Q2 2021 Earnings Call

Company Participants

- Grant Freeman, Vice President of Client Success
- Joe Walsh, President and Chief Executive Officer
- KJ Christopher, Assistant Vice President of Investor Relations
- Paul Rouse, Chief Financial Officer

Other Participants

- Analyst
- Arjun Bhatia, Analyst
- Daniel Moore, Analyst
- Robert Oliver, Analyst
- Scott Berg, Analyst
- Zach Cummins, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Thank you for standing by. And welcome to the Thryv Q2 2021 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised, today's conference is being recorded. (Operator Instructions)

I'll now hand the conference over to KJ Christopher. Please go ahead.

KJ Christopher {BIO 22098356 <GO>}

Good morning everyone. And welcome to this recorded management discussion of Thryv's Second Quarter 2021 Results. By now, you should have received a copy of the Company's second 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 Grant Freeman, our Vice President of Client Success.

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 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.

Joe Walsh {BIO 18001809 <GO>}

Thank you, KJ. Good morning everyone. And welcome to our Second Quarter 2021 Earnings Call. Our second quarter results demonstrate strong and continued growth in our SaaS business, highlighted by accelerating penetration within our new customer acquisition channels, record client retention metrics and year-over-year client growth.

Total SaaS revenues accelerated and grew by 32% year-over-year, ahead of our guidance and demonstrate that we are executing well against the strategy we introduced last year. To us, it appears clear that SMBs will move to the cloud. We feel Thryv is well positioned to seize on this opportunity. We made the decision to invest in SaaS growth. SMBs are currently evaluating and transforming the critical aspects of how they manage their business. This has been happening at an enterprise level for many years. It is just now happening for small businesses. They're taking those steps for modernizing, and it's still pretty early in the game. From my point of view, these small businesses are putting their faith in us as they prepare to take that first digital leap to begin to modernize their business, so a lot of responsibility and we try to do a really good job with it.

I've spent my whole career working with local businesses. I spend a lot of time now; in the pandemic, I'm not as much in the field, but prior in the field. But I can join sales call by Zoom. I'm able to listen to recorded sales calls. I'm able to call existing customers and talk with them about how they use the software and where it comes up short, any concerns they have, any glitches that we have and big and powerful as the Thryv pool is. It does a lot. It's always something that customers have in mind that it should do better or it should do or it doesn't do. So that feeds into our product roadmap, and we're constantly tuned into what our customers have said.

Let's have a really cool, believe it or not Facebook site where the power users all get together and talk about how you do thrive and what they do, they teach each other as a real sense of community. All of that is part of what's guided the improvement and part of why you're seeing such high user engagement levels in the product and part of why you're seeing churn continued to fall. So we're making a lot of progress with the local businesses, and that's making a big difference. To finish up my opening comments, clients are trusting in us as they look to modernize and organize and grow their business. All of this is reflected in our strong quarterly results that we announced this morning.

Given this solid progress, we are raising guidance. The acceleration in revenue and billings was driven by strong business performance in the quarter in addition to an easier

overall comparison as a result of the challenging business environment we experienced in Q2 of last year. Our SaaS new channels are performing well. We recently hit high-teens as a percent of our overall sales versus our traditional sales force, and that's about double where we were at the same time last year. I'll remind you that we expect to hit about half of our sales in the medium term. So you'll see that continue to grow as a percentage of sales.

And our churn hit record lows. We're continuing to dial in our onboarding and time to value, so that we're continuing to bring churn down, and that's something that we think makes a big difference and feels really good to have customers staying, paying and feeling good using the product.

Our net dollar retention increased 18 points year-over-year to 92%. ARPU continues to rise, $323 in Q2, a significant year-over-year increase. Double-digit gains in weekly and daily active users. We attribute the strength in these metrics to the prioritization of engagement. We've really focused on engagement and that teams of people working with customers teaching them and showing them how to use the product. Time in-app is up, and the percentage of clients using our core features continues in an upward trajectory. So overall, great progress in this last period.

Next, I'd like to introduce Grant Freeman, our VP of Client Success.

Grant Freeman {BIO 22058396 <GO>}

Thanks, Joe. Over the last two years, we have really focused on the experience we delivered to our SaaS clients. We know with small businesses, the key to long-term relationships is focusing on delivering value quickly. We are intensely focused on having a short time to first value and in no client left behind attitude, engaging clients quickly, deepening their engagement over time and expanding their spend. These efforts have led to a net promoter score improvement of 100% over the last three quarters and a SaaS monthly churn of 2.1% for Q2 of 2021, down from 3% last year in Q2 of 2020.

Our North Star [ph] is engage clients. Engagement starts with how we sell. We focus on targeting the right prospects and using a team-selling approach for SaaS. Initially, we felt we could train all of our traditional sales teams to be software sales experts. However, some learning and analysis, we pivoted and made the decision that all Thryv staff prospects will work with one of our software sales team experts that only sell software to receive a custom demo of our platform. The software sales experts keep it simple. They uncover the business problem the client is trying to solve. They understand the impact it's having on their business and then, they demonstrate how our Thryv platform and service teams can work with them to solve that problem.

