



Nextdoor

Q2 2022 Earnings Call

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CORPORATE PARTICIPANTS

Matt Anderson, *Head of Investor Relations.*

Sarah Friar, *Chief Executive Officer*

Mike Doyle, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Eric Sheridan, *Goldman Sachs*

Mark Mahaney, *Evercore*

PRESENTATION

Operator

Good afternoon. Thank you for attending today's Nextdoor Q2 2022 Earnings Call.

My name is Hannah, and I will be your moderator for today's call.

I would now like to pass the conference over to our host, Matt Anderson with Nextdoor. Please go ahead.

Matt Anderson

Thank you, Hannah.

I'm Matt Anderson, Head of Investor Relations. Good afternoon and thank you for joining us today to review Nextdoor's second quarter 2022 financial results. With us on the call today are Sarah Friar, Chief Executive Officer, and Mike Doyle, Chief Financial Officer.

During this call, we may make statements related to our business that are forward-looking statements under federal securities laws. These statements are not guarantees of future performance. They are subject to a variety of risks and uncertainties. Our actual results could differ materially from expectations reflected in any forward-looking statements. For a discussion of the material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC's website and in the Investor Relations section of our website, as well as the risks and other important factors discussed in today's earnings release.

Additionally, non-GAAP financial measures will be discussed on today's conference call. A reconciliation of these measures to their most directly comparable GAAP financial measures can be found in the Q2 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. A lot has changed in the world since our last earnings report: macroeconomic conditions have become more uncertain, the risk of a recession has increased, and neighbors and businesses are facing continued pressures from factors such as inflation and rising interest rates.

We know that when times get tough, Nextdoor shows up for neighbors, businesses, and public agencies globally. In times of need, neighbors increasingly rely on Nextdoor for trusted information to connect with neighbors both online and in real life, and to give and get help within their communities. We saw this throughout the pandemic and we're seeing it again now.

Whether it's to find that side hustle to pay for accelerating rental costs, to use our classifieds section to grab those free baby clothes, to help food raise for neighbors in need of an extra bag of groceries, or to aggregate community members in support of a local cause. This reinforces our belief in Nextdoor's purpose to cultivate a kinder world where everyone has a neighborhood to rely on.

Q2 revenue growth of 19% year-over-year benefited from continued advertiser demand in areas such as home services, despite some macroeconomic driven reductions in customer budget. Advertisers of all sizes are realizing results from the Nextdoor platform. From my own recent conversations with CMOs, I know there's a significant and enduring demand for the kind of engaged audiences and unique hyperlocal targeting that Nextdoor provides. Marketers also value the utility aspect of Nextdoor, because it drives intent, as our neighbors have that buyer mindset and are typically the household decision maker.

Weekly active users, or WAU, grew 26% year-over-year to approximately 37 million. We're seeing durable engagement trends amongst our most active users. In Q2, over 50% of weekly active users were active daily. Across all regions, growth in total sessions accelerated 10 points quarter-over-quarter. These trends show that our focus on engagement through the introduction of new machine learning models for increased personalization, more engaging notifications, a simplified user experience, and welcoming platform initiatives is working.

With the progress we've made on engagement, we are now shifting more of our product focus to new neighbor growth. Today we have over 75 million verified neighbors on the platform, and we're just scratching the surface of our global total addressable market. In Q2, we made significant progress across our international market. In the U.K., for example, we're now in one in four households, increasing nearly one in three in London.

While neighbors turn to Nextdoor in times of need, Nextdoor also remains highly relevant in major societal moments. In the quarter, we helped bring together more than 15 million U.K. neighbors in real life through the big launch campaign to celebrate Queen Elizabeth's Platinum Jubilee.

On the advertiser front, Nextdoor helps brands reach real neighbors based on their interests and locations, engage neighbors in a high utility, high contextual setting, and convert neighbors into customers.

Our value proposition for advertisers grows as we improve our measurement and targeting capabilities, supported by our first-party proprietary data. Made Renovation is a great example of a customer who used Nextdoor to exceed their cost per lead goal, and also, importantly, achieve 10% below their cost per lead on other paid channels.

More broadly, leading advertising measurement companies, Foursquare and Oracle Moat, recently shared that Nextdoor outperforms their industry benchmarks across a variety of metrics, including cost per visit and viewability, and this is true across verticals.

We're continuing to develop our ad platform to deliver increasing value to advertisers of all sizes. In Q2, we expanded Nextdoor ads to all U.S. small and mid-sized customers, giving them broader access to ad formats and inventory, more compelling visual options and calls to action, and a comprehensive dashboard so they can track metrics and performance for their ad campaigns. We also continued to develop our proprietary ad server to improve ad relevance and performance for advertisers and the ad experience for neighbors. The right ad served at the right time to the right neighbor is highly useful content.

