad load? And is that a multiple year dynamic? How do you see that playing out as we bring on more demand?

**William J. Ready**
*CEO & Director*

Thanks, Ross. So as we've discussed, we have more than half the users on Pinterest say they're here to shop. And when they use it in a commercial mindset, relevant ads can be great content for the user. And so you've seen us proving that out over the course of the last year.

And when we think about the third-party partnerships, we talked about this at Investor Day, and the progress we've seen so far, that one of the most encouraging things we've seen as we're bringing on third- party demand with our Amazon Ads partnership is the strong improvement in relevance.

So we noted at Investor Day that we saw a 50% improvement in relevance on search, and as we're coming into related items, we're seeing 100% improvement on related items from that third-party demand. So the analogs that I have say to me that over a multi-year journey, our ad load when they use it in a commercial context, can be a multiple of what it is today.

And that's being driven by both improvements in the platform as well as getting the right relevant demand onto the platforms, and we've made continued progress in both. But we see a multi-year period where that can continue.

I'd also highlight just the dynamic of as we've been doing at the best proof point that we're turning the ads in the relevant content for users, is that even as we've taken ad load up, you've seen -- we've seen all of our measures of engagement growing faster than the user growth, which means we're deepening engagement per user, even as ad load grows at a multiple of -- or grows faster than the engagement grows.

I think that's the best proof point that as we bring in the right relevant ads for that user in the commercial context, that they're finding that as engaging content.

**Operator**

Our next question is from Lloyd Walmsley with UBS.

**Lloyd Wharton Walmsley**
*UBS Investment Bank, Research Division*

First, just on the partner monetization, it sounds like Amazon is progressing faster than you guys expected and good early results. Remind us what the big outstanding blocks you need to get through to scale that with other partners? And then is there any of the acceleration in 4Q coming from Amazon?

And then the second one would just be more broadly on generative AI. You guys have a lot of interesting user data, content, context. Like anything you're working on interesting on the consumer-facing side for generative AI that you want to call out?

**William J. Ready**
*CEO & Director*

Great. Thanks for the question. So with the Amazon partnership, we gave an update just 2 weeks before the end of the quarter at our Investor Day. And what we've continued to see is consistent with the comments we made there, and as a reminder, what we talked about at Investor Day, we see really good progress. We're testing, learning, iterating and we're focused on creating a really great relevant user experience and valuable merchant experience.

And we're really pleased with what we're seeing on that front. That's the biggest breakthrough, and this is demonstrating the increase in relevancy from bringing on third-party demand. As I noted in the prior question, 50% increase in relevance on search and 100% increase in relevance on related items, I think that just bodes really well for where we can go with that. So those were the biggest things to solve for. As we've been calling out, it is a multi-quarter implementation with the most meaningful revenue to hit early in '24.

So that's with regard to your question on Amazon. The other part of your question around potential new partners, we've commented on this from early on, that part of what made us a multi-quarter implementation is that we were fitting the platform for third-party demand generally, not just one partner. So that sets us up well to expand to other partners as we go into '24. And we've been really focused on making sure we get this first one really right, but we have built it in such a way that we think it sets us up well to expand to additional partners as we go into '24.

And then on the generative AI front, it's -- AI generally has been a really great source of strength for us. And the places that we've talked about where our use of large language models, 100x larger models, GPU serving, all these great AI technologies, giving us significant increases in relevance, approximately 10 percentage point increase in relevance we talked about on last quarter's call and at Investor Day. So that's been going really well.

And the newer products like our Creative Studio that is creating dynamic content for ads, for advertisers, to make those ads more compelling and engaging for users, we're early in our testing there, but we've seen just a palpable response from advertisers in terms of their excitement about engaging with that product and the things that we can do there.

And then finally, other elements of the core experience. There's just really nice improvements happening throughout the core user experience that may be more subtle as a user, but actually driving really great results like guided search experiences, getting you to more related items. These are things where we're seeing just -- areas where you would normally see progress on basis points.

I mentioned that approximate 10% increase in relevancy. That's a place you'd normally see improvements in basis points. To say 10% -- approximately 10 percentage points improvement in relevancy there, those kinds of gains are just unheard of. And so we feel really good about the progress that we're making with AI and large language models and the core technologies there.

**Operator**

Our next question is from Rich Greenfield with LightShed Partners.

