

Q4 2020 Earnings Call

Company Participants

- Joseph Walsh, CEO, President & Director
- K.J. Christopher, Assistant VP of IR, Treasury & Tax
- Paul Rouse, CFO, Executive VP & Treasurer
- Unidentified Speaker, Unknown

Other Participants

- Arjun Bhatia, Analyst
- Daniel Moore, MD of Research
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Thryv Fourth Quarter and Full Year 2020 Earnings Call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker for today, KJ Christopher from Thryv. Thank you.

Please go ahead, Mr. Christopher.

K.J. Christopher {BIO 22098356 <GO>}

Good morning, everyone. Welcome to this recorded management discussion of Thryv's fourth quarter 2020 results.

By now, you should have received a copy of the company's fourth quarter 2020 earnings release and investor supplement, which is also posted on our website at investor.thryv.com.

With me today are Joe Walsh, Chief Executive Officer and President; Paul Rouse, Chief Financial Officer and Treasurer; and John Allen, Chief Executive Officer of Sensis Holdings.

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 this call.

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

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

Joseph Walsh {BIO 18001809 <GO>}

Thank you, KJ. Good morning. Welcome to our fourth quarter 2020 earnings call.

To begin, I'll talk about 2020 and then comment on recent developments. Following that, our CFO, Paul Rouse, will provide insights on our Q4 numbers and an update to our 2021 guidance. Then we'll open it up for questions and answers.

In 2020, we had a big year. We became a public company again on the NASDAQ. We refreshed our Board of Directors and brought in real SaaS and software talent expertise to help us accelerate the growth of our SaaS business. We launched our own payment platform, ThryvPay. And most importantly, we returned our SaaS business to grow. We're really proud of these milestones in 2020 because let's face it, there were unprecedented challenges for small businesses this last year.

And we were inspired and impressed, by the way, small businesses worked hard to stay in business and just were determined a per severe. And our team actually, I think, played a pretty big role in helping a lot of small businesses adapt and make it and figure out how to really alter their business model using the software to be able to do e-commerce or to be able to become a business that delivers or whatever to make it through those really difficult shutdown. And we're really impressed by that.

2020 was really an explanation point on this need for small businesses to modernize and transition to the cloud. We believe that the changes that the pandemic brought about are durable and will forever really accelerate the transformation of small businesses using cloud tools and digitizing their business. So we think there's a really strong foundation for our growth coming off of that.

I'd like to talk a little bit about growth, churn, ARPU, some of the things happening in our business. Our SaaS platform grew eight -- a little over 8% in the fourth quarter. Our churn is down and has been steadily coming down. We're at a level now that I would describe

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as par. We probably aren't going to do a whole lot better because we are dealing with modern top small businesses, and there is some ins and outs there.

So it's very acceptable in our models, we can get really strong growth being kind of in this mid- 2s churn level. We think that's around the right place to be. Our ARPU has been improving, it's improving because we made a big shift in our strategy. We had experimented with going down market. We've moved back up market, selling to a little bit bigger businesses, selling a little bit more complete robust solution, a little higher price point. We're getting really fully engaged customers. We've been disciplined about our ideal client profile, getting the right customers in.

And consequently, you're seeing ARPU or spend per customer rising nicely, I would encourage you to take a look at those stats. And while our client growth is about flattish, we're looking to see that begin to accelerate as we go through this year as those smaller, less engaged customers roll off, and we're bringing in the larger ones that are spending more and much, much more committed than we're truly using the software. So we're looking forward to having not just revenue growth, but also client growth of this year goes on.

The big story for us over the last year or so is engagement. We've seen tremendous growth in engagement. And engagement, I would describe as people that we see active in the in box using it. We see them adding contact cards to their CRM. We see their schedule lining up with people scheduling appointments with them. We see them sending out marketing automation campaigns using our console for social media.

And maybe most importantly, we see the payment volume. We see them accepting more and more payments in broadband. So that really shows us what's happening in that business. We recently hit an all-time high of active users with daily and weekly user growth up the most. It's up tremendously year-over-year. And we think we're going to continue to invest in education and engagement growth, we've been really building our client success team actually investing in more and more people to just spend time with those customers teaching showing. Remember, we're bring in the UN Cloud at into the cloud here. So it requires a little handholding.

Sensis, the acquisition we made in Australia closed March 1, it's over 100,000 small business clients. It's a marketing services business that really is a whole lot like the slide business here, just minus the software that's a big zoo, 100,000 customers for us to hunt in now and really expand our SaaS business.

Their performance in Australia has been arguably world's best. They have the advantage of the white pages, which their White pages business outperforms the elevates business with a slower revenue decline and higher margins. In fact, they've delivered margins north of 40%. So John and his team are really good at this. High free cash flow generation, this thing is throwing off a ton of cash. You'll be impressed by just the amount of commonalities between the 2.

