Company Name: NerdWallet, Inc. (NRDS)
Event: KeyBanc Emerging Technology Summit
Date: March 5, 2024

<<Caitlin MacNamee, Head-Investor Relations>>

Before we begin, we just want to remind you that today – in today's remarks, NerdWallet CEO Tim Chen and CFO Lauren StClair will make forward-looking statements. All statements other than historical facts are forward-looking statements and are subject to risks and uncertainties that may cause actual results or outcomes to materially differ and should not be relied upon as predictions or guarantees of future events. NerdWallet undertakes no obligation to update any forward-looking statements made in today's remarks except required by law.

<<Justin Patterson, Analyst, KeyBanc>>

All right. Thank you, Caitlin. I'm Justin Patterson. Happy to have the NerdWallet team with us here today, especially one day after your investor video update. So fun time to talk. So maybe, Tim, just to lead off, for people who aren't familiar with NerdWallet, could you provide just a quick overview of the business?

<<Tim Chen, Chief Executive Officer>>

Yeah. Thanks for taking the time. So NerdWallet started back in 2009. My sister called me for help on which credit card to get. And I said, sure, let me Google that for you. I thought I'd be done in 30 seconds, and instead I found a mess of spam. So I did what any financial analyst would do. I made a spreadsheet for her. And yeah, that spreadsheet got forwarded around. It was helpful. If I reflect back on what the issue we were solving was, it's that most financial guidance is provided by commissioned salespeople, so it's hard to know what you can trust, right?

And so that spreadsheet solved the problem. We expanded into more and more verticals over time, organically, largely things like mortgage, insurance, student loans, basically anything you can think of. We expanded into more recently, things like Medicare, Social Security, and even Australia, right? And yeah, just a quick anecdote, I'm a big basketball fan. Last week I was watching a game where the stadium was named by a credit card issuer. Both teams had fintech companies on their jersey patches. Another fintech company was on top of the basketball hoop, and a money center bank had the logo on the court, right? So we're still in a world today where celebrity endorsements and just like a lot of advertising drives a lot of these financial decisions. And I think there's a long way to go and a long runway to make consumers have more data driven decisions.

<<Justin Patterson, Analyst, KeyBanc>>

I'll give you a shameless plug there. I was watching a Denver Nuggets game while marketing last week, so really enjoyed seeing all the NerdWallet branding throughout the arena while watching Jokic's dominate, highly encourage going there. So before we dive deeper into the product, the strategy, the overall vision, would love to talk on some of the financial targets from yesterday. So, Lauren, you outlined a path for long-term growth of 15% to 20% on the top line. What's really the underlying drivers for that? And what drives that confidence today?

<<Lauren StClair, Chief Financial Officer>>

Yeah. Thanks, Justin. And as we mentioned yesterday in our investor video, we did put out long-term targets, and we said across cycles, we expect to grow 15% to 20% in terms of revenue. How do we do that? Well, first we start with a really large end market. It's already over $30 billion today. We define that as the U.S. financial services digital marketing. That market is expected to grow in the low-double digits as we continuously see that shift from offline to online, especially to areas like ours that are very data and success driven.

So on top of that, we believe we can deliver an additional five to 10 points of growth ourselves from executing on our growth pillars. And that's primarily through better monetization and re-engagement of that great top of funnel that we have. And if we think about it from a vertical perspective, we still think there's a ton of headroom across all of those verticals. For example, credit cards, for us, is our most mature and it's our largest vertical. But if you look today, we're still low-single digits of originations for new credit cards in the U.S. So given that opportunity, our data driven approach, we think we have lots of runway with the issuers for years to come.

<<Justin Patterson, Analyst, KeyBanc>>

Definitely. And the other side, where you seem to have a lot of runway right now, is just on the margin side, 24% EBITDA margin target for 2026, faster than we were expecting within there. So talk about just what's driving this margin inflection at the business?

<<Lauren StClair, Chief Financial Officer>>

Yes. Thanks, Justin. I know you talked about adjusted EBITDA, but I'll remind folks in the room, and also folks that are listening, we started disclosing non-GAAP operating income, and that will be our main profitability metric moving forward. So, in addition to adjusted EBITDA that we disclosed yesterday, we also issued midterm guidance for 2026 of 15% non-GAAP OI margins. And if I take a step back on margins, one of the things that we're incredibly proud about is that we've continued to deliver consistent margin accretion on an annual basis since our IPO in late 2021.

