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THRY.OQ - Q3 2020 Thryv Holdings Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Thryv Holdings Inc. Third Quarter 2020 Earnings Call. (Operator Instructions)

I would now like to turn the call over to KJ Christopher. Please go ahead.

K. J. Christopher - *Thryv Holdings, Inc. - Assistant VP of IR, Treasury & Tax*

Good morning, everyone, and welcome to this recorded management discussion of Thryv's third quarter results. By now, you should have received a copy of the company's third quarter 2020 earnings release and investor supplement which is also posted on our website at investor.thryv.com.

With me today are Joe Walsh, our Chief Executive Officer and President; Paul Rouse, the Chief Financial Officer and Treasurer; and Ryan Cantor, Vice President of Product and Marketing.

Before we begin, I would like to remind you that some of the comments made on today's call and some of the responses to your questions may contain forward-looking statements. 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 call.

Also, on today's call, our presenters 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 the Investor Relations website at investor.thryv.com.

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

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

Thank you, KJ. During today's call, Paul and I will provide details on our Q3 results as well as guidance for Q4 and the full year 2020. We'll also spend time covering our business and market opportunities as many of you may be new to the Thryv story. For those who are new, let me take a moment and tell you about what we do here and offer some comments about the direct listing we just completed. So Thryv, in the materials we set out, Slide #10 is a great visual that shows kind of the Thryv product overview.

Thryv is an end-to-end client experience. It's basically an operating platform for a small business. We're on the device they already own, through the cloud, we deliver this great organizing tool. And it allows a small business to stay organized to kind of be visible everywhere across the web to get the job, to manage the job and to get credit for the job. And if you take a look at that visual, you can see some of the different pieces that are involved in Thryv and allow Thryv to operate.

And it really lets you do almost everything you need to do to run your business. And the things that it doesn't do, we have an app store or an app marketplace that you can go to and you can -- let's say you want to have e-commerce capabilities, and you want to sell things on your website, you can just plug-in Shopify and use it, no problem. Zoom, if you want to use Zoom, it's right there in the app store. If for your accounting, you want to use QuickBooks in the cloud, you just plug it in and the API (inaudible) shares your sales information, so it updates everything. And what's great about it is it's one log in, so all your employees can use it and you're able to keep everybody synced up with the other applications that you use. So it's just amazing in terms of labor saving, getting organized. I've had a lot of the customers tell me, it's like an extra employee or 2, it does so much work.

When you think about trying to get your listings right all over the web because you're changing your service, you're adapting right now to COVID. It's amazing what it's able to do just in terms of adapting your small business to the marketplace, allowing you to keep everybody up-to-date on your hours and your service offerings and so forth.

So a pretty powerful software tool. We're going to talk some more in a little while about how it helps you get paid. I'll come back to that later on. But ratings and reviews are really important online. Every time you do business with somebody, it thanks them afterwards and asks for a rating and review and helps you post that in all the right places. Social media. It's got basically a dashboard where you can manage it or as a service at Thryv, we'll actually do your social media posting.

So pretty complete front end in your pocket all the time on the device you already own. So very powerful piece of software. We are the category leader in this thing. We basically invented this category that we serve. It's an enormous category. It's early. It's growing very, very quickly now. But it's a pretty exciting time to be doing what we're doing right now with Thryv.

And there's a visual that I think we have in the deck that we put out that shows cloud adoption, yes, it's Slide 11. In 2018, the cloud adoption index had only about 30% of small businesses using any kind of cloud-based software tool. That's risen already this year to 37%, and it's forecast over the next 2 years to reach 60% of small businesses. So we're still really in kind of the second inning of small businesses adopting cloud-based tools.

And one of the really interesting things is it doesn't just come out of like a marketing budget. This really comes out of an operating budget. It's really labor saving. So it really taps into a pretty large financing source there in a big market.

Let's talk a little bit about how we go to market. We started from a standing start 5 years ago and grew in about the first 3.5 years to \$100 million in revenue and 40,000 subscribers. And that's going to be a record, I think, for how fast one of these SaaS software businesses can grow. And you might wonder, how did we do that?

Well, we did it because we had a very big Yellow Pages customer base and a 2,000-person sales force. And that sales force basically ran out and talked to the small business customers, the Yellow Pages customers, told about what we were doing and 40,000 of them signed up post taste.

What we learned, as we moved along, is that a lot of those small businesses weren't necessarily going to be persistent users of this tool. They were too small. They were one-man businesses, Chuck in a truck, Dan in a van. It's really small businesses. They didn't really have any other employees to communicate with or even that many customers to communicate with. And some of those customers ended up churning out not being the right fit. So we developed an ideal client profile that allowed us to target a little bit larger companies that have a bigger need for the software and allowed us to move a little bit upmarket in terms of the average selling price.