Now I've known John Allen it's been in that job for over eight years. I've known him for most of that time. We've been business brand. He's come here to the U.S. multiple times to meet with me and our team, and I've been to Australia, and that was he and his team. Our teams have talked and shared best practices and ideas. So there's a good warm feeling between the two companies. I really like John a lot, and I think you will too, I want to take this time and introduce you to John and have him just have a word with you. John?

Unidentified Speaker

Thank you, Joe. I thought I'd share a little bit of information about Sensis in terms of the company and the market we compete in and then how we intend to bring Thryv to Australia. The way to think about Sensis is very similar to thrive in the U.S. We're a leading digital marketing services and print directory company here in Australia. We published and distributed the Yellow Pages and the White Pages books right across the country as well as manage the marketing services needs of over 100,000 businesses, the majority of these businesses are small to medium businesses, employing less than 200 people.

Our strategy of the past two years at Sensis has been to develop a range of digital marketing Solutions whilst also transitioning our customers from print to digital, depending on the changing habits of Australians. Now as a country, we are significant digital consumers, but our printer actually serve an important service to older and more regionally based people. Whilst the Australian population is around 25 million people, the Australian Bureau of statistics indicates there are over 2 million registered businesses here. The small to medium business population, which we primarily focus on is over 800,000 of those businesses. These small to medium businesses have been estimated by the Reserve Bank of Australia to account for 70% of all employment and over 30% of GDP.

So they're really significant component of the Australian economy. The needs of Australian small to medium businesses are very similar to the U.S., and we see a lot of similarities between Thryv and Sensis. However, what makes me particularly excited about the Thryv acquisition for Sensis is the Thryv software. Over the past year at Sensis, we started to develop our own software strategy, but really, we're at a nascent level today. By launching Thryv into Australia will save us years of investment and help us fast track our approach to the local market, our existing customers as well as new ones.

We think there's going to be a significant opportunity of solutions such as Thryv in Australia, now during COVID, we saw an uptick in small to medium businesses having an interest in software, making them more efficient, helping them manage their customers and improving their service. We also are in an environment here of low unemployment rates and high labor rates. So Australian small domain businesses are becoming much more aware about the opportunities that software can really help them optimize and improve their business performance. Also, the Australian government can see value in digital efficiency.

And during the middle of last year, made it compulsory for single touch payroll, forcing small do medium businesses to lodge tax payments to the Australian tax office in an automated fashion. This has meant SMBs had to go out and get accounting software. But for many industries we deal with, that's as far as their digital journey has taken them.

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During February 2021, prior to the acquisition by Thryv, we undertook an independent survey using GLO, asking Australian small to medium businesses about the attitudes and interest in software we didn't specifically ask them about thrive.

But what the survey did show is 69% will be interested in software that could help them manage their customer interactions, their website, listing information across the web, appointments and the like many of these are features of Thryv. Businesses know they have to do more to digitize here, and they're looking for support in that transition. Now at Sensis, we've had a really long history of helping businesses connect and manage their customers it goes back to the very first bone book and more recently with digital marketing services. So I know my team are looking forward to helping customers with the transition to software.

In terms of the Australian market and launching Thryv, we'll be working very closely with the Thryv team in the U.S. to help localized ride for the Australian market. Our intention is to launch later this year, and we'll be focusing on the product, pricing and overall service offering being right for Australian conditions. Thryv in the U.S. has built an enviable reputation within the SaaS community and with their customers, and my team will be ensuring we launch on the right foot here so to mirror their success.

So thank you, Joe, for letting me talk about Sensis. Let me pass back to you.

Joseph Walsh {BIO 18001809 <GO>}

Thank you, John. Well, we're awfully happy to have John Allen and his team on board. There's a really good feeling back and forth between these two teams. We're excited about the beachhead that bringing these iconic 100-plus year old brands into the family here, give us in Australia over 100,000 small businesses. And we think that we can very quickly become the category leader for small business CRM kind of client experience platform in Australia. Remember, John and his team are phenomenal executors. They've executed superbly on the other business plan. They believe in this business plan, and we think that they will be phenomenal executors here with us. So welcome to John and his team.

A couple of other quick things I wanted to comment on. Verticalization is a big part of our road map here. We are about to roll out ThryvHome, which is really a vertical play on the home services space, where we have so much penetration and so much success. There are a couple of vertical players out there in different a little. We don't have a ton of competition. Most of what we're doing is bringing the unclouded into the cloud.

But there's a couple of other guys out there trying to do it. And I think us having verticalization like ThryvHome followed by ThryvLegal, followed by ThryvHealth. These are things that will really help us borrow more deeply into those verticals to make sure we don't leave any white space for somebody to crawl in here with us. ThryvPay has been off to a great start. It's just four, five months in now. It's still early days.

But we're seeing sign-ups come through almost every day. We're seeing growth in revenue per active merchant. We're seeing the total payment volumes trending up each month. So it's too early to say the flag and called out a big win. But I'll tell you one thing. When you're getting paid by your CRM, your likelihood of churning goes down.

So with that, I'll now turn it over to Paul to discuss the fourth quarter financial results, and I'll be back to discuss our outlook at the end.

