REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2023 Thryv Holdings Inc Earnings Call

EVENT DATE/TIME: AUGUST 03, 2023 / 12:30PM GMT

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Cameron Lessard *Thryv Holdings, Inc. - Director of IR & Capital Markets*
Joseph A. Walsh *Thryv Holdings, Inc. - Chairman & CEO*
Paul D. Rouse *Thryv Holdings, Inc. - CFO, Executive VP & Treasurer*
Ryan Cantor *Thryv Holdings, Inc. - Chief Product Officer*

CONFERENCE CALL PARTICIPANTS

Arjun Rohit Bhatia *William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst*
Daniel Joseph Moore *CJS Securities, Inc. - MD of Research*
Patrick A. Schulz *Robert W. Baird & Co. Incorporated, Research Division - Research Associate*
Scott Randolph Berg *Needham & Company, LLC, Research Division - Senior Analyst*
Zachary Cummins *B. Riley Securities, Inc., Research Division - Equity Research Analyst*

PRESENTATION

Operator

Thank you for standing by. My name is Anna, and I will be your conference operator today. At this time, I would like to welcome everyone to the Thryv Second Quarter 2023 Earnings Call. (Operator Instructions) Thank you.

Cameron Lessard, you may begin your conference.

Cameron Lessard ***Thryv Holdings, Inc. - Director of IR & Capital Markets***

Thank you, operator. Hello, and good day to everyone. Welcome to Thryv's second quarter 2023 earnings conference call. On the call today are Joe Walsh, Chairman and Chief Executive Officer; Paul Rouse, Chief Financial Officer; and Ryan Cantor, our Chief Product Officer. A copy of our earnings press release and investor presentation can be found on our website at thryv.com or in the Investors section at investor.thryv.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. Thryv has no obligation to update the information presented on the conference call today.

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 Joe Walsh. Joe?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Good morning, Cameron, and thank you all for joining us on our call today to discuss our second quarter results. We had another solid quarter in SaaS, most notably from a bottom-line perspective as we continue to focus on driving profitable growth, maintaining flexibility, and executing efficiently.

Highlights for the quarter were a 20% year-on-year SaaS revenue growth, SaaS EBITDA hit double-digit margins, client growth continues up double-digits, and our engagement trends continue to be very strong. One of the things that we're really excited about is, we had a goal for the year on profitability for our SaaS business, which we've reached already.

So, in our fervor to get more efficient, we got a lot more efficient, and that is something that we're excited about. It did cause us to have a very narrow miss on our revenue guidance for SaaS, but we're in a very strong position with the way all the elements are coming together, and we're confident enough that we're going to be raising SaaS revenue guidance for the year and EBITDA guidance for the year. So, a lot of very strong momentum in the business.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

We just made the decision to basically sell fewer of the more expensive sales that come through our inbound channel and made a few other efficiency moves, and it's resulted in about a 10-point swing in the EBITDA profitability from around breakeven to double-digit EBITDA. So, we're really pleased with that. We think that really demonstrates the profit-making power of this business and the overall control we have over the business model. So, pretty pleased with that, pretty excited about that.

For SaaS, we, in the past, have relied on 3 channels to drive our growth, and I've described that as 1/3, 1/3 and 1/3. So, 1/3 coming from the zoo, 1/3 coming from happy customers referring people just like them to our base, and then 1/3 coming from our inbound channel. That's begun to get kind of out of that perfect third thing lately. Actually, the largest source of customers is the referral bucket because there are so many customers in the happy zoo bucket that are referring people, that's well into the 40s are coming from referrals -- and in that well more than the third bucket is people coming out of the zoo. And year-to-date, less than 20% we now have coming from our demand gen funnels. In fact, in the most recent period, it was more like 14%. We really have been cutting back on those more expensive sales.

We love those sales less because we have to do content marketing, in some cases, paid marketing and advertising. We're doing webinars, deminars, all these things to identify these folks. And when they come through the funnel, we can't control who they are. So, they haven't been with us for 15 years. They are always established mature businesses. So, it exposes us to a little bit more churn risk, which in the end makes it a little bit more of an expensive sale. So, our ability to reduce our reliance on that has been an important element in Thryv towards efficiency and profitability. And we're going to talk in just a couple of minutes, adding now our fourth funnel to our business, and we're really excited about what that will do.

We've spoken over the last year or so about our desire to implement product-led growth to generate product-qualified leads to use our product to help identify new prospects and new customers to deliver some value to customers before we ask them for any money. And we've been at work now for several years on an important new product that's going to allow us to do that. And we're in the process right now of rolling out the beta version of our Command Center.

Command Center is an opportunity for small businesses to consume some of our products, get value, sort of raise their hand and become a product-qualified lead, which can then be worked through and managed by our very powerful sales-led motion. So, we're not getting up on the sales-led motion. We're basically just adding a fourth very highly efficient funnel to the process, and we're really excited about it. It's a culmination of multiple years' work, and it's really cutting-edge technology.