And so what's really remarkable when you think about Thryv's development is that we currently sell it through about 1,000 salespeople that sell the marketing services products. That sales force has shrunk as the marketing services business has shrunk. We variabilized the cost base. And yet, we still have managed to have very strong SaaS growth. And now we've built new channels. We've got an inbound channel where customers come to us. And we service them. We've got a partner channel that we're beginning to build. We've got a multi-location channel. And these are all lighting up now as well as international. We've turned and are beginning to move international as well.

So the growth fuse is definitely relit by all those new channels. This is a very large addressable market. You're talking about small businesses at the moment all across the U.S. There's reportedly somewhere around 30 million small businesses in the country. We feel like this kind of 2 to 20 employee is like this perfect sweet spot for us to target. There's a visual on Slide 13, you can take a look at.

We really try to avoid the -- just the one-employee businesses. And obviously, a giant enterprise is not a fit for us. But really up to about 50 employees, the Thryv tool is a really strong fit for a very powerful connection. So it's a big addressable market, about to get bigger as we move out international.

And I spend time talking with our customers back when I could go in the field, I went in the field and called on them in person. I do a lot of Zoom conversations with them now, try to talk to a couple really every week or every other week anyway, just about what they're using, how they're using it, what they're doing. And you couldn't pry Thryv away from them. It's basically how they do business. It's how they get their appointments, that's how they confirm their appointment, so they don't have no shows, it's how they get paid, it's how they do estimates, invoices, billing, follow-up. They live in their Thryv. And it updates their cloud payroll tool, their cloud bookkeeping tool. It really becomes like a right hand that they run their business on, so pretty powerful.

I'm asked a lot about our direct listing. We -- I guess we were the fifth direct listing to come through. And I wanted to just explain why we did the direct listing. We didn't need to raise any money. We have a captive VC in our Marketing Services business. It throws off a tremendous amount of cash that we are using to fund the growth of the SaaS business.

And if you think about it, our SaaS business, really, we've never raised any outside capital. The small amount of money that we used to get Thryv started, we've already repaid with profits generated from Thryv. So it really hasn't been a big user of cash. We haven't been just throwing money at growth. We've been very careful about the growth rate. So we really didn't need to raise any money with the direct listing.

It's a pretty exciting time for our company, you'll hear some more about some of the announcements that are coming through right now. So we thought it was kind of a great time. This particular approach to getting public was not much of a distraction for management. We didn't have any big roadshows to do, there wasn't a lot of fees that we had to pay. We did not have to offer a giant discount to all the brokerage friends. We just quietly relisted the company. And we feel like that over the next period of time, there will be the price discovery that normally occurs in the run-up to IPO will happen for us afterwards. And we're patient about that. We're not in any big rush.

We've got some supporting shareholders that have been with us for a while that are excited about the company and its future. And they're supportive and willing to work with us and stay with us. So we didn't really have any big shareholders trying to sell. So the direct listing worked out well for us.

I'd like to just talk for a minute about our new Board. As a part of this transition, where we really are putting SaaS-first and an emphasis on SaaS, we reloaded 5 of our 8 Board positions, and we brought in real domain expertise, people who've got a lot of SaaS software experience, who've walked this path. And it's been incredible. They've been a terrific resource, and there's been a knowledge graft really going on right from the beginning, not just in the formal Board meetings, but they've been meeting with teams in different areas of specialty or expertise that they have, sharing ideas, best practices, making introductions. So it really has been a boost to our kind of SaaS IQ bringing in this new Board. It's been excellent.

I'd like to comment quickly on the pandemic. The pandemic has obviously affected small businesses all around the world. For us, we have not had a much revenue concentration in travel, in entertainment, dining. These are not big areas for us. We tend to focus more in service areas, home services, personal services, auto services, health services, legal services. These tend to be more our world. So while we certainly have felt the pandemic, and there have been effects of it, for sure, it, by no means, has been a direct hit for us. As you can see in our numbers, we've come through kind of like flying colors here. It's gone well for us. And we have given pandemic adjustments and credits to customers who were asked to close their business down for periods of time and so on. So you'll see it in the numbers.

But overall, we're delivering plan and cash and EBITDA and having really a very good year. And the pandemic has been a tailwind for our SaaS business, a lot of small businesses that knew they needed to modernize had it on their list of things to do, have moved it way up to list now, and it's a priority to get their website sorted out, to be able to communicate with their customers, changes in their service offerings, their safety protocols, to be able to get paid electronically and not have to handle cash or a physical check.

So for the SaaS part of the business, the pandemic has actually been a tailwind. And I would say that what it's really done is rather than temporarily boosting demand, it's really, I think, permanently structurally accelerated the migration where to be competitive as a small business, you really need to have this kind of end-to-end client experience platform that Thryv represents.