Paul Rouse {BIO 18940808 <GO>}

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 temporarily issued certain customer credits throughout 2020, which have masked the true year-over-year comparability in both SaaS and marketing services.

During the fourth quarter, the company has recognized pandemic credits of \$3.3 million provided to customers most impacted by COVID-19. For the full year 2020, the pandemic credits totaled \$17.5 million. The company has reflected these goodwill adjustments as a reduction to revenue. As of this moment, we are continuously monitoring the business environment of our clients and expect to provide further assistance to those clients in need through the first part of spring 2021.

Throughout the spring months, we expect the business environment to improve as more and more people are vaccinated. And thus, we expect the need for assistance to significantly diminish by the middle part of Q2 2021.

Now let's turn to the business segments. I'll start first with our SaaS segment, fourth quarter 2020 SaaS revenue was \$34.9 million, the increase of 8% year-over-year and ahead of our guidance. Full year 2020 SaaS revenue was \$129.8 million. Fourth quarter SaaS billings were \$38.8 million, an increase of 13% year-over-year. The full year 2020 SaaS billings were \$137.7 million. Fourth quarter SaaS ARPU was \$293, a significant increase when compared to \$260 in the previous quarter and \$236 in the fourth quarter 2019.

Fourth quarter SaaS churn was 2.4%, a significant improvement in retention when compared to 2.7% in the previous quarter and 3.4% in the fourth quarter of 2019. The improvement in churn rate is directly attributed to increased usage and engagement in the platform.

Moving over to marketing services. Fourth quarter revenue was \$212.1 million, a decrease of 32% year-over-year and ahead of our guidance. Full year 2020 marketing services revenues were \$979.6 million. Fourth quarter marketing services billings were \$232.5 million, a decrease of 21% year-over-year.

Full year 2020 marketing services billings decreased 22%. Before we continue, I would like to remind everyone that our print product has a contract life that usually exceeds one year. Generally, Thryv's print directories are published on 15-month cycles and we build

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customers and collect payments from them on a ratable monthly basis. Under ASC 606 and our entire 15-month revenue stream from each directory is crystallized as revenue on the income statement when the directory is 95% shipped.

As a result, of these dynamics, reported print revenue and EBITDA is lumpy. And as a different set of directories are published in each quarter due to the 15-month cycles. In management's opinion, this makes year-over-year comparability, not relevant. Management will provide operational metrics, such as billings to give our investors better insight into our operational performance. This is provided in our fourth quarter investor supplement available on our website.

Turning now to profitability. Fourth quarter total company adjusted EBITDA was \$71.6 million, resulting in an adjusted EBITDA margin of 29% and ahead of our guidance. Full year 2020 total company adjusted EBITDA was \$371.8 million, resulting in an adjusted EBITDA margin of 34% and consistent with the prior year. Leverage, based on net debt, to adjusted EBITDA was 1.3x at the end of the fourth quarter, which is the fifth consecutive quarter, net leverage has been under 1.5x as defined by our credit agreement. Total debt decreased for the full year 2020 by \$186 million.

Before we turn to guidance, we want to bring KJ Christopher back for an update on the tax valuation allowance and the status of the Sensis historical financials.

K.J. Christopher {BIO 22098356 <GO>}

Thanks, Paul. While reviewing the financials, you will have noticed a significant benefit in income taxes this quarter. Based on the company's recent performance, management has concluded that it is more likely than not, that a significant portion of our deferred tax assets will be realized. And accordingly, we have booked this benefit within the financial statements. This conclusion was based on what management feels as strong positive evidence associated with the recent earnings and Thryv's ability to generate future taxable earnings as it continues to manage the overall business towards strong margins.

Now turning to Sensis. Please bear in mind that we are currently in the process of converting Sensis Holdings financial results from U.K. GAAP to U.S. GAAP. At this time, we do not have any information to share with respect to Sensis financial results for the quarter or trailing 12-month period ending December 31, 2020. However, we did provide historical summary results for the trailing 12-month period as of October 31, 2020, as well as results for the previous three fiscal years ending June 30 based on U.K. GAAP. This information can be found in the Sensis Holdings acquisition investor presentation filed in the 8-K on January 6, 2021.

Now let me turn it back over to Paul.

Paul Rouse {BIO 18940808 <GO>}

Thanks, KJ. Let's talk about our 2021 outlook. We are raising our 2021 SaaS revenue guidance range to \$140 million to \$145 million, up from \$139 million to \$143 million. For

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marketing services, we are maintaining revenue guidance at \$740 million to \$760 million. While we're not guiding to adjusted EBITDA, we do expect our marketing services to maintain EBITDA margins consistent with the prior year. For SaaS, we do expect EBITDA margin compression primarily as a result of investments we are making in product and sales heads.

Finally, due to the fact that we just closed the Sensis acquisition, Sensis is not factored into our 2021 guidance at this time. We intend to give an update on their contribution to 2021 outlook at a later date.