And we've done that through a number of ways. We've done that through leveraging our fixed cost base, everything else. But we feel really proud about that. Now, our assumptions moving forward is that we do get back to revenue growth, but we'll also continue to get more leverage out of that fixed cost base. If you think about how we've scaled brand, if you think about some of the public company costs that have shown step function changes, that's going to moderate over time. And then in addition, as we continue to land and expand, we talk about how we implement our organic playbook in the short term, we invest, and then as we monetize over the long term, those stay relatively fixed and we get leverage there.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. So we touched on a couple of financial outputs there. So let's go back to just the inputs, the strategy. Tim, you led off talking about how you helped your sister with the spreadsheets. What are really the key steps you have from the product side right now and even marketing to make NerdWallet a trusted brand to the consumer.

<<Tim Chen, Chief Executive Officer>>

Yeah. So I'll run through our growth pillars, right. So the first one is land and expand. And that really means that we take our core asset, which is our trusted brand and reach and we expand into more verticals. We've had a very high success rate doing this. Every organic expansion that we've had has been successful and so we see opportunity to continue doing that. Maybe the less obvious stuff within that, like even within small business, we expanded into things like helping small businesses figure out which payment terminals are the best option for them, which software they should use, how they should think about their insurance, right? So there's just a ton of sub expansions to think about. And then obviously with every time we go to a new geography that creates a bunch of land and expand opportunities.

The second for us is vertical integration. I'd really think about us as being kind of in the second inning here. There are just so many financial services end markets where there's humans involved because it's very personalized, it's very nuanced. So think about your agent, broker or advisor. We see an opportunity to vertically integrate into all these spaces because that same need for a trusted source of guidance is there everywhere and being able to get that one stop shop is just a ton of leverage for us.

And then lastly, our third growth pillar is registration and data driven engagement. So not really surprising. But the more we know about users and the more targeted we are, the more they monetize and the happier they are with our consumer experience. So it starts with registrations giving them a reason to register, but then retargeting and serving really customized insights is really appreciated. So those are kind of the umbrella by which we're doing all of our product investments.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. Let's work back there a little bit. You mentioned registered members. You've had tremendous growth there the past few years. What's really been driving that? And how do you think about just the profitability of a registered member versus the logged out user if you will?

<<Tim Chen, Chief Executive Officer>>

Yeah. So, just mechanically, we help people with things like learn, shop, and manage. And so when you're shopping for a product, it's not like buying an airline ticket in many cases, oftentimes, the price of the product, the interest rates, are dependent on your credit qualifications, whether you're talking about personal lending or insurance. There's a pretty darn good reason to register at that point in time, because we want to give you your rate, right. And so that creates a very natural funnel mechanically within some of our shopping experiences.

And then there's other reasons people are shopping, too. I mean, we have people downloading our app to track their credit score, but also to track their net worth, track their cash flow. And then there's a bunch of things I haven't mentioned within subcategories. Everything from NerdWallet Advisors, which is a RIA that we launched recently to NerdUp, which is a secured card that helps people build credit. So it's pretty broad based.

<<Justin Patterson, Analyst, KeyBanc>>

I'm glad you brought up NerdUp. I know there's a lot of investor questions on that since that launched later last year. Talk about just the strategy of NerdUp and the type of audience you're reaching with this?

<<Tim Chen, Chief Executive Officer>>

Yeah. So distribution is really challenging in financial services. It's very expensive, and therefore, you have to offset that, oftentimes by charging high fees or making money in other ways, right. So at NerdWallet, we said, well, gosh, we have essentially organic distribution across a bunch of different areas. Maybe we can give back some of the economics to the users. And then the win-win-win really would be that we build up people's credit scores. They have a relationship with NerdWallet. Maybe we can graduate them into unsecured products over time. It's great for financial institutions, too, because they don't have to reject people. They can nurture people, and then they can have a user base that they have a lot of info on and can target.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. It's really a grow with you strategy. You help them have better outcomes, happy financial sponsors, and then some positive word of mouth benefits presumably follow.

<<Tim Chen, Chief Executive Officer>>

Right.

<<Justin Patterson, Analyst, KeyBanc>>

Makes sense. So, shifting over to just vertical integration in there, and perhaps for Lauren on this one, On the Barrelhead was a big acquisition from about two years ago, roughly talk about just your learnings from that.

