



Nextdoor Holdings, Inc.

Third Quarter 2022 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Matt Anderson, *Head of Investor Relations*

Sarah Friar, *Chief Executive Officer*

Mike Doyle, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Mark Mahaney, *Evercore ISI*

Ron Josey, *Citi*

Eric Sheridan, *Goldman Sachs*

Brian Nowak, *Morgan Stanley*

Youssef Squali, *Truist Securities*

Brian Fitzgerald, *Wells Fargo Securities*

P R E S E N T A T I O N

Operator

Good afternoon. Thank you for attending today's Nextdoor Q3 2022 Earnings Call.

My name is Frances and I'll be your moderator today.

I would now like to pass the conference over to our host, Matt Anderson, Head of Investor Relations with Nextdoor.

Matt Anderson

Thank you, Frances.

Good afternoon and thank you for joining us today to review Nextdoor's third 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

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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 2022 Shareholder Letter released today.

With that, I'd like to turn the call over to Sarah.

Sarah Friar

Thank you, Matt and hello everyone.

Q3 was another challenging quarter for many neighbors and customers, and more verticals and industry participants are beginning to feel the effect of volatile advertising demand. In this environment, we are focused on the areas we can control, including product development, providing increasing value through utility and community for neighbors, and helping advertisers reach their goals.

On the neighbor front, our platform remains highly engaged. We grew weekly active users, WAU, by 17% year-over-year and 4% sequentially. This strong growth was driven primarily by U.S. neighbors, with over one million net new WAU added quarter-over-quarter, and 90% of new neighbors to the platform came organically in Q3. We've successfully held onto and built upon the boost and reach that we generated from the pandemic, seeing a 41% growth in overall WAU and a 32% growth in U.S. WAU since Q3 2020, comparing favorably to peers.

We're beginning to see the benefits of this year's investment in machine learning and AI as evidenced by smarter notifications, which are getting more sophisticated and driving greater engagement each quarter. This focus on ML and AI will continue into 2023 and beyond. We are only just getting started on harnessing our neighbor data set, which when used appropriately, has the power to transform the neighbor experience through greater personalization. We expect this investment to also benefit customer performance through improved targeting of Nextdoor's high-intent audience. Notably, we had another strong quarter of sessions growth, which both exceeded sequential WAU growth and also accelerated for the third straight quarter. Strong sessions growth indicates increasingly frequent engagement and ultimately leads to more impressions supply.

Our efforts are focused directly on WAU and revenue growth. In the third quarter, neighbor initiatives included building out a native Maps feature within the Discover surface, launching Faves, which allows neighbors to connect with businesses and introducing the Election Civility Reminder to encourage civil political discourse during the U.S. Midterms.

Some of our most visible advertiser partnerships in the quarter, including our Halloween Treat Map with Purina Beggin' Brand Dog Treats, and The Big Neighborhood MeetUp sponsored by Verizon, contributed to growth in the number of neighbors on our platform as well as revenue. Revenue grew 2% year-over-year to \$54 million. While this was in line with our guidance from last quarter, it does reflect continued headwinds in advertising spend across a range of customers. For us, this is particularly notable in a few key verticals, including financial services and real estate. As you recall, this is a continuation of a trend that we first called out earlier in the year.

We did see pockets of strength in the quarter, including from new and existing mid-market advertisers. Shipt, a same-day grocery delivery service was one example of a customer who achieved both brand awareness and conversion goals on Nextdoor. Shipt realized returns well above their industry

engagement benchmarks, a result of our ability to connect businesses not just with those who are highest in intent and closest in proximity, but also with those who hold the purchasing power. In fact, 93% of Nextdoor neighbors are the primary or joint decision makers on their household purchases.

We also expanded our third-party measurement partnerships in the quarter, including with companies such as Oracle Advertising, Lucid, and Neustar to help advertisers understand the efficacy of their spend. We are continuing to make progress on developing our ad platform, a top priority and important step to delivering greater value to all advertisers. In Q3, we further simplified our self-serve campaign management tool and added greater automation to facilitate the ad creation process for customers.

We also made progress on our proprietary back-end ad platform. Q3 was our first full quarter with a selection of customer campaigns running on our own ad server, allowing us to utilize our proprietary data sets, and the early outcomes are positive.

