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Q1 2021 Earnings Call

Company Participants

- Joe Walsh, Chief Executive Officer and President
- KJ Christopher, Assistant Vice President of Investor Relations, Treasury & Tax
- Paul Rouse, Chief Financial Officer
- Ryan Cantor, Vice President

Other Participants

- Arjun Bhatia
- Daniel Moore
- Lance Vitanza
- Ryan MacWilliams

Presentation

Operator

This is conference ID number 7068595. At this time, I'd like to introduce the conference to KJ Christopher, Thryv's AVP of Investor Relations, Treasury and Tax.

KJ Christopher {BIO 22098356 <GO>}

Good morning, everyone, and welcome to this recorded management discussion of Thryv's first quarter 2021 results. By now, you should have received a copy of the Company's first quarter 2021 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 Ryan Cantor, VP of Product & Marketing.

Before we begin, I would like to remind you that some of our 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 this information presented on the 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.

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Joe Walsh {BIO 18001809 <GO>}

Thank you, KJ. Good morning, and thanks to everyone for joining us on our first quarter 2021 earnings call.

Over the past few quarters as a public company, we've demonstrated Thryv's category leadership in end-to-end cloud software for SMBs. This quarter validates another point, showcasing the massive opportunity for cloud adoption within the SMB space and the strength of our strategy and execution. We're off to a strong start for the year in our SaaS business with growth in revenue and clients.

Our revenue accelerated 17% year-over-year in the first quarter. This acceleration is fueled by a demand for small businesses to modernize and transition to the cloud. We feel that we're in pole position to seize this massive opportunity. We continue to penetrate our captive legacy client base, as well as activating new clients through our new channel. Even in our existing client base, there are more and more of those customers that see now as the time to move to the cloud, customers we may have proposed this to a year or two ago that are now realizing, okay, this cloud thing is real; I need to modernize. So, that's working really well now.

And then we are methodically scaling our new channel, our inbound channel, each month we add more leads to the top of the funnel, we build out more FDRs, we do more demos, and we close more each month. It's becoming a very large part of our sales volume. And then we're adding partners through our reseller channel. Each month, there's more and more partners we brought to new technology and to make the reseller channel run smoother, that's really going well and beginning to scale nicely.

And then, of course, we sort of stumbled on to the multi-location franchise opportunity by having one chase up, down and buy that's now become a really big part of our plan. We're doing very well with franchises in multi-locations. So, these new channels are growing very nicely. We feel very good about where we are. And as a result, we're updating our guidance accordingly. Paul will walk you through that a little bit later in the call.

Some metrics I'd like to share with you; our ARPU has continued to grow, and it's a result of that move up market and see that in the data. Our churn is stable in the mid 2% range, and this is really good for SMB churn. We're revealing today net dollar retention. We haven't revealed that in the past; it's a new metric for us. It's up 16% year-over-year to 89%. And I know, you will sometimes see enterprise churn that's over 100% and so on. We are still a very young software company, and 89% is very strong when you consider the 16% growth momentum year-over-year as we solidified our strategy. We expect that that's going to continue to grow moving out in time. We're pretty excited about the opportunity that presents for us.

The point I would just make to you as you compare us to enterprise-type software is that, we're in a much earlier innings with small businesses moving to the cloud, maybe top of

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the second innings. Enterprises are probably in the fifth or sixth inning, they're much deeper into that transition.

I'd like to just to talk to you about what this means in terms of client. One of our customers, Andy Robel from Tree Masters, they are in Berlin, New Jersey. They have seven staff members and they're in our app every single day in the mobile app. They've been a customer with us for a little over two years and their usage is steadily growing. Looking at last month, they were up around 11 hours in the app. I appreciate the seven employees that are in and out of that app in a few seconds when they need to consult something, but collectively over the course of the month, 11 hours. When they signed up for ThryvPay, they were one of the early people who signed up. They switched from Stripe. And we've seen steady volume coming out of them and steadily growing volume. They've had over 400 transactions so far with an average ticket of $612.

So, we're seeing that sort of engagement where whole teams are completely running their company within the app. And it's that sort of usage that's driving the ARPU, it's driving the NDR growth, it's driving the improvement that we're seeing. So, engagement was the big priority for us the last of couple years. We watch it like a hawk. It's on our caller every day that goes across the screen in the morning, and we watch that. And we've seen really nice gains in daily, weekly active usage. Our goal is to be at least 20% and we've just blown that away. Logins are up. Time in the app has more than doubled in the last year. The number of clients using our core features, CRM, payments, communication, campaign management, our scheduling tool. We see more and more of them using more and more features. And so that's part of what gives us confidence as we look forward, and part of why we feel good enough to actually upgrade our guidance. So, we think it's a payoff of us improving our onboarding process, improving the software itself, and just looking at the results that our customers are getting.