And so, without stealing any more thunder, I want to bring our Chief Product Officer, Ryan Cantor on to talk you through a little bit about how Command Center fits into our playbook and also how we're harnessing generative AI in our business model. So, Ryan?

Ryan Cantor ***Thryv Holdings, Inc. - Chief Product Officer***

Thank you, Joe. The launch of Command Center beta today isn't simply a product launch. Moreover, it's a weak architecture of the entire Thryv platform into a modular and easily expandable user experience built for the average small business owner. The need for Command Center arose out of 3 primary drivers: #1, our close relationship to our users identified that even before payments, communication tools are the most primal and initial needs of small business owner has.

Before scheduling on a calendar, they will e-mail about dates and times to me. Before accepting credit card payments, they will text the amount due. Conversational commerce is how most small businesses operate initially and how most continue to operate today. Command Center meets these business owners where they are, not just where we want them to be. Command Center supports native integrations to Gmail, Outlook, Microsoft 365, IMAP e-mail, Facebook, Instagram, [Native Phone], voicemail and texting, along with a free webchat client. It covers all the ways today that a business communicates with their customers, unified not only in a single inbox, but in a single conversation.

#2, we wanted to reduce the time to first value and eliminate friction for the small business owner to get started with the Thryv platform with less disruption to their day-to-day business. Thryv's Business Center CRM is magnificent with thousands and thousands purchasing, adopting and integrating it into their day-to-day with commitment. We see the results our products have on these business owners every day. But for every business owner who has this commitment and drive, we have identified others who simply need a simpler entry path.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Command Center takes just a few minutes to set up, a simple sign up using existing log-ins for Gmail or Facebook, and you are communicating with your customers in less than a couple of minutes. Multiple threads and different channels are seamlessly combined into a single conversation with each customer, bringing an aha moment to the user. This entices them to continue to connect more channels, more e-mails and more accounts. Every context, every conversation is suddenly building a robust Business Center CRM for them in the background, ready to be unlocked when they're ready.

#3, Business Center had a growing inbox, and it was often the first feature to be adopted, and it carried the most usage of any feature with over 7 million conversations happening in 2022 and 4 million already year-to-date in 2023. Yet, like all growing platforms, it had challenges and needed an overhaul to operate seamlessly with native e-mail and include features and capabilities commonly found in other e-mail clients or messaging applications. To meet our users' feature requests, Command Center was born. Command Center brings native e-mail into a chat-like experience. It brings pinning and labels founded other platforms inside our inbox. It creates a visual experience with attachments and centralizes all of the files both sent and received across any channel into an iPhone media gallery-like experience.

Command Center presents an inbox that looks like Gmail, operates like an iPhone with the convenience features of Slack and all built for the small business, and it is available for free forever in an all-new freemium model. Paid plans are available per seat to properly scale with the financial size and maturity of the small business, and those plans start at $20 and $30, respectively, in the United States per seat for a Plus and a Professional plan with these plans offering additional channels, more call minutes and even more features. The Command Center beta program is available in the United States, Canada, Australia and New Zealand. Command Center turns virtually all facets of customer communication into the rhythm and convenience of the text messages you get on your phone.

So imagine you're a business and you open your phone, you open up messages and it isn't just a text, it's any prospective customer trying to contact you all in one easy place presented in a uniform chat-like experience. This is a modular approach. Since you've been following the company, we frequently state that each small business owner is unique with individual needs. The reimagined Command Center navigation enables the Thryv platform to grow and be customized to meet each business owners wants, needs and aspirations. And with Command Center, the Thryv platform can be customized to meet this need of individuality and improve personalization.

By focusing on reducing friction of use, pricing it on a per seat model and creating easy avenues for expansion and customization, we believe the launch of Command Center and the platform rearchitecture presents a clear path to sustained net dollar retention improvement in the coming period as volume materializes against the overall size of our existing business. Furthermore, we believe the frictionless adoption of Command Center via online channels presents a potential force multiplier for our professional sales force who can be made more efficient by reducing the time they spend sourcing new business themselves and replacing it with qualified users in their local community ready for a local representative and to upgrade their experience.

Beyond just Command Center, we are seeing the pace of innovation and platform improvements increase nicely. In the first half of 2023, on average, 3 new major improvements were released every week. After slowly rolling Marketing Center out in the first part of 2023, more Marketing Centers were sold in June than in all of Q1 combined, and we will soon have a couple of thousand active Marketing Center sales.

Marketing Center is a single platform that helps small businesses navigate all the complexities of modern-day marketing, websites, Google business profiles, paid advertising campaigns, off-line call tracking and more. These are all just various ways consumers seek out and find small businesses, and Marketing Center helps each business owner know in real time which of these efforts is working and which ones aren't.

