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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the NerdWallet, Inc. Q1 2024 earnings conference call. (Operator Instructions)

Again, please be advised today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Caitlin MacNamee. Ma'am, please go ahead.

Caitlin MacNamee - *NerdWallet Inc - Senior Director, Finance & IR*

Thank you, operator. Welcome to the NerdWallet Q1 2024 earnings call. Joining us today are Co-Founder and Chief Executive Officer, Tim Chen; and Chief Financial Officer, Lauren StClair. Our press release and shareholder letter are available on our Investor Relations website, and a replay of this update will also be available following the conclusion of today's call. We intend to use our Investor Relations website as a means of disclosing certain material information and complying with disclosure obligations under SEC Regulation FD from time to time.

As a reminder, today's call is being webcast live and recorded.

Before we begin today's remarks and question-and-answer session, I would like to remind you that certain statements made during this call may relate to future events and expectations, and as such, constitute forward-looking statements. Actual results and performance may differ from those expressed or implied by these forward-looking statements as a result of various risks and uncertainties, including the risk factors discussed in reports filed or to be filed with the SEC.

We urge you to consider these risk factors and remind you that we undertake no obligation to update the information provided on this call to reflect subsequent events or circumstances. You should be aware that these statements should not be considered a guarantee of future performance.

Furthermore, during this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release, except where we are unable without reasonable efforts to calculate certain reconciling items with confidence.

With that, I will now turn it over to Tim Chen, our Co-Founder and CEO. Tim?

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Thanks, Caitlin. In late 2023, NerdWallet launched a new national brand campaign, Don't Make Future You Hate You, reminding consumers that the financial decisions they make today can have an outsized effect on their future well-being; and of course, that they can turn to NerdWallet for trusted guidance as they make those decisions. In Q1, we've seen this campaign achieve great results as our aided brand awareness reached record highs, despite brand spend being down 30% year over year, reinforcing the resonance of our product offering.

Similar to our guidance to consumers, we operate with a long-term orientation. We remain committed to improving our efficiency. So it's been great to see our brand marketing spend work harder for us relative to last year.

In Q1, we more than doubled non-GAAP operating income year over year. By continuing to bolster efficiency, we'll have more capital to reinvest and more resilience throughout the cycle. We're seeing our long-term orientation bear fruit. Our insurance category has faced inflationary headwinds for most of the past few years, but we continue to invest in improving our marketplaces.

This work has paid off with record revenue in Q1 despite an end market that is yet to fully recover. These results are a great example of something I said before, our business is cyclical. And over time, we know that headwinds and tailwinds will offset each other so our priority is growing from cycle to cycle.

We also continue to take share in a large and growing market independent of macroeconomic factors. Our primary addressable market, US financial services, digital advertising is expanding, with a 2023 four-year CAGR of approximately 15%. And NerdWallet's share in this market has also increased with a four-year revenue CAGR of 27%.

In Q1 specifically, we are proud of our results. We exceeded guidance across revenue, adjusted EBITDA, and non-GAAP operating income while growing monthly unique users by 25% year over year. These results not only speak to our relentless self-improvement, but also enable us to invest in NerdWallet's future. Our vision is to build a trusted financial ecosystem or a single platform where consumers and SMBs can learn, shop, connect their data, and make decisions about their money.

In Q1, we drove progress across our growth pillars, and I feel confident that the decisions we're making today will result in durable value for our consumers and our business. This quarter, we continue to leverage our trusted brand and playbook to land and expand efficiently in new markets and categories. Internationally, we scaled efforts across the UK, Canada, and Australia. Collectively, MUU growth for these markets outpaced US growth in Q1 at 31% year over year, giving us increased conviction in our ability to grow our international presence over the coming years.

Meanwhile, our vertical expansion efforts significantly increased our velocity. By repurposing existing assets versus building from scratch with expensive development time, we were able to launch and monetize new home services categories within weeks, while still investing in other nascent categories like Medicare, social security, and estate planning.

Vertical integration remains a key focus as we look to grow from cycle to cycle. These efforts pair NerdWallet's trusted brand and reach with best-in-class consumer shopping experiences, a combination that should drive improved monetization over time. This quarter, we focused on improving our services to cater to consumers who want more human guidance when making financial decisions. We've already seen tiered support options work effectively in SMB, which operates a hybrid model, including both digital and human-assisted shopping experiences.

In Q1, this team furthered their efficiency by leveraging machine learning to more accurately route consumers to the right level of support for their circumstances. Over time, we'll seek to bring this hybrid model to more areas to help people make smarter financial decisions.

