

Nextdoor Holdings, Inc. NYSE:KIND

FQ3 2024 Earnings Call Transcripts

Wednesday, November 06, 2024 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-		-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	(0.05)	(0.04)	NM	(0.04)	(0.28)	-	(0.18)
Revenue (mm)	62.44	65.61	▲5.08	62.00	241.12	240.14	276.29

Currency: USD
Consensus as of Nov-02-2024 9:01 AM GMT

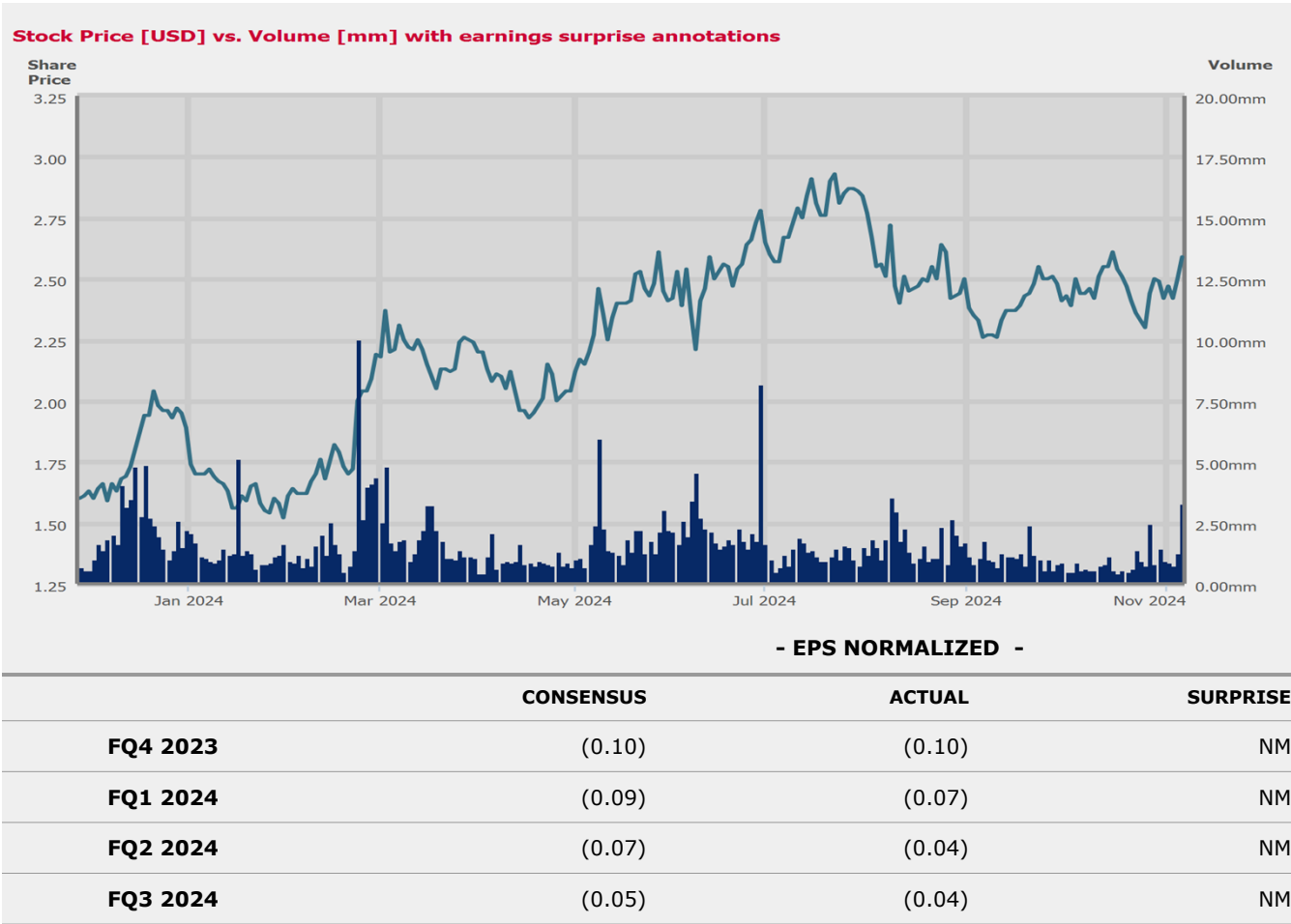


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Call Participants

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Head of Investor Relations

Matt Anderson

CFO & Treasurer

Nirav N. Tolia

*Co-Founder, CEO, President &
Chairperson of the Board*

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Citigroup Inc., Research Division

Presentation

Operator

Good afternoon. Thank you for attending today's Nextdoor Q3 2024 Earnings Call. My name is Cole, and I'll be the moderator for today's call. [Operator Instructions]

I'd now like to hand it over to John Williams, Head of Investor Relations. Please go ahead.