**Richard Scott Greenfield**
*LightShed Partners, LLC*

I got a couple. One, just -- I want to follow up, Bill, you were talking about sort of the, I guess, you called it the compounding benefit to both Pinterest and your content and advertising partners on ad load and how it's not impacting engagement. What does that tell you in terms of like -- does that imply that there's still lots of room to run in terms of what the ad load could be?

I mean you sort of framed it as -- I think you were about to say multiples and then you sort of said it was the percentage increase. But I'm just wondering, is there any way to frame how much is ad load up? And as you sort of see the engagement benefits from better targeting of ads and content, do you think that there is multiples to go in terms of ad load over the course of the next several years?

And then two, just because I've been using Pinterest a lot over the last few months and one of the things I certainly noticed is the presence of Temu. Wondering if there's any way you can sort of quantify, has Temu been a major advertiser year-over-year? How much of an impact has it had positively on your business year-over-year? Would be helpful just to put it into context.

**William J. Ready**
*CEO & Director*

Great. Thanks for the question, Rich. So stated very simply, there's a lot of room to run on ad load, again, both through the unlock of whole paid optimization and our ability to look at the ads of relevant content as well as being able to ingest more relevant third-party demand as well as getting more first-party demand as our advertisers, particularly retailers, are seeing more performance from us and wanting to bring more relevant inventory onto the platform. We think there's a lot of room to run there.

Over a multiyear period, the analogs that I would have in my mind would say to me that when they use it in a commercial context on our platform, which again more than half users are here to shop, but when they use it in a commercial context, I think the analogs I would look to would say that we could support a multiple of the ad load that we currently have. That will be a multiyear journey to get to that. But I think that means there's just a lot of runway in front of us on where ad load can go.

And the key proof points that I would have had in my mind coming in 5 quarters ago were really around whole page optimization, proving out that the users wanted to shop and would engage all the way through the lower funnel and the ability to bring in more demand rapidly. And all those major unlocks, we have progressed quite nicely on all those, but there's a lot more runway to go to get to get all the goodness out of that. That will be a multiyear journey, which is why we feel confident in our prospects as we look forward.

And then on the other part of your question on Temu, our strength in retail has been broad-based. So if you looked at our strength in retail, the largest advertisers, the larger, more sophisticated advertisers, they've been seeing really great results from our latest product developments, and they have been leaning into the platform.

Each of our largest, most sophisticated advertisers across retail have been growing faster than the growth rate of our revenue overall, so they're leaning in and contributing to growth. And then Temu has been a nice -- I will not comment on anyone specific, but just sort of Asian e-commerce exporters generally have been a nice contributor to that. But we don't feel particularly concentrated or exposed given that our strength in retail has been very broad-based.

**Operator**

Our next question is from Brian Nowak with Morgan Stanley.

**Brian Thomas Nowak**
*Morgan Stanley, Research Division*

Great. I have 2. The first one, at the Analyst Day, you gave that great chart where you sort of showed the growth in engagement, that basket of saves and impressions versus the DAU versus the MAU growth. Can you just update us for how fast that engagement grew in the quarter? I think it was up 14% in 2Q. Just for context, how quickly was it up in 3Q?

And then the second one, you have a lot of different monetization sort of irons in the fire. Can you sort of walk through some of the key technological hurdles you still have to overcome for direct links and deep links as we think about those fully rolling out throughout 2024?

**Julia Brau Donnelly**
*Chief Financial Officer*

Yes. Thanks, Brian, for the question. I'll take the first part and maybe kick it over to Bill for the second part of your question. So we did see engagement trends continue, the same trends that we showed at Investor Day.

So we talked about strong engagement growth on the call. We also talked about the increase in ad impressions of 26% being driven by both total impressions growth increasing and ad load increasing. So the same trend of ongoing engagement growth across the basket of metrics that we monitor and talked about on Investor Day continues to hold for Q3 specifically. And now Bill for the second part.

Yes. So this is actually a really great area, Brian, in terms of what's required to implement our lower funnel solutions here and how that's going. So mobile deep links, which has had really great results, I mentioned 235% lift in conversion rates, which is really an experience taking the user from Pinterest straight into the product and buying experience in a retailer's mobile app.

But there's a lot of retail that may not have users on their mobile app. And so with direct links we're now taking that -- a similar experience that will drop the user straight into a product and/or purchase experience with the retailer's website or mobile website, and we're deploying that very rapidly. And we're actually able to deploy that even faster than mobile deep links.

