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Q4 2023 Thryv Holdings Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Thrive Holdings, Inc. fourth quarter and full year 2023 earnings call. (Operator Instructions) I would like to advise all participants that this call is being recorded Thank you. I'd now like to welcome Cameron Lessard, Head of IR to begin the conference. Cameron, over to you.

Cameron Lessard ***Thryv Holdings, Inc. - Head of IR***

Thank you, operator. Hello and good day to everyone, and welcome to Thrive Fourth Quarter 2023 earnings conference call. On the call today are Joe Walsh, Chairman and Chief Executive Officer; Paul Rouse, Chief Financial Officer; and Grant Freeman, President. A copy of our earnings press release and investor presentation can be found on our website at DR.com or in the Investor Section at investor dot DR.com. Please acknowledge comments made on today's call and responses to your questions may contain forward-looking statements about the operations and future results of the Company.

These statements are subject to the risks and uncertainties described in the Company's earnings release and other filings with the SEC. Thrive has no obligation to update the information presented on the conference call.

Finally, our speakers will reference certain non-GAAP financial measures, which we believe will provide useful information for investors. Reconciliation of those measures to GAAP will be posted on our website.

With that introduction, I would like to turn the call over to Chairman and CEO, Joe Walsh.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Good morning, Cameron, and thank you all for joining us on the call today to discuss our fourth quarter and full year results 2023 was a stellar year for thrive, and we capped it off with an incredible fourth quarter that once again exceeded our expectations.

For the full year 2023, we delivered SaaS revenue of $264 million, up 22% year over year, with SaaS adjusted EBITDA of $12 million, which represents an adjusted EBITDA margin of 5% because when we started the year, we were projecting somewhere around breakeven for our SaaS business. We've more than delivered on that objective. And for the quarter, we're really happy to announce two notable improvements in our SaaS metrics that adjusted gross margins improved to 70% in the fourth quarter.

\Our gross margins have been trending towards the 75% that we guided in our long term guidance. And it's really a function of us having built out our platform. We've got more to go, but we're able to sell multiple centers out of existing customers. And so you end up with a lot better gross margins. So that's a trend that we think we'll see continuing.

Next stat I wanted to mention was net dollar retention, we came in at 96% for the fourth quarter. And again, that has to do with us selling additional centers to existing customers who previously only had one center that just wasn't a lot else to sell them.

We have some small add-ons, but now that we're building out more center with another one coming later this year, we expect net dollar retention to continue trending toward that 100% that we've given our long-term guidance.

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We generated $148 million of cash from operations and free cash flow of $115 million, which was very similar to the prior year, even after accounting for the print revenue recognition dynamic in the third quarter and our acquisition of yellow New Zealand, which occurred in the second quarter. This allowed us to retire a significant amount of debt in 2023.

Later in this call, Paul will delve into our impressive fourth-quarter and full-year results. However, I wish to direct everyone's attention to the press release we issued alongside our earnings results this morning for those familiar with our company on this call, you are well aware of our ongoing multiyear transformation. We're shifting from a massive marketing services entity, selling both digital and print products to small medium-sized businesses to a rapidly expanding and innovative SaaS powerhouse catering to the same client base.

Our unparalleled advantage lies in the strategic selling of our SaaS products directly into the client base within our marketing services business. We refer to it as the zoo with our recent product launches, notably marketing center and command center. I'm excited to share today that we're seeing an acceleration of clients coming from Brazil into the SaaS platform as we journey along the digital transformation. And we're excited to share an update on our ongoing initiative to transition marketing services clients to the powerhouse drive platform.

This isn't a sudden shift or anything new, but the next natural step and a decade-long commitment to equipping small businesses with the best tools for success. This will be a significant growth lever for the company in 2024. And I'm delighted to welcome our President, Grant Freeman, to provide a more in-depth commentary on the transformative process.

Grant Freeman ***Thryv Holdings, Inc. - President***

Thanks Joe, and good morning, everyone. As Joe mentioned earlier, we issued a press release this morning detailing our legacy client upgrade plans for 2020 for since you may not have had a chance to review it yet. I'll provide a brief overview and address any questions during the Q&A portion to follow with our drive platform, including Business Center and the recent introduction of marketing center and command center.