Next, I want to bring in our Head of Product, Ryan Cantor. He's going to share with you some product improvements and talk to you about what we're doing on the verticalization front. Before I do that, I want to touch on an announcement that we put out this morning in regards to ThryvPay. ThryvPay has, up until now -- we've sort of soft launched it. It's only been available within the Thryv customer base. But as you now know, if you saw the announcement, we've now rolled it out as a standalone app. It's available at no monthly charge. We do make a little bit when customers use it, but we think this will be a terrific feeder pool, helping us identify thousands of new small businesses that are interested in modernizing, interested in more efficient payment methods and we will be really able to help drive client acquisition going forward.

We're finding that our existing customers that are using ThryvPay absolutely love it. And we're seeing volumes grow week over week, month over month. And there's no question that it's driving more engagement and this and other add-ons are driving the ARPU well. So, look, it's still early days, but we're really excited about ThryvPay. And I think with the ThryvPay free app out there, it's only going to increase the footprint and increase our brand.

So, with that, I'd like to now bring Ryan Cantor on. Ryan?

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Ryan Cantor {BIO 21829460 <GO>}

Thank you, Joe. The COVID-19 pandemic drove Thryv to adjust our product roadmap prioritizations around the most basic needs of the everyday small business owner. We focused on both improving existing functionality and adding new functionality to make it easier for small businesses to maintain a healthy and safe cash flow. We improved our estimating and invoice functionality. We improved how the system handled taxation and other back-end services. We added new features to manage and sell products.

Packages or the ability to sell bulk services was created, and near the end of 2020, we launched ThryvPay. ThryvPay was developed to fill the void in supporting growing service-based small businesses. These businesses often need to process large payments with more affordable options while still providing convenience and safety to end consumers. ThryvPay has already processed more than $15 million in payments with an overall average transaction size greater than $400. Just yesterday, we announced the launch of a dedicated ThryvPay mobile app available on the iOS and Android App stores now. Not only does this app add convenience to our existing Thryv and ThryvPay subscribers, but it is available at no monthly charge to all service-based small businesses.

Our flat rate credit card fees, cost effective ACH payment options, scheduled payments, tips, dispute assistance services and optional pass through convenience fees are all included in our free app. We know that not every growing business is ready for the full Thryv solution yet. And so, we are excited to offer the ThryvPay app to these businesses providing a safe and convenient way to get paid, while also providing frictionless upgrades to the full Thryv platform when the time is right.

To further support the financial needs of our users, Thryv has also recently announced our completed integration with QuickBooks Desktop and MYOB Accounting Software. These two additions to the Thryv app market make it easier for small business owners to run their day-to-day businesses while simplifying their accounting and tax processes.

Earlier this year, after a full-year of development, Thryv launched our enhanced CRM functionality. This product improvement provides an industry-specific CRM across 20 plus industries while adding support for important, but complex relationships. This enables contractors to manage multiple jobs per customer, for lawyers, who have multiple cases per client and for animal services who have multiple pets per owner. Each specifically tailored and pre-configured to make getting started with Thryv even easier. This effort is already showing dividends with our data showing that over 85% of users of our enhanced CRM functionality are becoming daily active users within the platform. While some in the SMB SaaS space show verticalized marketing tactics Thryv's unwavering commitment delivering an exceptional customer experience propelled us to ensure the product was properly verticalized first to not disappoint post sale.

Next, we have verticalized our demo experiences and we will continue to move up the client experience journey into our website and online marketing activities in the coming period. Lastly, over the past 18 months, Thryv has been strengthening our integrations with All Things Google to centralize and simplify. Recently we announced our dedicated Google My Business section within Thryv, which makes it easy for small business owners

to automatically claim their listing, optimize their information, accept online appointments via Reserve with Google, monitor and manage their Google My Business post and quickly respond in app to Google reviews.

And with that, I will turn it back over to Joe .

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Joe Walsh {BIO 18001809 <GO>}

Thank you, Ryan. Next, I'd like to turn to our recent Sensis acquisition. We're off to a great start. It's just been a month and half, and we're finding that the Sensis team loves Thryv. They love the software, they had demonstrations, they've been through it, they've been in our company store buying Thryv gear and they are all wearing Thryv outfits and they're pretty excited about the whole idea of this big pivot for them to become a category leader in Australia in the software business.

