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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the LegalZoom's Third Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Sarah Bland, Securities Counsel. Please go ahead.

Sarah Bland ***Legalzoom.com, Inc. - Director, Corporate Securities***

Thank you, operator. Hello, and welcome to LegalZoom's Third Quarter 2022 Earnings Conference Call. Joining me today is Dan Wernikoff, our Chief Executive Officer; and Noel Watson, our Chief Financial Officer.

As a reminder, we will be making forward-looking statements on this call. These forward-looking statements can be identified by the use of words such as believe, expect, plan, anticipate, will, intend and similar expressions and are not and should not be relied upon as a guarantee of future performance or results. Such forward-looking statements are based on management's assumptions and expectations and information available to us as of today's date and are subject to risks and uncertainties that could cause actual results to differ materially from such statements. These risks and uncertainties are referred to in the press release we issued today and in the Risk Factors section of our most recent quarterly report on Form 10-Q filed with the Securities and Exchange Commission. Except as required by law, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise.

In addition, we will also discuss certain non-GAAP financial measures. Our CEO and CFO use these measures in making decisions regarding our business, and we believe these measures provide helpful information to investors. Reconciliations of all non-GAAP measures to the most directly comparable GAAP measures are set forth in the Investor Relations section of our website at investors.legalzoom.com. The non-GAAP financial measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP.

Now I'll turn the call over to Dan.

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Thanks, Sarah, and good afternoon, everyone. In Q2, we outlined a path forward that leverages the brand leadership established over the last few years, while better capturing the demand we already have through increased product innovation. As a result, we committed to a 15% EBITDA margin and a 15% share improvement in 2023. I'm happy to say we've made progress against both of these stated goals. But more importantly, some of the larger product and platform investments we've been making over the past few years are beginning to bear fruit. To be clear, it's still very early innings for our product transformation, but the momentum is there, and you should continue to see our product output accelerating over time.

Before getting into more details on progress against priorities, I'll give a brief overview of our third quarter results. Q3 revenue came in at $154 million, up 4% year-over-year. Transaction revenue was down 14% in the period, while subscription revenue offset this weakness growing 25%. LegalZoom business formations grew 3% in the third quarter, while U.S. Census formations were down 2%. The share gain in Q3 is both a result of increased testing of our freemium lineup and increased acquisition through channel partnerships.

Adjusted EBITDA was $17.5 million in the third quarter. Given the quick expense actions we've taken, we expect to realize improvements in margin for the remainder of the year. To remind you, this is a result of multiple reductions in force over the past 6 months, while restricting hiring primarily to product and technology; progress automating our core formation and tax fulfillment process, which will continue to drive down variable costs. And in Q3, we began to reduce our brand spending, rotating our focus to higher intent, lower funnel and earned channels.

Moving on to some operational highlights. We continue to focus on progress against our 3 growth vectors, scaling the core business, building an SMB ecosystem and integrating experts into our core experience. Those 3 priorities will translate into us forming more businesses, solving more compliance problems in an integrated way and providing efficient and affordable access to the 2 most important advisers that a small business needs to succeed, their attorney and their accountant.

In Q3 and heading into Q4, we're ramping lineup testing and incorporating different variations of free with the goal of making our product more accessible to cost-sensitive SMBs. We've learned quite a bit and are applying these learnings into new variants and as a result, we're accelerating the number of tests as we enter Q4. In addition to reaching new businesses through lower cost entry points, we've also expanded our distribution through partners. We hope to have more partners looking to bundle our formations product with their own services, which include fintech, website and brand identity solutions, among others.

It's important to note that as we bring our marketing spend down and begin to focus more on product conversion as a result of freemium offerings and distribution through partners, overall traffic to our site will show declines year-over-year. Despite this reduction, our overall traffic per month remains at roughly 10x the number of businesses being formed in any given month as measured by census data. And our product starts how we measure high intent purchases are also materially greater than the whole of formations in a given month. To be clear, we've never had a traffic issue. Our biggest opportunities have been evolving from a consumer to an SMB brand, driving high-intent traffic to our product pages and improving conversion rates. The largest of those opportunities is to improve conversion.