Clients solved using this approach are much more highly engaged right out of the gate. Data shows when a client is solved via a team-selling approach. We have 15% more clients active in Thryv on a daily or weekly basis. During onboarding after our initial effort where we share it all things that Thryv could do all of the time and often quite frankly shared too

much, we pivoted, and now we stay focused on solving the business problem that led the client to purchase our platform in the first place.

Our Thryv support specialists begin onboarding by configuring the software for the clients use case and starting the process approaching them to use our Thryv software platform to solve their issue. And our year-to-date transactional NPS score for our onboarding team is a plus 86. Once we have solved the problem that led them to purchase, they are then assigned to Client Success Partner. Modernizing a small business is a process. As such, this success partner will focus on looking for opportunities to help the clients improve their business operations by demonstrating how the software can be used to solve various business issues. This leads to clients deepening their engagement in our platform over the course of time. These efforts have culminated in an 11% year-over-year improvement in monthly active users by our software clients, but even better we've seen daily active usage increased more than 40% year-over-year.

Our support team is available 24 hours a day, seven days a week. In addition, we have a complete blueprint of orchestrated tech touches. For example, catered emails and push notifications full of content strategically designed to be delivered to the client when they need it, further deepening engagement and usage. The investment we made post sale to ensure that clients engage with our platform is a differentiator and will lead to continued success serving small and medium-sized business.

All our engagement efforts are built on our perpetually improving award-winning software platform. I believe Joe is going to highlight a few of those wins in just a moment. We remain focused on understanding what clients like and what they don't, so we can constantly improve the functionality of our software as well as the user experience we deliver.

And with that, I'm going to turn it back over to Joe.

Joe Walsh {BIO 18001809 <GO>}

Thank you, Grant. I have to pause here and just give Grant and his team from thoughts, they've done a really good job of focusing on delivering value to our clients and you can see that statistically in the NPS scores that have risen and in just steadily declining churn. So we consider that now real core strength of us as a company. So, thanks for that Grant.

I want to take just a minute and talk about Sensis, our Australian acquisition. Obviously, the acquisition has made very recently. We've been localizing and pricing together Thryv for Australia. We've already got a few customers on the product using it. And we've had some really good client engagement, client satisfaction, training is going on. We're beginning to see some sale. Now, this is definitely a '22/'23 story. And I don't want to give people expectations telling that it will ramp straight up, but it is beginning to build. We are in market with it now and doing a lot of work on product and on local marketing, more to come on that, but look for that to be '22/'23 story as that telling us on whole.

Another new area for us ThryvPay. We just announced the ThryvPay stand-alone freemium app and that's developing very nicely. We're pleased with progress that we're making there. We mentioned recently I think that volume for ThryvPay well surpassed $30 million in the second quarter. It's continuing to build very nicely, and the average transaction size is still over $400, which is I think pretty impressive. In June, ThryvPay actually became our Number 1 payment platform. It's sort of like Switzerland. We put everything on the platform and once we'd be able to use whatever we'd like to use. And so, there are currently five payment processes on the platform, and Thryv moved into first place as Number 1. So we really feel like we're doing a good job, even where customers have a choice to use something else.

And let's be honest, there are a lot of software tools out there (inaudible) their payment tool and that is sometimes not that popular with the small businesses, but the fact that we're being selected as Number 1 I think is impressive.

So with that, let's get to Paul Rouse and have Paul take us through the financial results for the quarter. Paul?

Paul Rouse {BIO 18940808 <GO>}

Thank you, Joe. As Joe alluded to, it's been a strong start to the year, and we are excited to share our results for Q2. Okay. Let's now turn to the US business segments starting with SaaS. Second quarter 2021 SaaS revenue was $41.4 million, an increase of 32% year-over-year. Second quarter SaaS billings were $43.4 million, an increase of 39% year-over-year. The increase in SaaS billings is a result of pandemic adjustments we issued in the second quarter of 2020, which suppressed SaaS billings. Second quarter SaaS ARPU was $323, a significant 39% year-over-year increase when compared to $232 in the second quarter of 2020. Second quarter SaaS churn was 2.1%, a 90 basis point improvement year-over-year and a 40 basis point improvement sequentially. As Joe and Grant alluded to earlier, this is a record low for monthly churn. This dramatic improvement is a result of shifting our focus to an ideal client profile and a more engaged user.

Moving over to Marketing Services. Second quarter revenue was $202.8 million, a decrease of 26% year-over-year. Second quarter Marketing Services billings were $204.9 million, a decrease of 20% year-over-year.

As is consistent with previous calls, we are providing billings, an additional operational metric to give our investors better insight into our operational performance. The billings data will show a very consistent and steady decline in our US Marketing Services segment, which is shown to be lumpier on an accounting basis given the 15-month life cycle of our print directories. This is provided in the second quarter Investor Supplement available on our Investor Relations website.