We recognize the need to adapt and adjust with changing market conditions. Thus, while our long-term strategy and priorities remain the same - to grow our base of neighbors and organizations, increase engagement and drive sustained revenue growth - as we enter the second half of 2022, we're sharpening our focus to our highest impact products and go-to market initiatives that we believe will contribute most meaningfully to WAU and revenue growth.

One of these high impact initiatives is Connections. In Q1, we fully launched Connections, and in less than six months, 20% of daily active users now have at least one connection. We're also starting to see that Connections have a meaningful impact on contributions on Nextdoor. More contributions lead to a more vibrant ecosystem. We're now working to enhance the value of Connections by nudging neighbors to sync contacts at the right moments, such as new neighbor onboarding or after making a connection. This enables neighbors to connect with more of the people they want to hear from, and it also enables us to provide more relevant suggestions for neighbors you may know or guests to invite. We increased daily contact syncs by 90% this quarter. This will support further new neighbor growth in the second half of the year.

Our purpose has never been more important. Our platform is a unique resource for neighbors and businesses. We are as excited as ever about the product roadmap ahead. We have a strong team in place, and we are well capitalized with \$666 million on the balance sheet to execute against our strategy. There may be volatility ahead, but we are as committed as ever to the work we do at Nextdoor, and we remain confident in our long-term growth opportunity.

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

Mike Doyle

Thank you, Sarah, and good afternoon, everyone.

As noted, WAU grew to approximately 37 million, with WAU growth outside the U.S. exceeding 50% year-over-year for the second straight quarter and growing nearly 100% in the last two years. Total revenue was \$55 million, an increase of 19% year-over-year. Even through the current environment, we saw resilient demand for many of our advertisers. I'll highlight a few of the areas.

One is our ability to deliver for advertisers across a range of campaign objectives. In Q2, we had campaigns ranging from H&R Block's third year of the "Make Every Block Better" brand campaign to Philo's conversion campaign to reach new subscribers. For the on-demand streaming service Philo, Nextdoor's high intent audience was a great fit, given the number of new movers and neighbors who are enthusiastic about streaming services. Although our customers' objectives are generally balanced between performance and brand awareness, we are currently seeing a slight trend towards performance-focused campaigns, which comprised over 60% of managed spend in the quarter. We believe this will

serve us well as the industry navigates continued macroeconomic headwinds and advertisers find the right balance between brand and performance-focused objectives.

The second area of strength was from mid-market advertisers who continue to demonstrate outsized growth on our platform. This emerging group of advertisers, a combination of self-serve and managed, generally spends more than SMBs but less than enterprise.

A third area of resilience came from the core verticals that are holding up well, including home services, and recovering verticals such as travel. We did see ongoing softness in financial services and emerging softness in retail, real estate, and quick-serve restaurants. This is reflected in our guidance. Overall, though, we believe our efforts to increase advertiser diversity better position us in periods of volatility. In fact, in the past two years we have nearly doubled our customer base.

Q1 global ARPU declined 6% year-over-year to \$1.48, the result of stronger WAU growth relative to revenue growth. Quarter-over-quarter ARPU increased 6%. Adjusted EBITDA for Q2 was a loss of \$20 million, representing a negative 37% margin. The year-over-year margin change reflects our first half focus on hiring to ensure we have the right team in place to deliver against our product roadmap and build momentum into 2023.

We ended the quarter with \$666 million in cash and marketable securities. We authorized a share repurchase program in June and repurchased \$10.5 million of our Class A common stock in the second quarter. We continue to buy shares in July and have now repurchased a total of \$27 million, over a quarter of the authorized amount. Once our trading window reopens, we plan to resume repurchasing shares.

I'll end with our outlook. We are adjusting our full year 2022 outlook to \$220 million to \$225 million, which is a year-over-year growth rate of 16% at the midpoint of the range. Given current macroeconomic trends, we're anticipating a tightening in advertiser budgets. We expect mid-market advertiser demand to remain an area of particular growth. We are shifting SMBs to the new ad serving experience and expect this to result in some variability in near term revenue.

We're now forecasting a full year 2022 adjusted EBITDA margin of negative 28%. The change in margin relative to prior guidance is a flow through of lower revenue, offset in part by a reduction in operating expense growth in the second half of 2022.

For Q3 2022, we're expecting revenue between \$53 million and \$55 million, a year-over-year growth rate of 2% at the midpoint of the range, and an adjusted EBITDA loss between \$20 million and \$19 million.

Our Q2 results reflect both progress and remaining potential. Our current guidance reflects what we believe to be the most prudent approach, given that advertising demand remains relatively more uncertain than in prior quarters. Our long-term opportunity remains intact, and we believe we have the talent and resources in place to emerge from the current cycle in an even stronger position. Thank you for joining our earnings call today.