And finally, as we expand distribution through lower cost offerings, we're accelerating our automation efforts. Our speed to deliver our core formation products continues to improve and our error rates that drive customer costs continue to decline. This is a win-win as speed of delivery is a core driver of Net Promoter Score improvements and automation leads to lower COGS.

Moving to our ecosystem investments. We continue to both build and buy into a unique SMB ecosystem, designed to get businesses off the ground and keep them operationally compliant. In Q3, we began ramping the integration of Earth Class Mail, soon to be renamed LZ Virtual Mail into our formations flow and early results look promising. As a reminder, the majority of small businesses are home-based and virtual mail offered right at the time of declaring your business address is resonating with our customers.

In October, we closed on the acquisition of Revv. Revv is an online forms and e-signature service. This acquisition will help us accelerate 2 critical areas of product investment, updating our forms library while enabling expert collaborations directly on the form itself and providing the ability to send these forms out for e-signature and have them stored and managed through our document solution. Our research shows 40% of SMBs have paid for an e-signature solution. So there are opportunities to commercialize this product as a stand-alone or potentially add it as a bundled capability to drive better retention in existing subscriptions.

The acquisition of Revv also establishes the talent beachhead in Bangalore, further enabling us to grow our product organization. These capabilities are being integrated into our new application experience called MyLZ, where you will begin to see a cohesive product strategy to integrate our formations capabilities and ecosystem subscriptions into a single experience. Think of it as the place SMBs interact with their experts, find the right business solutions and a key destination for all their compliance activities. It's also the place where we integrate strategic partnerships, and we are now live with both Wix and Next Insurance through this experience.

Finally, we continue to evolve our third priority, integrating experts. Experts remain critical to our strategy. In LZ Tax, we are testing a new lineup with a newly launched advisory-only solution for pre-revenue customers. This is similar to our legal advisory subscription. As a result, as we enter tax season this year, we expect to have a product built to support businesses at different sizes and stages, better optimized pricing and an improved first-use experience with streamlined onboarding of clients and intake during tax season, all of which we also intend to deliver through myLZ.

We continue to include attorney bundles in some of our line of testing, but the early read hasn't been strong. So our focus has become much more concentrated on introducing a free or lower-cost DIY alternative, while sequencing a deeper integration of attorneys after we deploy a new lineup. Overall, it was a very busy quarter with significant progress made against our product roadmap.

Stepping back for a second, we began adjusting to a deteriorating macro early in the second quarter of this year. While we have yet to see a significant near-term deterioration in the macro, we remain vigilant in controlling expense actions and view many of the changes as natural in the course of shifting our focus more towards the product experience. which we anticipate will be the driver of future growth. The efforts we've made to reduce costs are funding our efforts to build out our platform and ecosystem.

Formations have declined this year. And for calendar year 2023, we expect formations to decline again. It's clearly a tougher environment for all businesses, including small businesses, which is why it's even more important to make our products more accessible with lower lead in pricing. Our goal is to help more of these businesses now with the expectation that we will be able to monetize in the future. And we can do that while improving our profitability today through the actions we've already taken.

Given our low fixed cost structure, strong cash position and cash generation and the leverage we expect to get from product improvements, we believe we are in the best position in our competitive set to not only weather the storm but in the long-term benefit from it.

With that, I'll turn it over to Noel to go through the details.

Noel B. Watson *LegalZoom.com, Inc. - CFO*

Thanks, Dan, and good afternoon, everyone. I'll start today with a review of our performance in the third quarter and end with our outlook for the remainder of the year.

Total GAAP revenue in the period came in at $154 million, up 4% year-over-year and above the top end of our guidance range. Transactional revenue was 14% year-over-year at $58 million due to a 1% decline in total transaction units and a 12% reduction in average order value. We completed 117,000 business formations in Q3, up 3% compared to the same period last year and up from a 16% decline year-over-year in Q2 as comparisons normalize.

Transaction units were 226,000 in Q3, down 1% year-over-year as the increase in business formations was offset by a decline in intellectual property transactions, resulting from the discontinuation of our DIY trademark product and a continued reduction in estate planning and other consumer transactions.

