Presentation

Operator

Good afternoon, and thank you for joining Pinterest Fourth Quarter and Full Year 2023 Earnings Call. My name is Kate, and I will be the moderator for today's call. [Operator Instructions]

I would now like to pass the call over to your host, Neil Doshi, Head of Investor Relations at Pinterest. You may proceed.

Neil A. Doshi
Director of Investor Relations

Good afternoon, and thank you for joining us. Welcome to Pinterest's Earnings Call for the Fourth Quarter and Full Year ended December 31, 2023. I am Neil Doshi, Vice President of Investor Relations for Pinterest.

Joining me today on the call are Bill Ready, Pinterest CEO; and Julia Donnelly, our CFO. We are providing a slide presentation to accompany our commentary, and this conference call is also being webcast. Please refer to our Investor Relations website at investor.pinterestinc.com to find today's presentation webcast and earnings press release. 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 outlooks for Q1 2024 and beyond are preliminary and are not an insurance of future performance.

We are making these forward-looking statements based on information available to us as of today, and we expressly disclaim any duty or obligation to update them unless required by law. For more information about risks, uncertainties and other factors that could affect our results, please refer to our most recent annual report, Form 10-K and quarterly report, Form 10-Q 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 measures to the most directly comparable 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. 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 & Director

Thanks, Neil. Good afternoon, and thank you for joining our fourth quarter and full year 2023 earnings call. In Q4, our team executed well against our strategic priorities, growing user engagement, gaining further traction with our lower funnel advertising offerings and delivering on operational efficiency. Our efforts to grow users and deepen engagement continue to yield strong results. Global MAUs hit another all-time record of $498 million, growing 11%, accelerating from last quarter and growing sequentially in all of our geographic regions. Q4 revenue of $981 million grew 12%, marking continued double-digit revenue growth in the second half of this year.

And while growing revenue and engagement, we continue to demonstrate operational efficiency and disciplined expense management, resulting in Q4 adjusted EBITDA of $365 million or a 37% margin, up more than 1,400 basis points from last year.

Our strong product delivery in Q4 and throughout 2023, with investments focused in lower funnel offerings like mobile deep linking, shopping ads, API for conversions and most recently direct links are delivering sustained ROI improvements for advertisers. This is leading to advertisers growing their budgets with us and has resulted in further acceleration so far in Q1, which is reflected in our guidance that Julia will describe in further detail later in the call.

Before I discuss Q4, I'd like to reflect back on the progress we made over the past year. We entered 2023 with a backdrop of a challenging macroeconomic environment and a weak digital ads market. However, we delivered strong execution against the strategic priorities we laid out during the second half of 2022, which enabled us to grow through the downturn and get back to double-digit revenue growth in the back half of 2023. During this period, we made significant investments in AI that drove improvements in our overall platform for users and advertisers and we significantly accelerated product velocity across our most important priorities, propelling growth last year and laying the foundation for the future.

We focused on helping users find new reasons to come back to Pinterest more often. We also invested in the elements that made Pinterest so beloved and unique in the first place, like human curation through saving and organizing content and as a result, MAUs are growing and users are engaging more deeply with the platform than before.

We also made significant advancements on the shopability of the platform. More than half of our users view Pinterest as a place to shop. But historically, it was not easy to click out and go to a merchant site to buy the product you found on Pinterest.

Last year, we improved the shopping experience by bringing shopping content front and center into our home feed, search and related services. As a result, we saw engagement with that shoppable content accelerate as users clicked and saved that content at rates significantly higher than in the past. This was clear evidence to us that people come to Pinterest with intent and will take action when we make it easy for them to do so. On the monetization front, the teams innovated across the entire funnel with particular emphasis in the lower funnel as we made it more seamless for users to pivot from inspiration to action through increased shopability.

In fact, 2023 was one of our most productive years for ads innovation, as we accelerated product delivery and launched more ad formats, tools and solutions than ever before and continue to drive adoption of our lower funnel solutions for advertisers. These include seamless handoffs like mobile deep linking and direct links, new ad formats like Premier Spotlight, travel catalogs and lead ads and measurement solutions like our API for conversion and clean room integrations.

As a smaller player in the overall digital ads ecosystem, adding third-party demand to increase the comprehensiveness of our catalog and the relevance of our ads was a key priority for us. Last year, we announced and launched our first third-party ad partner with Amazon Ads, which is scaling well, and we will continue to advance our third-party demand efforts this year and beyond to bring relevant ads that can enhance the user shopping journey. Putting all this together, we were able to achieve year-over-year revenue growth in every quarter in 2023 and get back to double-digit growth in the second half, and we did this while controlling our costs and expanding margins.

When we started the year, we laid out a plan to achieve around 200 basis points of adjusted EBITDA margin expansion for the full year. With revenue growth, operational rigor and cost optimization, we were able to deliver 660 basis points of adjusted EBITDA margin expansion for 2023. I believe that constraints breed creativity. And in this environment, our teams are able to deliver better experiences for our users and our advertisers with clarity, focus and discipline.

Lastly, with a strong executive team, many of whom joined in 2023, we have the right leadership and a strong foundation to execute against our strategic priorities in 2024 and beyond. Now let's take a closer look at the initiatives we launched in Q4 to advance our strategic priorities. During the quarter, we made key updates along the entire inspiration to action journey to grow our users and deepen engagement.

These investments are paying off. We had our fastest global MAU growth since Q1 of 2021, and we're seeing our best product market fit in years as evidenced by the strong growth in our Gen Z demographic and the fact that our most recent user cohorts are significantly more engaged in user cohorts from prior years, consistent with what we shared at our Investor Day.

