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Call Participants

EXECUTIVES

Sarah J. Friar

CEO, President & Chairperson of the Board

Michael James Doyle

CFO & Treasurer

Matt Anderson

Head of Finance & Strategy

John T. Williams

Head of Investor Relations

ANALYSTS

Brian Nicholas Fitzgerald

*Wells Fargo Securities, LLC,
Research Division*

Chloe Anne Currie

Morgan Stanley, Research Division

Eric James Sheridan

*Goldman Sachs Group, Inc.,
Research Division*

Mark Stephen F. Mahaney

*Evercore ISI Institutional Equities,
Research Division*

Robert Charles Zeller

*Truist Securities, Inc., Research
Division*

Presentation

Operator

Good afternoon. My name is Jordan, and I'll be your conference operator today. At this time, I'd like to welcome everyone to Nextdoor's Third Quarter 2023 Earnings Conference Call. [Operator Instructions]

You may now begin your conference.

John T. Williams

Head of Investor Relations

Thank you, Jordan. I'm John T. Williams, Head of Investor Relations. Good afternoon and thank you for joining us to review Nextdoor's third quarter 2023 financial results. With us, on the call today, are Sarah Friar, Chief Executive Officer; Mike Doyle, Chief Financial Officer; and Matt Anderson, Head of Finance and Strategy.

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 Q3 2023 Shareholder Letter release 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. We're thrilled to have you on the team.

Q3 was another quarter of progress at Nextdoor, as we delivered year-over-year growth in revenue, Verified Neighbors, Weekly Active Users, and session depth. New neighbors are finding value on the platform, and those coming to Nextdoor are engaging more. In Q3, we added more new organic Verified Neighbors than in any quarter in our history, bringing our quarter-end count to approximately 85 million neighbors globally.

WAU increased by 2.1 million, or 6%, year-over-year to 40.4 million globally, and is up nearly 50% over the last 3 years. While we saw a slight sequential decline in Q3, we have seen a rebound quarter-to-date. On engagement, we're pleased to note that we have seen strong momentum with session depth increasing approximately 30% year-over-year.

But despite our strong progress driving new neighbors to the platform and increasing depth of engagement, it's impossible to ignore the macro challenges that continue to weigh on budgets in advertising verticals that are important for Nextdoor.

Earlier today, we announced a significant cost reduction plan that includes a reduction in our workforce by approximately 25%. This reduction in force was a tough decision to make but a needed change in how we operate.

Let me share some context. Two years ago when we listed on the NYSE, we were generating differentiated revenue growth of over 50% quarter after quarter, well ahead of industry peers. In order to keep up with this growth, we scaled our team. Starting in Q2 2022 and continuing into this year, we began to face increasingly challenging macroeconomic headwinds driving reduced advertising budgets. This has particularly impacted advertisers with higher levels of home-related spending, one of the key

advertiser categories on Nextdoor.

We've fought hard to maintain our employee base with the belief that the macro environment would begin to recover by the end of this year. We decided to bridge the downturn by using our strong balance sheet. But the recovery we expected hasn't yet materialized, so we must adapt our investments to better align with market realities and focus our work on our highest priorities, including ensuring that we continue to invest in areas such as our new ad tech stack.

What does this mean for our business? First and foremost, it accelerates our path to free cash flow breakeven by the end of 2025. It right-sizes the business and aligns our workforce and other expenses with our near term revenue expectations. It maintains our very strong balance sheet, and allows us to continue to deploy capital thoughtfully— and with a long-term lens.

Now let's shift gears and discuss the key drivers of Nextdoor's revenue growth and profitability.

First, we continue scaling new channels to grow our base of Verified Neighbors. This was a Q3 highlight, as the number of new neighbors coming to the platform organically accelerated 32% quarter-over-quarter. This was driven in large part by our digital invite strategy. We also made significant efforts to verify previously unverified neighbors and deliver more personalized, and hence better performing, email-based neighbor invitations.

Second, we are delivering more relevant local content to neighbors. Neighbors are finding value and engaging more when they visit Nextdoor, which drives sustained growth in ad impressions.

As I mentioned earlier, session depth—the number of ad impression opportunities during each user session—grew approximately 30% year-over-year, an acceleration driven entirely by increases in consumption of user generated content— not ad load.