Average order value came in at $255 in the third quarter, down sequentially from the second quarter and down 12% year-over-year. As noted on our prior call, we expected year-over-year decline in AOV in the second half of the year due to testing of our new lower-priced lineup as well as growth in our partner channel where we provide wholesale rates.

In the quarter, we also experienced a temporary impact to fulfillment productivity as the team adjusted to a mid-quarter reduction in headcount. Looking forward, we expect a similar year-over-year decline in AOV in the fourth quarter as we saw in Q3, again, driven by partner channel growth and continued testing of our freemium offering. As we previously noted, we expect the introduction of a lower price, or free SKU, to drive significant volume and market share growth but at a cost to upfront transaction revenue.

Subscription revenue was 25% year-over-year and $91 million. We expect a slight sequential decline in subscription revenue in Q4 with the year-over-year growth slowing materially in the third quarter and into 2023. The primary driver is the impact of the slowing macro environment and recent formation volumes which in turn reduces the number of gross subscription unit additions, particularly within our registered agent and compliance-related subscription offerings.

ARPU was $259 in the third quarter, up 12% year-over-year. In the fourth quarter, we expect ARPU to grow year-over-year but flatten sequentially as growth in our higher ARPU LZ Tax service slows, and we have introduced a new tax lineup with a lower-priced advisory-only SKU and now have an integrated ECM offering in our formations flow, which is also at a lower price point.

Partnership revenue was down 29% year-over-year in the third quarter to $5.5 million as we continue to lap legacy partnerships no longer aligned with our strategic direction. We expect partner revenue to remain to steady on an absolute dollar basis in the fourth quarter and to be accretive to overall revenue growth moving forward as we now have fully lapped any significant impacts from legacy partnerships.

Now turning to expenses and margins, where all of the following metrics on a non-GAAP basis. Gross margin came in at approximately 69% of revenue in the third quarter, down slightly from 70% in Q3 of last year. A slight decline in margin was largely due to higher fulfillment costs related to our expanded capacity to support growth in LZ Tax and added costs from our acquisition of Earth Class Mail.

Sales and marketing costs were $61 million in the quarter or 40% of revenue, down 5% from Q3 of last year. Customer acquisition marketing came in at $44 million, down 12% year-over-year as we reduced our brand media spend and tightened the guardrails on our lower-funnel direct response channels. We plan to further reduce our marketing spend in Q4 and therefore expect a significant sequential reduction, given seasonality, but also as we continue to favor conservatism and flexibility in this uncertain macro environment.

Technology and development expenses were $13 million in Q3, up $1 million year-over-year. We expect an increase in this expense in Q4, largely due to our continued focus on our hiring talented engineers as well as the addition of headcount from our recent acquisition of Revv.

General and administrative expenses were $15 million in Q3, up $4 million year-over-year due to higher headcount and professional fees. We expect G&A expenses to decline sequentially in Q4 as we realized the benefit of recent headcount reductions.

Adjusted EBITDA was at the top end of our guidance range of $17.5 million for the quarter compared to $15 million for the third quarter of 2021, and our base deferred revenue increased $5 million in the period.

In the third quarter, we continued to execute on our $150 million share repurchase authorization. We repurchased a total of 2.6 million shares of our common stock at an average price per share of $9.48 for a total repurchase of $25 million, including commissions. Through the third quarter, we have completed $64 million in buybacks with a total of 5.7 million shares repurchased, which represents a reduction of approximately 3% of our prior year-end fully diluted share count. We have continued to repurchase shares in the fourth quarter.

As of September 30, 2022, we had cash and cash equivalents of $212 million and no debt outstanding.

I'll now provide guidance for the fourth quarter and full year 2022. For the fourth quarter of 2022, we expect total revenue of $145 million to $147 million or 3% year-over-year growth at the midpoint. We expect subscription revenue growth to decelerate in Q4, driven by lower formation volumes in the first half of the year and a slight impact from LZ Tax seasonality as tax revenues skewed towards the first half of the year when tax revenues are greatest.

We expect adjusted EBITDA of $23 million or 16% of revenue at the midpoint. For the full year of 2022, we are increasing our guidance for both total revenue and adjusted EBITDA. We now expect total revenue of $617 million to $619 million or 7% growth at the midpoint. We now expect adjusted EBITDA of $60 million or 10% of revenue at the midpoint.

