



Nextdoor

Q4 2021 Earnings Call

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CORPORATE PARTICIPANTS

Matt Anderson, *Head of Investor Relations.*

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Mike Doyle, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Eric Sheridan, *Goldman Sachs*

Brian Nowak, *Morgan Stanley*

Brian Fitzgerald, *Wells Fargo*

Mark Mahaney, *Evercore*

PRESENTATION

Operator

Good afternoon. Thank you for attending today's Nextdoor Q4 2021 Earnings Call. My name is Tanya, and I will be your moderator for today's call.

I would now like to pass the conference over to our host, Matt Anderson, Head of Investor Relations. Please go ahead.

Matt Anderson

Thank you, Tanya. I'm Matt Anderson, Head of Investor Relations. Good afternoon, and thank you for joining us today to review Nextdoor's fourth 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 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 the 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 Sarah.

Sarah Friar

Thank you, Matt, and hello, everyone. Q4 rounded out a strong 2021 for Nextdoor. We drove significant neighbor growth at scale, meaningfully increased engagement on the platform, welcomed businesses of all sizes, and with that, delivered exceptional revenue growth. We also successfully completed our public offering, growing our cash balance over \$700 million, putting us in a position of strength to continue investing for long-term growth.

In Q4, we delivered strong revenue growth of 48% year-over-year and drove 32% year-over-year growth in weekly active users, or WAU, to 36 million. Total revenue growth for 2021 was 56% and accelerated by 7 points year-over-year from 49% in 2020. Our strategy, centered on building an active, valued community, is working. WAU growth is driven by both new neighbors joining and finding value on Nextdoor, but also from current neighbors becoming increasingly more active. In Q4, WAU as a percent of total neighbors increased five percentage points year-over-year to 52%, which represents an all-time high.

One of our key product initiatives in Q4 was the global launch of Connections between neighbors. When you connect with another neighbor, you both have a more engaging personalized experience on the platform. Looking ahead, we plan to expand Connections to all neighborhood stakeholders. We'll start by enabling neighbors to connect with small and medium sized businesses in the first half of 2022. We'll follow with the ability to connect with large brands, public agencies, and other local organizations, and service providers. This will allow neighbors to hear from organizations they care about and it will enable organizations to create meaningful authentic connections with a uniquely engaged local audience. We believe Connections will drive deeper engagement with Nextdoor because neighbors want to hear from neighbors and organizations that they know and trust.

We continue to drive innovation to ensure that Nextdoor is a kind, welcoming platform. This is essential both to achieving our purpose and also to building a platform where all feel safe and are actively contributing. Our just-launched Transparency Report, a first for Nextdoor, highlighted our unique approach to moderation. This approach is multi-faceted, combining proactive guidance through our good neighbor pledge, leading edge machine learning technology, and human review.

As a reminder, less than 2% of all content on Nextdoor is actually reported for moderation. But today we have over 230,000 volunteer community moderators who in 2021 reviewed almost 87% of all reported content in under five hours from the time of the report, as well as an internal neighborhood operations team. Our moderators' high speed of engagement underscores the strength of the community on Nextdoor. Nextdoor's Kindness Reminder utilizes technology to detect language that may be harmful and makes neighbors consider editing their posts or comments before it goes live. In 2021, neighbors who encountered the Kindest Reminder edited or even withheld their posts or comments over one-third of the time.

On the international front, engagement metrics surpassed even U.S. engagement, giving us confidence in our global opportunity. Our approach for the year was to increase penetration in four key markets: Australia, Canada, the Netherlands and the U.K. In Q4, total WAU in these focus markets grew almost 50% year-over-year, and 58% or almost three out of every five verified neighbors returned weekly.

Turning to advertisers. In Q4, we continued to make progress scaling our proprietary ad platform. Nextdoor is uniquely positioned to be the platform that advertisers can rely on to connect them to an actively engaged local audience. For advertisers, our value proposition is simple.

First, we provide access to a unique audience. According to the fourth quarter 2021 U.S. data from GWI, 76% of neighbors who visit Nextdoor at least once per month don't visit Snap, 69% don't visit TikTok, and 58% don't visit Twitter.

