Presentation

Operator

Hello, everyone, and welcome to the Pinterest First Quarter 2024 Earnings Conference Call. My name is Harry, and I'll be your operator today. [Operator Instructions] I will now hand you over to Andrew Somberg, Vice President and Investor Relations and Treasury at Pinterest to begin. Please go ahead.

Andrew Somberg

Good afternoon, and thank you for joining us. Welcome to Pinterest's Earnings Call for the First Quarter ended March 31, 2024. My name is Andrew Somberg, and I'm Vice President of Investor Relations and Treasury for Pinterest. Joining me on today's call are Bill Ready, Pinterest's CEO; and Julia Donnelly, our CFO.

We are providing a slide presentation to accompany our commentary. 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 outlook for Q2 2024 and beyond, are preliminary and not an assurance 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 later unless required by law. For more information about risks, uncertainties and other factors that could affect our results, please refer to our most recent quarterly report on Form 10-Q or annual report on Form 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 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, Andrew. Good afternoon, and thank you for joining our first quarter 2024 earnings call. In Q1, we accelerated our progress against our strategic priorities, growing users and engagement, creating value for our advertisers to our lower funnel solutions and continuing to deliver profitable growth through operational efficiency.

Investing in our core differentiators has led to our best product market fit in years, global MAU surpassed 500 million for the first time, reaching another record of 518 million, growing 12% and accelerating for the seventh consecutive quarter. Q1 revenue of $740 million grew 23%, nearly doubling our growth rate with an 11-point acceleration from just a quarter ago.

To put these numbers into broader perspective, not only are we seeing acceleration since last quarter. In fact, we are driving the highest user and revenue growth on the platform since 2021.

We also continue to drive significant improvements in profitability, resulting in Q1 adjusted EBITDA of $113 million or a 15% margin, up nearly 1,100 basis points from last year. As many of you will remember, we hosted our first Investor Day last fall, where we shared an in-depth view of our strategy as well as 3- to 5-year targets for revenue and margins. We laid out multiple ways to drive revenue and how we would achieve our goals.

First, growing users and deepening engagement per user; second, continuing to increase ad load driven by the synergies between our users' strong commercial intent and relevant ads; third, executing on our lower funnel revenue opportunity; and finally, driving demand through third-party partners, resellers and international markets as additional levers to growth.

Our results in Q1 are a testament to how each of these initiatives are performing as we expected or better. And all 4 of these drivers contributed to the revenue acceleration we saw in the first quarter and the strong outlook we have for the second quarter.

In summary, we have multiple ways to win. We are not overly reliant on any single initiative to achieve our objectives, which gives us confidence to deliver on these long-range targets. And we're driving strong momentum in our business. making it clear that we have shifted into a higher gear as we enter this next stage of growth.

As we pass the 500 million MAU milestone, I'd like to take a step back and discuss some of the core initiatives over the past 7 quarters that have driven much of the accelerating user growth and deepening engagement we're seeing today. We focused the company on what our users love most about Pinterest, with a particular emphasis on reinvigorating curation and satisfying commercial intent.

We leaned heavily into next-gen AI and relevancy improvements. We updated our content strategy to focus on content that satisfies purpose and intent rather than pure entertainment. And we made clear that our shopping strategy was to partner with retailers rather than compete with them.

We're now clearly moving at full speed, leaning into the reasons we know users come to Pinterest, and making them even better. In doing so, we're finding our best product market fit in years. The drivers of user growth I'll discuss today are consistent with what I've laid out since joining Pinterest and that we elaborated on at our Investor Day.

First, how we're using AI to drive relevance and personalization; second, doubling down on curation through boards and collages; third, driving actionability throughout our core surfaces; and lastly, creating a more positive alternative to traditional social media.

The results of these efforts are seen in the accelerating growth rate of our monthly active users, the vast majority of whom come directly to our mobile app, deepening engagement per user with engagement growth in excess of user growth, and how we are winning with Gen Z., which is now our largest and fastest-growing demographic at more than 40% of our users.

It's important to note, that our MAU growth acceleration is the result of months and quarters of compounding effects of these initiatives I just described and we see much more opportunity ahead as we continue improving our core user experience and lean further into the unique and highly differentiated aspects of our platform.

Let's start with our investments in AI to drive personalization and relevance. In the second half of 2022, we moved aggressively to implement LLM and next-gen AI to improve our user experiences. We transitioned from CPU to GPU serving, which allowed us to serve models that were 100x larger in size. This was the first step to unlocking a better product experience by improving our ability to surface more personalized content for our users.

With GPU serving capabilities, we are developing and deploying even more complex models to drive further gains in relevancy and personalization. For example, our recommendation models were previously focused on serving content to drive greater view time in that immediate moment. However, as we've advanced our AI and sharpened our focus on user intent, we've incorporated more proprietary signals into our recommendation models to optimize for depth of engagement and satisfaction of intent, including driving more actionable outcomes like saves, clicks and conversions to help users progress further through their inspiration to action journey.

Among these signals are the billions of acts of curation that happen on our platform in a manner that is highly distinct from the rest of social media. This gives us unique insight into user preferences, allowing us to tailor content to suit their needs and help them find their next use case.

In summary, not only does our AI keep advancing, but there's also a flywheel effect in place. As we train our models on more user signals, we're driving even further relevance in our content recommendations which then to further improve the user signals our AI can act upon.

