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Nextdoor Q3 2021 Earnings Call **Tuesday, 10 November 2020**

Operator Good evening. Thank you for attending today's Nextdoor Q3 2021 Earnings Call. My name is Erin, and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. If you would like to ask a question, please press star one on your telephone keypad. I would now like to pass the conference over to our host, Matt Anderson with Nextdoor. Thank you, Matt. You may proceed.

Matt Anderson Thank you, Erin. I'm Matt Anderson, Head of Investor Relations. Good afternoon, and thank you for joining us today to review Nextdoor's third quarter 2021 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 uncertainty. Our actual results could differ materially from expectations reflected in any forward-looking statements.

For discussion of the material risk and other important factors that could affect our actual results, please refer to our SEC filings, available on SEC's website and in the investor relations section of our website, as well as the risks and other important factors discussed in today's earnings release.

Additionally, non-GAAP financial measures will be discussed on today's conference call. A reconciliation of these measures to their most directly comparable GAAP financial measures can be found in today's earnings release. With that, I'd like to turn the call over to our chief executive officer, Sarah Friar.

Sarah Friar Thank you, Matt, and hello, everyone. We're delighted to be joining you for our first public company earnings call, having just successfully closed our merger with the Khosla Ventures SPAC. Our gross proceeds of \$674 million - that's 404 million from the SPAC trust proceeds, and 270 million from a fully committed pipe - will fund long-term growth, at scale, enabling our purpose of cultivating a kinder world where everyone has a neighborhood to rely on.

In Q3, we delivered strong revenue growth of 66%, year over year, and saw a continued growth and engagement of our ecosystem at scale, with weekly active users, or WAU, increasing 20%, year over year, to 33 million.

Nextdoor equals neighborhoods, and we own the local graph. We are in nearly one in three households in the United States, with 66 million verified neighbors globally, including 11 million in our international markets. In addition to our continued growth and reach, we are seeing sustained and increasing engagement. Nearly half of our users engage with Nextdoor weekly, and we know that when people come to Nextdoor, they stay.

Our three-month retention rate is over 75%, and even after two years, over half of our user remain engaged. As you know, this is well ahead of many of the other social media platforms. The past few quarters have further demonstrated how we've aggregated a range of local use cases that are increasingly turning Nextdoor into a daily



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habit.

We see a continued trend toward local, which we believe is structural and sustainable. For example, according to our third quarter insights report, 73% of US adults say that neighbors are the most important community in their lives. And neighbors are doubling down on their commitment to local, with 72% making it more of a priority to support local businesses, compared to before the pandemic. We are well-positioned to benefit from these trends.

Our product innovation ladders up to our purpose. In the third quarter, we supported several global launches to drive neighbor growth, including improving our notifications experience, redesigning the neighbor profile to help neighbors better present their identity. And launching the welcome team to enhance the new neighbor experience, and hence the likelihood that they'll become active on the platform.

And we're excited to continue investing in our product roadmap to foster an active, valued community. This enables neighbors and organizations to form trusted connections, to exchange helpful information, goods and services. And as we shared during our investor day in September, we're particular excited to build out experiences that will enable neighbors to connect more explicitly on the platform.

Our total addressable market is large and global. In the third quarter, international WAUs represented 18% of total, an increase from 15% in the prior year quarter. We're seeing retention and engagement in line with the United States, which highlights that the utility of our platform is globally relevant.

For example, in our most recently launched market, Canada, we saw WAU growth of over 100%, year over year, in Q3, giving us confidence that our strategy is scalable and repeatable.

On the advertiser front, we continue to build unique, innovative ad experiences for our partners. For example, in Q3, in celebration of National Neighbor Day, we partnered with Disney to highlight inspiring neighbors for the Disney Magic Makers contest. The contest received nominations from across all 50 states, and showcased some of the kindness and creativity we see happening in neighborhoods every day.

We will continue to focus our advertising efforts on building out of proprietary ad server, further investing in our self-service ad platform and analytics and attribution tools, and continuing to partner with brands to bring unique experiences to our neighborhood audiences.

I'm really excited about the scale of our opportunity, the momentum we're seeing and the product roadmap we have ahead, for all neighborhood stakeholders, including neighbors, large brands, small and mid sized businesses, and public agencies. And so, with that, I'll turn it over to Mike for our financial highlights.

Mike Doyle Thank you, Sarah, and good afternoon, everyone. I'm please to report that we've had a strong third quarter. I'll start first with a summary of the headline numbers, before diving into more detail from the quarter. In Q3, we saw continued growth in global engagement, with 20% year over year growth in weekly active users. Total

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revenue was \$53 million, which was an increase of 66%, year over year, and 15%, quarter over quarter. Global ARPU grew 38%, to an annualized rate of \$6.46.