Second, neighbors come with high intent. From our Q4 Insights Series, we see that 24% are more likely than the average social media user to click on sponsored posts.

Third, we can deliver a highly localized message, and this drives results. On Nextdoor, localized messaging drove 58% higher ad engagement than non-localized messaging.

In Q4, we partnered with Hershey's on our 2021 Treat Map which allows neighbors to mark if they were planning to celebrate or hand out candy. The campaign was successful in generating incremental sales for Hershey's and expanding its footprint into households who hadn't purchased candy in the past year, clearly not my house.

The investment in our proprietary ad platform is ensuring we can better utilize the first-party data from our fully logged in audience. Hence, we can serve ads that are relevant to the neighborhood that people live in, and our users find them engaging, useful and actionable. In a world that is increasingly shifting towards cookieless browsing, Nextdoor's value is becoming more and more differentiated.

For all advertising objectives, from brand awareness through direct response, we continue to improve our measurement and targeting capabilities. For example, the majority of our cost per acquisition, or CPA focused advertisers, have now adopted our proprietary conversion pixel, which improves ad relevance and attribution. Home Chef is one such advertiser, who saw their average news feed CPA improve by 25% over the course of 2021, giving them confidence to meaningfully scale their spend on Nextdoor.

Finally, we're enhancing our self-serve capabilities with a neighborhood ad center or NAC. This increasingly enables us to serve a wider range of advertisers and ad agencies. NAC is only available for an initial subset of mid-market customers today, but our focus on building the platform and the early success customers are experiencing give us confidence for our rollout to advertisers of all sizes in 2022.

We're excited by our progress and our 2022 strategy, which is designed to increase growth and engagement for all neighborhood stakeholders and deliver a richer experience for advertisers, ultimately driving sustainable long-term growth in our business.

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

Mike Doyle

Thank you, Sarah. Good afternoon, everyone. I'm pleased to report that we ended 2021 on a strong note. In Q4, we saw a second straight quarter of accelerating neighbor growth, with WAU reaching \$36 million, up 32% year-over-year, an increase from 20% year-over-year growth in Q3. Total revenue was \$59 million, which was an increase to 48% year-over-year and 13% quarter-over-quarter.

We saw healthy demand across advertiser sizes, objectives, geographies and verticals. Our revenue continues to be fairly evenly split between direct response and brand marketing. In Q4, we saw demand at all levels of the funnel. Throughout Q4, our advertisers came to us for creative, impactful, relevant campaigns that meet the moment. In addition to the Treat Map that Sarah mentioned, we had campaigns like our Holiday Cheer Map, Thanksgiving Cookbook and Veterans Day Campaign with Veterans United.

Q4 global ARPU grew 12% year-over-year to \$1.65, driven by increased engagement among our neighbors. We also continued to build on our efforts from earlier in 2021 to better optimize our yield and improve our direct relationships with advertisers. While international is only a small part of our revenue

today, at less than 5%, we are continuing to grow and prove out our model and advertiser value proposition in non-U.S. markets. In Q4, international advertiser count grew 74% year-over-year.

Adjusted EBITDA for Q4 was a loss of \$8 million. The 6-point year-on-year improvement in Adjusted EBITDA margins shows that we can remain in investment mode while also building towards long-term profitable growth.

I'll end with our outlook. Our full-year revenue guidance is \$254 million to \$256 million, a year-over-year growth rate of 33% at the midpoint of the range, and an increase from our last full-year 2021 revenue guidance of \$252 million. We expect full-year 2022 Adjusted EBITDA margin to be minus 18%, consistent with our prior guidance.

For Q1 2022, we are expecting revenue of \$48 million, a year-over-year growth rate of 40%, and an Adjusted EBITDA loss of \$23 million. We are excited by the scale of our opportunity and our ability to execute against it and we are going to continue to invest.

Thank you for joining our earnings call today.

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

Operator

The first question is from the line of Eric Sheridan with Goldman Sachs. Your line is open.