Second quarter Thryv international revenue was AUD60.9 million [ph] measured in Australian dollars, which reflects a AUD36 million [ph] reduction in revenue as a result of acquisition accounting. On a reported basis, Thryv International revenue was $46.9 million.

Turning now to profitability on the consolidated business. Second quarter adjusted gross margin was 67%, a decrease of 260 basis points when compared to the second quarter of 2020. The decrease in adjusted gross margin was primarily driven by the decline in revenue from our Marketing Services segment. Second quarter total adjusted EBITDA was $96.8 million resulting in a total adjusted EBITDA margin of 33%. Second quarter US Marketing Services EBITDA margin came in at 41%, and Thryv International adjusted EBITDA margin came in at 35%, as a result of the adjustment related to purchase price accounting.

Finally, we repaid $88 million in our term loan B in the second quarter. As previously communicated, our capital allocation priority for the year was to focus on debt repayment, and we feel we are making good progress.

Okay. Now, let's update guidance starting with the US segment. Given our continued momentum in the US SaaS business, we are raising our 2021 revenue guidance range to $157 million to $160 million, implying a year-over-year growth of 21% to 23%. For US Marketing Services, we are raising our 2021 revenue guidance range to $750 million to $770 million. As mentioned on previous earnings calls, US 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 our investments we are making in engineering, sales and marketing. For Thryv International, we are maintaining our guidance for the remainder of the year. Please see our second quarter Investor Supplement posted on our IR website for additional information.

I'll now turn it now back over to Joe.

Joe Walsh {BIO 18001809 <GO>}

Thank you, Paul. As you can see, we increased our guidance, and we did so because of the progress we're making with the product. Our product is getting better. The software that we're selling is straight ahead of where we were a year ago or 18 months ago, and it's been acknowledged in the marketplace.

Just recently G2 Crowd and Competera gave us some pretty exciting accolades. We were cited as easiest to use, higher user adoption for small business, overall that support most likely to recommend by small business, easiest setup among small business in overall and easiest administrative functionality. And this is from people that are using the software. It's the only people who can give those ratings and reviews. So we're really proud of those. I think they show the progress that we're making in that type of engagement. We've also been shortlisted for the SaaS Awards for the second year, that SaaS product for customer service, CRM. So the marketplace is acknowledging what's happening here.

We obviously have a big and really powerful sales force. Selling Power magazine cited as one of the 50 best companies to sell for again this year. That's something that our sales force takes to buy in. We were included in the Russell 2000, which has, as you know, many, many benefits to stabilize for the Company and drive additional volume, and it's

just the beginning. We've just entered. So it's -- the full effect is still taking place, but we're excited about that.

Some of the other initiatives that we've done this year, we had our Launchpad America, which was a partnership we did with Mastercard, Intuit, ADP and a few other sponsors to help small businesses that are starting up. We feel like promulgating new startups and helping entrepreneurship is very much on message for not only to Thryv company, but also our Thryv Charitable Foundation, so making really good progress there.

I want to wrap up. I'm just mentioning the fourth wave of COVID. It's certainly a concern for everybody in the world and for the market. I'll remind you that we've performed very well during the worst of COVID over the last year. Our customer base tends to be service-based businesses. Before, it was just truck right [ph] through it. And now, we really don't have as much in dining and entertainment and travel and high-end retail, that's less on market. So while we're certainly concerned and keeping an eye on things, we are pretty bullish on how we think we'll do even if things get a little challenging. We proved to be pretty resilient last year.

So with that, let me just turn the call over to questions. So, operator?

Questions And Answers

Operator

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

Q - Arjun Bhatia {BIO 17340929 <GO>}

Hi, guys. Thank you and congrats on the great results and the growth acceleration. Joe, and maybe this one is for Grant as well, he is on the line. But I would love to dig in a little bit more on the improving net retention rate and the churn rates coming down, if you can maybe just give us an overview of the drivers there. And then, maybe just a follow-up on the Client Success Team, do you feel that you've invested enough in that Client Success organization, or is there more that you can do to actually increase that proportion of users that are daily and weekly active versus those that are monthly actives on your customer base?

A - Joe Walsh {BIO 18001809 <GO>}

Thanks. Arjun. That's a great question. You know that we assembled the new Board September 1 of last year. They did a deep dive into our software themselves. They also hired Gartner and a thorough review was done. And then, our December Board meeting, the conclusion was made that we weren't investing enough in growing this thing. And so, we were green lighted a -- some additional money. We essentially were given license instead of making double-digit EBITDA margins for our SaaS business to run it a little closer to breakeven and just kind of reinvest some of those dollars. And so, at that time, we laid out a plan for how we use that money. And we've been implementing and this

year has gone on. And I'd say that the priorities were engineering. We've added a lot of engineering talent through our roadmap.