On revenue, we saw strong performance across all advertising verticals, including home services, financial services, and tech and telco. We're also excited by the early traction from newer verticals like CPG, and travel and entertainment. Sarah mentioned Disney, and another example is our Q3 partnership with Airbnb to drive host acquisition in target cities. Across customers of all sizes, our expansion into new verticals has contributed to improved revenue diversity.

Our brand is building in the market. In addition, revenue was driven by new accounts added, improving advertiser retention, and existing advertisers increasing their spend over time. The key driver of our advertiser retention and new account additions is improving measurement capabilities. For example, we recently launched our own pixel and have seen more and more advertisers adopt it, better enabling us to demonstrate strong ROIs and increasing CPMs.

ARPU growth of 38% year over year was driven by increasing engagement among weekly active users, and efforts to better optimize our supply, by driving higher fill rates and improving our direct relationships with advertisers. Outside the US, we are still very early in our monetization efforts, but we are encouraged by the initial trends, particularly in the UK, where revenue nearly doubled year over year in Q3. This process gives us confidence that the UK is paving the way for monetization rollout to more countries.

The 24-point year over year improvement in adjusted EBITDA margins shows our ability to both invest in growth while also building a sustainable long-term business model. Adjusted EBITDA for Q3 was a loss of \$8 million, which was an improvement of approximately \$4 million year over year. We're confident in our strategy and excited about the investments we are making. Given our outperformance in Q3, we are raising our full-year guidance for both revenue and adjusted EBITDA. Our full-year revenue guidance is \$185 to \$188 million, a year over year growth rate of 51% at the midpoint of the range. This is up from the \$181 million or the 47% year over year growth we guided to in September, at Investor Day.

For adjusted EBITDA, we're expecting a loss of \$48 to \$47 million, which represents a margin of -25% at the midpoint. For Q4, we're expecting revenue of \$53 to \$55 million, and an adjusted EBITDA loss in the range of \$12 to \$11 million, which implies a -21% margin at the midpoint of the range.

In conclusion, we had a strong Q3. Our performance reflects the growth in our community, both in total neighbors and in engagement, and the investments we're making to drive WAU and revenue growth. With that, I'll turn it over to the operator, for Q&A.

Operator We will now begin the QA session. If you would like to ask a question, please press star followed by one on your touchtone keypad. If, for any reason, you would like to remove that question, please press star followed by two. Again, to ask a question, please press star one. We will pause here, briefly, to allow questions to generate. The first question comes from Eric Sheridan, with Goldman Sachs. Please proceed.

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Eric Sheridan Thanks so much for taking the questions. Maybe two if I can. Sarah, for you, would love to understand what your key learnings were, coming out of the pandemic period, and how that informs product development as we turn into 22 and future years, in times of driving a mixture of user growth and engagement per user.

And then, on the long-term investment roadmap around the advertising business, can you help us understand a little bit of what you see as some of the key unlocks to drive greater depth of advertisers, and verticalization of advertisers on the platform, in the years ahead? Thanks so much.

Sarah Friar Eric, thank you so much. These are great questions. So, first, on key learning, so, what we saw during COVID is something that we've seen during other emergency situations, where Nextdoor really becomes of the moment. It happened in microcosms, like Hurricane Harvey. We see it during California wildfires. We've seen it in the UK, when the Grenfell Tower fell. The global pandemic just happened to be an emergency that happened across almost every neighborhood.

So, the good news is Nextdoor became incredibly useful, in the moment, for neighbors to get trusted information, to give and get help, and then, ultimately, to create the connections online which, post-pandemic, they're taking offline. So, one of the things that we saw as people came to the platform, engagement across those newer cohorts has actually been enduring, and I think that's important.

We think the platform just got better. People who hadn't tried it for a while came back and saw it, people who'd never tried came back, and I think were really impressed. So, neighbors, of those newer cohorts, are about 2.2x more likely to post, 1.2 times more likely to comment, than they were pre-COVID, and we think that's just because the platform itself has gotten better.

Overall, in terms of learning, so, for us, it's all about, how do we take that increased engagement, so what are we doing to continue to bring neighbors back? So, that's an investment in notifications. We're definitely a trigger-based platform, but we can do better and better with notifications, by applying better data science and machine learning.