In response to early indications of a slowdown in advertising spend, we evolved our sales strategy to increase focus on recession-resilient verticals and customers, such as healthcare and public agencies. One of the global pharmaceutical companies that ran a campaign in the quarter was Moderna. Throughout their campaign, there was consistent correlation between ad engagement and sentiment list, both across Moderna's brand and for vaccines overall, especially in states with higher vaccine hesitancy. The success of the advertisers we mentioned today illustrates that, even in light of headwinds, Nextdoor continues to perform.

In the quarter, we also enabled government agencies to purchase ads on Nextdoor through our self-serve campaign management platform. Government, another recession-resilient vertical, represents a new total addressable market for Nextdoor and is a natural fit given already high engagement from agencies.

In closing, our purpose has never been more important, especially as the global economic backdrop continues to erode. Our platform is a unique resource for neighbors, businesses, and public agencies, and we are as excited as ever about the product roadmap ahead.

We have a strong team in place, and we are well-capitalized with over \$600 million on the balance sheet to execute against our strategy. There may be volatility ahead, but we're as committed as ever to cultivating a kinder world where everyone has a neighborhood to rely on, and we remain confident in our long-term growth opportunities.

I'll now turn it over to Mike for more details on our financials.

Mike Doyle

Thank you, Sarah, and good afternoon everyone.

As Sarah noted, in Q3, WAU grew to over 38 million. This growth is a reflection of our strategy to build Active Valued Community across over 300,000 neighborhoods around the world. In particular, we are proud of the way we delivered on an unparalleled combination of utility and community to both neighbors and organizations in the quarter, from helping Charlotte County disseminate Hurricane Ian updates to neighbors in Florida to helping the California Office of the Governor and advertiser Flex Alert prevent power outages that would have impacted millions of people during the late summer heatwave.

Turning to revenue, Q3 revenue was \$54 million, an increase of 2% year-over-year. In the quarter, we saw softness in advertising spend. We also saw areas of resilience from certain verticals, including healthcare, government, and tech & telco. Spend from our mid-market customers continued to grow, and we saw a healthy mix of spend across both top and bottom of the funnel objectives. Consistent with recent quarters, the majority of advertiser spend in Q3 was on direct response campaigns, though we

also had several strong brand partnerships such as Neighborhood Favorites sponsored by American Express.

Q3 ARPU declined 12% year-over-year to \$1.41, the result of stronger WAU growth and relatively less monetized international markets and lower levels of monetization from SMB customers. This was partially offset by growth in CPMs, or delivered revenue per impression. Adjusted EBITDA for Q3 was a loss of \$18 million, representing a negative 34% margin. The year-over-year margin change is primarily a reflection of near-term deleveraging as revenue growth remains relatively less predictable.

We ended the quarter with \$604 million in cash, cash equivalents, and marketable securities. We authorized a share repurchase program at the end of May and have since repurchased over \$77 million of our Class A common stock. We will continue to evaluate our capital allocation opportunities looking forward.

I'll end with our outlook. We are adjusting our Q4 2022 revenue expectation to between \$50 million and \$52 million, a year-over-year growth rate of negative 14% at the midpoint of the range and an Adjusted EBITDA loss of between \$19 million and \$17 million. This implies a Full Year 2022 revenue outlook of approximately \$210 million to \$212 million, which is a year-over-year growth rate of 10% at the midpoint of the range.

We are expecting continued tightening in budgets from advertisers resulting in variability in near-term revenue. We are now forecasting Full Year 2022 Adjusted EBITDA margin to be negative 36%. The change in margin relative to our prior guidance is a flow-through of lower revenue. This is partially offset by the steps we have taken to streamline operating expenses, namely by reducing variable costs and keeping net headcount growth flat. Notably, we see leverage from lower marketing costs as organic neighbor acquisition remains strong. As a result, we expect Q4 operating expenses to decrease both sequentially and year-over-year.

We believe our guidance represents a prudent approach in light of current market conditions. Our Q3 results reflect progress in important business results, including neighbor growth and engagement. We remain highly focused on driving healthy, long-term WAU and revenue growth.

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

Operator

Thank you.