Starting with inspiration. We're enhancing the way users find inspiring content and hone in on exactly what they're looking for by making improvements to our core search capabilities. In Q4, we began testing generative AI-based search guides which help users to refine their understanding from broad queries like kitchen ideas and to more structured avenues of exploration like Rustic Farmhouse Kitchen or kitchen organization hacks, helping users get closer to the point of action or purchase. Additionally, these generative search guides highlight the advancements we're making in AI on the platform in ways that are additive and authentic to the user and that we expect will lead to continued improvements in engagement and retention.

After users search for and find the content they're looking for, we're developing new ways to help users curate that inspirational content. At our Investor Day, we introduced collages, a new interactive pin format composed of cutouts that users can engage with. Users can tap on an image within a scene to cut out components of the image they love and combine them with other cutouts to create interactive collages of their favorite ideas, all in one place. In addition, users can tap on a cutout within a collage to see its associated products, if available, or the source pin that the object was cut out of. This has the potential to create a flywheel of content creation and engagement, which we're excited about.

In Q4, we rolled out the collage functionality to nearly all iOS users globally. I'm pleased that this feature is now broadly available for our users as cutouts in collages are a new frontier of creation on Pinterest and allow users to express their creativity and taste in even more visually immersive ways. It also provides us with great first-party signals on what users are interested in, product associations, emerging trends and how we can surface more content and products that are aligned with users' evolving tastes.

And we're seeing strong early results and positive feedback from our users. They're finding collages highly engaging with users 3x more likely to save collage pins versus other pins on Pinterest and the majority of collages are created by users who had not previously created a pin. Collage is also skewed heavily towards shoppable content with approximately 75% of collages utilizing a product pin, showing the intent our users bring when creating and engaging with content on Pinterest.

Moving further down the inspiration to action journey, we're enhancing our board functionality to help users better understand and organize their tastes. Boards are an essential part of the curation flywheel on Pinterest and provide us with important signals on user tastes and preferences, which feeds into our recommendation algorithm and further augments our ability to serve relevant content back to our users.

In Q4, we launched our first auto organization feature. This feature leverages AI to simplify the Board creation process by automatically grouping similar pins into suggested boards based on what users have saved in the past. For users who generally don't curate on the platform, this feature resulted in a nearly 30% lift in boards created, highlighting how auto organization can unlock the magic of Pinterest for more users.

Finally, we're making it easier for users to shift from inspiration to action and shop products they discover on Pinterest. Over the past few quarters, we've launched shopping modules that help us further capitalize on our audience who come to Pinterest with intent and improve the shopability of our platform. Last quarter, we discussed a few of these efforts for women's fashion and home decor categories, including Shop The Look and guided shopping modules, which surface shoppable product pins based on past saving and clicking history.

In Q4, we launched Shop Similar for mobile in the same categories. While Shop the Look is activated when a user clicks on a lifestyle image such as a celebrity wearing the latest outfit trends or a beautifully curated living room, Shop Similar is activated when a user clicks on a shoppable product pen from a merchant catalog. It then showcases a carousel of similar product pins across a variety of other brands and price points, complementing the feed of related pins below. We're in the early stages of ramping, and in our experiments, Shop Similar drove double-digit lift in both outbound clicks and checkouts.

I spent the last few moments discussing the key product updates we've made across the funnel to help users find the content that inspires them most and take action on it. The billions of intent signals we get from this on-platform search click and curation behavior gives us the unique ability to see trends in real time and predict consumer trends for the upcoming year through our annual Pinterest Predicts report.

We've had an 80% success rate in predicting future trends 4 years in a row. Some of our 2024 predictions are already making their way into the cultural conversation through publications like Vogue and GLAMOUR UK as celebrities and users embrace Pinterest Predicts trends like “Eclectic Grandpa” fashion looks or “Western Gothic” home design. Blue Beauty, which predicts Gen Z and millennials will embrace Blue Hughes in their makeup routine, is taking off on Pinterest right now with searches related to this trend growing 125% since the report was launched. This year, we're incorporating Pinterest Predicts activations for both consumers and advertisers.

In December, for the first time, we took our Predicts trends to real life, opening the doors to our first ever Predicts pop-up shop in New York, showcasing immersive displays and shoppable items inspired by the trends. Our predictions allow advertisers to plan ahead for new consumer interest, ensuring their products and ads are ready to meet ramping demand. Advertisers can also sponsor co-branded Pinterest Predicts content on our platform to reach targeted audiences. Pinterest Predicts is a great example of our ability to harness user behavior to show compelling trends and content that drive user engagement and provide advertisers with actionable insights they can't find anywhere else.

With that, I'd like to turn to our second strategic priority, improving monetization per user and discuss how we're driving success for advertisers. Throughout 2023, we've been focused on driving performance for advertisers by rolling out our lower funnel tools, which include mobile deep linking, the API for conversions and clean rooms and most recently, direct links, which launched at the end of Q3 and ramped in Q4. The percentage of revenue from advertisers who adopted at least 3 of these tools increased from 2% at the beginning of 2023 to 13% at our Investor Day in September to 23% by the end of the year, marking strong progress toward our goal to be a meaningful performance player in the digital ads market.

One of the key product enhancements we've rolled out within the lower funnel suite is direct links, which creates a more seamless handoff for advertisers. Direct links take users to an advertiser's product page in just one click, significantly reducing friction and improving the ability to take action. Direct links also require little-to-no work by the advertiser to adopt and now cover 80% of our lower funnel revenue, up from 60% in October.

We expect coverage to continue to increase over the course of Q1. The increased performance and value we were able to drive for advertisers in Q4 was particularly impressive. We more than doubled the amount of clicks we drove to advertisers year-over-year, a substantial increase during a retailer's most important time of year, and we were able to do so while driving high-quality engagement.