We are aligned with our vision for growth in the SaaS business by strategically expanding our platform into areas that complement our existing services. We're capitalizing on product adjacency opportunities. Specifically, our new offerings seamlessly integrate with our legacy products into the SaaS platform, creating a natural progression for our clients.

As a result, we anticipate a slight acceleration in the decline of billings from marketing services as clients naturally transition to the SaaS platform attracted by the enhanced features and capabilities that it provides, you know, for eight years we've been actively engaging with our marketing services clients to encourage them to modernize and adopt our award-winning drive platform as an upgrade to their existing services drive will continue to upgrade our clients to our platform as we execute our planned migration away from legacy digital products and services.

We've been converting many of our legacy customers to Business Center, a software product designed to help SMBs, manage and organize the business, generate invoices, run Social Campaigns, manage listings and estimates and many, many more important elements of running their business. Many of our business center clients opt to keep the marketing services products because they consistently rely on them to generate low cost, high converting business leads, which they find extremely valuable.

This underscores the positive interconnection between SaaS and marketing services usage among our clients. Our dedication to client success isn't limited to introducing new offerings like marketing center, Command, center, drive pay, et cetera. It's a move that unlocks NDR expansion.

These offerings are not cosmetic enhancements they serve as catalysts for growth by simplifying client upgrades and providing enhanced value propositions. We've established a virtuous cycle clients gain access to expanded solutions, fueling their success while also generating predictable recurring revenue streams. For us, this mutual benefit isn't a one-time thing. It's a symbiotic relationship that lays the groundwork for sustained growth and partnerships. As small businesses drive and grow, they naturally use more of our platform capabilities.

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Now to support our growth, we will streamline operations, reduce complexity and create efficiencies around our legacy digital systems. We've been upgrading our long-standing clients, our award-winning platform at no additional cost to them. In some instances, we have also observed clients who have increased their spend in the platform were eager for them to explore and utilize and grow into various modules of the platform to empower their businesses.

While many of our legacy digital products deliver value, they simply aren't receiving investment or further development. We are investing in our platform, our existing centers and have plans for new rollouts in 2024 and beyond. By upgrading clients to our Thrive platform.

We provide the same value they currently receive, plus numerous additional features to help them solve more problems today while also offering the opportunity to address future challenges through the addition of new centers.

Our marketing services revenue is declining every year in the range of 20%. We are being proactive in retaining clients for the long term by offering them a viable product, a software platform that prepares them for the future, upgrading them to our platform can address their current and future needs.

Every client being upgraded also receives our unique command center, which helps them tackle the universal problem faced by SMBs, which is effective and efficient communication with customers with prospects and with their internal team members In sum, our client upgrade plans for 2024 underscore our commitment to growth in the SaaS business with the introduction of the marketing center and command center. We're not just evolving.

We're revolutionizing our approach seamlessly integrating new offerings to enhance client experiences and drive sustained success. In addition, we're excited about the role of DR command center as a freemium offering and what new opportunity it provides by offering commencement of the businesses and developing the usage of their free center.

We're building a blue ocean of freemium users who are benefiting from our platform. This allows the Company to target those premium users who begin to activate and become hand raisers, allowing the company to offer these users paid centers to solve additional problems on our drive platform.

So with that, I'll now turn it over to our CFO, Paul Rouse, to discuss our fourth quarter and full year financial results. Paul?

Paul Rouse ***Thryv Holdings, Inc. - CFO, Executive VP & Treasurer***

Thanks, Grant. As a reminder to listeners, we are going to focus on two segments SaaS and marketing services, which includes results for both domestic and international operations. Additional detail between domestic and international for each segment can be found in the appendix section of our investor presentation.

Let's dive into our results beginning with our SaaS segment. Saas revenue was $74 million in the fourth quarter ahead of our guidance, representing an increase of 25% year over year and 10% sequentially. Full year SaaS revenue grew 22% to$ 263.7 million.

Moving on to profitability improvements for the quarter, SaaS adjusted gross margin increased 690 basis points year over year and 310 basis points quarter over quarter was 69.7%. Full year SaaS adjusted gross margin expanded to 66.6%, an increase of 300 basis points from the prior year.