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

Joseph Walsh {BIO 18001809 <GO>}

Thanks, Paul. Well, look, I'd like to wrap this section of the call by just reminding everybody that our guidance is that we're returning to growth with our SaaS business. It's not some magical thing. This is a result of a lot of hard work of improving the software itself, building and improving our onboarding process and really delivering some incredible results for our customers.

And indication that, that growth is going to continue, can be found in our NPS scores, which have been steadily going up. You can find it in the software reviews out there on Capterra and G2 crowd, if you take a look and see what our customers are saying about the software that's really the brilliance here. Is the software is driving it.

This has gone from a sales story where we had the edge of hunting in the zoo to really product-led growth. This product is now what's circulating. A lot of our sales are coming in from referral and building. We're pretty enthusiastic about the growth opportunity that lies ahead here, beginning to have enough confidence to guide to that.

I'd just like to have you walk away from the story remembering that you think about the cloud, and it's obvious for enterprise. Giant companies have been adopting cloud at a very fast rate, really, for the last almost 10 years, but certainly for the last five years, really going with it. So small businesses, mom-and-pop businesses have been pretty much left out of the whole cloud story.

We really have made it our mission to bring these on cloud and small businesses into the cloud. And now the pandemic came along and sort of gave a corani chop to the whole thing and really brought forward the demand we cause people to realize, yes, I need to modernize. I need to be able to do contactless delivery and payments.

And I need to be able to update the entire web on my safety protocols, my store hours, my offerings almost on an hour or two's notice, which Thryv allows you to do. So the bad luck for the world was a little happy luck for the accelerated adoption of the cloud by small businesses. So we sit right there. So if you think that the cloud is a big thing and you think that small businesses will likely follow big ones onto the cloud, then Thryv is your play because we're super well positioned for that.

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So with that, let me turn this over to the operator for questions.

Questions And Answers

Operator

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

Q - Arjun Bhatia {BIO 17340929 <GO>}

And it's good to talk to you again. Joe, maybe I'll start off with a higher-level question for you. And you touched on this throughout your remarks earlier, but maybe just to hone in on it a little bit more.

Help us understand some of the trends that you're seeing in the SaaS business that give you the confidence in the guidance that you put out in your ability to grow double digits in that SaaS business next year, right? What are you doing on the product side, on the go-to-market investments, other investments that you're making in the business and the trends you're seeing in your customer base? Maybe just pinpoint that for us? And how you feel about your 10% growth guidance for 2021?

A - Joseph Walsh {BIO 18001809 <GO>}

Thanks, Arjun. Good to hear from you, man. So there's a number of things going on. We have been working very hard to innovate the software itself. And it's not just adding necessarily more and more things that it does, although we've added a bunch of new things. It's making it do everything easier, do it with less steps, do it better, just cleaning up things in the UI.

We've really been growing our marketplace, our app store and the interconnectivity we have in the market. So many of our customers now have used the APIs and linked up to other software tools that are in the market that help them run their business and Thryv really represents the main dashboard they go to.

And then they have their QuickBooks or their mail time for running in the background. If they want to e-commerce, enable their website, they hooked up to Shopify, those kind of things. So that's been, I think, really important. And even in the last three or four months, we've had some really significant releases that have stepped up the functionality and improve the product a whole lot. So that's been really key.

I think onboarding, is something that we've -- I'm not going to say we perfected it, but we've just come so far with it. We've got onboarding widgets. We've got a process now, where we really clearly identify the clients purchase intent. One of the problems with Thryv is it does so much. It does about 20 things.

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And not every customer that buys wants to -- it has the same pain point they're focused on. So we are now capturing what their true purchase intent is and reflecting that to everybody throughout the onboarding process. So we quickly get them to value. And that's made a big, big difference in terms of excitement and engagement on the part of the customer. So I think that's been really key to driving engagement.

We, as a company, have set engagement goals where when you look at our company intranet, when you turn it on in the morning, there's a crawler going across the screen that shows you daily, weekly and active -- monthly active users in the product. And we're driving that up all the time. That's been really been a big focus for us.

And I will tell you that the gains in active usage are way ahead of the gains that we're forecasting here in revenue. So I think it's a tremendous forward leading indicator. In my time, it can be in learning, retain the education business. We found that time on site, time in the tool, number of log ins, all that stuff was a perfect leading indicator for renewals and for sales growth going forward. And I think that's beginning to shape up that way here.

Then you asked about investments. We empanelled a new board as of September 1. We brought in (inaudible) an entire new Board of software expertise and a deep and complete evaluation was done of the software tool itself and of our process by that team and by Gartner, who we brought in to look at it.

And after that review, we came out with flying colors. Everybody was very enthused and sort of looking around the Board table saying, why are we investing more to grow this thing faster. And so I'll commit was made at that point to really get on the front foot. And so we've been stepping on the gap sense.

And we have been increasing our investment right across engineering product in content generation at the top of the funnel in marketing, we've been spending a little bit more to drive more leads, and we've been building our inbound sales machine methodically adding SCRs, demo experts building it.