Our product improvement has really begun to accelerate. I'd say we're just beginning to see that lately, but it wasn't instant. It's a time to hire the people and get them going in product and marketing. But one of the other areas that was very important to us and very big was to begin to muscle build that client experience team, and it's led by one of our most talented executives, Grant Freeman and he's on the call. So I'm going to talk a little bit about it. But it wasn't -- like on December 2, all of a sudden, had a big powerful team. It's taken time to build it, and we train these people for so long. For long time before they actually going to hit the phones and hit the Zooms and start help. And so, we are really beginning to feel the full brunt and the full power of that now. And I just want to commend Grant and his whole team because I really focused them on bringing churn down. And they did. And they've done it. They've consistently done it. It's continuing to come down. It's beginning to actually eclipse my expectations now. And now, the next thing I've sort of asked him for is, okay, let's really work on the whole client experience gig from building usage as you just asked about to offer monetization.

So Grant, can you amplify a little bit how we're approaching the CX activity?

A - Grant Freeman {BIO 22058396 <GO>}

Yeah. Absolutely, Joe. So the first thing I'd like to say is that we're definitely already seeing some results from the investment, and it will likely increase that as we progress into the year, as we get more staff on board and continue the hiring and training process. I think there's a couple of things that are important to mention.

The first one is looking at initial onboarding. We tweaked that a lot over the course of the last 12 months. And now, we have a very simple and singular focus, and that's during the initial onboarding, achieving a very fast time to first value. And what that means too for our clients is truly understanding the problem that they're trying to solve in their business, the impact that, that problem is having on their business and staying right there during initial onboarding and until they feel that initial problem has been solved and then, having the Client Success Team come in after we've already solved the initial problem and saying, hey, listen, there is ways that this software can do more for you, such as X, Y and Z like others in your industry take advantage of Thryv for. So I think it's really a combination of getting them in trends in the software initially for what their sole purpose was and then deepening that engagement over time. And our team is very, very adept at doing that right now. And that's obviously having a positive impact on the churn that was shared today. So I don't know if that answers your question or if there is a follow-up.

Q - Arjun Bhatia {BIO 17340929 <GO>}

No. That's very helpful. And then, I would just in terms of how -- this one maybe for Joe, but how we think about the net retention rate and the churn going forward, right, is there additional room for that to improve, right, we're in the low-90s for the retention rate, certainly a nice sequential improvement on both that metric and return metric? But do you see opportunities within the base where you think they continue to get better or are we at a point where you feel pretty good about where it's at?

A - Joe Walsh {BIO 18001809 <GO>}

I feel very good about where it's at. But -- and the progress has actually come a little quicker than I thought it would or I've told people that it might. I remember, before we get too hopped up about revenue retention, we're working with small businesses. This is our enterprise software. So we're not dealing with big corporations where we can then go from department to department, yet selling into it, have a 130% revenue retention, something that's never going to be the deal here just because of the client base that we're working with.

But I have said that I thought we could over time lift revenue retention all the way to a 100%, maybe even a tiny bit beyond that, if we can keep churn nice and tight and low, keep high engagement. And our product roadmap has the resources to keep coming. We've got some really blockbuster product initiatives that we're working on that we think will just continue to drive ARPU, the money that each client spends with us and give us more opportunities to grow those.

So yeah, I'm very pleased, almost pinched me. I'm a little bit surprised where we are so quickly, if I'm really honest with you. But I have said and I will say here again that in the medium term, we think we can work our way all the way to 100%. I don't want probably anything more than that but -- because we are dealing with SMBs. But I think there is more in the tank. And if you look at the ARPU progress, it's sort of kicks you off to what's happening there.

Q - Arjun Bhatia {BIO 17340929 <GO>}

Wonderful. Well, that's great to hear. And last one for me, if I can. I noticed you expanded your free offerings this quarter. I think there was some new invoice generator, maybe among some of the tools that you launched into your free tools that are available to small businesses. What impact are you seeing from having those free versions out in the market? I know payment also has a free app that customers can use, but I would love to hear maybe just what you're seeing on the top of funnel as SMBs look to digitize and what their -- what impact the free solutions that you have on the market or having on that new customer acquisition?

A - Joe Walsh {BIO 18001809 <GO>}

Yeah. So we can find people out there online who are interested in automating and improving their business either by paying Google nine portion to get them one in time or we can provide some organic free tools that allow people to improve their business that somebody is trying to find and how to do better, can sort of find online in years. And so, we're sitting around -- our teams of people sitting around thinking about every which way we can help small businesses and help them improve and in the process of doing that, we are sort of capturing people who've raised their hand who are interested in modernizing and improving their business.

And so, not all of them come into our funnel and work their way through and become paying Thryv customers. Some are too smaller, too nearly. I think we've talked about our ICP -- excuse me, our ideal client profile and how -- some businesses can be just too small

really where they're kind of not ready, but certainly, these various organic tools are bringing a lot of additional folks into our funnel and helping us keep our cost of acquisition in line.