Eric Sheridan

Thank you so much for taking the questions. I hope everyone on the team is doing well. Maybe coming back to the comments on advertiser momentum as you leave '21 and move into '22. Can you quantify or give us a sense of some of the momentum around advertiser diversity, advertiser budget, or how measurement in ROI continues to evolve as we move from one calendar year to the next, in terms of measuring some of the efficacy of some of the changes and investments you've made, and how that means potential tailwinds for the advertising revenue in '22 and beyond? Thanks so much.

Sarah Friar

Eric, thank you for the question. It's Sarah, really appreciate it. I'm going to start, just overall, talking about the ad platform right now, clearly a big area of investment for us. First and foremost, as we went through 2021, we began that shift over to our own proprietary ad platform. If you recall, Nextdoor has a fully logged in audience. We're not having to infer where you are, we're not following you around the web with cookies. With that, we have a lot of data that helps advertisers target and clearly get outcomes and keeping them pretty excited, whether it's for brand awareness or the whole way down into direct response.

In terms of our investments here, as I talked about in my prepared remarks, first and foremost is the ad serving platform itself, what we call NAC. That's the way in. The big shift there to bring more advertiser diversity to the platform is of course opening up self-serve, because that will allow us to go from the smallest of micro merchants who need to create an ad on the fly, probably with a template, are probably super busy, they're not very sophisticated, all the way out to some of the most sophisticated advertisers in the world, including ad agencies, who want to be really nimble with, say, ad creative and so on.

On the back end, the main investment there is how do we serve the best ads to the best neighbor at the best time for them, and something really differentiated about Nextdoor, of course, is that ads on Nextdoor are often valuable content, because we're a very high utility platform, people are coming looking for the

plumber, they're looking for maybe someone to help them do their gutters in that moment. They're looking for a great financial advisor. That makes Nextdoor really perform well across the whole gamut of different advertisers.

In terms of the different cuts you might think of, there's clearly scale. We can go from small to large. There's where we plan the funnel. We can go from brand awareness the whole way to DR about evenly split. Then clearly there's diversity in terms of the type of advertiser; home services is a home run for us, financial services, tech. We're starting to see some green shoots in areas like travel and entertainment as neighbors want to get out and about. Then PPG is an area that we've put a lot of investment into, and we're starting to see some really good outcomes. Hershey's is a great example.

Mike, do you want to take how it really dovetails into guidance and thinking about financials?

Mike Doyle

Sure. The momentum with advertisers, what's the most important part is their interest in scaling up their campaigns and taking advantage of our larger engaged audience and the ability we have to offer more targeting and larger targeted groups which ultimately help them to drive performance. We've also made significant investments in our measurement ecosystem, both capabilities on our proprietary ad platform as well as integrations with third parties, which give advertisers more confidence to increase spend, being able to see results on the other side. Over the course of all of 2021, we saw increased retention and more evergreen spend, which helps us to have more visibility into our 2022 book of business, and allowed us to build on a larger base.

Eric Sheridan

Thanks so much.

Operator

Thank you, Mr. Sheridan. The next question is from the line of Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak

Great. Thanks for taking the questions. I want to go back to the advertising question a little bit. Can you give us a little more quantification around what you're seeing from the ad platform or the self-serve, maybe any nuggets of what the ad spending growth or the ad spending trends look like for advertisers before and after they adopt these new tools? This is so we can get a little more idea of the momentum that you're talking about there, Mike, that'd be helpful.

Then the second one, can you just talk to us a little bit about what the U.S. or the North America WAU trends look like? How quickly are those growing? What are the neighborhoods where you're seeing the most growth and what's driving that? Thanks.

Mike Doyle

Sure. Let me start with the advertiser question and what we're seeing there. First of all, the ad spending, the demonstration of the results on the platform and the capability that we're able to deliver to advertisers, both through our self-serve ad platform, as well as our improved measurement capabilities and in proprietary ad platform, are demonstrated with, most importantly, revenue growth. We're seeing advertisers, an increased number of advertisers and a greater spend per advertiser, as a demonstration of the value that they are seeing.