<<Lauren StClair, Chief Financial Officer>>

Yeah, absolutely. I can give my perspective and Tim, jump in there. So first off, for those that maybe aren't as familiar, we acquired On the Barrelhead in order to take their loan matching technology and integrate that into the NerdWallet platform. So we take our great top of funnel traffic and we better monetize and convert. And I think, Tim, talking about some of the sub vertical experiences for certain financial products you just need more information in order to match in order to make the best possible product for them. And so this technology gives us the opportunity to build out that suite and that functionality within the lending space. But we can also start to apply that to other risk-based products like say, credit cards and ultimately down the line into other verticals in their wallet.

<<Tim Chen, Chief Executive Officer>>

Yeah, I'd say that historically our DNA, where we're really strong, is helping consumers choose between a lot of products. But that implies that that consumer believes they qualify for every product out there and they're really just trying to choose between bells and whistles, sign up points, low fees, et cetera. The big job to be done that we weren't addressing as well was really for the near prime consumer whose number one question is, what do I qualify for, right. And so I think this is really where matching the two companies together gave us a big lift.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. You mentioned on the last earnings call, there were some call it hiccups at the start of just reaching some of these near prime and subprime consumers. What are really the steps to iron out that process, improve that matching flow?

<<Tim Chen, Chief Executive Officer>>

Yeah. So this really needs to be a win-win for consumers and partners, right. And so as we stand some of these things up, we're sending referrals through that we've never sent through before to partners that maybe we haven't worked with before in the past, right. And so you learn a lot in the first couple of weeks and months of doing that and then you make some adaptations. So we were, I think, not getting user intent totally right and partner demand totally right. And we had to fix some of those routing issues.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. Got it. Then kind of stepping back, just thinking about the marketing side of the business, Lauren, you've mentioned earlier that you've spent a lot of marketing the past few years to build the brand. How are you thinking about deploying marketing spend going forward?

<<Lauren StClair, Chief Financial Officer>>

Yeah, maybe I'll start. And then, Tim, you want to add some color, maybe about brand in particular. But I think first to set the stage, if we look at full year 2023, a little less than half of our sales and marketing investments are what we would consider fixed cost in nature. So think about headcount and think about brand spend. That type of spend, those fixed cost type spend really drives our organic traffic, which has very high incremental margins. So the cost of serving an incremental organic visitor is very, very low.

And so therefore, as we continue to scale that organic traffic, we expect to get a lot of leverage out of those fixed costs. Now, on the flip side, a little over half of all full year 2023 sales and marketing investments are what we deem variable in nature. And that is essentially performance marketing. Now, paid visitors tend to have a much lower incremental margin, but our goal is to be disciplined with that spend and we will aim to be in quarter profitable.

And the great news about performance marketing is that we get pretty real-time feedback in terms of measurement and efficacy. And so we can lean in when we see returns doing really well and subsequently we can pull back if we see changes in consumer or our partner behavior.

<<Tim Chen, Chief Executive Officer>>

Yeah. And a few words on brand spend. It's really not the norm in our industry to be doing brand spend and if I, for example, put on my CPG hat, you need a good product and you need shelf space, right, otherwise the equation doesn't make a ton of sense. And so our parallel is we think we have a great brand that resonates and we are everywhere digitally, right. And that makes for a pretty effective brand marketing, strategically speaking.

And then of course, there's kind of like two factors that caused us to pull back last year. I'd say the first one is the catcher's mitt shrank a little bit in terms of being able to monetize some of the customers that are both qualified and looking for products, especially in industries like insurance, as well as some parts of lending, right. And then I think the second factor was just our first full year of brand spend was 2022. So we're learning things in terms of creative as well as channel in terms of what works and what doesn't work, whether it be basketball or something else, right. And so we're learning those things and getting more efficient as we go along.

<<Justin Patterson, Analyst, KeyBanc>>

Right. And to your point, you can't control the macro, but you can control what you're investing in on the product side and making sure the people who do come to the site, have a good experience. When you look at just the product today, what are really your top priorities across some of your key verticals to improve in 2024?