Sales are also accelerating due to additional product enhancements. We launched integrations with Nextdoor, YP.com, Yahoo!, and Yelp to enable paid profile enrichment that is fully integrated and controlled inside the platform. We also just announced expansion of Marketing Center into both Canada and Australia, coupled with the addition of a new higher tier of Marketing Center at $299 a month. We are now offering both a Plus at $199 and a Professional version at $299 month. It is important to state that our focus on centers will also bring an expected higher gross margin as each center is being designed to deliver north of 75% gross margin.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Across the rest of the platform, innovation also continues. Earlier this year, we launched our integrated Signatures app. And since then, thousands of e-signatures have been sent and signed. Thryv Pay got mobile device readers and tap-to-pay. This helped deliver 30-plus-percent quarter-over-quarter growth in Q2 and about 60% year-over-year growth year-to-date. We aren't just focused on usable features. But as engagement in the Thryv platform continues to grow, it is equally important that Thryv takes the proactive steps to ensure our users and their data remain safe and secure.

In Q2, we successfully rolled out and have universally enforced that every user inside the platform is now protected by multifactor authentication. The other area Thryv has been focusing on is generative AI. Through the end of 2022 and early parts of '23, the product team invested hours and hours in speaking with our users about practical ways generative AI tools could improve the product and to help them in their day to day. Our focus initially is when to use generative AI and using AI to help create the right content blocks at the right time.

Today, we are leveraging generative AI to create ad copy, headlines, keywords and ad groups inside Marketing Center. AI is used in the creation and publishing of our professionally-designed websites. In the near future, we're excited to bring AI to our social media module, aiding small businesses in the creation of better content. We plan to bring it to our review management section to help small businesses with suggestions on how best to respond to online reviews and to our new inbox to aid in response times. Many of these items are in various stages of development and testing, but our most important guiding light is never to simply use AI for the sake of AI, but instead to ground each improvement, each dedication of resources towards a capability that will make a difference to the benefit of our small business users.

We have an exciting road map ahead with continual improvements to all of our centers and apps, and I look forward to sharing with you in future periods. With that, I will turn it back over to Joe.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thank you, Ryan. Command Center is our new front door. It's how you'll enter our company, it's how you'll enter our product. It's the idea of a platform with multiple products. The entry point is Command Center. So, if you have a Business Center, you'll also have a Command Center. If you have Marketing Center, you'll also have a command center. And what it does is, it frees us up now to sell Marketing Center to anybody. We can use it as an opening product.

Up until now, we've been very deliberately, very carefully ramping Marketing Center and only selling it really to customers that already have a Business Center. And it's moving along nicely. We're at about 4,000 Marketing Center annual run rate in the most recent months. It's building nicely, but the sort of velvet ropes come down now and rather than only being able to sell into the business center universe, you can now sell anybody, a Marketing Center with the advent now of Command Center at our new front door.

So, Command Center is multiple years of work coming to fruition today going out in the market right now. And we think that it really is transformative in terms of using the product to prospect for ideal customers. And then, based on their usage behavior, they identify themselves as people that we want to spend time with and assist in their digital journey, and that will be a really good use of our sales force's time. We will call these product-qualified leads as they reach a certain point of value consumption.

So, really pleased with this fourth funnel, that's very efficient fourth funnel that we're adding to our machine. And it's part of how we see growth accelerating as we go into '24 because rather than selling one center in one country, we're now in multiple countries, and we're now selling multiple centers. So, there's many more vectors of growth that will allow us to lean into that and expand our growth. We've talked before about we see ourselves as a Rule of 40 company. This is part of how we get there, these additional products, which have been multiple years in development that are finally there.

Last comment I'll make, Ryan touched on generative AI. We have approximately 3,000 employees. So we have all kinds of different functions and departments across our business. Our leadership team are looking to leverage generative AI right across our business and find additional efficiencies and find additional services and superior products and superior service delivery that we can give to our customers. And we're seeing it in little and big ways right across the business. So, it will help us become more efficient as we look

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

forward.

I think it's time to get into the numbers. Let's hear from Paul Rouse. Paul?

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

Thank you, Joe, and good morning to everyone on the call. As a reminder to listeners, we're going to focus on our 2 segments, SaaS and Marketing Services, which includes results from domestic and international operations. We feel this is more beneficial in modeling and understanding the business. Additional details between domestic and international for each segment can be found in the Appendix section of the investor presentation.

Okay. Let's jump into the results beginning with our SaaS segment. In the second quarter, we continued to execute on the plan we announced on our fourth quarter call to gear towards efficient growth in our SaaS business. Said differently, we want to grow profitably. Second quarter revenue grew by $2.5 million sequentially to $62.5 million or 20% year-over-year and just below our guidance range. Despite slightly lower revenue, adjusted EBITDA increased by $6.4 million sequentially, way outperforming our guidance range of $1 million at the midpoint.

As Joe laid out in his opening remarks, the improvement in SaaS adjusted EBITDA was driven primarily by optimization of operating expenses, particularly sales and marketing expenses, associated with our new acquisition channels. Our SaaS adjusted gross margin was 65.1%, first, 64.2% in the prior quarter, representing a 90-basis-point improvement as a result of our focus on selling to higher-margin Marketing Center to our installed base of Business Center clients. With Marketing Center, now freely sold on a stand-alone basis with the launch of Command Center, we do expect to see incremental gross margin improvement in our SaaS business as we move into 2024.