Retailers are finding significant performance improvement with this format. For example, Urban Outfitters saw a 132% increase in outbound clicks and a 57% decrease in cost per click with a direct links enabled campaign. This is strong tangible evidence that we are creating significant real value for advertisers. This value creation comes in the form of increased clicks, lowered CPCs and therefore, higher return on ad spend from our lower funnel products.

Each time we have launched products that created meaningful advertiser value, we have seen budgets shift in our direction in the months and quarters that followed as advertisers were able to see and measure sustained performance. Given that we launched these products throughout the year, with direct links rolling out most recently during the holiday shopping period, much of the value capture from these new products is still in front of us, given the lag between value creation and value capture. We've seen the same value creation versus value capture adoption curve play out in our business already with larger, more sophisticated retailers taking advantage of products like mobile deep linking and API for conversion and subsequently growing their spend with us.

The cumulative effect of the significant improvement in Pinterest's lower funnel and performance ad capability over the last 18 months is that we are increasingly moving from advertisers' experimental and social budgets to their performance budgets, which tend to be larger and more resilient. With our improved lower funnel solutions, we know we're driving more clicks in conversions, but performance is only as good as an advertiser's ability to measure it. Moreover, as the industry goes through additional privacy-centric changes this year with the expectation that a major browser will be deprecating third-party cookies, there is heightened urgency from agencies and advertisers to drive adoption of future-proofing measurement tools.

From a targeting perspective, we believe we are well positioned relative to others due to the first-party signals we capture through user intent expressed directly on our platform. We are a lean forward platform in relevant ads or content to our users. From a conversion visibility and measurement standpoint, we have a broad suite of solutions, which are becoming indispensable for performance advertisers to measure and optimize the value of their spend. This is why we've been heavily focused on adoption of our API for conversions and clean room solutions and providing more third-party measurement solutions for advertisers.

On API for conversions, we've laid the groundwork for more adoption in 2024, including reducing the set- up time for advertisers through interface updates while integrating with 24 partners like LiveRamp, Adobe and Salesforce. Additionally, sophisticated advertisers are seeing the value of investing in clean rooms to measure campaign performance on Pinterest. Recently, a large CPG partner enabled measurement through clean rooms and found that their Pinterest's campaign drove a 16-point lift in incremental sales.

We also offer a suite of first-party and third-party measurement tools to plug into advertisers measurement system of truth, whether it's brand and conversion lift studies, platform metrics and insights or highly sophisticated media mix modeling and multi-touch attribution studies.

As we've discussed on previous earnings calls, we're going through a critical shift in the industry and a top priority for our company is growing the adoption of these alternative measurement solutions this year. To do so, we've implemented new adoption goals into our sales force compensation structure to encourage further advertiser penetration. We're growing our performance optimization team who can help with technical selling, and we're continuing to explore deeper partnerships with agencies and integrations with additional partners.

In addition to format and measurement innovations, we remain focused on bringing AI-based automation to the forefront of our campaign creation experience. We have many of the components in place for a fully automated ad system, including automatic bidding, campaign budget optimization and whole page optimization, which enables us to surface more relevant and performant ads when a user expresses commercial intent. These tools drive better results in aggregate for our advertisers. For example, automatic bidding covers 85% of our revenue, and whole page optimization is resulting in greater efficiencies across our full funnel. Reducing the time and effort for advertisers on campaign set- up while improving ROI is top of mind moving forward, and we'll see a steady progression of increased automation and easier add platform functionality throughout this year as we continue to build out these products.

Next, I want to provide an update on our third-party demand efforts. Consistent with the timeline we laid out at our Investor Day, Amazon Ads in the U.S. is live on search and related surfaces. And as of this quarter, we are testing it on the home feed. In addition, we always said we would have multiple partners and the third-party partners would be an important component of our overall international expansion.

Today, I'm pleased to announce our next third-party ad integration with Google. This partnership will focus on monetizing several of our currently unmonetized international markets by enabling ads to be served on Pinterest via Google's Ad Manager. We went live a couple of weeks ago, and this is starting to ramp.

Third-party ad demand is scaling as we anticipated. And while it was not a significant revenue contributor in Q4, we are now seeing it contribute more meaningfully to our growth this quarter, and we expect that to continue going forward.

Our third strategic priority is continued focus on operational rigor and discipline. As I mentioned before, I'm proud of our team's execution here as our operating expenses declined year-over-year, and we grew our EBITDA margins by over 1,400 basis points. Julia will provide more details on our future profitability outlook later in the call.

Lastly, I want to spend a few moments discussing a topic that's of utmost importance to this company and to me personally. Since joining Pinterest, I've talked extensively about Pinterest as a positive place online and how maintaining this positivity is a pivotal component of our ethos as a company. It's also a meaningful differentiator for our platform and a core part of our strategy for growing users and advertisers. Users, especially Gen Z, often crave respite from social media and see Pinterest as a positive alternative. Advertisers for their part, want to be present in a positive, brand-safe environment that can also deliver performance.

I recently had the opportunity to speak alongside key thought leaders at the inaugural Youth Online Safety Summit hosted by Common Sense Media, a leading advocacy organization working to ensure that the Internet is healthy, safe and empowering for young people. It was an honor to be able to speak alongside the Surgeon General, Vivek Murthy about how Pinterest is working to build an alternative social media business model, one that is focused on positivity. We're not perfect, and we don't have all the answers. Like the rest of the industry, we have a long way to go, but it is my intention to make Pinterest a safe place for everyone, especially young people. We're one of the few places online that is about focusing on your own life versus just observing the lives of others, about making plans for what you intend to do.

