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Q3 2022 Thryv Holdings Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. My name is Abby, and I will be your conference operator today. I would like to welcome everyone to Thryv's Third Quarter 2022 Earnings Call. Today's call is being recorded. (Operator Instructions) And I will now turn the conference over to Cameron Lessard, AVP of Investor Relations and Capital Markets. You may begin.

Cameron Lessard ***Thryv Holdings, Inc. - Director of IR & Capital Markets***

Thank you for joining us on today's conference call to discuss Thryv's third quarter 2022 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 third quarter 2022 financial results. We also published a Q3 investor presentation on our website at investor.thryv.com.

Please note that information regarding our quarterly performance and guidance can be found towards the back of the presentation. 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 the 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. Reconciliations of those measures to GAAP will be posted on the Investor Relations website.

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

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

Thank you, Cameron, and good morning, everyone. Welcome to our third quarter earnings call. We made excellent progress on our strategic priorities that enable this quarter's performance and our strong progress year-to-date. As a result, we're raising our full year guidance once again. Paul will provide further details about our financial results and the future outlook.

Let's jump into the highlights of Q3. SaaS revenue of $56.6 million was up 26% year-over-year and 8% sequentially, ahead of our guidance. For the second quarter in a row, we kept a balance between subscriber growth and ARPU growth, with both in double digits. This is a direct result of our important recent initiatives, including investing in our product, engineering and client success teams.

This growth has been bolstered by the digital transformation trends that we feel continuing to accelerate in the market, this golden age of SMB SaaS. We feel like this is the decade that SMBs are migrating into the cloud, and they're looking for a complete platform like Thryv offers. This is a megatrend that we're riding.

So growth has been solid. We've also been able to achieve this in a cost-efficient manner. We've overperformed on SaaS EBITDA. On our Q2 call, we guided for Q3 EBITDA loss around $5 million, and we delivered much better with a loss of $2.2 million.

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The U.S. is showing profit for the second quarter in a row. EBITDA losses are purely against our international markets, which we're in the process of standing up, which will lead to future SaaS growth. Keep in mind, we're generating a lot of cash flow on the Marketing Services side of the house, which is where we get the majority of our SaaS customers from.

This is that magic highly efficient model that we have. Sales efficiency is being talked about a lot now. It's being a little bit discouraged to spend wildly to find customers. We have 400,000 existing customers in our base that we're calling on and working with in the normal course. And that's where we get the vast majority of our customers, either directly from there or by referrals from there, delivering that super sales efficiency.

Regarding international, we just announced the opening of our regional HQ in Toronto, the hiring of a sales team as well as key partnerships with GetintheLoop and the Canadian Franchise Association. Canada has around 1.5 million businesses. Marie Caron is spearheading that, our international leader. She's taking that market on and has done an incredible job of getting it kicked off.

On the Marketing Services, we continue to see very predictable performance in billings, which allows us to generate solid cash flow and pay down debt.

One other little item I want to mention is that we were named one of the most loved workplaces, which we're really proud of.

Overall, I'm super proud of how we're positioned for the balance of the year. With that, let me turn it over to Paul Rouse to take you through our financial results.

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

Thank you, Joe. As a reminder, we're going to focus on total SaaS and total Marketing Services results, which include both domestic and international operations. As you may recall, this is how we provided guidance to the start of the year, and we feel is more helpful in modeling the business. Let's start with our third quarter results, starting with our SaaS business.

Third quarter total SaaS revenue was $56.6 million, ahead of our guidance range, which represents an increase of 26% year-over-year and 8% quarter-over-quarter. As Joe mentioned, the growth in revenue was attributed to a balance between subscriber growth and ARPU expansion, with an increase of 13% and 11% year-over-year, respectively. Annualized spend per client was approximately $4,500 for the third quarter.

Third quarter SaaS adjusted EBITDA loss was negative $2.2 million and ahead of our guidance. The reason for the overperformance was due to greater discipline as we continue to improve our ROI on our marketing and demand gen efforts. Seasoned net dollar retention was 92% for the third quarter, which is slightly improved when compared to the prior quarter.

As a reminder, seasoned net dollar retention represents clients that have been with us for over 1 year. Monthly churn continues to be stable for the quarter.