So I'm not sort of guessing at what's going to happen. It's math. As I'm looking at how it's all playing out. So that's kind of, I guess, a quick summary, Arjun of some of the pieces that drive our confidence and obviously, we're sitting here nearly at the end of March. So we have a pretty good idea of how things are going. So that's kind of where we are. Does that answer your question?

Q - Arjun Bhatia {BIO 17340929 <GO>}

Yes. No, perfect. That was very helpful and good to hear some of the product investments and go-to-market investments that you're making in the business. One -- you touched -- you were touching on some of the product changes that you're making. And you touched on verticalization a little bit earlier and talked about ThryvHome, which obviously furthers your leadership in a vertical where you have a big presence.

But I remember seeing the announcement that you guys made maybe earlier this month. And it seemed like there were five or six other verticals that you pointed out that the product will be available for. Just give us a sense for that verticalization strategy and whether that gets you into new verticals or whether some of those other verticals that you pointed out are also areas where it's just an opportunity for you to further extend your leadership?

A - Joseph Walsh {BIO 18001809 <GO>}

So Arjun, the way we've thought about it is we've looked at -- and as you know, we started this thing horizontally. We're the nations, the Yellow Pages publishers. So we literally have everything from A to Z in our customer base. And so that was the way we began was to try to provide something that would be helpful for those customers. But having been at it now for many years, we've got really clear records of where we've done well, where we have the bulk of our customers where we've gotten the most traction.

And it's in and around those areas that we're choosing to make the verticalization investment. And it's not that we're not still horizontal. And we're not still selling those other kind of A to Z things that don't fit into these big verticals. But it's clear that the kind of home services is a big area for us. It's clear that legal services are a big area for us. It's clear that health is a big area for us. Everything around pest services is a big area for us. So these are the first areas that we'll be really investing in verticalizing. And based on how those go, we may or may not go further, but that's kind of the way we thought about it.

Q - Arjun Bhatia {BIO 17340929 <GO>}

Perfect. And then it was good to hear from John on Sensis. I -- it sounded like that the SaaS product will be rolled out a little bit later this year. Can you just help give us -- help us understand the time line for which you can start to convert some of those Sensis customers in the marketing services business over to the SaaS. Are we thinking of something like a 1%, 2%, 3% customer cross-sell rate within a year or how are you thinking about the cross sell opportunity? Clearly, you had some success with that playbook here in the U.S., but just help us understand the opportunity with Sensis' Australian customer base.

A - Joseph Walsh {BIO 18001809 <GO>}

Sure. Look, I think we do have a pretty good analogy in the YP acquisition that we made a few years ago. We found that we've pretty quickly penetrated around 10% of their customer base. And we're continuing now to penetrate further. But that first 10% came really in the first two years. And so I would think of in terms of calendar fiscal year '22 and '23, seeing us pretty much hard through that customer base as we find the low-hanging fruit and do that. As far as immediate or this year, obviously, there's a lot of work to do to integrate the two companies, to hook up the plumbing, to get training going.

Get everybody off to a good start. And so we've got relatively modest expectations for this year. We certainly will be selling in the second half, and we certainly will see some conversions and get it going. But it's most important to us that we get off to a quality start that those very, very first customers that come over, that is an exceptional experience for

the customer himself and for the business adviser when it's involved because we don't want the sales organization there to cool off and feel like, oh, this is not a good experience for my client.

I don't want to do this. So we really are going to measure twice and cut once as we start, really make sure we get it right. And I have here with me, John Allen. So I think what I would do is just ask John, if he wouldn't maybe comment on the preparation that he's making. And I've mentioned on the call, John and his team are the best executors. I think in the world at this stuff. And we've now handed them a new opportunity in new playbook, and they have warm to the task. So let me let John make some comments. John?

A - Unidentified Speaker

Yes. Thanks, Joe. Yes, look, the way we're approaching in Australia is after close, we have kicked off various project streams working with the U.S. team. So we see it as a great opportunity to take the U.S. product. We do need to localize it for Australian conditions. So things like currency and some componentry that's required for the Australian market. Well, we've got about seven project streams that are running. We kicked those off within a few days of close.

We're running very, very hard. As Joe said, our ambition is to make sure that in the second half of the year, we launched into our customer base. Our focus will be very similar to the learnings and the thrive. We're going to focus on our existing customer base first. We actually had our entire company together today. The entire organization in Australia, share with them our plans to thrive and get them into and excited.

And I've got to say, the end of the day, I think nothing but excitement from our team in Australia right across the country actually relaunching Thryv. So they can see -- certainly, our salespeople are incredibly enthusiastic, and they can see opportunities in the marketplace as soon as we can get going.

But as Joe said, we're also very conscious that we want to bring the product into the market here in an incredibly smart and comprehensive way and make sure that it's a really good experience for our customers. And we understand that we sort of have the Thryv reputation to live up to in terms of those standards. So we'll be working very, very hard to get going as quickly as we can. But we'll also be very conscious of getting it right from day 1.

