

Q4 2021 Earnings Call

Company Participants

- Cameron Lazard, Director of Investor Relations and Capital Markets
- Joe Walsh, Chairman and Chief Executive Officer
- Paul Rouse, Chief Financial Officer

Other Participants

- Arjun Bhatia
- Dan Moore
- Scott Berg
- Shrenik Kothari
- Zach Cummins

Presentation

Operator

Good morning. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to the Thryv Q4 and Full Year 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

Cameron Lessard, you may begin your conference.

Cameron Lazard

Good morning, and thank you for joining Thryv's fourth quarter and full year 2021 financial results. With me on today's call are Joe Walsh, Chairman and Chief Executive Officer; and Paul Rouse, Chief Financial Officer. Before we begin, I'd like to remind you that shortly before today's call, we issued a press release announcing our fourth quarter and full year 2021 financial results. We also published our Q4 earnings supplement on our website.

I would like to remind listeners that some of the comments made on today's call and some of the responses to your questions may contain forward-looking statements about the operations and future results of the company. These statements are subject to the risks and uncertainties described in the company's earnings release and other filings with SEC. Thryv has no obligation to update the 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 our Investor Relations website at investor.thryv.com.

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

Joe Walsh {BIO 18001809 <GO>}

Thank you, Cameron, and thank you all for joining us on the call today. I'm pleased to report we finished the year on an exceptional note, with revenue and EBITDA beating guidance. At the beginning of '21, I outlined our growth strategy for our SaaS business and additional areas of investment needed to scale the organization. Looking back, I'm really proud of the Thryv organization and the way we executed and implemented those investments into product, into engineering and improving the product. And the impact can be seen in the result.

Let's take a minute and just jump into the headline. We grew total SaaS revenues for the fourth quarter by 36% and for the full year 32%, but context we grew revenue for the SaaS segment 1% in '20. So from 1%, we jump to 36%. So really strong performance there. SaaS ending clients for the year 46,000. So we ended the year with 46,000 SaaS customers, up 5%. So there's been a lot of discussion about whether or not we can grow ourselves because we made such huge progress on ARPU this last year.

I think in the year ahead, you're really going to see balance between ARPU growth and subscriber growth. And in fact, we expect that kind of 5% subscriber growth will accelerate to double-digits in the year ahead. And a minute here, Paul will walk you through the detailed numbers, but I'd like that I like some of the progress that we made on some of our strategic priorities. Since the beginning, I've been talking about this was the decade of SMBs SaaS, but last decade was enterprises moving to the cloud and that this decade would be the decade of mom and pop and small businesses running their business on mobile devices.

By the end of this decade, that'll be just standard there and it's being a decade for the most part, so none of them were doing it. So it would be a massive transition. And that move will actually be bigger than when enterprises went to the cloud because there are so many more small businesses and we have positioned to drive over the last seven years and pole position to lead that gigantic transition. So this is an unstoppable megatrends that you're playing by investing in Thryv.

You know, just from a macro basis, what we're seeing now is, we're seeing small businesses that have been experimenting with perhaps a point solution or two or three become frustrated with logging in and out of all these things. In fact that they the data doesn't share, they don't talk to each other, they got sticky notes everywhere, they have a hard time, including their employees switch to use these tools and they're looking to move up market to something that's more complete end-to-end client experience and end-to-end solution. And that's where Thryv in that aspirational spot.

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So as people sort of try a few of these little point solutions, little premium tools, little odds and ends and they realize that this is the way to go, I want to modernize. They sort of find their way moving up marketing through a Thryv. Thryv is quite a bit more expensive than a lot of those little point solutions are out there, but it does so much more to more powerful tool. Increasingly, I'm talking to customers.

Just in the last couple of days, I've been doing calls into Australia, speaking to customers in Melbourne and Sydney about their experience with Thryv so far. Yesterday, spoke to a client who had been a pretty big Mailchimp user and she has upgraded now from Mailchimp to Thryv and she's got so much more capability to do social posting to set up automated messages to go out to your customers. She's responding to our customers through the chat feature. And she's just really pleased with the power of Thryv and she knows it does even more things that you haven't accessed yet, but she's excited about the completeness of the solution.

She doesn't need to keep buying other software. And she had a pretty rigorous look to figure out what to use and concluded to go with Thryv. So hearing that story more and more in the weekly customer conversations that I have, hearing people really beginning to take two or three point solutions and ditch them and go to Thryv. And I end up saving money when they make the transition there and they need a lot more power and a lot more capability.

So Thryv is an aspirational brand. It's nowhere near as expensive as an enterprise tool like Salesforce. It's not even as expensive as a mid-enterprise tool like the HubSpot. Its more of small business tool. But it's a complete powerful tool making a big difference a lot of small business. So by investing with us, you're planning in that macro trend that small businesses are going to want to go with almost like a salesforce.com type of thing, the big company would do.

They're going to want to do that more complete solution that they can share with their staff and they can all communicate on that one tool, They can have a Centralized Inbox, where all their messages flow in and it simplifies and organizes their lives where they can do estimates, invoices, billing, payments. They can use ThryvPay, save on transaction fees. They can manage social media. They can even deal with ratings and reviews. And they can nurture their customer and you can touch with them and remind them to come back, all in one very simple tool.

So we have been recognized this year for a lot of innovation, Google My Business, helping SMBs get found online. We've got a very deep integration there. So even though it's software, it's not advertising. Because it's so SEO-friendly, it works so well Google My Business. It's actually helping our customers get more leads, get more customers, which is an unexpected benefit, not necessarily the way we position it.

We've launched the verticalized platforms with enhanced CRM, so ThryvHome, ThryvLegal, ThryvHealth. We're beginning to really customize product that once you come in and you tell us you're a roofer, you tell us you're plumber, you tell us you're a lawyer, we begin to configure everything very quickly around what you are. So it feels very

bespoke for you. And that's really helped with client satisfaction. And you can see it in the engagement right through the numbers, that's amazing.