SaaS subscribers totaled approximately 56,000 at the end of the second quarter, an increase of 12% year-over-year. SaaS ARPU increased to $377 in the second quarter and represents 5% growth year-over-year and relatively flat on a sequential basis. As we have communicated on the previous call, we are experiencing some new clients activating at lower price points. We feel strongly this allows the company to drive additional spend and NDR expansion per client as the client grows with us, and we can attach additional centers to each client.

Second quarter season net dollar retention was 89%, a decline of 200 basis points versus the prior quarter. With the rollout of new products like Marketing Center and Command Center, Thryv is on a path to achieving 100% NDR by providing our subscribers with a better experience, additional centers will boost customer satisfaction and loyalty. This can lead to more clients renewing their subscriptions, upgrading to higher-value packages and referring to software to their network of friends and colleagues. We also believe by addressing these factors, we will keep churn low, while generating new revenue streams via new centers to offset the cost of customer acquisition, which leads to higher NDR.

Moving over to Marketing Services. Second quarter revenue was $189 million, matching the midpoint of our guidance. Second quarter Marketing Services adjusted EBITDA was $63.2 million, resulting in an adjusted EBITDA margin of 33%. Second quarter consolidated adjusted gross margin was 67%. Second quarter consolidated adjusted EBITDA was $69.4 million, representing an adjusted EBITDA margin of 28%. Finally, our net debt position was $430 million in the second quarter. Our leverage ratio for the second quarter in accordance with our credit facility was 1.6x net debt to EBITDA and well below our covenant of 3x. The company generated an additional $16.5 million in free cash flow in the second quarter and paid $17.5 million towards our term loan.

Now let's turn to guidance. We are raising our full year SaaS revenue guidance in the range of $258 million to $260 million. We are also raising our full year SaaS EBITDA guidance in the range of $7 million to $8 million. For the full year of 2023, we are maintaining our outlook for Marketing Services, which is revenue in the range of $653 million to $663 million and adjusted EBITDA in the range of $187 million to $190 million. For the third quarter 2023, we are guiding SaaS revenue in the range of $66.5 million to $67 million and SaaS adjusted EBITDA loss in the range of $3.5 million to $4 million.

Please note that the SaaS business will be carrying more overhead in the third quarter due to operating expense allocations as a result of lower Marketing Services revenue due to the timing around print revenue recognition. As you can see from our full year guidance, SaaS

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

EBITDA returns to positive levels as the operating expense allocations returned to normalized levels for the fourth quarter.

For the third quarter 2023, we expect Marketing Services revenue to be in the range of $114 million to $118 million and Marketing Services to deliver $8 million to $9 million in adjusted EBITDA.

I will now turn the call back over to Joe.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Thank you, Paul. Q3 will have optically lower revenue and EBITDA because of the revenue recognition, but cash is not affected. We said at the beginning of the year, we would pay down about $100 million of debt for the year. That was before we bought New Zealand. As of this moment, we paid down $70 million year-to-date. So we absorbed the New Zealand acquisition, paid down $70 million of the $100 million. And in Q3, cash will continue very, very strong. So, we're having a really good year on cash. Cash is right on plan and the revenue recognition anomaly isn't something you should be concerned about. When you think about the balance of the year in Q4, revenue and EBITDA start roaring back and then in '24, they really roar back.

One item just to make a note of is that in Q3, SaaS will carry more of the general overhead, a portion of Paul's salary and mine, a little bit more general overhead. And then, in obviously Q4 and as we go into next year, Marketing Services comes back and carries more of its share of the overhead. I want to be clear about this. We have meticulously communicated this over the last year. I don't think there's anybody that follows this company that doesn't expect this little air pocket that was made up of our transition to 18-month books. That innovation has been genius for us in terms of delivering revenue and EBITDA. It's been incredibly good for the environment. It's good in all ways, except for this little air pocket, and everyone knows about it. So, if it's any kind of a surprise to you, you haven't been paying attention.

Let me turn and talk about New Zealand. We acquired New Zealand at the beginning of April. They are right on track. They are performing to plan that we had in the acquisition. Integration is moving along at a nice pace, integrating them into the greater Thryv. And next month, we launch SaaS in New Zealand. So we're really excited about that, and the local folks in New Zealand are really excited about getting going there. Two years ago, we bought Australia. And we said at that time that there would be 3 years of investment, investment of EBITDA, investment of cash flow to get that SaaS business up and fully scaled. And those of you that pay close attention will notice that Australia is actually making money on the SaaS business this quarter. I mean, it's already coming along. So, for the full year, it will be closer to a push.

And as we finish up this year going into '24, it will be making money, so about a year ahead of schedule actually delivering at the bottom line. That business is going amazing. Customers are using the product. It's scaled up significantly now and brand awareness is high, customer satisfaction is high. Our employees are really engaged. There are periods where Australia is our #1 region now. It's incredible how well it's going there. So, really pleased with that and feel like we can build on it in New Zealand.