So we now have approximately 60% of our revenue, of our lower funnel revenue, has been migrated to direct links. And so the value creation of that has really been tremendous. We talked about 88% higher outbound click-through rate and 39% decrease in cost per outbound click. That's just really phenomenal value creation for the advertiser. And so advertisers have been seeing that.

The other thing to note is that we are still in the beginning of capturing the value from that because we started rolling that out sort of in the back half of Q3, and I shared some comments as to how we're continuing to roll that out into Q4 and even into Q1, and we have our measurement progress that lets the advertisers measure all that goodness that they're seeing.

So the shift of budgets that can result from that, I think while we have really accelerated the value creation for the advertiser, and they're really pleased with what they're seeing, I'd say we're still early on in capturing the value from that. So I think there's a lot of tailwind to that deployment as we continue forward into Q4 and into next year.

**Operator**

Our next question is from Mark Mahaney with Evercore ISI.

**Mark Stephen F. Mahaney**
*Evercore ISI Institutional Equities, Research Division*

2 questions, please. The growth in MAUs was most pronounced in ROW, in the rest of the world regions. Any particular markets there or countries you would call out there? Is there something that suggests that, that growth is -- there's a new growth element in ROW?

And then secondly, I think 2 other companies have talked about seeing a little bit of a pause in ad spend due to geopolitical factors earlier in the quarter. Are you seeing anything like that?

**William J. Ready**
*CEO & Director*

So I'll take the second part of your question first, Mark, and thanks for the questions. So before I get to that, actually, I want to just take a moment to acknowledge the tragic situation on the ground in Israel and Gaza. While Pinterest doesn't have employees there, our thoughts are definitely with all those that are affected. Truly beyond words, the situation there.

So with regard to the impact of the geopolitical situation, advertisers do react to major geopolitical situations. But spending on our platform has been relatively resilient so far in the quarter. When the Middle East conflict broke out, some brand advertisers did temporarily pause spend, and this resulted in a minor short-term impact, but we've since seen those advertisers largely return.

And if the geopolitical environment were to get materially worse, we'd expect that brand advertising would be more at risk and performance ads would be more resilient. So platforms skewed more to brand would be more impacted than we would be, given the progress we've made in the lower funnel.

But if advertisers pull back spend in a more meaningful way than what we've seen so far, we're not going to be immune to that. But taking into account everything we know today and what we've seen so far, we feel good about our ability to execute in the quarter, bolstered by our recent product improvements at the lower end of the funnel, which is factored into our Q4 guidance.

And then on the MAU side, it continues to be a story of mature markets, where it's a story of deepening engagement in mature markets. And then broad-based strength as you look to rest of world, as we're getting more and more relevant results. A lot of these things we're talking about in great improvement in relevancy using next-gen AI technology, these are things that are just having a global impact in mature markets where we've seen a lot of the users that we need to see that manifest as deepening engagement per user. As you look to rest of world, you see even more MAU growth happening in those markets.

**Operator**

Our next question is from Doug Anmuth from JPMorgan.

**Douglas Till Anmuth**
*JPMorgan Chase & Co, Research Division*

At the Analyst Day, you talked about launching a fully automated ad tool in 2024 similar to some of the other large platforms. I was just hoping you could provide an update on that? Perhaps any commentary just around how the build progress is going there? That's all.

**William J. Ready**
*CEO & Director*

Thanks, Doug. Appreciate the question. So we're really pleased with our progress on that front. If you think about sort of the fully automated tools out there, we have most of the components that you'd want to see in that. And we're now bringing those together into a more comprehensive solution. So if you looked at our bidding now, we'd have a significant majority of our revenue, it would be using -- is using automated bidding today.

As we look forward into '24, as we progress through the year, we're going to be giving advertisers more ability to basically give us targets, give us creative and then leave it to us to go drive campaign results for them. And so we feel like we're making really great progress there. And so we think that's another positive factor as we look forward into '24.

**Operator**

Our next question is from Anthony Post with Bank of America. Our next question will be from Ron Josey with Citi.

**Ronald Victor Josey**
*Citigroup Inc., Research Division*

I have 2, please. Bill, you talked about, when talking about engagement in newer use cases, improvements in users picking up where they left off in prior sessions. Talk just more about how that connected search improves overall engagement rates and just the impact to overall use cases?

