

Nextdoor

Q1 2022 Earnings Call Transcript

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Operator: Good afternoon. Thank you for attending today's Nextdoor First Quarter 2022 Financial Results. My name is Tania and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. If you would like to ask a question, please press "*", "1" on your telephone keypad. I would now like to pass the conference over to our host, Matt Anderson, Head of Investor Relations. Please go ahead.

Matt Anderson: Thank you, Operator. I am Matt Anderson, Head of Investor Relations. Good afternoon and thank you for joining us today to review Nextdoor's first quarter 2022 financial results. With us on the call today are Sarah Friar, Chief Executive Officer, and Mike Doyle, 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 today's earnings release. With that, I'd like to turn the call over to Sarah.

Sarah Friar: Thank you, Matt. Hello everyone.

We had a strong start to the year, continuing our momentum from Q4 into Q1. Nextdoor is benefiting from the combined tailwinds of the rise of local and social commerce. Neighbors remain highly engaged in their communities, resulting in a third consecutive quarter of accelerating year-over-year weekly active user, or WAU, growth. This contributed to sustained revenue growth of 48% year-over-year, consistent with Q4 and Q1 ARPU growth of 12% year-over-year, driven by continued advertiser demand.

We are mindful of the macro backdrop, war in Europe, lockdowns in China, U.S. consumer price index of 8.5% and consumer sentiment at its lowest level since 2011. But we also note that in times of need, Nextdoor is a platform that neighbors turn to for help, and we are a unique and differentiated platform for advertisers of all sizes.

Our purpose is our North Star, cultivating a kinder world where everyone has a neighborhood to rely on. Neighbors come for trusted information, to give and get help and to create relationships online that can be expanded into the real world. Nextdoor is about place, facilitating online actions that result in real world outcomes. For example, joining a local running group and meeting in your neighborhood for a run, offering a kids bike at a discounted price and then selling it to parents on your block, or engaging in your community to petition for a new bus route and coming together at city hall to make the case. And we are about all neighborhood stakeholders: businesses, public agencies, local schools, churches and nonprofits, to name just a few.

The social commerce revolution is happening, and Next-door is uniquely positioned to drive and grow with this fast-paced change and consumer behavior. Social commerce is weaving buying and selling into the fabric of everyday life and through a real sense of community and connection. People want to buy products and services, based on recommendations and inspiration from people they trust. And we know that neighbors are one of the most fully trusted groups and some of the biggest influencers in our lives. From our latest inside survey, 71% of neighbors have shared a business recommendation on Nextdoor, 96% of neighbors have seen one and 72% have been influenced by one. This feeds directly into our product strategy, and improving our Nextdoor ad platform plays a foundational role.

What differentiates Nextdoor is our hyper local trusted approach to building an Active Valued Community. As the world experienced significant political and economic disruption in Q1, neighbors turned to the platform to support each other. Neighbors organized food drives and created groups to mitigate the impacts of rising inflation. They organized fundraisers, donations, an awareness initiative to support Ukrainian neighbors, locally and globally. And Nextdoor, itself, partnered with the UN Refugee Agency, a mated media ad campaign where Nextdoor raised donations and delivered higher click through rates than the UN Refugee Agency's other digital channels, underscoring the giving power of neighbors.

Our community is active and becoming increasingly active. Our product strategy in 2022 is centered on strengthening engagement through building an Active Valued Community. It's working. In Q1, over 50% of neighbors were WAU and over half of WAU were active daily, highlighting that as we move neighbors from onboarding, to monthly, to weekly, they have a high propensity to make Nextdoor a daily use case.

Everyone is a neighbor. Our continued strength in international growth underscores that this is a global opportunity, solidifying our confidence in the opportunity ahead. In Q1, international WAU grew 55% year-over-year, accelerating quarter-over-quarter from 47% in Q4 2021 and year-over-year from 39% in Q1 2021. And international engagement metrics surpass even the

US, with 55% of neighbors active weekly. In 2022, we will remain focused on driving growth and engagement in our existing international markets.