Moving over to Marketing Services. Third quarter total Marketing Services revenue was $224 million and ahead of our guidance. The reason for the overperformance is due to stronger-than-anticipated digital revenue. Vivial contributed $20 million to Marketing Services revenue in the quarter. Third quarter total Marketing Services adjusted EBITDA was $67.6 million, resulting in an adjusted EBITDA margin of 30%.

As indicated in our quarterly outlook for Marketing Services provided at the start of the year, we expected less revenue for print due to the timing of our directories. Third quarter Marketing Services billings, excluding Vivial, was $198.1 million, a decline of 20% year-over-year. When including Vivial billings, the decline was 8%.

Turning now to profitability and leverage for the consolidated business. Third quarter consolidated adjusted gross margin was 66%. Third quarter consolidated adjusted EBITDA was $65 million, representing an adjusted EBITDA margin of 23%.

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Finally, our net debt position was $505 million in the third quarter. Our leverage ratio for the third quarter, in accordance with our credit facility, is 1.6x net debt to EBITDA and well below our covenant of 3x. We generated $37.6 million of free cash flow in the third quarter and paid $39 million towards our term loan.

From a year-to-date perspective, we generated $84.9 million in free cash flow and paid $81.5 million towards our term loan.

Now let's discuss updated guidance for 2022. For the full year 2022, we raised our guidance for total SaaS revenue in the range of $214 million to $215 million. This implies total SaaS revenue in the range of $57 million to $58 million for the fourth quarter. We are updating our SaaS EBITDA loss outlook in the range of $14.5 million to $15.5 million, which is improved from our previous guidance of $16 million to $19 million. This implies SaaS EBITDA loss in the range of $3.4 million to $4.4 million for the fourth quarter and is designated for international investments, including our most recent launch in Canada.

For the full year 2022, we are raising our guide for total Marketing Services revenue in the range of $965 million to $975 million and raising our adjusted EBITDA in the range of $338 million to $341 million, representing an EBITDA margin of 35%.

Before I wrap up, I want once again to take a minute to talk to you about revenue recognition for Marketing Services and give you a peek into 2023. Our Marketing Services financial results are reported under accounting rule ASC 606, which has a material impact on both the timing and method of revenue recognition, specifically for our print directories.

Print revenue is heavily impacted by the timing of shipments, and our publication schedule is nonlinear between quarters and fiscal years. As a result, this nonlinearity will have an impact on the timing of when we recognize print revenue as is common in the print industry.

This entire contract associated with the print publication is crystallized as revenue once shipped. For example, a 15-month directory will have all revenue recognized in the first month of publication. The increase or decrease in print revenue between fiscal periods is not an indicator of the health of Marketing Services. For this reason, we provide billings as an operational metric, which shows the very consistent and steady performance of our Marketing Services business as we expect and have discussed with you.

Billings and actual cash collections follows monthly invoicing and collection of cash receipts, unlike revenue recognition. This also gives us high confidence in our ability to manage the business, generate cash and pay down debt.

For the full year, we anticipate paying $105 million to $110 million towards our term loan.

Looking back on our Investor Day in April, we announced we would be lengthening the directory life in our Marketing Services business from 15 months to 18 months. Advantages of lengthening the directory life are that it helps us improve our unit economics and saves costs, enhances our forward cash flow visibility and frees up time for our business advisers to sell SaaS to existing customers.

The only disadvantage is that extending the lives of these publications creates more nonlinearity in the timing of the print revenue recognition in Marketing Services and will impact 2023.

At this time, we expect this to be reflected in the third quarter of 2023, where the timing of publications will make the print revenue considerably less, relative to other quarters, both here in the U.S. and internationally. This will have no impact to underlying fundamentals of the business. It's just an artifact of accounting, unfortunately.

We look forward to providing you more color on this when we guide for the full year on our fourth quarter call. So stay tuned. Now I'll turn the call back over to Joe.

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

Thank you, Paul. The 18-month directory innovation is really important. It does a lot of good things for us. It helps us with ESG. The directors are coming out less frequently. That's environmentally friendly.

