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Presentation

Operator

Good afternoon. Thank you for attending the Q4 2023 Nextdoor Earnings Call. My name is Matt, and I'll 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. [Operator Instructions] I would now like to pass the conference over to our host, John Williams, with Nextdoor. John, please

go ahead.

John T. Williams

Head of Investor Relations

Thank you, Matt. I'm John T. Williams, head of investor relations. Good afternoon, and thank you for joining us to review Nextdoor's fourth quarter and full year 2023 financial results. With us on the call today are Sarah Friar, Chief Executive Officer, Nirav Tolia, Chief Executive Officer-designate, 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 Q4 2023 Shareholder Letter released today. With that, I'd like to turn the call over to Sarah.

Sarah J. Friar

CEO, President & Chairperson of the Board

Thank you, John T.

Our Q4 results demonstrated renewed strength. We added a record number of organic Verified Neighbors for the second straight quarter, and ended the year with more than 88 million Verified Neighbors, growing 13% year-over-year. Q4 WAU grew to 41.8 million, up 5% year-over-year and 3% sequentially. We expect this sequential growth in WAU to continue into Q1. Users remain active and engagement is high on our platform. Impression growth was strong. Session depth, which reflects the number of ad impression opportunities during each user session, increased by 36% year-over-year and accelerated versus Q3, ending the year at a record level.

Our growth algorithm is simple: continued user and engagement growth, new advertiser growth boosted by our self-serve capabilities, increasingly durable advertiser retention as more demand is delivered via our proprietary ad server, and a reduced cost base to better enable both growth and positive free cash flow. Our progress wasn't limited to user growth and engagement metrics.

We're leveraging AI and machine learning across our platform in a variety of ways, from using our local knowledge graph to help businesses reach their target audiences to improving notifications and optimizing ad delivery, to enhancing platform vitality. As we noted in our recently released 2023 Transparency Report, 26% of neighbors used the revised language suggested to them by generative AI to make their posts more constructive, and neighbor feedback suggests very high levels of satisfaction with our AI-based Kindness Reminder. So it's very clear that even at this early stage, the AI tools we've developed are having a measurable impact on our user experience -- driving positivity.

We also made progress delivering advertiser value and reducing advertiser effort. For the full year, we retained 90% of our top 50 customers. We saw continued strong performance from mid-market and SMB customers, many of whom have begun to see the benefits of our owned and operated ad platform and are benefiting from the performance optimizations we can now make.

We get a lot of questions about our specific vertical exposures. For clarity, in FY '23, our top three advertising verticals were home services, retail, and tech and telco, though the contribution from each can vary greatly from quarter-to-quarter and year-to-year. We continue to decrease our vertical concentration, and have seen increasing contributions from smaller but faster-growing emerging verticals like healthcare and government and non-profit, which have more than doubled their share of the pie over the last two years.

On the technology side, we made ongoing progress on our transformative Nextdoor ads platform. In mid 2023, we achieved our goal of having 100% of ads from SMB advertisers served via the Nextdoor Ad Server and we are pleased to say that almost all of our self-serve mid-market customers are now fully migrated. We expected this move to start to tip our mid-market business more and more towards self-serve and that is happening. This should drive both new revenue opportunities but also improved advertiser performance and revenue delivery.

Our ads platform is the foundation for delivering advertiser value and increasing ARPU growth through improved revenue yields.

We're now beginning to leverage our unique local knowledge graph and help advertisers deliver increasingly relevant and personalized ads to neighbors on our platform. Simply put, we believe it's a game changer for Nextdoor, and will prove to be a "must-buy" solution for advertisers of all sizes.

Switching gears. As many of you have already seen, our board authorized a \$150 million increase to our existing share repurchase program. Matt will have more to say about this in his remarks, but this is a clear demonstration of our confidence in our business and opportunity.

Our focus on bringing new neighbors to the platform, growing engagement, and building powerful solutions for our advertising customers hasn't changed. Nor has our approach to making these things happen -- our Q4 results are a demonstration of how we continue to evolve and improve -- an approach that will continue in 2024 and beyond.

I'd now like to take a moment to discuss our recent announcement that I'll be stepping down as CEO of Nextdoor. We've made great progress over the last five and a half years, scaling the business, tripling the number of Verified Neighbors on the platform, raising capital, taking care of our people, and going public -- while always remaining true to our purpose and mission. I will be a neighbor forever, and am enormously grateful for the opportunity to lead such a wonderful group of people here at Nextdoor.