<<Tim Chen, Chief Executive Officer>>

Yeah. So I go back to the more registered users, the more user data we have, the better job we can do of matching people to something that's really good for them. So that's a big one, right, and I think that cuts across a ton of the initiatives we've got going. So if you look on our website, yeah, things like NerdWallet advisor we're exposing a lot of our learn content, right. And we're seeing people be interested in having a more personalized touch. Of course, we pick up a bunch of information about them along the way and know how to reengage them. In small business lending, we've got both our new loan book and then our renewal book, and then we've got a bunch of vertical expansion within that cross-sell, so different initiatives like that.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. A few more from me before I open up to the audience. Like I'm a bad Internet analyst, I haven't said AI yet, but talk about just how you deploy AI in the organization? I know you have a chat capability that recently launched in there. How does that really change engagement with consumers?

<<Tim Chen, Chief Executive Officer>>

Yeah. So I'd say probably two things that we're pretty sure about. One is that it's really helping us navigate people to the right place on the site, whether that be through better search functionality or even like within pages, getting them to the right registration experience or to the right next piece of content as an example. So quantitatively that's proving to be pretty true. And then I think the second piece is, of course, every function within the organization is somehow like either thinking, experimenting or actively using AI to increase productivity in some way. So that's pretty broad based. It's everything from Lauren's team to the product team to back office, it's pretty broad based.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. And from the vertical side, you alluded to in the 10-K for a while now, some potential new verticals like Medicare, crypto. How do you think about just standing up new verticals? The steps to get something like that right?

<<Tim Chen, Chief Executive Officer>>

Yeah. So we have a pretty defined playbook there, right? We tend to start with learn content. And so, yeah, I mean, our mission is to provide clarity for all of life's financial decisions. Anytime – something is in the zeitgeist or is just an important consumer need we start to research it heavily, have experts really learn the vertical, cover the vertical. We interview people within the space and then we start creating content, reviews, rankings, rubrics---all sorts of stuff around that, right, with our editorially separate team. And then we wait and see what happens.

Oftentimes what happens is that the organic traffic starts to grow and grow there. And then sometimes a vertical integration starts to make a ton of sense. We plug in an agent, broker, advisor here in a digitally enabled way to make it better. And when that happens, we tend to register people and drive re-occurring revenue, right, so that's a very attractive dynamic.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. So kind of stepping back, going to financials once more. Lauren, you spoke to getting back to double-digit growth in the second half this year. What really is driving that, since macro is still a bit cloudy for all of us today?

<<Lauren StClair, Chief Financial Officer>>

Yeah. Absolutely. The main confidence that we have getting back to double-digit growth in the second half of 2024 is really what we're seeing right now in SMB products, as well as what we're seeing in insurance. And so we've talked about this, and the caveat I'll give is that the recovery in things like balance transfer cards or in interest rate sensitive verticals like banking or like lending, that's really going to determine how high those double-digit rates will be and when exactly we'll get there.

<<Justin Patterson, Analyst, KeyBanc>>

Got it. And then the last one from me, capital allocation. You're generating a healthy amount of free cash flow. Right now growing free cash per share, you've got a good track record of M&A. What do you see as the key uses of cash going forward?

<<Lauren StClair, Chief Financial Officer>>

Yeah. So our three main levers for capital allocation are continuing to invest organically. We'll continue evaluating inorganic opportunities. And now, with our share repurchase authorization, we can also return capital to shareholders. As we've said in the past, price will always be a key consideration. We'll continue to be acquisitive when the timing, the opportunity, and the price is right. And we will also opportunistically repurchase shares when we can. We spoke a little bit more in depth in the video, so maybe I'll just a couple of highlights in terms of overall philosophy that we have around capital allocation.

We really want to allocate towards uses that generate the highest risk adjusted rate of return. And we are also going to apply different discount rates depending on what is the actual capital allocation lever that we're pulling. If I think about share repurchase, for instance, that tends to have the lowest execution risk and therefore the lowest discount rate and we'll use that same logic across all of the levers that we have.

<<Justin Patterson, Analyst, KeyBanc>>

Great to hear. All right, audience Q&A time.

I think we've got about five minutes left.

Question & Answer

<Question>: Can you talk about the insurance segment?

<Answer – Tim Chen>: Yeah. Okay. So a quick high level background of what happened in exiting COVID, right. There was a lot of inflation. It got expensive to replace a car, to fix a car, to replace a house, to fix a house. And then risk went up a lot in general, too, right. So what happened was you've got different regulators in each state and there's approval process in terms of raising prices. So we ran into this huge log jam of insurance companies being unable to price insurance profitably. And so you can imagine the marketing budget within a state where you can't price profitably drops off a cliff. You actually don't want any new customers, right. And so that's broadly been happening.

