Q2 2024 Earnings Call

Company Participants

- Cameron Lessard, Head of Investor Relations
- Joe Walsh, Chairman and Chief Executive Officer
- Paul Rouse, Chief Financial Officer

Other Participants

- Arjun Bhatia, Analyst, William Blair
- Dan Moore, Analyst, CJS Securities
- Robert Oliver, Analyst, Baird
- Scott Berg, Analyst, Needham & Company
- Zach Cummins, Analyst, B. Riley Securities

Presentation

Operator

Thank you for standing by. (Operator Instructions) At this time I would like to welcome everyone to Thryv's Second Quarter 2024 Earnings Call. (Operator Instructions) Thank you.

I would now like to turn the conference over to Cameron Lessard, Head of IR.

You may begin.

Cameron Lessard {BIO 22232939 <GO>}

Thank you, Operator. Hello. And good day to everyone. Welcome to Thryv's second quarter 2024 earnings conference call.

On the call today are Joe Walsh, Chairman and Chief Executive Officer; and Paul Rouse, Chief Financial Officer.

A copy of our earnings press release and investor presentation can be found on our website at thryv.com or in the Investors section at investor.thryv.com.

Please acknowledge comments made on today's call and 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 this conference call.

With that introduction, I will now turn the call over to Chairman and CEO, Joe Walsh.

Joe Walsh {BIO 18001809 <GO>}

Good morning, Cameron. And thank you all for joining us on the call today to discuss our second quarter results.

SaaS revenue grew by 25% year-over-year to $77.8 million and within our guidance range.

SaaS adjusted gross margin increased 460 basis points year-over-year to 69.7%.

SaaS EBITDA outperformed significantly, growing over 60% year-over-year to $10 million and ending the quarter with a 13.1% adjusted EBITDA margin. That's the highest point we've reached as a public company.

I'll let Paul get more into the numbers.

But now I want to dive into some exciting metrics and updates about the business.

Once again, we delivered excellent subscriber growth.

We were up 52%, ending at 85,000 clients as we continue to be successful in upgrading our marketing services clients to our SaaS platform. This milestone is driven by our strategic transition of legacy marketing services clients to our innovative SaaS platform.

A key factor in this success is our recently launched marketing center, which empowers businesses to efficiently manage advertising campaigns, enhance their online presence, and making insightful data-driven decisions. This tool is not just a product, it's a game changer that positions our clients for sustained success in a digital-first world.

Our center strategy is continuing to gain traction with more than 10% of our current clients having two or more paid centers. This is up 200 basis points sequentially and a significant increase of 800 basis points from this time last year. This means more clients are experiencing the tangible benefits of our marketing center in growing their business.

Our local sales channel and consistent referrals are effectively demonstrating the value we deliver. Turning to our product initiatives.

We remain focused on enhancing our Thryv AI capabilities to further empower small businesses, building on the efficiency and time savings already realized by our clients.

Our AI-enabled customer support now accessible across all centers is designed to assist users by answering their questions and guiding them through our software functionality.

In addition, our social media feature in business center generates engaging social post captions complete with relevant hashtags and emojis.

This not only makes the post more relatable and engaging but also boosts their marketing signal by increasing visibility and fostering a deeper emotional connection with potential customers.

We are actively developing and testing several new AI enhancements and are enthusiastic about their potential.

So more on that at a later date. With that, I'm going to turn it over to our CFO, Paul Rouse, to discuss this quarter's numbers.

Paul Rouse {BIO 18940808 <GO>}

Thanks, Joe. All right. Let's dive into our results beginning with SaaS.

SaaS revenue was $77.8 million in the second quarter and within our guidance range, representing an increase of 25% year-over-year and up 5% sequentially.

SaaS adjusted gross margin increased 460 basis points year-over-year and 130 basis points quarter-over-quarter to 69.7%.

We are pleased with the positive impact from the sale of our higher-margin SaaS products. This progress further strengthens our expectation of exiting the year with SaaS adjusted gross margin exceeding 70%.