Having said that, I'd like to introduce, or reintroduce for some, Nirav Tolia as Nextdoor's incoming CEO. Nirav is well-equipped to lead Nextdoor going forward. He co-founded the company and is a current board member, served as CEO prior to my joining, and knows it well. He and I have had a very close working relationship and with a growing user base and strong advertiser momentum, the time is right to put the company back into his hands.

Nirav is here with us today and will participate in our Q&A session, and I will be staying on into Q2 to support him and the team and to ensure a seamless transition. I have also signed our 10-K, which was filed earlier today.

With that, I'll now turn it over to Matt.

Matt Anderson
Chief Financial Officer

Thank you, Sarah, and good afternoon everyone.

Q4 revenue of \$56 million grew 4% year-over-year. WAU grew sequentially and record session depth drove stronger-than-expected impression growth. We expect both of these trends to continue in Q1. From

a revenue perspective, self-serve customers continued to grow and now contribute more than 40% of total revenue. Additionally, revenue in our home services vertical grew 16% year-over-year in Q4, a recovery from the year-over-year decline we experienced in Q3.

Growth in self-serve customers and revenue continued to outpace growth from our managed accounts. This demonstrates our progress driving adoption of our Nextdoor Ads Manager, which serves as our self-serve interface for advertisers of all sizes. Further, as of mid-February, 100% of Nextdoor Ads Manager impressions demand is serving on our Nextdoor Ad Server. Given timing during the quarter, this will not immediately impact Q1 revenue. However, it does represent a key milestone as we work to deliver durable advertiser value and growth in the quarter ahead.

Q4 ARPU of \$1.33 was stable year-over-year. We were encouraged by two particularly notable trends in Q4. First, mid-market advertisers increased their average spend levels by more than 125% year over year, signaling a return to healthier budgets among this set of customers. Second, neighbors continue to increase the amount of content they view in each session -- as Sarah noted, impression opportunities during each user session increased by 36% year over year. Importantly, this growth occurred without any changes to our ad load. At the same time, these areas of progress were offset by mixed performance from certain enterprise advertisers and verticals, including financial services and travel.

Q4 adjusted EBITDA was a loss of \$14 million dollars, representing a negative 25% margin and a 7 percentage point improvement year-over-year. This margin improvement reflects lower personnel-related expenses following the completion of our cost reduction plan in Q4, and continued reductions in marketing expenses as organic neighbor acquisition remains strong.

We ended the quarter with \$531 million in cash, cash equivalents, and marketable securities, and zero debt. With that in mind, and as Sarah mentioned earlier, we are pleased to announce a \$150 million increase in our share repurchase program, as well as our intention to immediately begin to deploy the remaining \$23 million on our prior authorization. We see two primary benefits from this plan. First, we believe our shares are significantly undervalued and see a compelling potential return on our capital. Second, instituting this buyback program allows us to minimize share count dilution.

Now on to our outlook and financial guidance.

For the full year 2024 we expect our revenue growth rate will exceed our 2023 revenue growth rate, and our adjusted EBITDA margin will improve by approximately 10 percentage points year-over-year.

For Q1, we expect WAU to increase quarter-over-quarter, driven by continued strong organic growth in Verified Neighbors.

We expect revenue will be in the range of \$50 million to \$51 million, and we have seen increasing momentum as the quarter has progressed.

And we expect adjusted EBITDA to be a loss of approximately \$20 million. This increased loss relative to Q4 is primarily attributable to the normal seasonal decline in revenue from Q4 to Q1. We continue to see leverage from lower personnel-related expenses; however, this is offset by a sequential increase in business and neighbor marketing initiatives that we do not expect to scale meaningfully beyond Q1.

Now before we close, a few additional notes on our guidance.

We expect further increases in session depth will yield strong growth in ad impression opportunities, enabling full-year 2024 revenue growth rate above 2023 levels.

Additionally, through a combination of our newly increased share repurchase program and our recently implemented net share settlement for our employee RSUs, we expect to limit share count dilution over multiple years.

