

Nextdoor Holdings, Inc. NYSE:KIND

FQ1 2024 Earnings Call Transcripts

Tuesday, May 07, 2024 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.09)	(0.07)	NM	(0.07)	(0.28)	(0.23)
Revenue (mm)	50.81	53.15	▲4.61	56.40	231.86	265.86

Currency: USD
Consensus as of May-03-2024 5:05 AM GMT

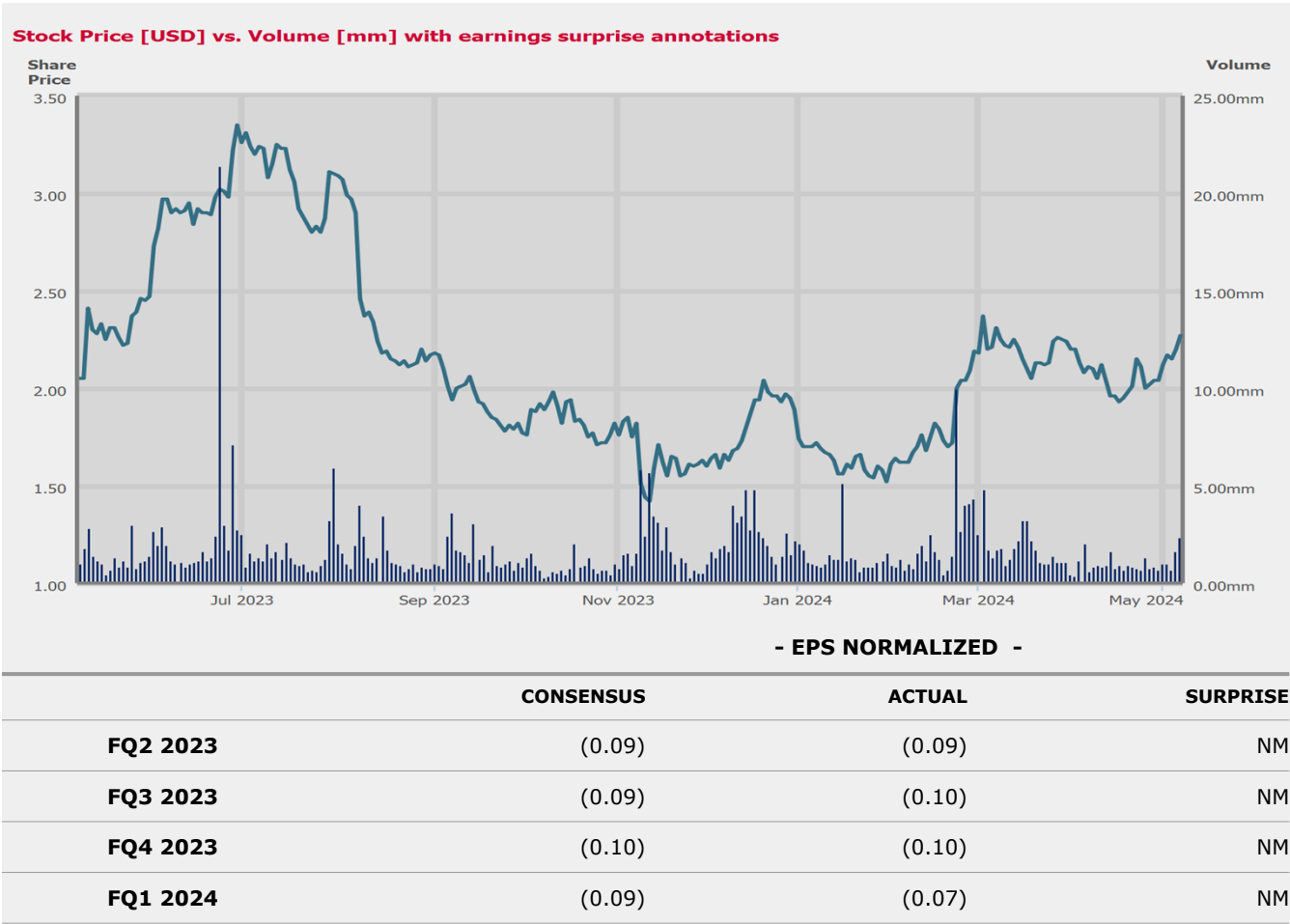


Table of Contents

Call Participants		3
Presentation		4
Question and Answer		7

Call Participants

EXECUTIVES

John T. Williams

Head of Investor Relations

Matt Anderson

CFO & Treasurer

Nirav N. Tolia

Executive Chair

ANALYSTS

Stanislav Nikolaev Velikov

*Wells Fargo Securities, LLC,
Research Division*

Presentation

Operator

Hello, and welcome to the Nextdoor Q1 2024 Earnings Call. My name is Kerry, and I'll be the conference operator for today. [Operator Instructions]

I would now hand the call over to John T. Williams Head of Investor Relations, to begin.

