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LZ.OQ - Q4 2021 LegalZoom.com Inc Earnings Call

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OVERVIEW:

Co. reported full-year 2021 revenues of $575m and 4Q21 total GAAP revenues of $142.1m. Expects full-year 2022 total revenues to be $650-660m and 1Q22 total revenues to be $150-152m.

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the LegalZoom's Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to Danny Vivier, Head of Investor Relations. Please go ahead.

Danny Vivier

Thank you, operator. Hello and welcome to LegalZoom's Fourth Quarter and Full Year 2021 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.

Results could differ from those contemplated by our forward-looking statements. We caution you to review the Risk Factors section of our reports and filings with the Securities and Exchange Commission for a discussion of factors that could cause our results to differ materially. The forward-looking statements we make on this call are based on information available to us as of today's date, and we disclaim any obligation to update any forward-looking statements except as required by law.

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.

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

Thanks, Danny, and good afternoon, everyone. I joined LegalZoom at the end of 2019 with one goal: to make it the digital destination for starting a small business. Our mission is to democratize law, simplifying the legal and compliance complexities small businesses face the moment they want to turn their dream into a reality.

Whether it's registering their business with government agencies, that incredibly important first step to protecting themselves and their assets; or if it's reaching important milestones like signing a lease, starting a first client project, making a first customer sale or hiring their first employee, we're there every step of the way with them, helping them to create that LLC, keeping them compliant in an incredibly complex and ever-changing regulatory environment and connecting them to tech-enabled experts that create a review of legal docs and tax filings.

These businesses rarely have VC funding, corporate attorneys or fancy accounting firms when they start. They just have innovative ideas and an incredible drive to succeed on their own. And we want nothing more than to help them be successful.

Now let me start by highlighting some of our Q4 results. Revenue in the quarter came in at $142.1 million, up 16% year-over-year. Excluding partner revenue, where we have exited a couple of nonstrategic relationships, our revenue growth would have been 20% for the quarter. Our subscription business continues to outperform with subscription revenue accelerating to 29% growth in fourth quarter, up from 24% in Q3.

We continue to lap strong prior year comparisons on the transactional side with transaction revenue up 8% in the period. Given anomalous volumes in prior periods, a more normalized view is to look at the 2-year CAGR, which remains strong at 26%. Business formations were up 10% year-over-year. And again, if looked out at a 2-year CAGR, the growth is strong at 22%. Lastly, adjusted EBITDA was $7 million in the fourth quarter or 5% of revenue, reflecting investments in marketing and in our LZ Tax offering, both of which we believe will help to drive long-term growth.

For the full year of 2021, we grew revenue 22% to $575 million. We helped 447,000 businesses form. That's almost 1 every minute. This is up from 292,000 in 2019, a 2-year CAGR of 24%. And in particular, subscription revenue growth more than doubled to 26% for the year. We continue to be profitable, albeit at a lower margin. For the year, adjusted EBITDA was $48 million or an 8% adjusted EBITDA margin. And given many of our services our annual subscriptions collect upfront, our base of deferred revenue grew by $18 million, driving unlevered free cash flow of 10% of revenue.

Importantly, we've also been prioritizing long-term growth through investments in 3 critical areas: first, our brand, with a particular focus on establishing knowledge of our SMB products; second, critical product infrastructure and a move to the cloud to enable scale and increase speed of development; and finally, by launching LZ Tax and acquiring Earth Class Mail, both new subscription businesses that leverage the formations channel.

In regards to our philosophy of balancing near-term profitability relative to long-term growth opportunities, we believe we are in the early innings of disrupting an industry and will err on the side of capturing growth even when it impacts near-term profitability. For example, if we were focused solely on period-over-period margins, we would never launch LZ Tax or acquire Earth Class Mail.

As we invest to scale both, they invariably hinder our near-term profitability, but we have confidence both will be businesses that will reach our long-term goal of 30% adjusted EBITDA margin, and they will positively impact our share of wallet through our existing channel as measured by ARPU gains that you will continue to see quarterly.

These important longer-term investments continue to show measurable progress. Our brand investment has yielded a 39% unaided awareness, up from 25% just a year ago in Q4 2020, an over 50% improvement. We're attracting top-tier product and engineering talent with a cleaner, more modern tech stack, and they are increasing our velocity of product innovation. And LZ Tax is already an important contributor to our growth and had an early transactional Net Promoter Score of 83% in Q4. Out of the gate, it has the strongest Net Promoter Score of any service we offer.

As we continue to turn our attention towards 2022, it's worth reiterating what we outlined during the IPO process 9 months ago. There are 3 important areas of focus for driving long-term durable growth. The first growth vector is scaling our core formations offering. Up to now, this has been primarily done through increased marketing efforts, but in 2022, we expect to see this begin transitioning to a more balanced approach of marketing and core product improvements that will lead to better long-term growth efficiencies.