And all the planning is being hooked up, the people are being trained, the process is rolling over. We've actually on-boarded a couple of customers as we're getting some guinea pig customers to test everything out, make sure our localization is right. We will begin selling in the second half of this year. And as I explained to folks, we in prior acquisitions saw about 10% of the customer base come over pretty quickly, low-hanging fruit and become SaaS customers. And we're really looking forward to that in '22 and '23. Our expectations are pretty limited for this year just because even as we get customers sold and on-boarded, we're really only going to have a couple of months of revenue before the calendar year runs out.

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But we are off to a great start, we've been really impressed with that next layer of management that we've gotten to know beneath John Allan and even beneath the C-level people as we've been interacting functionally back and forth. And having a lot of fun, we've created a company dictionary, where we're sharing back and forth American, Australian terms. This has been a lot of fun and interesting people and really high morale around this combination and international expansion. So, feeling good about that, can't wait to update you more on that in the future.

Next, I'd like to bring Paul Rouse back to take us through the financial results. Paul ?

Paul Rouse {BIO 18940808 <GO>}

Thank you, Joe. As Joe alluded to, it's been a strong start to the year, and we're excited to share the results with you. Okay. Now let's turn to the U.S. business segment, starting with SaaS. First quarter SaaS revenue was $37.3 million, an increase of 17% year-over-year. First quarter SaaS billings were $40.3 million, an increase of 22% year-over-year. First quarter SaaS ARPU was $304, another significant increase when compared to $240 in the first quarter of 2020. First quarter SaaS churn was 2.5%, a significant improvement in retention when compared to 3.4% in the first quarter of 2020, a significant improvement in churn despite a tough business backdrop brought on by the pandemic.

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Moving over to marketing services for the U.S., first quarter revenue was $227.9 million, a decrease of 21% year-over-year. First quarter marketing services billings were $216.2 million, a decrease of 22% year-over-year. As is consistent with previous calls, we are providing billings, an additional operational metric to give our investors better insight into operational performance. The billings data will show a very consistent and steady decline in our marketing services segment, which is shown to be lumpier on an accounting basis given the 15-month lifecycle of our print directories. This is provided in our first quarter investor supplement available on our website.

Turning now to profitability for the consolidated business, first quarter adjusted gross margin was 69%, a 50 basis point increase when compared to the first quarter of 2020. First quarter adjusted EBITDA was $104.9 million, resulting in an adjusted EBITDA margin of 37%. Marketing services EBITDA margin increased to 43%, a nearly 5 point increase year-over-year. The acquisition of Sensis Holdings on March 1st is now included in our consolidated results. Going forward, Sensis will be reported under the new segment titled Thryv International.

Now, moving to guidance; let's first start with the U.S. Given our strong first quarter results and momentum of our U.S. SaaS business, we are raising our 2021 revenue guidance to $151 million to $153 million, implying year-over-year growth of 16% to 18%. Our previous guidance was $140 million to $145 million. For U.S. marketing services, we are maintaining 2021 revenue guidance of $740 million to $760 million for 2021. As previously mentioned, U.S. marketing services EBITDA margins will be consistent with prior years on an annual basis. For SaaS, we do expect continued EBITDA margin compression primarily as a result of the investments we are making in product and sales and onboarding.

Now for our new segment, Thryv International; we expect revenues to be in a range of 180 million to 200 million measured in Australian dollars. This guidance reflects 10 months of ownership since we acquired the business on March 1st of this year. Sensis is a well-run asset with 40% plus EBITDA margins historically. We expect to maintain strong margins.

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

Joe Walsh {BIO 18001809 <GO>}

Thanks, Paul. So it's been a really good quarter for us and just sort of assessing where we are in our SaaS business. We finished up last year with 8% growth in that quarter and 17% in this quarter. We're now comfortable guiding into the high teens for the year. Growth is accelerating. And I want to move back in time a little bit to last fall. We impaneled a new Board. We brought in SaaS software expertise, people who scaled businesses like this before. And they've been instrumental and really encouraging us to grow this business faster and really allowing us, giving us the green light for some additional investments to begin to scale our new channel to invest more in our engineering and product areas. So, our product roadmap is coming along faster now.

We're delivering some things ahead of what we had planned in our longer term roadmap now and our bandwidth did more and improved the products more quickly, it's there

based on this investment and the support. And so, I'd like to thank our new Board for that. And I'd like to point investors just realize that that was a big catalyst, September 1st, those guys came in; and within a few months, we had that green light and direction. So, there's more good things to come as we get some of the fruits coming out of these investments that we can make it. So, real excited about where we are there and now prepared to now take questions.

Operator?