Q - Arjun Bhatia {BIO 17340929 <GO>}

Awesome. Good to hear from you, John. And then maybe a last question for me before I leave it. On the organic go-to-market investments, Joe, you mentioned the -- the inbound marketing investments that you're making. What kind of traction are you seeing there from new customers right now? There's obviously a big -- still a big cross-sell opportunity left with your marketing services customer base.

But we'd like to hear where new -- net new customers are shaking out and how payments, how you expect payments to have an impact on that going forward or whether that can be a landing point for customers that are looking for a payment solution and then maybe adopting the broader SaaS platform later on. Just help me understand some of those dynamics.

A - Joseph Walsh {BIO 18001809 <GO>}

Sure. I'm going to share this answer with Ryan Kaser, who's in the room here. But I'll start, and then I'll bring Brian in to comment some of what he's seeing. Ryan leads to Thryv product and marketing areas. So he is appropriate to talk about it. I can tell you statistically that almost exactly half of our total new acquisitions. New customers that are joining the company overall are coming in as Thryv to customers.

And as we build up the inbound machine that percentage is going to get higher and higher because they're not hunting they're out hunting and wild. They're bringing in customers finding hand raisers. That are interested in our product and interest in some of the content we have out there on the web that are coming through, and they're asking for a demo, they're asking to learn more, looking to speak to somebody about signing up.

So that has become really an important customer acquisition tool. Now penetrating the base is still going on. That's the other half. And the sales force is out there doing it. And their customers, we offer this to two years ago or last year that said, I don't know. I don't really know what I want to do that that are now saying they want it. And some of that's COVID, just grabbing everybody and giving them a good shake and saying, you better be ready to work remotely and all that stuff. So let me see if I can get Ryan to just make a few comments about what he's seeing in terms of inbound marketing.

A - Unidentified Speaker

Thanks, Joe. So obviously, in terms of inbound marketing, we're seeing a sophistication of our marketing activities, looking at top of funnel all the way through to nurture streams. We're seeing an efficiency in our cost per lead.

We're seeing increased output in total qualified, what we call MQLs delivered month-over-month, up over 100% year-over-year. And specifically, when we look at ThryvPay and other types of adoptions that we're seeing from the new channels, we're also seeing that our decision to specifically focus on service-oriented businesses or our ideal client profile, as Joe alluded to earlier.

Is really paying dividends in ThryvPay as well. Unlike other competitors, we're -- what we consider an open shop, where we give our customers the choice of not only our payment service but other payment services. And we're seeing really good signs that even when given a choice, that our specific focus in our ideal client is seeing higher ThryvPay adoption than our competitors in-app when they sign up for a payment service. So again, our focus on the right audience with the right message and serving up the right features at the right time is really proving dividends across the board from efficiency in our marketing and overall product option.

A - Joseph Walsh {BIO 18001809 <GO>}

And I would just also say that ThryvPay Premium, which we have planned for later this year, will be a stand-alone app that will -- as the name implies, these free. And we believe that will really help identify many new great prospects for thrive software that will come in initially as thrive pay only customers.

Q - Arjun Bhatia {BIO 17340929 <GO>}

Perfect. That's very helpful. I'll leave it there. Gentlemen, congrats on the results. It's great to see the growth in the SaaS business.

Operator

Our next question comes from Daniel Moore from CJS Securities.

Q - Daniel Moore {BIO 4869128 <GO>}

Nice to meet you virtually. Wanted to just focus start on the guide to start. Obviously, expect to keep margins flat on the marketing services side. Once again, any color for kind of magnitude of investments and therefore, margin compression the SaaS side of the house for '21, obviously, exclusive of Sensis?

A - Joseph Walsh {BIO 18001809 <GO>}

Yes. I'll give you some directional guidance here. Keep in mind, when you start adding revenue, to an already fully scaled SaaS business, the flow-through is pretty darn good. So the investments that we are talking about making are going to receive a pretty good return pretty quickly. We're not contemplating running the SaaS business as a money loser. That's not what we're saying. But our new Board said, are you guys out of your mind? Why are you making so much money with your SaaS business?

You want to just leave a little in it and let it flash around in there and let it grow. So that's probably the way we're approaching it. I would say that we are definitely not going to run it a lot. It's not going all of a sudden, be a big investment. We're long past the investment cycle to get it up and get it going. Thryv has been -- has positive cash flow. And positive EBITDA since the middle of 2019.

So I mean, we're long past that. But we may not be trying to get higher and higher and higher EBITDA margins out of it. We may just take a few of those nickels and dimes and put them back into continuing to drive the growth.

Q - Daniel Moore {BIO 4869128 <GO>}

Super helpful. And then I recognize it's still early for Sensis. But if I think about the sort of core before we start layering in SaaS and Thryv, just how do we think about normalized rates of decline relative to the kind of 20% decline in the North American marketing services business? I know the White Pages tend to be a little stickier, but any color around that would be helpful. And similarly, margins up in the mid- to high 40s percent. Is -- will

there be more investment to come? How do we think about kind of a normalized margin on the core in Sensis?