Our first question comes from the line of Mark Mahaney with Evercore. Please go ahead, Mark.

Mark Mahaney

Thanks. I guess two questions, please.

One on the WAU growth, and maybe just in the U.S. that million adds this quarter, could you peel that back a little bit? That's after the last two quarters in which WAUs in the U.S. kind of modestly declined sequentially. So anything in particular you think drove the kind of the change in the direction of WAU adds? Is this something that you've done? Just talk to that a little bit. Then the 90% that come through organic channels. When you talk about organic channels, what are those channels? What's most effective for you? Is it largely word of mouth that's still driving WAU growth? Thank you very much.

Sarah Friar

Great. Thank you, Mark. It's Sarah here.

So first on WAU growth, yes, we are definitely very happy to see that 17% year-over-year total WAU growth. Then to your point, the sequential growth rate, that incremental one million added, what's driving it is a couple of things. Number one, it's definitely the investment that we've made, really starting deeply this year, although for multiple years now in and around machine learning and AI. What that's doing it's allowing us to go deep within our data sets and be able to begin with notifications and personalized content and delivery. We know that when we get the right notification in front of the right neighbor at the right time, it inherently draws them back to the platform and helps them get engaged.

Beyond that, we also did quite a lot in terms of other elements of the platform that were worked on through the quarter and where we launched things. First and foremost, a much more native Maps experience. So if you think about our Halloween Map, today you don't just pin yourself on that map, but that pin becomes a post. Once we create a post, that kind of sets off the whole engine of Nextdoor because now you have something that's available to be reacted to, to be commented on, to send out a notification on, to bring more neighbors back to the platform on. So it creates that beautiful flywheel.

Second thing that we launched is Faves. We're just getting going here. As you know, when people come to Nextdoor, a very natural step is for them to either recommend a business or to ask for a recommendation for a business. I think we've seen something like over 55 million recommendations on the platform to date. Now we're very deliberately owning this word Fave because that action tends to be inherently very, very positive. We know that businesses who have a much more well-outlined page, who have more Faves, absolutely see more engagement from neighbors, ultimately resulting in more customers for them in the neighborhood.

Then finally, we have a much more simplified feed. We took the big step earlier this year, a little terrifying for a consumer platform to decide to completely re-skin itself, but now it's a much more simple way to see how to engage, how to be an active valued member of your community through posting, but also to get you to that Discover Surface to get you to For Sale & Free or to get you to your notifications. So a very big shift on that.

On your second question, which was with regard to overall organic, yes, 90% today of new neighbors came organically. What's driving that is really I would say three things. First of all, it is organic word of mouth. We have work to do to keep upping our brand awareness, but we do see, particularly outside the U.S., where we've done big campaigns or been involved in big activations, we've seen a very nice step up in overall brand awareness in countries like Canada, Australia, and somewhat in the U.K., although we're already quite penetrated there. We're in one in four households, one in three in London.

Second thing that we've done is a big investment in Connections. So Connections is our way of giving you a chance to signal who you know on Nextdoor already or who you want to hear from. Connections gives us an opportunity to personalize your feed, but also now to have you invite guests you may know. So people in your address book that are not on Nextdoor, but that warm introduction pulls them to Nextdoor, and hopefully, we convert them to become a neighbor on the platform.

Then finally, partnerships. We have started to invest more in partnerships. One way we're doing that is through our content API. That allows us to put content out on to other people's sites. A good example is a lot of the Microsoft local sites. That gives a chance to up engagement for people who already are Nextdoor neighbors, but it definitely allows for people to get a taste of what Nextdoor is all about and then again, to come to the platform to engage as a new neighbor.

So those are the three big areas of investment for us. Yes, we were very happy to see that 90% organic number because it really puts us in charge of our own destiny.

Mark Mahaney

Okay. Thank you Sarah.

Sarah Friar

Thank you, Mark.

Operator

Thank you for your question.

Our next question comes from Ron Josey with Citi. Please go ahead.

Ron Josey

Great, thanks for taking the questions.

I wanted to ask maybe a quick follow-up to Mark, Sarah. Another thing that struck out to me was sessions up 15% sequentially. People are using the platform more and more, notifications are better, Maps, Faves, etc. Can you just talk about other drivers that have led to that 15% up on sessions because I think we heard it drives more impressions, etc.?