Now, at this point autos has recovered a bit because used car prices have come in a bit and they've been able to readjust rates. Home is starting to get better. You look at the underlying health of the industry by looking at the combined ratios, the profitability of some of the major carriers in the space. And so that's kind of what gives us confidence that there's going to be a tailwind here in 2024. A lot of these things are heading in the right direction, kind of the first time in a while. I'd say, like Q1 2023 was a bit of a headfake.

The industry thought they were getting back on the right footing. They were opening up marketing again, and then it pulled back pretty dramatically again after that. So this time is different maybe.

<Question>: Is your mix of business helping margins or is it mainly leveraging fixed costs? Can you talk about the profitability in the different product segments.

<Answer – Lauren StClair>: Yeah. The way we operate the business and as we look at NerdWallet in total and so the way we make decisions, pretty much same across all of our verticals. And so where we'll get the most leverage is truly in that fixed portion of the cost base.

<Answer – Tim Chen>: Yeah. I think it's worth pointing out. We have pretty high incremental margins, right? I mean, we're an Internet company, so there's kind of like two different buckets to think of there, right? For traffic coming in organically, we have pretty minimal incremental cost. For traffic we pay for, it's a lower margin, right and so that cuts both ways. So imagine that insurance scenario I just described. If you have entire states where it's very difficult to monetize any users and you have a lot of organic traffic shopping in those states, we're basically getting zero revenue or margin in that situation and at some point that should reverse, right. Similarly, if you're talking about like balance transfer credit cards, and not being able to meet all the demand from the consumers who are actually qualified because banks are having balance sheet constraints, that, again, caps both revenue and incremental margin in a big way.

<Answer – Lauren StClair>: Maybe for the sake of folks that are listening in, the question was around, does vertical mix help margins or is it really the nature of the fixed portion of the cost base, that we were answering.

<Question – Justin Patterson>: And maybe one more from me. We're eventually going ahead, and with declining interest rate environment, don't know when, but sometime. How should we think about that just impacting NerdWallet as a whole?

<Answer – Tim Chen>: Yeah. So we're kind of in an uncharted territory here. We're only 15 years old, right? What we can say is that it should certainly help on the lending side, both in terms of consumers being willing to accept an interest rate that's offered to them, but also from giving people an incentive to refinance everything from a student loan to a mortgage to an auto loan, so that would be a nice tailwind. Conversely, we had benefited on the way up on our deposit side. So imagine like a high yield savings account didn't make a ton of sense to shop around when rates were 1%, but at 4% or 5% it does. And so depending on whether rates drop back to zero or to 4% you'd probably expect a different outcome there.

<Question – Justin Patterson>: Got it. And then one question we often get from investors just around AI is there a risk that people go to Chat GPT or something like that over time? Is that a threat to your business?

<Answer – Tim Chen>: Yeah, I think the way I think about it is there's kind of three factors there. One is trust, one is compliance, and one is marketplaces. So on the trust side, i.e., I don't know, I personally, like, if an LLM told me to take a tax deduction, I'd really want to vet it with a source I trusted before I went and took the tax deduction, right. So there's something about financial services where you really want to vet stuff, especially as the amount of spam is exploding with LLMs out there.

On the compliance side, I'm shocked at how many agencies were regulated by. I mean, just to put this into context, even our Medicare content is regulated by the CMS, right. There's a different regulator in every state for insurance and brokering, multiple actually depending on which sub-line you're in. And so you basically can't run a business without a lot of lawyers and a lot of compliance, which is probably why one of the major search engines pulled out of our space.

And then lastly, in terms of marketplaces, you have to fill the marketplace with inventory. You have to price risk according to credit risk and personalized factors. There's a lot of iteration and development that happens. Partners stop accepting new demand or want a lot of new demand sometimes. So there's just like a lot of basic marketplace dynamics that aren't solved by that as well.

<<Justin Patterson, Analyst, KeyBanc>>

Very helpful.

With that we are out of time. Tim, Lauren, thank you so much.

<<Lauren StClair, Chief Financial Officer>>

Thanks for having us.

<<Tim Chen, Chief Executive Officer>>

Thank you.