I'd like to wrap the call by giving one final little fun news item. We were recently named Best Companies to Sell For. There's a top list -- top 50 list. We're in the top 10. So we keep climbing higher and higher in this list. And we're really proud of the fact that we create an amazing environment for sales professionals, we call them business advisers, to practice their craft within our company. And that's something that we're super proud of.

So with that, let's turn it over to the operator. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Arjun Bhatia from William Blair.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Arjun Rohit Bhatia ***William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst***

Joe, maybe I'll start with you. So, the first one, just when we think about where the business is today, where you're seeing maybe some inbound marketing challenges, it seems like that was the big driver behind the SaaS revenue coming in a little bit lighter than you had forecasted. But you raised full year guidance for the year. Can you give us a sense for what you're seeing in Q3, Q4 developing that we should see that net new revenue on the SaaS side picking up? What's giving you the confidence there?

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

Thanks for the question, Arjun. Well, we're going from selling really one center in one country to kicking it wide open, selling 3 centers in all of our countries. And we're seeing a really strong acceleration. So let me walk you through it. We brought out Marketing Center at the very end of last year, right before Christmas, and we began selling it in a fairly limited way initially. And we had -- honestly, we had planned to ramp sales a little more quickly. But we weren't satisfied with the feedback we were getting from those very early customers who were finding a couple of edge cases and things we needed to work on. Our sales force was still kind of getting it dialed in.

But over the last number of months, we've cured all that and Marketing Center has really caught a lot of momentum. And we mentioned it in the prepared remarks, as recently as this last month, running at more of like a 4,000 annual run rate and ramping quickly. So, we're confident that the ramping that's going on in Marketing Center alone will carry us over the revised guidance for the year where we actually raise guidance for the year.

Keep in mind that we were only selling Marketing Center to Business Center customers and only in the U.S. and on a very kind of curated basis very, very carefully. Now that we have the momentum that we do, we have the product where we want it to be, you can sell Marketing Center to anybody, it doesn't have to be a Business Center customer, it can be the lead product. And you can also sell in Australia, Canada and, in 30 days, in New Zealand. So we've kicked that wide open. Now we add on to that Command Center, which hundreds of sign-ups have come in already, just in the very brief period that we've rolled the data out, it's already been sales.

One of my dreams is to have sales while I'm sleeping, and that's already happening. We're already seeing these things come in. So -- and the trends for the underlying Business Center continue to be very strong and, I guess, hidden a little bit in the noise of the numbers, Business Center is actually a little bit ahead of our plan. So, we're very confident that we're going to be able to deliver this raised guidance for the year. And we're really proud of the profitability that we've generated. We think that, that is a really important thing to deliver at this point at the bottom line.

Arjun Rohit Bhatia ***William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst***

Got it. Joe, the announcement around the Command Center is really interesting in the go-to-market, product-led growth dynamic there, something newer for you that we're seeing. If that's successful, would you consider doing a premium go-to-market motion across Business Center, Marketing Center and drive this, get more sales in your sleep?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Great question. That is my dream, while I'm sleeping at night. We designed this very innovative product. And I think you're going to get to see it tomorrow, right? We're going to do a little demo. We designed this product as a freemium, as the kind of tip of the spear. And it's been more than 3 years in development of investment of 100-plus engineers and product people working at this, building it, it's been a major lift. And I think when you see just all the threads that pull together in one place for a customer, you're going to be impressed if not blown away.

Business Center is much bigger, it's a CRM, it's a much bigger -- it's a much more difficult thing to offer for free, because a lot of the effort involved by both the small business that comes on and by Thryv to get them set up and onboarded is populating the CRM, getting everything set up (inaudible). It moves the needle more, if you go ahead and bite the bullet and do it, but it's not something you could say, here, take it for free and give it a spin. You're not going to spend the time to populate the CRM and do all the stuff you need to.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

So, this new Command Center, actually, if you accept the free command center and get using it, it actually begins to sort of build you a CRM, if you think about it, because you've got all that inbox stuff coming in sort of building a record of who your customers are and all that. So it's a beautiful on-ramp. So, we're not planning at this time to add a freemium or a PLG motion to the other centers. The on-ramp into the product will be Command Center. But it will take what was kind of a 2-lane high massive interstate. So the number of people that we'll be able to have a conversation with will broaden tremendously with the advent of Command Center.

Operator

Your next question comes from the line of Scott Berg from Needham & Company.

Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

I have 2 here. First of all, Joe, you sound really excited about selling the new modules and the new (inaudible) and obviously new customers. How do we think about how you're going to prioritize the marketing spend to do that? I know you pulled back on the marketing for some of the new inbound channels in the quarter, but knowing that some of these, think about kind of your priorities are on marketing those new modules versus just selling the core platform today?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Yes. Well, let's start with Command Center, which rolled out 2 days ago, I guess, in beta. And we've had hundreds of sign-ups and we've had some people upgrade already. It's off to a really good start in the dark without really paying. Our plan is to run it in beta briefly and then do a bigger kind of market launch after Labor Day with some earned media and promotion and advertising and all the stuff at that point to kick it off and get the word out there.