We've taken a radically different stance than our competitors, and we're seeing it pay off in the emotional well-being of our users and in our business outcomes. These principles are at the heart of our technology, our AI and our policies, and we are being accountable and transparent about how we're doing and sharing our learnings across the industry. Our company mission is to bring everyone the inspiration to create a life they love and our work to make Pinterest a positive corner of the internet is an integral part of how we embody our mission every day.

Now I'll turn the call over to Julia to share more about our financial performance.

Julia Brau Donnelly
Chief Financial Officer

Thanks, Bill, and good afternoon, everyone. Today, I'll be discussing our full year and fourth quarter 2023 financial results and provide an update on our preliminary first quarter 2024 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.

Before I dive into the details of the quarter, I want to echo Bill's sentiments about the progress we made in 2023 and how far we've come in a short period of time. Last year, we generated $3.1 billion in revenue, growing 9% with revenue reaccelerating to double-digit growth in the back half of the year.

We've been strategic with our investments that enabled us to invest in high ROI projects such as AI for content recommendation and ads and accelerating the pace of innovation across the board. We did this while driving efficiencies with our infrastructure spend and keeping our total non-GAAP expenses in 2023 roughly flat compared to 2022. This allowed us to deliver $683 million of adjusted EBITDA or a 22% adjusted EBITDA margin, representing 660 basis points of year-over-year margin expansion, well above our initial goal at the start of 2023 of 200 basis points.

Finally, at our recent Investor Day in September, we shared our long-term outlook with a revenue CAGR in the mid- to high teens and EBITDA margins expanding to the low 30s percent range in the next 3 to 5 years. Our recent results and our focus on executing against our strategic priorities sets us up well to achieve these targets over this time frame.

Now I'll discuss our fourth quarter results. We ended the year with 498 million global monthly active users, representing 11% growth. This is the strongest growth we've seen since Q1 2021, with MAU growth accelerating versus last quarter and growing sequentially in all of our geographic regions. We believe that our continued investments to help users find their next use case and quickly pivot from inspiration to action and shopping are paying off as we've been able to drive deeper engagement with our users.

In the U.S. and Canada, we had 97 million MAUs, growing 2%, up from 1% growth last quarter and adding 1 million MAUs sequentially for the second quarter in a row. In Europe, we had 135 million MAUs, growing 8%, an acceleration from last quarter. In our Rest of World markets, we had 266 million MAUs, growing 15%, continuing the trend of acceleration throughout 2023.

In Q4, our global revenue was $981 million, up 12% or 11% on a constant currency basis. Our fastest-growing objective was our lowest funnel conversion objective buoyed by strength in the retail vertical including our shopping ad format. This is a testament to the innovative work we are doing to drive more clicks and conversions for performance advertisers and demonstrates that our business is evolving as we are deploying more lower funnel products and getting access to more performance budgets.

Our awareness objective was also relatively resilient with strength from new formats like Premier Spotlight as this was the first holiday season with this offering. However, this growth was partially offset by headwinds from the food and beverage category as these advertisers pulled back spending towards the end of the quarter due to challenges from macro headwinds. We estimate that the underperformance in the food and beverage category created roughly 1 percentage point of headwind to total revenue growth in Q4.

Turning to our geographical breakouts. In the U.S. and Canada, we generated $778 million in revenue, growing 8%. Strength came from retailers and from emerging categories, including financial services. In Europe, revenue was $162 million, growing 32% on a reported basis or 25% on a constant currency basis. Strength in Europe came from retail and CPG categories. Revenue from Rest of World was $41 million, growing 27% on a reported basis or 25% on a constant currency basis.

In Q4, ad impressions, which is composed of ad load and total impressions, including both organic and paid impressions, accelerated to 33% growth, driven both by increases in total impressions and increases in ad load. This marks the sixth quarter in a row where we've been able to grow both total impressions and ad load, demonstrating that ads can grow in tandem with engagement, especially when those ads are relevant to users. During the holiday season, our continued investments in whole page optimization to dynamically flex up ad load when users express commercial intent, enabled us to open up more ad supply, especially when users were leaned in to shop during the holiday season.

Offsetting the growth in ad impressions was a 16% decline in ad pricing due to our continued work to drive greater platform efficiency for lower funnel advertisers, which lowered prices and improved return on ad spend for those advertisers.

Now I'd like to turn to expenses. While our Q4 revenue grew double digits, our operating expenses declined double digits as we continue to control our expenses diligently and balance investments for future growth. Cost of revenue in Q4 was $174 million, down 2% due to continued cost optimization work on the infrastructure side, even while MAUs reached an all-time high and engagement continued to grow. Our non-GAAP operating expense was $446 million, down 12%. Our heightened focus on driving operational efficiencies throughout the business showed through again this quarter. All of our operating expense line items declined year-over-year, led by sales and marketing, which declined 18% as we lapped our large brand marketing campaign from Q4 2022. These efforts led to another strong quarter of adjusted EBITDA coming in at $365 million, an all-time high. Q4 adjusted EBITDA margin was 37%, up 1,400 basis points year-over-year. Finally, we ended the year with cash, cash equivalents and marketable securities of $2.5 billion.

Now I'll discuss our preliminary guidance for the first quarter. We expect Q1 2024 revenue to be in the range of $690 million to $705 million, representing 15% to 17% growth and a meaningful acceleration from our Q4 '23 revenue growth. It's also worth noting that our guide implies up to a 500 basis point acceleration on top of a stable comp from last year since revenue growth from Q4 '22 to Q1 '23 was relatively consistent.

I'd like to provide some additional color and context behind this guide for Q1. First, we're in the midst of an adoption curve of our lower funnel advertising products.