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Questions And Answers

Operator

(Question And Answer)

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

Q - Arjun Bhatia {BIO 20509605 <GO>}

Yes. Thank you very much. And congrats to you guys on the great results. Great to see the SaaS acceleration. Joe, one of the things that stuck out to me was that the SaaS client base, I think it increased sequentially for the first time in a couple of years. I would love to hear, if you've noticed any change in how customers are landing with the SaaS product, whether the problem they are trying to solve has changed at all as you've built out the product a little bit and you have been able to communicate the value proposition a little bit better and then going off of that? Is there anything that you would point to in terms of organic marketing versus cross-sell from the legacy base in terms of how that customer acquisition has shifted over the last couple of quarters?

A - Joe Walsh {BIO 18001809 <GO>}

Absolutely, Arjun. Let's start with the first question, the problem. We were arguably early with our all-in one approach. Small businesses were just beginning to warm up to the idea that they could use cloud tools to solve their problems. And they were buying some fairly narrow point solutions to experiment with it. And here we came along with this great big thing that did it all. And so what's happening is, with the pandemic, I guess, the realization that you need to be able to work remotely, you need to be able to accept contactless payments that you need to be able to update the entire Internet on your service offerings, your safety protocols, your store hours when they change. All that stuff came really into sharp focus. And not everybody reacted instantly, it takes a little time, but they're definitely out to be able to do those things now. Think about the big move to remote work over the last year, a lot of small businesses had lot of adapting to do to try to figure out how to do that. And that drove a lot of the demand. I would say that, if I'm really honest and I go back two or three years ago, we had a lot of customers buying our software and we were telling them about software, we were telling it was to run their business operation and improve their client experience. But I think honestly, they were thinking about it as advertising and marketing. And increasingly now, we have customers that really grasping that they're buying software to run their company, and so I think it fit is

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better that way. And I think the market's really ready now for what we have to offer. Maybe we were too early, but I think that the wave is really coming now, and we're feeling it every day.

As far as the source of the sales, your question is very astute. We -- if I go back several years ago, we really got all of our sales from the traditional marketing services salesforce as it was making its rounds working with marketing services customers. And they were offering Thryv to those customers and there was a steady uptake. What's happened now more recently and it's definitely seen in these numbers is we are building the traditional channels that a lot of startup software companies would have, an inbound channel with a funnel with leads coming down through to SDRs, coming down through to demos that get set, coming down through to closes. And we scale that inbound channel every month. We add more leads to the top, we add more SDRs, we add more -- we do more demos every month. So it's math, right? We're just -- we're scaling it and the numbers are holding up really well and we're getting better at what we do there each piece of it. And so, that scaling will continue and that's been probably the primary driver of the predictability that we have here on adding more subscribers.

Additionally, we have a reseller channel that we've begun to build. And we've been steadily adding resellers and really professionalizing how we do that. We've installed some technology now to really facilitate the reseller channel. And that's beginning to run on four out of eight cylinders and we're tuning. We're probably -- if you ask me again in six months, I'll tell you we are on six out of eight cylinders. So we're getting there. We're starting to get that figured out and it's building and some of this volume is coming out of the reseller channel. And then, we've got another channel that is coming together for us and that's our franchise channel, working with large multi-location emerging franchises and, we're signing long-term -- they're typically three-year contract with these customers with kind of built-in escalators as they grow. And that's something that we're really excited about. And that's sort of, just an incredible fit, we designed what we call the Thryv Hub for that master franchisor, and one of the Thryv -- one of the software -- one of the franchise experts said that this was the holy grail for franchise business.

So those new channels are a big part of where this volume is driven from at the moment.

Q - Arjun Bhatia {BIO 20509605 <GO>}

Perfect. That's very helpful, very helpful color there. Thank you. The -- one of the things you mentioned I think in your prepared remarks if I remember the name of the customer correctly, I believe it was Tree Masters, I might be getting it wrong. But they had switched from Stripe over to ThryvPay. Can you just help us understand what are the benefits of using ThryvPay versus Stripe or Square or one of the other partners that you integrate with, in that example specifically or even just more broadly as you look at how ThryvPay differentiates versus what else is in the market?

A - Joe Walsh {BIO 18001809 <GO>}

So we designed ThryvPay especially for our service-based businesses. That's been our stock in trade, they've been our customers for the life of our company. And so we have a pretty close dialogue and relationship with them. We basically asked them, we're getting

into payments, initially we put on Square and Stripe and the usual suspects onto our platform. And we had designs on trying to put something together and we asked them, what would be the perfect payment solution and they were pretty focused on the fees and pretty focused on instantly knowing where they stood on the money.

So anyway, as I've been calling these customers, I'm finding a lot of them are switching from Stripe or Square, one of the other tools to ours. And we have Ryan Cantor, with us today, and Ryan, has been working really closely on the payments thing. I'd like to let him make a few comments about the advantages of using ThryvPay versus some of the others. Ryan. Can you pick that up?