As I mentioned, a key source of user signals is the human curation, which takes place on our platform at scale, and we're improving this experience for our users. Our work on curation has been another driver of our user growth and is an integral step in the inspiration to action journey. To help remove the friction for users to begin creating boards, we've added additional board functionality, including auto organization features. And for those who generally don't organize their saves, which resulted in a nearly 30% lift in boards created, highlighting how auto organization can unlock the magic of Pinterest for more users.

We're also significantly advancing what it means to curate on Pinterest with collages. Powered by our AI and advanced computer vision technology, collages are a powerful curation tool to cut out images and components from a pin and piece together new inspiring content. This greater granularity allows users to express their styles, taste and preferences in much more specific and creative ways. This is an entirely new, highly engaging and highly shoppable content format. Users are roughly 3x more likely to save collage pins versus other pins on Pinterest, and a significant portion contain clickable products. We're also continuing to see collage's gain traction with Gen Z, who are nearly 70% of collage creators.

Furthermore, improving the actionability of pins is another core tenet of improving user satisfaction, deepening engagement and growing MAUs. We know users come to Pinterest to shop, and we've been working to ensure our high intent audience can find and easily take action against content they see on Pinterest.

We’ve integrated more shoppable content into our core services, including home feed, search and related items. For example, our guided shopping modules help users pick up where they left off on prior shopping journeys by resurfacing product pins based on past browsing and click history, while our visual shopping modules such as Shop Similar and Shop the Look, allow users to shop the items they see within lifestyle images right when they discover them. In Q1, we brought shoppable video to Pinterest as we expanded Shop the Look to video pins. Now when a user clicks on a video pin, a carousel will appear with shoppable pins that match items in the video. This allows the user to easily shop the items that bring them inspiration in the videos they were already watching. Through these and other efforts to improve the actionability of the platform, we've made it easier and more seamless to shop content on Pinterest, a top priority for our users. And we're seeing users take advantage of the improved actionability as outbound clicks to advertisers accelerated from last quarter, more than doubling year-over-year yet again.

As a part of our efforts to grow users and deepen engagement, we're also building a more positive alternative to traditional social media. And we firmly believe that inspiration starts with inclusion. Building on past successes in inclusive product design, like skin tone and hair pattern search, in 2023, we added to our suite of inclusive products with our body-type ranges. We're also using the inclusive AI that powers these products to increase representation in the content that we show to users by default. and throughout 2023, we refined and implemented this technology across more surfaces so more people can see themselves reflected on Pinterest.

Our users love and use these products. For example, the number of users searching with skin tone ranges doubled in the past year, which speaks to the affinity our users have for inclusive products, and the work our team is doing to provide a more inspirational experience for everyone.

Finally, as I mentioned earlier, we're continuing to win with Gen Z. They are more than 40% of the users on the platform and our largest and fastest-growing demographic. Gen Z comes to our platform to get inspired and to shop. They save more than other demographics and also find value in new content formats like collages and they see Pinterest as a distinct and separate destination from other social media apps, one where they can invest in themselves and refine their interests in smaller forums, with closer connections and without the pressures and toxicity that often accompany their time on other social apps.

In fact, Gen Z rates Pinterest higher on promoting and preserving well-being metrics like self worth, belonging and purpose compared to other traditional social media platforms. As a result, Pinterest is aging down a rarity in consumer Internet applications, which typically age up as they mature. We're also continuing to break through with Gen Z by connecting through culturally relevant moments. For example, recently hosted an immersive activation at Coachella music festival, one of the biggest Gen Z moments of the year to deepen their connection to Pinterest. Inspired by our Festival trends Report, we created the Pinterest Manifest Station, which invited festival goers to turn their favorite festival fashion and beauty dreams to reality with the help of expert makeup artists and stylists.

Bringing this together, we've been moving fast and executing with tremendous clarity and focus over the past 2 years across the themes I've just discussed, which have all compounded to drive our acceleration in user growth. I'm proud of our team for all they've been able to accomplish thus far and look forward to continuing to innovate on behalf of our users.

Next, I'd like to discuss how we are improving monetization by making Pinterest more valuable and performant for advertisers.

We know that people come to Pinterest with intent. Our platform uniquely empowers users to have dynamic multi-session journeys that take them from inspiration to action. For a long time, Pinterest excelled at upper funnel discovery in connection with the early stages of a user's inspiration to action journey.

But Pinterest provided very little ability to take action on the items that users found. Now we're solving for that actionability in the lower funnel. Through seamless connections to retailers like Mobile Deep Linking and Direct Links, enhanced ad platform capability like Whole Page Optimization, and improved adoption of our foundational measurement capabilities like the API for Conversions and clean rooms, we've made substantial improvements in executing on our lower funnel road map to deliver value for our users and our advertisers. We're seeing the direct impact of increased actionability play out and the results we delivered this quarter proved this.

We've accelerated clicks to advertisers again this quarter even after more than doubling clicks year-on-year in Q4, and our revenue growth rate nearly doubled from Q4 driven by lower funnel revenue acceleration.

Turning to some of the most notable achievements from the quarter. Adoption of our lower funnel formats and tools has been a critical part of our monetization strategy. In Q1, we completed our rollout of Direct Links to our lower funnel ad formats, which now covers

97% of our lower funnel revenue, up from 80% last quarter. Direct Links take users to an advertiser's product or purchase page in just one click, significantly reducing friction and improving the ability to take action.