In 2023, many of our largest and most sophisticated advertisers took advantage of lower funnel ad products like mobile deep linking, shopping ads or API for conversions. These advertisers have seen sustained performance gains with these formats and are growing their budgets with us, the benefits of which we've seen throughout the course of the year and accelerating into Q1, which is off to a strong start, as Bill mentioned.

We see multiple of our large sophisticated retail advertisers allocating more of their performance budgets to us after seeing a longer track record of return on ad spend. As a result, we are beginning to garner more meaningful shares of their overall ad budgets, and we see more of this adoption curve yet to play out with many of our retailers.

Second, we launched direct links in late Q3 and early Q4 to help drive more clicks and conversions for all of the other advertisers who may not have as much mobile app penetration and were not good candidates for mobile deep linking. We created value for those advertisers by doubling the clicks we drove for advertisers in Q4. However, we believe the value capture from direct links will come over the course of 2024 and beyond as those advertisers use their own analytics to measure attribution from Pinterest and incrementally increase their budgets with us as a result.

Third, our Q1 revenue guidance includes an emerging contribution from third-party ad demand. We are pleased with how this is tracking and we'll continue to learn, iterate, optimize and ramp over the course of this year and beyond. Finally, our guidance takes into account a modest impact from foreign exchange rates.

Turning to our Q1 expense guidance. We expect non-GAAP operating expenses of $450 million to $465 million, growing 9% to 13%. Our operating expense guidance does not include cost of revenue. However, we plan to continue our infrastructure optimization efforts, and therefore, we anticipate non-GAAP cost of revenue expense to be relatively consistent with Q4. The increase in non-GAAP operating expense year-over-year is driven by investment increases in R&D, where we are investing in headcount for AI talent across our business and in sales and marketing, where we will be investing in B2B marketing to advertisers.

As we said during Investor Day, we plan to have a steady ramp to the low 30s percent adjusted EBITDA margin range in the next 3 to 5 years. Consistent with that, we are anticipating margin expansion again in 2024, but at a more modest level than the 660 basis point expansion we delivered in 2023 as we balance investing in growth and flowing profitability through to the bottom line.

As a reminder, the pacing of that margin expansion in 2024 is likely to be more front-loaded in the first quarter due to the strengthening adjusted EBITDA margin we saw as we progress through the quarters of 2023.

In summary, 2023 was an instrumental year as we built the foundation for our future growth and returned to double-digit revenue growth in the second half of the year. Our Q1 guidance implies further acceleration, which shows that we are making good progress towards our long-term goals. As we look to this year, we plan to build on that momentum and continue executing against our key strategic priorities.

Now I'll turn the call over to Bill.

William J. Ready
CEO & Director
Thanks, Julia. I'm proud of all we were able to achieve in the last year, and I'm even more excited for the year ahead. 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 will be from the line of Eric Sheridan with Goldman Sachs.

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

Thanks for all the details in the prepared remarks. I want to go back to some of the comments more broadly on the advertising environment because I think generally investors and analysts have heard a variety of messages about the health of brand advertising and direct response advertising and certain geographic exposure over the last sort of 2 weeks. Can you just go into a little bit more detail on what you saw in Q4 and how you feel it sets you up for cumulative advertising budget conversations into Q1 and through the remainder of 2024?

William J. Ready
CEO & Director

So we also see the broader ad market as stable to improving. For us, Retail was the fastest growing segment. And we're seeing across the entire ad industry, performance matters more than ever, and we're winning on that front. We're driving more performance to advertisers than ever before. As I mentioned in my remarks, large advertisers are opening up their performance budgets for us.

Doubling our clicks sent to advertisers year-on-year, a strong indicator of not only the value that we have already created, but of how much more value capture is still left in front of us on that. So we also see that improvement, but performance is the name of the game, and we've made a major progression on performance over the last 18 months. And so those are the comments I’d make. I’ll pass it to Julia, if she wants to add any more on some of the other things that we saw in the market there.

Julia Brau Donnelly
Chief Financial Officer

I'd say the only other thing we called this out in the script, Eric, is we did see not a significant impact from the Middle East, as we talked about on the prior earnings call. So that was a very temporary impact to us. It was fully recovered by the time we got on the last call. So that to us was not a major headwind, given the fact that we are making this transition to more performance budgets, as Bill alluded to. We did see a little bit of tail off in December from the food and beverage category, which is consistent with the public commentary that we've seen elsewhere, we're seeing that headwind continue into Q1. But in general, Q1 is off to a really, really good start, and we feel very confident in the acceleration that we're seeing and guiding to in Q1, which is a result of a lot of the lower funnel investments that Bill was alluding to earlier.

Operator

The next question will be from the line of Ross Sandler with Barclays.

Ross Adam Sandler
Barclays Bank PLC, Research Division

Question on the Google partnership. So Bill, everybody can see that the ARPU gap between Europe and U.S. for you guys is about twice as big as Meta. So can you talk about, I guess, the difference between the Google partnership and what you have going with Amazon right now? And is the mix of categories outside of retail that Google brings to the table going to -- could that be more meaningful in terms of your ARPU improvement? And are you allowed to use any of those non-retail categories in the U.S. from Google or not?

William J. Ready
CEO & Director

Great question. And as we've talked about on the international front, we see Pinterest significantly undermonetized across the board but the most undermonetized internationally, we have approximately 80% of our users outside the U.S., but only 20% of our revenue. So as we shared at our Investor Day, we think that's a meaningful opportunity for us to increase that ARPU internationally. At Investor Day, we talked about how we would leverage both 3P as well as resellers and other partnerships to help us advance there. So we're quite excited about the partnership with Google as particularly for those unmonetized markets, we think it can help us to accelerate the ARPU journey for those markets and bring more relevant content and actionable content to users in those markets.