First quarter SaaS adjusted EBITDA was $10.2 million, above our guidance and resulting in a SaaS adjusted EBITDA margin of 13.1%.

Our SaaS adjusted EBITDA was favorable primarily due to the restructuring of our company-wide commission plan that we spoke of previously this year.

We streamlined our sales process to prioritize and incentivize the sale of high-margin products while also enhancing efforts to boost spending from our existing customer base.

SaaS subscribers grew to approximately 85,000 at the end of the second quarter compared to 70,000 at the end of the first quarter. This was an increase of 21% sequentially and 52% year-over-year as a result of the continued migration of marketing services clients to our SaaS platform.

SaaS ARPU decreased to $333 due to promotional pricing discounts and the timing of billing for many customers who were onboarded in the last month of the quarter.

As a result, we received only a prorated portion of their billing, which negatively impacted ARPU for the quarter.

However, we expect ARPU to recover in the second half of the year as these customers are billed for the full period, and we continue to upsell additional centers to existing clients and the expiration of promotional pricing.

Second quarter seasoned net dollar retention was 94%, an increase of 500 basis points year-over-year. Moving over to Marketing Services.

Second quarter revenue was $146.3 million and above guidance, primarily due to the strength of digital revenue above expectations.

Second quarter marketing services adjusted EBITDA was $49.1 million, resulting in an adjusted EBITDA margin of 34%.

Second quarter marketing services billings were $125.5 million, representing a decline of 28% year-over-year.

Our marketing services billings were impacted by the ongoing success in transitioning our marketing services clients to our SaaS platform.

Second quarter consolidated adjusted gross margin was 69%, an increase of 220 basis points year-over-year.

Second quarter consolidated adjusted EBITDA was $59.3 million, representing an adjusted EBITDA margin of 26%.

Finally, our net debt position was $339 million at the end of the second quarter.

Our leverage ratio was 1.96x net debt to EBITDA, which is well below our covenant of 3x.

Now let's discuss guidance for the third quarter.

For the third quarter, we expect SaaS revenue in the range of $82 million to $84 million.

We are reiterating our full-year guidance range of $326 million to $329 million.

For the third quarter, we expect SaaS adjusted EBITDA in the range of $9 million to $10 million, and we are increasing our full-year guidance range to $30 million to $32 million.

For the third quarter, we expect Marketing Services revenue in the range of $94 million to $97 million.

And for the full year, the range is adjusted to $485 million to $492 million.

For the full year, we expect Marketing Services adjusted EBITDA to be in the range of $128 million to $131 million.

As a helpful guide, you can model EBITDA margins to be in the mid-teens in the second half of the year.

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

Joe Walsh {BIO 18001809 <GO>}

Thanks, Paul. You will have noticed that our ARPU was down a little bit this quarter.

I want to just mention that that's a part of the choppy metrics we see as we're transitioning this business from one business to another.

Some things happen in clumps, so you can't always draw a perfect straight line on these things.

But we have a defined process for growing these customers, where they're getting tech touch.

They're getting automated follow-ups, they're getting sales contact. And we are, in fact, seeing our seasoned customers grow in the mid-teens, and that's happening because they're using the product, and with usage comes more seats, buying more signature packs, more add-ons by upgrading the higher levels of software so they can access more of the AI elements.

So we are seeing a steady conveyor belt of growth once our customers get in and embedded down. And we have a defined kind of automated process that's working it.

It's not happening by chance.

So please don't worry about ARPU. ARPU, we've guided was going to go from about 4,000 a year to about 7,000 a year. All that's still in place.

We're still tracking with that sort of result even as the number of balances around a little bit. And I think even this year, you'll see it begin to trend back up.

So also, part of the reason that we're able to upsell customers is that we have more products to sell them.

We've been building and improving the products, adding more packs. And you can expect, as we finish this year going into next year, we're adding more products.

So there'll be even more product to sell as we move forward. Another question we're often asked is, might we do any M&A.