The value creation to advertisers has been outstanding, with clicks to advertisers more than doubling year-over-year. The underlying value Direct Links creates has been clear to us since it launched at the end of Q3. But for advertisers, it takes time to see and measure the results with their own source of truth - their measurement models.

We're now seeing the value capture from Direct Links through increased ad spend, especially from some of the largest, most sophisticated advertisers. Similar to past new product launches like mobile deep links, advertisers who have seen sustained performance gains from Direct Links and are able to measure the results have started to increase their share of wallet with Pinterest. With some of our most sophisticated advertisers, we are reaching 5% or more of total ad budget implying an even deeper penetration of their digital ad spend.

However, much of the value capture from Direct Links remains ahead of us. Many of our advertisers either recently got access to Direct Links or don't yet have the correct tools to understand their improved Pinterest performance, a process which can take months or quarters. As a result, we expect value capture from these advertisers to continue throughout the year as more of them begin to measure and react to the benefits from Direct Links.

In order to facilitate advertiser adoption of our lower funnel solutions, which drive additional value capture, we've made a number of changes within our sales and go-to-market functions. For example, we are providing a scaled approach for our global sales force to educate on and implement lower funnel best practices with more technical support to help advertisers meet their specific goals and maximize performance.

Turning to measurement. Thanks to our improved lower funnel solutions, we're driving more clicks and conversions to advertisers. And through our measurement tools, we're proving this value to advertisers. Our suite of measurement tools starts with advertisers adopting our privacy centric tools to preserve conversion visibility, which provides them with data to feed their individual models and measure their specific goals.

One of our most important initiatives began in earnest in 2023 with our efforts to increase adoption of the API for Conversions, which provides a server-to-server connection for advertisers to measure and attribute conversions. I'm pleased to report that we've grown the adoption of the API to nearly 40% of total revenue, up from 28% of total revenue at our Investor Day last September.

As I've mentioned previously, revenue from retail advertisers who have adopted the API for Conversions tends to grow significantly faster than revenue from those who have not yet adopted. This trend continued to hold in Q1 and underscores our desire to drive more privacy-centric measurement, particularly to lower funnel advertisers where it's most impactful.

We're seeing a reinforcing effect take place as advertisers adopt and see the benefits of shopping ads, Mobile Deep Linking or Direct Links, they are more incentivized to adopt our privacy-centric measurement. To that point, we also see that advertisers who have adopted our full lower-funnel tool set, including shopping ads, Mobile Deep Linking or Direct Links, and our API for Conversions are also growing much faster than those who have no lower funnel solution adoption.

As we look ahead to more industry changes, which will affect an advertiser's ability to measure conversions, we are strongly promoting API for Conversions adoption to our lower funnel advertisers in our selling efforts and increasing the amount of variable compensation attached to adoption.

We are also focused on meeting advertisers where they are by integrating into their measurement tools of choice such as clean rooms and over 20 measurement platform integrations.

In addition to format and measurement innovations, we remain committed to bringing AI-based automation to the forefront of our campaign creation experience and ads offering to drive performance for our advertisers.

In fact, 2023 was a strong year for ads innovation as we accelerated our product delivery and launched more ad formats, tools and solutions than in any year in our history. We've seen a lot of success with our current automation tools, and we're investing to build out the suite in order to give advertisers an array of tools to build, optimize, manage and measure campaigns on Pinterest.

Today, our automated suite of performance features includes tools such as automated bidding, expanded targeting and flexible daily budgets. Each of these automation offerings helps to drive more efficient campaigns on Pinterest. As of Q1, we continue to see revenue coverage above 80% for automated bidding, while over half of our revenue utilizes either expanded targeting or flexible daily budgets.

However, there's still significant room for us to go in driving further revenue coverage of our entire automation suite, which when adopted, results in compounding positive impacts on campaign performance. To drive further uptake, we plan to launch a campaign creation tool that simplifies setup for our automated offerings and removes friction for advertisers to leverage these tools. We're also building out additional automation components to drive greater campaign efficiency for advertisers.

We will release these features in stages. And as with other new launches, they will go through a typical product ramp as we develop, test and scale, ultimately creating a more robust suite of automation tools to improve advertiser performance. Let me touch on a couple of new offerings we're expecting to roll out over the coming quarters.

First, we're launching our dynamic creative optimization solution set, which will allow advertisers to use generative AI to optimize the creative for their ads. Over time, we'll personalize this technology using signals that are unique to Pinterest, such that the imagery users see will be tailored to their own anesthetics.

We'll also be introducing ROAS bidding. This solution will seek to increase advertiser return on ad spend by automatically optimizing campaigns in real time to prioritize users or products that drive the highest ROI.

This rollout is a continuation of automation features we've been -- we've already been delivering so that ultimately, advertisers will be able to provide us with a budget, a goal and their seed creating and we'll do the rest. We'll manage bidding, targeting and dynamic creative at scale, all in service of delivering the best possible performance for our advertisers.

Next, I want to provide an update on our third-party demand efforts. Consistent with our commentary from the start, our goal in developing these partnerships is to complement our first-party demand and round out demand gaps in our auction. We are currently scaling third-party demand with two partners, Amazon Ads in the U.S. and Google Ads Manager, which recently went live in February in unmonetized international markets.

Our Amazon partnership is live on all of our main surfaces in the U.S. and we are continuing to optimize our respective systems to improve relevance and drive performance for advertisers. Additionally, our Google partnership, while early, is also progressing nicely.