Q - Arjun Bhatia {BIO 17340929 <GO>}

That's very helpful. Thank you guys for taking the questions. And congrats again on the quarter.

A - Joe Walsh {BIO 18001809 <GO>}

Thanks, Arjun.

Operator

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

Q - Scott Berg {BIO 16265995 <GO>}

Hi, everyone. Congrats on the great quarter and thanks for taking the questions. I guess, I wanted to start with the SaaS ARPU increase in the quarter that had a nice accelerating step-up. How should we think about the puts and takes around that increase? ThryvPay obviously had a good quarter, not sure how much that is driving the increase versus just a continual shift up to larger customers.

A - Joe Walsh {BIO 18001809 <GO>}

Okay. So -- I mean, there's a lot of pieces to it. We have people buying additional seats. We have people -- it's an upcharge to have a HIPAA-compliant version of Thryv. We have some sort of managed services that fit and around it that we sell that help you with social posts and different things like that.

ThryvPay is a big component of it. ThryvPay has exceeded all of our expectations inside the client base. We're going a little slower outside the client base with ThryvPay freemium to just kind of taking daily steps there, kind of crawl, walk, run. We don't want to get ahead of ourselves, but in the client base, I mean, it's gone from the fifth selected option to the first in the half a year. It's been incredible and people are switching to it, which we're really excited about. So, yeah, that's a big part of it. Yeah, so those are some of the components.

Q - Arjun Bhatia {BIO 17340929 <GO>}

Excellent. And then, your SaaS client metrics increased year-over-year for the first time in several periods. I guess, where do you think you are in the evolution of migrating from some of those legacy customers to those larger customers? Are we in a period where we can see consistent year-over-year client growth in that metric? Are we still kind of maybe bouncing around the plus or minus until that the legacy cohorts that include the smaller?

A - Joe Walsh {BIO 18001809 <GO>}

Yeah. That legacy cohort is definitely still kind of like thinkable mouse moving to the snake. I think it's still moving to the snake for sure. It's not completely out yet, but Grant and his team have done such a wonderful job of bringing churn down that it makes it pretty easy to move forward. So we have guided that we think that we can double or more than double our number of subscriber base in the medium term. And we're sticking to that. So we definitely feel comfortable. So it's a big total addressable market. And we're really just now building the machine to go get it. I'll remind you, we got kind of lucky.

When we started, we had this giant group of friends. I call -- I'm considering we call on Zoom, our people we could go and talk to and a gigantic sales force ready to go talk to them. So we didn't have the challenges or the software companies have of trying to kind of build a machine to go and get it. We're building that machine now and with great success, we're making really good progress that those new channels increased pretty much every quarter with a higher percentage of our revenue coming from them. And it's -- we're making coke peaks. We're just methodically expanding all those activities. So I guess -- in summary answer to your question, I guess you're trying to kind of work your model there. We do believe that we can grow the client base. We don't see declines in our future. It's not to say we couldn't have a little bit of a surprise, one quarter where it's flat or something like that, but we don't expect it to go backwards and what we expect it to begin a march forward.

Q - Scott Berg {BIO 16265995 <GO>}

Excellent. Then last question for me. Thank you. In that backdrop, obviously that and other SaaS metrics were extremely strong in the quarter whether it was a slightly weaker comp or accelerating business side, I think the business acceleration was pretty pronounced there. Your guidance for SaaS revenues in the second half comply effectively flat revenues from the second quarter level both in Q3 and Q4. I guess, what are you seeing on the macro currently that gives you maybe a little bit pause or hesitation on guiding the second half revenues, a little bit higher than what you saw or experienced in Q2?

A - Joe Walsh {BIO 18001809 <GO>}

Well, look, we are a new public company. We're just a couple of quarters then. We raised our guidance. I guess, you're asking why don't we raise it even more. We really want to deliver. We don't want to disappoint anybody ever. It's like we see some giant black clouds. We just thought it was appropriate, if we were in the high teens and we were up in the low-20s, it seemed like the right way to go. We're not trying to telegraph a brick wall in front of us or something like that. Look, the marketplace this summer, there's a little bit of a yellow feeling and you're only live one out there. And a lot of our customers who hadn't taken a vacation first, almost a year and a half are taken some time off and even some of our reps who hadn't taken really any time off are taken some time off. So we've had some softer weeks at summer, but nothing that I'm particularly concerned about. People only have so much money and time that they can kick off and livers can only take so much fun. So, they're going to be getting back to work and not overly concerned about that. So I think it's just an abundance of caution on our part, just trying to make sure that we don't disappoint you guys a modest.

Q - Analyst

Actually, congrats again on this and thank you for taking my questions.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

Your next question comes from the line of Rob Oliver with Baird.

Q - Robert Oliver {BIO 1426928 <GO>}

Great. Thanks guys for taking my question. Joe, I wanted to ask about the Zoom that you mentioned, that big base of customers that you guys have insight into, which is really I think a differentiation from some of your competitors. Is 40% still a right way to think about that in terms of the conversion in terms of customer adds? And then, can you talk a little bit about what you saw there in terms of convergence this quarter?