Our small business customers have been with us, on average, something like 15 years, and they view their listings in our Internet Yellow Pages directories and in our print directories as an important utility in running their business. It keeps them able to be found everywhere. They don't really think of it as advertising, like they're going to run an add. That's why these very long contracts work out just fine. And it's part of what insulates us from the ups and downs of economic climates.

So that's part of why the business is steady. And remember, this is a gigantic, gigantic melting iceberg, that we're running for cash and very focused on the cash-generative characteristics of it, and it generates a lot of cash.

I want to talk for a minute about some of our product improvements we're excited about. We recently launched ThryvPay in Australia and in Canada. It's a, just like it is here in the U.S., a payment tool that's particularly built for service-based businesses; allows them to recapture convenience fees and other costs that they have in doing business, which they like a lot; allows them to get paid right away for them to have sort of next-day funds. It allows them to do it more efficiently at lower cost.

So it's been wildly popular. It represents a huge percentage of the payment volume coming over our platform. We're seeing it growing really fast. It's sort of 100% year-over-year growth off of a small base, but it's becoming meaningful. We're excited about ThryvPay and the additional engagement that it drives. When your software is paying you, you don't tend to cancel it. So we're pretty pleased with that.

Another area we're really excited about is the launch of TeamChat. TeamChat is the much-anticipated ability for people to communicate within the platform. Staff can chat, share files, annotate photos, reference-link to any item within Thryv for fast coordination and collaboration in real-time.

There's also a separate TeamChat mobile app that a small business can give to their contractors or to their workers in the field. They don't necessarily get to see the entire Thryv with all the payment details and all the CRM stuff, but they can share details about the customer. They can take photos of a job. They can exchange documents.

It allows really great communication, sort of almost a Slack-like experience within Thryv, and gives the small business owner the flexibility that they were looking for and that they need. And this is one of our most requested features.

The main goal here is no more disorganized messages. Thryv collects and collapses all conversations across all channels into a single continuous conversation with a client. So this is a big deal, and this is going to increase engagement at a much, much higher level across particularly our service-based businesses, but really all of them.

Anybody that's got people out in the market out in the field, that communication about the jobs, about their customers, is something that we've been asked a lot for by our power users. So that's off to a great start. We're really excited about that.

I wanted to quickly comment on Marketing Center. We announced earlier in the year that we were launching another center called Marketing Center. We've been testing that extensively throughout the year. We've had it in pilot now with a number of sales teams. Customers are buying it. And it will be fully rolled out before the end of the year. I would expect to see revenues from Marketing Center beginning in '23.

So with that, why don't we turn to the operator for questions. Operator?

QUESTIONS AND ANSWERS

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Operator

(Operator Instructions) And we will take our first question from Arjun Bhatia with William Blair.

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

Congrats on the good results. Joe, maybe could you just take a second to talk about the macro and the demand environment? We obviously hear a lot from some of the other companies we cover in software. But I take it, your market is a little bit unique, with being in SMBs and service-based businesses, there are likely some differences versus what we see elsewhere. What are you seeing within your customer base given how much things have changed in the last few months?

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

Yes. For us, things haven't changed that much in the last 2 months. We're dealing with -- these are pretty small businesses, typically, 5-, 10-employee, very small businesses. So these aren't corporations. They do read all the headlines, and they are told they're supposed to be scared and concerned and all that. But they haven't changed their behavior. We haven't -- I've seen some of the earnings calls in the last few days, people talking about elongated sales cycles and taking longer to get decisions from the C-suite. We don't have any C-suites. We're just dealing with mom-and-pop businesses.

And the media campaign to get them scared about the economy is in full effect, but it really hasn't changed our results. We're continuing to write great numbers.

And Arjun, it's largely down to us. We're not sitting and waiting for people to come to us. We're going to see them. And in the ordinary course, we have 400,000 customers that we communicate with on a regular basis about updating their listings and their programs across the Internet, across our Internet Yellow Pages and across our print directories. And as a matter of that contact, more and more of them are buying software from us.

And you might say, "Well, gee, those are 2 different things." There is a massive transition happening, where small businesses are beginning to move to the cloud. They want to get more efficient. They want to get organized. They want to be modern. They want to meet their customers where they are. It's a process that's underway.