As we've achieved record MUU growth over the past several quarters, we've doubled down on our registration and data-driven engagement efforts. By registering users, we can more easily engage and reengage them over time with thoughtful, personalized cross-sell opportunities, increasing their loyalty to NerdWallet and making it a no-brainer for consumers that turn to us directly for their financial product needs.

Already, we've seen that our active registered users visit us more than three times a month on average, signaling the potential value of our registered user base. In Q1, we drove a significant increase in registered users, which we attribute to work in areas such as optimizing registration prompts as part of our larger insurance shopping funnel.

We also continued to relentlessly improve how we reengage users over time. Much like our vertical integration work in SMB seeks to route consumers to the right experience for them, our CRM work is focused on increasingly personalized campaigns that match registered users with content and offers tailored to their profiles.

I'm proud of our results in Q1 and the progress we've made toward our vision for consumers. Elevated delinquency rates and high interest rates are contributing to a tough lending environment despite seemingly positive economic indicators. We believe these are normal cyclical dynamics, so we are focused on the long term to grow from cycle to cycle.

In the meantime, I'll pass it over to Lauren to provide a financial update.

Lauren StClair - *NerdWallet Inc - Chief Financial Officer*

Thanks, Tim. We ended the quarter above the high end of our guidance range, delivering Q1 revenue of $162 million, down 5% year over year. We remain in a cyclically depressed lending environment, affecting interest rate sensitive areas such as loans and balance transfer credit cards. Our first-quarter results showcase early signs of growth recovery being in sight, led by both insurance and SMB verticals.

Let's take a deeper look at the revenue performance during the quarter within each category. Credit cards delivered Q1 revenue of $50 million, declining 19% year over year. As we've spoken about previously, last year's regional banking crisis drove increased balance sheet constraints and issuer conservatism. We believe these dynamics are temporal rather than structural, but they continue to weigh on our Q1 year-over-year results.

We still saw our seasonal cadence of a quarter-over-quarter increase from Q4 to Q1. While issuers remain conservative in balance sheet intensive areas, such as balance transfer cards, consumer demand for products remains high. This gives us confidence that we will see an eventual recovery as issuer appetite returns.

Loans generated Q1 revenue of $21 million, declining 3% year over year. Our personal loans vertical grew 12% year over year during Q1, a deceleration versus Q4, as we have not yet fully recovered from the pullback that began last quarter while we work through some of the growing pains in scaling with new audiences and partners. We still believe that there is a backlog of consumer demand in personal loans as high loan rates have reduced the incentive for consumers to refinance credit card debt.

While we do not expect to return to revenue levels from last year in the near term, we will continue to invest in this vertical in anticipation of an improving lending environment. We expect that macro changes, combined with leveraging our improving ability to align consumer demand more effectively with financial services providers, will put us in a prime position to take advantage of demand as it surfaces. We are also optimistic that structural improvements we've made to our mortgage marketplaces will help us capture meaningful share when the housing market recovers.

As a reminder from last quarter, we recently changed our revenue product category presentation and are now providing SMB products revenue as a separate disclosure. SMB products consisting of loans, credit cards, and other financial products and services intended for small and midsized businesses, delivered Q1 revenue of $30 million, growing 21% year over year. SMB loans remained pressured by elevated rates and tighter underwriting, but we continue to drive growth with our diversified product offerings for small and midsized businesses in areas such as credit cards, banking, and software. We believe this serves as a further proof point that we have a substantial runway of additional subcategories outside of SMB loans that can provide tailwinds over the long run.

Finally, our emerging verticals, formerly named our other verticals revenue product category, finished Q1 with revenue of $60 million, declining 2% year over year. As a reminder, after the regrouping of SMB products revenue, emerging verticals consist of areas such as banking, insurance, investing, and international.

Banking declined 9% year over year as we lap our toughest comparison period in 2023, but grew versus Q4, which we primarily attribute to our seasonal cadence. Despite the recent moderation of consumer demand, we expect to eventually reach a new normal in our banking vertical as demand remains higher than it was in a zero interest rate environment.

The decline in banking was partially offset by growth in investing due to recent stock market strength, combined with a resurgence in our insurance vertical. Despite tough comps from the prior year, insurance revenue grew 5% year over year in Q1. We remain optimistic that the end market will continue to improve, assuming inflation remains stable.

Moving on to investments and profitability. During Q1, we earned nearly $11 million of non-GAAP operating income at a 7% margin, a 4 point increase versus the prior year, primarily driven by leverage in brand marketing as we continue to optimize our investment levels, which began during the latter three quarters of 2023. We also earned over $25 million of adjusted EBITDA at a 16% margin.