With that, I'll turn it over to the operator for Q&A.

Operator

Thank you. The first question is from the line of Eric Sheridan with Goldman Sachs. Please proceed.

Eric Sheridan

Thanks for taking the questions. Maybe two if I can. First, Sarah, I think for those who are less familiar with the business and the business model, and you're still scaling into your growth, can you give us some sense of what degree of visibility you have into advertising spend as you think about the back part of this year or into the first part of next year across some of these of the verticals or some of the size of advertisers you've talked about? Just so we better understand what the pipeline looks like from an advertising standpoint?

Then one more in the weeds - the variability you called out on moving SMB advertisers to your ad serving platform, can you give us a little bit of a sense of what that might translate into in terms of variability of revenue, if we think out to the second half of the year? Thank you.

Sarah Friar

Great. Thank you, Eric. First of all, in terms of our business model, so we are ad-centric today, and as Mike always reminds me, we're certainly too young in our journey to turn away from that. We're still small relative to the size of the digital ad sector and to the pace of growth of the digital ads sector, which even in these more turbulent times, I would remind everyone, is still growing in 2022.

In terms of visibility, what we look at are—first of all, with our direct sales model for enterprise and mid-market, there is an inherent ability for them to turn off budgets intra quarter or going into a new quarter. That's one of the reasons why we want to make sure that we're staying prudent as we think about guidance and changing market conditions. Our guidance right now is based on the visibility that we have from our customers today, and it does factor in their response to a broader macro environment.

Our implied Q4 guidance based on the full year and then Q3 is a little bit wider, and that's again about just making sure we're leaving bookends that give us a little bit more flexibility. At the same time, we recognize that broadly speaking for our competitors, there's really three factors going on. There's macro economic, there's platform policy and privacy changes, and then of course, there's diversification to new competitors.

The first is certainly a focus for Nextdoor. On the privacy front, keep in mind that Nextdoor is a first-party proprietary-based platform where our users are in a logged-in state when they come to the platform. So, we are not dropping cookies as you go around the web to follow them, to (inaudible) who they are, to better target them or to kind of create more scale. To that extent, privacy changes have not had a material impact on our platform. In fact, that proprietary first-party data, we think, is a huge long-term asset for us to think about as we monetize or to utilize as we monetize.

On the diversifying of spends and the surge of new competitors, again, Nextdoor is very differentiated from a lot of the rest of social media. Why did neighbors come to Nextdoor? They come first for community and then for utility, or sometimes they come first for utility, and then they build community. Regardless, they're not typically coming for entertainment purposes. Our goal is to keep driving into that utility plus community messaging, positioning, and ultimately, jobs to be done, so we're fulfilling that for our neighbors and making sure that they keep coming back. That's what gets us excited about the (inaudible) mitigation standpoint.

In terms of the SMB question that you asked, one of the big shifts in Q2 was the shift to Nextdoor Ads. We're really excited about what that platform can mean for small businesses. First of all, it's easy to use and self-serve. It gives a much broader access to our full range of ad formats, beyond just local deals or local sponsorships, that puts them on the same footing as even a large advertiser like Walmart or Home Depot. It gives them many more visual options, and with that, new ways to do call to action.

Again, what we're trying to do is to simplify their journey. They're not sophisticated marketers, and so we want to make it as easy as a few clicks, and you're ready to go to get out to neighbors, to the people that actually surround your business. Then of course, it gives them a much more comprehensive dashboard to

look at how their ads are performing, and over time we'll contextualize that too with businesses like me, what are they doing, why are they performing better, etc.

In terms of the volatility that we mentioned, it's more to do with as we iterate on the platform, when something is brand new, we don't have everything that we want to be able to offer them today. We have 3.4 million small businesses who claimed the page, so we have a very fertile group of businesses to go back and sell into. But of course, some of them want different features added. So, as we add those features, we just expect some—it makes it a little harder to predict how the revenue will flow. Again, we want to be prudent on that front as we think about guidance.

Eric Sheridan

Thanks so much, Sarah.

Sarah Friar

Thank you.

Operator

Thank you. Our next question is from the line of Eric Sheridan with Goldman Sachs. Please proceed.

Sarah Friar

Hannah, I think you just had Eric.

Operator

Mark Mahaney has dropped.

The next question is from the line of Mark Mahaney. Please proceed.

Mark Mahaney

Okay, well, I often times get confused with Eric Sheridan. Maybe that's what happened. All right. Let's see. I wanted to ask—Sarah, you made a comment in the middle in your prepared comments about how you want to kind of shift over towards now growing users, you've been pretty happy with the level of engagement that you've seen—increased engagement amongst your users.

Can you riff a little bit on how do you grow WAUs from here? Is there a new strategy or is it just leaning more into strategies you've had in the past? It looks like the WAU growth slowed in the—decelerated in the June quarter. Just talk about what's the change here, and how do you plan to revert getting back to WAU growth again. Thank you.