And the tailwind of that is way, way bigger than the little crosswinds of economic concerns that are bouncing around above them in the big corporate world. It might eventually trickle down, but it hasn't yet. We're doing just fine. We're continuing with double-digit subscriber growth, double-digit revenue growth.

Our business is doing well. And our business is kind of built for this weather. You know what I mean? We have customers on 18-month contracts. They're managing listings across the entire Internet. It's a very complicated thing that they're doing with us. And you virtually have to go out of business to want to turn that listing off. So that's our story.

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

Perfect. No, that's great to hear. And then, just I wanted to touch on the new HQ that you opened in Toronto. What was -- what did you see in that market where you said, "Hey, we need a physical headquarters and a physical presence in that market," and then how should we think about just the revenue progression in Canada playing out?

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

Well, I mean, we have some revenue beginning to develop there now. We have Thryv available in an online-only fashion now prior to these announcements. What we're adding now is feet on the street. We're adding the feet on the street through partnerships, and we're doing it by beginning to build a direct sales force.

And that activity is just getting underway. I don't want to make it like we've been doing it for a long time. We're just getting going now. So this is really a '23 kind of thing. Don't look for a bunch of revenue in this quarter. But we're going to go build that out, and we expect strong growth off of obviously a very tiny base. But it's just another plank in our growth plan.

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Canada is obviously more like the size of almost one big state in the U.S. So it's not going to massively alter our results. And we haven't acquired anything there yet. This is just us going in, getting going. And the model that you're seeing us execute there, I think, you'll see us doing in additional countries as time unfolds here.

Operator

And we will take our next question from Robert Oliver with Baird.

Robert Cooney Oliver ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Joe, I have one for you, and then, Paul, a follow-up for you as well. So maybe I'll follow up a little bit on Arjun's question, Joe. You guys clearly are not seeing any macro impacts. You had smaller customers, sort of golden age here for SMB digital transformation.

You've been through a lot of cycles in your career. And if -- talk a little bit about the kind of potential recession resistance of the business and ways that you might be able to be creative and harvesting even more of the customers from that zoo. In other words, if we were to get into a more sustained recession here and SMB were to be impacted, what are some of the ways that you guys would have a real kind of defensiveness there or an embedded advantage versus potentially some of your competitors?

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

Yes. Okay. Keep in mind, in Marketing Services, these guys are not running ads. This isn't like putting up a billboard or running a flight on radio or TV. This is your listings and making sure that you're found in all the places that consumers look.

So it's printed directories. It's our online directories. It's a network of about 100 other online directories that we don't own. And then it's listings all over the web that we're managing for these people. So it would be like turning -- taking the sign off your building to turn the stuff off.

And we only ask them to update it every 18 months. And a lot of it just auto-renews, and we barely even talk to them. We send out an e-mail saying, "Any changes?" No, okay. And they just keep rolling.

So this is not some big advertising decision, and it's not being made by an ad agency. It's not being made by a corporation that cuts its ad budget. This is being made by a mom-and-pop business that doesn't want to switch off the way everybody is finding them. So -- and yes, we have been, Paul and I and some of the other members of the team, have been through a number of recessions over the years and have seen the way this thing rolls.

One of the things that's really important is our customers have been with us for a very long time. We don't sell a ton of new business. As you can imagine, a 33-year-old that's opening up a new business doesn't say, "Let's go sell -- let's go buy an add in the yellow pages." We tend to have very mature customers that have been with us for a long time. And we're the main thing that they do. And so they don't tend to go in and out of business a lot.

I think the thing that you highlighted in your question, as I turn to think about the SaaS business, is the efficiency, the sales efficiency that we have. A lot of our peer companies, and I talk to a lot of other SaaS CEOs, they complain about how much they're spending with Google and other online sources to try to generate inquiries and leads. And I feel so blessed that, every day, we're talking to thousands and thousands of small businesses, just in the ordinary course. And a lot of them that weren't ready last year are ready now to begin modernizing their business.

And so about 1/3 of our customers come from just the normal route that we do every year talking to customers. About another 1/3 are referrals from those guys that are really happy with the changes that they've been able to implement, and they're bringing their buddy who's disorganized and needs some help in to talk to us. So that's 2/3.