In Q1, as expected, we saw an emerging contribution to revenue from third-party demand, and we anticipate this will be the base from which further third-party revenue will grow throughout the year. We continue to see opportunities to expand our current partnerships to multiple geographies and for multiple partners to exist within the same market. Consistent with what we laid out at our Investor Day, we also have an opportunity to grow our revenue in international markets and are employing a multipronged strategy to do.

In our largest international markets, we are using first-party selling efforts to strategically capture advertiser demand. We're also deepening our partnership with agencies to grow within these markets.

In smaller markets, where we previously had not monetized or are under monetized, we are introducing additional sources of demand to fill in gaps in our auction.

In addition to third-party demand from Google, this quarter, we will begin working with resellers to bring in local ad demand, primarily in rest of world markets. Resellers provide a scaled approach to drive demand in markets where we don't currently have a sales presence and can bring relevant ad content for users in those markets. Like any new selling effort, demand from resellers will take time to grow in these markets, and therefore, we expect this initiative to ramp over the course of the year.

Our third strategic priority has been a continued focus on operational rigor and discipline. As I mentioned before, I'm extremely proud of our team's continued strong execution as evidenced by our ability to expand adjusted EBITDA margins by nearly 1,100 basis points in Q1, while also accelerating product innovation and product market fit.

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

Julia Brau Donnelly
Chief Financial Officer

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

Our team has made tremendous progress across users, monetization and profitability over the past few quarters. This quarter is a testament to how focused execution and alignment across our strategic priorities can drive strong gains for the business. Like Bill said, we found our best product market fit in years. Users and advertisers alike are taking notice, leading to our highest MAU count ever and our fastest revenue growth quarter since 2021.

User growth is accelerating as we are investing in the areas that are unique to Pinterest, such as human curation at scale that allows our AI to generate highly relevant personalization and recommendations across multi-session commercial journeys, and significant improvements in actionability. We also see our investments in positivity and inclusion resonating deeply with our users. Additionally, our lower-funnel tools and formats, including Mobile Deep Linking, API for Conversions and clean rooms as well as Direct Links are driving meaningful and sustained ROI improvement for advertisers, which are reflected in our continuing revenue acceleration. These efforts have been complemented by our introduction of third-party demand onto the platform, which has added density to our auction and allowed us to serve more relevant and engaging ads to our users. Now let's dive into our first quarter results.

We ended the quarter with 518 million global monthly active users, growing 12% and reaching another record high. We accelerated user growth year-over-year across all our geographic regions. In the U.S. and Canada, we had 98 million MAUs, growing 3%, up from 2% last quarter, adding 1 million sequential users for the third quarter in a row. In Europe, we had 140 million MAUs, growing 10%, up from 8% last quarter. In our Rest of World markets, we had 279 million MAUs, growing 16%, up from 15% last quarter.

Now to revenue. In Q1, our global revenue was $740 million, up 23% or 22% on a constant currency basis. The revenue strength this quarter, which exceeded the high end of our guidance range, highlights how we are driving value for advertisers across the full funnel.

Our lowest funnel conversion objective was our fastest-growing with particular strength coming from our shopping ads format as advertisers turn to Pinterest to drive sales. We know that we are creating value for our advertisers and we're seeing signs of value capture from our largest, most sophisticated advertisers that have been able to see sustained performance gains in their own measurement sources of truth and shifted more budget to us as a result.

However, we finished our GA rollout Direct Links in March, and we expect more value capture to still be in front of us similar to the historical lag we've seen between value creation and value capture from other lower funnel products we've launched, such as Mobile Deep Linking, API for Conversions, and our shopping ad format.

From a vertical perspective, we saw broad strength in retail. Within retail, we saw our larger, more sophisticated advertisers continue to lean into the platform as they have adopted our lower-funnel tools and are seeing continued success.

We also saw a nice growth in our emerging categories, including financial services and technology. Next, as expected, our third-party demand partnerships began to scale in Q1 and were an emerging contributor to our growth.

Finally, we estimate that leap day in February and the Easter shift into March this year contributed approximately 2 points of growth to Q1.

Turning to our geographical breakout. In the U.S. and Canada, we generated $592 million in revenue, growing 22%. Strength came from retailers in emerging categories, including technology and financial services. In Europe, revenue was $118 million, growing 27% 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 $30 million, growing 25% on a reported basis or 26% on a constant currency basis. In Q1, ad impressions, which is composed of ad load and total impressions, including both organic and paid impressions, grew 38%. This was driven both by increases in total impressions as well as increases in ad load. We've been able to flex up our ad load through Whole Page Optimization to provide relevant ads to users in moments of high commercial intent. And we see continued room to steadily progress this as we further improve the actionability of our users' commercial journeys and relevance of ads.

Meanwhile, ad pricing declined 11%, an improvement from down 16% last quarter, largely as a result of accelerating ad demand, but still a year-over-year decline as we continue to drive increased value to advertisers in the form of more clicks and greater efficiency.

Moving to expenses. For the past few quarters, we've been able to drive continued margin expansion through effective expense discipline while allocating resources towards our highest ROI initiatives. Cost of revenue in Q1 was $177 million, up 6% year-over-year and up 2% versus Q4 due to increased infrastructure spend related to users and engagement growth, partially offset by our continued work to drive cost optimizations on our infrastructure spend.

Our non-GAAP operating expense was $453 million, up 10%. The increase was primarily driven by higher headcount-related expenses across R&D and sales and marketing, as well as incremental marketing spend.