Your question in particular about early indications from on our proprietary ad platform is we're very early in that migration. We're working across all different segments of the advertisers from enterprise, mid-market and SMB, to make sure that they're onboarded in a way that is constructive to the campaign that they're serving and ultimately opens up increased spend. We're early in that journey. I think we've got something we can comment on in future periods.

Importantly is the overall purpose of building a proprietary ad platform and that's having a unified base of our inventory and getting access to the supply we have on the platform to all advertisers so that can be best optimized across campaigns down to a single neighborhood or whether it's something much broader. That investment is relevant for all different segments of the advertisers. It's one that reflects the learnings we've had with advertisers over time to know exactly what they want from our platform.

Second question was about WAU trends. As we've talked about the 36 million WAU in the period with 32% year-on-year growth is something we're very proud of. Our product roadmap is focused on driving engagement. As we've talked about in the past, the reason we have—that we focus on weekly active users is because we know there's a huge opportunity to bring MAU on our platform and convert them into WAU and increase their session frequency, drive utility and improve the number of times they're coming back to the platform, as well as the content that they're creating and engaging with when they're on the platform.

Sarah Friar

Yes, maybe I'll dive in on the back of that WAU question. Thank you, Brian, for it. You asked about North America, U.S. in particular, overall WAU growth was 32% year-over-year, up to 36 million. But if you look at U.S. WAU growth which is still the largest portion of our base, that grew 30% year-over-year. It's still a really healthy clip. When you're in one and three households, what you're seeing is there's not a particular neighborhood that I would point to that's driving growth, it's really growth across the board.

One of the things that remains, I think, a really strong part of the Nextdoor story is how many of our new neighbors come to us organically. That has stayed in a really best-in-class range and continues to be the case. In fact, when we looked at 2022, what you see is shifting a little bit more of our paid marketing spend into international because we feel really good about what the product pipeline is doing to build growth and engagement in the U.S.

In particular, in that product pipeline, there are a couple of areas that I would mentioned. Number one is Connections. We went pretty deep on it in our shareholder letter. It's not really impacting results as yet. On a backward look, we're not seeing a lot of impact because it is only launched in Q4. But we definitely believe it will have a lot of impact to growth and engagement as we look forward.

Second thing I'd mention is that ad platform, while it's great for advertisers and it's great for driving monetization, it's also great for neighbors because the right ad at the right time is content. That makes Nextdoor a very engaging, highly utilitarian platform for neighbors the better and better we get at that.

Then finally, we have put a lot of emphasis and investment into the evolution of the feed itself. We want to make sure that it's super easy to post so that you can be an active part of an Active Valued Community. We want to make sure it feels personalized, so you feel like you belong. We think those are some of the things—reasons why even current neighbors are getting more engaged at the moment. One of the data points you'll probably like is that current neighbors, if you look in the last year, have actually gotten more engaged. We're seeing that nice smile chart that we all love to see too.

Brian Nowak

Great. Thank you, both.

Mike Doyle

Thank you.

Operator

Thank you, Mr. Nowak. The next question is from Brian Fitzgerald with Wells Fargo. Your line is open.

Brian Fitzgerald

Thanks, guys. In the letter, you noted some benefit from improved advertising fill rates. Just wondering if you could talk a little bit about where you are in terms of fill rates today and any sense for how budgets could expand as you continue to improve fulfillment? Maybe in the similar vein, the engagement metrics, WAU, the neighbors, really nice uptick movement there. Wondering if you could talk a little bit about the key factors there and where you think those can go over time as well.

Then maybe one last one is just on, we've heard from some other companies over the—of the quarter that the housing market is really tight. Wondering if you're seeing any dynamic in terms of relation to a tight housing market to uptick or look for certain services related to new houses or not being in new houses, those types of things?

Sarah Friar

Yes, okay, maybe I'll start on the engagement and the housing market, new movers, and then I'll pass back to Mike on advertiser fill rates and so on. On overall engagement, first and foremost, yes, we're super pleased with that 32% year-over-year growth in WAU and the fact that it's the second quarter engaged in growth. We do continue to grow - two key drivers . One is top of the funnel, so new verified neighbors grew about 20% year-over-year in the same period. It's good, we have new neighbors coming all the time.