And then the final 1/3 comes from all the various sort of new channels, motions that we are creating from inbound and content generation, to our multi-location franchise sales, to resellers and so on. And that's kind of the way our business comes in.

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So it's really efficient. And I know one of the things that, at least, I'm hearing a lot about, reading a lot about as I look at some companies that were just spending whatever it took to drive growth numbers, we were never really comfortable with that, to be honest with you. Paul and I are kind of cash guys. We're interested in cash and making money and having unit economics that work. And so we're much more comfortable in this type of environment.

Robert Cooney Oliver ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

That's great. Paul, just on that point, with the improved ROI on some of your marketing spend, it sounds like you have found some leverage you can continue to pull there to drive better profitability and more efficiency, which you guys are showing, which is great. Are those levers been exhausted? Are there additional levers that you might be able to pull to drive further efficiency in operations and in particular, maybe in your marketing spend?

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

So we're never out of levers. So -- and as the business grows on the SaaS side, we have more revenue. There's going to be more profitability. As you saw, for this 2 straight quarters in the U.S., we're already profitable. So we're never at a lever. So we're always constantly looking at the business and finding ways to squeeze costs out.

Operator

And we will take our next question from Scott Berg with Needham.

Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

Congrats on a good quarter. I guess I've got a couple here. First of all, Joe, you talked about Marketing Center to be released in, [in bold here], it looks like by end of the year. You're in beta right now, at least it looks like it because I was able to find some things on your web page about it.

But with the early successes that you've had there, how do you think about selling that product going forward? Do you have to change anything in your sales motion? Maybe it's going back and trying to cross-sell to your existing base or something net-new to drive initial adoption of that solution.

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

It's a great question. One of the things you should know is that you have to have Thryv to have Marketing Center. So the universe of people that we could potentially sell it to is Thryv customers. You couldn't sell it to somebody without Thryv. And so we've got 51,000 Thryv customers. So that's the universe of people that we could potentially sell this thing to.

And furthermore, you have to have had Thryv for more than 30 days. So it's got to be in place, set up, running, before you can then add Marketing Center to it. So that's who we can sell it to.

In terms of how we're selling it to them, all the [current Thryvs] have a business adviser of record. We also have an additional over the top of a CX kind of monetization team that's talking to small businesses. And then we have some tech touch, where we can put out -- which we haven't done yet, but we can put out some marketing to let people know that this is available.

But we're finding there is a tremendous desire to track everything that people do. They want to be able to attract their lawn signs they put in front of jobs that they're working on. They want to be able to track their trucks that are driving around. They want to be able to track flyers that they leave around in the physical world.

If they run an ad in a PennySaver, in a local school paper or something like, they want to be able to track that, that worked. And Marketing Center lets them do that, lets them track absolutely everything that they do and put everything into one dashboard and pull it all together.

And that's worth its weight in gold, is a well-organized, well-run small business, which most of these existing Thryv customers really are starting to get good at kind of having their act together. So that's who we sell to and how we sell it.

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Scott Randolph Berg ***Needham & Company, LLC, Research Division - Senior Analyst***

Got it. Helpful there. And then from a follow-up perspective with Paul. I recognize you're not adding for next year, obviously, but you gave a little bit of color on what's happening with the accounting around the Marketing Services business next year.

Anytime I think about some revenue changes there, I always like to think about the impact on expenses and/or profitability in the period. I assume, from the linearity of the year, we should expect some profitability metrics to decline in the third quarter of next year. And I purely recognize it's just because of the accounting treatment of those revenues, but just trying to think about how to potentially titrate our models going into next year.

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

Right. That's the reason I'm pointing now, particularly in the third quarter of next year, there's going to be very little print. So with very little print, there's very little profitability. That's completely detached from the cash flow of the business. So that's why, each quarter, we keep on bringing this up to remind everyone. The health of the business is really the billings. It's not really the recognition of the revenue.

Operator

(Operator Instructions) And we will take our next question from Zach Cummins with B. Riley.