Our revenue outperformance and expense discipline led to another strong quarter of adjusted EBITDA and margin expansion, coming in at $113 million with an adjusted EBITDA margin of 15%. This was up approximately 1,100 basis points versus last year.

Finally, we ended the quarter with cash, cash equivalents and marketable securities of $2.8 billion. We utilized approximately $100 million of cash in the quarter on net share settlement of equity awards. As a reminder, this process mitigates dilution by holding back shares to cover the taxes on employees vested RSUs where the company pays for the taxes from our own cash reserve on behalf of the employees. This process combined with last year's share repurchase has led to an approximately 1.6% decline in year-over-year fully diluted share count relative to the positive 2% to 3% average annual dilution target that we outlined at our Investor Day.

Now we'll discuss our preliminary guidance for the second quarter. We expect Q2 2024 revenue to be in the range of $835 million to $850 million, representing 18% to 20% growth year-over-year. This guidance represents a continuation of the strong growth we saw in Q1, driven by many of the same initiatives I just outlined, including Direct Links value capture and the emerging contribution from third-party demand partnerships.

This guidance range is roughly consistent with the revenue growth that we've seen in Q1 when adjusting for the 2 points of year-over-year growth benefit in Q1 from the Easter timing shift and leap day and an additional 1 point benefit in Q1 from foreign exchange, which we're not expecting to continue into Q2 based on current spot rates.

Turning to our expense guidance. We expect Q2 non-GAAP operating expenses of $490 million to $505 million, growing 11% to 15% year-over-year. 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 Q1. 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.

As we have said previously, we are anticipating year-over-year 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.

We expect margin expansion in both halves of 2024. However, we expect significantly more margin expansion to occur in the first half versus a more modest level in the second half as we lap the strengthening adjusted EBITDA margins we drove in the second half of 2023.

All in all, I'm pleased with the strong progress we've made against our strategic priorities. There's strong momentum in our business, and we're successfully executing against our plans. Now I'll hand it over to Bill for some final words.

William J. Ready
CEO & Director
Thanks, Julia. I want to thank our teams at Pinterest, our advertising partners and all the people that come to Pinterest to find inspiration in the shop. And with that, we can open the call up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question today will be from the line of Brian Nowak of Morgan Stanley.

Brian Thomas Nowak
Morgan Stanley, Research Division

I have two. The first one, the first quarter results seem to come in quite a bit stronger than the guide. So I was just curious about any specific areas you'd call out that really came in a lot better than you were expecting, call it, 90 days ago. And then second one as we sort of look at the back half of the year Julia, I know the year-on-year growth comps get a little more difficult, how do we think about sort of continuing to be able to grow at this 20% clips even through the more challenging comps because of all the momentum you have with the business and third-party partners, et cetera?

William J. Ready
CEO & Director

Thanks, Brian. On your first question, we were really pleased with the revenue acceleration we saw this quarter, leading us to come in above the high end of our guidance range. As I mentioned in the prepared remarks, in -- that we talked about at Investor Day as well. We've got multiple ways to win and drive revenue.

And we're seeing broad-based strength across all of these initiatives, all of which are performing generally as we expected or better. First of all, continued strong MAU and engagement growth on the platform. And we're seeing the best product market fit we've seen in years, not only growing MAU, but deepening engagement, even as we accelerate the rate of user ads on the platform. And we're doing that synergistically with ad load. We are demonstrating that because our users have commercial intent, ads can be relevant content on the platform.

Secondly, I think on monetization, strength in the lower funnel driven by our shopping ads and Direct Links value capture, it was a strong contributor. There's particular strength in U.S. and retail, where we're taking share and starting to get more access into performance budgets. And that's really driven by the fact that we, again, doubled the number of clicks to advertisers year-on-year. We doubled our number of clicks advertisers in Q4. We more than doubled the number of clicks to advertisers again in Q1 and actually accelerated from Q4. So that's really driving that penetration into those performance budgets and driving strength in U.S. and retail.

And as I mentioned, we saw an emerging contribution in Q1 from our 3P partnerships, which are ramping and which helped to complement the really strong growth that we're seeing in first-party demand. So it really is broad-based. All of those contributed to the acceleration in Q1 and we're -- and we see that continuing as we think about the Q2 revenue guidance as well. And with that, I'll give over to Julia for your second question.

Julia Brau Donnelly
Chief Financial Officer

Yes. So thanks, Brian. So I think it's clear we're shifting into a higher gear here in the first half of 2024, and Bill just outlined a number of those drivers. We're clearly seeing a more favorable ad market backdrop, but perhaps importantly, we're also seeing the initiatives that we laid out playing out kind of as we expected or even better, as Bill just outlined. We do have tougher comps going into the back half of the year, and there are some additional uncertainties from the ramping deprecation of third-party cookies on chrome through this year and into early 2025.

But as we said before on cookies, from a relevancy and targeting perspective, we feel like we are well positioned given our unique first-party signal. And from a measurement adoption perspective we feel like we're doing all the things we need to do to drive privacy-safe adoption among our advertiser base.

However, we expect many of the initiatives that Bill just outlined to ramp throughout this year as well. Specifically, we think more of the value capture on Direct Links is ahead of us than behind us and we expect third-party ad demand to contribute -- continue contributing to growth and grow off the base that we are seeing here in Q1. So those are the puts and takes as we think about 2024 revenue from here, but we feel really good about the initiatives that we're driving.

Operator

Our next question today is from the line of Eric Sheridan of Goldman Sachs.