We've launched a lot of free online tools to just help businesses with lots of simple things, creating invoices different, but just different simple things. And that's been a feeder pool driving new customers to our website, driving new leads and sort of a free content marketing place, very powerful. We've really focused also on faster implementation and getting people to value very quickly. That has been challenging, but amazing results that our team have done. And that's just shortening up the time from when you realize you want to do this, when you're getting value from the software. And we're seeing that in higher engagement and lower churn right through.

We've had some external recognition this year, G2 Cloud, Capterra and the APPEALIE awards recognized the Thryv product as number one in a number of categories we're placed very highly. Really external recognition about what a consumer grade, easy to adopt, easy-to-use tool assist, how fast time the value is, how good value for money is. And I would invite any of the listeners here to go to these review sites and read the reviews on Thryv. They are outstanding. And we made such incredible progress here in this process.

ThryvPay the north of \$60 million in payment volume and has now become the most popular choice of all the payments tools that are available and we're sort of We operate with everybody, we interoperate with everybody. So you can bring whatever tool you're using when you come on to Thryv, but lots of people then switch to ThryvPay along the way to save on fees to recapture convenience fees from customers and because it has a lot of small business-friendly elements to it that allow you to set up the current payments and appointments and classes and lots of things that are and we custom-built for the clients that we actually serve.

So interestingly, 70% of our clients coming in now are new to the company. And I know we talked a lot about hunting the zoo, working with our standing base, and that's still producing about 1/3 of all of our customers. But there's a sudden nuance here, and that's because we've made so much progress with the client satisfaction, engagement and usage. We're now getting loads of referrals from those clients. So they're actually bringing up their business advisor and saying, I want you to talk to my friend, he needs help like this.

And so, that's really driving that sort of referrals, driving a lot of the growth that we're seeing. A 1/3 or so of our customers are coming from our new channels, the actual inbound marketing and some of those other new areas that we've spoken some about. And as I mentioned earlier, we're seeing subscriber growth accelerate now as we sort of outrun the lower-priced offerings we had a few years ago.

Retention, we're seeing right now season churn is 1.5%, 1.5% season churn. So that -- if we're really proud of that, we think that sort of world's best when you dealing very small businesses. Our season net dollar retention is now 94%, which is strongly better than the prior year, and we're continuing to see progress there. It's not a straight line because of

different anomalies and that customer set. But we've been asked many times, do you think you can get to a 100% net dollar retention? And we really do.

We don't think it's a one quarter or two quarter journey. We think it'll take a little while because we are dealing with very small businesses. But we have lots of additional product offerings coming on our product roadmap that will continue to propel that net dollar retention and customer ARPU increases. So we are highly confident that this is a \$0.100 on the dollar types of churn. I'd like to just talk about engagement for a minute. Time in the app year-on-year is up, user frequency is up, clients using multiple features is up at CRM, inbox, schedule or social posts, sales module of all up.

App downloads and installs have double. I'd like to turn now to an update on our Sensis acquisition. We now call this Thryv Australia. The focus Sensis in this first half a year or so was to really focus on client engagement, getting customers bedded down, getting them using the product, getting them happy with the product. And we have hundreds and hundreds of customers that are dishing out referrals now and happy about the onboarding experience and the difference that we're making in their business. And I think it bodes well. It kind of gives us a broad clean foundation to really accelerate growth.

And I think one of the things you'll see if you went to '22 is, you'll see the Sensis acquisition really come on stream as a source of fiber ads and revenue growth. So really excited about that. Finally. I'd like to talk about a small acquisition that we made recently. We acquired a company called Vivial Holdings. Vivial is a marketing services company that publishes directories. It was set of the last bit of the telephone company, yellow pages ecosystem that we needed to fill in, that we needed to cover. And it brings us Hawaii, Alaska, Rochester, Cincinnati, some markets that fire companies that we acquired did not cover.

While we do have some customers in those areas, we didn't have much customer density there. So this brings us 25,000 digital clients that we can now penetrate with our staffs offering. It's sort of expands the zoo, if you will. We paid \$21 million. We used available cash to fund the acquisition. We didn't borrow or go out and do anything big here, very simple deal. And in terms of the discipline that we always talk about when we make this type of acquisition, we've said that we would be approximately 2x EBITDA on a post-synergy basis and this one is through to that as well.

As I mentioned, it just closed in January. So integration process is getting cranked up and under way. We're getting everything set up, so that they can begin to offer the Thryv solution to their customer base and that will actually begin to flatter our numbers as this year unfolds. So really excited about the progress that we're making in the business with Vivial acquisition synergistically fits perfectly onto the Thryv platform here in the US. So, I'm really pleased about that.

I'll turn this over to Paul Rouse and let him give you a run through the financials. So Paul?

Paul Rouse {BIO 18940808 <GO>}

Thank you, Joe. Let's turn to our fourth quarter and full year 2021 financial results. I'll first cover our US business segment, starting with SaaS. Fourth quarter US SaaS revenue was \$47.1 million, an increase of 35% year-over-year. For the full year, SaaS revenue was \$170.5 million, an increase of 31% year-over-year and ahead of our guidance. When adding the contribution of revenue from Thryv International, SaaS revenue increased 36% year-over-year in the quarter and 32% year-over-year for the full year.

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Fourth quarter US SaaS EBITDA loss was \$6.7 million and within our expected guidance range. For the full year, US SaaS EBITDA loss was \$14 million, representing a negative EBITDA margin of 8%. Total SaaS ARPU was \$351 for the fourth quarter, an increase of 20% year-over-year. Total SaaS clients ended at 46,000 for the fourth quarter, an increase of 5% year-over-year. Fourth quarter seasoned SaaS churn was 1.5%, a 60 basis point improvement year-over-year and a 20 basis point improvement sequentially.