Then, Mike, on the ad verticals, we talked about healthcare, government, tech, telco, some of the more resilient ones. Where are we on the penetration of those verticals? Is that a newer sort of focus area for the Company, and so we're just getting started? Or has the team been focused on these verticals for some time, which should help sort of stabilize revenue going forward? Thank you.

Sarah Friar

Great. Okay. I'll start on the sessions question.

So yes, sessions is a way for us to show you what that funnel looks like when you go from a new Verified Neighbor, top of funnel, to someone who comes monthly to weekly to daily. But then sessions is just how frequently people are coming back. One of the things we have seen is that our most engaged segments are coming back, and we're seeing that engaged segment grow almost 50% year-over-year. So again, this comes back to where you have strong product market fit, are you now building more utility, more avenues for communities that are bringing those people back more frequently?

I think as you know, we have a pretty high ratio of WAUs to DAUs. It's over 50%. So on average, our weekly actives come back about four times per week. Of those people coming back, they're now coming back maybe multiple times in a day, which is why the notifications platform is so important. You did call out the right step, which is we've now seen sessions growth accelerate for the third straight quarter, which is another data point about just frequency, people coming back more, that builds impressions. Then ultimately, we need to go settle (phon) those impressions in order to drive our revenue growth. It's a little harder given the macro backdrop but that's why the former is the most important thing that we can do because that's an indication of the future potential for Nextdoor from a revenue standpoint.

Mike Doyle

I'll take the second question. Hey, Ron, this is Mike, on verticals and advertiser demand.

So the three that we called out this quarter, healthcare, government, and tech and telco, as areas of resilience are a little bit different positioned on the platform. So first, tech and telco is one of the larger verticals that we had called out and it was an early endemic fit on the platform. Just as a reminder, things like home security, home services, retail, financial services, tech and telco have been amongst our top five verticals for quite some time.

Healthcare and government are new pushes for us. Healthcare, we had some great adoption during the pandemic, initially behind our Help Map. Then those advertisers have been retained. They have been pleased with their performance and continue to be spenders, but both areas are new earning pushes for our sales organization.

I'll just add too with the expansion of our mid-market products through the self-serve advertising platform, it also helps us to increase advertiser diversity just like expansion into new verticals.

Ron Josey

Great. Thank you, Mike. Thank you Sarah.

Sarah Friar

Thank you, Ron.

Operator

Thank you for your question.

Our next question comes from the line of Eric Sheridan with Goldman Sachs. Please go ahead with your question.

Eric Sheridan

Thank you so much for taking the questions. Hope all's well with the team.

Maybe just first following up on Ron's question and coming at it from a little bit of a different angle. When you think about the ad environment you're going to be facing in 2023, how do you think about elements of your existing advertiser base and how their own advertising might change cyclical versus noncyclical in what might be an environment that has headwinds versus just repositioning the company against, for lack of a better term, sort of inorganic growth?

You seem still well early enough in the monetization part of the platform phase that maybe you could be a little bit more immune to some of the cyclical natures of an advertising recession, given there probably is a fair bit of vertical and advertiser and geographic expansion to mine, to possibly mute some of the effects of that. So I want to understand a little bit better what the engagement's like with advertisers and how you're lining investments up against that looking out to next year.

Then maybe one quick follow-up. The message was clear all this year that you were staying in investment mode, irrespective of what happened on sort of the revenue environment. How should we be thinking about lapping the investments that we're seeing this year, and elements of yield or output on those investments, especially around bottom of the funnel advertising and platform growth that could cause leverage in the operating model in '23? Thanks so much.

Mike Doyle

Hi, Eric, this is Mike. Let me take the first question.

What gives us optimism about our ability to attract and retain new advertisers? I think first and foremost, as we called out in prior calls, we're able to perform across the marketing funnel. In difficult climates like we're currently in, we've been able to help our advertisers to pivot or modify their campaigns to be able to continue to spend and attract the demand that thereafter, shifting from things like brand campaign to brand awareness to direct response. That's something that we continue to do and it's also a benefit of our managed advertiser model.