Just I'd like to, I guess, talk about our ThryvPay. ThryvPay is our own proprietary payment application, where we work mostly with service businesses. Think about the tree guy, think about the plumber, think about the locksmith, the HVAC guy, the landscaping company, all of these service businesses it's not like working using Square is perfect for them, where you're coming in, you're buying newspaper and a pack of gum and you're swiping your card, and it's a \$7 transaction. There's a little tiny fee on it. These guys are often taking payments for \$2,000 or \$3,000 when they're not getting a payment. And so a lot of the payment solutions just, frankly, charge too much and are just too cumbersome. They really don't want to be forced into kind of a credit card world.

And so what we've developed with ThryvPay is this low friction offering that's designed specifically for the service-based small business. And it's got really attractive rates. So that's going to be the first thing they're going to notice. It's great for scheduled payments like memberships or reoccurring fees or the guy mows your lawn a couple of times a month and you just charges you a reoccurring payment every month or even installment payments. We've got -- because we've got such a big service team behind it, we handle dispute assistance. Things like card on file, where every time you come in for your yoga thing, it just charges the card so that you don't have to necessarily deal with the hassle of paying each time. So it's a really flexible solution that we developed specifically for our customers.

And sign-ups are coming in faster periods. We just launched it just 1.5 weeks ago or so, and it's moving very quickly. People are signing up. We're seeing payments coming over the platform. And we think that this will be a big part of our growth and development.

And if you look at Slide 8, you can kind of see the way we think about the marketplace, ThryvPay is essentially like a freemium offering. It's something that even somebody who hasn't yet bought Thryv can come in on ThryvPay. And there's a \$15 million business addressable market, very big market there, and we make a little something for -- on each transaction. So it's a stand-alone thing. And then it introduces them to Thryv as a brand and as a software service. And then we think that there's a chance to really grow the Thryv customers.

Just continuing with that slide, at the bottom of that slide, you see Hub by Thryv. And that's the parent-child relationship we have with a platform that lets you manage many, many Thryvs for a multi-location business or for a regional or national franchise. You can use Thryv to operate each of those local businesses, keep track of their revenues, and you can use this hub as a master kind of control panel to keep an eye on and run the whole thing.

So that's kind of a quick sense of what we're doing there with Thryv and with ThryvPay. And I just want to say this that we call the company Thryv. The emphasis, the focus is to grow the SaaS business. Our marketing services business is an amazing business. It's been around for a very long time. It's very cash generative. It's a very predictable with a lot of forward visibility business, and it provides reliable cash flow that we're using to fund and drive the growth of our Thryv business. So it's really a perfect marriage. And we have had, I think, a really great year so far this year. And as we look forward to next year, we see the SaaS business continuing to accelerate.

So with that, I'm going to wrap up, and I'm going to turn the call over to Paul Rouse, who's going to take you through our financials. Paul?

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

Thank you, Joe. Before we begin, I'd like to point out that while we will be talking about revenue during this call. Due to the global pandemic, the company has temporarily issued certain customer credits in the second and third quarter, which have masked a true year-over-year comparability in both SaaS and marketing services. During the third quarter, the company has recognized pandemic credits of \$7.8 million provided to customers most impacted by COVID-19. The company has reflected these goodwill adjustments as a reduction to revenue.

Now I'll start with our SaaS segment. Third quarter SaaS revenue increased 2% year-over-year. When adjusted for temporary pandemic credits, SaaS revenue would have increased by mid-single digits. As Joe mentioned, our latest SaaS offering has experienced strong demand in 2020. The demand for cloud-based tools has shifted during the pandemic, and we are experiencing tailwinds in this segment.

We've refined our ideal client profile to focus on large, small businesses, and this has resulted in lower churn and higher average selling price. All this is proof that SMBs now require SaaS management tools more than ever and Thryv's end-to-end client experience platform is serving those needs.

Moving over to Marketing Services. Third quarter revenue decreased 28% year-over-year. As we have said, Marketing Services is a naturally declining business. We must thoughtfully manage this business to a higher-margin while we cross-sell marketing services, print and digital clients into our SaaS platform and generate cash to support our growing SaaS business.

Before we continue, I'd like to remind everyone that our print product has a contract price that usually exceeds 1 year. We target 15-month publications. And these longer publication lives provide the twin benefit of ecofriendly reduced paper consumption and margin lift due to the decreased cost. However, a byproduct of a 15-month cycle is the year-over-year comparability is impacted due to unevenness and the timing of when same directory publication revenue is recognized within a given year. Given this complexity, we will now provide billing data on a quarterly basis. This is provided in the slide deck available on our website. You'll see on Slide 6 that the unevenness of revenue recognition does not show up in our billings. As a matter of fact, this graph will show that our billings are actually quite steady.

Turning now to profitability. Total company adjusted EBITDA for the third quarter came in at \$69.3 million, resulting in an adjusted EBITDA margin of 28.8%. This decline in our second quarter margin is consistent with expectation, given the method of revenue recognition previously mentioned as fewer directories were published.