Finally, and most importantly, we enter 2024 in a good position: with a streamlined cost structure, healthy balance sheet, neighbor growth momentum, increasing depth of engagement, and progress against our ads platform milestones.

As Sarah noted earlier, our growth algorithm is simple: user and engagement growth, advertiser growth and retention, and a reduced cost base. We remain committed to driving growth and positive free cash flow, while delivering value for neighbors, advertisers, and shareholders in 2024 and beyond.

As we wrap up our prepared remarks, I'll turn it over to Nirav for a final word.

Nirav Tolia

Thanks Matt, and good afternoon everyone. I'm delighted to return to Nextdoor. I love this company, and am excited about the fantastic opportunity ahead of us. I want to acknowledge Sarah for her inspired leadership and incredible contributions to our growth and progress over her five plus years as our CEO, so thank you Sarah.

My plan for the next few weeks is to listen and learn. Our purpose and mission here at Nextdoor are unchanged, and while we'll naturally see some refinement and evolution in our product strategy moving forward, we'll also continue our work scaling our ads platform and driving a more personalized neighbor experience. Both of these efforts are amplified by AI, and are just starting to be visible in our results.

I look forward to engaging with all of you in the coming months.

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] First question is from the line of Eric Sheridan with Goldman Sachs.

Eric James Sheridan

Goldman Sachs Group, Inc., Research Division

Thanks, Sarah, for all the insights and time and helpful to business in terms of understanding in at the last couple of years. Maybe just sticking with one big picture theme for my question, then I'll turn it back. Just users, you're seeing a lot of momentum coming out of 2023 and implying that momentum continues into Q1. Can you talk a little bit about what you're seeing broadly in terms of the user funnel and conversion of users into engagement coming out of last year? And how you think about the mix of investments that are key to keeping that momentum and some of the execution pieces as you look out into 2024?

Sarah J. Friar

CEO, President & Chairperson of the Board

Absolutely. Thanks, Eric, and it's been certainly fun getting to know you better. On the user front, diving in right at the top of the funnel. So first of all, we've had really sustained organic Verified Neighbor growth for a second consecutive quarter, hitting new records. And that's effectively all of the VNs that are coming today are coming in that organic way, effectively at no cost. Why is that sustainable? Well, if you remember, even prior to a lot of the investment we have done recently in areas like digital invites, we have always seen a baseline of adding about 2 million Verified Neighbors to the platform. So we continue to expect the base to continue to grow at that rate, but then the new investments that we have in areas like digital invites to be strong again in Q1 and as we go through 2024.

In terms of engagement though, it's not just about getting neighbors to the platform, but it's obviously showing up for them and making sure that they're getting value when they arrive. And so we've been driving contributions, sometimes that's through features like events, for example, for sale and free recommendations. Like how do we keep connecting that loop between neighbors and businesses, for example? This is a place where we have done a lot of investment in ML, as you know, to make sure that, first of all, when you come to Nextdoor, you're getting more and more of a personalized feed. But also from a notifications standpoint that we're able to send you a notification at the right time through the right neighbor that draws you back on platform into the app itself.

Our WAU have stayed very, very engaged. On average, a Weekly Active comes back about 4 times a week. So in effect, our WAU to DAU ratio have stayed in that 50%-ish range, and we feel very good about that. Beyond that, in terms of other areas of investment as we go into next year, it's all about how do we help people discover and discuss, how do we help them continue a commercial journey of finding that business that they want to work with. And then finally, we are investing in communities. We do see this as both a new way to bring in new Verified Neighbors but also to give people a better sense of who or what their neighborhood is. Sometimes it might be the building that you're living in, sometimes it might be a cul-de-sac, sometimes it's a whole DMA, and so making sure we can flex real-time messaging is something that we rolled out in Q4, and we're already starting to see a good pickup because now, of course, people can do simplified just messaging within a building or they can go broader into the new speed and experience all the Nextdoor has to bring.

Operator

Next question is from the line of Ron Josey with Citi.

Ronald Victor Josey

Citigroup Inc., Research Division

Sarah, you'll be missed. Nirav, welcome back. I wanted to ask about your commentary on the ad server now that 100% of U.S. SMBs, I think, are using the ad server. And I think, Sarah, you might have

mentioned the game changer. Just talk to us about the benefits here. Is this what helps drive the adoption of self-service ads overall? And while we're on monetization here, maybe help us understand some of these verticals. So home services returning to growth, I think, was pretty notable. I would love to hear your thoughts as to the drivers there.