The second thing that we learned is that people want to hear from all of the stakeholders in their neighborhood. So, again, I gave that stat, about 72% of neighbors saying they want to rely on local more than they did pre-pandemic, because we all saw how much we wanted to save those local businesses. So, that's causing us to invest in stakeholders like SMBs, also larger brands, and of course, public agencies.

And then I think the third thing we learned is that brands themselves want to be generous. They want to be more than just selling you things. They want to show that they're vital parts of the community too, and that's something really only Nextdoor can offer to an advertiser. So, during the pandemic, we saw brands like Walmart sponsor our Help Map. We saw brands like Clorox also push people towards things like Help Map and help groups.

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And so, of course, as we come out the other side, we're working on campaigns that can only be done on the Nextdoor platform. The Disney Magic Makers was one example, because that allowed targeting at a neighborhood level, and of course we're seeing that happen with many other brands. Hershey's is probably my most favorite, recently, where they sponsored our Treat Map, so thankfully no longer about emergencies, but about some of the more fun things that can happen in Neighborhoods, particularly as we get back to real life.

And then, let's see, you had a multipart question. I talked a little bit about the longer-term investment in roadmaps, as part of that, but if you look at the verticalization of advertisers, going forward, Mike alluded to this, that we are seeing better diversification across the board. So, we do do well in verticals like home services, financial, tech and telco, but we are absolutely seeing Nextdoor resonate across the board. CPG has become a very good vertical for us in the last couple of quarters.

Areas like travel and entertainment, particularly if they come back post-pandemic, are an area of focus. And even areas like healthcare, that I might not have expected to have seen so much. And another map example, Moderna actually sponsored our vaccine map. A great example of a brand we might not have thought about, previously, for Nextdoor, and yet a brand that came to us, again, because they wanted to be seen as investing in their community. I think I got to... Did I leave anything out on your multipart question?

Eric Sheridan No. Thanks so much, Sarah. I appreciate it.

Sarah Friar Thank you.

Operator Thank you, Mr Sheridan. The next question comes from Mark Mahaney with ISI. Please proceed.

Mark Mahaney Thanks. Two questions, please. Sarah, you talked about these three initiatives in terms of solutions for advertisers, and one of those was building out self-serve ad tools. What's the status of that? How far along have those self-serve ad tools been built out? And to the extent that they've been rolled out, what kind of reaction are you getting to them? So, just double click on that, please.

The second one is, on an WAU growth of that 20%, could you talk about what the growth was in your largest and most mature market, the US, and whether that growth is what you want it to be, or whether there are things you need to do to accelerate that growth. Thanks a lot.

Sarah Friar Great. Let me get the first question. So, first of all, just on self-service tools, so, it is a very important part of our longer-term strategy, to get more self-serve available, but we're very early on that. Really started to alpha test in Q2, and getting a little further along in the journey in Q3. But I think self-serve will be something that is more applicable as you look at our 2022 results than our 2021.

Let's talk about the why on self-serve. So, to date, Nextdoor clearly can go from the largest advertisers and ad agencies in the world, all the way down to the smallest of small businesses, literally the dogwalker, maybe the babysitter.

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When you get into the midmarket and get into self-serve, then clearly what you want to see is the ability for people to just come to the platform, turn on their ad as fast as possible. So, beyond even just self-serve, we want to make sure it's a couple of clicks and you're done, because small businesses are on the go. They're busy. They need us to do the work for them.

So, that's really about the front-end part of the platform, and as I said, you'll see much more of than impact in 2022 than you'll see in 2021. I don't want to forget about the back-end part of the platform, which is really... I think of it as the brains of the operation, and that's a place where we're doing a lot of investment around data science and machine learning, to make sure that we're using all of the data that Nextdoor sits on top of.

We're a first-party, proprietary, ad-based platform, so we have a lot of data, and when used well, it takes an ad from being even an ad into a piece of content. So, the right ads, served at the right time, for the right person, actually satisfied the job they came to the platform for.

Think about the plumber. If you suddenly have an incredibly leaky faucet on a Sunday night, and you can send the plumber immediately, on Nextdoor, through an ad, that's actually an amazing piece of content. So, it drives neighbour engagement, as well as giving a really strong ROI to that advertiser.

So, we are investing in both the front end, how people come and buy ads on the platform, but also the back end, to make sure that we become an incredibly performant platform. We are today, but we want to make that better and better, over time. And then, Mike, can I...?

Mike Doyle Mark, this is Mike, and I'll take the second part of that question, on WAU growth. So, as we shared, we were up 20%, year on year, around 33 million total WAU across the platform. In the US, we were in the high teens, and internationally, we were at around 40%, year on year, WAU growth.