And with that, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Andrew Boone with JMP Securities.

Andrew M. Boone ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

You talked last quarter about 20% of traffic being dedicated to freemium testing. Can you just talk about where you're at right now in terms of flowing traffic over freemium? And then what are you seeing so far from tests? How do you feel about the product and conversion and everything else?

And then secondly, with the funding environment changing in 2022 with higher rates. Are you seeing any change in terms of the competitive assets from other priors -- privates, excuse me? Can you just talk about competition overall?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Thanks for the questions, Andrew. Yes. On the traffic side, it's hard at any given time to say what the specific traffic level we have is because there's lots of different tests that we have going. And we turn them on and off at different times based off of what we're reading into the test themselves. But at this point, you'll see us pretty consistently in Q4 be above that 20% level. And we're really just beginning to ramp up lots of the different variants where in the past, we were testing very broad concepts. We'll start to test a narrower set of concepts that have been refined and we'll do many variations of those with different pricing options.

So that's a pretty dynamic environment. And so it's hard to say like specifically what the traffic will be because it kind of depends on what's happening with the tests themselves.

As it relates to the dynamics with competition and kind of what's been happening with the macro, I think what I would say is that first off, we just want to focus on what we need to do in this environment as a starting point, which is get to the right cost structure. And so you've seen us kind of bringing our cost down, whether it relates to automating fulfillments or rightsizing some of the OpEx and headcount and even thinking about some of that last dollar spent on the marketing side. That's enabling us to go after share while still increasing profitability. And so that's really important.

We're in a bad environment, this is a chance to really consolidate and go after more customer growth, knowing that you can be confident later to monetize those customers down the road. So that's what we're really focused on, on our side. Now in parallel, we also have a really strong balance sheet. We're still cash generative. And we have a brand that's really well known. And we have the ability to sort of draft off of that knowledge of our brand.

So I do think it puts us in a better position than anybody that was spending into negative profitability because they, at some point, would have to go out and get funding and this obviously isn't the best environment for funding. But again, it's really more about what we're trying to do, which is we want to be aggressive during a time like this. We feel like this is when people win and really set themselves up for long-term growth. And so that's what our strategy is.

Operator

And our next question comes from Mario Lu with Barclays.

X. Lu ***Barclays Bank PLC, Research Division - Research Analyst***

The first one is on your comment in terms of expecting formations decline again next year. I'm just curious if you could share any data points that led to this estimate. Obviously, those macros are very soft right now. I remember last quarter, you guys talked about dissolution trends in your data. I was curious if that was one of the factors.

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Thanks for the question, Mario. Actually, dissolutions have started to recover, and we're seeing them back to a normalized path, which is a pretty good thing. But I think that's also just related to -- there was an over inflation of businesses being formed and no businesses failing when there was stimulus still being handed out in 2021. So there was sort of a natural -- almost like an inverse action that happened post-pandemic where we saw higher dissolutions. And now it's really -- it has stabilized a bit. So that feels like that's getting more back to where we've seen historically.

If you start to think about formations next year, I mean, we're just cautious. If you look at the current trend in Q4 and if you think about Q3, we think of the macro as being relatively flat. But just looking on the horizon, it's clear that macro conditions are getting worse. And so we expect that there'll be a decline in 2023. We're not ready to say at what level we see that decline, but it's just something that we anticipate.

X. Lu ***Barclays Bank PLC, Research Division - Research Analyst***

Great. Makes sense. And then in your acquisition of Revv, I was just wondering if you could highlight the main factors that led to this acquisition. Any other areas in particular that you're targeting to build out your capabilities?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Really, really excited about Revv. I mean if you think about what LegalZoom was founded on, it was really democratizing legal forms online. But over the last 10, 15 years, those forms have -- are less modern than we wanted them to be. And so we were kicking off a pretty significant investment in making our forms collaborative, making them travel to customers, thinking about how we house them. And we started to look at some of the external environment, and Revv was just a perfect fit.