Free cash flow for the third quarter was \$73 million. So far, year-to-date, we have generated \$158 million in free cash flow, which is in line with our expectations set at the beginning of the year despite the pandemic. Leverage based on net debt-to-EBITDA finished at 1.4x at the end of the third quarter, which is now the fourth consecutive quarter net leverage was under 1.5x, as defined by our credit agreement.

We feel confident about our leverage profile, considering we had \$30 million in share buybacks earlier this year. We've always focused on generating free cash flow to responsibly deliver value to our debt and equity holders. Over the last 5 years, we've repaid around \$1 billion of debt and returned around \$500 million to shareholders.

Let's turn now to guidance. For the full year 2020, we expect SaaS revenue of \$128 million, representing flat year-over-year growth when compared to full year 2019. It implies SaaS revenue of \$33 million for the fourth quarter, representing an anticipated year-over-year increase in the low single digits. We believe SaaS will end 2020 with a solid run rate and momentum is building into 2021.

For the full year 2020, we expect Marketing Services revenue in the range of \$955 million to \$965 million. This implies Marketing Services revenue in the range of \$190 million to \$200 million for the fourth quarter. Again, period-over-period comparability of reported revenue is distorted by significant publication timing differences. The best way to think about the Marketing Services segment is a predictable, low 20% decline on an economic basis.

For the full year of 2020, we expect adjusted EBITDA in the range of \$358 million to \$363 million, which calculates to a margin of 33% for the full year 2020, and implies fourth quarter adjusted EBITDA in the range of \$58 million to \$63 million.

Now I'd like to turn the call back over to Joe.

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

Thanks, Paul. So as you can see, we're on plan with the development of our SaaS business. I want to just make a comment about how we got here. We went from a standing start to 40,000 subscribers in our SaaS business because we had a large sales force and a large customer base, and we went out and offered to that customer base. In the meantime, more recently, we've now begun to build new channels where every customer that came in, in the beginning, was really cross-sold out of our marketing services space. As of this writing, as of today, more than half of all the customers coming over the transom for SaaS are new, new SaaS. They're coming in through inbound marketing. They're coming in through our partner channels, our resellers. They're coming in from our multi-location franchise group. And in some cases, they're still coming in from the traditional

sales force, but they're using software to open the account, and they may be are cross-selling back to Marketing Services. But more than half of all the new clients coming in today are new, new.

It doesn't mean there's no penetration left in the sort of Marketing Services base. That will continue, but we grabbed the low-hanging first 10% or 15% very, very quickly. Each time we make an acquisition, like when we bought YP, we saw more than 10% of their customer base boom come in right away. And if you see us making future marketing services type acquisitions, you can expect pretty rapid penetration as we go out and offer Thryv. But importantly, Thryv has its own sales channels now that are beginning to develop, and it works beautifully back and forth between marketing services. But it's beginning to stand on its own two feet a little bit with its own sales channels that are growing and developing.

So when we express confidence about building momentum with our SaaS business in '21, we have really good forward visibility on the scaling that's going on with our inbound channel, our reseller channel, our multi-location channel, and the productivity is rising out of the traditional channel, just because the software is so much better, and we've got so much positive word of mouth, high client engagement of the customers who are already using it. They're referring their friends. And it's just coming along, it's so much easier today than it was before.

So the businesses function beautifully together. So I just want to wind up here and just say that the building momentum that we see carry through '21, and we believe we can scale it and continue to accelerate it.

So with that, let me just open it up for questions, and we'll be glad to answer that we can. Operator?

QUESTIONS AND ANSWERS

Operator

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

Arjun Rohit Bhatia - William Blair & Company L.L.C., Research Division - Analyst

First one, Joe, you talked about this a little bit in your prepared remarks, but I would love to maybe dig into the macro environment a little bit and the tailwind that it's generating. I know there's this obviously, a macro, there's some challenges because of the economy, but there's also businesses digitizing for the first time. So if you can share maybe a directional sense for how some of the gross customer add metrics are trending, that would be great. And then the second part is, maybe just talk a little bit about the capacity you have internally to onboard new customers. And how you're ensuring that those customers are successful on Thryv? And how you're handling those resource allocation decisions?

Joseph A. Walsh - Thryv Holdings, Inc. - CEO, President & Director

Sure. Be glad to. Thank you very much, Arjun, for the question. So you actually -- in the way you asked the question, you touched on the answer. And that's that small businesses feel an urgency now to modernize, to move online to have a great site, to have a great mobile site. They feel a real urgency to be able to communicate changes in their current service offerings and their hours based on changes as COVID is rolling along, as lockdowns and partial lockdowns are moving through and so on. There's a need to update that and Thryv beautifully does that for them.