Seasoned net dollar retention reached 94% for the quarter, a 400 basis point improvement year-over-year. As a reminder, seasoned churn and seasoned net dollar retention represents clients that have been with us for over one year. Moving over to US Marketing Services, fourth quarter revenue was \$153.5 million. As we discussed on prior calls, there is lumpiness in the print publication schedule. We expected lower revenues associated with fewer print publications. For the full year, US marketing services revenue was \$797.5 million, a decrease of 19% year-over-year and ahead of our guidance.

Fourth quarter US marketing services EBITDA margin was 26.5%. For the full year, US marketing services EBITDA margin was 40%, representing a 330 basis point improvement when compared to our prior year. The improvement in margin is due to a shift in higher margin offerings within our marketing services product mix. Fourth quarter US marketing services billings were \$181 million, a decrease of 22% year-over-year and consistent with previous quarters.

Full year US marketing services billings were \$797 million, a decrease of 21% year-over-year. As it's consistent with previous calls, we are providing billings and 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 marketing services segment, which has shown to be lumpier on an accounting basis, given the 15-month life cycle of our print directories. This is provided in our fourth quarter investor supplement, available on our Investor Relations website.

Moving on to Thryv International. Fourth quarter Thryv international revenue was AU\$60 million and ahead of our guidance. On a reported basis, given the effect of FX rates, Thryv international revenue was US\$43.8 million. Thryv international fourth quarter EBITDA margin was 28.5%. For the full year, Thryv international EBITDA margin was 31.8%. On a pro-forma basis and backing out acquisition accounting adjustments, EBITDA margins would have been 38% for 2021.

Turning now to profitability for the consolidated business. Fourth quarter adjusted gross margin was 66.1% for the consolidated business, a 160 basis point improvement year-over-year. For the full year, adjusted gross margin was 68.2%, a 130 basis point

improvement year-over-year. Fourth quarter adjusted EBITDA was \$46.5 million, representing an adjusted EBITDA margin of 19%. For the full year, adjusted EBITDA was \$350.5 million, representing an adjusted EBITDA margin of 31%.

Finally, on capital allocation, we repaid \$17.5 million of our new term loan in the fourth quarter, which brings up accumulative new term loan repayment to \$158 million, since the refinance associated with our Sensis Holdings acquisition in March. Our leverage ratio for the fourth quarter in accordance with our credit facility was 1.4x our net debt to EBITDA. In addition to the progress we made on our long-term debt, we have made significant progress in reducing our pension liability over the course of 2021. Our pension liability has been reduced by \$51 million and our funded status improved 600 basis points to 76%.

We will continue to evaluate our net pension obligations each quarter. Let's talk about guidance for 2022. As an update, we will continue to report each segment, SaaS, marketing services and Thryv international. However, going forward, we will provide outlook for total SaaS and total marketing services, which includes both domestic and international operations. This should be helpful in modeling the business. Okay. Now let's talk about our outlook for 2022.

For the full year 2022, we expect total SaaS revenue in a range of \$206 million to \$208 million, representing growth of 20% to 22% year-over-year and an EBITDA loss in the range of \$21 million to \$25 million. For the full year 2022, we expect total marketing services revenue in a range of \$870 million to \$890 million and EBITDA in the range of \$305 million to \$312 million, representing an EBITDA margin of 35%. We expect Australia to contribute approximately a \$160 million to a \$165 million in revenue and expect an average FX rate for Australia of \$0.73 to the US dollar.

As Joe alluded to earlier, we closed the Vivial transaction in January. We expect Vivial to contribute approximately \$70 million to \$75 million on a full year basis and will represent a headwind of approximately 200 basis points to total marketing services EBITDA in 2022. Consistent with previous calls, we will provide quarterly ranges for marketing services revenue for the remainder of the year, which can be found in our fourth quarter investor supplement materials on our website. We provide these figures because sales cannabis process allows for strong visibility into future revenues and because print publication timing is not generally consistent quarter-to-quarter.

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

Joe Walsh {BIO 18001809 <GO>}

Thank you, Paul. So as you can see, we're really proud of '21. We made a lot of key investments that paid off beautifully during '21 and that growth carries through to '22 and we'll benefit mightily from the stance that our board is authorized to be more on a growth footing as we go into '22. I think we can deliver durable SaaS growth.

The investments in engineering, product, international expansion and go-to-market are driving growth on more and more vectors or hitting on more and more cylinders as we move forward here. And I think we're doing a really good job of balancing retention between delivering profitability and staying on top of this unstoppable trend that I've been describing today. We are very familiar with the kind of the Rule of 40. And you will know that this business in a second quarter of 2020 was delivering in the team's EBITDA margins.

So it's really a fairly recent choice that we've made to step on the gas and accelerate that investment. So our path back to profitability is crystal clear. We can just sort of let up a little bit on how fast we're investing in that international expansion and some of the engineering things that we're doing and return to profitability and delivering 20% of the EBITDA and 20% growth. It's not out of reach at all for us. We've chosen to really stay on top of this because we see this unstoppable trend that we really feel that we can ride.

So the path to profitability is crystal clear for the company. We got an Investor Day coming up in early April. Registration materials are on our website. This event will be focused on the long-term. We're going to be looking at the decade of SMB SaaS, talking about how Thryv will lead small businesses in the US and around the world on to the Thryv platform. And then have interconnectivity with lots of other tools and functions that are out there, so that you can really live in your Thryv and run a small business, reach in your pocket, manage your business from your pocket.

And we think that that is where the marketplace is going, and we're out in front of it. We're in pole position to lead that. We're also going to talk about our marketing services business and how it evolves over the balance the decade and how we interplay between the two companies' work. Make no mistake, these two businesses belong together. They're benefiting mightily by being together. So we'll talk about that and layout our strategy and our thinking.

So with that, let me turn it back to the operator.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Your first question today comes from the line of Arjun Bhatia with William Blair. Your line is now open.