And frankly, with our prior debt structure, we were really constrained. The new one does begin to breathe some flexibility into our world as time goes by. And we believe that M&A is at least now doable, and we've been able to begin to look at some things.

So that could add some interest going forward.

So just to wind up here, we had a really strong start to the year, and we are on track for our SaaS revenue to account for over 40% of our consolidated revenues in 2024.

And as I've said previously as we look forward to '25, it will be more than 50%. And so during '25, we'll actually our SaaS business will be bigger than our Marketing Services business.

So we're pretty excited about getting to that milestone.

With that, I'll turn it over to the operator for questions.

Questions And Answers

Operator

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

Q - Arjun Bhatia {BIO 17340929 <GO>}

And very nice to see the accelerated transition from marketing services.

One thing to start out with, Joe, I think usually, when I look at your SaaS performance in any given quarter, did you come in above the midpoint of your guidance range? And I think we were slightly below this quarter. Was there anything outside of the ARPU dynamics and the transition that surprised you this quarter in terms of the SaaS performance?

A - Joe Walsh {BIO 18001809 <GO>}

Well look, I mean these metrics are always a little noisy as we work our way through. You've asked me and others have asked me what's the environment like. And we've said we broadly sell to a different customer.

Our customers are the folks in the world that do the nasty things in life, the things that the guys have fixed broken things, and not a lot of optional things.

But they are certainly feeling the challenging environment.

And we're seeing good strong sales volume because we're riding this unstoppable wave of small business adoption.

But when presented with a choice of good, better, best, they're opting for the lower priced options which as far as our consumer we're getting them on our platform, we're adding subs, we're moving forward. And we have a system to grow those customers sort of a defined process that they go through. And for seasoned customers, we see double-digit ARPU growth from those guys.

We see them really moving forward.

So I think you've asked me, others have asked me what's the climate.

It's not fantastic out there.

But we also -- I want to hasten to add, we're not selling to the new start-ups, the new businesses.

We don't sell -- honestly, we don't want them.

We're looking for businesses that are more established either from our base or referrals out of our base that have been around for a while.

So anyway, I think Arjun, it's not a frothy environment where people are just going, "Yes, give me the big one." They're kind of moving a little bit more cautiously.

But as you can see, we're still making steady progress in adding new subscribers, and this trend is still playing out.

Q - Arjun Bhatia {BIO 17340929 <GO>}

All right. Yes. Certainly makes sense.

I appreciate that. And then as these customers do migrate over and you see this kind of acceleration in the number of SaaS clients that you have?

I assume a lot of them are coming into marketing centers, as you've pointed out.

But when you think about -- when they get to that 1-year mark and is growing 15%, when you're targeting the expansion? Is it -- do you want them to grow their usage of marketing center and expand within a particular product? Do you want them to cross-sell into the business center? Like what are your expansion priorities as you kind of grow this big influx of customers that you're seeing on the SaaS side?

A - Joe Walsh {BIO 18001809 <GO>}

Yes.

I think the Mac Daddy home run best thing that can happen is they add another center because that comes with a lot of margin and a lot of additional engagement with the company.

So adding another center is the home run.

But there are lots of little singles before the home run, where maybe they begin to use our signatures and maybe they begin to use our team chat, maybe they get -- they start getting involved with other things.

So SaaS center is the big one.

And as I think we pointed out in the information here, we're seeing really strong month over month over month over month uptake of additional centers. And I know you understand this really well. The cost of acquiring that customer for the first time and getting them set up as you guys call it, CAP, right? There's a big CAP to get them set up.

But as time goes by, you add additional centers, there's real operating leverage that comes from that.

And that's the page that we're now getting on.

We've got another center coming later this year. And as we look at next year, customers, not just on a single center, but on two on three in some cases, that's where things really start to ramp for us. And I know you've followed other companies in the space that are platform strategies that have added other centers or other hubs or whatever and seems the way each of those cohorts lights off another sort of lift of growth and lift of margin.

Operator

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

Q - Scott Berg {BIO 16265995 <GO>}

I guess I got a couple starting on the customer acquisitions or the SaaS additions in the quarter.