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A - Ryan Cantor {BIO 21829460 <GO>}

I sure can, Joe. Thank you. So obviously, these types of businesses are low transaction volume but high dollar amounts, and that requires a specific set of features and benefits in any specific product. So for example, we launched ACH with the ability to accept electronic bank payments. And if you think about the average transaction size of a larger service business who may charge $1,000, if that person were to key that transaction into another credit card provider, they could be paying three or even more than 3% of a fee on that particular payment, but with our ACH service inside ThryvPay we charge 1% up to a maximum of $9 per transaction. So the savings is pretty clear, and in some cases people are saving $70 to $80 per transaction by using ThryvPay.

We also added features like scheduled payments. But not just the reoccurring payment that you might have come to expect where the average use case would show someone charging on the first of the month, every month for $40. We allow installment plans, scheduled payments, repeating payments, all types of configurations that really help service businesses kind of manage their cash flow in a predictable manner. And so when you kind of couple all of that together into a bundle of features and set and products, we really find high adoption and we are keenly focused on supporting the kind of high-dollar transaction amount for these types of businesses. So, that's our biggest focus is to help them process these larger ticket items with more affordable processing fees and features.

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Q - Arjun Bhatia {BIO 20509605 <GO>}

Understood. Thank you and then one last one for me, this might be for Paul a little bit more on the guidance. Obviously, good to see the SaaS guidance raised. Are you factoring in any benefit from the Sensis cross-sell into the SaaS, into the SaaS product yet or is that something that we should wait for 2022, and 2023 to really come up top in the numbers?

A - Paul Rouse {BIO 18940808 <GO>}

Yeah, you're exactly right, there Arjun. There's a very little, if any, Thryv sales related to Sensis at this time.

Q - Arjun Bhatia {BIO 20509605 <GO>}

All right. Perfect. Thank you very much and congrats again on the quarter.

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Operator

And your next question comes from the line of Daniel Moore with CJS Securities.

Q - Daniel Moore {BIO 4869128 <GO>}

Thank you, Joe. Thank you, Paul and thanks for taking the questions. Wanted to follow-up on Sensis a little bit more, you gave good color. But anything more that we've kind of learned since you've closed the deal? And I think you referenced to 40% plus EBITDA margins given likelihood of increased investments to drive Thryv, are those -- is kind of 40% a reasonable thought process for the remainder of this year or you see a little pressure given the incremental investment? Thanks.

A - Joe Walsh {BIO 18001809 <GO>}

Yeah. I mean they have incredible margins; their white page business is unique in the world. It enjoys tremendous consumer usage and brand awareness. And the advertiser base in the white pages is largely made up of the government institutions, giant companies, and they pay for the white pages on their Telstra, which is the telephone company there, their Telstra telephone bills. So it's almost like a utility and it just rolls on. Think of like the AOL 1495 thing it just ran on and on and on that type of thing where their marketing services revenue decline is slower than ours is or slower even in their yellow pages is because of that big white page business, and it really flatters the margins. I mean, they've been delivering margins actually into the mid-40s.

So to your question about setting up Thryv and getting the SaaS business started in Australia, how much that will eat into margins, I don't think you'll see a material move. It might be a point or two, but it won't -- it won't knock us in Australia down in the 30s or something like that. Maybe it's a point or two, but they'll still deliver much higher margins than we have in the U.S. And as we blend them together, the Sensis acquisition nicely flatters our marketing services margins and revenue decline because of the better curves there. And really, when you think about Sensis, while the enthusiasm is sky high over there and they're really anxious to get into the market and start selling it. This is really a '22, '23 story for revenue there. We will definitely have sales this year and we will have some revenue this year. But if you think about a SaaS sale, if you make the SaaS sale late in the year, you maybe have one month of revenue or two months of revenue, it's not going to be huge in this year. People should pretty much focus on '22, '23 for that integration and the revenue there.

Q - Daniel Moore {BIO 4869128 <GO>}

That's super helpful. And then switching gears, exciting news with relating to the launch of the ThryvPay app. And I know it's early days. But can you think about what type of attachment rates you would expect to generate over time? I'm sure the goal is to obviously drive penetration of the SaaS solution, as you expand the small business relationship base by using the ThryvPay app. Is there a way to sort of think about conversion over a long period of time or still early days at this point?

A - Joe Walsh {BIO 18001809 <GO>}

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Yeah, I mean, look, there's no question that having a free app out there that's delivering exactly what small businesses and particularly service-based small businesses are looking for is definitely going to drive brand awareness and bring people to Thryv, and to the Thryv brand, and the Thryv company. Whether or not once they're doing payments, they'll jump over and say, oh, I actually want a full CRM and I want to improve my client experience and I want to manage my presence all over the web and all that, whether they're going to want to do those other things, we do not know yet.