Q - Arjun Bhatia {BIO 20509605 <GO>}

Perfect. Thank you for taking my questions. Joe, you mentioned, and I saw it with slide deck in the presentation, about all the awards you received for your SaaS platform in 2021, there's G2, Capterra, many others. I'm curious, what role you're seeing that playing in just building brand awareness for Thryv's SaaS solutions? And then for the new

customers that you are attracting to the platform, do you have a sense for how much of that is competitive consolidation? Meaning, they're using a SaaS solution already and they want a more full platform that they're getting with Thryv versus a greenfield opportunity where customers are adopting real software solutions for the first time.

A - Joe Walsh {BIO 18001809 <GO>}

Thanks, Arjun. It's kind of a mix. I'm starting with the second part of your question. We're still, every day, bringing a lot of unclouded into the cloud for the first time. These tend to be a lot of -- our service-based customers, maybe people who are very skilled at their craft or their industry, but didn't have super high educational attainment and maybe weren't thinking about modernizing and our business advisor working with them on their advertising, their marketing services stuff has been suggesting that they solve some of their business problems using Thryv software, perhaps for a couple of years and they're moving over. And so, a lot of times, we're introducing people to the potential of what possible in the cloud. I would say, that's still the majority of customer acquisitions. But increasingly, we are finding people who have started to use a point solution, particularly the ones that come in through our website. And your first question was, does winning these awards help us at all? And what we're seeing as a company is very strong growth in our organic traffic coming into our website, and that's people hearing about us in the market, that's people may be looking at the reviews, that's people that are beginning to source something like this, and it's nice, because it's -- you're not out advertising to get them, they're just sort of coming to you organically, which is really nice. One other area I just want to highlight that, I don't know that a lot of our investors have thought about, but as we sometimes talk about serving our standing accounts as hunting in the zoo, calling on our friends. There's one piece that is just really impressive to me and it just keeps growing and that's the amount of new business that's coming from that base, meaning they're referring their friends to us. So the guys out on a Saturday morning golf group and his buddies complaining about how difficult social media is, and how he's struggling to try to figure out digital or electronic payments or whatever and they're strolling down the fairway and the guy says, well, I'm using Thryv, I should introduce you to my business advisor, who can -- who could help you with that. And we are getting about a third of all of our business coming in is coming in from that referral out of that base, and it's growing, it's growing really nicely. So I think just to sum up, to answer your question, the awards are just a telltale piece of the reputation that's growing around Thryv. And I think, you asked how many people are coming from other software solutions, that was a tiny, tiny trickle a year ago, we're seeing it a little bit more now, where people have may be experimented with a point solution and are now moving up to a more complete kind of small business enterprise-wide thing, sort of like a little Salesforce.com, but for a small business where they're able to do a lot of things under one login and they can share login credentials or provide a login credential to their staff and they can all communicate and be the same details about their customers. So, yes, I think the awards are helping.

Q - Arjun Bhatia {BIO 20509605 <GO>}

Awesome, that's very helpful. And then just one follow-up for me on the SaaS guidance. It seems like the numbers imply there's going to be a pickup in net revenue added in the back half of the year or at least in the last three quarters of the year. I'm curious, is that -- are you seeing International and Australia and Vival start to layer in, in the back half of the year. Are there other drivers that we should be thinking about that will come after Q1 in

the SaaS business that we should consider when we're thinking about how the year unfolds?

A - Joe Walsh {BIO 18001809 <GO>}

Yes, you're leading the witness. That's exactly -- you got it exactly right. Australia is really beginning to hit stride. We were very careful to make sure that we got high engagement and happy good users established there last year and we're beginning to really accelerate now the growth there. And we're hunting in a very big zoo. It's a large customer base there. We have a -- the company that we bought, Sensis, is more than 100 years old, an iconic brand and the trusted company within that market. They've allowed us to become big and important there right away. So we wanted to really tread lightly and be absolutely sure that everything worked and worked well in that market. And so yes, we anticipate that accelerating through the year. We're seeing it, as we speak. I was look at this morning's sales report from the overnight there in Australia, another really good day yesterday, it's accelerating nicely. So that's one piece. Vivial, we only just acquired. So any benefit we get from that will be in the second half, as we get everything wired up, get everybody trained and get going on that. So that would be a lift in the second half.

And you're I think aware that we've been building a franchise multi-location product, hub for franchise and we've been building out that functionality. And for two years, we couldn't go to franchise shows, and that's really the heart and soul of the franchise business is going to these big franchise shows and conferences. There was one weekend before last in San Diego. And we were there, and we were there with the booth, and we were there and stayed, we were meeting lots of people. And that business is really beginning to develop, now they've come back online, in person. And we've got a pretty big reputation within franchise. I just, on Monday, was checking in with a 48-location franchise company that joined us last year, and he's got very clear plans to grow his franchise operation to 100 locations over the next couple of years. And after an exhaustive search, they looked at a dozen different platforms. They selected Thryv as their sort of operating system that they're going to use, and this guy couldn't be anymore happy with the onboarding process and the service he's been getting. And he and I discussed a couple of things that he's got suggestions that we're working on for him, and he is really happy with how that's going. And what's exciting about that is that these franchises typically sign up for three-year contracts with us. And they escalate on their own, I mean, talk about NVR. I mean, this guy, he realized that his plan is going to more than double the size his relationship with us over that period of time, so that's been a big part. So in terms of kind of growth vectors, you threw out a couple of them, that's going -- those are going really, really well. And we've also been innovating our local sales channel. We've extended the life of our print directories out a little further, which has created even more selling time for our local sales force. We've been introducing some other innovations at how we sell and how we work for the productivity out per BA basis, per business advisor basis. It's been steadily rising. So as we implement the balance of that plan, we see that continuing to accelerate through the year. So really, I wish everything would happen instantly, but it's kind of take time when you're developing some of these things, and we see them continuing to grow through the year. So thanks for that question.