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

Maybe following on what Brian asked there, just looking out towards the second half and even over a multiyear time frame, how do you think about the key investments that have to be made in the platform over the medium to long term. And how should we be thinking about your relative competitive positioning on those products relative to scale players in the industry that are deploying equal amounts of sort of OpEx and CapEx as a percentage of revenue towards initiatives like shopability and AI. So a bit of a relative competition question as well as investment scale as we go through this year.

William J. Ready
CEO & Director

Yes. Thanks, Eric. Well, what I'd say is as you go over the past 7 quarters, I think we have demonstrably improved our competitive positioning across the board. You look at our growth rate in users, the fact that users grew across every geography, continue to deepen engagement per user, and that really speaks to just how much the greater actionability that we're driving for our users, both on shopping and on curation is causing deeper user engagement on the platform.

That's really been driven by both AI advancements and the unique signal on our platform where people curate on our platform. We just get a truly unique signal that doesn't exist any place else where you just spend hours and hours and hours refining their interest, curating their interest, and we understand their interest at a depth that you just couldn't understand otherwise, as the AI has upon that, it lets us drive much more relevant recommendation.

And so yes, you have general competition in large models, but we also have a completely unique signal that we're able to train those models on that unique signal and you see that evidenced in the relevancy improvements we made.

Same on the ad side. For advertisers, we're able to bring them users in a highly commercial moment where they have intent but have not yet decided what to buy. So it's greater commercial intent than you would see elsewhere in social. But it's also bringing more of the inspiration than what you would typically find on other very low-funnel moments.

So I think that's demonstrating that we have a unique space to occupy with the user where they see us as something distinct and separate from the rest of social media, where social media tends to be lean back entertainment.

We have lean forward commercial intent. We are still early in our journey and what we can get from that. We see a multiyear journey ahead as to how we continue to refine and make that better. And then that cuts through to advertisers where we're delivering very strong performance to advertisers, doubling the number of clicks year-on-year is exceptional.

Our advertisers see that as exceptional as Julia noted, more the value capture from that still lies ahead of us versus behind us, and we think there's more runway to go and driving more and more commerciality on our platforms. We feel really well positioned in a unique space.

And as AI continues to advance, we're able to adopt off-the-shelf large language models, tune those to our unique signal and then get very unique results because of the very distinct unique signals we get on our platform because of the human curation at scale on our platform.

Julia Brau Donnelly
Chief Financial Officer

And then, Eric, maybe to the second part of your question on sort of investment areas in 2024. So as a reminder, overall in 2024, we're expecting adjusted EBITDA margin expansion overall. But on a dollar basis in terms of the areas where we are looking to ramp operating expenses, in particular, there, we're really focused on R&D investments, so headcount additions primarily in the AI space, as Bill was mentioning, to benefit both our users and our advertisers, as well as on the sales and marketing line where we anticipate adding to our sales organization with a focus on enhanced technical selling capabilities, particularly in the lower funnel and some expansion of frontline sellers as well.

Operator

Our next question is from the line of Ron Josey of Citigroup.

Ronald Victor Josey
Citigroup Inc., Research Division

I wanted to ask a little bit more as a follow-up to some questions around your comments on greater returns for advertisers and gaining access to performance budgets. And one of the questions we get is just the visibility that Pinterest has on these budgets and adoption of these newer tools. And so great to hear progress of Direct Links and the API for Conversions.

But I would just love to hear a little bit more on your commentary around Direct Links adoption. I think you talked about measurement tools, more advertisers need to be walked through the process. So any insights there would be helpful. And then you mentioned the launch of dynamic -- I think, campaign creation tools and then the to be launch of ROAS bidding. Just talk to us how you envision all these tools sort of coming together as we move forward here.

William J. Ready
CEO & Director

Yes, certainly. So as I mentioned in the prepared remarks, we now have -- we started -- we launched Direct Links at the very tail end of Q3. So really, Q4 is when we first started to see its effect. We continue to ramp that through Q1. We now have 97% of our lower funnel revenue has adopted the Direct Links format.

And our conversion for API -- our API for Conversion is now covering 40% of revenue. So the effect that both Julia and I have talked about is that there is a lag effect between the value that we create for advertisers when we start to send them more clicks and send them better conversions and better return. And when they're able to see that flow through to their models and measurement systems, which typically has sometimes a quarter or multi-quarter lag effect, particularly if they have an implemented measurement.

So when we say that we see more of the value capture still in front of us than behind us, we clearly see that value capture happening with Direct Links. We've seen budget shift. As I mentioned in my remarks that we're seeing, particularly of the larger, more sophisticated advertisers that pick up these changes very quickly, we're seeing that they have shifted budgets and that we are now capturing 5% or more of total budget, which imply a much deeper penetration of their digital budget and going into their performance budgets, whereas historically, Pinterest would have been -- oftentimes in sort of experimental or social budgets.

We're now shifting more into those always-on performance budgets and doing quite well there, but that broad-based adoption of the measurement tools that let the advertisers see it and then their shift of budget, we see more of that in front of us than behind us, but that's what gives us confidence in our ability to continue delivering because we know that we're delivering the clicks to those advertisers.

And on the second part of your question around the automation suite for those advertisers, we have delivered some of the most important components of a full automation suite like the fact that we have 80% plus of our revenue going through automated bidding. But we have some other really meaningful components that are still in front of us like Dynamic Creative Optimization, which we'll be launching and ramping over the coming quarters and ROAS-level bidding, which is also going to be launching and ramping over the coming quarters.