We're using AI at Nextdoor—today, and in a very real way— to improve our local knowledge graph and personalize relevant local content. Whether it's seeing how neighbors engage with invitations, notifications, or how often they comment or react, AI helps us increase the relevance and timeliness of content and drive increased engagement during each session.

We're also using AI to drive content creation. Our Post Assistant suggests post content that fosters positivity and community engagement. Whether it's helping neighbors find a service or helping business owners promote their services, the Post Assistant has a roughly 70% suggestion acceptance rate.

Third, we are delivering advertiser value and reducing advertiser effort. The Nextdoor Ad Server is transformative for the company. It's the foundation for delivering advertiser performance and for increasing ARPU growth through improved revenue yields. In Q3, we delivered in two key areas. First, we developed more sophisticated pacing methods to better deliver ads over the course of a day and the course of a campaign. Second, we built the core components required for performance optimization, so that we can begin experimenting with this capability later in Q4.

In Q3, we saw immediate favorable results. Starting in July, 100% of ads from US SMB advertisers were served via our Nextdoor Ad Server, which drove accelerated SMB customer and revenue growth.

Our work in Q3 also prepares us to serve substantially all Nextdoor Ads Manager demand on the Nextdoor Ad Server by the end of Q4. Given a subset of mid-market advertisers are already using the Nextdoor Ads Manager, this effectively serves as the first phase of our migration of mid-market customers.

In Q3, we also encountered some challenges and are adapting and improving.

From a neighbor perspective, our efforts to improve the long-term user experience through an evolved notification strategy had a negative near-term effect on WAU. While the short-term impact of these changes certainly weighed on Q3 WAU, the changes represent a deliberate step that we believe will reduce negativity, improve the timeliness, proximity and relevance of notifications, and ultimately sustain our high levels of long-term user retention.

From an advertiser perspective, compared to improving momentum through Q2 and strength in July,

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we saw uneven demand trends in August and September. Weaker growth among US enterprise advertisers, particularly those with higher exposure to home-related spending, offset much of the momentum we saw among international and SMB customers. We believe these enterprise demand trends will likely persist for at least the coming quarters.

This more muted near-term growth trajectory reflects neither our desired progress nor the strength of the long-term drivers of our business. And with that in mind, our focus is squarely on performance through 2024. Performance for neighbors seeking relevant and timely local content and connection, performance for advertisers seeking unique brand activations with a community or local orientation to those seeking reach and ROI; and performance for shareholders seeking a clear path to free cash flow generation.

To get there, we aim to: (1) Add more Verified Neighbors in 2024 than we did in 2023. (2) Deliver improved formats, targeting, and tools for advertisers, and improved yield on our ad inventory, with sustained benefits coming from the introduction of video ads and lead generation campaigns on Nextdoor Ad Server and the migration of ads delivery for Nextdoor Ads Manager campaigns to Nextdoor Ad Server; and (3) Accelerate the path to quarterly free cash flow breakeven by the end of 2025.

Before turning over to Mike, I want to acknowledge his significant contributions to Nextdoor over the five plus years as our CFO. In that time, Mike has led multiple rounds of funding including our public offering on the NYSE and built an excellent finance function. While he'll be stepping down as CFO effective today, we are grateful that he is staying on until December 1st to assist with the transition. Mike will always be a neighbor and I am enormously grateful for his partnership and the contributions in making Nextdoor what it is today, and we wish him all the best in his future endeavors.

We are in the enviable position of having a deep and talented bench. I'm very happy to introduce Matt Anderson as Nextdoor's next CFO. As many of you know, Matt has served as our Head of Finance and Strategy since he joined in 2019. He has made numerous contributions over that time, including leading our Investor Relations function. I also had the privilege of working closely with Matt during his nearly 6 years in the finance org when I was CFO at Block, and I know that he is a terrific finance leader and has the experience to be a great CFO.

Earlier in October, we welcomed Dana Evan to Nextdoor's Board of Directors. Her expertise and proven leadership in finance, operations, and strategy are bringing valuable perspective to the Nextdoor Board and to the role as Chair of the Audit and Risk Committee. Her strong track record as a public company CFO will be enormously valuable. I am thrilled to have Dana on our Board and Matt on our leadership team.