So they bring with them a pretty strong library of forms, and we obviously can keep augmenting it because it's a pretty flexible platform as well. It's a WYSIWYG-type design. So small businesses will find it very easy to adjust those forms and customize them, which is really important for them. They're highly collaborative which for us is incredibly important because we want attorneys to collaborate through the form with their clients. And then we now have e-signature capabilities which is so important when you're creating a form, you need to get that document signed and you need to then store it somewhere where you can easily access it.

So all of that is really coming out of the boxes as well as it's an API-driven solution, so it can be distributed differently. There's great SEO capabilities when we talk about forms. I mean this is a really - I think, a very, very strong acquisition and something that's indicative of what we're trying to do in our ecosystem.

So just to refresh on the ecosystem side, I mean, what we want to do is be the place to help small businesses get started and then also help them manage their business and stay compliant. And so there's multiple other areas where we feel like we can participate. There's multiple other areas where we think a partner should participate. And so that's going to continue to be a huge investment area for us.

Noel B. Watson ***LegalZoom.com, Inc. - CFO***

Yes. The one thing I'd add there as well is on the Revv transaction that gets us excited is it comes with a really strong leadership team there with really talented engineers, and it gives us a bit of a foothold in that location to continue to build out from that base of engineers and add quality talent there and help to overall blend down our cost structure on the engineering side. So that's another aspect of the deal that gets us really excited.

Operator

Our next question comes from Ron Josey with Citi.

Ronald Victor Josey ***Citigroup Inc., Research Division - MD***

I want to go back maybe on macro trends and freemium. And I just want to understand -- just I understand your comment around the broader macro environment being more fluid and the outlook for 2023. But I think we've talked in the past about trends maybe returning to seasonality or at least stabilizing here. And so I just wanted to see if you're seeing that in the current environment around just macro stabilization? And if so, if that's improving the operating environment given things might be more stable?

And then the second question just on freemium, I think it is so interesting. I know just talk to us about what you're seeing in the early test. Clearly, they've been positive as you open it up to more traffic. I'm curious what's worked, what surprised you? Any insights on conversion trends would be helpful?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Thanks for the question, Ron. Yes, for the macro, Q3, we saw it down about 2% and the October numbers just printed and it was a 1% increase. So it's not that we're seeing a significant deterioration. And we are seeing that it's following seasonal patterns. So whenever we talk about looking forward, we're really projecting out what we anticipate based off of what we're seeing in the economy. And there's -- at this point, we're not guiding to anything that's more specific than that. And when we get to 2023, we'll probably have a better sense of how we want to talk about our expectations for the macro that will be maybe a little bit more detailed.

As it relates to testing, we really don't want to provide a lot of detail into the tests themselves because they're in process, and there's obviously a lot of reasons from a competitive standpoint, not to share the insights. But we feel extremely confident in the 15% share increase that we expect for next year. And I would say you're starting to see that impact. So in Q3, you saw a 4.5% increase in share, which was from a portion of that traffic. We don't think we'll fully deploy this in Q4, by the way. As we start to see where we are today and just knowing how many variants we want to test and the limitations on our traffic and also thinking through the end-to-end implications of deploying it. We are focusing primarily on quality, and we want to make sure the end-to-end experience actually ties back to this freemium lineup. So it's likely that it gets deployed in different phases, but we feel pretty confident where we are at this point.

Operator

Our next question comes from Elizabeth Porter with Morgan Stanley.

Elizabeth Mary Elliott ***Morgan Stanley, Research Division - VP of Equity Research***

I had a question on the subscription units. Your net adds kind of came down again. And I was wondering if you could help parse out the impact between just this overall slower new business formations and the associated attach versus churn. It sounds like the dissolution headwind may be moderating. So any sort of insight into how we should think about net subscription adds going forward would be very helpful.

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Thanks for the question, Elizabeth. Yes, 13-month retention at this point has actually stabilized. Again, it's the relationship between dissolutions that we now have also seen stabilizing, and our churn rates are probably getting to our normalized level of even a couple of years ago. What I'd say is more of the impact on our subscription business is exactly what you pointed out, which is you start to lap multiple years of either flat or down macro growth. That is the main channel for our most significant subscriptions, which are a registered agent subscription and our compliance subscription.