We do believe it's a sort of a self-discovery product that has the potential to really go viral, to be honest. I mean, the key element here is, it's the best available product in the marketplace, and it doesn't cost anything. And so, you could get in there and accomplish a lot for your business without spending any money at all. So, we think that, that is really the key. It's not a real marketing-heavy thing.

As far as Marketing Center goes, we're experiencing stronger and stronger demand, the better the sales force understands this. And we've had Australia ringing the bell, scream and give it to us. And so, we have done that now this week, given it's Australia, and they've got a backlog of people that are interested in it. So, we think we'll see a nice surge in sales from there as well. So overall, if you think about it, the way you think about it from a modeling standpoint, we're not going to spend any more than we have budgeted or planned for the year. We are going to redirect some of those resources into some of these messaging around these new elements. But that was our plan all along, to be honest with you.

Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

Got it. Very helpful. And then, Paul, from a follow-up question, your prior 4, 5 quarters was amazingly consistent, especially as the macro changed a little bit. How should we read that 2-point change? Is that just something specific in the quarter? Should we expect it to bounce back? Maybe it's macro. Obviously we're all seeing the macro, so don't need to make too big deal out of the macro necessarily, but just try to help us understand that maybe small difference here in the quarter.

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

Well, the season churn is flat. And so, does that -- I think that's the issue you're trying to address here, right?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Paul, I think he's going for net dollar retention.

Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

Yes. I'm trying net dollar retention, yes.

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

I think this is a temporary thing because we had a slight delay in -- or not a ramp as we expected on Marketing Center. So that pulls down a little bit. And we're expecting -- Marketing Center gives us a perfect opportunity to add additional products, particularly with Command Center, the new front door. We're going to see net dollar retention head towards 100% fairly quickly with this new innovation.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

So, we're expecting that to build. We're not concerned about where it is, it's not a trend. In fact, we expect it to reverse and go the other way.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

I would just echo and add, Paul, that this is really the beginning now. You can sort of mark it down and circle it on your calendar, this quarter sort of the beginning now of our net dollar retention journey because if you think about it, other than some very small add-ons, we didn't really have anything else to sell to a small business. When we went in, we were using an expensive sales channel with a big demo and we were making the entire sale at the time of the sale. So there wasn't really a lot to add on. And in soft economic periods, people weren't buying as big, there were even a handful of downgrades of people that were -- would buy maybe the good, better, best, they'd buy the best and then downgrade a little bit out of economic fear reading all the headlines. So, we had a little bit of headwinds there.

You start now and you look at our business, we now have the ability to go in and make an initial sale and then go back and add additional meaningful very high-margin software centers, not just little signature packages or other small add-ons. This is a very significant change. So, from here forward, you're going to see our net dollar retention rise to that 100 that we've guided you all along on. We now have the products to sell.

Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

Excellent, Joe. I'm marking on the calendar. I look forward to the follow-up and I appreciate you on that. Congrats and talk to you very soon.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

I know you did. I know you wrote it down.

Operator

Your next question comes from the line of Patrick Schulz from Baird.

Patrick A. Schulz ***Robert W. Baird & Co. Incorporated, Research Division - Research Associate***

You guys talk a lot about the SaaS business. I appreciate the color you provided in the prepared remarks around both growth and ARPU. Just wanted to dig into this a little bit more. So, ARPU growth decelerated again this quarter. So, curious to hear more about the customer buying patterns and maybe what has changed since last quarter. Are you guys seeing a greater impact from the macro on spending or customers are slower to upgrades? Just a color around that would be helpful.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Yes. I'm going to drive you a little crazy here with -- like feedback right from the Street. We did, and I could see it in the last earnings call that we had and, in some of the investment conferences we've done over the last few months, that we definitely saw in the kind of the first half a little bit of more cautious behavior on the part of our small businesses. They tended to be a little bit more cautious about making a purchase, they tended to think in terms of savings and value and spending less. And on our good, better, best, we definitely saw a little bit of movement for people buying the good as opposed to the better or the best, and we saw that in our data. We saw that in the average new sale that came in. We saw that in caution to add our add-ons. People are saying, well, let me see if I can get along for a little while without it, I'll think about it later.

So, people were a little bit more cautious for sure. Now here's the lightning bolt. I was with the wholesale leadership team last week talking about this topic, and they agree that we're seeing that lift. We're seeing that begin to change. Just in the conversations, the sort of seat of the pants feel, the small business morale and expectations about what the coming months and year look like are better now than they've been over the last 9 months or so. People are seeing the headlines and the sort of the end or nearing the end of the interest rate tightening cycle, they're seeing inflation backing off. Their supply chains have improved, in some cases, completely healed. And the situation around labor for a small business is somewhat better than it was. It's not perfect, but it's definitely better than it was.