Zachary Cummins ***B. Riley Securities, Inc., Research Division - Analyst***

Joe, just starting off, nice to see a double-digit subscriber growth again in the SaaS segment. Can you give us any update on kind of the mix of the channels that you're acquiring customers from? I know it's typically been 1/3, 1/3, 1/3 in the past. I'm just curious if there's been any shifts around here in recent months.

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

Yes. I mean, look, it's probably -- we're talking about a very subtle shift, where the 1/3 that's coming from all the new channels, it's probably a little less than 1/3 at the moment as we decided to move more towards profitability.

As you know, we guided for a loss at the beginning of the year. I forget the exact number, but in the mid-20s or something like that. And we've -- we're listening. We see the way the markets are reacting. So we've decided to deliver a little less than that.

One of the ways we can easily do that is leaning more on the sales that we get from the zoo, which our cost of acquisition is super, super low. They're super efficient there. And when we're out in those new channels, our costs look a little bit more like all the other guys out there. So it was pretty easy for us to do that.

So it's not a huge difference. The concept of the 1/3, 1/3, 1/3, I wouldn't change yet, but maybe that 1/3 is 29%, maybe it's slightly off. And we have the ability to sort of throttle that, that way.

And having said that, our new Chief Marketing Officer that joined us about 5 months ago, Tami Cannizzaro, is a whiz and is going to work on making all those channels better and more efficient. And so I'm excited about what that will mean a year from now, with the work that she's doing.

Zachary Cummins ***B. Riley Securities, Inc., Research Division - Analyst***

Understood. That's helpful. And final question for me is really just on the retention metrics. They seem to be holding pretty steady right now in the midst of a pretty challenging macro environment. Any sort of updates that you can give from what Grant and the rest of the customer success team are doing at this point, to hold those numbers steady or potentially improve them over time?

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

Yes. I mean our product is getting way better. So we're not selling the same Thryv that we were a year ago. We've massively invested in product and engineering and have had just release after release after release of what might seem to you like subtle product improvements, but they're big pain points for small businesses.

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And then there's the bigger stuff. I mean we talked about some of this earlier. But the TeamChat thing is like a really cool Slack feature right within Thryv, that allows people to live and communicate within Thryv and really is going to increase engagement tremendously; the Google Messages, where we've got a real-time 2-way sync going with Google.

One of the questions sometimes that you guys ask me in private meetings is where do your customers come from, Joe, like what were they using before? And I say that most of them were the unclouded. We're moving them into the cloud for the first time. What they were doing is they were using Google Messenger, or they were using text or they were using regular, old vanilla e-mail.

And so our ability to have 2-way calendar sync and to be able to ingest all these messages from these other formats and deliver them in one unified thread in your Thryv Client Card is just massive for a small business that kind of doesn't know where to turn and try to keep track of all the different ways that somebody might contact them.

I mean somebody might send them a message on Facebook Messenger and then the next day, they might text them. Then they might send them an e-mail. Then they might do something on Google. You just never know. And so pulling it all together in one place is a big, big deal to them.

We -- this last period of time, one of the things we're getting a lot of feedback from the small businesses, they had all these apps around invoices. They wanted to be able to do more itemized things in their statements, and they wanted to be able to make all kinds of different changes and refinements. And so we cut a team loose on that and just met with our power users and have just radically upgraded and improved invoice estimates, that piece of it.

So these things are all driving higher client satisfaction and higher client engagement. And so, no, we're not seeing any fall off at all in renewal rates or churn climbing. And we've got a lot of reasons to believe because the product is getting so much better and that it may actually improve over time as opposed to go down. We're still thinking we can maybe do slightly better.

It's hard. I mean it's like golf. We're already shooting pretty close to par for small businesses, but we're trying. We're trying to grind out another [0.10] here and there.

Operator

And we will take our next question from Dan Moore with CJS Securities.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Maybe just quickly, the -- most of the questions have been answered at this point. But on the Marketing Services accounting, Paul, just to clarify, this is a situation where reported revenue and EBITDA is maybe artificially low in Q3 and full year '23, but the expectation would be that it would bounce back in '24. Is that the right way to think about it?

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

Yes, it is, that the normal decline rate is a shrinking business, will be normalized in '24.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Perfect. Helpful. And then the initiative in Canada, is there any sizing of incremental expense you might incur in '23 as you stand up that office and kind of look to drive growth? Or do you expect that to be relatively neutral in the short term?