And so that's just the compounding effect, and we do think that's going to continue to be a bit of a headwind as we go into 2023. But again, it's -- the core subscriptions that we have are doing much better from a retention standpoint than they were last we talked.

Elizabeth Mary Elliott ***Morgan Stanley, Research Division - VP of Equity Research***

Great. And then looking out ahead, Q4 guidance suggests about a 3% revenue growth exiting the year. And Street is looking at about 8% growth for fiscal '23. And I know it's probably a little bit too early for guidance, but any sort of color you could put on what we could see as potential accelerator to revenue or some of the headwinds as we think about 2023 would be helpful relative to that forecast?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Well, I think at this point, we're not ready to come out with any revenue guidance for next year. And we're really, again, focused on how do we make sure we manage our expenses and how can we accelerate our customer growth. We'll be ready to do that in the next quarter, for sure. Anything you'd add, Noel?

Noel B. Watson ***LegalZoom.com, Inc. - CFO***

No, I think that's -- I think it's -- we're still in our planning process. I think there's a lot that we still need to learn in the coming months here around the macro itself. Obviously, we've talked a lot about some of the initiatives that we have in place and free pre is a big focus. Dan just talked about some of the new capabilities that the Revv transaction will bring in, we now integrated Earth Class Mail into our formations flow. So there's lots of different initiatives that we're working on that will be drivers of growth next year. But it's too early for us to really get into any specific guidance around 2023.

Operator

Our next question comes from Matt Pfau with William Blair.

Matthew Charles Pfau ***William Blair & Company L.L.C., Research Division - Analyst***

I wanted to ask on the increase in average revenue per subscription unit. What drove that specifically? I assume a lot of that's LZ Tax, but anything else to call out?

Noel B. Watson ***LegalZoom.com, Inc. - CFO***

Yes. Thanks for the question, Matt. This is Noel. So we've been pretty consistent for a number of quarters now just talking about the path that we've been on with ARPU. A lot of it is LZ Tax at the higher average revenue per SKU. And that growing in terms of its overall share. Also, ECM kind of bringing that into the overall equation and seeing some growth there, both organically and now having it in our formation flow as well. So those are the big drivers.

We did note in our remarks that we expect ARPU to continue to grow in Q4, but to sort of flatten out from an absolute dollar standpoint sequentially. And that's really -- one is we now have a lower price SKU in our LZ Tax lineup. That's live. It's also a bit of a quieter quarter in Q4 for LZ Tax from a revenue recognition standpoint. And the integration of Earth Class Mail and our formations flow is currently at a lower price point as well. So we do expect ARPU growth but to kind of flatten sequentially in terms of the absolute dollar value.

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Just to build on that, the LT Tax piece is something we talked about on the last call, where last season, we did not have a good product for pre-revenue customers. And so we've deployed what is more of an advisory subscription for those pre-revenue customers going forward. It's a much lower price SKU. But our objective here is much more around retention and making sure that we're getting the right solution to the right customers and retaining them longer versus the higher ARPU product going forward.

Matthew Charles Pfau ***William Blair & Company L.L.C., Research Division - Analyst***

Great. I want to follow up on the share gains and business formation. So the freemium product is not out to a majority of your traffic yet, but I assume that contributed somewhat to the share gains. Anything else you'd call out that helped you out on the share gains that you saw in the quarter?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Yes. I think that was a big component because we continue to test free SKUs and different variants. And some of them do very well, some of them obviously don't do all that well, and there's all different types of price points. So the aggregate of that gave us a little bit of a tailwind. Also, our partner channel, we have some newer partners that are distributing the product through their own solutions. And the way that works is we have an API and any service provider can actually leverage our API and bundle a formation with their own service or product. And we're seeing some uptick with that with a couple of our partners as well, which we are really quite happy with.

And I'd say we're more in the testing mode at this point, but we see that as a potential very large channel down the road where any small business enabler could essentially offer our solution either through their brand or our brand in a way that's bundled with their core subscription. So those are probably the 2 biggest factors.

Operator

Our next question is from John Byun with Jefferies.