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 first quarter 2024 financial results. With us on the call today are Nirav Tolia, Executive Chair and incoming 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 Q1 2024 Shareholder Letter released today. With that, I'd like to turn the call over to Nirav.

Nirav N. Tolia

Executive Chair

Thank you, John T., and good afternoon, everyone.

It is an honor to reconnect with you as Nextdoor's CEO. Today, I have the same feelings of excitement and possibility as I did when we created this company 14 years ago. Nextdoor has certainly grown a lot since then, but I am confident that our best times are ahead.

We had a productive Q1, but before I get into those details, I'd like to briefly discuss how we're thinking philosophically and practically about taking Nextdoor to the next level.

In Silicon Valley, there is a commonly held belief that companies benefit when their founders return. I believe this is due to the value of the Founder's Mentality, a phenomenon explored by Bain Partners, Chris Zook and James Allen in their book of the same name. They argue that founders possess a set of attitudes and behaviors that is one of the most undervalued secrets of business success. This is the mindset that we plan to instill in Nextdoor.

We are technologists, and we believe that our greatest value comes from innovative product that delights users and customers. Yet we have the humility to admit that while the potential of our product is incredible, the current implementation today is just not where it needs to be. We're going to fix that and a Founder's Mentality is going to push us to do so. This means unwavering focus, an obsession on the details and complete ownership of and accountability for results.

Innovation for us starts with our core expertise of building community on a local level, which is an exceptionally difficult problem. We use this expertise to build an engaged consumer audience. And this audience attracts customers, who enable us to drive robust financial results.

Getting this virtuous circle right will unlock the full potential of the business. It is not easy and it definitely won't happen overnight, but we know the formula is successful. It's what enabled the creation of Nextdoor

in the first place. I'm excited to talk more about building innovative products in the months and quarters ahead, but for now let's move on to Q1.

We've had a promising start to the year and continuation of our recent momentum. In Q1, organic Verified Neighbor growth again hit a new high. Weekly Active Users, or WAU, grew to 43.4 million, up 2% year-over-year and 4% sequentially, and engagement remains strong.

Also in Q1, we saw 17 percentage points of year-over-year adjusted EBITDA margin improvement demonstrating our commitment to driving efficiencies and improving productivity. We've now raised our full year adjusted EBITDA guidance and are on track to generate positive free cash flow in Q4, a full year ahead of schedule. We gain strength from our cash position, including our ability to repurchase shares, which we think remain attractively priced at their current level.

Our advertising platform is showing good progress. As of the end of Q1, 100% of our self-serve customers, which include SMBs and about half of our mid-market customers, are using Nextdoor Ads Manager to onboard and manage campaigns, and benefiting from improved ad delivery and performance on the Nextdoor Ad Server. These emerging capabilities have started to drive revenue growth and reduced the number of first party repeat ads delivered by 70%, real progress that we expect will continue as we began migrating our managed enterprise and our remaining mid-market customers later this year.

Among mid-market advertisers using self-serve, our increased capabilities allowed us to grow new logos by more than 50% year-over-year in Q1, increased average spend and deepen relationships with new advertising agencies. Our approach is clearly resonating with these advertisers.

Now it wouldn't be a proper earnings call these days without some mention of artificial intelligence. We've spoken before about how we've used generative AI via our Kindness Reminder to help users write positive posts. We've also added this technology to our Nextdoor Ads Manager to help businesses write ad copy. But we believe that our potential in AI is much larger than what we've built so far. Nextdoor has proprietary data, a local LLM and consumer distribution at scale, all fully owned and under the same roof. This makes us a kind of self-sufficient AI test kitchen, with all the needed ingredients in place as we seek to leverage this technology in new and valuable ways over time.

Before closing my remarks, I want to share some exciting news about our Board of Directors. We are pleased to announce 3 new additions, all founder, CEOs who have proven product chops, experience operating at scale and significant expertise in leading successful technology companies. Our new directors are Marissa Mayer, Founder, CEO of Sunshine and former CEO of Yahoo; Niraj Shah, Founder, CEO of Wayfair; and Robert Hohman, Founding CEO and Chairman of Glassdoor.

We are thrilled for them to join our journey to build Nextdoor into the definitive consumer Internet service in local. I'm realistic about our challenges, and we have a lot of work ahead of us, but we're optimistic about the road ahead. With that, I'll turn it over to our CFO, Matt Anderson.

Matt Anderson
CFO & Treasurer

Thank you, Nirav, and good afternoon, everyone.

Q1 revenue of \$53 million grew 7% year-over-year. WAU increased quarter-over-quarter and year-over-year, driven largely by continued strong growth in users coming to the Nextdoor platform for the first time. For context, in Q1 more than twice as many Verified Neighbors joined organically than in the year ago period. This progress was especially evident in the U.S., where our efforts have been most heavily focused.

We see signs of growing engagement, with users continuing to increase the amount of content they view in each session. Session depth, which reflects the number of ad impression opportunities during each user session, increased by 36% year-over-year in Q1, sustaining the acceleration we saw in Q4.