Obviously it was a really large jump quarter-over-quarter.

I think we probably all assume, and I think Joe, you commented on most of them are coming aboard as marketing center customers.

But did you see customers come aboard maybe more in any of the other centers as well? Or is it really all just kind of marketing center-driven?

A - Joe Walsh {BIO 18001809 <GO>}

Marketing centers have eclipsed the business center as our fastest-growing product.

It's not the biggest product because the business center has been around for a long time, but sales coming in day over day, week over week, we're seeing marketing center just roll. And I think I've described this in the past, but it's a much smaller leap from buying marketing and advertising services from the legacy company over the last century to buying a -- grow your business tool and marketing services tool, a marketing center tool, that jump is pretty small.

We're asking them to actually incorporate a big change to their business and go on to a CRM and begin to embrace all the functions that were in the business center.

We've kiddingly internally said, that's like kind of asking to eat the broccoli.

It's good for them. It will make their business better. But marketing centers, Frenchies, baby.

It makes the phone ring, it gives you more business. And so there's just been a lot of enthusiasm and energy around marketing center.

So it's really the hot one at the moment.

Q - Scott Berg {BIO 16265995 <GO>}

To kind of follow up on the SaaS additions in the quarter on your -- Joe, you gave a lot of kind of color around the monthly ARPU number is -- and in this environment, you can certainly understand promotional pricing to get customers on board. How do we think about that trending? Is that a 90-day price? Is that a 60-day, maybe 180-day price? How do you expect that pricing trend for those customers over the year?

And then do you expect to run similar promotional opportunities through the end of the year?

A - Joe Walsh {BIO 18001809 <GO>}

I want to be clear.

I think the biggest impact was when they came in because the way our billing works is sort of a prorated credit thing. And some of them made the move over very late in the quarter, even late in the month in the final quarter.

So we only picked up partial billing. So I think you're going to see it correct right away. It's really a bit of anomalous there. It isn't like we threw in some gigantic discount.

We are stepping customers over to make it easy for them. And honestly, that's going to give us scope for rate later.

We will migrate them to the full rack rate over time.

And that will give us a little bit of a rate lift when we look ahead to the year ahead.

But yes, to answer your question, as far as the go forward, we have other specific playbooks that we're running against the marketing services base where we're taking people that aren't exactly at the rate of the unit they're going over to and offering them to make the move over without a big bucket of cold water in the face price up initially to get them on, get them in the new platform, get them enjoying the benefits, and then we begin to grow them from there.

So yes, there'll be more of it. To answer your question, your point and question I want to deduct that. There will be more of this type of thing as we keep going.

We've got a very big kind of Zoom base that we're hunting in, and we're finding all of a sudden with marketing center much, much higher level of interest to make the migration over. And I also want to point out, and please delt [ph] sight of this, that this decade of small business SaaS is another year or two further along. And it's much more obvious to people that they should be making this move now than it was even two or three years ago.

Operator

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

Q - Dan Moore {BIO 4869128 <GO>}

Joe, you touched on a few of these in the prepared remarks, but can you elaborate on some of the examples of AI that you've implemented and maybe some of those you're developing? And are those tools more critical as a selling tool or retention tool from your perspective?

A - Joe Walsh {BIO 18001809 <GO>}

Well those are great questions.

So what we've done is we are trying to make it -- look, our base are sort of the dirty fingernails people.

We're out there doing roofing, plumbing, electrical work. We're doing body work on your car. We do have dentists and cover fractures. Hopefully, those fingers are clean.

But we have a lot of service-based businesses, and they're busy doing that stuff. And a lot of times, when they're presented with a blank page to figure out how to write content about their services or about their products, they just get stumped. They're unable to really move forward. And so one of the simplest things that we're doing is using AI to help them develop content for their landing pages and for their promotional offers and for their product descriptions and importantly, for their social posts, which in today's day and age is almost table stakes if you're running a small business, you've got to be actively posting.