John T. Williams

Head of Investor Relations

Thank you, operator. I'm John T. Williams, Head of Investor Relations. Good afternoon, and thank you for joining us to review Nextdoor's third quarter 2024 financial results. With us on the call today are Nirav Tolia, Chief Executive Officer; and Matt Anderson, Chief Financial Officer.

During this call, we may make statements related to our business that are forward-looking statements under federal securities laws. These statements are not guarantees of future performance. They are subject to a variety of risks and uncertainties. Our actual results could differ materially from expectations reflected in any forward-looking statements.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC's website and in the Investor Relations section of our website as well as the risks and other important factors discussed in today's earnings release. Additionally, non-GAAP financial measures will be discussed on today's conference call. A reconciliation of these measures to their most directly comparable GAAP financial measures can be found in the Q3 2024 shareholder letter released today. With that, I'd like to turn the call over to Nirav.

Nirav N. Tolia

Co-Founder, CEO, President & Chairperson of the Board

Thank you, John T. Good afternoon, everyone. I'm happy to be here with you today to discuss our third quarter 2024 financial results and outlook.

Since I returned to CEO around 6 months ago, our team has done a lot to focus our strategy in business, and we're stronger as a result. We're energized by the progress, but there's an enormous amount of work remaining and a long road ahead.

That said, Q3 was a solid milestone on this journey as we improved user growth, revenue growth and operational efficiency.

Weekly active users, or WAU, reached 45.9 million, up 13% year-over-year. Revenue of \$66 million grew 17% year-over-year, and adjusted EBITDA margin increased by 33 percentage points year-over-year and reflects improved revenue growth and employee productivity. We can certainly do more, but our results today reflect the progress I mentioned as we scale and evolve the business.

Taking a higher-level view, I'd like to highlight the 3 areas where we made significant strides in recent months.

The first one is driving revenue growth. Advertisers using the Nextdoor Ads Platform are benefiting from improved performance, which is driving better revenue retention. In Q3, we saw this most clearly in our mid-market self-serve channel, which continued to scale.

Click optimization, which improves advertiser performance by leveraging machine learning to make ad content more engaging and relevant, is driving much of this improvement today. In Q3, click optimization drove an 82% increase in click-through rates and a 16% reduction in cost per click for campaigns using the feature. We see exciting potential here and are confident that these types of product improvements on our ad platform not only strengthen our relationships with advertisers but also drive improved monetization and sustainable growth.

The second area is improving operational discipline. Achieving sustainable growth requires disciplined allocation of resources, and in Q3, we again made financial and operational progress.

The key driver behind this improved execution is our focus on building a winning culture. We continue to use a founder's mentality as our north star here. The benefits of acting like an owner are not solely the provenance of startups. The best companies successfully blend the dueling attributes of upstart and mature companies.

A founder's mentality then combines innovation with execution, simultaneously delivering ongoing value while developing future value. Deliver means operating as effectively as possible and continually raising the bar in everything that we do. Develop means inventions such as the NEXT initiative, our longer-term effort to transform our product and enrich the lives of Neighbors everywhere.

That brings me to the third and final area, transforming our product with NEXT. And as I've shared previously, NEXT is our ambitious initiative to make Nextdoor the essential network for local communities.

One of the key pillars of NEXT is broadening our focus from intent-centric interactions where users come with a specific need or goal to include discovery-centric interactions where users visit Nextdoor simply to discover relevant and timely content. Let me dig into this a little bit more.

Nextdoor today is optimized for intent-centric use cases, pressing needs like finding a trusted plumber, locating a lost dog or keeping in touch during a hurricane or wildfire. These intent-centric use cases are essential to our Neighbors and unquestionably deliver value.