They can get paid electronically. They can follow up with customers, all contactless. They can arrange delivery. If they previously had people come into their stores to buy, they can now do e-commerce by going into our app store and plugging in Shopify and just doing some e-commerce that way. So overall, we're in a situation where there's a much stronger sense of demand for small businesses. In the past, when the economy was roaring pre-COVID, we would sometimes get feedback from customers that would say, look, I know I need to do this. I got to get around to it. I just -- business is going really well. And I just -- I'm so busy, I don't have time. And all of a sudden, they have a little bit more time on their hands and a real urgent need to do it. So that's the environment.

Now that's crossed with the fact that businesses are scared, they're uncertain about the future. The compromises they've had to make, in many cases, have caused them to have reduced revenues. And so it's not as robust an environment, and their whole categories, in some cases, are really struggling.

So I would definitely say it's mix. Tailwinds but also just a difficult environment. And as we go into this period that we're in now with, I guess, 144,000 cases yesterday or whatever, that's causing a bit of a pall over things and causing people to be concerned about the environment.

So we're -- as we scale up our new channels, we're seeing gross adds continue to rise. Each month, we're pushing up. We've got a model and a plan. We're just kind of turning the crank and scaling that up, adding more of our inbound efforts, putting on more SDRs, just building out those teams. And as I mentioned quickly in my prepared remarks that the standing sales force or traditional sales force that's out there selling Marketing Services is having more and more success and productivity because, quite frankly, we're up to version 5 point I think 1 with the product. We keep having more and more releases with the actual software getting better and easier to use. So that there's a word-of-mouth demand as people are excited about what it does. And it's just an easier product to sell than it was, say, 1.5 years ago, it's just much, much better.

As far as your question about onboarding. In all honesty, when we first started, and I told you, we sold that initial 40,000 very, very quickly. We did not have a robust onboarding process. We did not have a super slick automated widget that just lets you sign up and come through. It was a little bit labor-intensive. And our big marketing sales -- Marketing Services sales force did that work. They kind of handheld customers and got them through it. And that's how we did it.

But we didn't have an onboarding customer success team -- an ongoing customer success team really staying in touch, teaching, building, working in the way that we have created more recently. And so one of the things that we're seeing now with a really great onboarding widget, really great onboarding teams that have a cadence and follow-up. They have personal touch, they have tech touch. And then we've got a client experience group that stays with and after that initial onboarding that's really helped customers use more of the modules, more of the features of Thryv.

Thryv does about 20 things. And a lot of our small businesses will use 3 things or 4 things or 7 things. The more we get them using, the stickier it becomes. We find that once they get to about 4 of the different elements, they pretty much never leave us. So our client experience group really will talk to a customer using 2 things about how they could implement the third, the fourth and the fifth. And that's been enormous. And we have a pretty significant plan to invest in and grow those client services groups, and as we grow the customer base and even potentially a little bit ahead of growing the customer base because we really realize how important that is. We also, frankly, have been amping up our investment in the product itself, beefing up the attainment of our road map and kind of pulling that forward to innovate the product.

We're keenly aware that we are in pole position here. We are the clear category leader in the niche that we've sort of created and carved out here. And we know there will be others. There will be people who want to come and compete with us, either coming out of a vertical or maybe even a software company kind of coming down market or coming over. So we don't think we'll have it to ourselves forever here. We're conscious that we need to really innovate the product and continue to invest and improve it. So I hope that was a good answer to your question, Arjun?

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Analyst*

Yes. That was great color. I appreciate that. And then I know it's still early on ThryvPay, but it seems like a very exciting part of the business. So I would love to hear how you're thinking about that business might scale up. And what the contribution might look like in next year and a few years, right, more medium to long term? And thus far, maybe if there is a particular type of customer that's adopting it, just where are you seeing the traction so far? I know we're just maybe a few weeks after since it's been launched, but we'll love to hear some of that early commentary?

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

It is just a few weeks, I think, 16 days, if I remember correctly. We've had hundreds of sign-ups already, and we're seeing transactions processed right away by customers. We're seeing really significant volume. So it's definitely kicking in and being used. You asked a great question. Who did

we build it for? We built it for all of our customers, but we have a particular niche as a business with service-based businesses. These are the roofer, plumber, locksmith, landscaper, tree guy, all these service businesses. And they tend to take pretty large payments from their customers.

Think of like if you're doing a roof, and you maybe pay \$3,000 upfront and then another \$3,000 when the job is completed or something like that. These are big payments. And these businesses want to take the payment electronically. But they don't want to take it on a credit card because the credit card fees are so high. And so what ThryvPay allows them to do is provide that great service, that great electronic payment, know they've got the money, know they've got it right away, have confirmation, but for a much smaller fee.