Since most small businesses are on journey to automate and modernize, our hunch is that there will be, our hunch is that this will be a great feeder pool of leads and conversions into the full software. But we haven't gone as far as to model or project exactly how that will turn out. All the revenue guidance we're giving you now and all of our current forecasting is just around the known things that we have, the expansion of our new channels, our existing sales force doing its things. In this year's guidance, you don't really have any ThryvPay revenue to speak of or any Sensis revenue to speak of. Those would be icing on the cake.

Q - Daniel Moore {BIO 4869128 <GO>}

Understood. Makes perfect sense. And last for me. Just in terms of the SaaS segment margins. Q1 EBITDA margins kind of a reasonable proxy for how do we think about modeling the rest of the year given the obviously intention to invest and drive growth there?

A - Joe Walsh {BIO 18001809 <GO>}

Yeah, look, I think your read of that is right. We were -- our margins were rising throughout last year just based on the operational leverage of having a fully scaled national SaaS software product. And now we've got this new Board who sees the merit of growing this a little faster and they've green-lighted some additional investment in engineering, in product, in marketing, really we're nourishing the entire business and investing to scale it up, and that's not free. So there is some expense to that. So, I think the way to think about our SaaS businesses' margin is rather than the margins growing higher and higher, and higher, I think they actually are going to come down a little bit as we step up that investment and really accelerate growth, but it will remain profitable. We're not planning to run it at a loss or anything like that. We're not going to come along and have a couple of points of faster growth, and then say, oh, we lost money. It's been profitable since 2019 on a EBITDA and a cash flow basis. It's fully repaid our investment to start it. And it's cash flowing, and it's going to continue to cash flow. But in terms of margins it's not our goal to grow them.

So I think mid-single digit kind of margins will be there where we'll be, and I wouldn't take a lot directionally from it, if it pops up and down a point or two, one way or the other, we intend to run it at a profit, not lose money, but not to grow the margins. So if that's low to mid-single digits or whatever, that's probably the zip code that we'll be in. And I'd say it will bounce around, because it's hard to be super precise quarter-to-quarter with that. But the green light that we have is to reinvest those significant profits that SaaS is generating into growing it faster, both domestically and internationally.

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Q - Daniel Moore {BIO 4869128 <GO>}

All right. Makes perfect sense, entirely consistent. Thanks for the color and look forward to product demo next week.

A - Joe Walsh {BIO 18001809 <GO>}

Thanks, Dan.

Operator

And your next question comes from the line of Ryan MacWilliams with Stephens. Please go ahead.

Q - Ryan MacWilliams {BIO 20900017 <GO>}

Thanks for taking question. Nice quarter. With Thryv for home services set the rollout in the second half of this year, can you just talk about the game plan there, and maybe some expectations around this vertical product launch?

A - Joe Walsh {BIO 18001809 <GO>}

I love to. Thank you. If you think about our company, has been around a long time, we have a large customer base and it's very heavy in the service-based businesses, everything to do with, working on your home, working on your car, working on your body, working on your dogs and cats all the services out there. We don't tend to have as much in high-end retail, and travel and entertainment. That's part of why while the pandemic was a bummer, that didn't hit us directly because the kinds of businesses that were whacked by the pandemic weren't really our customers. And the service-based businesses have actually done quite well.

So, when we look at our current Thryv subscriber scrolls, it's very heavily concentrated around the service-based businesses just naturally, because that's who our customers are that's who we have relationships with, that's who our business advisors in the field had relationships with. So that's who came on. And we had a pretty general product, it wasn't really verticalized very much for them. And we've had some feedback. I call customers every week and talk to them about the product. We've had some feedback that we could do more to customize it for them or verticalize it for them. And so we actually made a decision to do this last year, and with the pandemic, we paused that investment just in the interest of hunkering down. But we're very much on the game now; we hired someone to run the first -- those verticals -- the home services vertical actually last fall. He's been hard at work, pulling all the bits together; we've created the technology and put it in. And now are prepared to roll it out and we really think that the client satisfaction inside our very large service base, it's already in the client base, will improve and we think that the referral pass along kind of thing will accelerate them.

And I'd like to have Ryan Cantor with us, comment a little bit on the verticalization and our thoughts and plans there. Ryan, can you pitch in here?