One of our key product initiatives in 2022 is Connections. Q1'22 was our first full quarter with Connections launched between neighbors, and we are pleased with the early momentum. Connections provide an important signal of who you know, allowing us to better personalize the newsfeed and notifications, and hence drive deeper engagement. It's also a long term growth driver - neighbors invite neighbors they know who are not yet benefiting from the utility and community Nextdoor provides.

Looking ahead, we plan to expand Connections to all neighborhood stakeholders, starting with small and mid-sized businesses, SMBs. Neighbors want to hear from and recommend organizations they know and trust, and they value SMBs as important members of their community. In fact, neighbors have recommended over 5 million businesses and shared over 55 million business recommendations on Nextdoor. This drives business growth. As one customer put it recently, "your recommendations are dynamite!"

Moving to our monetization efforts. In Q1, we reached an important milestone with our proprietary campaign management platform, Nextdoor Ads, making it available to all U.S. SMB customers. Nextdoor Ads is designed to provide advertisers of all sizes, including SMBs, with a simple, hyper local, self-service advertising experience. U.S. SMBs now have an easy solution they can leverage to meet their business goals - such as increasing traffic to their website or their Nextdoor Business Page, promoting a sale or discount, or communicating directly with warm local leads. The enhanced dashboard enables performance tracking, and over time, we plan to offer advice on what's working and not working across business verticals and across communities, all with a differentiated hyper local lens.

The second pillar of our ad platform investment in 2022 is Nextdoor Ad Manager, which is our proprietary ad serving platform. It will take the place of our existing third-party solutions, and will enable us to better utilize our first party data. We believe neighbors will benefit from more engaging, useful, and actionable ads, and advertisers will benefit from a higher return on investment from their ad dollars. Since the last time we spoke, we've made significant strides in solidifying the foundation of Nextdoor Ad Manager, which will enable it to scale with demand as we migrate advertisers throughout the year.

In addition to strengthening our ad tech stack, we are also improving our measurement and targeting capabilities through other first and third-party tools, delivering ever-increasing value to advertisers. We see this in our revenue outcomes. In Q1, The Farmer's Dog, a leading pet food delivery service, nearly doubled their spend quarter-over-quarter, given strong campaign performance, particularly on their conversion and cost-per-acquisitions goals, and have increased spend further in Q2.

We have made significant strides in Q1 that will set us up for continued success in the rest of 2022. Our top priorities for the year remain growing engagement, while adding new neighbors to

the Nextdoor platform and building products that deliver differentiated results for advertisers of all sizes.

And with that, I'll turn it over to Mike for our financial highlights.

Mike Doyle: Thank you, Sarah, and good afternoon, everyone. I'm pleased to report that we started 2022 on a strong note. In Q1, we saw a third straight quarter of accelerating neighbor growth with WAU reaching 37 million, up 33%, year-over-year.

Total revenue was \$51 million, which was an increase of 48% year-over-year. Even through an uncertain macro and geopolitical environment, we saw healthy demand from our advertisers, particularly on our U.S. newsfeed, where neighbors spend the most time on Nextdoor. Resilience in core verticals like home services offset some softness in verticals like financial services. We are still early in reaching new verticals and continue to see demand from advertisers at all levels of the funnel, with a slight trend towards direct response, although we are still quite balanced between performance and brand awareness advertising.

Q1 Global ARPU grew 12% year-over-year to \$1.39, driven by higher session frequency as a result of deeper engagement among our neighbors. We also saw strength in ad pricing in the quarter.

We continue to innovate to create new and useful ad formats, including keyword search ads, which we launched in Q1'22. Advertisers running sponsored search today are getting 3-4x better cost per click compared to a regular display ad on the newsfeed, which is another strong indicator of Nextdoor's high intent audience.

Adjusted EBITDA for Q1 was a loss of \$20 million, representing a 10 point year-over-year improvement in adjusted EBITDA margin. While Q1 is our seasonally lowest adjusted EBITDA quarter, cash flow from operations was negative \$6 million as we benefited from positive working capital trends.