So that's really kind of we designed it for those guys. And so far, so good. As far as how we see it going, we think it's going to be kind of a premium offering where customers that have not yet bought Thryv could come in and get ThryvPay. One of the things we did just a while back, we were doing some -- when we added payments to the platform, we put Square and Stripe and some of these other tools on there, we were doing some of our online marketing. We ran some keyword advertising in and around the search term payments for small business.

And we found that there's a massive quick flow there. The small businesses are constantly looking for a better and more efficient way to process payments. And we really realized that, that's a big area. And so we think that we will be able with ThryvPay to sit in that stream and really use it as a customer acquisition tool that will sort of fatten up the pipe of people coming our way. We haven't rolled that piece out yet. Right now ThryvPay is just for Thryv customers, but early in '21, we'll be rolling out that next leg of that kind of freemium offer, if you will.

And we think it will give us a much bigger market of people coming to us. And then obviously, once they're using ThryvPay, we can talk with them a little bit about the benefits of implementing Thryv to help them run their business.

As to your question about how big it could be. We've got some slideware in there showing what we think the kind of a potential addressable market is. I mean, it's big. And that TAM that we're discussing there is just the U.S. as we've discussed, I think, a little bit in some other conversations. We're hedging out now international. And so that market is there, too. But just in the U.S., a big addressable market. But then there's a lot of payments and payment flow, and people want to do it contactless, they want to do it digitally, they want to do it instantly and they want to do it conveniently and they want it confirmed. And all of that happens with ThryvPay.

So I think it could be pretty significant. And as you can imagine, we do make a small kind of wig for each transaction that comes through. And yes, that could be a very significant source of additional revenue, kind of sort of fintech revenue, if you will, for the Thryv platform. I think the thing that the team is the most excited about is we think it will trigger even much higher levels of engagement in our already high level of engagement clients because if you're getting paid from Thryv and ThryvPay, your likelihood of canceling your software subscription goes way down. I mean, it just -- I mean, that's how you do business, and that's how you're getting paid. So we think that, that's really the sort of the killer aspect. But we're not underestimating just how big the payments piece could be.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Analyst*

Great. Yes. So that sounds -- yes, it sounds like a great opportunity. One of the things you touched on, and that was positively surprising to hear was that half of your customers are coming in from some of the newer channels. If you could just talk about where -- which of those -- between inbound and partners and multi-location, which is the most -- which you think is the most important? And where do you see the greatest opportunity to kind of lean in and invest more to kind of broaden that top of funnel and get more -- drive more customers to the Thryv platform?

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

Well, I first want to admit that we're late to the dance. Most, I think, SaaS companies don't have 1,000-plus person sales army and a giant customer base. So they have to do this from the very beginning. In our case, we didn't do it at all. We just focused on serving our existing customers and serving our existing sales force. So we came late to the party to try to set up an inbound machine. And I must say, it was something that, as we said about it, we were really trying to create a machine, like a scalable machine where if you put this many leads in the top of the funnel, this is what came out the bottom. And it took us a little while to get that dialed in.

But throughout this year, we really have dialed that in. It's been very -- the inputs are some paid demand gen at the top. And then we -- our content marketing game we're again fairly new at. We weren't doing a lot of that over the whole 5 years, but we're doing a whole lot of it now, and we're really getting on our game and getting good at it. And we're getting more and more kind of free traffic and free mentions coming our way, coming out of the content marketing that we're now doing.

So I would say the centerpiece of this is the inbound machine, and we have a plan that just looks out in time where we're just scaling that inbound machine each month. There's a certain number of additional leads that we're investing and making sure come into the top of the funnel. And there's additional FDRs talking to them, servicing them, working with them. We're doing -- we've got sort of quotas around how many demos we're going to do each month, and that's converting through to sale. And it's -- we're right on plan, and that's part of where our confidence at scaling through '21 and beyond comes from is that machine.

Turning quickly to our reseller channel or our partner channel. Here, too, we have been learning there and making really great strides this year. And we have more and more partners that are now successful and active and selling on a regular basis. And we're sort of figuring that channel out. Who our ideal partner is. We've wasted time with some partners that maybe weren't our best partners in the beginning because they were just learning. We now sort of dialed in who our good partners are and learning continues there, but that's significant also.

And then multi-location and franchise, this is -- I had a very large franchise owner, and they're also a consultant to the industry, Franworth, tell me that this is the Holy Grail, is the way he described it. He said your hub that sits on top of Thryv, it's that kind of parent-child relationship, lets a franchise or the guy that's running the whole thing keep an eye on the marketing and the business flow from all the different franchise outlets. And believe it or not, one of the things if you're running a franchise kind of an issue is making sure you get your override or you get your fee or your commission. Sometimes the franchise can do business that you don't get to see. When they're working in Thryv, you can sort of see the whole thing. And it's really -- he called it the Holy Grail. And of course that was flattering, I love hearing it. And we've only been at that -- I mean, you can count in months, how long we've been at that business. And we -- our sign-ups are coming right through now. We literally have hundreds of them. Some of them are international already. And we've got a big funnel of additional franchises about to come through.