As we've demonstrated that our users have a commercial intent on our platform, the ads can be great content. You've seen that in our increase of impressions, ad impressions while also increasing engagement, demonstrating that the ads can be great content when used in a commercial context, we think it will also be additive from that perspective as well.

Your question on Amazon, we feel really good about the way the Amazon partnership is scaling also. And there are international markets that can be in play there as well. So as we've talked about the 3P strategy overall, we think about 3P as a way to fill in gaps in our auction and bring more relevant content to our users. And so we're quite pleased with the way the Amazon partnership is progressing. And the Google partnership with the focus on our unmonetized or undermonetized international markets, we think will be quite additive as well.

Operator

The next question will be from the line of Rich Greenfield with LightShed Partners.

Richard Scott Greenfield

LightShed Partners, LLC

I'm seeing more and more video ad units when I'm on Pinterest, just scrolling through the feed. I guess the question, Bill, is when you talk about AI and machine learning, I guess, how should we think about how your algorithms and systems are figuring out whether to deliver a static image ad or a video ad for each available ad opportunity? And then just any comments on sort of the conversion of ROAS that you're seeing for video ads versus the static ads, any trends or any color you can give us would be really helpful.

William J. Ready
CEO & Director

So video remains more than 30% of our revenue. It's been a bright spot for us on the platform that we are driving really great monetization on video. And we've talked about how much AI is a core competency for us and how much that has driven increases in relevancy on the organic side as well as improvements on the ad side as well, our model being 100x larger than they were a year ago, as we talked about last quarter. And so one of the things we're seeing from that AI-driven improvement in relevancy is a really good ability to discern what's relevant for which user at the right moment in time, and that includes both video and still images.

And so we're seeing that work quite well in our feed, the balance between video and still imagery and I think you see it reflected quite well in our progress with users that we just put up our best user growth quarter since Q1 of '21. We're deepening engagement per user. Gen Z is now our largest fastest-growing demographic. They're very video-centric as well. We are winning with Gen Z. So I think those are all the things I'd point to and we're really getting the right balance of still imagery versus video with really good multi-mobile capabilities and our AI-driven relevancy on those things.

Richard Scott Greenfield
LightShed Partners, LLC

And when I look at Gen Z, is it fair to say that they're seeing an even higher percentage of video then?

William J. Ready
CEO & Director

Gen Z, the demographic tends to be more video-centric and as we've talked about, we are performing quite well with Gen Z. But interestingly, it's not just video. When we see things like I talked about collages in my comments, we are creating entirely new content types on Pinterest like collages where users can curate, and they've done that historically on boards, but collages now make that an even deeper level of granularity where people can put together outfits and room designs at much greater granularity driven by AI recommendations on those things. .

So we're seeing Gen Z really engage deeply with that as well. And as I mentioned in my remarks, not only is that driving engagement, it's driving shopping behaviors of 75% plus of those collages that are curated contain shoppable products. And so quite pleased with how our team leveraging AI is finding great ways to bring new content types to the right users at the right moment in time, particularly around commercial intent.

Operator

The next question will be from the line of Doug Anmuth with JPMorgan.

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

I have 2. You talked about doubling down on momentum in '24. I was just curious if you can talk about any key priorities for the year that really stand out? And is there any change to how you're thinking about profitability in '24? And then just quickly on China advertiser spending. Any color on exposure levels and perhaps how it trended in 4Q?

Julia Brau Donnelly
Chief Financial Officer

Sure. Thanks for the question, Doug. I'll take that one. So overall, we're feeling really good about the progress that we're making on our 3- to 5-year outlook, and we talked about at Investor Day, having a steady ramp to that low 30-ish percent EBITDA margin range in the next 3 to 5 years. As I said in my prepared remarks, we do intend to expand margin again in 2024 but at a more modest level than the 660 basis points that we delivered in 2023. So we are planning to drive more margin expansion and see operating leverage in the business in 2024. On an absolute dollar basis in terms of the areas where we're increasing our levels of investment, we plan to focus in our R&D area, tying to headcount additions primarily in AI, both to benefit our users and our advertisers.

On the sales and marketing line, we also anticipate adding to our sales organization with a focus on enhanced technical selling capabilities and also expansion of some frontline sellers in our international markets as well. To your question about China-based e-commerce retailers, we are seeing some benefit from that category of advertiser in Q4. That is a nice contributor for us. But it is by no means the only contributor. We are seeing strong growth in the retail category that is broad-based, including several other major retailers aside from those categories in China. And so we think we're a great fit for those retailers. And I don't think we're as exposed there as some of our other peers may be.

Operator

The next question will be from the line of Mark Mahaney with Evercore.

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

I wanted to ask about the Q1 outlook. And is there a way to peel back the different drivers of this acceleration between kind of the core product improvements than the Amazon, maybe the Google contribution coming in? And then, I guess, other things like the extra day in the quarter, like if you were to peel apart those, maybe you can't quantify, but directionally, which of those has the biggest impact on driving the acceleration, which is second, which is third? How would you triage those?

William J. Ready
CEO & Director

As we talked about at our Investor Day, we've got multiple ways to win here. We've talked about driving better lower funnel performance. We are driving forward on that, performing quite well on that front. We talked about international in 3P. We see those contributing quite nicely as well. And so it is very much a multipronged approach, and we see really solid performance across each of those and very much in line with the plans we laid out at our Investor Day, so in the same way that we talked about multiple ways to win at Investor Day. We see progress on every single one of those fronts, and we see it as a balanced approach, and we continue to see that way as we look into Q1 and next year.