A year-over-year improvement in SaaS adjusted gross margin was driven primarily by two factors, a favorable mix shift in revenue towards our higher margin subscription base centers and cost efficiencies delivered in the quarter related to fulfillment. We expect to see continued expansion in this metric moving forward, we reported notable improvement in SaaS adjusted EBITDA in 2023, which significantly exceeded our guidance to close out the year.

Fourth quarter SaaS adjusted EBITDA was $6.5 million, significantly exceeding our guidance range of $3.5 million to $4 million and resulting in SaaS adjusted EBITDA margin of 8.8%. Full year SaaS adjusted EBITDA was $12 million, resulting in a SaaS adjusted

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EBITDA margin of 4.6% EBITDA margin improvement was directly attributable to the aforementioned improvement in our adjusted gross margin as well as continued reliance on low cash conversion out of our marketing services installed base of customers.

As previously discussed, we've undertaken a detailed analysis of our inbound acquisition channel, focusing on investment allocation and ideal client selection. This rigorous approach has yielded significant outcomes, not only enhancing efficiency, but also unlocking operating leverage through optimized sales costs, prioritizing high value clients with strong potential minimizes upfront sales investment. This laser focus drives sustainable growth by maximizing ROI and fostering enduring relationships with our ideal customers. This solid foundation unlocks future growth through tailored, upselling and cross-selling, ensuring mutual success by aligning with evolving needs and maximizing overall value.

We are confident that our new command center, empowering clients with self-service and insights will serve as a future acquisition driver, attracting new customers and strengthening existing ones. Saas subscribers were approximately 66,000 at the end of the fourth quarter, an increase of 27% year over year. Test RPU edged higher sequentially to $370, a decrease of 4% year over year.

As previously mentioned, in the prior quarter, our adoption of a new multicenter PLG. strategy has led to new system saw subscribers signing up for lower introductory packages compared to our current average RPU, thus contributing to the year-over-year decline.

Fourth core season net dollar retention was 96%, an increase of 500 basis points year over year and 400 basis points sequentially. Dan Hansen in season net dollar retention directly correlates with our upselling and cross-selling initiatives. Historically, our company primarily focuses on selling one business center However, with the introduction of additional centers and products such as marketing center command center since Friday, we are now witnessing positive outcomes of diversifying our offerings expected in the expansion of our NDR. Our intensified efforts in upselling and cross-selling are yielding these significant results.

Moving over to marketing services, fourth quarter revenue was $162.2 million above the midpoint of our guidance. Full year marketing services revenue was $653.2 million, also above the midpoint of our guidance. Q4 marketing services adjusted EBITDA was $45.8 million, resulting in an adjusted EBITDA margin of 28%. Full year Marketing Services adjusted EBITDA was $175.5 million, resulting in an adjusted EBITDA margin of 27%.

Fourth quarter marketing services billings was $149.2 million, representing a decline of 23% year over year. While billings exceeded internal models in recent quarters, this decline rate for aligns with our long-term vision. The introduction of marketing centric aligns perfectly with our vision for sustained growth in the SaaS business if there is a clear product adjacency fit. And so we would expect marketing services billings decline to increase given the natural upgrade to the SaaS platform. While it represents a higher value proposition for legacy clients leading to increased adoption and retention, it also delivers improved gross margins compared to traditional marketing services products.

This win-win approach ensures long term success for both clients and our SaaS business. Fourth quarter consolidated adjusted EBITDA margin was 70%. Full year consolidated adjusted gross margin was 67%. Fourth quarter consolidated adjusted EBITDA was $52.3 million, representing an adjusted EBITDA margin of 22%.

For the full year, our consolidated adjusted EBITDA was $187.5 million, which represented an adjusted EBITDA margin of 20%. And we recorded a non-cash impairment charge to goodwill in the amount of $268.8 million for $7.71 per diluted share, once again attributable to the structural decline in our marketing services business, net loss was $257.5 million or a loss of $7.39 per diluted share for the fourth quarter of 2023. This compares to a net loss of $50.4 million or a loss of $1.47 per diluted share for the fourth quarter of 2022.

Finally, our net debt position was $340 million at the end of the fourth quarter. Our leverage ratio was 1.8 times net debt to EBITDA, which is well below our covenant of three times the Company generated an additional $34 million in free cash flow for the fourth quarter and used $25 million to pay down our term loan. We made $120 million in term loan debt retirement in 2023, which was ahead of plan.