So with that, I'll turn it over to Mike.

Michael James Doyle
CFO & Treasurer

Thank you, Sarah, for those kind words. It has been my privilege to be a member of the Nextdoor team since 2018 and I'm tremendously proud of what we have accomplished. Our business is financially strong, and Nextdoor remains well-positioned for the opportunities ahead.

I've worked closely with Matt since hiring him over four years ago. I have immense respect for Matt as a leader and I'm confident he'll be excellent as Nextdoor's CFO. Matt has a deep understanding of the finance function and has demonstrated the ability to align the company to reach our long-term strategic goals.

Before I discuss our results, note that I have signed our Q3 10-Q, which was filed earlier today. And as Sarah mentioned, I will be staying to support the team to ensure a smooth transition.

Turning back to the business, Q3 revenue of \$56 million grew 4% year-over-year, despite uneven demand trends that emerged and weighed on revenue as the quarter progressed.

We saw several areas of revenue growth in Q3. Small and medium sized businesses, or SMBs, performed well, an encouraging early indicator that our transition of these customers to the Nextdoor Ad Server is yielding results.

And International revenue grew by 79% year-over-year, a sequential acceleration reflecting sustained new logo growth and broader awareness of Nextdoor's audience and ad platform.

Enterprise advertiser demand was mixed in Q3, and while we were encouraged to see solid enterprise and mid-market account growth, average spend per advertiser declined during the period. Regarding specific verticals, we saw resilience in technology & telecom, retail and healthcare, though home services spend has slowed and we've not yet seen a meaningful rebound in financial services and real estate, which are key for Nextdoor.

Q3 ARPU of \$1.39 declined 2% year-over-year, as sustained ad impression growth was offset by a year-over-year decline in CPMs for our US Newsfeed, as direct-sold advertisers—who monetize at a relatively higher rate—made up a smaller share of the total ad impressions delivered.

Q3 adjusted EBITDA loss was \$20 million dollars, representing a negative 35% margin. Non-GAAP operating expense growth of 6% year-over-year outpaced revenue growth and drove margins lower versus the year ago period. The main drivers of expense growth were hiring within select R&D and sales teams, offset in part by more efficient neighbor acquisition spend. Our Q3 operating cash burn of \$12 million was again better than the adjusted EBITDA loss, reflecting another quarter of benefit from interest income.

We ended the quarter with \$540 million in cash, cash equivalents, and marketable securities, and no debt. As always, we will continue to evaluate our capital allocation opportunities and judiciously manage our cash position.

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

Matt Anderson

Head of Finance & Strategy

Thanks, Mike. I really appreciate the kind words from both you and Sarah. It has been a pleasure to partner and learn from you over the past 4+ years. And I want to say thank you for all you have done for Nextdoor. I am incredibly excited about the opportunity to step into this role.

Now let's get into our financial outlook and the cost reduction plan that we announced earlier today. As Sarah noted, our focus is squarely on performance in the year ahead. We are targeting a reduction in current GAAP personnel expenses of up to \$60 million annually. These actions, while difficult, increase our focus and efficiency and will accelerate the path to quarterly free cash flow breakeven by the end of 2025.

As Sarah said earlier, the Q4 revenue growth acceleration we initially expected has not materialized to date. We now expect Q4 2023 revenue in a range between \$50 million and \$52 million, and 2023 revenue in a range between \$213 million and \$215 million, which implies flat to slightly higher year-over-year growth for the full year.

We expect a Q4 adjusted EBITDA loss in a range between \$21 million and \$19 million, which excludes the impact of one-time expenses related to our cost reduction plan. This implies a 2023 adjusted EBITDA loss in a range between \$81 million and \$79 million.

One other note— we currently estimate those one-time severance and related costs associated with our cost reduction plan will be approximately \$12 million.

Across many measures, Nextdoor's growth and momentum continue. Even in an environment where important advertiser verticals have been pressured, organic Verified Neighbor growth and engagement depth are accelerating. We are making continued progress transitioning to our proprietary ad platform, and saw positive early results in Q3. And as we look ahead to 2024, we remain focused on growing WAU and revenue.