Operator

The next question will be from the line of Ronald Josey with Citigroup.

Ronald Victor Josey
Citigroup Inc., Research Division

Great. Bill, I wanted to ask maybe bigger picture. You talked about larger retail advertising, just to allocate advertisers and allocating more performance budgets to the Pinterest as you evolve from experimental. Just talk to us about the process here to get to more performance ad budgets to be that line item and how this fits in your commentary on working with agencies and incentives? And then a quick follow-up on just Mark's question to Julia. Any insights on just Easter adding extra -- with Easter being earlier this year and/or the extra day in the quarter?

William J. Ready
CEO & Director

So as we've talked about before, we've been on a major transformation from a primarily brand ad- driven platform a couple of years ago to a performance-driven platform today. And we shared at Investor Day 2/3 of our revenue now coming from the lower funnel. So we are well down that path on that transformation. At the same time, we are continuing to launch major improvements to our performance ad product and we're on an adoption curve there. So for example, we launched mobile deep links to GA sort of middle of the year last year.

And then we are still seeing more and more retailers not only adopt that, but then shift budget to us as a result of that. With direct links, we launched that as we were right into the holiday shopping season when most of the retailers are sort of hunkered down and not really making major shifts. So we're able to deliver that without the advertiser doing work, and we doubled the number of clicks we sent to advertisers year-on-year.

And as we're going into Q1, we're seeing that now start to show up in budget allocations moving to us. But we think we have a lot more of that to go and to give you a little bit more sense of this, if you looked at our lower funnel performance tools, things like conversion API, mobile deep links, direct links, clean rooms. At the start of last year, we had roughly 2% of our revenue coming from those who have at least 3 of those lower funnel tools.

By Investor Day, that was 13% of our revenue coming from those that had at least 3 of those lower funnel tools. By the end of the year, it was 23% of our revenue coming from those who had at least 3 of those lower funnel tools. So that gives you a sense for how we're making strong progress, but also to my comments around how there is a lot more of the value capture still in front of us from products that we have already launched that we know are performing well. And of course, we are continuing to innovate there as well. So a lot more to come on that.

Julia Brau Donnelly
Chief Financial Officer

And then maybe I'll just add to that. As Bill was talking about, we're seeing nice growth from retail, in particular, and that's really kind of already capturing some of the value from some of the investments that we made over the course of 2023. One additional stat I'll share, this is on an updated version of a stat that we had last year, which is that those who have adopted our API for conversions, retailers who adopt our API for conversions are actually seeing year-over-year growth in the 30% range compared to non-adopters of our API for conversions who are declining mid-single digits. So another data point to support the growth that we're seeing and the budgets that are coming our way as we're delivering sustained ROAS performance.

To your question on Q1 and kind of puts and takes in Q1. Just a reminder again that our acceleration that we're guiding to in Q1 is off the back of a stable comp from last year. There are kind of small puts and takes and a small tailwind from timing of Easter or addition of leap day this year, but those are by no means the major driver.

The major drivers are the strength that we're seeing in the retail category tied to large advertisers, the emerging contribution from 3P and some of the other factors that we've discussed today on the call. So overall, this is us doing what we said we would do at Investor Day and delivering on some acceleration in capturing value from all of the investments that we've made over the last year, and we feel really good about the growth that we're seeing, the sustainability of that growth and the progress that we're making against those goals.

Operator

The next question will be from the line of Dan Salmon with New Street Research.

Daniel Salmon

So maybe could we dig in a little bit more on your accelerating monthly active user growth this quarter. You talked about success with Gen Z, any additional quantification you could put around that, it would be great. And then maybe any color around other demographics, like, for example, men and then we can see the growth by region, obviously, but any particular countries that you would call out for where you're seeing particular strength in MAU growth? Thank you.

William J. Ready
CEO & Director

Certainly, on Gen Z, we've talked about it's more than 40% of our user base now. And there's multiple factors driving the improvement in users and engagement at its core. We're helping users find more of what they're interested in on Pinterest, helping them take action on it and delivering a positive environment for them that they see as an oasis away from the toxicity of much of the rest of social media. This gets cited to us directly particularly by Gen Z users. And so we are carving out a unique space for ourselves that is quite different from the rest of social media that is more about users investing in themselves.

Things are additive to their lives versus sort of viewing the lives of others or that where they feel like they have to perform for others. And so it is a really unique and ownable space, and we're seeing that really cut through with users. And again, with advertisers as well to see it as a brand-safe environment.

On geographies, as you mentioned, you can see the geographic growth there. The couple of things I'd mention are just on UCAN. We saw, again, another nice, really nice growth quarter there in our mature markets. I've been saying this for the last 6 quarters. Our mature market is much more about driving depth of engagement, and we feel really good about the depth of engagement that we're driving, particularly actionability on to the platform. You see that reflected in the increase in clicks where users are taking action on our platform, a big question 18 months ago. Users not only come here with intent, but they are taking action.

And internationally, the big question there has always been the monetization. And we have nice momentum there, but we have a lot more that we can do, and we're quite excited about our first-party selling efforts, the things we can do with reseller partners and agencies. We're making progress on those fronts and then bring 3P into the mix there with Google, particularly for those unmonetized and undermonetized markets. We think there's a lot we can do that not only drives the monetization per user, but again, drive that actionability for the user that we think can help further enhance the user engagement for users in those international markets.

Julia Brau Donnelly
Chief Financial Officer

Only other thing I'd add, Dan, to your question on sort of the acceleration that we've seen in MAU growth, which we are quite proud of. As Bill mentioned, it is also carrying through in terms of depth of engagement. And so we are continuing to see our mobile app MAU growth accelerate even faster than our total MAU growth. And as we look at total impressions, which is one of the drivers of ad impressions, but total impressions that continues to grow even faster than our MAU growth as well. So continue to see nice trends there consistent with some of the longer-term trends we shared at Investor Day.