Sarah Friar

Thanks, Mark. First of all, on the WAU growth. It grew 26% year-over-year to 37 million, so we're pleased with that growth. But of course, we always know that we can do more. What we have been very focused on is how do we bring people from joining or registering as a verified neighbor, down the funnel to being a monthly, to being a weekly to being a daily, and I think we're very happy with that progression that we've seen.

To give you a little bit of a sense of it, first of all, 50% of our WAUs are DAUs. So, we know that once we get you to being weekly, you have a very high propensity to come back on a daily basis. On top of that, our most engaged segments, so the folks who truly are more daily in habits, grew 50% year-over-year. So, absolutely, we're really enjoying how much people are finding utility on the platform. I talked about global sessions, so that's the moment where people return. That also accelerated on a quarter-over-quarter basis 10 points.

The final thing I would say, just overall on WAU that gives us a lot of confidence is that our international WAU growth continued to be over 50% year-over-year. So, the good news is our focus on bringing you down the funnel of engagement is working. That's now letting us say, let's go back to top of funnel, or how do we get net new neighbors, because once we get you, we are now very confident that we're going to get you to be hyper engaged.

So, the change—I don't want to call it a change in strategy, but more of a shift back to the top of funnel, will be driven by, first of all, some of the platform investments that we've made. I talked a lot about Connections in my prepared remarks. But that's an infrastructural way for us to be able to use virality on the platform itself. If you're coming in as a neighbor, if you're willing to sync your contacts, maybe as you join, maybe later when you make a connection, that gives us now a way to reach out to the people that you know in the neighborhood that we know we're not currently on Nextdoor, and to make a warm introduction like, "Please come Sarah, because Mark is already on the platform."

The second thing we can also do with Connections is more and more we're connecting to businesses. So, we see businesses as a way to also invite new neighbors. We already see this intuitively happening where the local plumber may ask someone that he or she has just done a job for, to do a recommendation on Nextdoor. We just want to make that more intentional.

Over the longer term, the other areas that we're looking at in terms of (inaudible) funnel growth are partnerships. You saw us announce our partnership with Microsoft for content during the quarter. We have some of the richest, most dynamic, real time local content, and there are a lot of platforms out there who want that sort of content to make their own ecosystem more vibrant. So, that's an API that we can be more extensible with. Then we have other partnerships in place like Samsung, for example, where we're now testing for the first time to be preloaded on devices.

Then of course, there's SEO, which is another area that we believe is very fertile ground for Nextdoor. Not done a lot of investing there yet, we wanted to focus on engagement in the first part of the year, but now we're coming back to longer-term levers like SEO as we turn into the second half of 2022.

The final thing I would say is just brand awareness. We are still generally not as well known as you would think amongst neighbors, and definitely not as well known as a platform for SMBs through to large enterprises. So, we have work to do to continue on the brand awareness front. That's why you see us do either big partnerships like the Big Lunch Eden Project in the U.K. We just signed something with Toronto Football Club in Canada. Here in the U.S., you'll see us continue to do—more ways to get neighbors both from online to offline as we head into neighbor month in September.

Mark Mahaney

Great. Thank you, Sarah.

Sarah Friar

Thank you.

Operator

Thank you.

There are no additional questions waiting at this time, so I will pass the conference over to Sarah Friar for closing remarks.

Sarah Friar

Thank you so much, Hannah.

Thank you everyone for your time and support. While we delivered on our revenue and EBITDA expectations and built momentum in areas like the mid-market, we know we have work to do to continue to grow Nextdoor through a challenging global macro environment.

As we discussed today, we are staying laser-focused on growing WAU and revenue, and all of our product roadmap and go-to market execution is focused there for the second half of 2022.

First, we need to continue to beat that drum on the importance of local and that Nextdoor equals neighborhood, building that brand awareness that I just talked to Mark about.

Second, we'll need to continue to invest in our welcoming platform initiatives, where we think Nextdoor is leading edge. So, that ranges from how we moderate, ensuring real neighbors are on the platform. We saw the stats about how well we do with things like viewability when third parties look at us from an advertising perspective. That's because it's real neighbors on Nextdoor. Then of course how we keep conversations constructive and productive.

Third, and finally, we will continue to iterate quickly on our monetization capabilities for advertisers of all sizes. As I talked about, we want to keep iterating on our Nextdoor ad platform for SMB and bolstering our ad-serving platform through better tracking and measurement.

While we grow revenue, we also want to focus on leverage, getting back to year-over-year margin improvement in Q4 while still investing in the long-term opportunity of the global hyper-local neighborhood network.

With that, we'll end the call today, and of course, we're here for any follow-ups from investors. Thank you so much.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect your line.