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

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Mahaney of Evercore.

Mark Stephen F. Mahaney

Evercore ISI Institutional Equities, Research Division

Two questions, please. First, on the negative content, Sarah, has there been a change in that? I know that's always been the challenge for the company, but is there something that's made the generation, amplification, whatever of negative content greater in the recent past?

And then, secondly, at a high level, when you talk to -- going to market with advertisers, leaving aside the verticals that are cyclically soft, what's the biggest push-back you get from advertisers in terms of their unwillingness to aggressively commit to Nextdoor as an advertising platform?

Sarah J. Friar

CEO, President & Chairperson of the Board

So let me start on WAU, and then in particular how we're thinking about getting the right content to the right neighbor at the right time. So, you saw with our WAU, \$40.4 million, grew 6% year-over-year, but clearly was down 3% sequentially. This was due to efforts that we put in place to improve the long-term user experience, so really evolving our notification strategies. As you know, there is a cadre of neighbors who come organically to the platform, but often neighbors come because of the notification that we've sent them.

In Q3, we wanted to reflect on a reduction of notifications to certain user segments and in addition to also reduce certain high engagement notifications, particularly crime and safety to better align with kind of the platform perception on the content, kind of what you call negative content there. And really it's because when we use an algorithm around notifications, crime and safety, it's clearly an area people tend to click on, but over time, we do get concerned about the perception of that drives off the platform.

So we took a very deliberate step in Q3 to effectively make a change, which will reduce negativity, improve the timeliness, proximity, and relevance of notification, and to make sure we sustain our high levels of long-term user retention. As you know, we actually do have a very high degree of retention over a tiered timeframe, whether it's verified neighbors WAU, it's around 50%, but even over a 2-year period, we haven't seen any changes, but we think we can do better.

As we look forward, why will WAU grow again? I know you didn't really ask that, but why will we see it grow? Why we're confident in Q4? Number one is definitely just that outcome that we saw in Verified neighbors. The fact that we saw over 30% sequential lift in new neighbors joining the platform. Clearly, they take a little time to become weekly, but we see them already engaging, actually at slightly higher levels than other channels.

On your second question, go to market with advertisers. So what's the biggest push-back to get them to commit more consistently on budget? Overall, if you look at what's happening in terms of advertiser retention, we are maintaining our advertiser base. So, the good news is, advertisers are not leaving Nextdoor, they are continuing to spend. However, what we do see is that they are spending less right now, particularly in the verticals where we have most exposure. So, financial services and home services, I know that won't surprise you, those 2 verticals, but clearly they are very endemic to the Nextdoor platform.

In fact, if I look at Q3, I think we have a high number of new logos added. So kind of as a second point, we are seeing new advertisers come to the platform as they go hear about us. We've been working hard on brand awareness, and also as we able to put up more case studies about how various advertisers on Nextdoor have seen really positive and good outcomes.

And then, of course, as we build out our ad tech stack, we think we will get better and better for a broader group of advertisers, particularly those in self-serve. So today, you can now self-serve across the Nextdoor platform, but then also advertisers that really care deeply on the performance side. We've done a lot of work there, but clearly with our own proprietary ad server, we can do a lot more.

So net-net, as you look out, we see a lot of reasons to be really excited about the traction we can get, whether it's pent-up demand from advertisers who should come back when their budgets release more, new advertisers are getting to know us but should spend more and then, of course, our ability to keep adding on net new every single period. So, it certainly has been a tough quarter in Q3 and as we look into Q4, but we see also a lot of room for optimism as we look out into 2024, ideally with a little bit of tailwind coming out of the ad spending backdrop too.

Operator

Our next question comes from Eric Sheridan of Goldman Sachs.

Eric James Sheridan

Goldman Sachs Group, Inc., Research Division

First, Mike, thanks for everything. I've enjoyed all the insights over the years. And Matt, congrats on the new role and wishing you success in it. So, if I could just follow-up on Mark's question on advertising. I think what we are trying to discern from the call is, you clearly have a lot of momentum in SMB and mid-sized advertisers around the ads manager. Is there a way to better discern what that momentum is in terms of a backdrop or tailwind for growth exiting 2023 and/or thinking about what the headwind to revenue growth is from either category underspend versus more normalized trends, so we can better understand sort of the recovering rate to sort of think about in 2024?