A - Joseph Walsh {BIO 18001809 <GO>}

So I'm going to two-step answer this. I'm going to answer part of it, and I'm going to ask John to give a little additional color. We expect that adding in Sensis will flatter our revenue decline a little bit because they've been better at this than us. So we think that it will flatter our revenue decline just a bit and probably flatter our margin just a bit. Because they have higher margins, and they represent a really significant adder to our company. As far as what he sees and how he does it, I mean the world's experts on this call, so I'll let John comments to it. John, would you pick it up from there?

A - Unidentified Speaker

Yes. Thanks, Joe. I mean the way we see it is we're going to be using the expertise and the investment out of the United States and the product. So we not going to be reinventing another version of thrive in Australia. We're going to be simply localizing the existing product from the U.S. So in our sense, where the investment gets required is connecting the Thryv software into the Australian ecosystem and making sure that we can kind of manage the kind of 360-degree view of our customers.

So we don't anticipate that being a big capital requirement, a big expense requirement. We'll be reusing what the U.S. has. We think the product in the United States, the way it's been built and the way it operates today. Is it going to be about kind of 90% right for the Australian market. It will require some localization. So some content would clearly be unique for the business. We are in a business with relatively low capital requirement.

And as an organization, we've been running a very low capital investment for a number of years. So it's something that the business is certainly used to. So we don't see it as a significant capital requirement to the business.

Now as we bring Thryv to the market, as Joe indicated, we are a relatively high-margin business, and we've been in that position now for sort of well over sort of five or six years very consistently with our margins. I think the other thing is we do run a variablized labor base as well, it Sensis sort of ranges between 30% and 35%. So we have flexibility in our business to be able to flex our business as we go.

So that's what we'll be focused on is getting thrive into the market as quickly as possible as fast as we can. And then as our sales people take it to market, we'll clearly Thryv will be a big focus for the business, but will be clearly, at the same time, have a really clean eye on our margin and trying to preserve that kind of strong history that we've had.

Now we don't -- at this point, I think it would be too early to sort of comment on whether that's going to shift as we go. But certainly, it's something that we're going to be very, very focused on.

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Q - Daniel Moore {BIO 4869128 <GO>}

Extremely helpful. And maybe switching gears, a topic we haven't touched on. Any update, Joe, on the Caribbean partnership and when you expect to maybe start to be able to ramp a little bit of revenue on that front?

A - Unidentified Speaker

They were beginning to ramp nicely, and we're getting excited and things are cooking along. And then they were forced to just shut a bunch of the islands down completely. And so they're just -- they're in kind of one of these hunker down modes right now. And we speak to them, and we've spoken to them, but it's a little bit on tog, unfortunately, there's nothing we can really do about that.

So it's really about vaccinations and kind of all working our way out of this pandemic, I think, for them to get going. They're just spectacularly reliant on tourism. So without any, it's tough. So I just -- I'm going to push that one off and tell you, at the moment, it's just in hibernation. I think they'll be back. And we had operationalized it. There's a bunch of sales. We got a bunch of customers signed up. I mean it's ready to take off. It's just on policy now.

Q - Daniel Moore {BIO 4869128 <GO>}

Fair enough. And lastly, just kind of pro forma leverage with Sensis and how you think about getting leverage back closer to that one turn versus continuing to look out at acquisitions over the next few quarters?

A - Joseph Walsh {BIO 18001809 <GO>}

Well, I'm going to two-step answer that with my CFO Paul Rouse.

I'll start by saying that we have -- if you look back over the last 6.5 years, we've levered up a couple of times in order to do strategic things. And then we very quickly delever. We like the idea of lower leverage in this business. We think that's appropriate.

So we will be working to get that leverage ratio down very quickly to sort of reload before we would think about doing anything else or anything new.

So let me just ask Paul Rouse, if he'd like to comment.

A - Paul Rouse {BIO 18940808 <GO>}

Joe, I just want to -- just to say, we're going to follow the same playbook. When we lever up, we quickly lever down because that's the best use of cash that we have at the moment. We don't like a lot of leverage.

A - Joseph Walsh {BIO 18001809 <GO>}

Operator, I think we're on a while here, maybe time for one more question.

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Operator

Certainly. Your final question today comes from Ryan McClellan from Stephens.

Q - Unidentified Participant

So more about the focus on product-led growth and some of the ways you plan to expand distribution this year. Maybe a higher-level question for Joe. But after a tough year for small businesses, how do you think Thryv benefits from an improving environment for SMBs as things start to reopen?

A - Joseph Walsh {BIO 18001809 <GO>}

Look, I think there's going to be a new business creation boom. I think it's going to be a big wave. And I think we're already seeing some early signs of it now. There's still a lot of noise, obviously, in certain areas. And so we have an extensive national partnership with the nation's SPDC, the small business development group from basically out of the government's small business administration.