Now let's discuss guidance for the first quarter and full year 2020 for the first quarter, we expect SaaS revenue in the range of $73 million to $74 million. For the full year, we expect SaaS revenue in the range of $325 million to $328 million, which implies SaaS revenue growth

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of 23% to 24% for the first quarter. We expect SaaS adjusted EBITDA in the range of $6 million to $7 million. For the full year, we expect SaaS adjusted EBITDA in the range of $26 million to $29 million, which implies SaaS adjusted EBITDA margin of 8% to 9% for the first quarter. We expect marketing services revenue in the range of $152 million to $155 million for the full year, we expect marketing services revenue in the range of $495 million to 505 million. For the full year. We expect Marketing Services adjusted EBITDA in the range of $132 million to $135 million.

I'll now turn the call back over to Joe.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thanks Paul, I'd like to comment on the net dollar retention improvements. So probably be a little bit of noise in that number as we move along because we've introduced the product led growth motion and that is, in some cases, introducing customers a little bit lower price points we believe will come up and certainly they'll have eight our net dollar retention number over time and also some of the conversions or some of the customers coming from the marketing services space have come over on promotional pricing where that represents an opportunity for rate in the future, which will be great. But that's just introducing a little bit of noise into our RPU number before anybody gets too worried about, you know, our RPU number.

I wanted to just highlight that we've studied season dark that looking at people have been with us at least a year, and we're increasing seasoned RPU in the mid 10s. So once somebody is with us and settle down and get going. We see a strong RPU growth, which of course, is what's driving the net dollar retention improvement.

So far, I'm saying is just watch out for a little, David, maybe a little bit of bouncing around in RPU as we bring in mass numbers of new customers, some of which have different price points. I'd like to comment on our legacy client upgrade. If you came to invest in the phone book business, it's not a bad news for which we are rapidly building the SaaS business.

And now we've got more business lead generating tools for getting a lot better traction into that legacy the legacy base and not so excited to see how this thing is happening and marketing center has been a real key and what's driving that. So I wanted to just sort of wrap up today's call by just talking about EBITDA. This is a business that has had big EBITDA, but it's been declining EBITDA for a very long time.

And we are finally showing up at the place where we're reaching the nadir of the low point in that EBITDA and that's because the SaaS business is now profitable and SaaS EBITDA is growing quite quickly and it's chunky them. And so as we look at the total EBITDA of the Company generates. We are reaching the point where are there or thereabouts.

We stopped falling and we'll be around the same place as the transition of source of EBITDA goes from the legacy marketing services to now the SaaS business. So we expect that the SaaS business will be approximately 40% of the company's revenue this year.

And looking ahead to the next year we're looking at now reaching parity and coming out of that with the SaaS business actually being the larger chunk of our business. So it has good margins and has the potential to really carry the EBITDA load.

I wanted to comment quickly on international. International is going really well for us. So a failure to deal in that area is going great. Our greenfield activity in Canada is making good progress. We are our international leaders looking at taking us into some more markets on the last several years EBITDA has been a bit of a drag out of international and as Australia is now reaching profitability as we look forward and International will not will stop being a drag and begin to contribute. And certainly as we look into '25 and beyond.

So when you think about EBITDA sources and minuses that goes from having been a minus being a neutral this year to being positive in the future. So we're pretty excited about it, our international business and how that's going. And so I'm going to wind up with this by saying this has been quite a journey from here. I'm coming up on my 10th anniversary here at what used to be DAx and has now thrive.

And you know, we set out a pretty ambitious thing. Take this big legacy media business and transform it into a fast-growing SaaS business. And we're now just a few quarters away from that being the predominant source of revenue and being very profitable and

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driving forward. So we're pretty excited about that. And I think almost anybody could see that now it was hard for people to see a couple of years ago, but it's pretty easy to see it now and done. So thank you for your support. We really appreciate our investors that had the vision to hang with us and sort of see the thing unfolding, I think you're going to be rewarded them.

So with that, I'm going to wrap up and turn it back to the operator. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Arjun Bhatia, William Blair.