Sarah J. Friar

CEO, President & Chairperson of the Board

Yes. Absolutely. So as you know, we've been in investment mode with our ad server. And we feel like we're now really starting to cross the chasm on getting a large number of overall advertisers on Nextdoor onto our own owned and operated ad tech stack. Why is that important? It means, #1, we can leverage our own proprietary data. #2, it allows us to better optimize on things like latency because we're not having to do a call outside of our own platform into someone else's. And then third, it starts to allow us to do better performance optimization and also better targeting. And that's before we even start to build new ad formats and so on. So everything should speed up from here.

As you noted, it's been a journey where we started with SMBs. So midpoint of last year is when SMBs were fully on us, both being able to create campaigns using Nextdoor Ad Manager and have it served through Nextdoor Ad Server. And you can see from both our Q3 and now our Q4 results the growth rates that we're seeing in SMB say that the ad server is working. That's great news.

The work of Q4 was to move the mid-market, but particularly the self-serve portion of the mid-market over. And that is now also completed. Why that's important is we've always thought that this would be a big new opportunity for us to go out to mid-market advertisers who want to just do something easy, self serve, but couldn't do that previously on Nextdoor. So it effectively unlocks a new segment of the market for us. Of course, as the journey continues, the focus for the rest of '24 is our managed clients who can be large enterprises, they can be ad agencies or they can be mid-market. And you'll hear us more and more begin to talk about the platform as self-serve and managed as we look forward.

Beyond that, you asked I think about verticals as well. So we are seeing some green shoots in the home services vertical. Matt said it in his prepared remarks home services grew 16% year-over-year, which is good to see. I think other verticals that have remained strong for us are areas like retail, tech and telco has remained very, very strong. And we've, of course, been investing in new verticals like healthcare, government, non-profit and professional services. There is still -- they're smaller still, but they're becoming more mighty as we get some reps under our belt, get some good case studies and the sales team really knows how to go out and sell them.

It's still tough for them in areas like financial services, travel as well. We do expect recovery there. And the good news is the advertisers who are in those segments have tended to stick around. When they do have spend, they bring it back to Nextdoor. However, they haven't had a lot to spend relative to where they were maybe 2 years ago. So that remains a big focus for us is both keeping those advertisers happy, so when they have money, they'll come back to Nextdoor, making sure that the current advertisers continue to spend more as the environment improves, and then bringing on new logos, bringing on new segments, like mid-market self-serve. All in all, it should give us some build as we go through 2024, hence Matt's guidance that we expect '24 revenue to grow faster than '23 revenue.

Matt Anderson

Chief Financial Officer

Yes. And Ron, I'll just add 2 things. First, on the self-serve side, as we really think about how to measure success and progress there, I think one of the things that's most exciting is the overall growth in advertisers, really pleased with the new logos in the quarter, and that's being driven primarily from self-serve end market customers. So it's one piece in all the progress we're making, it's an area that gives us confidence into 2024.

And then from a vertical perspective, I think Sarah hit all the key points. The one thing I'd add that also is really attuned to and seeing progress on is increasing diversification. We've talked about emerging verticals like healthcare over the last couple of quarters. But as a reference point, that's now as big as

financial services from a vertical perspective. So that shows how far we come. And certainly, as the market evolves and services we still believe is endemic, but the fact that we're diversifying in that way at that scale is something that we think positions us relatively well in 2024 versus a year ago.

Operator

Next question is from the line of Brian Fitzgerald with Wells Fargo.

Stanislav Nikolaev Velikov

Wells Fargo Securities, LLC, Research Division

This is Stan Velikov for Brian. First, can you remind us what the normal seasonality in net member additions? Is it fair to say that 2023 was an outlier to the general pattern you've observed in prior years? And then second, session depth continues to outpace WAU growth. How much runway do you think there is left for AI to drive this metric over the longer term?

Matt Anderson

Chief Financial Officer

Yes. Stan, you mentioned seasonality. I had a little bit trouble hearing you. Would you mind clarifying which metric you're referencing?

Stanislav Nikolaev Velikov

Wells Fargo Securities, LLC, Research Division

Seasonality in WAU, basically net new member additions.