In the first quarter. We had GAAP operating income of $3.7 million and net income of $1.1 million, which includes a $3.7 million income tax provision. Similar to what we've mentioned in previous quarters, we expect to be a cash tax payer for the foreseeable future. Please refer to today's earnings press release for a full reconciliation of our GAAP to non-GAAP measures.

Consumers continue to turn to the Nerds for their money questions. We provided trustworthy guidance to 29 million average monthly unique users in Q1, up 25% year over year. Growth was a result of strength in many areas across the NerdWallet, such as investing, travel, taxes, and insurance. We are seeing consistently strong consumer demand for both our learn and shop content, though our learn content has been a larger portion of where consumer demand has more recently concentrated, causing higher MUU growth, with some pressure on revenue per MUU.

Growth in areas such as investing was bolstered by interest in the stock market as well as Bitcoin strength. And insurance saw rising premiums drive more consumers to look for the best options for them. Despite these near-term monetization pressures, more MUUs engaging with our learn content and coming to us during specific macro events builds our brand recognition and trust and compounds the value of our franchise over time.

Onto our financial outlook. Similar to what we discussed last quarter, we believe that we have line of sight to returning growth in Q2. We will continue providing quarterly guidance along with a mix of quantitative and qualitative commentary for full-year expectations. We expect to deliver second-quarter revenue in the range of $147 million to $152 million, which at the midpoint would increase 4% versus prior year, but decrease sequentially roughly 8%, somewhat larger than our normal seasonal cadence.

To give you more color on our Q2 expectations, the primary driver of the larger-than-normal seasonal decline from Q1 to Q2 is that banking demand continues to moderate. In addition, we are still facing tight lending conditions across both credit cards and loans. Given the material increase we've recently experienced in insurance revenue, we expect to see a return to much higher year-over-year growth in Q2 as comps get easier. We are also seeing continued momentum in SMB products.

As we look to the rest of the year, we remain confident in our ability to return to double-digit revenue growth at some point in the second half, given recent recovery in SMB products and insurance. But the timing of the recovery in areas such as balance transfer cards, combined with how potential interest rate movements will impact inversely correlated demand in banking and loans, remains uncertain and will ultimately influence how high those double-digit growth rates will be.

Moving to profitability. We expect Q2 non-GAAP operating income in the range of negative $1.5 million to $1.5 million. We began to pull back on our brand investment during Q2 of 2023 and are not expecting to see the same level of year-over-year margin accretion during Q2 this year as previous quarters. We are still facing headwinds in monetizing portions of our organic traffic, including areas such as balance transfer credit cards.

And as we start to see tailwinds in areas such as insurance and SMB, normalizing demand from financial services providers should result in more paid traffic acquisition. As we've mentioned in the past, we view paid marketing as a means to an end and we'll continue to spend in a disciplined manner, with the aim to be paid back within the quarter in which we spent.

Compared to Q1, non-GAAP OI will be lower sequentially due to a larger-than-seasonal decline in revenue, partially offset by lower brand spend. We will also have planned increases in employee engagement costs, including a biannual employee event, which will have roughly a 2 point margin impact in the quarter.

We are reiterating our full-year guidance for 2024 margin expectations. Given recent economic data, which indicates continued inflationary pressures, we believe where we fall in these ranges will depend on the pace of improvements in the lending environment. Aligned with our previous full-year guidance, we expect non-GAAP OI margin of approximately 6.5% to 8% of revenue and adjusted EBITDA margin in the range of 18% to 19.5% of revenue.

We're proud of the results we've delivered so far this year and remain optimistic about the future. Our growing consumer mindshare, with strong traffic and brand signals, give us confidence that as macroeconomic conditions recover, our ability to meet consumer needs will strengthen our long-term positioning.

With that, we're ready for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Justin Patterson, KeyBanc.

Justin Patterson - *KeyBanc Capital Markets Inc. - Analyst*

Great. Thank you very much. Lauren, you called out the growing while the challenges within the balance transfer product. I know last quarter you had some growing pains matching sub in your prime consumers. Could you talk about just some of the efforts you're taking to mitigate those issues? And how we should think about that recovering?

Lauren StClair - *NerdWallet Inc - Chief Financial Officer*

Yeah. I'm actually going to hand that question over to Tim to talk a little bit more about personal loans.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yeah. We're still working through the issues we mentioned last quarter as we're scaling in the near and subprime market. So as I previously discussed, when you go into a market, sometimes it takes a few cycles to get the routing and matching right.

So we did rebuild some of these consumer experiences, and we're scaling back up with some of the lenders in this space. So we want to get this right for consumers and lenders to create that win-win, and we feel we're on the right path here.