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Since pivoting our marketing strategy in early 2020, we've increased our TAM spend from $67 million in 2019 to $195 million in 2021. With that large increase in marketing spend, we've seen efficiencies decrease as you'd expect them to, but we have always maintained and stayed within a guardrail of first year bookings payback. However, as we look out to 2022 and consider a more normalized macro, we're projecting our TAM spend to remain roughly flat year-over-year.

As growth in marketing spend begins to moderate, we will also be spending a bit differently. In 2022, we expect to benefit from our investment in media mix modeling, and we'll accelerate our growth in new channels that have had low historical investment that have higher projected return than our current primary channels. We're also developing a new creative platform with the continued objective of driving LegalZoom product knowledges and SMB formation solution versus the historical perception of being a consumer estate planning provider.

Over the last few years, we've invested heavily in our LLC product experience, and as a result, it converts at approximately 2x the level of our other SMB workflows and has higher attach rates into our subscription ecosystem. Nonprofit, DBAs and corporations are collectively about 1/3 of the volume of LLCs but as of yet have not been migrated over to this new technology and experience. In 2022, we will move these workflows over, modernize the experience and enable similar cross-sell targeting, which should in turn enable better performance, most specifically in mobile.

Finally, and maybe most importantly, we've been focused on automating the manual processes required to fulfill orders. The cost and time to process a formation order has historically made it prohibitive to explore lower-cost business model innovation. In 2022, we will continue to deploy these changes throughout the year, and you will see us be more aggressive in going after share by creating a segmented lineup that supports cost-sensitive businesses all the way up to those looking for expertise and willing to pay a premium for it.

Our second growth vector is building an ecosystem of SMB formation-related subscription services. This is an area where we've already made significant progress. First, I'll talk a bit about LZ Tax. As you recall, we launched LZ Tax on January 2021. We've been happy with the attach rate, and that rate continued to increase as we entered the new year and get closer to tax season.

As I mentioned, the most important metric in any new service is NPS, and our accountant advice sessions have the highest score of all the subscription services in its very first year. We're now over 100 accounts strong and currently focused on executing the tax season.

In 2022, we will remove the throttling we have in place and market it to the whole base of formations customers, moving beyond just LLC as well as more seasonally to our existing subscriber base through cross-sell within our product experience as well as through e-mail marketing. We also expect to learn a lot from this tax season, which will inform investments in efficiency in this service. After 1 year in market, our LZ Tax practice is one of the largest accounting distribution partners of QuickBooks Online.

Now let me talk a little bit about the acquisition of Earth Class Mail. To refresh, we bought Earth Class Mail because of the channel, product and technology synergy it has with our registered agent service. SMBs are required to declare a business address, and increasingly, they are home-based operations that want to look professional and separate their business and personal lives.

We are hard at work at beginning to integrate it into our product channel, and will begin testing different approaches to commercialize it. We'll also begin to understand LegalZoom customer usage patterns and capacity needs and tailor the product to them as we tune the offering to get to product market fit for our segment of newly-formed businesses. In parallel, we're working to scale up the operational side of Earth Class Mail to meet the significant organic demand that we anticipate relative to the existing operations.

Our final key growth vector is integrating attorneys into our products and services. We know that many people are afraid to do legal transactions on their own, and they feel they are forced to seek advice from excessively priced off-line attorneys. By integrating attorneys, we lower the barrier to entering the LegalZoom ecosystem for many people looking for legal services. We've made a significant amount of progress in integrating attorneys into how customers interact with us.

We've tested and deployed our first attorney-assisted solution for trademarks in 2019, and since that launch, we're now doing more than half of our trademarks with the help of an attorney, and the mix continues to grow. Customers are also showing greater satisfaction in the attorney-led model with assisted Net Promoter Scores exceeding the do-it-yourself option.

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We've already tested an attorney-assisted solution to aid in the formation of an LLC, which showed a lot of promise. It also helped us understand the infrastructure required to fulfill it. Since then, we've been diligently working to build out an attorney platform in some of the key collaboration capabilities to enable this first-of-a-kind innovation in the legal space.

In the next quarter, you'll begin to see us testing a new lineup that includes this offering in wild. I'm excited to launch this capability as we know from experience that our attorney network has 3x the Net Promoter Score of an off-line attorney, and we offer access to them at a material discount and cost. Our attorneys specialize and do high volume of the matters that our SMBs seek out. We're confident in our ability to provide superior expertise at a lower cost.