And so the small -- you heard it here first. The small business morale meter of our sales organization has definitely picked up more

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

towards the green in the very -- I'm talking about it in the recent weeks literally. And so I can't point to a lot of data that says that yet, but that's definitely the case. I spent some time yesterday just talking to customers. I talked to customers every week. I met with half price hothubs yesterday, who has a Business Center, our main piece of software, our CRM, and they added a few months ago a Marketing Center. And they're actively running campaigns on it. There's a very, very steady business owner. Actually, I was meeting with the GM, his name is Jim, got a tech background at Toshiba, really understands. He's in his 50s, but really understands the dashboard and that it's very intuitive, easy to use and got direct feedback, like he's not letting go of his Marketing Center. He thinks it's like a game changer for him.

So, in talking to him, he said business has been picking up and better. So, I think that the drumbeat of this recession that was going to kill everybody that never really came, is sort of -- I'm not going to say it's past, but it's definitely better, definitely things are better for us, and we're getting better feedback. So, there's a little feedback from the Street.

Patrick A. Schulz ***Robert W. Baird & Co. Incorporated, Research Division - Research Associate***

I appreciate that. That's very good detail. I really appreciate that. Also a follow-up question. Just congrats on the new Command Center offering. It sounds like this could be a really nice catalyst for the Marketing Center. So, just as we think about your investment opportunities, how do you internally view the trade-off between investing in additional centers and marketing existing centers relative to driving international expansion and potential M&A efforts? Just any color in that would be pretty helpful.

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Yes. That's such a great question, because that's really the choices that are in front of us at this point. And we have, I think, guided you guys, and we're still on that page of delivering 1 center a year. So we're still very much on track for an important center next year. We're very far along and work on that center and are planning for sure another center next year. So, I think that cadence is baked into our spending, our investing priority. And I will tell you that we internally, now for the last probably about 3 years, have prioritized investment in engineering and product above all else. Like that's -- those needs need to be met. That's the most important thing because we're playing with a 3 or 4 touchdown lead, we're way in front of anybody else serving small businesses.

We're the gold standard brand. We're the aspirational brand. We have the lowest churn, the highest client satisfaction, the broader set of service offerings, we are the platform for small businesses. And we don't want to blow that by being chinsy about our investment in innovation. If you look at the number of innovations that we've delivered for Business Center, forget about the new centers, but just improvements in Business Center. I mean, we radically overhauled the whole invoicing technology that we provide. And now it's up 70% year-to-date. So, I mean, we keep making improvements around payments. We added a swiper and a few other really important things that our customers were asking for and payments were up more than 50% year-over-year.

So, I mean, we're engineering and product-first guy. That's really where we're focused. So after that, what's the next priority? I think expanding is important to us. I think we want to -- we hired an international president. We've been lifting weights and training in the gym, working on GDPR, doing all the stuff we need to for a big push internationally. And as you look at 2024, I think that's sort of the poster note on our forehead is, let's go. We're going to start pushing out into more geographies and going faster in that area.

As far as big spend on marketing, we have a really skilled CMO, Tami Cannizzaro, and she is really good at all of the sort of gorilla warfare, the surround sound of marketing without spending huge amounts of money. And she's done wonders so far for us in terms of making all of that more efficient. And she's only been with us a year. So, we expect big things from her. And she's got experience and is prepared to really soften the beachhead internationally as we push out into more markets. I think the success of Canada that we're having follows a lot on the skill of that marketing team and what they've been able to generate.

Operator

Your next question comes from the line of Zach Cummins from B. Riley Securities.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Zachary Cummins ***B. Riley Securities, Inc., Research Division - Equity Research Analyst***

Joe, can you just talk about the SaaS adjusted EBITDA improvement here in the quarter? I mean, what was really driving the decision to pull back on some of that marketing spend and see that efficiency really flow through? And now that you have additional products offer, how does that change your approach to some of your inbound marketing efforts as you go forward from here?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Look, we've been a 3 funnel business, and we've talked about it ad nauseam, the zoo referrals and the inbound-outbound motion. We've just added the fourth funnel, the most efficient funnel. And that's allowing small businesses to discover our tool without any help from us, download it and get real value from it, like meaningful value from without ever talking to us, no demo, no explanation, no meeting, no marketing, no nothing. And then after they've experienced a lot of value from us, they can then self upgrade. And just right within the tool, they can go ahead and upgrade themselves. We've had a couple of do it already, just in the beta, that we're already seeing those sales flow in. Not sure if I was asleep or not, I have to check, but definitely coming in. So, we take this fourth funnel is the most important thing that we've done in the last 4 or 5 years, adding this fourth funnel. And we think it opens up the marketplace to us in a really important way.

As far as delivering EBITDA out of our SaaS business, for better words, you guys know that, as you know, all of our work, we're a SaaS company that actually carries a little bit of debt. And debt become a little bit more expensive lately. And I have Paul Rouse working with me, who is very conservative, he loves his cash. And so there is a real drive toward efficiency in our organization and making sure that everything we do is profitable and shifting our emphasis towards higher and higher margin activities. And that, I think, showed great promise. I mean, how many companies do you follow that have a 10-point swing at the EBITDA line? We're pretty proud of that. We hope that you're impressed by it. And you can see the profit-making power of this business.