So we have those direct relationships and conversations with our large enterprise customers, and we'll continue to lean in there. Additionally, with the expansion of our mid-market product, is being able to attract advertisers of different scale—and different scale economically. So whether they're large enterprises with a high-touch model behind our managed business or smaller spending in the mid-market, that helps us to attract and retain demand.

Then third thing I'll call out is what we have seen is great progress in retention of advertisers. So while we've had revenue headwinds, they've largely come from advertisers reducing spend or campaign size in reaction to challenges in their own business. Where I think what gives us optimism longer term is our ability to retain those advertisers in having delivered for them the performance thereafter on the platform.

Sarah Friar

Then in terms of the second question, I'll let Mike dive in on specifics but just broad-based how we think about it.

We know we're building a very unique platform with Nextdoor. We are the only neighborhood platform, the only one doing local at scale. On top of that, we have real neighbors at real addresses, we have this power of proximity, and we have this great kind of community also high-intent audience feel. So for advertisers, it's a very potent combination done well. As we think about what that means for investment next year, we do absolutely want to keep investing on both sides of our network, both to grow new neighbors to the platform and keep engaging them and then also to keep building out our ad tech stack.

On the former, we are at an all-time high in terms of organic neighbors coming to the platform, 90% as I said earlier. That's giving us a lot of leverage on marketing. Then from an ad tech stack, we're slowly moving through—not slowly, hopefully quickly moving through the build to our own proprietary platform. We're seeing the benefit when we do that. The fact that mid-market was a real highlight for us is a build that we've done through 2022. The fact that we are starting to see more self-serve ability should be a big unlock in 2023.

Of course, that incremental revenue, when we drive it, should drive a lot of leverage through the model. At the same time, we have \$600 million plus of cash sitting on the balance sheet, so we want to make sure we are investing appropriately against that big opportunity. So it's definitely a balance for us as we think about how we go into 2023, and how we balance the upside potential on revenue, assuming the macro environment begins to settle down, and how we keep investing against our opportunity while being mindful of the pretty tough economic conditions that I think everyone is waiting through at the moment.

Mike Doyle

Yes. I'll just add, I think the investment we've made over the last 12 months has really resulted in us driving WAU and driving engagement. So thinking about how that provides leverage to the model is giving us a larger unique audience for our advertisers and more supply that they are after. That's ultimately where leverage will come is in top line growth in our model. We've also had a very tight focus on

controlling our costs, which will also help leverage into 2023. We've had a flat headcount growth in Q3 and expect the same in Q4.

So then continuing to experience leverage from the growth in audience and engagement with control on the cost side of the P&L is where we should see leverage in '23.

Eric Sheridan

Great. Thank you.

Sarah Friar

Thanks Eric.

Operator

Thank you for your question.

Our next question comes from Brian Nowak with Morgan Stanley. Please proceed.

Brian Nowak

Great. Thanks for taking my questions. I have two.

First one, can you just give us an update on overall advertiser growth and sort of the progress you've made on bringing new advertisers on board as opposed to increasing spend per advertiser, and just how you think about 2023, increasing the advertiser base in what could potentially be a more challenging macro backdrop.

Then the second one to kind of go back to the point on investment and sort of cash balance. If we look at the Q, there's quite a bit of unrecognized stock comp to come through the next 2.5 years, like \$174 million, definitely higher than we have. How are you thinking about sort of managing through the stock-based comp dilution that could flow through for the Q? Thanks.

Mike Doyle

Yes. So let me take the first question on number of advertisers.

So when you think about the three segments of which we're attracting advertisers, enterprise, mid-market and SMBs, the biggest part of revenue, the majority of revenue comes from enterprise and mid-market. There, we have between—a little less than 1,000 advertisers active on the platform. It's a big push to bring new logos onto the platform, and this helps to drive demand where we're seeing some headwind in spend per advertiser, which I think was the second part of that first question. And where we see great result is in retention of advertisers, and that gives us the opportunity to increase spend in the future when their businesses and their marketing budgets allow, but there is some headwind in spend per advertiser.

Then on the SMB side, we have around 35,000 to 40,000 active SMBs at any one time with our paid advertising products. We're excited about the potential there to drive penetration more deeply, given we have more than 3.5 million businesses that have claimed their profile page on the platform, and that is an active and engaged base to which to market our SMB products.