And then with mobile deep linking fully launched in July, would love to hear just more insights on overall adoption now that we're GA. And particularly, I think I heard you say we launched direct links in 3Q, but there's more to go. So any insights on MDL and direct links would be helpful.

**William J. Ready**
*CEO & Director*

Yes. So on this sort of picking up on journeys, that are multi-session. One of the things I think people may not fully appreciate is that a significant portion of commercial journeys are, in fact, multi-session. And if you were to look over the shoulder of a user that's shopping, the way this would manifest is you'd see 30 or 40 browser tabs open at a time, oftentimes, which is reflective of how users think about these shopping sessions as multi-session experiences.

This is a real core strength of Pinterest. Like that pain point of having 30 or 40 browser tabs open at once, that's sort of a core pain point that Pinterest solves. And so as users are saving on our platform at an increasing rate, we talked about our most recent cohorts being approximately twice as engaged as past cohorts and saving being a core element of that, as we're making that experience easier and better for the users to go save those journeys with us, come back and pick up where they left off and get great recommendations.

Like taking the example I gave of taking the jacket and the shoes that you saved, but then coming back and not only do you get more recommendations about that, but things that could go with it or things that are relevant to your style. We're seeing that really play well with users and give users more reasons to come back to Pinterest more frequently for their shopping needs. And so we feel really excited about the results there, but we still have a lot more that we can go forward with.

But it's a core strength of Pinterest. And it's really unique to our platform, fundamentally different than what users would do on other platforms. And so as we're leaning into that, we're seeing a differentiation shine through more and more. And then on mobile deep links and direct links, the great news with direct links is that we've been able to deploy that more easily for retailers without them having to do work on their end.

They still need to do work to measure and then to reallocate budgets, but our ability to go deliver them more clicks, we then will do that without work by the advertisers, particularly with retailers that were getting into shopping. And so that 88% lift in clicks that we noted is a tremendous value creation for the advertisers. And as we look forward, and they're getting that -- they're seeing that come through in their measurement models and they're thinking about budget, we see a lot of that value capture is still in front of us, even though we're moving very rapidly on the value creation for the advertiser.

**Operator**

Our next question is from Colin Sebastian with Baird.

**Colin Alan Sebastian**
*Robert W. Baird & Co. Incorporated, Research Division*

A couple for me as well. I guess first off, when you look at the incremental revenues on the platform, I'm curious how much of that growth is just from new advertisers versus just higher budget allocation from existing advertisers? And then secondly, apologies if I missed this, but did you provide an update for Q4 to date on API for Conversions, the penetration rate across revenues on the platform?

**William J. Ready**
*CEO & Director*

Yes. So on your first question, we've seen certainly a nice mix of new advertisers coming in as well that are seeing compelling results. But as I noted in my prior comments, our strength, particularly in retail, has been broad-based. And we've actually seen the larger, more sophisticated advertisers have been at the core of that.

And so seeing those most sophisticated advertisers are seeing great performance from us, they're, as a cohort, growing faster than our revenue overall. In fact, across all of our large sophisticated advertisers, particularly in retail, we're seeing them growing faster than our revenue growth rate overall.

So I think that bodes really well for just how our lower funnel performance-oriented solutions are driving value for advertisers, and that's working well with large retailers. It's also helping to bring in emerging categories as well, to comment on some of those emerging categories like travel and financial services and others. And so there are new advertisers coming on to the platform as well.

But retail has been the largest contributor to our growth, and driven particularly by larger sophisticated advertisers, which we always say, if you can make them happy, you can make just about anybody happy. And so we expect that, that trend of other advertisers coming in or leaning more into the platform will only continue.

**Julia Brau Donnelly**
*Chief Financial Officer*

And then, Colin, to your second question about the sort of penetration update on API for Conversions, so we did not update that stat simply because we just gave it to you all last month at Investor Day. So just a reminder there, at that time, we said that as of August, 28% of total revenue has adopted the API for Conversions, which is up from 14% at the start of the year. So continuing to see nice progress there.

**Operator**

Our next question is from Mark Kelley with Stifel.

**Mark Patrick Kelley**
*Stifel, Nicolaus & Company, Incorporated, Research Division*

Mine is 2 quick ones. The first one is just on just the importance of whether it's Amazon or other third- party demand partners that you bring on over time. I guess how important are those partnerships to international expansion? Does that make it easier, partnering with a tech provider that's kind of widely adopted? That's the first one.