Yet we believe there is a great opportunity to pair the existing value of intent with the additive value of discovery-centric use cases. Discovery occurs when a user frequently visits a platform simply to stay informed rather than for a specific need. In fact, 86% of our users say they want to use Nextdoor to discover local content, presenting a clear opportunity for us to drive even deeper engagement by bringing new sources of relevant local information to Nextdoor. This is why we've made discovery the initial focus of NEXT.

Our work will be a multiphase effort as innovation is neither a predictable nor a linear path. With that in mind, we don't expect to see meaningful signs of product-related progress until mid-2025, but we're optimistic that we're on the right track and look forward to keeping you updated along the way.

A final note on NEXT. Transforming our product will require a dramatically improved user experience. With that in mind, we are delighted to announce that Georg Petschnigg, former Head of Product Design at the New York Times, has joined Nextdoor as Chief Design Officer. Georg has extensive experience and proven success in UX transformation and innovations in advertising and subscriptions. At the New York Times, he oversaw the most consequential Times app redesign yet. This is a big hire for us, and we're excited to have Georg here to help accelerate our efforts.

We're executing with precision and purpose and I'm proud of the progress we've made, delivering improving operational performance while developing NEXT to realize our future prospects. It is challenging work, and we are still in the very early days, but we believe deeply in the potential for value creation, a revitalized platform, a renewed growth trajectory and a reinvigorated company.

I'll now turn it over to Matt to discuss our financial results.

Matt Anderson
CFO & Treasurer

Thank you, Nirav, and good afternoon, everyone.

In Q3, millions of new users joined Nextdoor. Substantially all of those new Verified Neighbors joined organically, which helped drive Q3 WAU to 45.9 million, an increase of 13% year-over-year. U.S. WAU growth continued to be an area of strength, increasing 16% year-over-year. We must deliver more value for users, but Q3 showed we have a solid foundation and a strong ambition with NEXT.

During the quarter, user growth reflected sustained progress on a few fronts. First, we engaged previously inactive users, allowing them to experience aspects of Nextdoor before logging in. Similar to what we saw in Q2, these users tended to engage, log in and then further explore the platform.

Second, we continued using ML to deliver more personalized proximate content to Neighbors, using location as a key signal. This continues our efforts to bring the right content to the right user at the right time.

Finally, timely content and notifications help users stay informed and safe when major storms and events affected local communities across the U.S. In short, Nextdoor remains a critical source for real-time local information for our users.

Moving to monetization. The Nextdoor Ads Platform is driving improved ease of use and better performance for advertisers which, in turn, drove stronger financial results in the quarter. Q3 revenue of \$66 million grew 17% year-over-year, reflecting continued momentum with self-serve advertisers, improved revenue retention across channels, a return to growth for enterprise advertisers and better monetization of search activity.

Within our self-serve channel, improved advertiser performance drove year-over-year increases in total advertisers and net revenue retention. Mid-market self-serve advertisers in particular saw strong gains as this cohort of advertisers has begun to adopt our click optimization features. Why? Because these capabilities are driving a 2x improvement in campaign performance. This points to further revenue growth opportunities for our advertisers and for Nextdoor.

Search also played a role in our Q3 revenue growth as users often come to Nextdoor with high commercial intent. Specifically, campaigns targeting users based on their search history saw an over 10x return on ad spend compared to standard Nextdoor campaigns. These improvements, made possible by our first-party data, strengthen our foundation for durable growth.

Q3 adjusted EBITDA loss was \$1 million or a negative 2% margin. As Nirav noted, this represented a 33 percentage point year-over-year margin improvement. Increasing revenue scale, lower personnel costs, and a focus on efficiently scaling hosting and data-related expenses each contributed to the year-over-year improvement. Productivity, as measured by revenue per employee, increased by more than 60% year-over-year, improving in each of the past 4 quarters. We are allocating resources with an owner's mindset, which means a sharp focus on both customer-focused growth and operating efficiency.

We ended Q3 with \$425 million in cash, cash equivalents and marketable securities and 0 debt. We remain committed to disciplined capital allocation. Our strong balance sheet and improving profitability profile give us flexibility to strategically invest in the business, whether through operating investments or share repurchases.