I'll end with our outlook: The high end of our full year revenue guidance remains unchanged at \$256 million. Given the macro environment, we are providing a wider range of \$252-256 million, which is a year-over-year growth rate of 32% at the midpoint of the range. We expect full year 2022 adjusted EBITDA margin to be -18%, a 5 point year-over-year improvement, consistent with our prior guidance.

For Q2 2022, we are expecting revenue between \$54-56 million, a year-over-year growth rate of 20% at the midpoint of the range, and an adjusted EBITDA loss between \$21-\$19 million. We are excited by the scale of our opportunity and our ability to execute against it.

Thank you for joining our earnings call today. With that, I'll turn it over to the operator for Q&A.

Operator: Thank you. If you would like to ask a question, please press “*”, followed by “1” on your telephone keypad. If for any reason you would like to remove that question, please press “*”, followed by “2”. Again, to ask a question, press “*”, “1”. As a reminder, if you are using a speaker phone, please remember to pick up your handset, before asking your question. We will pause here, briefly, as questions are registered.

The first question is from Mark Mahaney with Evercore. Your line is open.

Mark Mahaney: Okay, thanks. I think I just want to ask questions on the ad products, Nextdoor ads and the keyword, search ads. So, could you describe the pace at which those are rolled out? When will those be fully available to all marketers on the platform? And I think these are just rolled out in the U.S.? Is that right? And then, kind of the--I know you’ve already talked about it a little bit but maybe a little bit more detail on the kind of adoption you’re seeing with those ad units, what is doing to--is it material enough to actually cause a spend for an advertiser to increase? Thank you very much.

Sarah Friar: Great, thank you, Mark. I’ll start, and I appreciate the question on the ad platform. I’ll start talking about Nextdoor Ads, which I talked about a little in my prepared remarks, as well. So, that is the front end to our ad platform. It’s a proprietary campaign management platform. The big milestone that we’ve been working to for the last several quarters, even longer perhaps, is to get that out to all U.S. SMB customers. So, you’re right, it’s just launched in the U.S., and now we’re turning our attention to the rest of the world. But a larger portion, clearly, of our SMBs today are here in the U.S.

What is that giving them? An easy to use, really intuitive self-serve platform. And it allows SMBs to now access Nextdoor’s ad formats beyond local deals and neighborhood sponsorships. So, now they’re getting access to more visual options, additional placements in the app, itself, and new CTAs, new calls to action. And so with that, we think it will continue to drive interest from small businesses on the platform. As you know, today, about 30% of our revenue is coming from SMBs, but we do think that, over time, this can be even bigger.

In addition to what you see on the front end of what our neighbors get to see from those SMBs, we also now have a much more comprehensive dashboard for them with better and more detailed metrics for performance tracking. And again, this is a place where we think we can really differentiate ourselves from other platforms because, for example, we can tell you what are the search terms that are happening in the neighborhood right now, in and around your business. I was talking to an advertiser who is actually on the front of our shareholder letter in the junk removal business. Not only did he want to know on his dashboard what were the metrics for the ads he was putting out there, but he was also interested in knowing what was the search that was happening in the neighborhood. Are neighbors actually looking for the types of offerings that he had. So, we think we can do something really different there.

In addition, so, if we think about just the front end, Nextdoor Ads, the back end is Nextdoor Ad Manager. And that’s going to be a full year move for us to get back onto our proprietary back

end away from some of the third parties that we've worked with over the last several years. What that will allow us to do is to take much better use of that proprietary first party data, apply data science and ML to it to make sure that the right ad is going to the right person at the right time. And when we can do that, we know we're going to have much better performance for advertisers but also, a much better outcome for neighbors. So, Nextdoor's utility will really sing.

You mentioned search. We know that neighbors are coming to Nextdoor all the time to look for recommendations and making it easier for them to find that through much more enhanced search has been a key milestone for us, as well. Today, we're now running sponsored search for advertisers, although it's still in the early days. It's going to take us multiple quarters, I think, to really get that to scale. That was the data point Mike mentioned, which is when someone does sponsored research, we get a three times to four times better cost per click, compared to a regular display ad on the newsfeed. And I think that's indicative of just the high intent audience that Nextdoor has.