Q - Arjun Bhatia {BIO 20509605 <GO>}

Perfect. Thank you, Joe, and a great job on the quarter.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

Your next question comes from the line of Scott Berg with Needham. Your line is now open.

Q - Scott Berg {BIO 16265995 <GO>}

Hi, everyone, congrats on a good quarter. I guess, two questions for me. Let's start off with the year ahead here, Joe. You talked about your SaaS subscriber growth of 5% in the fourth quarter, and you expect it to increase to a double-digit level here in calendar '22. How much of that kind of increase or shift do you think is related from some of these smaller marketing -- excuse me, smaller stats customers, that churn starting to kind of peak and get in the background versus your increase in sales and marketing efforts over the last year, just driving that net new customer increase higher.

A - Joe Walsh {BIO 18001809 <GO>}

I think there's some of each. I mean, as many of you are aware, we -- now, several years ago at this point, experimented with a lighter version of Thryv offering at a lower price point with a kind of sign up by yourself motion online. And it did bring us a bunch of customers, but it also brought us unengaged customers and churn we didn't want, and we just really came to the conclusion that's not where we want to be in the market. It would be like selling an iPhone for two hundred bucks. We still want to do that. This is an aspiration product. It's by far the highest quality product in the market. It's iPhone Pro in the market. It's a really, really high-end, high-quality product. So we decided just nip that in the bud after that experiment, and we took it out and it's been out for quite a while. But the bulge of customers that have brought us took a while to kind of churn off. And we have been in the prior couple of years kind of running on a treadmill where we would add a \$349 subscriber and lose three of the \$99 a month guys, and we were probably a little bit ahead on money, but it looked like we were going backwards in terms of subscribers. And so that's mostly done now. And so part of what you're seeing in the subscriber acceleration is just we're not running on that treadmill anymore. I'm not saying they're on a handful still rolling off, but for the most part, that's out of the number. So that's a piece of it. And that's a piece of why, in the second half of the year, you saw it getting stronger and stronger. And then the other piece is, as you say, we have been building a more robust dedicated sales motion around this product.

And I know, I said it a minute ago, but I want to give props to our very large local sales force. They have really innovated and really figured out how to increase productivity on a per business advisor basis, very steadily. I mean, year-over-year, almost quarter-over-quarter, they've been expanding their sales throughput and that's continuing to happen.

And the innovation in the Marketing Services business, we've extended the life of our print directories. They used to be 15-month publications; they are now 18-month publications. And that extra time gives a lot of open real estate, we call it, kind of opportunity zones for our reps to really focus more on the SaaS products. So between

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that and the other innovations that they've done, we're getting more productivity there. So we're quite confident that you will see a desirable blend of subscriber growth and ARPU expansion this year. We were at more times than I can count last year, well, we see that you're expanding ARPU, well, we see your revenues growing very nicely, but we're worried that it's coming from the same sized base and you can't sustain that, and we, of course, realize that and are working very hard here in the U.S. to grow our subscriber base. In addition to that, we're expanding internationally. We're obviously in Australia. We've just entered Canada. And we have designs on additional markets and we're -- there's a lot of investment going into building international, because those markets needs Thryv as well.

Q - Scott Berg {BIO 16265995 <GO>}

Super helpful there, Joe. And then from a follow-up question perspective is on ThryvPay. I believe you've had the product in the market a little bit more than a year now. How should we think about the traction in the product? Obviously, more customers are using it than when it first got launched. But if we think about, I don't know, ticket sizes or frequency of use on a per customer basis, any other details around some of the maybe underlying trends or traction in that solution that you're seeing that might be helpful to us? Thank you.

A - Joe Walsh {BIO 18001809 <GO>}

Sure. Yes, it's continuing to just melt up in a relatively steady way. As we, I think, talked about before, it's not -- these are not like buy a pack of gum and some cigarettes kind of transaction. These are more kind of \$400-a-month transactions on average. So these are people getting a deposit for a kitchen remodel and they're running \$1,500 or \$2,000 through it or a plumber coming out to pop a new hot water heater in for you and you paying over ThryvPay, it's that kind of stuff. These are good sized transactions, and we're seeing the number of transactions steadily and slowly rise, and we're seeing the number of merchants signed up and actively using it steadily rise. The one area that has been a little more treacherous and we've gone a little more slowly with is ThryvPay freemium, meaning you can go get ThryvPay in the App Store, either Google Play or iPhone App Store, and download it and sign up and begin to use it. We've had to go really slowly and really carefully there just to avoid any kind of fraud or any kind of problems. And that's been -- we kind of thought before we started into it that we would be able to really ramp that quickly and we've decided and we've ended up realizing that it needs to ramp a little more slowly, but it is ramping. And in rough terms, the volume that we saw in '21 coming over the (inaudible) ThryvPay, in very broad strokes, will double at least going into '22 just based on the trends that we're seeing. And the gradual, but steady uptake, of ThryvPay freemium, which we think is a little bit of a Trojan horse to help us meet new customers that will eventually buy the broader Thryv solution. So ThryvPay is a big, big positive for us, and something that we're really excited about. We don't make very much on the revenue. I don't want to get too excited that if there's a 100-plus-million of revenue, what does that pencil out to? We're really doing it as a convenience for our customers, and the lock-in. When your software is paying you, you don't tend to churn, you just don't. So -- but ThryvPay is a big strength for us.

Q - Scott Berg {BIO 16265995 <GO>}

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Great. Thanks for taking my questions. Congrats again.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

Your next question comes from the line of Daniel Moore with CJS Securities. Your line is now open.

Q - Dan Moore {BIO 4869128 <GO>}

Good morning, Joe and Paul, and thanks for the detail, and taking the questions. May be digging into the SaaS growth guide a little bit for '22. I think you mentioned double-digit client growth, maybe just talk a little bit more about your expectations both for ARPU growth and client growth, and what's embedded on the SaaS side in Australia. If it's somewhere in the deck, and I missed it, I apologize. But just trying to tease that out a little bit more. Thanks.