Sarah J. Friar

CEO, President & Chairperson of the Board

Yes. So, I mean, clearly, we're not happy with our performance right now from an overall revenue perspective. But what I was trying to get to is to say, we do see a lot of room for optimism. Maybe I'd split our ad base into the 3 areas, so larger enterprises, more mid-market clients, and then the SMB.

I'll start on the SMB side, because that actually was a real highlight in the quarter, SMB revenue grew about 23% year-over-year. And why that's particularly important is this is the group that is on our proprietary stack today. They moved on to what we call Nextdoor Ad Servers for the server on the backend, they can also self-serve on the front end if they choose through NAM. So they are the group that can actually take the most advantage today of what we are able to do once you're on our platform, which is optimize and better target.

On the mid-market side, what we're seeing there is that advertisers are coming. We added more new logos in mid-market than we've done in any other period. However, they are still shifting more towards what we would call managed because our tech platform still needs to add a lot of the features that they come to expect when they are managed on Nextdoor. So we want to get them into more of a self-serve motion.

And then, finally, on the enterprise side, I think the headwind there really has been advertiser budgets. When I look at what are the verticals that did well for us in the quarter, so we've continued to do well in areas like health care, government, professional services, verticals like tech and telco and retail stayed fairly stable. But what we did see with a number of larger advertisers that tend to be in the home services space or in the financial services space is they really retracted their budgets.

When we talk to them about it, it's a little bit, it's not you it's us sort of conversation. They're generally just pulling that budget back across the board. So, their intention is, when they have more budget to come back to Nextdoor but for right now, they are just finding it very tight in terms of their ability to spend and that clearly has ramifications for us given our scale.

Michael James Doyle

CFO & Treasurer

Eric, I'll add one more thing in this on to what Sarah highlighted. As we think about the ad stack, really one of our core focus is advertiser performance. And so, we talked last quarter about moving SMB customers to our Nextdoor Ad Server. As we mentioned, that's an area of significant momentum and even as we double click into the indicators of momentum into future periods.

When we look at things like budget utilization rate as an indicator of advertiser value, as we look at how that shows up in terms of revenue retention for that set of customers, we see some really positive signs. So that is an area where we continue to see momentum, we continue to have conviction, and we're really balancing that against some of the vertical dynamics that Sarah noted.

Operator

Our next question comes from Brian Fitzgerald of Wells Fargo.

Brian Nicholas Fitzgerald

Wells Fargo Securities, LLC, Research Division

And again, congrats, Matt. And Mike, thank you for all the help we've had over the years. We really appreciate it. Two quick ones from us. When you think about campaigns, like the one with Verizon that you were in this quarter, how effective are those in attracting new neighbor to the platform, do you see equal benefits across neighborhoods at different levels of penetration?

And then, second question was on the -- can you give us an update on the progress with business-to-business initiatives, like weather.com or Axios or BBC, and how is that impacting content generation and consumption?

Sarah J. Friar

CEO, President & Chairperson of the Board

Yes. Let me take a look at the full level because it's really a question about how do we grow new neighbors on the platform. And if you look at our top-of-funnel efforts, which really became a big focus for us in Q3 because we said, in order to grow WAU, we need to go back up to top of funnel because we feel very good about our ratios such as VN to WAU, about 50% WAU to DAU, also about 50%. So, the real growth is going to come from bringing new neighbors and at the top of funnel.

We grow that in four ways: invite, brand awareness, content sharing, which is the partnership piece that you just asked about, as well as things like SEO and even just our own content that gets shared out even onto other social channels, and then finally paid and paid is definitely the fourth of four there. So, I'll put it to one side because in this period and in the last couple of periods, well over 90% of our Verified neighbors are coming unpaid or organically.

As I have already touched on invites, that's been in place where we put in the most investment in the quarter. And that included really reinvigorating our digital invite strategy. That's where we're able to match someone's location with either an email address or a text message and then invite them to Nextdoor. It's a place we're actually able to use generative AI to create an invitation, but it's even more enticing for them. And that's where we saw that big acceleration 32% growth quarter-over-quarter.