So these are things that say, okay, we know there's a compounding effect of delivering more clicks and conversions to the advertisers, giving them more ability to measure it and then make it easier and easier for them to create sort of set-it-and-forget-it campaigns and deliver them great ROI, all those things have a compounding effect. And with each one of those, we've got clear elements of the potential of that, but then we're driving more and more of that adoption, which is what gives us confidence in the continued adoption ahead.

And finally, I just mentioned -- I talked about some in my remarks, everything that we've talked about here is consistent with what I've said since I joined what we outlined at our Investor Day. These things have compounding benefits over time. So don't expect like big bang moments on these things. But you saw us hit a new gear from H1 to H2, last year. We doubled our growth from H1 to H2 last year. You're seeing us do it again as we come this quarter and project forward into next quarter, into Q2. And so those are compounding benefits and so expect that similar kind of behavior that the benefits just continue to compound versus one big hockey stick moment in a particular quarter. Hopefully, that helps.

Operator

Our next question today is from the line of Ross Sandler of Barclays.

Ross Adam Sandler
Barclays Bank PLC, Research Division

Great. Bill, I guess another big picture question. I think last year, coming into earlier this year, there was a debate in both the advertiser industry and among the investment community around how smaller platforms like Pinterest and Snap and others are able to keep pace or not with the larger platforms given levels of investment. I would say these 1Q results fly in the face of that or at least answer some of that debate. So I guess the question is -- or how are the conversations with marketers changing? You obviously sound pretty good about the sustainability of the growth that you're seeing. But I guess, what gives you that confidence and as you look out over the next year or two with things like the TikTok situation going on, how do you see those conversations with markers changing in your favor going forward?

William J. Ready
CEO & Director

Yes. Thanks, Ross. Yes, no. We feel great about our competitive positioning. We think we have a unique and distinct use case for our users. And we have strong commercial intent, and we're now delivering more and more of that performance for advertisers, and we see those advertisers shifting budget to us and notably moving us into those performance budgets, it was always on budgets versus the experimental area that Pinterest historically played in.

And I'd say what's fueling that, again, as the uniqueness of the use case we solve for our users, but also as you think about the way that AI plays out, I do think this first wave of AI or some of the first conversations in AI were about value accruing to the model creators and those who have like the largest general-purpose models. I think it's also the case that there's a distinct set of value creation around both fit-for-purpose models and taking unique signal applying it to those larger models, and you see us doing both.

We have taken off the shelf larger models. We then train them on our unique user signal that lets us -- I talked about on prior quarter's calls, 10 full percentage points improvement in user relevancy. So you see us doing those kinds of things. You also see us doing things with our own foundational models like really unique computer vision work where we have one of the largest image corpuses out there.

We have really unique signal about how users associate those images, styling outfits and styling rooms and things like that. And that lets us train fit for purpose models. So we feel really good about our ability to compete both in terms of unique space for the user, delivering great value for advertisers that's leading them to shift share to us. And we think there's more of that to go as they're just now starting to measure and see that and shift budgets.

And from an AI perspective, we feel really well positioned in terms of the uniqueness of the signal we get through the human curation on our platform as we're leaning into that. We're seeing that accelerate as well through things like our collage format, which is driving three times the engagement, approximately three times the engagement of traditional pins. So we think that's an entirely new content type on Pinterest that is unique to what people do on Pinterest, fueled by AI and has this flywheel effect of feeding us more and more granular signals that let us train our AI or do unique things that don't occur on other platforms. So all that to say, yes, we feel good. It's a competitive space, it always will be. But we feel well positioned and I think reflected in our results.

Operator

Our next question today is from the line of Anthony Post [Justin Post] of Bank of America Merrill Lynch.

Justin Post
BofA Securities, Research Division

We saw U.S. really accelerate this quarter and some of the international markets were strong but decelerated. Can you talk about how much the drivers in the U.S are kind of maybe unique to the U.S. And then if Amazon was above your expectations in the quarter? And then finally, maybe as you think about some of these drivers, whether it's partnership or your own internal efforts, is there more to come internationally in the back half or next year?

William J. Ready
CEO & Director

On international, I'd say, again, more of the opportunities are in front of us than behind us. I talked about the Google 3P partnership that is just getting going. So that wasn't really a contributor in this quarter. We see more of that as we look ahead. I'd say stepping back more broadly, the shopping improvements that we have made, the lower funnel improvements we have made, of course, we started with our home market, our largest market first, and we're now taking more of those things international.

And you can see reflect...

Operator

[Technical Difficulty] Apologies, everyone. It appears we have lost temporary connection with the speaker line. Please stand by. We will reconnect shortly.

William J. Ready
CEO & Director

Great. Apologies for the technical glitch there. So we see that those shopping improvements that we've made starting in the U.S. that now as we're just starting to take them international, that that's resonating with the users as well. So when you look at our MAU acceleration, we saw accelerated user growth in every geography. That speaks to how broad-based the product improvements are from a user perspective. And then now we're taking those advertiser tools in those markets, particularly on shopability in the low funnel, both from a 1P perspective as well as just starting with our 3P and reseller efforts that I talked about as well. So we see much more of that opportunity on international still in front of us.

Julia Brau Donnelly
Chief Financial Officer

And maybe just to add to Justin. So on the U.S. side, as Bill was noting, obviously, we're seeing really strong growth in our first party business in retail, but also emerging contribution from third-party ad demand, as you mentioned.