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A - Ryan Cantor {BIO 21829460 <GO>}

I sure can, Joe. Thank you. I think it's -- Thryv home services is an exciting opportunity for us. As I stated in my statement, we did start with the product so we feel the product is -- if we're honest, in the first leg of verticalization, we've used a lot of feedback from our existing client base, a lot of them are in the home services segment to improve functionality within the product specifically cater to them and with that CRM enhancement that we announced a couple of months ago, we took kind of a very big, but important step towards that journey. And so our product is verticalized today, we've then started working upstream with our sales partners, and our demos are now verticalized with specific verticalized demo tools. So, that every client when they come in sees a version of Thryv that fits their business needs, and as we've perfected that, and every stage of that obviously comes with it learnings and things that we can do better and feedback, we then take that and bring that to the market, you'll see changes to thryv.com and our digital marketing, content marketing and social media strategy in the coming period where we then take that out into the marketplace to attract with the right message, targeting the right customers, specifically for Thryv home services. So hopefully that answers your question, but we really did start from a client experience, user experience and worked our way up the funnel so that as people buy this product, we don't disappoint.

Q - Ryan MacWilliams {BIO 20900017 <GO>}

I appreciate all the color. And I really think it's the blueprint for some of the other verticals you go after. And I like hearing about the focus on engagement and it seems like the improvement in ARPU and net dollar retention has tracked that improvement in daily and weekly active users. So in the fullness of time of like, how do you think about a long-term target for your net dollar retention, as your customers continue to get more seasoned and start to add more integrations solutions like ThryvPay to their existing Thryv usage? Thanks.

A - Joe Walsh {BIO 18001809 <GO>}

Well, look, like a lot of software companies, we've got quite a roadmap of products, modules, services, that we intend to offer. And like a lot of software companies, we bundled a lot of things together when we started that. There are opportunities for us to unbundle as we move out into the future. So, we do have a pretty robust plan to grow ARPU and to grow NDR and we made 16 points of progress year-over-year. I'm not going to say, we're going to make 16 points of progress next year but we have a roadmap it's going to deliver a big progress next year and the year after, and the year after that.

And so, I think you'll see NDR steadily climbing. And I know we certainly see the literature and some of the other information that you've got some of these land-and-expand boil up things that are way past 100%. We're making big sales to real businesses. So we're not -- our model isn't as land and expand as some of those, but we do think, 100 plus as insight in the intermediate distance. It's not something that we think we'll do in the next year, but it's -- we definitely think that this will be a 100 plus NDR business as we continue to build out our product roadmap.

Q - Ryan MacWilliams {BIO 20900017 <GO>}

Excellent. I appreciate the color. Congrats on the quarter.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

And your last question comes from the line of Lance Vitanza with Cowen.

Q - Lance Vitanza {BIO 16844960 <GO>}

Hi, guys. Thanks for taking the questions. Actually I want to see if I can squeeze two in, if you have time. But the first is on the SaaS ARPU to $304 versus $240 year ago. Obviously, it's quite a jump. Could you talk a little bit more about the factors behind the higher ARPU? Joe, you mentioned the move-up market. But is that new customers coming on with higher price plans, or is the pricing tiered based on size of company, number of employees, usage, et cetera. Just trying to get a little bit more context there.

A - Joe Walsh {BIO 18001809 <GO>}

Okay, so what you see happening, Lance, is we had an experiment a few years ago moving down market. We put up a kind of buy yourself online product at a little bit lower price point and we sold them like, chiclets, I mean, they were selling like hotcakes. The problem is that those customers weren't as serious, they weren't as engaged, they didn't use the product as much or in its intended way, and we experienced a lot higher churn. And we made a decision as a business that that just wasn't our ideal client profile. We did a lot of work with some outside vendors and our own team on really designing a crystal clear ideal client profile. And that just didn't include these little tiny hobby businesses, solopreneurs, little tiny-tiny businesses. There's a market out there for that, I guess, but that's not our market. And so we moved back up market, we timed it with a really dramatic upgrade in the software where it was really enhanced and improved and we eliminated all those lower price point tiers and we actually -- we solidified our price at a higher point, we actually raised the price a little bit, at the higher end. And we lock down and started pursuing that higher price point.

And so what you've seen happening over the last really seven, eight, nine quarters is you're watching the mouse move through the snake. You're seeing that little churn bomb that we list in our customer base roll-off and go through and you're seeing those lower-price customers factored out of the picture. And you're absolutely right when you say a customer that bought yesterday is buying at a full price higher price point than they were buying at in the past. And so that's why you see the blend of that ARPU going up, up, up. When you layer on to that, the fact that we've made leaps and bounds in client engagement and usage and the software has gotten so much better that you have people buying more seat licenses. You have people buying add-ons, and extra things. And so you've got spend climbing out of happiness and more usage. So those are the two things that are driving ARPU up.