Your second question was on stock-based compensation and leverage there. So really, our stock-based compensation is driven by a couple of things. One is in growth of the team. We did expand our team size

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in the first half of the year, but as I just have mentioned, we've held headcount flat in Q3 and anticipate doing the same in Q4. The second part is also about the composition of that growth and team in the first half and relative seniority of those new additions. So we were adding some new critical and senior roles to the team that had impact there.

Then the third piece is just as a public company. So our stock awards, particularly initially out of the gates as a public company were higher cost in nature versus the ones that we had as a private company. Then finally, I will just add that our buyback, and so we have put to work \$77 million of our cash in acquiring shares in the market under our share repurchase program, which helps on dilution, taking shares out of the market.

Brian Nowak

Great. Thanks.

Operator

Thank you, Brian.

Our next question comes from Youssef Squali with Truist Securities. Please go ahead.

Youssef Squali

Great. Thank you very much.

Let me try a couple. One, and I apologize if this was answered, I just joined. This is maybe for Mike. Can you maybe just give us the growth by different segments, SMB, mid-market, and enterprise during the quarter relative to maybe the prior quarter, self-serve versus not? Just maybe to Eric's question about 2023, I know you're not guiding to 2023 yet, but what base case scenario are you baking into your plans for next year as you kind of budget the cost side of the business, etc.?

Really just trying to get a sense of, as we think through your path to breakeven and ultimately profitability, etc., has that path been extended since say 12 months ago? Has it shortened? I know there are a lot of moving parts, and there is uncertainty, but as you plan for next year, how are you thinking about it? Thank you.

Mike Doyle

Hi, Youssef, this is Mike. Let me take those one at a time.

So I think your first question was on segment growth. We haven't provided that level of detail, but what we're pleased with is the rapid growth we're seeing in the mid-market group of advertisers where we have the ability to improve diversity of advertiser spend, which helps to de-risk revenue and also improve ad performance. We're continuing to do that in the current quarter, and I think there's a huge amount of runway in front of us. So we'll comment on that in future periods, but all three - enterprise, mid-market, and SMB customer segments have huge potential in front of us and we have a lot of penetration to drive with our go-to-market. So that's one.

I think the second one was on our path to breakeven. So we're not providing guidance yet on '23 and beyond, but I think what we have commented on and feel strongly about is the leverage in our business really comes from scale of revenue. So in the climate that we're currently in, where we're focused is on things that we can control, which is on neighbor growth, the acquisition of new active engaged businesses on the platform, and overall engagement.

So with that larger unique audience, with that increase in supply, we feel great about our ability to deliver value to advertisers with a well-tested model and one that has attractive long-term margins. That said, we also espouse and feel strongly about the need to show financial discipline and demonstrate leverage in the model. It's something we have been able to do for the last several years and in the current climate. It's not going to happen in 2022, but it's something that we plan to continue to demonstrate is showing that gradual leverage on a path to breakeven, and eventually the profitability and the long-term margins we see from our peers.

Youssef Squali

Okay. That's helpful color. Thank you.

Sarah Friar

Thank you, Youssef.

Operator

Thank you for your question.

Our next question comes from Brian Fitzgerald with Wells Fargo. Please go ahead, Brian.

Brian Fitzgerald

Thank you.

We were hoping you could speak a bit to the Oracle partnership and some of the others on the attribution and measurement side, first at a high level and then maybe more specifically. Should those appeal predominantly to SMBs in the self-service space or more to the mid-market and enterprise? Or maybe some SMBs aren't as well-suited to leverage the caliber of the insights of those relationships. Thanks.

Sarah Friar

Great. Thanks, Brian, for that.

First of all, from an ad platform perspective, I'm actually going to take your question to just remind everyone kind of—I think of it as front end, which is the campaign management piece. That's where we're heavily focused right now on self-serve and then ultimately ad formats and so on. There is the back end, which is our ad manager where we're now moving more of our ad campaigns over, our advertisers over. That way we can take full advantage of our proprietary data set. Then in the middle, and I don't know if that's quite the way to visualize it, is how do we API out of our ad platform to work with third parties.