And then maybe just a follow-up on the international side as well. We do see currency headwind in Q1 that if you look on a constant currency basis, Europe and Rest of World growth was actually the same on a constant currency basis or stronger in Q1 relative to Q4. So I would take a keen eye towards the FX changes here, which are changing in Q4, Q1 and also in Q2 as we called out when we talked about guidance for the second quarter.

Operator

Our next question comes from the line of Doug Anmuth of JPMorgan.

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

Just when you think about the progress in shopability and moving down the funnel, can you just talk about how that's translating into growth in advertiser count and the degree that we're seeing a pickup in auction density. And then any early learnings from the third-party deals with Amazon and Google, anything that surprised you thus far?

William J. Ready
CEO & Director

Great. Yes. What I would say, our growth and strength has been most pronounced in lower funnel, particularly in U.S., retail and amongst the largest, most sophisticated advertisers. But we do see that starting to broaden out as sort of other retailers adopt the ability to do privacy-safe measurement. As we're able to see that flow through the models, we see that starting to flow through to a broader set of retailers as well.

So we have -- our business is less SMB-centric, but we do see that our improvements in shopability are benefiting a broad swath of retailers, from the largest all the way through to smaller retailers as well. So we think more of the value capture today is occurring with the largest, most sophisticated. They're just faster to react.

But when we say there's like a multi-quarter adoption curve on these things, that will start to take us deeper and deeper into sort of midsize and smaller retailers as well. So hopefully that helps give you a little bit of color on that part of it. And then on 3P from the third party deal...

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

And it's on the third-party [indiscernible]

William J. Ready
CEO & Director

Yes. On the third-party side of it, 3P is doing exactly what we expected it to do. And if you step back, when we introduced 3P about a year ago, we were excited to announce our first third-party partnership with Amazon Ads then. And when we first introduced 3P, we talked about the opportunity for 3P to work in parallel with 1P to round out gaps in our auction, leading to greater relevancy and shopability for our users and ultimately improve monetization.

And of course, we've also been investing heavily in our 1P business even as we introduced the 3P opportunity. And we talked about how we believe that creating numerous ways to win and driving a balanced durable top line growth where this would be a complement to our auction that, that was the approach we're taking.

And so when we've talked about our 3P efforts as a complement, it's not that we believe -- is that, that we're any less excited or see the long-term potential any less, we're also seeing significant accelerating strength in our 1P business. So our 1P is rounding out those gaps in our auction, bringing much more auction density.

And then 3P is contributing nicely to that as a complement as well. So again, we see that playing out as we had expected in terms of complementing our 1P demand, bringing more density to the auction, creating greater shopability, but it is broad based because we see broad-based strength in retail, both first party and 3P as an emerging contributor to that.

And as I mentioned in my comments, we expect that where we are now on 3P is a base from which we'll continue to grow as we optimize further and further with our partners and look forward to how we'll bring in more demand to complement our auction.

Operator

And our final question today will be from the line of Mark Mahaney of Evercore ISI.

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

Two questions, please. You talked about, Bill, about adding potentially more partners beyond Amazon and Google. Can you just put some -- set some expectations around there. It's kind of hard to see any partners that could be as material as those but maybe I'm not being creative enough in thinking about it.

And then secondly, Julia, I know you quantified the impact in the March quarter from leap day and Easter timing. Is it safe to assume that the emerging contribution from 3P would have less than that and that's why you wouldn't -- that's why you didn't quantify it?

William J. Ready
CEO & Director

Yes. Thanks, Mark. So again, we're just getting going with our 3P efforts. Again, we feel that those are performing in line with our expectations from what we've talked about previously. We're just starting on the international side. Google’s certainly a great first partner there, but we're just getting going.

And as we carry forward, we think about -- we're always looking at this as sort of like a retail problem, right. You have the right products on the shelves when the user walks in. And so we're always looking at where do we need more density, where do we need more shoppable inventory to round out what the users are looking for. And we'll continue to look at what are the best partners to round that out.

As you noted, we brought in some really great partners already. We see really phenomenal momentum in our first-party business, which is always -- what you would hope to see, first and foremost, but we'll continue to look at how we round up those gaps. And as I mentioned, we see opportunities to expand our current partnerships to multiple geographies versus the geographies that are in today. And we're continuously evaluating additional partners that can complement the auction going forward. So obviously, I'm not going to comment on any new partner before we have a new partner signed up.

But we're continuously evaluating those. And even though it's been a nice -- 3P has been a nice emerging contributor, we're just getting going internationally. And we see a lot more opportunity to continue on that effort. And then I'll give it to Julia for the second question.

Julia Brau Donnelly
Chief Financial Officer

Yes. So Mark, on the second part of your question, we've always said we're not going to specifically break out 3P versus 1P for many reasons. But one is that they go together into the same auction and they're meant to complement one another, as we’ve said.

And so the reason I didn't call it out was not because of what you said or I would not make that assumption. The reason I didn't call it out is I was trying to call out in Q1 sort of specific unique seasonal factors that benefited Q1 that would not continue into Q2.

In comparison, 3P is something that is benefitting Q1 and continuing to benefit Q2 is something that we see scaling and ramping throughout the year. So I would not draw any other conclusions.

Operator

Unfortunately, we have no further time for any further questions at this time. So I'd like to hand it back to Bill Ready for any closing remarks.

William J. Ready
CEO & Director

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

Operator
Thank you, everyone. This concludes today's conference call. You may now disconnect your line.