A - Joe Walsh {BIO 18001809 <GO>}

Yeah. So, thanks for that. Yeah, I do think it's a big way that we are different, because a lot of those businesses just weren't ready. They thought we were -- the cloud reads them as cloud, what's the meaning of the cloud? When we came out there, it's all film over the last couple of years, and they are much more interested and much more ready. And we're continuing to see even people who gave us the Heisman [ph] maybe three or four years ago are now really engaging to getting to talk to us about it. So we do think that there'll be continued deepening and further penetration into that base for sure.

I'm asked every now and then, are you done and have you hit the max? And the answer is, we have not. These businesses are dynamic, the marketplace surrounding the dynamic and we're continuing to further penetrate them, but I do want to make a point here and it's a really important point that, that sales force out there, our business advisors we call them, they have a very close and deep relationship with our clients and about two-thirds of what they're selling are coming from non-customers that they're getting through -- mostly through referrals in their community. So, they're doing a really good job with serving our customer and customers are really happy with Thryv and it's like they're doing a good job for them. And those customers are referring a friend and saying can you help my -- Saturday more in golf (inaudible) who's got the defense company, can you help them out. And that's what a lot of our sales are coming from, is it sort of spreading virally out there through those guys. So even though it's an installed base of customers and installed base of sales force, it's acquiring a lot of new customers for us that we're not reaching through our advertising or any of our marketing activity. They're just coming virally through happy customers, and I'm happy to report that seems to be picking up.

Q - Robert Oliver {BIO 1426928 <GO>}

Great. That's really helpful color. Thanks, Joe. And then Paul, just one for you as well. Maybe a follow-up to Scott's first question. So it sounds like, really the ideal customer

profile strategy is really paying off for you guys in terms of both the ARPU lift and the churn decline, which is great to see. It sounds like there maybe are still some of those non-ideal client profile customers that are still in the mix. I'm just curious as you look at the churn numbers and again, Joe rightfully doesn't want us to get too excited, but at the same time, it does look like maybe you guys are still overturning a little bit now because of some of those customers that are still likely to churn out, how should we think about that? Thanks guys.

A - Joe Walsh {BIO 18001809 <GO>}

Paul?

A - Paul Rouse {BIO 18940808 <GO>}

Yeah. It's just -- I'm not sure how to answer that question directly since it's not direct financial number, but churn is improving where we're doing a better job, just like Grant explained and Joe explained. So I think we're getting to sort of steady state with the churn we're experiencing. So if you're going to modeling out, let's keep in that range.

Q - Robert Oliver {BIO 1426928 <GO>}

Great.

A - Joe Walsh {BIO 18001809 <GO>}

Yeah, Paul. If I can just hop in on the back. I know lots of people in this call are trying to tend to their models. And so, I'll just reiterate. I think the days of us going backwards are behind us. There was -- we were in a tractor being there for a minute, because we just had to fight off some of that stuff that we had sold before. It's not completely gone. We're not completely passed it, but we have enough powerful momentum with all the new things that we're doing and the progress that we're making that I think we're on the growth side of the equation and that's the accelerated going forward. And again, I wouldn't rule out maybe a surprise flattish quarter. But I don't see us going backwards anymore. I see it's going forward on subscribers at this point. There's just too much growth momentum.

Q - Robert Oliver {BIO 1426928 <GO>}

I appreciate all the help. Thanks guys.

A - Joe Walsh {BIO 18001809 <GO>}

You're welcome.

Operator

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

Q - Zach Cummins {BIO 20380773 <GO>}

Hi, good morning. Congrats on the strong results and thanks for taking my questions. Joe, can you talk about a few of the other drivers of your new acquisition channels? I'm just

curious if you can give us an update in regards to resellers and maybe what you're seeing on the franchise side as well.

A - Joe Walsh {BIO 18001809 <GO>}

Sure, be glad to. The biggest piece of it is the inbound machine. And we were asked earlier about some of the tools, free tools that we have out online to help us identify customers you're interested in modernizing their business. That's driving a lot of traffic to our side. It's identifying a lot of prospects that obviously, the cookie we follow around and that's just do and all that. And so, it's bringing a lot of the interested part of the market to us, which we're really excited about and feel good about and that -- those leads come down the funnel. And they're coming to an ever-larger group of STRs and sales development reps and demo people that we've been steadily scaling now throughout the year.

And so, it's a bigger machine and therefore, obviously it's yielding bigger results as time goes by. So that's kind of math where there is a funnel and you get so many in the top and so many of them convert to a demo, somebody of those by. And we're just -- we're working that process and that's part of what gives us confidence that we're going to be able to just continue to push our way forward. That's -- I would say that's at the center and then, I'm going to jump over to franchise.