Operator

The next question will be from the line of Kenneth Gawrelski with Wells Fargo.

Kenneth James Gawrelski
Wells Fargo Securities, LLC, Research Division

Just 2, if I may, real quickly. First, on revenue mix and thinking about 4Q versus 1Q, you talked about the headwinds from the food and beverage category in 4Q continuing into 1Q, but yet you did guide to an acceleration. Should we think about that as -- is there a mix component to that, meaning heavier brand adds or heavy brand in 4Q versus 1Q? Or is that just all DR acceleration and the 3P kicking in?

And then second, please, I just hope maybe if you could walk us through a little bit. And you talked about this, Bill, about the value capture versus value creation. Looking at those impressions plus 33% in the fourth quarter, which is really impressive. As you think about throughout '24, not a 1Q question, but throughout '24, do you see that your Pinterest's ability to close that gap over time in terms of see advertising revenue relative to those impression growth? And what are the key kind of steps you're going to take to get that done?

Julia Brau Donnelly
Chief Financial Officer

Maybe I'll take the first part of your question, Ken. So it is not mix. It is more acceleration and ongoing acceleration from retail and an emerging contribution from 3P. So we do see continuing headwind from food and beverage, but it is more that it's being even more offset by other positive growth factors that are driving our Q1 acceleration.

William J. Ready
CEO & Director

And on your question on the value capture versus value create. There's always a lag between these things. Advertisers need to see the performance sustain and you see it flow through into their models and their measurement. And so the thing we feel really great about is that the value create is the hardest part and has to happen first, and we're seeing that as we drive more users with more intent to those advertisers. So that's really fantastic raw material for us. And we've only really just started the value capture on that. And what comes ahead in that is some of that is just advertisers see that bake into their own models of performance. Some of that is about getting advertisers on to privacy safe measurement.

Julia talked about, and we started talking about this Q1 -- late Q1, I believe, of last year around adopters of API for conversions as a cohort growing at 30%, approximately 30%, those that had not adopted being mid-single-digit decliners. That trend continues as we drive that adoption. So as I mentioned in my comments, the performance doesn't matter to the advertisers if they can't see it through their measurement. So driving that adoption curve on measurement matters quite a lot as well.

But we're seeing -- again, we're seeing that budget shift toward us continue. We saw that through the year this past year, doubling our growth rate from the beginning of the year to the end of the year. We see further acceleration as we look into Q1 as reflected in our guide. And we think there's a lot more of that to go as we continue to drive through that adoption curve. I hope that helps.

Operator

The next question will be from the line of Colin Sebastian with Baird.

Colin Alan Sebastian

Robert W. Baird & Co. Incorporated, Research Division

A couple, I guess, for me as well. Bill, maybe a follow-up on the MAUs. Are you saying that there is a faster conversion of maybe those occasional users maybe quarterly or semiannual users to monthly users? Or are you seeing just users who are new to the platform overall?

And then secondly, in highlighting the improvements you've made in relevancy and recommendations of ads and content on the platform. I know there's a lot of work with machine learning behind all of that and using signals from users. So I guess I'm just curious, how far along do you think you are in really optimizing that level of personalization and hitting those key advertiser objectives like conversion rates?

William J. Ready

CEO & Director

So on your first question around MAUs, we are seeing progress both in bringing new users to the platform. We talked about Gen Z, where we are winning with Gen Z and they are finding Pinterest quite compelling and unique and different from the rest of social media. So we are bringing new users on the platform like our Gen Z examples. But it's also the case that we are deeply engaged with existing users, giving them more reasons to come back to Pinterest more frequently. And I'd say there's 2 large drivers in that. One is as we make better and better recommendations, that gives them more reasons to come back and giving them more suggested use cases, helping them to broaden out what they think they can do on Pinterest showing them adjacent use cases.

So that's working quite well. And then it's the actionability. As I've said many times before, Pinterest had previously solved digital window shopping, but all the stores were closed, actionability was hard. How good was the digital window shopping, so good that people would keep coming back even though all the stores were closed. But as we open those stores, people have good reason to come back more and more frequently. So the MAU acceleration and the growth there is broad-based and it is both bringing new users on the platform, winning with Gen Z as well as driving depth of engagement with new adjacent use cases and better actionability that caused users to come back more frequently.

On your second question, on relevancy. This is where we just get really amazing first-party signal that feeds our AI. AI is only as good as a signal upon which is acting. And we get really amazing signal on what users are interested in. I've talked about Pinterest Predicts and our ability to predict there and see trends that are coming because users plan for the future on Pinterest. We see users in their shopping journeys long before that intent has been expressed on other platforms. And so that's really rich signal. As we're leveraging next-gen AI with models that are 100x larger than they were before, we're seeing really fantastic ability to take that completely unique signal to Pinterest and convert that into great relevant recommendations for users.

I shared on our last call that we saw approximately 10 percentage point improvement in relevancy when we moved to our large language models. And that flywheel between the user coming and curating, giving a signal of what they're interested in and then us being able to give better and better recommendations to users, we see that flywheel accelerating, particularly as we bring in more actionability. So again, AI is a core competency for us. And importantly, we have a completely unique signal that you wouldn't find elsewhere around the user curation particularly around the commercial intent and we see that really just continuing to drive that flywheel as we go forward. Hopefully, that helps.

Operator

That is all the time that we have for questions today. And with that, I will turn the call back over to Bill for some final 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, as always. We hope you enjoy the rest of your day.