Because of our digital invite strategy, as people join the platform, they are more inclined to invite others as well, and so we've really invested into our neighbor hub. Today, we're seeing almost a million visitor per week in our Neighbor Hub and that's contributing to about a 100% year-over-year growth in digital neighbor-to-neighbor invites.

Coming to your question, another way that we can drive growth is through brand awareness. Those can be campaigns we do on our own. So things like, we did a whole list with Blue Star families, Military families are more likely to move, new movers are a category that do very well on Nextdoor, but it's also a place where we can work with brands like Verizon and almost have a win-win on both sides. They are paid advertisers, but they want to do something unique locally. And in this case, they came to Nextdoor in order to do more of their neighbor month and neighbor meet up. Those are something that are done in real life.

And again, a core component of Nextdoor is often the online to offline motion of how do you build great community in real life. So they are effective in terms of building out that brand, building out that brand awareness, those campaigns are also very effective in selling to other equally large spenders in for example the tech and telco vertical, but even across other verticals who might want to do something that just feels very unique and differentiated, very much about community, localism, and so on. And we saw a lot of this at Ad Week in New York just a few weeks back where the sales team was there in full force.

In terms of the second part of your question, which is the progress on B2B initiatives. That is the other way that we can drive growth look. So, our content when it's taken out onto other people's platform, like for example, Bing from Microsoft, that could be a really great way to both provide a partner with really unique differentiated local data but then when someone clicks on that they come back into Nextdoor either as a WAU that's returning or potentially as a net new neighbor that's going to sign up in order to find out more.

With initiatives like Weather.com, Axios, BBC, those are examples where we can take information coming from others. And it allows us to surface to neighbors something that feels very of the moment, Weather is a great example. It's something that's hyperlocal and particularly in emergency situations, weather alerts are really what a neighborhood cares about. So, it's a really good 2-way street with a partner like that.

So we're continuing to build out our API, so that we can do that. We just launched -- soft launched our developer API website out there into the world, so that others can come and be part of that same growth strategy. So we feel good about it, very early days. But it's yet, the third lever of how we grow. Invite, brand awareness, content sharing, and then finally paid is a much smaller piece today.

Operator

Our next question comes from Youssef Squali of Truist.

Robert Charles Zeller

Truist Securities, Inc., Research Division

This is Robert Zeller on for Youssef. A few questions. On the organic user growth, I'm just curious where that occurred as you enter international. And on the 4Q revenue guide, what were some of the things that you expect is play out that didn't materialize?

And then, on the session-depth reaching all-time highs, I'm just curious what drove this you know, if it was -- I think last quarter, you talked about how you are expanding the vicinity of neighbors that content reaches. And I think you also previously called out notifications as a driver of increasing engagement and user growth. So, I'm just curious with the new strategy of what you're doing around notifications if that might impact engagement of the user growth at all.

Sarah J. Friar

CEO, President & Chairperson of the Board

Lots of great questions there. I'll quickly take their organic user growth. I'll throw it over to Matt to talk about Q4, what did and didn't materialize. And then I can finish out on session depth. So, on the organic user growth, you're right to differentiate between the 2, both international and the U.S. grew in the quarter and then the period year-over-year. However, the big push on digital invites has really had an impact more in the U.S. right now. That's good, because it's a market that is most mature in terms of monetization. It's also true that some of the other areas that I was outlining previously, things like our partnership strategy today have been bigger in the U.S., aside from someone like the BBC.

So, the U.S. is benefiting most from a lot of the work to felt in Q3 around organic user growth but international clearly remains a focus for us as we get into 2024. Because in terms of a long-term growth strategy, it's incredibly important that we continue to grow countries like the UK, Western Europe, Canada and so on. And I do want to give a shout-out that on the revenue side, international really was the highlight growing 79% year-over-year. So it's a good indication that if we do continue to add more users there and do continue to drive WAU that we can sell that.

With that, Matt, can I pass it to you in terms of Q4 guidance?

Matt Anderson

Head of Finance & Strategy

Yes. I'll touch on that, and close on your question, Robert, with regard to the session depth dynamics. So, first, with regards to the Q4 revenue guide, it really is a couple of different components. The first and the one we have highlighted already quite clearly is, it starts with the vertical dynamics. And specifically, we started to see -- we've seen continued slowdowns in areas like we've highlighted, like financial services, but at the same time areas like home services started to see more pressure relative to prior periods and prior expectations.