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

We're working on that currently. There will be a loss in Canada as we stand it up, but it will be small comparatively.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Got it. And just curious, you didn't call it out, was there much of an FX impact on either revenue or EBITDA in the quarter? Just thinking about the recent movements in the Australian dollar, any noticeable impact there?

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

Yes, there was. There was a loss on revenue, about $2.2 million, and maybe a $300,000 impact on EBITDA for Australia.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Perfect. Helpful. And then, lastly, the question on retention, just following up there. In terms of net dollar retention, do you see that leveling off here, or given macro uncertainty, maybe ticking slightly lower before we start to move higher towards your longer-term goal of 100%?

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

Yes. Paul, I'll take that one. I don't want to promise you that it will move in a perfectly straight line from here to 100%, but the direction will be up from here to 100%. I think we just went from 91% to 92%. And hopefully, we'll just keep chugging up.

But the data sometimes will have anomalies in it, where it could move back the wrong direction by [0.10] or something like that. But all of the things that we're doing in our product road map, all the things that we're seeing with customer retention and our client experience team is doing, leads us to believe that our overall retention rate is steady, if not rising.

And then we've got -- with the new centers, we've got new things to sell to these customers. Think about -- just do the math in your head. As people start buying Marketing Center, that's a pretty significant adder to your net revenue retention line as that starts coming through.

So it's -- up until now, we've had some small things to sell, like additional seats or some additional -- we could give them HIPAA compliance or whatever. But now, we've got full additional centers to sell. So we're really, I mean, really coming into the period when actually upselling is going to be a bigger thing than just selling.

Daniel Joseph Moore ***CJS Securities, Inc. - MD of Research***

Super helpful. Last for me is with interest rates increasing, any delta or a modest change in terms of capital allocation philosophy? Any increased emphasis on debt reduction versus M&A?

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

Paul?

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

Yes. Yes. As you can see by our debt repayment this quarter, we're focused -- just, well, we have always been focused. You know my 2 commandments about paying down debt. So we're focused like a laser beam, paying down debt all the time, unless where you got some outstanding opportunity, an acquisition that comes our way. So -- and given the interest rate environment, it's in our best interest and our shareholders that we pay all the debt down we can. So that's been our focus.

Operator

And there are no further questions at this time. I will now turn the call back to Mr. Joe Walsh for closing remarks.

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

Thank you very much. Appreciate it. Dan, just as I think about your last question, we managed to make a massive paydown in our debt last year and acquired Vivial along the way. I mean this business is so cash-generative.

And I think that's the characteristic that really sets us apart -- there's 2. One is that it's so cash-generative, like we have our own kind of built-in DC, that it's generating so much cash. I think the second is just the sales efficiency that comes from our model. And I think, in an environment where people are concerned with sales efficiency, have a look here, take a look at what we're doing. Because we're just out calling on our regular customers.

And as they wake up and realize they need to modernize, we are there, and we're leading them over the line into SaaS land. So we're

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pretty excited about the progress that we're making. Super excited about getting Marketing Center out into the market and what that will do to start flattering our numbers as we go through next year.

Our early progress in Canada is great. Australia is rocking. That market is now -- I believe, in the month of October, the -- we have the U.S. broken up into regions, where in Australia, it's just one region. I think that one region in Australia beat all the regions in the U.S., just for the month of October. So I mean, they're really starting to hit their stride, really starting to get this thing figured out.

So we're excited about the international expansion. Marie Caron is just the Energizer Bunny, running around, building these things, looking at opportunities. And there's more to come as we go into next year as we add additional countries and keep the expansion going.

So we're really excited about where we are as a business. And yes, we read all the headlines and all that. But we think it's on us. We are in a business where we go out and see these customers. We don't wait for them to come see us. And so we have a lot of control over our destiny. And we're not facing any big problem at the moment. But if one comes, we're prepared to work a little harder and execute.

So thank you, everybody, for your time. We really, really appreciate it. We look forward to updating you again soon.

Operator

And ladies and gentlemen, this concludes today's conference call. And we thank you for your participation. You may now disconnect.

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