Justin Patterson - *KeyBanc Capital Markets Inc. - Analyst*

Got it. And then with respect to just home services, you called that out as an example of product velocity and repurposing assets. Would love to hear a little bit more about just the efforts to scale that category and then get some new ones like social security, Medicare up and running.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes. So we've got a playbook in our land and expand. It tends to lead with creating quality content in these categories, and then really matching consumers with the best products out there. So nothing too different. After we do this over and over again, we're getting more efficient at launching new verticals a bit more efficiently over time, so that's what we're calling out.

Justin Patterson - *KeyBanc Capital Markets Inc. - Analyst*

All right. Thank you.

Operator

Ralph Schackart, William Blair.

Ralph Schackart - *William Blair & Company - Analyst*

Hey, good afternoon. Thanks for taking the question. Just first, maybe a little bit more color, if you could on the commentary around double-digit growth in the second half. Is that sort of like on a consolidated basis? Would each quarter grow double digit? You know, would it accelerate? Just any comments on that. And then I have a follow-up, please.

Lauren StClair - *NerdWallet Inc - Chief Financial Officer*

Sure. I'll take that piece. So just to reiterate, first for the guide for Q2 revenue, we said that our expectations are $147 million to $152 million, growing 4% year over year at the midpoint.

We also said that we expect to return to double-digit rates of growth at some point in the second half. And this is led by the strength that we're seeing in SMB products and insurance. So we have not clarified exactly when we expect those double-digit growth rates to kick in. But we know, given the strength in those two verticals in particular, that we're confident that we will get there.

And we also did want to call out that the timing of recovery in areas, such as balance transfer cards as well as any interest rate driven demand changes in banking and loans, is going to influence how high those double-digit growth rates will be.

Ralph Schackart - *William Blair & Company - Analyst*

Great. That's really helpful. Just on the brand campaign, you've seen really good results. And I think spending was down about 30% from the letter. Has that sort of reshaped your thought process on spending on brand campaign? Or is that sort of just a temporary phenomenon in 2023? Just curious how you think about that spend going forward.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes. So we're really proud of some of the learnings and efficiency we've driven there. And yes, naturally, in an environment where it's tougher to monetize, we look at those return hurdles and we'll make some adjustments. So that's some of what you saw over the past couple of quarters.

But yes, we're also still relatively new to this. We're very data driven. And so given 2022 is the first full year we ran brand campaigns, we're getting better at things like creative and which channels. And so we're very ROI driven there and we'll make adjustments up or down there.

As of now, we'd say that for the full year '24, the guide, it does assume a slightly lower amount of spend versus last year. But we're going to reserve the right to flex that up and down depending on a variety of factors.

Ralph Schackart - *William Blair & Company - Analyst*

Great. Thanks, Tim. Thanks a lot.

Operator

James Faucette, Morgan Stanley.

Michael Infante - *Morgan Stanley - Senior Associate, Fintech Equity Research*

Hi, everyone, it's Michael on for James. Thanks for taking our question. Tim, I know you called out elevated delinquency rates contributing to a tougher lending environment. But if I look at the pace of year-over-year deterioration in delinquencies across the card issuers and banks that we track, it seems like it's slowing across the majority of those issuers, i.e., getting slightly better. And so I'm curious how you're thinking about a time at which issuers may start to more aggressively want to acquire new customers?

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes, thanks for the question. It's a good question. We think that delinquencies and ultimately -- delinquencies are a leading indicator, right, in terms of when issuers should start getting more aggressive. The bigger -- balance transfer players are also a bit balance sheet constrained beyond just the credit risk part of it.

And so we've been through a few cycles like this in the past. So past experience tells us that this is pretty historically abnormal for this to persist. It tends to revert over time. So it's hard to call the exact timing on when that happens.

And yes, for us, it's really about investing through the cycle. We're still only single-digit market share in overall card originations and see ample opportunity to grow that by doing things like registering more users, reengaging them, and increasing our conversion rates. So we're focusing on the long run.

Michael Infante - *Morgan Stanley - Senior Associate, Fintech Equity Research*

Appreciate that. That's helpful. And then maybe just on the NerdUp card. I know we're obviously very early in that product journey, but this is obviously an important customer acquisition tool, more broadly. So I'm just curious if you could give us a little bit of color just in terms of how traction has trended thus far? Thanks.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

And so for right now, I'd say it's early days. It's on the right track. I just want to reiterate the goal here is, as you mentioned, help consumers build credit history, engage them, and get them graduated into unsecured products. So yes, we're seeing improvements in things like credit scores. We're seeing good engagement and so we're pretty happy so far.