Arjun Bhatia ***William Blair & Company L.L.C. - Analyst***

Perfect. Thank you, guys. I appreciate all the color and nice job on Q4 here. And Joe, if I can touch on the transition and upgrade plans that you've laid out a little bit and how you how should we think about maybe handicapping how many of the marketing services customers will migrate over or will upgrade versus some that that may or may not? And what are you kind of incorporating into the guidance for that? And maybe as a follow-on to that, when customers do move out or do you anticipate they're going to buy a business center marketing center? Or is it going to be a little bit of all of the above.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

So those are two great questions. They really get at the core in the latest and unfold over the next couple of years. I wonder if you'll permit me back the camera up a little bit and think about bigger picture. So it in February of 2024, let's just go out to the latter part of the decade. Let's go out to 29, 30, like sort of even five, six years now as we go out in time and we'll weigh all of those businesses, if they're still in business, will be using cloud tools at that point.

So today, a lot of them are what I often affectionately refer to as the unplanned and whether they're really still using spreadsheets and they got dry or a forward sale or the trucks to go on and they're still they're still doing manual things and a lot of American kind of blue-collar businesses, a lot of them and they don't have advanced education.

They haven't been exposed to a lot of technology. And so they require a little help. But if we go forward, say, five or six years, virtually everyone that's still in business will be on the cloud. So then the question becomes they've been with us for 15 years or more for those businesses make the transition to the cloud? Are they going to do it with us? Are they going to do it with their trusted business advisor and with a company that they have this relationship with us that has the category leading software that's focused on making it easy to use.

That has literally hundreds of people guiding teaching selling helping them get there. So we think that we're very well-positioned to literally get them all to get off on a legacy customer over on the staff tools and to get their friend and an ever.

And we're seeing our referral for last couple of years about our largest stores. We think that they're going to bring their friends and drove the guys. They play golf on Saturday morning, the guys, they pull it on Tuesday night. They're going to say, look, I've been struggling with the two I just talk about drive. It's worked out really well, at least talk to my eye and our e-mail Rainbow Monday morning.

So I do think that the entire base can eventually come over to SAP. And I'm not suggesting that will happen and the balance of 2020 or even 2025, I think this is still unfolding and it's a kind of a mega trend that takes a little while to happen. Sometimes they formed slowly accelerates globally. And all of a sudden there's a big boost that happens even seen that another tech adoption phases from. So that's my answer on how I think we'll do over time.

The second question you asked was, what are they and why are they going to buy business center or they go by marketing center where they go to Bob. And what we're finding is that the jump over to Business Center is a little bit longer jump.

Then jumping over to marketing center because marketing center is effectively helping them get more business leads, helping them do

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that smarter, do it more efficiently, analyze it know that source early know what's working? What's not working and generate them. And that is a pretty close kissing cousin to what they were buying in the past. And in many cases, they're still buying the legacy marketing services, lead sources and there they're adding. They're adding me on the marketing center element.

So marketing center, it turns out is kind of a blockbuster product for us and its growth is really accelerating on Business Center has been around for a long time and marketing centers quickly catching in terms of our number of customers on it and revenue and all that stuff. So those are those are two answers to your question that I get what you wanted.

Arjun Bhatia ***William Blair & Company L.L.C. - Analyst***

Yes, that's super helpful. And actually, just kind of dovetailing off of that, because I think that this transition certainly makes sense or is kind of inevitable anyway, it's right. And but when you're thinking of how to run the business through this process, how are you thinking about kind of internal resource allocation because I mean, one of the obviously potential and likely outcomes of that. This drives a host of transition to the fax business. And so to onboard these customers down to get them ramped up on the product and start even the cross-sell motion at some point, right, partly internally. But do you have the resources set for that? Or is that something that maybe an incremental investment we should expect to keep growing the SaaS business.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

That's another excellent. Collectively been actually doing what you just described sort of sort of transitioning to that that that's putting really throughout the last year. If you remember, we kind of brought marketing center along slowly in Q1 and Q2 of last year. Then it really hit stride when we let it out for full relief in the summer. And up until that time, we did not allow the sales force to sell to anybody and we really had kind of a gated process because as you know very well, churn is the thing that we just do not want. So we wanted to make sure we sort of brought it along slowly for successful.

So if you go back and you look at Q3 of last year, you saw a pretty strong acceleration in subscriber adds. That was us really getting onto that putting on us organizing around that. So with past tense, we've already done it. So you've already seen it flow through our numbers.

Arjun Bhatia ***William Blair & Company L.L.C. - Analyst***

Perfect and appreciate it.