So, a lot is going on, overall, in the ad platform. But I really can't underscore what a big milestone getting Nextdoor Ad launched is for us. And now, we can really get back to focusing on the back end and how we serve.

Mark Mahaney: Thank you, Sarah.

Sarah Friar: Thanks, Mark.

Operator: Thank you, Mr. Mahaney. The next question is with Eric Sheridan, Goldman Sachs. Your line is open.

Eric Sheridan: Thanks so much for taking the question. I hope everyone on the team is well. I'd like to go back, bigger picture maybe, to the user side of the equation. Can you give us a more detailed update on what you're seeing both in terms of international user growth and international engagement, how much of that you're seeing from an organic nature versus maybe some of the investments you'd like to make in growing scale on the international user side?

And then, the second part of the question would be, you've talked before about personalization, getting that increasingly right, as we move from '22 into future years. Can you talk a little bit about personalization and how you expect that to be a driver of more repeat activity and engagement on the platform, overall? Thank you.

Sarah Friar: Great, thank you, Eric. And yes, we are doing fine, although we recognize that this is a bumpy market that we're all living through at the moment.

First of all, on engagement overall, you saw the 33%, year-over-year growth in WAU for the third consecutive quarter of accelerating WAU growth. And so, we're very pleased that, clearly, the changes that we're making from a product standpoint and just as we grow, we create more content, which creates more utility and more community for neighbors.

Going to international, specifically, we saw a 55% year-over-year growth in international WAU, and that's accelerated year-over-year and quarter-over-quarter, as well, so, a very nice acceleration. And the other thing I would note is that international neighbors, from a weekly asset perspective, are actually higher than what we see in the U.S. In the U.S., about 50% of our verified neighbors are weekly active, and in international it's 55%. So, we actually see that uptick. I think some of it may actually just be cultural, for example.

In terms of what we're doing to continue to drive that engagement, it's really three things I would highlight. The first is notifications. So, we've talked about investing in our notification platform. Whenever a post is trending, whenever there's something that we know that you would want to see from a personalization standpoint, we need to get that in front of you, and we've been doing a lot of investment on getting the data science and machine learning right in that space. And it's paying dividends.

Second is Connections. So, Connections is much younger in its journey. As you know, we rolled it out, really at the end of Q4. So, Q1 was our first quarter of seeing Connections in action and, thus far, we're really pleased with the numbers that we're seeing. Our thesis was that neighbors would want to connect to people that they knew in the neighborhood and when they connect to people that they know, they're getting a form of personalized content that will engage them more. And then, of course, that drives the flywheel of notifications.

From here, with Connections, we see a couple of other ways to grow the platform. The first is to allow you to connect with other stakeholders. So, we know that neighbors want to connect with small businesses, or local businesses, for example. That was particularly true, during the pandemic, where they wanted to support local. And we see that continuing, as we get to the other side and start to see reopening happening, broadly. The other growth vector for Connections is, as I noted, when you contact sync, our ability to then say hey, looks like there's this number of people in your neighborhood that you know but they're not currently on Nextdoor. Would you like to invite them? So, a kind of guest you may know sort of action. And we know that when people invite people they know, they're more inclined to accept the invitation and to come on the platform. So, Connections has these wonderful flywheels that both drive engagement and drive growth.

And then, the third area I would point to is back to ads. And I won't go through the whole conversation again, what we're doing from a product standpoint. But we know that when ads are great content, and this is very particular to Nextdoor because we are a high use utility platform, so seeing an ad for the plumber or seeing an ad for the class at Home Depot about gardening at the moment of time when you're actually thinking about it or maybe going to ask neighbors for recommendations, those are really high engagement, high quality content. And so, proving the ad platforms will improve the content, overall.