Q - Lance Vitanza {BIO 16844960 <GO>}

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That's super helpful. Thanks. And then my last question just again, from the outside looking in, I mean, I see a business where you've got a revenue guide north of the $1 billion and includes $150 million plus of SaaS. Yet your equity market cap is less than $800 million. I know you have got some debt, but even adding the debt in, the enterprise value is about 1.3 times sales. So clearly, you're not getting credit for the SaaS business. Is there ultimately a way to separate the SaaS business perhaps in a few years when revenues there are $300 million or more, or how do you think about that?

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A - Joe Walsh {BIO 18001809 <GO>}

Well, we think about it with a very relaxed long time horizon, to be honest with you. We're doing really well, you mentioned that our equity market caps, $800 million. Well, it was $300 million six months ago. I mean, we are beginning to get credit. There are I don't know, three, four, five, 10 portfolio managers out there that have found us and are doing a sum of the parts and are starting to value us in a reasonable way and we think that, that number will grow and we're willing to go out and do some investment conferences and tell the story and we're pretty patient about it coming. I mean the benefits of having the company together are quite dramatic. There's a lot of software companies out there and they're all battling customer acquisition cost. It's tough to break through, especially to small businesses, it's tough to break through and have your message heard.

For us to have hundreds of thousands of relationships through these marketing services that we can go out and have a conversation and be a big market leading brand that people stop and listen to, it has credibility. It just sets you apart, it's not even a fair fight, it puts you in such a stronger position. So the benefits of having these two things together are so incredible that we wouldn't even contemplate separating them in the short term. I acknowledge to you that in the long term, it may be necessary to separate them to really crystallize value. But my time horizon, the management team's time horizon, many of our new investors that are coming in, we're all thinking in terms of five, seven, eight, 10 years, we're thinking out in time. We think that Thryv can be the platform that you operate a small business on, not just in the United States, but really globally. We are in pole position, the market is just unfolding. We think we're in the top of the second innings of a very, very big wave. Think back, if you will, to four, five, six, seven years ago and the way cloud which was coming on like gangbusters and the enterprise. It's just beginning, just starting for small business. And we already have a fully scaled international platform, it's best-of-breed that won 14 awards in the most recent round of awards. Go on Capterra, G2 crowd look at our best value for money, best service, easiest onboarding. We're in a really good spot.

So if it takes the market a little while to figure this out, maybe we're an artist that's misunderstood, we have to die and go away before our art is really valued. But we're looking a little bit longer term. Lance, you will know, I just made a substantial personal investment in shares of the company just recently. My time horizon for that is five, seven, eight years. I'm cool with that and I think I'll do real well with that. So yes, could we unlock some value, if we hurt the company by separating it today? Yes, but we don't need to, we're not up against it on anything. We are pleasant to have a higher valuation, but maybe that would just come as people see growth accelerating.

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Q - Lance Vitanza {BIO 16844960 <GO>}

Super helpful guys and very exciting. Thanks for taking the questions.

A - Joe Walsh {BIO 18001809 <GO>}

Thanks Lance.

Operator

And at this time, there are no further audio questions. Are there any closing remarks.

A - Joe Walsh {BIO 18001809 <GO>}

Yes, I would just like to thank everybody for tuning in. Back to Lance's question, there are a lot of folks that looked at us and said, well, is this really a SaaS business? Have they failed? What's the story? Because we did have a number of quarters where our both subscriber and revenue growth was flat to even slightly negative as we worked our way through. We are a young software company. But during that time, what you don't know is we were focused like a laser beam on improving the software, improving its interoperability with other software in the marketplace, making it easier for small businesses to adopt and use us, building out an app marketplace where the kinds of tools that small businesses needed were right in there, like, you just plug-in and make the software go. And all of that like a flywheel has been just driving more and more usage and more and more engagement. And we have seen quantum leaps in time in app, days logged into the app, number of messages sent, inbox things received. As we make the software easier to use, more and more of our small business customers are using it and recommending it to their friends.

So, it really has been a journey of making the software better. Obviously, this is a numbers oriented call. So we talked about raising our guidance, but the big story here is the software got tons better over the last year. I think we have shown that we're x percentage higher this year over the last year in revenue. But this software got three times better and that's what has really driven it. So, I can hardly contain my enthusiasm. I talk to customers personally every week. I call them to talk about how it's going. And the feedback I am getting is you guys are getting this figured out. This has really starting to work. And people are running their companies on this software now. And that was only partially the case a year or two ago. We had a couple of outliers, but people were struggling with some of the glitchiness of the early days of the software and the fact that it didn't talk to some of the other applications that they wanted to use. But we are really moving now and I think verticalization will only enhance that.

So, thanks everybody for your time. Really appreciate it. We're excited about updating you in three months' time on how this is all going. Thank you everyone.

Operator

Goodbye.

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