Now, while we continued momentum in a number of different verticals, you called out a few of those, things like healthcare in Q4, areas like retail, at the end of the day, that wasn't enough to offset the near-term pressures on our enterprise direct-sold demand. That downstream has effects on our CPM in the period. And so, those supply and demand dynamics meant that a greater share of -- in the fourth quarter, specifically the greater share of our ad impression inventory, which is still growing significantly was ultimately met by slightly lower CPM dynamics.

Now, this is on top of broader industry-wide CPM pressures as a number of our peers have highlighted. At the end of the day though, it comes back to 1 key point, which is, we continue to see very high levels of advertiser retention. And so, that gives us confidence that has expanded new verticals as those new logos Sarah added continue to ramp on the platform, and there is still a very solid foundation for future growth. Unfortunately, that growth is going to be over a slightly longer time horizon than what we had previously indicated. So that's on the revenue front.

And then, with regards to session depth, you also referenced session frequency. That certainly is a core part of our notification strategy. Session depth is really getting into the dynamics, when a neighbor comes and engages on the platform, and so I want also to be highlighting that 30% growth that Sarah mentioned is quite substantial, and it is a continuation of the dynamics that we saw in Q2 and it's something we expect to continue in Q4.

And that's really a function of content -- more relevant, more personalized content. This is where areas like AI become really important and have played a role in helping us be smarter about understanding how neighbors engage with notifications, how different neighbors interact with different types of notifications. And ultimately, we have a richer picture of how they engage and how to make their time in the app better. So that's really been a core part of our session depth dynamics, and that's an area where we continue to have conviction.

Operator

[Operator Instructions] Our next question comes from Brian Nowak of Morgan Stanley.

Chloe Anne Currie

Morgan Stanley, Research Division

This is Chloe Currie on for Brian. I guess, first, just could you please speak a bit more to the changes and updates you're making in the Nextdoor Ads Manager? It sounds like there's a lot of positive traction momentum there, particularly for SMB advertisers. But as you think into next year, what areas and sort of what's the roadmap going forward for that to drive revenue and hopefully contribute to results.

And then, second, on generative AI, also just curious for a little bit more color on how you're expanding the ways that AI can both improve the user experience and the advertiser experience on the platform, sort of above and beyond some of the current tools and offerings.

Sarah J. Friar

CEO, President & Chairperson of the Board

Let me start taking the first one on overall the ad tech stack. So, front-end and back-end, you talk to Nextdoor Ads Manager. That's the actual interface that's where people create an ad and really our work

there is all about reducing advertiser efforts. So, today, where we've gotten to an advertiser of any size can now self-serve on NAM. In addition, we continue to build out other features and functionality with larger advertisers and their agency partners.

So that includes releasing things like user roles and permissions, creative duplication, pixel tooling, audience exclusions, ad credit tooling, multi-edit functionality in NAM. So, you can kind of see the list is long, it gets very, very specific to ads. But we are making progress every single period to make better and better for businesses of all sizes. On the back-end, Nextdoor Ad Server, as we've mentioned, we're now delivering 100% of all U.S. SMB demand, and we're seeing faster loading times, better distribution of ad impressions. So, overall, that's driving better retention of those SMB customers, that's also driving better revenue, up 23% year-over-year in the quarter.

And then, of course, those are places where we do also want to use more ML or AI to make sure that the right ad content is getting in front of the right user, which of course then will drive engagement. Beyond our ad platform, it is also worth noting that we do continue to build out first and third-party app integrations. So, for example, in the first-party side for measurement, we now see that the majority of our CPA-focused customers have adopted our own pixel. Scripts is a great example of a customer who has used our pixel to better understand neighbor activity to optimize for lower CPAs, and they've increased spending really meaningful year-over-year.

On the third-party side, we now have measurement with folks like Neustar, Oracle, Lucid, Foursquare, Theseus. And on the brand safety side, which always remains important in social, we are ready live with Moat around things like Verified impression and we're in the process of integrating IAS. But of course, 1 of the things we always felt that advertisers, if you're starting from a point of Verified neighbors. So, in terms of verifying the impression, we've already told you that it's a real person that we know where they live locally.