So, I gave you the what's happening overall, what's happening in international. And then of course, why it's happening, and we think there's a lot of runway ahead. Personalization was the second part of your question. Just a lot to do there. We, frankly, we are just getting going from a

machine learning standpoint on what we can do to really personalize that newsfeed. We also want to make sure that we leave enough room for some of the serendipity, too. But you'll see us do more and more on how the app itself was unfolding to create discoverability of groups that you might be interested in, businesses that you might like and want to follow, events that are happening around you. And of course, that's just yet another way to help personalize it, based on either interest that you've told us or the propensity with which you're doing things on the app.

Eric Sheridan: Thank you.

Sarah Friar: Thank you.

Operator: Thank you, Mr. Sheridan. The next question is from Brian Nowak with Morgan Stanley. Your line is open.

Chloe: Hi, this is Chloe on for Brian. I have a couple of questions. The first would be, on--you've done a lot on product innovation, how are you seeing that driving user engagement in the ads that you are generating? How are you seeing that engagement trending? And then the second question would just be on opex. You pointed to some higher growth there in the headcount personnel. What other details are you able to provide there? Any color would be really appreciated. Thank you.

Sarah Friar: Great, thanks, Chloe. Why don't I start on the user engagement? I think you're also asking about ad engagement. So, kind of that performance. And then, I'll let Mike take the second question on personal growth, and so on, and how that flows through opex. So, on user engagement, just to remind: third quarter of accelerating WAU growth, we're really pleased with that. We think that continues to imply both improvements on the product, overall. So, notifications, connections, the evolution of the newsfeed, and then better ads. But also, retention, as well. We've not really talked about that on the call yet, but we continue to see really strong retention rates, as well.

Back at Investor Day, last year, we gave you retention rates of, after three months we see 75% retention of MAUs. After six months, 65% retention, and after two years, still more than half of new neighbors are actively engaged. And we know that that is kind of world-class. Those trends have stayed consistent and, in fact, over the past three quarters, we're seeing increasing retention, especially, for people who've been on the platform for more than a year. So, that's really a great sign that users who have come, who have found value keep coming back for more. And then I think the other point I would make there is, actually, our strongest retention trends are amongst our daily active users. So, this is also why it's important to keep moving people down that funnel from being a verified neighbor to monthly active, to weekly active, to daily active. Because when we get you to daily, your ability to keep coming back, your retention is much higher.

On the ad side, what we're seeing is, as we shift more and more of our own proprietary data into the platform, frankly, as we make the ability to self-serve so it will be much more innovative with

your creatives, and so on, make those ads more engaging, we're starting to see better and better performance. We talked about the Farmers Dog during my prepared remarks, but that's a great example of a home delivery pet food company that came to Nextdoor to test then they went full on, and they've actually been greatly increasing their spend in Q2 over Q1. And really, that's the result of much higher click through rates and really to the metrics that they measure. Nextdoor is a platform that can both act top of funnel for advertisers so, in brand and awareness driving, but also bottom of funnel direct response. That's about a 50/50 spit, maybe airing a little bit more into direct response rate, right now. And I think it's important that we can do both.

I'll stop there and maybe, Mike, do you want to take the question about headcount, personnel growth, and so on?

Mike Doyle: Sure, thanks, Sarah. And Chloe, to your question on opex growth and indirectly on margin, let me take that one. We're coming off of a year where we showed 18 points of margin improvement and we're guiding to another five-point improvement this year. And we recognize the shifting market dynamics, but we believe strongly in our investment plan. And we have to, I think I appreciate that we're earlier in our product roadmap than our peers. And our future growth is really driven by our innovating today.

We know the long-term margins in our business are well established, and we've shown that we can get there, and we can demonstrate margin improvement. And that remains our plan, over the next many years. But in the near term, we're really focused on building the team and bringing great talent on early in the year, which allows us to do more this year and sets us up well for growth in 2023. And the same is true with our marketing investments. There's benefit from having engaged users on the platform, early. And so that's why we've continued to invest behind our product roadmap, here in the first half of 2022.

Chloe: Great, thank you.

Sarah Friar: Thank you.

Operator: Thank you. The last question is from Ron Josey with Citi. Your line is open.