Sang-Jin Byun ***Jefferies LLC, Research Division - Equity Analyst***

This is John Byun for Brent Thill. Two questions. Maybe this might be related to the previous one, but I just wanted to get an update on the Wix partnership. It looks like you said you went live, but wondering when they might have started and how that's going? And then second, on the Revv acquisition, I don't know if you could discuss more in terms of how it could show up in terms of products, whether it's bundled or distinct SKUs, if you could give more color on what was in the prepared remarks?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. So on the Wix piece, we've been in market for about a quarter. You can actually see it within our MyLZ offering, which is where we primarily market it. And the goals there are, again, sort of integrating as tightly as possible and leveraging as much of our data as possible to make the first-use experience really strong with Wix. It's done as well as we would have expected at this point.

We're still in the early -- the first quarter of releasing it. And we're a little bit ahead of schedule in terms of getting all the learnings that we wanted to and then starting to really scale it up, which you'll start to see in the next quarter or so. And again, I think it's just indicative of a strategy that's broader, which is what are the partners solutions that our customers need right when they're forming? And one of the other partners that we added this quarter was Next Insurance which is a great solution for helping small businesses get the insurance they need right when they start. They typically don't know exactly what type of insurance they need. Some people don't even know that they need insurance at the time of formation. And so this is another good example of helping them through our ecosystem and through MyLZ specifically.

On the Revv side, that -- how that shows up in our product is going to be probably tested a little bit because there's a piece that's core that we already do today, which we've always had a forums library. And so this will replace and modernize it. But you'll now start to probably see it integrated with our legal subscriptions as well. And any time that we're providing any type of legal interaction with the customers, it can be an interaction that's happening through a form. So that's a piece that will be integrated with the next versions of our assisted solutions.

And then the final piece is the e-signature. Then e-signature, there's multiple ways we can approach that. I mean we can have that be a stand-alone subscription. You see companies like DocuSign will charge up to $15 a month for small business or we could consider that a bundled offering in some of our core subscriptions, and it could help with retention. And you'll -- we'll be testing lots of different ways to go to market with it. And I don't think we're ready yet to declare exactly which one is going to win.

Operator

Our next question is from Stephen Ju with Credit Suisse.

Stephen D. Ju ***Crédit Suisse AG, Research Division - Director***

So Dan, I guess to ask the freemium and the marketing spend question in another way. Do you feel like with the current conversion funnel that you have in place, maybe it makes sense to lay off paid acquisition channel? Then as you refine, iterate and hopefully, and inevitably improve conversion rates, then maybe you can think about playing a greater level of offense? And I guess, do you think this is an appropriate strategy for all of your legal products or only a subset?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Okay. Yes. On the first one, I think you're right over the target of what we're trying to do. I mean we know that we've had an overreliance on marketing as we caught all this COVID traffic and there was so much demand and yet, our product wasn't necessarily ready for that demand. And so now that we've done the infrastructure work, we've automated a lot of the orders and we have the ability to go out to market with a lower-cost product, we think of that almost as a trade-off to the marketing spend that we used to have.

So I anticipate this will bring down the marketing spend considerably. And I think what we're trying to do is show a conversion improvement that even can offset the AOV. So like we're trying to get this to be a model that's highly optimized, more product-driven and less dependent on our marketing spend.

On the second question, when you're asking can it apply to the new lineup and other formations and products, are you saying the freemium model?

Stephen D. Ju ***Crédit Suisse AG, Research Division - Director***

Yes.

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Okay. Yes. I mean I think free plays a role in almost every product. And most business models do have like some offering, which is a sort of a lower cost entry point offering. And so when we start to think about things like getting access to an attorney or an accountant, as an example, there are ways to consider that being a benefit to conversion and then building a relationship. And then over time, augmenting that relationship with more of a paid one or transactional if it's a return or if it's some transaction you're doing from a legal perspective. So the first step though is proving it out on our core product. I mean, we're really singularly focused on making the changes that we are to our formations lineup. But there's no reason that it couldn't be extended into other parts of our product portfolio.