The second question was around Generative AI. So, from a -- probably AI overall, so, first and foremost, AI is already really integral part of the product experience here at Nextdoor, whether it's about improving core experiences such as you see the notifications and you can see more personnel or around applications that use Generative AI. We've talked a little bit about, for example, use of our Post Assistant.

So when you're creating a post on Nextdoor, in particular if you're trying to look for a recommendation, just this week, I was looking for family photography, or if you want to post about a business saying what a great business they were, our Post Assistant jumps into action for you and creates a post that we know because it's trained against Nextdoor data will perform better on the platform. And we see about a 70% increase in -- 70% acceptance rate of that post suggestion.

We're also going a lot deeper on our active machine learning models in the product overall. That's increased -- since 2022, that's increased about 10x. And in fact, the number of successful model experiments has increased by approximately 100x. So, we are prioritizing the velocity and the breadth of different large language models across markets and across user needs.

As I look forward, probably the area I'm most excited about in terms of AI is the ability to leverage that not just within the ad server itself to help advertisers understand audiences better, optimize our ad targeting and so on, but also to think about for those small businesses, how do we leverage Gen AI to help them assist with, for example, their page creation or with a campaign. In an ideal world, they show up, we've already created it for them based on either what we know about their business already or what we see happening with other local businesses in their community. And we can create the perfect campaign to get what they want, which is more customers, more revenue, but we can do it in a way that feels seamless and literally at real-time for them.

So that's a place that we are investing in. I also did mention that we saw almost 300,000 pages created using Gen AI to put out there from an SEO perspective. That's a really good way to drive people back to Nextdoor to make sure we keep showing up as being highly relevant. It's also important because it's a way to not show all of our data externally rather to effectively give a really performance summary, but to ensure that our proprietary data stays proprietary within the Nextdoor's vault.

Operator

We have no further questions in the line-up. So I'd like to turn the call back to Sarah Friar for any closing thoughts.

Sarah J. Friar

CEO, President & Chairperson of the Board

Great. Thank you so much, operator. Thank you all for dialing in today. We always appreciate your support and your interest in Nextdoor. When I look at what the quarter brought positively, we felt good seeing year-over-year growth across our key metrics. WAU up 6%, revenue up 4% and, in a tough environment, seeing a record number of new verified neighbors come to Nextdoor.

We do feel like we have a lot of levers at all stages of our user funnel to keep driving growth. So, whether it's top of funnel, where as I said, we added our highest number ever of organic users to the platform, if it is mid-funnel where we continue to see folks engage, VN to WAU ratios remain in the 50% range, or if it's bottom of funnel, so session-depth as Matt talked about, up 30% year-over-year.

We did see strength in areas such as international ad agency partnerships and with the push from Neighborhood Faves, we now have \$4.3 million claimed business pages, a really fertile ground for upselling advertising. We do expect verticals like finserv, real estate, home services to approve overtime, we know we performed really well for them. So we view that as an area of pent-up demand, but unfortunately are just not seeing it at the moment.

AI is really important for Nextdoor. We own the local knowledge graph with label data with a really high-intent audience of real people and neighborhoods everywhere. It's a very unique asset for us.

As we look forward, we are laser-focused on growing WAU and revenue. So that means we have to continue delivering value for neighbors and organizations, really highlighting the importance of local. Second, we need to keep investing in our platform initiatives to keep growing that engagement, and that's where AI comes to play too. And then finally, we need to keep iterating on our monetization capabilities for advertisers of all sizes. So, building out the Nextdoor Ads platform to make sure that those advertisers get better outcomes, but that we also reduce advertiser efforts to be on Nextdoor.

Right now, we're very focused on near-term performance. But we don't want to be shy to continue to invest in long-term opportunities of this very unique global hyper-local neighborhood network. What are we going to do in order to drive that in '24? We're going to make sure that we add more verified neighbors in 2024 than we did in 2023 and with our expense reduction plan accelerate our past margin improvement and cash flow generation.

So with that, thank you so much. I will also be on the follow-up Analyst Call to go a little deeper, and appreciate your time this afternoon.

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