A - Joe Walsh {BIO 18001809 <GO>}

Yes, I don't want people to think Australia as the same size as the United States. It's more like the same size as Texas. I mean, it's going to be an important growth driver for us this year, but it's not like a whole another U.S. coming on stream or something like that. So they're growing, they're growing nicely and they're going to really flatter our growth, because the comp for last year is so small, so it'll be very important. Back to your question about, how we see ARPU and sub growth working together? There's a lot of momentum and a lot of reasons that ARPU growth is going to continue to rise. I think I've mentioned before, if you look at like a HubSpot that's above us in the market, they get about \$11,000 per subscriber per year. We are at \$4,000. There's a long gap between there. We have a road map with additional products coming. We have an Investor Day coming up in April. We're going to share some of that that we believe we'll continue to propel our ARPU up, and our current offering, even before we add anything, we see customers coming in, and at the entry level, there's kind of a good, better, best construct here, and they often pretty quickly upgrade themselves to higher levels of Thryv. There are also many Thryv add-ons that we're able to offer them and we see people self-upgrading to those add-ons, which is pretty exciting. And then, of course, we have a monetization team who's actually teaching, coaching, showing people how to use more aspects of the software and they tend to take a lot of orders for upgrade, too. So the general upgrade motion and momentum is very much underway and building. And the big ARPU gains that you saw over the last most recent period, part of that came from burning off those lower value ones I mentioned in the earlier part of the call, maybe a \$99 customer going away replaced by a \$349, that's going to move your ARPU up.

As I mentioned, that trend is mostly behind us. Now, we're looking at more just genuine people upgrading. As you see us integrate these acquisitions, the Sensis acquisition, the Vivial acquisition, they had various digital product offerings, some of which we've been mapping over to our products and we'll be doing some migration, bringing some of those customers over. And depending on how all this plays out, still early days, but that

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could end up adding a few subscribers that are less than the full, full rate card as we're trying to kind of offer them a migration and kind of finding a way to map them over. And so ARPU may not just go straight up, in a rocket ship straight line if we add a little burst of some lower value ones or something. But these are not -- we're never ever going to offer the product, like we did kind of have a stripped-down lower-priced version. It would be more just finite groups of people, as we're integrating these products together. So I wouldn't be surprised if ARPU doesn't go in a perfect straight line, it might be a little bit bumpy as we swallowed some of these customers. But I think, overall, for the year, you will see a nice kind of two-horse race there of subscriber growth into the double-digits and ARPU continuing to move forward, so that it will drive up to that 20-plus-percent growth that we're guiding to.

Q - Dan Moore {BIO 4869128 <GO>}

Very helpful. And I think you partially answered my next, which is just in terms of globally thinking about SaaS pricing. Do you see opportunities to take pricing given that big gap between yourselves and HubSpots of the world? Or is it more likely to come through additional functionality as we move forward?

A - Joe Walsh {BIO 18001809 <GO>}

I think it's more additional functionality and add-on sales. I will concede to you, as our investors here, there is a little bit of unbundling going on in Thryv. When we started, we sort of put the kitchen sink in and made that sale. And as time is going by, there's sort of a very subtle unbundling going on, and that unbundling has the effect of driving ARPU and driving rate, even though the basic prices of the Thryv offering, \$199, \$349 and \$490, have been the same for quite a while. We haven't been imputing a rate up into that. One of the things we're really proud of is we think we have the world's best churn when you look at dealing in the very small business sector. We don't have any big companies at all in our base. This is all very small businesses. And our seasoned churn is 1.5%, which we've never seen anything like this, we've looked and talked to everybody we possibly can. And that's been our focus is just not just serving, but literally thrilling one customer at a time and they become now sources of referrals and are a big source of the melting up growth that we're seeing. So we aren't anxious to take the base prices and start jacking them up, which is not to say we never would. We just -- I mentioned before, we're an aspirational brand in the market. We're quite a bit more expensive than a lot of these little points solutions, and the point solution providers sort of exaggerate the capabilities of what they have a lot of times and try to make it sound like they're -- well, we're just like Thryv, we're doing (inaudible) Thryv, even though maybe they do 120 (inaudible) or 220 (inaudible) what Thryv does. And so we're conscious that it's a competitive market, and in such a -- with so much liquidity in the market, you've got a lot of money out there financing all kinds of deals, we want to make sure that we remain really competitive. So we've decided at least up until now not to raise the base rates, but there's very strong rate coming through that unbundling and the -- sort of the up-sell motion that you see.

Q - Dan Moore {BIO 4869128 <GO>}

Really helpful. Last, just a quick clarification. I was listening and typing, but Vivial, \$70 million, \$75 million revenue. Did I hear that correctly? And what was the projected EBITDA

for 2022? And those are not included in your Marketing Services, in EBITDA guidance, I assume? I just want to verify that. Thank you.

A - Joe Walsh {BIO 18001809 <GO>}

Yes, well, as we said, we paid \$21 million for it. We've been honest about that, and firm [ph] about that. And we've told you that we like to bring these acquisitions in on a two-times post-synergy basis. So for 2022, you don't get a full year of the deal, because we bought it at the end of January. So it's sort of like 11, 12. So it's not a perfect math. Otherwise, you could take kind of 10 or 10.5, divided into year '21, and you'd be all done. It's more like kind of 8 or 9 that it'll be for the year, because it's just a -- sort of a partial year. But -- and yes, you had the revenue, right. We think it'll bring us -- I forget the precise number, but right around there, \$70 million, \$75 million of revenue this year.

Q - Dan Moore {BIO 4869128 <GO>}

All right, that's helpful. I'll follow up with any (inaudible). Thank you.