The franchise team has done really well. They've had a bunch of contract wins this year and they typically sign multi-year contracts, typically three-year contracts with escalators in them and one fundamental fact. The early sales that we had from last year, that base has grown by about 20% just as they naturally added franchise and so on. So we're just really bullish on this one. We think it's going to be a big part of our success. They loved hub. The tool that we developed for them, it sits on top of Thryv. So really, really bullish about what that's going to look like. It's kind of a slow build because it's a long sales cycle and it takes months typically to get one of these closed. There's a lot of testing and so on. But once they come in, we get a really high engaged group and steady growth out of it.

On the partner channel, the reseller side, I don't have a good news report there. I'd like to tell you that we're great at that. We figured it out and we'll kick in ahead. We're not where we are seeing sales out of that channel. But we're -- we just got more work to do to figure out how to kind of protect our selling and marketing model there. And we've been refining and working on who are ideal kind of reseller is and it has been slower progress there. So I'd love to tell you we're great at everything. I have to be honest with you. We're just not doing as well at that one. And if we can get it figured out and we've got some initiatives going, I think we may, I think it could be another big leg of growth for us. So far, it's buttering along a little bit.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood. That's really helpful. I appreciate the additional color around that. In terms of ARPU. I mean, really nice to see the increase a year again here in Q2. I believe your average monthly subscription is somewhere in the $350 range. I'm just trying to get a sense of how we should think about the continued growth in ARPU versus maybe more client has in terms of driving growth going forward.

A - Joe Walsh {BIO 18001809 <GO>}

So I mean, I would just give you a kind of perspective. You guys all typically follow -- spot about them. They get $10,000 from each customer and they tend to work with some fairly sophisticated small businesses, but they're nonetheless small businesses, $10,000 a year from those customers and we get just over $3,000. So there is quite an additional scope we think to meet more needs. I mean, the customers that I talk to, that we meet with, that we spend time and our little Facebook group with and so on, they have many other needs, and we think that we can meet many other of those needs and they like us. They trust us. They enjoy working with us. They are on a journey of modernizing their business. They're willing to do more stuff for that. And so, we've got quite a robust roadmap of additional things that we are developing, that we are doing that we think are going to allow us to -- I would expect that you're going to see ARPU continue to grow. Some of the really dramatic growth you've seen so far is some of those early smaller do-it-yourself sales falling out, which is just on the math, it's bringing our ARPU up, but as you pointed out, we're not even yet at our midpoint unit, which is our most popular seller. So it's definitely been held down by that. So I would expect if you're modeling, I would model that ARPU to keep going up, that's how we're modeling it.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood and appreciate that. And Paul, just one final question for me. In terms of the purchase accounting adjustment for Sensis, should we think of that as more of just a one-time thing here in Q2 that should normalize in the back half of the year? I'm just trying to get a sense of how we should think about that from a revenue and also from a margin perspective for Thryv International?

A - Paul Rouse {BIO 18940808 <GO>}

That's exactly how to think about, some one-time. Work will not affect the third and fourth quarter.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood. And I guess, just one final one around this Sensis side of business, it sounds like some promising early traction there. So how should we think about just the adjusted EBITDA margin profile for that business? I mean, I know you're making incremental investments there, but still fair to assume something around the 40% area.

A - Paul Rouse {BIO 18940808 <GO>}

I think -- yeah, I think that's fair, yes.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood. Well, thanks again for taking all my questions and congrats on the strong results.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

Your last question comes from the line of Daniel Moore with CJS Securities.

Q - Daniel Moore {BIO 4869128 <GO>}

Thank you for taking the questions. And obviously, congrats on the momentum. Maybe just one or two in terms of expectations for SaaS margins for the remainder of the year, obviously, given the strong results. In Marketing Services, you've got plenty of flexibility to ramp investments, but do you still expect to run SaaS closer to breakeven or maybe a slight loss for the remainder of the year? Any thoughts there?

A - Joe Walsh {BIO 18001809 <GO>}

Well, you're right on. You have -- your question is perfect. We -- it was a big decision to make those investments this year and I have to say they are paying off. We're really, really pleased with how we deploy the money and -- I think my earbud scraped out, sorry. Can you hear me?

Q - Daniel Moore {BIO 4869128 <GO>}

We can now.

A - Joe Walsh {BIO 18001809 <GO>}

The pod going so long. Anyway, your question is right on, it's really good. We were -- this time last year, our SaaS businesses truck into the double-digit EBITDA margin land. So it has the ability to make money and make a lot of it. We made a decision with our new Board to invest in growth and to run the thing a little closer to kind of a breakeven and let it sort of use its own usage and accelerate its growth and grow faster. And we do not plan to make it a big loss-making business and run it at a huge loss, but I have to tell you in all honesty, we are a little tempted to push the envelope and let it slip slightly into the red because the growth initiatives are really paying off. They're working really well.