So we've got our pro editor and some other services that will really guide them and aid them in that they're not looking at a blind page. They're looking at something that's sort of prebuilt and formatted and they can go through and edit and improve it, but that's just a lot easier thing to do.

So that's been kind of a killer app. And we're finding that people get excited about that at the time of sale.

So it is a sales aid.

But furthermore, customers that bought long ago when we didn't have that as we introduced it to them, their level of kind of NPS score satisfaction with us has risen and their engagement on the platform has improved. And I think they're getting more benefit from it even though they might have bought two years before we put that in.

So what we like to say is your Thryv just got better. And so that's been a really good thing for us.

Q - Dan Moore {BIO 4869128 <GO>}

Helpful. Just a quick housekeeping.

I assume the tweaking guide slightly higher profitability in SaaS, slightly lowered marketing services.

Is that simply a function of your concerted push to convert more customers? Or is there anything else going on there?

A - Joe Walsh {BIO 18001809 <GO>}

I think that's a big piece of it.

I think the margin lift is largely coming from what I described earlier that when you sell a new customer, you have all this CAP that comes with it.

But when you just add an additional center to a standing account, it just has great leverage. And you're seeing that.

We're seeing -- I mean month-over-month over month, really brisk uptake now.

I think the story you guys are going to be writing about a lot in '25 is this platform strategy is really playing out here. And that's -- it's giving them real gross margin lift, real profitability lift. And I've said all along, we're driving hard to be a Rule of 40 company. And I think we can get it strongly from the EBITDA line.

We can get a lot there.

I think we can run this thing really profitably.

It's already fully scaled.

It's a pretty big company, our SaaS business. And it's been profitable for many, many quarters, and that's really beginning to lift now as we add new centers.

We've got another center coming out before the end of the year.

So there will be even more product to sell going into next year.

Q - Dan Moore {BIO 4869128 <GO>}

Still my last question, which is just update on timing of potential rollout of the next new center and whether there's likely to be a freemium option for that, at least early on as well.

A - Joe Walsh {BIO 18001809 <GO>}

Yes.

I don't have details to reveal today as far as the exact timing.

What we've guided is that we get it out before the end of the year, and I can confirm that that's definitely going to happen. And to your second question, we're slowly learning about this premium thing and how to do it.

We are planning to allow customers to benefit a bit from this new offering on a sort of three included get some benefit from it basis, try before you buy, all that kind of stuff.

So there is a plan to do that, where it won't just be -- you have to buy to get some benefit from it. And we're learning that when you deliver value to a customer before you have to, they have to give you any money, it just starts things off on a nice foot.

So we're kind of excited about the way that will unfold.

Operator

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

Q - Robert Oliver {BIO 1426928 <GO>}

Joe, yes, the standard strategy appears to be playing out nicely for you guys.

I was just wondering if we can get an update on Command Center and also as you think about sort of the cadence of center rollouts over the next couple of years, how should we think about that? I mean I know you spent a lot of time with customers. You're pretty in tune with the opportunity there must be certain things within the platform that are percolating up that have your folks excited.

So how should we think about the cadence of incremental center rollouts?

And then I had a follow-up to work Paul into the conversation here.

A - Joe Walsh {BIO 18001809 <GO>}

Yes.

So I think the biggest thing I would add is that we do have some really strong demand from the market from our customers to do more stuff.

Now some of that they can achieve in our app store and our marketplace and connect up with other things.

But we have designed on filling some more of their needs, and we've been working for a couple of years in the back office on those. And as I mentioned, one is done and about to be revealed, and another is really far along and about to come.

So we're still pretty comfortable with that center-of-year guidance that we've given. The one thing I want to hasten to add is that these opportunities or these problems that we're solving are not all the same size.

So every one of them isn't going to have the exact same pricing as business center did or whatever.

I mean they're going to be bigger ones and smaller ones. There's going to be some that are really kind of game-changing and some that are smaller as we go along.

It's just as we keep building out the platform.

It's we can't make them all exactly bricks that are the same size.