Thank you.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thanks, Arjun.

Operator

(Operator Instructions) Zach Cummins, B. Riley Securities.

Zach Cummins ***B. Riley Securities, Inc. - Analyst***

Hey, good morning.

Thanks for taking my questions and congrats on the solid Q4 results here. I was hoping to maybe add to a question towards grant in terms of this transition process within that legacy marketing services base, I mean, can you talk about, has there been any sort of change in terms of incentives that are offered to some of these legacy customers or the approach to really accelerate that jump over to either marketing center business center?

Grant Freeman ***Thryv Holdings, Inc. - President***

Yes, good morning, Zack. That's a great question, actually. So I think what we've been laser focused on during this process, ensuring that we still provide a value that's commensurate with what they were receiving on the digital marketing services side, but then focus on giving them access to the additional tools that the more modern and up-to-date and invested in platform can afford them. So kind be bringing them across while still generating them, whether it's leads or the exposure that they have.

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On the old side, I'm still giving them that I'm still doing things like managing the listings, et cetera, but now giving them more modern technology, as I mentioned before, it really in many cases, no additional costs. And that also increases their level of engagement in the platform. When you speak to, for example, people that are moving over from more Passave value, digital marketing services, lead-generation products and to the platform to marketing center, for example, where you will now see them understanding things like attribution, the return on investment at the beginning, where their customers are coming from, et cetera.

So again, it's really important to us, and we're laser focused on given the value that they had on the digital marketing services side and delivering upon that. But then adding more in many cases at no additional cost. So it's been received very well and we're turning people that were relatively passive yet happy clients into more active and engaged happier clients. So I don't know if that answers your questions.

Zach Cummins ***B. Riley Securities, Inc. - Analyst***

Yes, extremely helpful. Thanks for that, Grant. And Joe, just one question for me around just the number of SaaS subscribers you had the big jump up in Q3 and it seems well strong growth year over year in Q4 is essentially pretty similar from Q3 to Q4. Can you talk about any moving parts around that metric and kind of what played out in Q4 for that sets subscriber metric?

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

And yes, I mean, it's actually a pretty natural process. Our customers are seeing value in I mean, Graham said it so beautifully there in adding these analytics and diagnostic tools, and we are basically allowing them to do it for little or no additional money. We're kind of moving them over and that is going to set up the opportunity for us, and you'll probably get a little bit of rate at the next couple of years go by there's a little bit of an upgrade path. I think that will be able to happen there. So you'll I think you'll see that flowing through in net dollar retention and some of our growth numbers in the future. But some it's allowing us to also reduce or even eliminate some of the investments that we would have been making in some of those older platforms as people moving over.

So in terms of the I guess, the way what to expect as you keep going forward, we think there's a lot more our sales force really has that on the story down. They're comfortable telling the story. Now the product is performing well and none. We think there's going to be more, I think what you've been seeing you will see for a while.

Zach Cummins ***B. Riley Securities, Inc. - Analyst***

Understood thanks for taking my questions and best of luck here in 2024.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thank you very much.

Operator

(Operator Instructions) Rob Oliver, Baird.

Rob Oliver ***Robert W. Baird & Co. Incorporated. - Analyst***

Great. Thanks, guys. Good morning. Appreciate it on show you I appreciated the color that you gave around some of the RPU trends and the fact that kind of newer customers are coming in at promotional pricing on you talk a little bit about how we should think about customer growth versus our two and 2024 because while there is some pressure on those new customers, this season RPU numbers actually really nice. I just wanted to understand how you guys are thinking about that? And then I just had a quick follow up.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Yes, you got everything rolling back the right reason. We broke out the market and what makes you guys comfortable that the customers that we have in the base at the moment, the while our spending more are growing, even if the RPU number gets noisy because of some of the cross wins that are coming through this. There's two big cross win. They're going to kind of shake up the RPU number and make it bounce up a little bit. And one is what we've been talking about and that customers coming over and us moving them in some cases for what they're currently spending on old tool over the new one or maybe only a small step up, but not all the way to full rate. So that gives

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you a little bit of noise there, and that should be a good guide for growth going forward.

And the second thing is going to be introducing some noise as we go through 24 and 25 is our product-led growth motion where command center customers can literally discover the product on their own sign up and use it for free forever. And then if they want to add channels or they want to add users that they want to upgrade it.