And we actually have a Board meeting later today. We're going to be kicking us around a little bit with our Board for their guidance and so on, but I had previously told of thinking that right around zero and we were very tempted to push it a little further and run it a tiny lot. I want to underscore that this is a choice. And if we do that, it will sell faster growth six, eight months, nine months, 10 months later, as you put the money and get it out later. And this is not some big cash-consuming business or loss-making business, but it is quite tempting that the land grab gone out there and small businesses are way more ready for SaaS software now than they had previously been. And we are feeling very tempted to push. So that's the thought process going on inside. I hope that's helpful. I was transparent as I can be for the moment.

Q - Daniel Moore {BIO 4869128 <GO>}

That makes all of the sense in the world, just trying to get the expectations set. And then on the -- there has been 10,000 questions on ARPU, but how do you think right at this

stage about pricing? Do you see an opportunity in the medium term to raise pricing on your good-better-best offering or will ARPU be really just driven by mix and usage?

A - Joe Walsh {BIO 18001809 <GO>}

We have no plans right now to raise the price. I guess, we feel like we're really in a -- we're really, really like our pricing like where we are. When we finally find a real ideal client, when we find, we really tell them our story. If they've done their homework and they looked at the options, they come back and they say to it. Wow, this is such a great value. We hit this all the time. I mean, if you were to add up to point solution that it would take to equal the Thryv. If you went out there and you bought them a la carte and they're out there, always different point solution.

You got to spend about $1,500 to $1,800 a month. We're trying to equal the rise. So we think there is really, really good value there. At the same time, a lot of these small developing businesses are coming up. For them, it feels like a heavy lift, $350, $400, $500 a month and they're still like -- so we like our prices, we like where we are. We don't right now have a price increase in mind or one on our roadmap. We're planning to drive that ARPU through add-on sales, additional offerings, additional seats, all the different things when it comes with more usage and that's our current plan. I'm not saying that a price wouldn't be possible. We've had that discussion. One of our Board members kind of persistently brings that up and we kick it around. But right now, I mean I think about our Thryv customers who have been with us for a few years. This Thryv has got 10 times better for the same price. So it just keeps getting better and better and better. We have these little communicate -- your slides just got better and then, we tell them why or how. So we're trying the volume with value right now to have really low churn and really high engagement. Also, we think that's the right strategy. But again, we got -- one Board member raises his hand in every meeting and says should we have an annual price up here or at least some kind of pricing regime. So he has talked about in the boardroom, but right now that's not how we're thinking about it.

Q - Daniel Moore {BIO 4869128 <GO>}

That's perfect. Lastly, just before we jump for Paul, this -- I think it's so evident that 20 -- the deferred purchase price accounting adjustment that was not added back to get to the EBITDA number consolidated, correct? So that's...

A - Joe Walsh {BIO 18001809 <GO>}

Correct.

Q - Daniel Moore {BIO 4869128 <GO>}

And then on a free cash flow basis, I'm just curious what your expectations are around cash generation for the back half of the year.

A - Paul Rouse {BIO 18940808 <GO>}

On your first question, I was on mute. And I answered it. Well, it's not added back. So that's an add back, if you want to get to it without purchase price accounting. So it is not

in our reported number. And just to think about, I guess I had to this way, if you're looking at debt repayment, we will likely pay down debt in the range of -- for the second half an additional $60 million to $70 million.

Q - Daniel Moore {BIO 4869128 <GO>}

Got it. Okay. Thank you again for all the color and congrats on the momentum.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

And at this time, I'll turn the call back over to Joe Walsh for closing comments.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you very much. I appreciate it. Listen guys, thanks for all the questions. They were really good and I think it's how cease out and illuminate the story a little bit. We're really pleased. We feel like we're making good progress right now, got some good momentum. A lot of what we've been working on the last few years is really coming together with usage and engagement. I think about our priorities for the kind of the back half of this year. It is continuing to just doggedly stay focused on user engagement, trying to help more of our clients, light up more features and become even happier even more engaged, that seems to bring us more referrals. It seems to be just a great way to go. And it makes us happy to see them using it the way they are. I think driving that cloud adoption out there within the base is bringing the uncloud and onto the cloud. It's sort of the missionary work.

On the Sensis, integration is ongoing and going really well. I have a lot of questions on that, but it's going really well. And we really expect it sort of 10%-ish of the Sensis clients over the course of '22 and '23 will become SaaS customers. They have got 100,000 customers. So that's 10,000 additional subscribers that will be coming from there and make us the category leader in Australia. We're really excited about that. We already have some customers on Thryv in the market. The satisfaction and engagements are great. NPS scores have been great. Training has gone well. So that's beginning to light up maybe even a little bit ahead of plan. So we're really pleased and excited about that. More to come later.

And then, capital allocation, for the moment, we're pounded away paying down that debt. And we're making really great progress. Paul just mentioned, just how much we're going to pay back here in the second half, so we're paying debt has been a big deal for us. So anyway, thanks everybody for your interest and your support. We really appreciate it and now, we're trying to update you against them. Thank you.

Operator

Thank you, ladies and gentlemen. That concludes the conference today. You may now disconnect. Goodbye.