And they have local offices and local sites all over the country. And we're working with them on new business starter packs, information sharing, information teaching about how when you're setting up a new business, to get a CRM in place, so from your very first customer, you're organized and you're modern, and you're off to the races in the right way. And so we think that there's a chance to kind of catch a lot of these new businesses early and help them become Thryv customers right from day one.

So that's something that we think may be an opportunity. There's a little risk there in churn and that they're not necessarily our perfect ideal client profile. But we still think it's working with them. And we're trying to put together maybe some special packages and offers and so on because we think there could be a wave there.

Then we think there are a lot of people that we've talked to over the last year. I mean, we've been ramping our marketing and our sales have been ramping, but there's a lot of people we haven't sold so we're just uncertain about the pandemic and not really quite ready to commit to start their business or commit to invest in and accelerate their business that we think we'll harvest a lot of that as the nation gets vaccinated and we get to kind of herd immunity and all stuff. So there could be a really interesting wave.

And let's face it. I mean, you're reading the same economic forecast, I am, people are looking for 6% in that rising tide, we will rise with it, no question. So I don't -- I want to say we've upped our guidance here. It wasn't because we think the we're going to somehow - it's all going to happen because of the vaccines or something, that could potentially be upside.

Q - Unidentified Participant

Great. And then if I could squeeze one last one in. On ThryvPay, some interesting numbers, a step function in growth since last quarter. Average transaction volumes over \$100,000, your average size is \$300,000 it seems like a big opportunity as we have

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already had 1,300 customers on the platform, this represents just like 3% of your existing customer base. So how do you expect to expand ThryvPay over this year by certain verticals? What do you think a more granular go-to-market strategy is there?

A - Joseph Walsh {BIO 18001809 <GO>}

Yes. I mean we're really early here in ThryvPay. I mean it's just super early days. So I don't want to get over my skis as low as the promises. But my gosh, is it encouraging. It's ramping very quickly. It turns out that the product that we designed was designed especially for a service based business. So these are roofers, plumbers, landscapers, Locksmiths, painters, fence guys, landscapers, all these people that you work with at your home, we really homed in on those guys. And we're finding the uptake is good.

And that's why you see the payments are so large. This is not -- give me a pack a gum and a magazine and then they swipe my square. This is \$400 big check, big, big payments that people are making. So yes, we're excited about it. And I think there's a bit of word-of-mouth spreading now within that community, and we could feel it picking up nicely. So I'll let Ryan Kaser who's intimately involved in the payment tag, I let him sort of add to my answer, if you'd like, and give you perhaps some additional color on how we see it expanding.

A - Unidentified Speaker

Sure, Joe. Thanks. Obviously, some of the things that Joe has mentioned previously will play a part in ThryvPay as well as we continue to invest and mature. Our client success teams are onboarding. Again, these are all things that are helping to drive adoption as we continue to modernize and improve our inbound marketing and our inbound sales teams we see, again, a high take rate of ThryvPay.

And Joe alluded to, a soon to be freemium offering, which, again, will meet these growing SMBs or start-up SMBs right where they need us the most to generate cash flow, but specifically targeting, again, service-based businesses who need the functionality that ThryvPay has brought to the market. So we think all of these things combined will pay to a possible good upside for ThryvPay in the year ahead.

A - Joseph Walsh {BIO 18001809 <GO>}

Well, listen, I'm going to wrap us up here. Sorry, we've gone a little long. I really have enjoyed the conversations and the questions that have come up. I think we've really covered the waterfront. 2020 was a great year for us. I put a good foundation under the business. And there's a very definite sense of acceleration and a lot of enthusiasm inside the company, not just for the really exciting opportunity in Australia, joining forces with that high energy, really great team. But here in the U.S., I mean, it's math, guys.

We are methodically building now sales channels, where we're adding more into the top of the funnel, and we're watching it come through to the bottom of the funnel, month over month over month over month. Our franchise and multi-location motion is beginning to land long-term contracts with franchising organizations, we're being told that this is the holy grail for a franchise, unbelievable.

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Our partner channel is signing up new partners, new sales partners, new resellers every day, they're coming in. And they're coming in inbound at us as people are learning about Thryv. So we've got a lot of additional sort of sales outlets that we hadn't had in the comparable period looking backwards.

And while that's happening, our traditional sales force that's out there selling marketing services, is outperforming our expectations. And I think they're doing so because they're getting a lot of referrals now. They're happy kind of installed base is referring them. And so it's sort of getting a little bit easier for them. And there's a high level of enthusiasm there. We've seen voluntary turnover in our sales force.

This is a traditional marketing services sale force. Dropped to almost nothing. It's been unbelievable. And that's happened because they really see a future. This is not like, okay, I'm in marketing services. They're looking at this big wave that small businesses adopting cloud software.

I mean, we're probably at the top of the second inning at this were a baseball game. We're early here. And they see that wave and they realize that their careers super well positioned being here. So anyway, it's exciting times for us. Thanks for spending time with us today and your interest in our company, and we look forward to updating you again in the future soon.

That's it, Operator. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you once more for participating.

You may now disconnect.

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