Stepping back in 2021, we saw record formation, specifically in the first half of the year, driven by COVID-related government stimulus. As a result of that peak last year, we are forecasting U.S. formations to decline modestly this year. Still, we have seen and expect to continue to see strong growth in our highest-margin subscription revenue. The addition of new high-ARPU services, like LZ Tax and Earth Class Mail, in addition to improved retention among our age cohorts, is expanding customer lifetime value. These new product offerings will continue to add predictable, high-margin income streams into the business, independent of the health of the macro.

And considering both the platform investments we made to date and the strength we've seen in the subscription side, we believe now is the time to innovate on our commercial lineup. We'll be running a series of tests throughout 2022 to identify the ideal mix of do-it-yourself and attorney-assisted formation experiences that cater to every customer demographic. We'll be disciplined in our approach with success measured by the growth in year 1 bookings.

As we turn the page on 2021, I'd like to share one final reflection. When I joined LegalZoom a little over 2 years ago, it was because of its position as the leading digital brand in a market that remains largely analog. Our thesis has been that only innovation by the leader in the space can create the market. That's our job as LegalZoom.

Over the past couple of years, we've been working to enable growth by attracting the right talent, making foundational investments in data and infrastructure, investing in our platform and creating an ecosystem of services needed at formation. The last step is to reimagine the core product itself. 2022 will be the year we do that.

Now I'll turn it to Noel to go over a more detailed review of our financial results.

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 fourth quarter and end with our outlook for 2022.

Total GAAP revenue in the period came in at $142 million, up 16% year-over-year. We continue to face a challenging compare from Q4 last year as the reopening of the economy led to a surge in pent-up business formation bottoms. The 2-year revenue CAGR remained at a healthy 20% in the fourth quarter. Transaction revenue was $57 million in the quarter, up 8% year-over-year. We completed 96,000 business formations, growing 22% annually over the prior 2-year period, pacing ahead of market benchmarks.

I'll note here that we'll be making 2 small adjustments to our definition of a business formation. These changes will be applied prospectively and reported on in future periods. The first adjustment is the removal of non-U.S. formation, all of which are attributable to our small presence in the U.K.

The second adjustment is the addition of doing business as, or DBA, transactions. These transactions are most often completed by sole proprietors and are becoming a significant feeder into our portfolio of subscription services, particularly as we look to integrate LZ Tax into the DBA club.

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Collectively, these 2 adjustments led to an additional 36,000 formations in 2021, representing 7% of our total business formations. You can refer to the supplemental materials posted on our Investor Relations website, which include business formation counts for prior periods based on the updated definition.

Transaction units, which also include other transactions involving intellectual property and estate planning, were 211,000 units in the quarter, performing in line with business formations. Average order value, which represents the average revenue contribution from each transaction unit, came in at $267 in the quarter, roughly flat to last year. As expected, AOV growth moderated in the back half of the year as our mix of business formations as a percentage of transaction units begin to stabilize.

Subscription revenue was $81 million in the fourth quarter with year-over-year growth accelerating to 29%. We added 65,000 net subscription units sequentially in the period and reported ARPU of $236, up 6% year-over-year. The subscription strength continues to reflect strong core retention among our age cohorts and significant growth in LZ Tax.

Partnership revenue was approximately $5 million in the fourth quarter. As Dan mentioned, the sequential decline in partner revenue was due to the transition of our legacy relationship with misaligned strategic objectives. On an absolute basis, we expect partner revenue to improve sequentially in the first quarter of 2022. And by the second half of the year, we expect partner revenue to grow in line with the overall business.

Now turning to expenses and margins, where all of the following metrics are on a non-GAAP basis. Gross margin came in at approximately 68% of revenue, down slightly from 69% in Q4 of last year. The decline was expected and driven by investments to scale our in-house CPAs ahead of the spring tax season. Sales and marketing costs were $64 million in the quarter or 45% of revenue.

We continue to scale customer acquisition spend, which came in at $47 million in the period, up 73% year-over-year. We scaled our acquisition spend quickly since the beginning of 2020, and given the softening macro, we'll look to moderate our investment here in 2022. We see a number of tailwinds to our marketing efficiency this year, including yield from our significant brand investments in 2021 as well as optimized spend allocation across emerging channels.

Technology and development spend was $11 million in the fourth quarter or 8% of revenue, roughly flat quarter-over-quarter. Finally, G&A spend was $14 million in the quarter or 10% of revenue. The sequential increase was expected due to additional headcount and consulting costs.

Adjusted EBITDA was $7 million in the quarter or 5% of revenue. Our base of deferred revenues declined by $6 million in the period, which follows typical seasonal patterns. As of December 31, 2021, we had cash and cash equivalents of $239 million and no debt outstanding. The sequential decline in our cash balance is largely driven by the acquisition of Earth Class Mail, which we completed in November.