Q1 ARPU increased by 4% year-over-year to \$1.22, reflecting both increased engagement and advertiser spending levels. We're particularly encouraged by the demand we've seen from the self-serve customers

now using our advertising platform. Enhanced audiences, improved reporting, and more efficient ad delivery are already driving better outcomes for those advertisers. As a result, both mid-market and SMB advertisers continued to increase average spending levels quarter-over-quarter.

Self-serve customers continue to be a key driver of growth and contributed nearly 50% of total revenue in Q1. We expect our share of revenue coming from self-serve will continue to rise over time, particularly as the functionality of our Nextdoor Ads Manager continues to mature. We also expect an increase in our self-serve revenue mix will be accretive to our operating margins. While we have made recent progress, we are moving with urgency to bring the full set of capabilities of our advertising platform to our managed enterprise and mid-market customers.

During the quarter, we also saw improvement in several key verticals, with home services again posting strong growth and financial services showing positive year-over-year growth for the first time in 2 years.

Q1 adjusted EBITDA margin improved by 17 percentage points year-over-year, driven by efficiencies in platform costs, further streamlined go-to market spending and meaningfully lower personnel costs.

And we see additional opportunities to drive operating leverage through the remainder of 2024. We are reducing overhead, eliminating management layers and directing resources to what must be our most enduring growth driver, our product. As Nirav noted, we are focused on productivity and a nearly 40% year-over-year increase in revenue per employee is an early signal of our progress. Simply put, we're doing more with less.

We ended the quarter with \$498 million in cash, cash equivalents and marketable securities and zero debt. We commenced our share repurchase program in early March, and through the remainder of Q1 we repurchased 4.4 million shares. At quarter end, our current authorization had \$163 million remaining, and we continue to be active buyers of our shares.

Now on to our outlook and financial guidance.

For the full year 2024, we expect revenue in a range between \$229 million and \$235 million, and we expect our adjusted EBITDA margin will improve by approximately 15 percentage points year-over-year compared to our prior expectation of 10 percentage points.

As Nirav mentioned earlier, we now expect to generate positive free cash flow in Q4 of this year, 12 months sooner than our prior expectation for the end of Q4 2025. Clarifying the paths to long-term growth and margin improvement is a crucial focus for us, and quarterly free cash flow generation is one important milestone.

For Q2, we expect revenue of approximately \$58 million and an adjusted EBITDA loss of approximately \$13 million.

Our expected margin improvement for both the quarter and the year largely reflects the effect of a smaller and more focused workforce, reduced marketing spend and reduced rent expense. Certain of these reductions will result in one-time restructuring charges in Q2.

As we look ahead, our focus is demonstrating the power of our growth algorithm.

This means showing increasingly persistent user engagement growth, more consistent new advertiser growth, durable advertiser retention and a reduced cost base.

Progress in each of these areas is core to delivering more 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] The first question on the line comes from Brian Fitzgerald of Wells Fargo.

Stanislav Nikolaev Velikov

Wells Fargo Securities, LLC, Research Division

This is Stan Velikov for Brian. I guess if you can, if it's possible to provide more color on the relative performance of the business in the U.S. versus international. It seems the momentum is much stronger domestically so I guess, what were the major factors that contributed to the strong year showing that you don't see a broad? So what we seeing abroad and you have in the U.S.?

Matt Anderson

CFO & Treasurer

Stan, I'm happy to take this one. This is Matt speaking. So first off, I think the thing really the highlight which you referenced was the very strong growth in the U.S. So in terms of total Verified Neighbors and WAU coming to the platform approaching 2 million quarter-over-quarter, that really reflects the focus that's reflected throughout our commentary today. So we are really focused on the markets where we think we can drive the greatest growth.

It's also where we're seeing flywheel pulls in terms of top of funnel growth, but also increasing content and engagement. So our focus will increasingly be on the U.S. We have commented in past quarters as well, we've been gradually scaling back paid go-to-market efforts to acquire neighbors internationally where that does have some period-to-period effect on our overall engagement growth.

But one thing that's very clear to us is we are highly encouraged by the overall top of funnel growth we see in the U.S. That's where our efforts are focused, and that's where we expect growth to continue.

Operator

We currently have no further questions. Therefore, I will hand back to Nirav Tolia, CEO, for closing remarks.

Nirav N. Tolia

Executive Chair

Thank you, everyone, for joining us today. I want to close with just a couple of comments, and I want to start by ending where we began, which is our focus for this company is on product and growth. We had a solid Q1 where we grew well in revenue. We had strong margin improvement. And then as you know, we raised full year adjusted EBITDA guidance, and we accelerated our time line to free cash flow breakeven by a full year to Q4 2024.

That puts us on a firm footing for today, but our deep focus is on tomorrow. We believe the size of this opportunity is massive. And while our product today is not in a position to capture all of it, that is where we're headed. We look forward to keeping you updated on the progress in the months and quarters ahead and appreciate you joining us for this earnings call today.

Operator

This concludes today's conference call. Thank you all for joining. You may now disconnect your lines.

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