At our Thryv Connect, which was the last 2 days, we did it this week on Tuesday and Wednesday, ThryvConnect20, which was the second of our big annual conference. This one was virtual. The attendees were more than double the attendees from last year. A large portion of the attendee base were franchises. We had a bunch of franchise tracks, explaining how Thryv Hub works, how Thryv works for franchises. And there were -- throughout the 2 days, there were a number of franchise tracks. We had some really notable franchise speakers there. We had the FASTSIGNS CEO who was there. Actually, the Franworth guys were there as well. We have a bunch of different franchise people. So we're building strong relationships in that area. We're being very well viewed there. And I don't mean to make it sound like Burger King is going to go adopt Thryv.

This is for developing franchises maybe with 3, 4, 5 locations up to maybe 150 or 200. It's the kind of smaller, rapidly growing franchises. But the first franchise we signed up is adding locations left and right. So we're just getting steady growth out of that one as they just keep adding locations. So that's been -- and we're seeing that more and more come through.

So franchise multi-location, we think, will be very big just because we've built such a apparently Holy Grail application for them. So we expect strong growth in each of those areas. And as we enter new markets, and by that, I mean internationally, we intend to unfold the kind of new channels I've just described right from day 1 and not wait. So we'll penetrate customer bases and then have those new channels unfolding.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Analyst*

Perfect. That's very helpful. And last one for me, and I'll cede the floor. Maybe for Paul. Can you just talk a little bit about the guidance? And what -- and particularly on the SaaS side, what kind of visibility you have into the fourth quarter numbers that you put out in terms of how much is already contracted? How much is in backlog, et cetera?

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

Well, like Joe explained, we're starting to ramp up, and we're starting to build out our channels. So we're feeling pretty good about the future. And it's not quite like a backlog like there's backup stuff is going to come out to the future. It's really every day, we're building and building. So you're going to see a slow, steady build with Thryv as we build-out. And as you see from the charts, our ABO is increasing, and our churn is going down. So that's very helpful. And also, our sales force continues to sell the product very effectively.

And as Joe mentioned on the different channels, we're starting to see a slow build in each of those channels. And as you mentioned, we relate to the game, and we're building up our muscles, doing the work out to get there. So I don't have any specific backlog information to give you, but we're very optimistic about where things are heading, and we expect it to continue to get steady growth.

Operator

(Operator Instructions) Next question will come from John Slater from GPI Capital.

Unidentified Analyst

Joe, this John Paulson asking the question. Joe, it's very exciting to see the focus on Thryv. You really created something very meaningful here and necessary for the small business and you are up to version 5.0 now, and I'm sure more to come. When I look at the valuation, as exciting it is, we all know software companies trade at much higher multiples than we do. But by combining the 2 companies together, the whole company only trades at 2.2x EBITDA. Now it's hard to find pure plays. But when I look at HubSpot, which is a public SaaS company and not necessarily the same as Thryv, but they have a \$15 billion market cap. They trade at almost 17x 20 sales and 200x EBITDA. Thryv trades at only 0.6x sales. It would seem that Thryv really by combining it with a business that's declining low 20% a year, I don't think you'll ever get the valuation that Thryv deserves. So my question is why not spin-off the Thryv, the SaaS business, so that can have a valuation that's multiples greater than the total valuation for Thryv today? And the Marketing Services will probably continue to trade at the same valuation, more or less 2 to 2.5x cash flow.

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

John? Your feed dropped off there. If you come back, feel free to interrupt me. I'm going to go ahead and respond to your question and your comment. And then like I said, if you could reconnect, just interrupt me if you have more question to add to that. I just want to say that the whole company today is valued based on the cash it's generating. It's just kind of a DCF model. And the gloomy was that and a very pessimistic one. And that's okay. I mean we're pretty patient about this. We're not playing this game for November of 2020 or even this quarter or even this season. We're thinking much longer term. We think there's a really very big opportunity here.

This will be the platform that small businesses around the world use to run their companies. We've got a big marketplace, app store, where lots of tools are busy jumping on our API and writing in order to connect with Thryv and Thryv real -- John, you back? And Thryv really is a platform business. It's not just a little tool or a little niche thing. It's very big. And so we're thinking much bigger about where this goes. And think of a rocket taking off. It stays attached to the gantry for a while as it's coming up.