But then importantly, those neighbors are becoming more and more active. It's a two-fer, new neighbors, and then current neighbors becoming more active. The other way that you can see that is the depth of engagement, the fact that WAU as a percent of total neighbors is up 52% globally. That grew 5 points year-over-year and so that underscores that point that new neighbors are becoming more and more active overall.

I'd also take you back to the chart that we showed in our Investor Day. If you recall, after three months, 75% of our MAUs are coming back, after six months, 65%, and after two years, you still see more than half of new neighbors to Nextdoor actively engage. This is world class. I would remind everyone that even a weekly active is coming back on average 4x per week. The great news is once we get you from verified neighbor to MAU to WAU, your propensity to tip over to be a DAU is very, very high.

On the DAU front, what we're seeing there is beginning in 2020, or since the beginning of 2020, the three months, the six months, the 12 months and the 24 months DAU cohorts have all seen DAU rise. Again, we view that a really great outcome of the investments we've been making on the product side. That innovation on Connections, broadly on Active Valued Community, the ad platform piece, and then the evolution for feed experience. That's what's driving that WAU uptick.

On the housing market, what tends to benefit for us is definitely new movers. That's one huge use case for Nextdoor, when you first move into a neighborhood, we are the way you find your feet, you find your— all of the service providers you need. We all know that when people move into a house, I think we spend

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something like—don't quote me. But over half of the total spend you'll put on a house you spend in the first 12 months of being in it. We're the perfect platform to find from your neighbors who are the best service providers, for example.

But even beyond that, we're also the way that you find your community. We know that as people have become maybe a little bit more nomadic, maybe they've moved to a different place to work, and so on, helping them find in real life, their community, is a huge part of why Nextdoor exists. We're the only platform that can do that because we're all about that power of proximity. Maybe it's a running group, it might be a new moms group, maybe it's a veterans group, right, we can go across that whole landscape.

The good news is there's lots of growth overall, top of the funnel, lots of growth and engagement with that that drives a lot of impression growth and that drives revenue. I'll pass this to Mike to talk about how we fill against all that increase in supply.

Mike Doyle

Hi, Brian. First, I wanted just to talk about really the three types of levers we have to drive monetization. Really, for us it is, and there's efforts behind each. The first and most important is driving deeper engagement. It's creating incrementally more supply so we can attract more advertisers, greater budgets, and have larger targeted audiences for those advertisers.

The second is in supply optimization. This is where fill rates come into play. It's where the mix of direct sold comes into play. It's making sure that we are serving the right ad at the right time to improve yields for advertisers, which ultimately—which benefit us in the form of CPMs and benefit performance for the advertisers themselves.

Then the third bucket that we think about is ways to drive monetization outside of the direct creation of supply. It's monetizing differentiated services that we have, things like maps, and groups, our classifieds service where there's opportunity to drive value for the ecosystem that doesn't necessarily require incremental expansion of supply.

Let me come back to the second bucket which is your question on fill rates. This is one where we had tremendous success in 2021 and that is driving fill rates higher. Q4 is seasonally our best quarter. There's a tremendous amount of demand for our inventory. But what we saw was increasing fill rates year-over-year in all of the quarters in 2021.

Importantly, with the verticalization of our sales force, getting closer to the advertisers and knowing deeply the industries that they cover, it is allowing us to increase the mix of direct sold campaigns and not having to rely on backfill partners to fill unsold supply. We do have partnerships, nonetheless, but it is a key metric for us to drive that percentage higher where we're proving real value to the advertisers directly and also where there is higher yields.

That's something we'll continue to focus on all three of those categories of leverage in 2022. But with continuing to refine the prioritization of each and I'd say the biggest opportunity for us in 2022 is on the first bucket which is driving higher engagement.

Brian Fitzgerald

Thanks, guys.

Sarah Friar

Thanks.

Operator

Thank you, Mr. Fitzgerald. There are no additional questions waiting at this time. I will now turn the call back to Matt Anderson. Excuse me, there is an additional question from Mark Mahaney with Evercore. Your line is open.