Jeff: Hi, this is Jeff on for Ron. Thanks for taking my questions. First, I was just wondering, on the first party measurement solution, are you--what type of--are you seeing advertisers being eager to adopt this trend, and are you nearing broad adoption, or when do you think you could get to more broad adoption on the first party measurement side?

And then, also from a macro perspective, is there any color you can give because where you might be seeing, what verticals you might be seeing weakness on the ad front or if there's been any change in the quarter and what verticals might be weaker or stronger? Thanks.

Sarah Friar: Okay, so, maybe I'll take the first question on measurement and then, I'll go back to Mike on overall, what we're seeing, broadly, in the environment. So, first on measurement. I

would say it's actually important to have both first party and third-party measurement. Advertisers need to be able to see that the campaign objectives they've put in front of you are working, but they also, I think, want to make sure you're not only grading your own homework. So, it's definitely, you need to see both. But measurement is a really top priority for advertisers, particularly because there's a lot of noise out there in the environment, overall, because of things like IDFA, Apple, fingerprinting, that's coming later in the year. And for the both of those reasons, it's incredibly important right now that Nextdoor shows off the fact that we are a proprietary ad platform, our users are logged in, and we actually have a lot of our own first party data to be able to help advertisers target, and so on.

Overall, if you're looking at, from a measurement perspective, we have started to work on things such as dropping our own pixel into a particular ad so that advertisers can track not just did a click through happen on Nextdoor but then track that attribution, more broadly. And we're seeing a lot of advertisers in the direct response category add that pixel onto the ad to check the performance. So, I would say we're already quite well developed in terms of that happening. Of course, this points to why we continue to invest in our own ad serving platform on the back end because our ability to add better and better data science and then, ultimately, machine learning on top of that to drive performance is only going to get better and better, as we go through the year. Today, over 50% of our, what we call cost per acquisition advertisers use our pixel. And that was about a 24% quarter-over-quarter increase in campaign adoption. So, doing quite well on that front.

With that, let me turn it back to Mike to talk about the broader macro perceptives, as well.

Mike Doyle: Sure, thanks, Sarah. So, as we've commented in prior quarters on the impact of the pandemic and supply chain disruption, privacy, other factors. You see now, inflation, interest rates and geopolitical unrest are the latest part of the conversations that we have with advertisers in better understanding their objectives. But I think it's important to understand or just to reiterate the backdrop that we're in a very attractive industry. Digital advertising improved by 35% year-over-year last year. And consensus for double digit growth again this year, really driven by growth in consumer time and attention spent in digital media channels. And then, specifically to our business, we've worked hard over the last two years to diversify our own revenue mix and really reducing the concentration amongst verticals and advertisers and different campaign objectives. And that's resulted in a more resilient revenue base for us today. And also, just to better understand the objectives of our advertisers and really be there when they need our support.

We are seeing a really strong performance in home services and real estate. New verticals for us like travel and entertainment are recovering and recovering broadly and for us, they're new efforts for us to pick up advertisers and see the performance that we can deliver on the platform. We have seen some headwinds in things like financial services. So, what is exciting for us is we've still been able to meet the needs of our advertisers by performing for them in a different stage, different layer in the marketing funnel. And so, thinking about shifting ad spend away

from awareness and more lower in the funnel to performance or conversion objectives and still being able to help advertisers with large budgets to spend on Nextdoor.

Sarah Friar: Great, well, thank you. Operator, I mean, I don't think there are any other questions, are there?

Operator: There are no additional questions waiting, at this time.

Sarah Friar: Wonderful. We thank you all--go ahead, if you want to try again.

Operator: Again, if you would like to ask a question, press "*", "1". There are no additional questions waiting, at this time. I will now pass the conference back over for any concluding remarks.

Sarah Friar: Okay, thank you, Tania. Thanks everyone, for your questions, today. We really appreciate it. We appreciate that all of you have a lot going on in this environment, too. And I hope that you hear how excited we are about our business, but also, we want to make sure we're staying realistic. So, with that, thank you and happy to take any follow-up questions, after the call. Take care.

Operator: That concludes the Nextdoor first quarter 2022 financial results. Thank you for your participation. You may now disconnect your line.