A - Joe Walsh {BIO 18001809 <GO>}

Okay, thanks.

Operator

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

Q - Zach Cummins {BIO 20380773 <GO>}

Yes, hi, good morning, Paul, and Joe. Thanks for taking my questions, and congrats on the solid end to the year. Joe, can you talk a little bit more about some of the planned SaaS investments that you're making this year, I mean, obviously, continuing to still lean into the momentum that you're seeing on that side of the business?

A - Joe Walsh {BIO 18001809 <GO>}

Yes, one of the things that you'll notice if you really study the numbers is it's a little front-loaded the way we made the investments. We're really putting a lot into engineering and product, and trying to get some of these things done and quickly and early, some of the integrations that we've come up with that make the product much easier to adopt and use. You meet a customer and he says, well, I'm on this point solution, and you're able to say, oh, no problem, we integrate with that. It really, really makes the conversation flow from there because, I don't know if you noticed, but small businesses hate data entry, they don't want to do any data entry. So when they hear that the two tools just connects with API and integrate, it makes adoption a snap. So that's been really good. So it is a little front-loaded. We also -- I'm not going to make any secret of it, we are working hard at international expansion at the moment. And so there's some engineering things that we need to do, there's GDPR compliance that we need to do. There's a lot of things that we're working on that we kind of front-loaded a little bit into the year. So I think, most of you are aware that this is a fully scaled already profitable SaaS company. We have just

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made a recent choice to step up investment that's pushed it into a small EBITDA loss, which is no big whoop because we're making 300-plus-million on the other side of the house. It's just a choice. So we have -- even if you look at this year, by the time you get to the back half of the year, losses in the final quarters would be very small just because we kind of front-loaded it. So basically, those are the areas, product and engineering, international, a little bit on go to market, there was some things we need to set up and to do that we kind of folded in the [ph] front part of the year so we can get the benefit the whole year. That's your answer.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood. That's helpful. And nice to see kind of the strong SaaS guidance, especially in the current market environment, comping a pretty tough year from 2021. But just given the current environment with some of the inflation numbers, have you seen this impacting any of your customers in terms of sentiment or willingness to spend in the current environment?

A - Joe Walsh {BIO 18001809 <GO>}

Look, sales are very good at the moment. I just -- first thing I do every morning as I get up and look at the volumes from the prior day, which I get early in the morning, and I've already gone through them today, and we had another really great day yesterday. So we're building momentum beautifully. But I talk to customers every week, it's a part of my week, every week, just have a free-flowing chat with our customers and I never stopped. Most of my other executives do the same thing, just trying to stay really close to our customers. And we spend time talking to our business advisors about what they are hearing and what they're seeing. We're not getting this from reports, which really these are live conversations we're having with people. And I hear gas prices being brought up by a lot of people have trucks on the road, because they're sort of freaking out at the rate they're going up and one only needs to turn on the news and see that they're going to stay up for a while. And so that's got people just grouching and uncomfortable. Supply chain issues have caused a lot of the contractors -- just try to get a subzero refrigerator right now, it's like 11 months later something like that, or any kind of other fancier custom things, it's just really tough to get things through the supply chain and that's something that we constantly hear. The Great Resignation we hear a lot about. People have a tough time right now keeping their staff and are having a tough time attracting employees. And so we hear a lot about that. What we don't hear curiously is people complaining that they don't have enough work. They're getting jobs, they're getting calls, they're getting sales, it's more fulfilling it, that's the hard part. They feel a bit of a squeeze. So I would say, in my little survey, which is ever ongoing talking to these local businesses, small business sentiment is medium at the moment. It's not terrible, but it's certainly not great. It's not as good as it was at point over the last year. And we took all that into account when we guided the way we guided. We want to -- we take very, very seriously the promises that we make to our investors. This is not my first public company experience, and Paul and I spend a lot of time making sure that we can fully deliver on the commitments that we make. So yes, we took all that into account when we set guidance where we did.

Q - Zach Cummins {BIO 20380773 <GO>}

Understand. That's helpful. And Paul, for my last question, in terms of capital allocation, how are you thinking about free cash flow generation and potentially using that excess cash for either debt pay down versus additional M&A?

A - Paul Rouse {BIO 18940808 <GO>}

We get this question just about every call. Right now, we're focused on paying down the debt as rapidly as possible. If we happen to come across another Vivial, where it's very attractive, will we consider that? Absolutely. But at the moment, we're going to be focused on debt repayment.

Q - Zach Cummins {BIO 20380773 <GO>}

Understood. That's helpful. Well, thanks for taking my questions, and best of luck in the quarter ahead.

A - Joe Walsh {BIO 18001809 <GO>}

Hey, if you don't mind, I'd like to just expand on that just a little bit, I think it might be helpful for the broader audience. I want to be clear that acquisitions are not our plan. We feel like we can accomplish the entire mission here without acquisitions. We have an organic plan to grow around the world and build our SaaS business. I would describe acquisition process more opportunistic. If we can get them in Paul's strike zone, which Paul is cheap [ph], by the way, if we can get them in his strike zone, then we do it. And we had actually been talking with Vivial about this combination for six years, six years, and they just finally decided that it made sense to do it at a price that we could do it. So we have such conversations going on all the time. We're pretty active out there. But I just want to be clear, don't take this away that there (inaudible) that they're going to just make one acquisition after the next. It's been a year since we made an acquisition, Sensis, and it might be a year or more before we make another one. We're not spending all of our time looking at deals. We are planning to grow our business organically. We have the engineering talent to develop our software the way we want. And we feel confident that we can expand and we've figured out how to do that without acquisitions. So if you hear us talking about an acquisition, it'll be because it hit our very disciplined strike zone.

Operator

Your last question today comes from the line of Shrenik Kothari with Baird. Your line is now open.

