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Thryv Holdings, Inc.
(NASDAQ: THRY)

Thesis & Catalyst

Hidden underneath a cyclically declining legacy yellow pages business that comprises ~80% of total sales and loses ~25% in revenues per Anum, is a rapidly growing (~30%) end-to-end software platform that services a market which is only just beginning to modernize. In short, the software business is a unicorn, alone worth far more than the present market cap. There is a clear catalyst in that management has indicated it intends to spin-off the software business in the next twelve to twenty-four months.

Background & Why the Opportunity Exists

In October of 2020, roughly four years following a prepackaged bankruptcy, marketing and advertising company Thryv Holdings completed a direct listing on the NASDAQ. The stock has been a winner overall, outperforming the S&P500 78% since. However, the market crash has not been kind to Thryv, with shares down -51% year-to-date, two times worse than the S&P 500. Unlike many, Thryv's decline has not been the case of an overvalued company returning to realistic valuations, as the stock only ever briefly broke 15x forward EBIT. Instead, the five culprits have been the following:

1. Indiscriminate selling from former credit holders
   - Sold 75% of the shares they received during bankruptcy proceedings
2. Market's present "risk-off" strategy/mindset
   - Fears of further rate hikes have motivated the dumping of companies with significant leverage
   - Thryv's debt-to-equity ratio is 1.31
3. Recessions are notoriously difficult for small-to-midsized businesses (SMBs)
   - SMBs are firms with under 100 employees (Gartner)
   - Thryv specifically targets companies with 20 or fewer employees
   - The Company also focuses on firms with up to 50 employees
4. The flight to quality, predictable defensive stocks
   - The ancient yellow pages operation certainly does not fit that description
5. Software growth prospects are misunderstood
   - Misleading statistics paint an incomplete picture of growth:

(#'s in 000's)	**2017**	**2018**	**2019**	**2020**	**2021**
Thryv Platform	72,755	111,875	104,327	100,548	107,318
Thryv Add-ons	2,397	12,740	24,252	29,276	63,180
Total Software Sales	**75,152**	**124,615**	**128,579**	**129,824**	**170,498**
% Growth		*65.8%*	*3.2%*	*1.0%*	*31.3%*

Variant Perspective

Recession-Resistant Small-to-midsized businesses (SMBs)
According to Thryv's website and it's SEC filings, the Company's customers are mainly in the home services, legal, and health and wellness industries. Some examples of companies in these industries are medical and dental practices, landscapers, plumbers, and small legal practices. In other words, largely recession proof businesses.

In the most recent earnings call, Executive Grant Freeman made sure to highlight this fact, stating: *"One of the great things about our client base is who we sell to. We don't have a ton of restaurants and retail establishments. Our clients tend to be those who are almost always needed. An example that comes to mind is if you have a plumbing issue, you're probably still going to call the plumber regardless of economic conditions. Or if you have a dental issue, like a cavity or a toothache, you're probably going to contact the dentists. We find that these businesses are more resilient to any softening of demand in the marketplace." (Freeman, 2022).*

Underappreciated Growth Potential
Unlike "Enterprises" (larger corporations), SMBs are behind on modernizing their operations and transitioning to the cloud. According to Thryv, 77% of SMBs need a platform with all tools in one place, and 64% want to buy from one provider. In short, the Company believes that the next decade will see SMBs adopt software in a similar manner that Enterprises did during the last ten years. According to the Company there are 4m service based SMBs in the U.S. with 2-50 employees, doing $500k in revenues annually, and 8m worldwide. Thryv is already making progress internationally, acquiring Sensis (now Thryv Australia) for ~$215m.

Referring to the graphic on the first page, Mr. Market seems to believe Thryv's ~30% software sales growth in 2021 was a one-time/non-recurring event. Influenced by the dismal growth seen from 2018-2020, the market is missing some key facts. During this period, the company's software services were not only in its infancy but also mainly used by lower spend, high churn clients. As a result, Thryv pivoted to selling its software to higher spend, lower churn, and more active customers. While this curtailed growth for a bit, Thryv is starting to reap the benefits:

	2018	2019	2020	2021	MRQ
Software APRU	201	219	256	331	360
Software Active Users (000's)	23	23	28	30	38
Subscribers	54,000	47,000	44,000	46,000	50,000

In addition to targeting higher spend customers, Thryv has also added new features and add-ons to its software service such as Thryv Pay that have been wildly successful. For example, in 2020, Thryv Pay had $7m in annualized payment volume, today that number is $150m, up from $101m only one quarter ago. Rates and fees are so attractive, that Thryv Pay has become the undisputed leading payment option on the Company's software platform, further reducing churn (1.5%). Why switch do a different platform when you get paid with Thryv Pay? Management believes annualized payment volume can reach $3b in five years.

Leveraging Marketing Conversions
Thryv uses its legacy print/online yellow pages business as a source for finding new software clients, the Company states that about 1/3rd of new software clients come from these conversions. This helps explain why management has gone out and acquired more legacy marketing businesses, such as Sensis and Vivial – they are hoping to convert these clients to software offerings. The other 2/3rds of added software customers comes from client referrals and new sales channels.

The great part about all of this is that, while it is in cyclical decline, the marketing business runs on 35% EBITDA margins and generates substantial cash flow, allowing Thryv to pursue this strategy without burning cash. EBITDA to Free cash flow conversion has averaged well over 50% for the entire enterprise over the last few years, and both the company and analysts expect that trend to continue, also allowing Thryv substantial room to pay down debt.

Upside & Downside

Management believes Thryv can reach $1b in software revenues in 5 years, representing 75% of total sales, and doing so at 20% EBITDA margins. While extremely lofty goals (implies 35%+ CAGR for revenues), they have exceeded all analyst and internal expectations up to this point and have outlined a clear plan for execution. The 10-year goal is for software sales to reach $4b and represent greater than 95% of total sales while operating at higher than 20% EBITDA margins. There are several ways to model this out and try to find a precise(ish) intrinsic value calculation, but all of them yield insane numbers, even if you assume management comes up short of its goals. Honestly though, throw out the spreadsheets, you don't need them – even if the software segment grows at *"only"* 20%, an appropriate multiple on that ~$200m yields a value equivalent to Thryv's enterprise value.

I fail to see substantial downside, simply put – at ~$20/share the corporation is priced as is the software segment doesn't even exist. There is always a case to be made for the larger enterprise-focused competitors such as HubSpot coming in and taking away market share, but I don't see this happening. Thryv's offerings are perfectly suited towards SMBs and are already substantially cheaper than its bigger competitors, not to mention that the marketing conversions assure some level of subscriber growth protection.