And there probably is a time out in the future, 4 years from now, where it may make sense to separate these businesses. But the 2 businesses benefit tremendously at the moment from the attachment. And we're not overly concerned that we haven't crystallized that future value today. We're just focused on building an excellent platform for small businesses. And the valuation will come. And some of the conversations we've had with a few of the investment analysts and so on, they start talking about some of the parts where perhaps somebody will begin to view the hidden gem that's sitting inside of this big company and say, gosh. In fact, a direct quote, one of them said, the -- your \$100-plus million SaaS business is like a mini unicorn." It's worth more than the entire company is. And I don't really -- I'm not an expert on valuations. I'm an expert on trying to help small businesses. So that's what I'm focused on.

I do think that there will be a rerating as Thryv continues to grow and accelerate. I mean, if I'm really honest, we grew so fast, we had to kind of digest for a minute there. We had several quarters where Thryv didn't grow as we were kind of changing strategies, moving upmarket. We sold a lot of customers, we probably shouldn't have sold initially that we didn't know any better. And we had to kind of work those through and work those off. But now we've got a very tight ideal client profile. We know exactly who we should sell. We're disciplined about selling those people. We're finding they onboard and use the software. And we think we can really build on this space. And we see it in our engagement. We see it in the number of people using the software logging in every day. We see it in payment volumes. We see it in automated marketing automation campaigns that are going out every day. We can see -- we've got a tool that allows us to watch that.

So in summary, you're right, there probably is an opportunity down the line to separate these businesses. But my prediction is that we will benefit a lot over the next few years by them being together. And that there will be an expansion of -- people will begin to kind of see through that, and there'll be a little bit of a sum of the parts type valuation that will likely occur. And if not, then that might push us to do it sooner, but I think that will happen. And only time will tell.

Unidentified Analyst

Yes. Joe, can you hear me now?

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

Yes, you're right there, strong and clear.

Unidentified Analyst

Hello? Okay, good. Yes. No, I agree with you that Thryv is very exciting. But I don't think you'll ever get the valuation, maybe some pick up as long as Thryv is a part of a business that's going -- declining at 20%. And the thing is, as you -- what are your advisers said the value of Thryv could be as much as the whole -- the value of the SaaS business of Thryv could be equal to the total value of Thryv. The total value of Thryv is around \$1 billion with only \$300 million or so in equity. I mean you can potentially get a 2, 3x, 4x increase in the equity value by spinning off Thryv without -- by spinning off the SaaS business without affecting the total value of the Thryv today.

And the benefit is you say you're in a very competitive market, and there's a lot of people with enormous resources. And they can tap the equity markets to raise money very easily to fund the growth and by not having that tool and being at a disadvantage in terms of the cost of capital, it's like competing against HubSpot and others with your hands tied behind your back. So I think separating the 2 -- and I'm not saying separate today, but it should be something on the -- not 4 years, something in the perhaps the next year or a year time frame. I think it will give you a lot greater flexibility and a much greater cost of capital to pursue the growth that you're targeting.

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

Well, I mean, you make a really good point. And I respect your experience and perspective. You also have been a great backer of listing, too. So to be fair, we'll take that and think about that. John, we are running the company today as though we're going to split it tomorrow. We're running the Marketing Services business and the SaaS business as 2. We're tracking them that way. We're running them that way. We're thinking about them accounting for them that way, and we're really working toward an eventual separation because we do see that problem. And it may -- you may be correct that it will make sense for us to do that at some point. And I'm going to take very strongly your advice and suggestion and perhaps we should do it sooner than we were thinking.

Operator

I have no further questions. Thank you. At this time, I'd like to turn the call back over to Mr. Joe Walsh for closing remarks.

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

Thank you very much, operator. I just would like to say a couple of closing comments. One, there was a question there a couple of minutes ago about forward visibility. The business does have pretty good forward visibility, just the way we've been building the machine on the SaaS side. We know what we're investing in the top of the funnel. We know how many leads we're targeting for the month. We typically hit that number almost exactly every month. And it's just kind of math as you bring it down. And the close time from when we initially talked to those customers when they close, it's not super long, but it's not instant. So we have a good sense of it. And we have very good forward visibility here, certainly for the fourth quarter and even into the beginning of next year. And the momentum is building, and we are really confident in that building momentum and excited about seeing the growth return to our software business.

I'm also aware that there are a number of people on the line who are not allowed to ask questions, just for assorted reasons. And I would just encourage you to reach out to our IR team. They're ready to answer those questions. They'd would love to help you if you're modeling or working on it. This is our first call as a public company. We realize we're -- people are just now becoming familiar with us and familiar with our story. It does require a little work because you got to get your head around 2 businesses not one. But we promise it will be worth it. We think that there's a terrific future here. We've got a very seasoned management team who's been doing this for a while, and we're excited about this. We really believe in what we're doing. We think that this SaaS business will -- not just in valuation, but in revenue will dwarf the rest of the company in just a few years according to the plans that we've laid out. So thank you, everybody, for listening, and we look forward to updating you on our progress next quarter.

Operator

Thank you, everyone, for joining today's conference. You may now disconnect.

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