Q - Shrenik Kothari

Hey. Good morning, Joe, Paul. Just running [ph] on for Rob. Great quarter, and exciting shift towards subscriber growth versus just ARPU as the growth lever. I think you said 70% of your clients coming in now are new to company, and inbound marketing partner, et cetera, new channels contributing about one-third, if I got that right, up nicely from about 15% or so, some time back, if I recall that right. So if you can speak to the mix of that growth as a percentage and a little more granularity in terms of partners, resellers, franchisee, et cetera, channels, inbound marketing and referrals, that would be great.

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A - Joe Walsh {BIO 18001809 <GO>}

Yes, I don't know that I have lots of really specific details for you. I don't know, Paul, if you were (inaudible) guide there have that. I can speak directionally to what we're doing, but I don't know that I can parse that into specific little pieces for you. I think generally our franchise motion is building beautifully, and they have already signed up in '22 more than they did in '21. I mean, they're rocking. And as I said, we kind of finally let them out of their home offices to get out and see people and has made a really, really big difference. And yes, our partner and affiliate network is building, and we're seeing that we have a lot of optimism about that. We've not talked about this before. Our inbound motion is just really boring. Sorry inbound team if you're listening. It's just one foot in front of the other. Every quarter, we add a few more leads to the top of the funnel. Every quarter, we add a few more SDRs and people talk to them, and every quarter we close a few more. It's really, really boring, which is to give you one step at a time. And you might say, well, Joe, why don't you go faster? And that's because it would get inefficient really quickly if you went faster. We kind of can't outrun our supply lines. We can't outrun the rate at which we're growing organic traffic, because you have to have a really strong mix of organic traffic into the lead flow or your cost of acquisition to lifetime value start getting out of whack. And that's the reason we just -- don't just go straight up with this thing, because we would be like a lot of other software companies that we've seen that, every new dollar revenue cost on the dollar, which seems like madness to us. So we are allowing that to bubble up at a rate that we feel comfortable with. And I would say the blend between those three things is really a nice blend, and each has slightly different economics, but overall, they fit beautifully into our plans.

Q - Shrenik Kothari

Got it, got it. Thanks a lot, Joe. Really helpful. And then one quick one for Paul, maybe. I think you talked about the strategic investments and go to market in the deck and the call. So in the context of the medium-term EBITDA margin target just set out towards like low-mid-teens, what timeline should we be thinking of as of now? Just your color there.

A - Paul Rouse {BIO 18940808 <GO>}

I'm sorry, you want more clarity on what the --

Q - Shrenik Kothari

On the timelines around the medium-term EBITDA margin target that you set out in the Analyst Day, like just some rough ballpark timelines.

A - Joe Walsh {BIO 18001809 <GO>}

I think, Paul, he's drilling it on the SaaS piece of it, when we're going to allow it to pop back to profitability. And I'll let you talk (inaudible) trample on you, but I just want to be clear to the group here. It's just a choice that we make. We sit in the room with our Board and we decide, what we want to invest. If we were to decide that we wanted EBITDA profitability within a quarter or two, we could be back delivering in the teens EBITDA margin. This is the underlying Thryv software business is currently fully scaled and fully profitable. We're just taking advantage of the fact that we make so much money on the marketing services side, and we have a lot of flexibility in our capital allocation and debt

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structure to choose to take \$25 million or \$26 million and put it on international expansion and faster growth for SaaS. We're not diluting our shareholders by raising new equity. We're not doing round A, round B, round C, we're not doing any of that stuff. This is just us deciding to benefit from these two attached businesses. And if for any reason, we decided that, you know what, we -- it's very important that we run this at a break-even or a profit, we could just slow down a little bit, how fast we're pushing the international envelope or how fast we're pushing the product road map, and allow that profitability to come through. So I want to be clear, it's a choice. Right now, we haven't constructed a plan that says, we're going to switch to more of a profit footing. We've kind of taken it one year at a time with our Board, and our Board was really very, very happy with what we were able to do last year. They gave us a very modest little investment. And we turn that into an ROI, return on investment, that was extraordinary. So the point is, well, during the year that we're going, well, could you invest more and we put a little bit more in. And that was the backdrop for '22 was we're keeping losses at about the same level as last year as a percentage, with a little bit more as absolute dollars because the company is bigger, but I just want to be clear. This is not a money-losing business that we could find a way to get a tourniquet on, these are considered investments one at a time that we're making on a profitable business. So Paul, I didn't mean to trample on your answer, but if you have more to add, you can. I just -- I wanted to make sure I was clear about that.

Q - Shrenik Kothari

No, thanks, Joe. That definitely makes sense. I appreciate the color. And yes, great quarter, again. Thanks.

A - Joe Walsh {BIO 18001809 <GO>}

Thank you.

Operator

This concludes our Q&A, as well as our conference for today. Thank you all for attending -

A - Joe Walsh {BIO 18001809 <GO>}

I'm just going to make a -- yes, I'm just going to make a wrap up comment or two, and then we'll break away here. So we believe that this is the decade of SMB SaaS. We think that last decade, enterprise has moved to the cloud and small businesses kept doing things the way they had in the past. This decade, we think SMBs will move to the cloud. By the balance of the -- by the end of the decade, we think it'll be standard operating procedure to reach in your pocket, punch a button, see your Thryv pop up and look at the details of the customer you're about to meet with, any documents that have been shared, what their last payment was, what they bought last time, who the decision makers are, it'll all be right there at a touch of a button in your pocket. And we think that that's where the market is going, and we are working to keep up with that adoption curve. We think it's an unstoppable trend that is going to happen with or without Thryv. We happen to be leading it or in pole position to capitalize on it, but the choice that our Board have made to step up investment a little bit is to stay on the front-edge of that wave. And we think that's a good decision. We're excited about it. We think that there's durable growth

available for this company for more than a decade looking out, just in the market adoption of tools that we offer. We see a clear path back to profitability, anytime we make that choice. So thank you very much everybody for listening to the call.

Operator

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

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