Stephen D. Ju ***Crédit Suisse AG, Research Division - Director***

Got it. So then as a follow-up then. I mean, your top of funnel should significantly expand with a free version of a product out there and that would be (inaudible) the gateway drug for lack of a better term?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Yes. Well, I think the key thing too is all of our freemium testing to date has been sort of in our product experience. It has not been aggressively testing the top-of-the-funnel messaging. So the moment that we get the lineup optimized for free is the moment that you'll start to see us really focus on making us more ubiquitous and starting to help people understand that this is a great alternative to both the secretary state directly or to going to an attorney or even going through an accountant when we start talking about things like tax advice and having advisory services and making that lower cost as a starting point into the ecosystem.

So free is a really important strategy. We feel like it can be ubiquitous. We feel like it's just another cost of acquisition, but probably a more effective one. And so we're thinking about how do we trade that off from our CAM spend. The one last thing I'll say, too, is the way this all comes together too is through MyLZ. And again, you'll start to see a pretty significant acceleration in development in MyLZ. But the more services that we offer and the more that we help customers understand that that's where they go to understand their formation process. The more touches we have with the customer, the more likely we are to continue to build the relationship and extend it. And so that's a part of the product experience that never existed before.

And now we're starting to really make momentum. Things like LZ Tax is going to be provided through that experience. You can schedule an attorney appointment through that experience. You can see your virtual mail. You can get your documents. You can do e-signature and know that someone's read that document and signing it. And so all of that kind of comes back to this ongoing engagement that we're trying to drive, which should help all of the subscriptions with retention over time.

Operator

Our question comes from Jackson Ader with Moffat Nathanson.

Jackson Ader

The first one is on the -- if you think about share gains and the macro environment, is there any kind of macro environment in 2023, where you feel like LegalZoom would be licking its chops in terms of share gains where if things actually get worse, you would expect LegalZoom to really do better or vice versa that we should be thinking about?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Thanks for the question, Jackson. I do think the worst the macro gets, probably the better we're doing relative to our competition. But that doesn't necessarily mean it would translate into better performance in an absolute basis. So -- but I do think there is that relationship because starting with a really strong balance sheet, being cash flow generative, have brand that we -- is already well understood and known where we don't have to pay for that awareness. I think is a real differentiator, especially with our competitive set, that's a little bit -- has almost no brand awareness. A lot of it is VC funded. And I think the environment is changing pretty dramatically for those types of alternatives.

In a really strong environment though, I think we still have really strong share gains, especially if we're able to deploy a competitive offering on the free side, where our competition doesn't have the ecosystem that they can offer along it. So we can still pay to acquire customers in a free solution because we have LZ Tax, because we have a legal service that we can attach, because we have e-signature now, because we have virtual mail.

I mean there's lots of different products that we own directly whereas most of our competitive set, they sort of partner for those different things and get more bounty relationships. So I think in either environment, we look pretty good. It's just on an absolute basis, we're going to look a lot better in a healthy macro. In a negative macro, we'll probably get more and more share.

Jackson Ader

Okay. All right. That makes sense. And then a quick follow-up on the LZ Tax side. The shift in the SKUs going a little bit down in price. Is any of that in either a response to increased competition in the space? Or does it signal something about how you guys are thinking about differentiating yourselves in that kind of increased competitive market?

Daniel A. Wernikoff ***LegalZoom.com, Inc. - CEO & Director***

Not really. I mean, this is more about the uniqueness of our channel. So we're getting businesses before they have revenue, and they have no tax filing need. In our prior lineup, they would have had to have bought a tax filing SKU that came with tax advisory. And what we discovered is we had a high degree of people attrite within the first 60 days, which is a refund period because they got the advice they wanted and they didn't really expect to file.

So this is more of a reaction to what we observed and learned from our customers and tuning very specific to what I think is an incredible channel. By the way, if you think about most tax providers, they have a sprint where they're trying to acquire a customer in a very narrow window of dates. And in our case, like we are building a relationship at the moment that a business forms by providing them the tax advice that's going to help them set up their company properly, which then gives us an entree into a longer relationship over time. So really not a competitive response type thing. We still -- we believe we're also lower priced than where most people go, which is their neighborhood accountants. And so in some ways, it's still very disruptive.

Operator

I'm showing no further questions at this time. I would now like to -- this concludes today's conference call. Thank you all for participating. You may now disconnect.