So I would underscore that. You asked about the Command Center, which was the center that we got out late last year. And I would describe that first one that we got out as V1.

And we're working like crazy iterating that into the V2 V3 and improving it.

We've had good interest in it.

But like a lot of brand-new software products, especially cutting-edge things and it's very cutting edge, what we've tried to do there. There were a couple of sharp hedges that we've run into that we're working our way through. And so it's developing.

We've got lots of sign-ups, lots of people using it, but it's not currently as good as I want it to be or we're developing as fast as I wanted to. And our product team is working really hard, engineering team.

We're working really hard on the refinement and some perfection now that we've been in the market with it for a little while. Customers have really given us direct feedback about it.

So I expect that -- and if you go back and you look at the marketing center, it didn't take off like a rocket when we first rolled it out either.

It's now our number 1 selling product.

It took us a minute to kind of get it dialed in the product itself and to get our way of marketing and selling it dialed in.

We're sort of in the same phase right now with Command Center.

But I just want to remind you that what Command Center will do as it's perfected in B2 and B3, and we look ahead to '25 and '26, it will be out in front as kind of a wedge product, collecting new customers. They'll be building a new Zoom.

It goes out into the world, and it offers you an experience with Thryv that lets you not pay anything, try it, play with it, work with it, and have Thryv in your life re-brand, drive product. And after you see the benefits you can get from it, I think there's a conversation that we can have.

So I'm sometimes asked, well what happens when your zoo runs out? You guys are going to someday run out of your zoo, if I project out how fast you're going through it in 2031, you'll run out of zoo animals to go bring in.

Well we're building that new zoo through Command Center.

So it is a long-term plan.

It's not something that has to happen this quarter.

We're looking more in the fullness of time. And if you look at around the industry at other PLG plays, a lot of them did take a couple of years to dial before they just took off. And we're in that mode here.

And as was asked in an earlier question, we're thinking more about sort of PLG elements even as we develop new centers going forward.

So being thoughtful about using the product as a marketing tool, I guess, to bring us product-qualified leads as we move along. Did that answer your question?

Q - Robert Oliver {BIO 1426928 <GO>}

It does. Yes. That's great color.

I appreciate that. Paul, a question for you. Just to go back to the ARPU topic.

I know Joe told us not to worry about it, but I guess our job in part is to worry a little bit.

So you did mention that you expected ARPU would be better in the second half.

It's been down four quarters in a row when it kind of accelerated down this quarter. You do have some, I think, some easier comps coming, but just wanted to get a sense for what gives you the confidence that we should see the ARPU start to head back up.

A - Paul Rouse {BIO 18940808 <GO>}

Yes. There are a number of things like Joe mentioned. A lot of the drive, we are working to move these customers over.

We made a change in our commission plan to drive the number of center sales, and you're seeing the effect here with the number of ads we've had. And like as everything comes into the last month of the quarter for bonuses.

So there was a big push to bring those clients in. And a large majority of them came in partially in the year in June and so on.

So this naturally as you get a full month of billing coming out in July, August, September, as you make the ads, ARPU is going to naturally rise.

So we are confident that this was -- this is a temporary thing. When we start heading north on ARPU as we move out into the second half of the year.

So yes, I wouldn't be concerned about that. That's going to be coming back up.

Operator

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

Q - Zach Cummins {BIO 20380773 <GO>}

Joe, I just had a question around the potential leverage we could see in the SaaS segment.

I mean nice to see the adjusted EBITDA guidance raised there for this year.

But how are you thinking about that potential leverage as you exit this year and going into 2025? It seems like we're potentially getting to an inflection point where adjusted EBITDA on a consolidated basis could be maybe remaining steady or potentially moving up from these 2024 levels.

A - Joe Walsh {BIO 18001809 <GO>}

Well that's such a good question because, I mean look, you're a student of the industry, and so am I, if you look at some of these other companies that have platform strategies, where they've added that second product, third product, fourth product, you really start to see an overall margin lift that comes through. And we're seeing that now come through in our SaaS business. And as we look at our own internal models, we look at the fast growth of EBITDA out of SaaS, replacing the melting iceberg EBITDA that's coming out of marketing services. And so I don't think I'm allowed to give really finite guidance right now.