They can upgrade on their own or after a certain amount of usage. They'll kind of turn green on our dashboard and we're going to go talk to them and they're going to upgrade. But in a lot of cases, they'll be coming in at smaller price points. And that's more of a land and expand motion. It's to help us build a New Zealand new Blue Ocean out there of customers to go work with and call on. So I expect those numbers to be fairly small in the beginning.

So I don't think that they will have a massive impact to RPU. But I think our RPU number will just be a little bit noisy as we kind of work through those two trends, even though overall, if you go back to our Investor Day guidance, we think that that kind of 4,000 the year we were getting at the time the Investor Day move to 7,000 a year per customer as they buy a digital center of additional add-on additional features and we grow with these successful businesses.

I wanted to comment that helps us drive visits within the community is doing better than the guy next door. That's not on fraud. He's delivering a much better experience for his customers. He's getting paid digitally getting next day funds is he's got a pretty slick business operation going. And if it goes to sell it, it will be worth more and the business next door. And I've got a pile of paper from customers are thriving and we're growing with them.

And a lot of them have gone from three or four employees to seven or eight or 10, and we're growing with that. But we think we'll be able to keep growing with them and adding centers, adding functionality. And that's part of what we talk to every day in our Hotwire group. And as we talk to customers in the field and I continue to do my customer visits each week, we talk to customers who are doing well and talking about what would be next for them and what they would need. And that's been animating our roadmap and part of why we have another center coming out in a few months and another one coming out next year to help soak up some of those needs.

So final comment on RPU. We think our food gradually rises toward that 7,000 year number over the next three, four, five years, but it might be a little noisy for a minute as some of these you have processes play out.

Rob Oliver ***Robert W. Baird & Co. Incorporated. - Analyst***

That's really helpful detail. Thanks.

Joe and then on one follow up, I would love to hear your perspective. I mean, you mentioned your 10-year anniversary here. Obviously, you know, looking back, it's been a tremendous amount of progress and the move to kind of really transforming into a SaaS company here and on.

Got you. Just in that context, I wanted to just get your thoughts on M&A because Vito, on the one hand, you guys have really proven that, you know, our buying of these like businesses globally is a core competency of yours and your ability to convert them, as you know, but better than anyone out there. It's SaaS customers and you're just really hitting the knee of the curve on that right now.

On the other hand, you know by more of those companies would push out that transition point to becoming a SaaS company further. So I'd just love to hear how you're thinking about that, particularly in light of the SaaS momentum you guys are currently experiencing?

Thank you.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Well, it's a really it's a really good question and kind of a complex question, and I don't want to take too terribly much time. So I'll tell you that we've been really successful with these on adding customers to the zoo and converting them. That's gone well. We're pretty much at the end of that are nearing the end of that. There's not a lot of that left, and we anxiously look forward to making SaaS acquisitions.

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And, you know, you're moving in that direction. It's really for us, you know, a financial question. We're currently valued in a place where it makes significant data acquisitions hard to do. And we think that will change in the near future.

But on for the moment, that's sort of where we are. So we've had the kind of cautious there. We also have a particularly lousy credit facility which at some point we will swap out. And that will give us a lot more flexibility and help us a lot. But you know that we are postponing when the crossover point on SaaS revenue and all that stuff, and we're paying attention to that.

That's something that we think about them. But we've had some really incredible economics with the acquisitions that we have made. And so we're not sorry that we made them on. And I think the improved traction we're getting in the zoo with marketing Centre and some of the other new developments that we've made and give us a lot of confidence that that crossover point is nobody should worry about that, whether it six quarters away or seven or eight quarters away. It's not that far away. And if you're an investor and you're not thinking at least a few years out, we'd just as soon not have you at our equity to be honest with you if we're looking for people that want to invest in a growing business. So that's kind of how we're thinking about.

Rob Oliver ***Robert W. Baird & Co. Incorporated. - Analyst***

Okay.

Thank you very much.

Joe Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thanks And

Operator

(Operator Instructions) Richard Francis, Infinys.

That brings our Q&A session to a close. Thank you to our speakers for today's presentation and thank you all for joining us.

This concludes today's conference call and enjoy the rest of your day.

You may now disconnect.

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