Michael Infante - *Morgan Stanley - Senior Associate, Fintech Equity Research*

Thanks, Tim.

Operator

Jed Kelly, Oppenheimer & Co.

Jed Kelly - *Oppenheimer & Co., Inc. - Analyst*

Great. Thanks for taking the question. Just going back to some of the paid marketing comments, given that you're having good brand awareness and all the engagement you're having on the non-monetizable traffic, can you just talk how we should think about sort of the cadence you think about performance marketing this year?

And then in terms of the contents for the users that are reading content that’s not monetizing, what type of products or what type of education and articles are they reading? Thank you.

Lauren StClair - *NerdWallet Inc - Chief Financial Officer*

Sure. I'll take the first piece of that around paid marketing. So first off, we think both brand and paid and our organic channels all complement one another. And because 70% of our traffic comes through organic, we've been able to reinvest in more acquisition channels like brand and performance.

We operate performance marketing in a disciplined way, aiming to be in quarter profitable, adding incremental non-GAAP OI dollars. And we've said this for a while, but we really do think of performance marketing as a variable expense that we will dial up or down depending on returns.

And we also view this as a means to an end as part of our registration and engagement initiatives. So we'll continue to be prudent, but we see increased spend as a positive, as performance marketing is a flexible lever to add incremental, non-GAAP OI dollars. We get more folks the opportunity to register, and it helps us to continue to take share.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

And then on the non-monetizing MUUs, you definitely have categories where we're just a bit newer. You know, some of the new markets we mentioned earlier, sometimes we haven't really set up commercial relationships there yet. There's areas like travel and taxes where we have a lot of informational content that doesn't necessarily monetize. So it kind of varies, especially through the news cycle. I mean, when things like investing or crypto take off, there's parts of that content that also doesn't monetize as well.

Jed Kelly - *Oppenheimer & Co., Inc. - Analyst*

And then just one follow up. As your insurance segment gets bigger, your insurance revenue gets bigger, can you give us any feedback on sort of the customer experience it's having relative to your other products?

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes. I mean, I think what you may be referring to is that sometimes in the industry, some of the insurance experiences don't have a great customer feedback score because of phone numbers being sold through multiple brokers.

We're really trying to minimize that. We're working hard to ask people more questions upfront to really match them to the right provider. And so it's a journey. But it's very important for us to keep on investing in that and keep on improving that quarter after quarter.

Jed Kelly - *Oppenheimer & Co., Inc. - Analyst*

Thank you.

Operator

Peter Christiansen, Citi.

Peter Christiansen - *Citi - Analyst*

Thank you. Good afternoon and thanks for the question. Tim, I just wanted to hear your thoughts on credit cycles. I recognize every each credit cycle is different. But I guess in previous cycles, while you're still growing organic traffic, when partners do come back, do they come back to spend levels that match your traffic levels currently? Or is it really at their own pace do they start coming back? And then I just had a quick follow-up.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes, I'd say historically, you would tend to have partners on the credit card side want all of the qualified lending demand that you can give them. And so loan balances that are high quality are revenue, right?

So historically, that tends to be uncapped. When you go into one of these credit crunches, sometimes you see people pull back on how much volume their -- how much volume appetite they have. And so we've been seeing some of that. And so we think that's historically abnormal. We'd expect kind of at some point to return to a more normal dynamic there.

Peter Christiansen - *Citi - Analyst*

Thank you. That's helpful. And then there's been some M&A on your partner side lately. I know you guys are very, very diversified on the partner side. So I'm not really asking about issues there. But can you just walk through what you typically go through on that process? Do you have to kind of re-win your contract with the new established partner? Or are there any other dynamics that we should be aware of?

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

Yes. Yes, I'd say I mean, we don't have too much precedence for something like this. But yes, typically, the products can be quite different, especially across the prime portfolios are quite complementary. And so we think that there wouldn't really be a need to re-win a major issuer.

We also tend to work with all the large players. So we have pretty good coverage. I think our value proposition in terms of highly qualified consumers that understand the product is pretty compelling. So we tend to work with most people.

Peter Christiansen - *Citi - Analyst*

That's helpful. Thanks, Tim.

Operator

Thank you. And I'm showing no further questions at this time. And I would like to hand the conference back to management for closing remarks.

Tim Chen - *NerdWallet Inc - Chairman of the Board, Chief Executive Officer, Founder*

All right. Thank you all for the questions today, and thank you also to the Nerds whose commitment to our consumers and our vision delivers all of our results. So with that, we'll see everyone next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