And then the second one, just a follow-up on API for Conversions. Is that something that you expect to kind of slowly increase in terms of adoption and then kind of a rush at the last minute when cookies are deprecated on Chrome? I guess what's the path forward, bigger picture?

**William J. Ready**
*CEO & Director*

Thanks for the questions, Mark. So on your first question there, we've not talked about -- there's no specific new announcements around third-party for international or anything like that. But we have talked about how we are significantly under monetized internationally and that as we look forward,and think about how 3P could help with our business overall, international is definitely a place that we think third- party demand can be particularly helpful.

We had some comments on this in Investor Day, both around third parties, around working with resellers internationally, all of which can help accelerate our progress internationally. So that's definitely something that we're focusing on as we go into next year is driving greater ARPU internationally given our under monetization there. And we see third-party as a contributor to that, along with other efforts like resellers and other things that can bring relevant demand onto the platform internationally.

And then on CAPI, to your point, as we go into '24, I think we've seen, as we look back, the larger, more sophisticated advertisers have been at the earlier end of the adoption curve on these things. But as we look into '24, and there'll be -- there has been stated desire to make further progress by browser -- major browser providers and deprecating cookies, I think that will create more forcing function for the industry as we go into '24.

So I don't have a better crystal ball than anybody else, but I do think as we move toward that cookieless future, that will create some forcing function for advertisers to implement privacy-safe measurement. And then I think the other thing just as we face a cookieless future, we've talked about this, we think the industry broadly is in a similar boat around needing to implement privacy-safe measurement tools.

But we think platforms are in very different boats as it pertains to being able to serve relevant ads to users. And stated very simply, Pinterest doesn't need to follow users around the Internet to know what they're interested in. Users come on Pinterest and tell us what they're interested in. So our ability to serve great relevant ads to users is driven by what users do on our platform, and by our first-party signal.

And so we think we're positioned quite well as it pertains to delivering great relevant ads for users even as we move into a cookieless future. And then on the measurement side, yes, the industry, I suspect, will continue to accelerate the adoption of those privacy-safe measurement tools as we go into '24.

**Operator**

Next question is from Tom Champion with Piper Sandler.

**Thomas Steven Champion**
*Piper Sandler & Co., Research Division*

Bill, on Amazon, is there any sensitivity to managing the existing 1P advertiser base when layering on a major partner or additional partners in the future? Is there any impact to existing advertiser price or ROI or any trade-off there to keep in mind?

And then Julia, maybe for you, just curious if you could discuss the very strong revenue growth in Europe in 3Q. Any call outs there? Anything to monitor on the regulatory front there as well?

**William J. Ready**
*CEO & Director*

Thanks, Tom, for the questions. To your point on 1P versus 3P, I think you're sort of getting out like is there a channel conflict kind of issue there. And we've not really seen that surface. What we've really seen surface, and I think this is evidenced by the meaningful increase in relevance, is that we're really seeing a lot of new demand that's coming through that, that you wouldn't have the relevancy increases if you weren't seeing new demand that wasn't already on the platform.

So that's really been the highlight so far is that it's making it so that there's new relevant demand showing up on our platform, which is why it's been so engagement-positive for users. So we've not seen any particular concern there, certainly something we would watch for and pay attention to. We actually think these things are quite synergistic with one another. And then I'll give it over to Julia...

**Julia Brau Donnelly**
*Chief Financial Officer*

Yes. So Tom, on your question on sort of European growth in Q3 specifically, so we did see some strong growth there from CPG and also from emerging verticals such as technology and the auto vertical, but this was also amplified by strong growth with agencies.

As we've talked about, historically, agencies play a differential role in the European market specifically. Some of it was also, to be fair, a little bit of an easier comp in Q3 of last year, both on a reported and a constant currency basis. And so I think that's something also that's worth calling out. And no major impact that we see today in our business or expect on the regulatory front either.

**Operator**

Thank you. This was the last question for today's call, so I will now hand the call over to Bill Ready for closing remarks.

**William J. Ready**
*CEO & Director*

Thanks again to all of you for joining the call and for your questions. We look forward to keeping this dialogue going, and we hope you all enjoy the rest of your day.

**Operator**
That concludes today's Pinterest Third Quarter 2023 Earnings Conference Call. Thank you for your participation. You may now disconnect your lines.