One group of third parties is clearly on the measurement side. So that's where we do work with Oracle, Lucid, Foursquare and so on, and where we've been able to show some really good outcomes from advertisers generally speaking, in terms of showing that Nextdoor can outperform benchmarks. So some of the examples that we gave in the quarter, we talked about Shipt, for example, is our local grocer who's definitely seeing better performance in terms of lead generation and ultimately conversion on their website. We have also seen—in prior quarters we've talked about folks like Albertsons and so on, where we can show our ability to drive online to offline purchasing behavior well ahead of other benchmarks.

So it's again, how do we lean into the elements of Nextdoor that make it truly unique? I'll give you one other example, which is working with Lucid we were able to show the effectiveness of our solutions to an

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insurance company that ran a national brand awareness campaign to help them understand through a brand lift study that we were able to lift the overall brand recognition that they were seeing, and we were doing that to almost a 90% confidence level. So these are ways where we shift away from "grading our own homework" to showing that Nextdoor is a very performant platform and a very unique platform, utilizing that third-party measurement.

The other places where we'll use APIs going forward might be for very differentiated ad formats. Maybe we don't build them ourselves, but we want to have them available on our platform. You could also imagine us working with other forms of supply, maybe more programmatic over time as well. So that is a core part of the development of the ad stack, and I'm glad that you asked the question on measurement because often people don't get into that.

Brian Fitzgerald

Thank you, Sarah. Appreciate it.

Sarah Friar

Yes, and actually, sorry, there was the second part of your question, sorry, was by channel and who will make most benefit of that.

It definitely tends today to be a more sophisticated scale of advertisers. So larger enterprises, definitely agencies, and then to some degree, mid-market. That said, SMBs want to know that there's performance there for them, too. They inherently can see Nextdoor working for them. When I go talk to SMBs, I just had a back and forth with one yesterday, and she was talking about the fact that my post had driven a number of people to give her a call to place orders just in the last week.

So there's this kind of inherent performance that small small businesses see on Nextdoor. The question is how do we take that and now help them understand it in a more sophisticated way, but also in a kind of an easy to understand and packaged way. So if you recall, I think last quarter, we talked about the shift we've done with our Nextdoor ads offering to give SMBs not just easier ad formats, not just faster click to be on the platform, but also to finally start giving them some of these insights. So frankly, other quite sophisticated platforms, they don't give them a lot of insight.

But the key for them is always leads, can we prove that we're giving them the neighbors that are going to come into their store or buy from them or buy their services or whatever, that is the key. So the more we can connect that dot, I think the more and more Nextdoor is going to be seen as the platform you have to be on as a local business.

Brian Fitzgerald

Thank you.

Sarah Friar

Thank you.

Operator

There are no questions waiting at this time, so I'll pass the conference back over to Sarah Friar, Nextdoor's CEO.

Sarah Friar

Great. Thank you, Francis, and thank you everyone who joined the call. We really appreciate your questions.

While we delivered on our Q3 revenue and beat on EBITDA expectations and definitely build momentum in areas such as the mid-market, we know we have work to do to continue to grow Nextdoor through a global macro environment that continues to be very challenging. Nextdoor is a unique platform. As I said, over and over on the call, we are local, we have organic-driven growth and engagement, we're not behooved to others to drive that, we have real neighbors at real addresses, and we really have an incredibly high intent audience.

So with that we're laser-focused on what we can control. First, we need to beat the drum on the importance of local for neighbors, businesses, and agencies, make sure that everyone recognizes that Nextdoor equals neighborhood, and in building that brand awareness really provide the utility and community that our customers demand. Second, we want to continue to invest in our platform development initiatives, things like Maps, things like our ML/AI platform, things like Faves and Connections, and of course, Vitality, a place where I think Nextdoor is leading edge. Then third and finally, we want to continue to iterate on our monetization capabilities, that three tiers of the ad platform that I was just describing to you. While we're seeing near-term revenue and EBITDA variability, we are focused on getting back to higher growth and margin improvement while also investing in the long-term opportunity that's afforded to us by the strength of our balance sheet.

So with that, thanks so much for tuning in today, and we look forward to talking to you in about three months. Take care now. Bye-bye.

Operator

That concludes the Nextdoor Q3 2022 earnings call. Thank you for your participation. You may now disconnect your line.