Matt Anderson

Chief Financial Officer

Got it. Yes. So from a user perspective, we see more of our seasonal moves happening intra-quarter, specific events happening through the quarter. One thing as we look in Q4 is we've been able to counteract what have been seasonal declines in activity around core holiday periods, for example between Christmas and New Year. I think the most important point for the quarter though is what Sarah mentioned, which is the sustained and accelerated growth in new neighbor acquisition. That ultimately helps to neutralize any intra-quarter seasonality we see. Now as we look ahead to Q1, as we mentioned in our comments, we continue to see some nice boost there. Sometimes that's affected by weather and other external factors. But broadly speaking, there's less seasonality as it relates to our user base, and that's why we continue to be focused on things like top of funnel growth.

Sarah J. Friar

CEO, President & Chairperson of the Board

And then on the session depth, let me take that. So thank you for calling it out. We're really pleased with what we saw in session depth. It grew 36% year-over-year. What is driving session depth? A big part of it is making sure that when a user hits the news feed, that first and foremost they're seeing relevant articles, relevant posts, relative content to them. And so this is a really excellent place for us to be investing in both AI to be able to do a deep dive on content tagging and so on, and to do it at a significantly faster and cheaper rate than what we may have been doing previously with ML and actually using just human tagging.

It also allows us to keep pushing more and more relevant content to the top of that news feed. So there is someone who's coming back perhaps frequently multiple times a day, maybe coming back multiple times a week is, again, continuing to see relevant content in their news feed. It also is important that, that same relevance is true in our notifications. And this is a place where we put a lot of work just in the last, call it, 3 to 6 months to go back to notifications and make sure that we are getting the right notifications to the right person at the right time.

We're starting to do a little bit more experimentation with digest, so thinking back to rather than just new and trending notifications, areas like Events, areas like For Sale and Free, where we have incredible

richness of content but getting it front of the user can be hard in a platform that's tended to be a little bit more about serendipitous discovery. So we're doing a lot of work in that arena too. Of course, AI really helps in all of this. You have to have the data. We own the local knowledge graph, and this we think is an incredible differentiator for Nextdoor as we look forward.

Operator

There are currently no further questions registered. [Operator Instructions] There are no additional questions waiting at this time. So I'll pass the call back to the management team for any closing remarks.

Sarah J. Friar

CEO, President & Chairperson of the Board

Thank you, Matt. Thanks, everyone, for joining us. We're super pleased with the quarter that we just put up showing year-over-year growth across all of our key metrics: WAU up 5% and growing sequentially, revenue up 4% and a second straight quarter of record organic VNs being added. As you saw, there's lots of levers that we can pull at all stages of the user funnel. Top of funnel, new users joining us organically is at the highest rate ever. Mid-funnel, we continue to see neighbors be active weekly. And then bottom of funnel, a session depth number up 36% year-over-year. So lots of places to really drive overall growth.

We didn't talk about it much on this call, but we did see strength scenarios such as international, our ad agency partnerships.

And of course, the push in areas like Neighborhood Faves continues to up the number of claim business pages which is really fertile ground for upselling of advertising.

And we expect to see verticals like financial services and real estate begin to improve hopefully as the overall macro backdrop is improving.

AI, we've talked a lot about it on this call. We know it's really top of mind for all of you, generally speaking. Nextdoor is the local knowledge graph. We have incredibly well labeled data, high-intent audience of real people and neighborhoods everywhere.

And then finally, we are laser-focused on growing WAU and revenue from here. Brand awareness and top of funnel product development efforts are playing a really key role in bringing new advertisers to the platform, including that self-serve mid-market group. We're investing in our platform. We're lucky enough to be building a modern ad tech stack right at the point in time when a platform shift is happening, so we can embed all of the goodness of AI right from the get-go. And then finally, we want to keep iterating on improving our monetization capabilities for advertisers of all sizes.

So with that, thanks for all your support through the years for me too. Nirav, will be taking the reins as we move into our Q1 earnings -- next earnings call, but I will be here to make sure that the transition is seamless and continue to work with the team. And of course, as you all know, I will continue to bleed green. Be a good neighbor, and hopefully I'll see you out there in the neighborhood.

Operator

That concludes the conference call. Thank you for your participation. You may now disconnect your lines.

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