Mark Mahaney

Okay, thanks. Let's see, I wanted to ask about relative engagement levels of international versus the U.S. Do those trends look relatively similar, the cohort trends, have you seen international markets follow the pattern that you saw in the U.S.? Then I have a follow-on please.

Sarah Friar

Great, thanks, Mark. We were wondering where you were, we wanted the question. I think actually positively right now, we see even better engagement outside the U.S., even though we think our engagement in the U.S. is already quite best in class. If you look at the four markets that we really went after in 2021, so Canada, Australia, Netherlands and U.K., we saw almost 50% year-over-year WAU growth. But the way members engaged was 58% of neighbors are coming back weekly, and as I said, our average weekly user is coming back up to four times a week. I think, actually, in the U.K. it is even a little bit more than that.

Another data point I'd give you in the U.K., we're now up to one in five households. In London, that is one in four. That's important because London is such a big advertiser market that we need to have density there so we can do the sort of targeting that a particular advertiser needs. We're really actually upbeat and excited about what we see going on outside the U.S. as a growth lever for multiple years to come.

In 2022, we're going to focus a little bit more deeply into Western Europe. France, Italy, Spain, and Sweden, those are all very large ad markets. We know if we can get the neighbors on board, there's definitely a high monetization ability. Those markets have been the same for us in many ways, we see the same sort of neighborliness, the good news is everyone is a neighbor. We know that Nextdoor can be a global platform. As you know, international revenue today still only about 5%, a little bit less, of total. It is, I would say, more of a future growth lever in 2022, and even much more into 2023 and beyond.

But we are going to tip our investments more strongly outside the U.S. in 2022, really because we're so confident in the growth that we're seeing in the U.S., organic growth still very, very strong. We know there's a network effect. Now when we're in one in three households, there's just a natural, sustained growth rate that doesn't need paid marketing and so on to keep it bolstered.

Mark Mahaney

Okay, thanks, Sarah. Then I want to ask you about Connections. You launched this, and I know you talked about it in the shareholder letter, you launched this, do you talk about what impact that's had on engagement in the communities? Or where it's been launched so far? Then what's the use case, basic use case for enabling neighbors to connect with small and midsize businesses, like how widely adopted do you think that'll be?

Sarah Friar

Yes, so Connections rolled out in Q4 globally, but really towards the end of the quarter. You're not seeing really any impact of it in the results that we just put in front of you, which I think is the good news, actually, because we do expect it to start having an impact on engagement as we get into the back half here. Why

is that? Well, one thing we know is that people you know, our neighbors you know, talking about things you care about clearly very high on the engagement front. But the next highest is neighbors you know talking even about things you maybe don't care as much about, but humans value humans more than they do just pure interest. We're leaning into that insight, and know that as neighbors connect to other neighbors, they're going to get a more personalized feed. We think that just ups overall engagement, feeds into our notification platform, our notification platform is getting more intelligent. It should have a really good flywheel.

Where you're growing we want, of course, Connections to not just be neighbor to neighbor, we want it to be neighbor to business, small business, midsize business, large brands, ultimately public agency and any other neighborhood organization. On the business front, what gets very interesting for the business is you now have someone actually putting their hand up to say, I care about this business, I trust this business, I want to make sure I'm hearing from them. It almost opens up a direct line of communication. Not so much one to one, a bit more one to many. But one of the things we absolutely know on our platform is many of our neighbors are also business owners. They're there because of course they want—they're in business, they want to make revenue, but they're also there because they care about their community. I think what they find, when I talk to them more anecdotally, is the more they create a sense of community around their business, the more effective they become as advertisers.

If I think about, let's talk about small business, he's actually a farmer and his business is selling meat, he sells beef, lamb and so on. But he spends probably the majority of his time talking more about what's going on in the farm, right? It's spring has sprung, it's lambing season, here's the—we're now posting whatever we're about to feed our cows and it's about one in every five posts that he actually makes much more commercial and that's been way more effective for him and his business.

Operator

That concludes the Nextdoor Q4 2021 earnings call. Thank you for your participation. You may now disconnect your lines.