Mark Mahaney Thanks, Mike. Thanks, Sarah.

Sarah Friar Thank you.

Operator Thank you, Mr Mahaney. The next question comes from Brian Nowak with Morgan Stanley. Please proceed.

CH Hi. This is Chloe, on for Brian. We have two questions. The first would be, if you could please talk to us a little bit more about your community-level engagement metrics over time, and what you might be able to share on time spent per user, in your most developed communities, compared to the newer communities. And then, second, how does monetization and the ad revenue per hour spent compare, in your most developed communities versus those newer ones?

Sarah Friar I'll start with the question that you had about community-level engagement metrics. So, as you know, we measure engagement through WAUs, and that's what we've talked about, today, on the call, that 20% year over year growth we're quite proud of, because it actually builds on a very active period of time, last year, during COVID. And as

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you've seen, Chloe, many platforms actually started to see a little bit of a downtick as we came into this period because of tough comps, we've actually been building and seeing our highest level of WAUs ever.

Beyond that, we do internally tick down into looking at insights on different segments. So, we use that to inform product decisions, but we change those over time, just depending on where we see shift happen. The reason why we've focussed so much on WAUs is that, once we get someone to be a weekly active user, their propensity to become a daily active is quite high. And we already see, for weekly active users, they come, on average, about four times per week, to the platform.

But let me lift up a little on where you're going with that thought about time spent in app. Nextdoor is a little different from maybe other social platforms that might air towards entertainment rather than utility. So, we think of two modes of engagement on Nextdoor. There's of course the community piece, which is vital. We're not going to cultivate a kinder world where everyone has a neighborhood to rely on, without building community, but the second piece is utility, and that's, again, where Nextdoor tends to spike.

If I go to utility first, utility is not really well-measured in terms of time in app, because actually, what you want is the person who's coming to get something done, they want to do it as fast as possible. So, areas like search, discovery, ask a neighbour, our find service, which is our marketplace, we want people to get that done quickly, and so, in fact, time spent in app might actually be the antithesis of what you're trying to get done. So, that's why we look beyond time on the site and use different metrics to say, internally, are these things successful as products?

On the engagement front, for sure, that's a place to build community and start to get to know your neighbors and your neighborhoods. You don't want people to spend more time with you. And so, there, we're investing in notifications and connections, right at the top of our product roadmap at the moment, because in both cases, they drive more usage. They help us increase personalization, and we know that that will lead to higher engagement and penetration over time, and actually deepen the network effects, those viral network effects of Nextdoor.

And so, on the notifications side, that's really about, again, the right content at the right time, to the right person, pulls them back into the app. And more and more, we want to pull them in and get them to be active, not just passive.

And then, from a connections standpoint, what we're leaning into there is that we know that, when you see something from someone you know, that's the highest, most engaging piece of content you can see. Historically, we were built on the premise people didn't know their neighbors, but today, because we're in one in three households in the US, you're probably going to find people you do know, that live locally to you.

And therefore, we think that connections can be a very big unlock for us, both because it will drive that engagement piece, but it also may cause people to invite the people they know onto the platform. It goes beyond with neighbors, too, because we will let people connect to the businesses they care about, the public agencies that care about, the non-profits they care about, and again, that gives us better signal and allows us to better personalize

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the feed that the person is seeing. So, with that, I'll pass it over to monetization questions. Mike.

Mike Doyle Yes, I'll take the second part of that question, on monetization by neighborhood. As just a reminder, we're still very early to monetization, and we find that there's more commonality, amongst advertisers, than differences, in how they are using and getting value on the platform. Broadly, they're looking for reach and also the ability to drive frequency of their messaging in a targeted way in neighborhoods.

So, for us, the most important thing is showing penetration and engagement, giving them more of the unique supply that they're after, and then taking into consideration the targeting and objectives of the campaigns. With that in mind, the monetization looks similar across neighborhoods that are similar in penetration and engagement, and so we don't have a metric where we're sharing difference in revenue per hour spent, for some of the reasons that Sarah mentioned.

For us, the most important thing is delivering that reach in engagement to advertisers, helping them to best use the first-party data, on the platform, to target their message, and then to give them the measurement tools that they're after, to demonstrate the results of the spend in our neighborhoods.

CH That's great. Thank you very much.

Sarah Friar Thanks, Chloe.

Operator Thank you, Chloe. As a reminder, if you would like to ask a question, please press star one. There are no additional questions waiting at this time. I will now turn the call back to Matt Anderson.