Zachary Cummins ***B. Riley Securities, Inc., Research Division - Equity Research Analyst***

Understood. And my 1 follow-up question is really just around the dynamic for customer growth versus ARPU expansion. I know customer growth has really been kind of a stronger portion here in the first half of the year. But how do you anticipate that, that dynamic will really sort of normalize as we go over kind of the next 12 to 18 months?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

It's funny. These things never run perfectly in sync. What I would anticipate is, you're going to see ARPU take the baton and jump back in front a little bit going forward. I think, as we begin to have multiple centers to sell people, we have more to sell now. I mean, it was hard for our 6-figure earning professional sales force to really make a very big sale of our software before because we really just had 1 software element and a handful of small add-ons. We now have the ability with what Ryan and his incredible Product team have created to go in and sell a pretty big suite of software into these customers, and there's even more add-ons to sell them. So, you can actually make a bigger sale today. So, it may not be instant, it may not hit in 1 quarter. But when I think about like looking out over 2024, I would expect that ARPU will catch a bit and start to really move now because we have something to sell.

Operator

Your next question comes from the line of Daniel Moore from CJS.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Joe and Paul, I cover a lot of ground, but maybe -- and I'm sure we'll get more details tomorrow, but maybe just talk about kind of the key differentiating features behind the freemium version of the Command Center and the Professional plans that could add $20 to $30 in revenue perceived at least initially?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Well, thanks for that question. I was hoping somebody would ask some detailed questions. Ryan Cantor, our Head of Product, is with us. I'm going to ask Ryan to sort of tease out what's different between the free version and what you get when you start to upgrade, right?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Ryan Cantor ***Thryv Holdings, Inc. - Chief Product Officer***

Sure. Thanks, Daniel. Our freemium version is fully functional in a free forever plan. The main limitations between freemium and paid plan starts with a number of channels you can connect. So, our current free offering available online allows you to connect up to 3 channels. So someone could activate phone and SMS as one channel, add their Gmail as a second channel and even add video for video calls and video meetings as a third channel. But if they want to add that fourth channel, it could be e-mail, Facebook, Instagram, that would prompt them to upgrade to 1 of the paid plans. So, channel count is 1 primary limitation.

On our team chat capabilities inside Command Center, we focus on message retention. So, 30 days retention is included. So, for real-time collaboration with your team members, what's going on right now in this period, no problem, TeamChat is a great collaboration tool. If you want to unlock historical messages, you would need to upgrade to 1 of the paid plans.

And lastly, we included an allotment of minutes. Currently, we provide 60 minutes of voice and video calling per month. It's important to note that someone does have the capability of buying additional minutes without having to upgrade their plan. Our pricing studies suggested that minutes alone weren't going to be a catalyst enough for people to upgrade to a paid plan, but that becomes another revenue opportunity for us as well. And again, we think from a freemium perspective that single largest fleet that we're focusing on a freemium is getting someone from free to paid using a variety of low friction methods to do that.

So hopefully that answers your question, Daniel, but there's a couple of different avenues inside of Command Center that will drive them to upgrade.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

No, that's helpful. As we said, hopefully, you're going to see that in action tomorrow. And then, the other for me is, obviously, the longer-term guide that you laid out at the Analyst Investor Day and looking back, it implies a meaningful inflection in higher -- in growth. Is fiscal '24 with the rollout of Command Center and Marketing Center, is that where you expect to see that inflection point from teens 20s to something much more meaningful?

Joseph A. Walsh ***Thryv Holdings, Inc. - Chairman & CEO***

Yes. Like -- just yes, like that you got it exactly right. I mean, we spent a lot of time with you. I know you understand the story. This is the moment where Thryv upshifts into a higher gear, where we're not selling in 1 country, 1 product, we're selling in many countries, many products. And so, it gives us both real scope to grow ARPU. It gives us real scope to grow net dollar retention. Now we have something else to sell. And it gives us a very sharp point on the spear with this very broad application of the freemium command center, which lets us meet tens of thousands of new businesses who are interested in modernizing, but not necessarily ready to dive in for full business transformation. They're not out looking for a CRM, they're just trying to kind of inch their way along. And we were reaching for a pretty high piece of fruit on the tree when we were going after selling the CRM is the first sale.

We now have got a lower-hanging fruit, we can go get, which we think will really broaden the funnel of people coming in. So, resoundingly, yes. We see ourselves as a Rule of 40 company. We see our growth, which for this year is circa 20%. We see that really meaningfully reaccelerating into higher levels as we go forward, and we see us continuing to run the business as a positive EBITDA business. So you start doing the math on that, and you can easily see how you can get the Rule of 40 or into that zone. And we don't think that, that's years away. We think that's '24 as this stuff beds down and gets going.

Operator

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

DISCLAIMER

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023 Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.