I don't think that's what you were asking for.

I just wanted to kind of talk about it for a minute, I think, at a high level.

But yes, the way we're thinking about it is that the growth of EBITDA coming out of the SaaS business will form a replacement for the gradual decline of the melting iceberg part coming out of marketing services.

So we're sort of reaching that nadir in the process now. And again, I don't think I've authorized a step in front of Paul and give EBITDA guidance specifically.

But directionally, you got it exactly right.

We're at that moment now. The other moment that we're at is -- as we -- just another, I mean a number of weeks here, we finished this year at 40%. And as we go into next year, we'll cross over, and the SaaS business at the revenue line will be our largest source of revenue.

It will be our majority business. And we're looking forward to hopefully being bumped up against the metrics of other excellent SaaS companies out there and sort of joining the SaaS league tables.

And we think we show up with some pretty kickass metrics.

We've mentioned before, we believe our net dollar retention, which is in the mid-90s now will rise to 100. And we think that doesn't -- it's not that far away at the rate we're selling additional centers now.

We think that's coming now in the medium term. And so that sort of hole in the boat from a metric standpoint will be gone.

Our gross margins are strong and rising now.

So that sort of Nick has sort of gone.

So we're -- I think we're a really strong Rule of 40 type company. And when we eventually do join those SaaS league tables, I think we'll stand in pretty good stead.

We're looking forward to standing on that stage imposing.

Q - Zach Cummins {BIO 20380773 <GO>}

Got it. That's very helpful. And then my one final question, maybe here towards Paul is how should we be thinking about free cash flow generation with new debt facility and just given the accelerated conversion activity that we're seeing within marketing services.

A - Paul Rouse {BIO 18940808 <GO>}

Yes.

I guess the overall thing I just want to say is if there's any concern about us meeting our amortization, don't be concerned.

We're going to do that. And that's what we're focused on.

We took down the mandatory amortization pretty significantly from where it was previously.

So we feel very confident in free cash flow to manage that amortization.

But as Joe mentioned earlier, with the additional flexibility, we might be able to do other things with the cash flow above that.

But I just want to lay any fears about the amortization.

We're going to meet that and be no issue. And we're still trying to figure out if there's a better place we can put our money in the future with the free cash flow.

So I guess I'll leave it there.

Operator

I will now turn the call over for closing remarks.

Please go ahead.

A - Joe Walsh {BIO 18001809 <GO>}

Yes. I guess just to wrap up, we were talking there just a minute ago about cash. And the company has always thrown off a lot of cash. All of that cash kind of went to debt repayment in the past. And now with the new credit facility we have, over time, we will begin to develop some flexibility.

We no longer have 100% cash sweep.

We have some flexibility built in. And we're enthused about what we'll be able to do with that.

Our first priority is always obviously product and engineering, making sure we have the best software, making sure it's developing quickly, making sure it's interoperable where it works well with other software in the market to make it easy for our customers to adopt. And we've got always really specific conversations going with our engaged customers about what they'd like next, where they might have any sharp edges or pain points within the product that we're improving. So that's always first priority.

We obviously have a super low share price. So we're buying shares is another opportunity.

We're beginning to see the bid-ask out in the marketplace for some of these SaaS companies that we might tuck in. They're beginning to modulate a little bit, so there are some opportunities there.

So I think the fact that we've come this far really with one hand tied behind our back, virtually no cash flexibility, and we will have some going forward.

You guys should think about that because I think it does give us an added kick going forward. And we feel like we're really well positioned on this unstoppable trend, unstoppable megatrend really of small businesses moving to the cloud. And 25% SaaS growth and 50% subs growth are numbers that we're really proud of, and we think there are more good numbers ahead.

So with the crossover point coming up, we think it's time for people to take a look at Thryv.

Thanks, everyone.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining.

You may now disconnect.