During the quarter, we repurchased 8 million shares. Year-to-date, we have reduced our fully diluted share count by 5% and remain focused on continuing to limit dilution.

Now on to our outlook and financial guidance.

For the full year 2024, we expect revenue of \$245 million, implying 12% year-over-year growth. We now expect adjusted EBITDA margin improvement approaching 25 percentage points year-over-year, up from the 20-percentage-point improvement noted last quarter. Our ability to drive further operating leverage is a reflection of the founder's mentality at work.

For Q4, we expect revenue of approximately \$63 million, implying 13% year-over-year growth and adjusted EBITDA loss of approximately \$2 million and positive free cash flow generation.

As a reminder, we define free cash flow as operating cash flow minus capital expenditures. Additionally, our Q4 guidance reflects natural seasonality related to home services spending.

Now taking a step back from our guidance. We are driving growth with what we already have in place today, nearly 100 million Verified Neighbors, a growing base of advertisers seeing improving performance and a focused and productive team.

Most importantly, we have conviction that NEXT broadens our ability to serve both intent- and discovery-focused use cases to deliver value for users, advertisers and shareholders.
Thanks for joining our earnings call today. I'll now turn it over to the operator to begin Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question is from Jamesmichael Sherman-Lewis with Citi.

Jamesmichael Charles Sherman-Lewis

Citigroup Inc., Research Division

Can you first talk a little bit about how you're balancing your organic insight-based growth strategies for Verified Neighbors against your paid marketing levers, particularly in context of these newer discovery-centric use cases coming online as well as your retention/retrenchment towards the U.S. market?

And then as we look to the second quarter (sic) [phase] of NEXT, the exchange in goods and services, I would love to hear your updated thoughts on Nextdoor's for sale and free surface as well as the competitive differentiation versus Facebook Marketplace.

Nirav N. Tolia

Co-Founder, CEO, President & Chairperson of the Board

Thank you for the questions, Jamesmichael. And let me just answer them in the order that you asked them. So on the first, we are almost solely focused on organic mechanisms for user acquisition, so I would say that our paid marketing efforts are minimal and decreasing over time, and we don't anticipate any change in that in the near term or even the midterm.

On your second question around investing in the for sale and free surface and marketplaces more generally, that is an opportunity that we think is really vibrant for us. And we're obviously aware of what Facebook and others are doing in that space. The next set of priorities for us are around NEXT. And the focus for NEXT, as we talked about, was expanding intent to include discovery. That will not include the marketplaces surface in the near term. But as we continue to make progress with NEXT, a future phase will certainly include more investment in for sale and free and a more vibrant set of marketplace experiences for our users.

Matt Anderson

CFO & Treasurer

Mike, I'll just add one thing to what Nirav mentioned. On your first comment on our growth strategies for Neighbors, so substantially, all of our Neighbors come on organically, as you noted. That also has benefits, though, as you think about our P&L. So things like sales and marketing as a percent of revenue, in Q3, it was down 14 points year-over-year. It's a function of a number of things, but one of the things that signals is the continued progress at scale we're having. So it's not just a signal of the health of the platform, but it also has downstream benefits in terms of our operating numbers.

Operator

There are no further questions at this time. [Operator Instructions]

Nirav N. Tolia

Co-Founder, CEO, President & Chairperson of the Board

Since there are no more questions, I would love to make some closing remarks. Thanks again for joining us today for the call.

Before we close, I just want to briefly recap and reinforce the things that matter most about where we are today and where we're going.

First, we're driving growth. We grew WAU 13% year-over-year; revenue, 17% year-over-year. That was Q3. Our Nextdoor Ads Platform is delivering measurably improved performance and value for advertisers.

The second point is we are doing more with less. We posted 33 points of year-over-year adjusted EBITDA margin improvement in Q3, and we've raised our full year revenue and adjusted EBITDA outlook.

Number three, and most importantly, NEXT is the future of Nextdoor. We're going to widen our focus to increase the value proposition from intent and discovery, which is a powerful combination.

It's certainly going to take time to show product progress because innovation is not straightforward. It's not linear, but the potential payoff is big. And our ambition, to build the indispensable local application for Neighbors everywhere, is as strong as it's ever been.

Thank you again for your interest in Nextdoor, and we look forward to speaking with you again very soon.

Operator

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

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