Matt Anderson Thank you, Erin. So, since we're at the end of our live questions queue, we recognize that, over the last quarter... We've had the opportunity to engage with a number of folks in the audience today. We've detailed a number of the questions in our Investor Day and our Analyst Day, both of which can be found on our investor relations website, if you'd like to go deeper on your own.

However, to make maximum use of our time today, we will share one or two top additional questions we've heard over the last quarter, to make sure that they're included in today's transcript. So, what I'd like to start with is... The question is, now that you've completed your SPAC transaction, where do you intend to proceed from here?

Sarah Friar Thanks, Matt, and thanks everyone who asked that question over the last couple of months. It's nice to actually have the money in our bank account, so it's no longer what will we do, but we can actually get started on putting that money to work. There are three areas.

The first is, not surprising, to drive more growth of neighbors to the platform, and then, once we get them to the platform, engaging them on the platform. We know that, when we have neighbors on the platform, they're building community. They're finding utility.

We know we will be able to monetize it down the line, so it behoves us to start there first, given how young

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we still are and our overall global growth. And so, in terms of overall investment areas, notifications, connections, and of course, improving the posting experience to make it easier and easier for neighbors to be active. And we'll grow our team to do that. So, that involves hiring engineers, data scientists, product people and designers.

Area two is the ad platform. We have a massive opportunity here. The global ad market is large. It's grown quickly. People are moving from traditional formats to digital, because they can measure it and see a strong ROI. Nextdoor sits on a very proprietary set of data, in particular because we have place, and place allows us to do very unique things, particularly around targeting. We can target down to .1 of a mile.

So, it behoves us to keep investing in how we utilize that proprietary data, so more machine learning, more data science, that will give us the right ad, the right time, and the right person.

And then the third area is our global opportunity. We believe everyone is a neighbor. We've already talked about seeing product markets sit across our 11 countries, and in 2022, we want to begin to double down more on countries like France, Spain and Italy, that are high opportunity countries for us, where we already have a presence.

And over time, you'll see us invest to launch newer countries, too. Of course, our product will cause some of that viral growth to happen. Our partnerships with folks like public agencies will cause that to happen, but there's also some paid marketing that we do, particularly in the beginning of launching a new market, and that takes balance sheet power as well. So, with that, maybe we'll take one more question.

Matt Anderson So, that segues into the final question we'll cover today, and that is, what are Nextdoor's near, medium and long-term growth drivers?

Sarah Friar So, to round it out, near-term, we're just getting started. So, of course, in the near term, it's about growth and engagement, notifications, connections. It's investing in the ad platform. I just talked to that, but also thinking about small and midsize businesses. This is a place where Nextdoor are uniquely positioned to win, in our opinion. We've seen over 54 million businesses get recommended on Nextdoor, for example, and we know that those small businesses, those local small businesses, want to be as digital as maybe the largest brands in the world.

They just haven't had a great platform to do that on yet, but of course, we already see some of this happening, and that's why our smaller business revenue has been growing at a much faster clip, from areas like professional services, home services, real estate. Lots of people have been moving house, and so realtors are quite active right now.

The medium term, we see a lot of opportunities to build active value to communities. So, connections is something that I've spoken to, that we're starting, but connections is going to have a lot of legs in it as we go into 2022 and even beyond. So, that is a big area of focus. We want to improve the ad stack.

So, we want to keep adding in both of our own ways to measure, the pixel that Mike talked about, but also to keep adding in third parties. That means we're not just grading our own homework, but we can actually show that

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Nextdoor really outperforms. One place we do that is anyone who has an online to offline call to action, that's a place where Nextdoor tends to sing.

And then an API strategy. So, we know that we have done something incredibly hard, which is aggregate a lot of locals, to 66 million verified neighbors, but they all want to do many, many things.

Over time, we'll build many, many of those things for them, but we won't be able to build it all immediately, and so this is where it behoves us to have an API platform where we can have partners, even advertisers, step in and do something a little bit more directed and intimate with us. So, you will see us start to invest in an API platform, as we move into 2022.

And then, finally, over the long-run, global. Everyone's a neighbor. We want to keep investing across all business sizes and across public agencies. We know the ad market is huge, and we will remain focussed there, but over time, you could see us add other revenue models, for example, payments. Our marketplace is very vibrant. We see a lot of stuff put on for sale, also for free, even on a monthly basis, and so this is certainly an area of opportunity, too. So, I'll pause there, and with that, I think we'll bring the call to a close. Thank you.

Operator That concludes the Nextdoor Q3 2021 Earnings Call. Thank you for your participation, and enjoy the rest of your day.

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