Before turning to our guidance, let me first take a step back and provide a bit of context. In many ways, 2021 was a tale of 2 halves, most noticeably on the transaction side of the business. In the first half, our transaction revenue growth was exceptionally strong at 40% year-over-year. The step-function growth in business formations that would be done in Q3 of 2020 extended into 2021, resulting in higher transaction units and AOV. However, beginning in July of last year, the market for new business formation has moderated our transaction revenue followed suit, growing just 6% in the back half of 2021.

We'll continue to face a challenging compare in the first half of this year on the transaction side of the business. And given the many uncertainties related to the macro, both specific to our market for business formations but also related to the economy in general, we're going to remain cautious in our forecast for transaction revenue. Our caution here will also reflect in our projected acquisition spend, which we expect to be relatively flat year-over-year. As comparisons ease in the back half of the year, we do expect revenue growth to reaccelerate.

I'll now provide our formal guidance for the first quarter and full year 2022. For the first quarter, we expect total revenue of $150 million to $152 million, 12% year-over-year growth at the midpoint. The 2-year CAGR reflects a more normalized annual growth rate of 19%. We expect adjusted EBITDA to break even in the first quarter, consistent with typical seasonal patterns. On a year-over-year basis, we expect to see margin expansion as we exit 2022.

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For the full year of 2022, we expect total revenue to be in the range of $650 million to $660 million or 14% growth at the midpoint. Within that, we expect subscription revenue to grow approximately 25%. And finally, we expect adjusted EBITDA of $48 million, flat to 2021, as we continue scaling OpEx investments across the business to support our many growth opportunities and emerging revenue streams.

As we look beyond 2022, we continue to believe this business is capable of durable mid-20% growth rates annually while steadily growing adjusted EBITDA margins north of 30% over time. After years of deferred investment in the business, we're now deploying capital in the right way, which is attracting new talent and significantly improving the velocity of innovation.

To underscore our confidence in the business, today, we are announcing that our Board of Directors has authorized a share repurchase of up to $150 million. We plan to execute on this program opportunistically based on the value we see in our stock.

Before jumping into Q&A, I'll turn the call back to Dan for a quick announcement.

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

Thanks, Noel. We announced this morning that Sivan Whiteley, current Chief Legal Officer of Block, formerly Square, has been appointed to our Board of Directors. Her experience with high-growth technology companies, small business service providers and her strong operational background within highly regulated and disruptive industries makes her an excellent addition to our Board. We are all looking forward to working closely with Sivan when she joins later this month. I also want to thank Dave Yuan, who is stepping down from our Board, for his years of service, and I wish him well in his future endeavors.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mario Lu from Barclays.

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

The first one is on the full year guidance for subscription revenue. I was wondering if you could go a little bit more in detail in terms of how to get to that 25% year-on-year growth between your core business and then incremental ones, like Earth Class Mail and LZ Tax.

And then secondly, in terms of your EBITDA margins for this year, it seems to be fairly flat year-on-year. So is the right way to think about it that G&A, we should see leverage, and that, that's basically fully offset by sales and marketing and technology?

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

Thanks for the questions, Mario. Yes, on the first one, we don't really break out the components of our subscription revenue. And so it's the first time we're providing guidance there and want to provide it in the aggregate. Conceptually or directionally, you can think of it as the newer services that we're offering are growing faster than the core services that we have, which traditionally, they lap the transactional growth that we have as well.

So in the aggregate, it's a really strong print when you're talking about the 25% growth in subscriptions. We're really happy with that. It's -- that's a newer development for the company to dislocate the growth in subscriptions from transaction growth like we are today, and that's something that we plan to do in the future as well. Your second question is specific to the -- can you repeat that one more time, Mario?

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

Yes. The second question was if you could provide a little bit more detail in terms of EBITDA margin guidance, areas where we should see some more deleverage than others and then leverage, I'm assuming it's going to come mostly from G&A. But any color there would be helpful.

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

Yes. Well, maybe I'll hit this one at a high level, and then I'll hand it over to Noel as well. When you're thinking about our margin, it is impacted by some of the new services that we offer. And if you were to take those out, you'd start to see probably a little bit more of an improvement. And you'll also see a pattern of front half (inaudible) related to the transaction side of the business. So we do expect margin expansion in the back half of the year, which I think again will reflect a more natural growth rate once we're done lapping that peak volume that we saw at the beginning of last (inaudible). Noel?

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

Yes. Just to jump in and build on that, Mario, in terms of OpEx for next year. So one, I'd say we're continuing to make important organic investments in the business next year. We talked a lot about LZ Tax, and we continue to invest heavily there, particularly as we go through our first tax season.

With the newly acquired Earth Class Mail, our plan is to make investments in that offering as well. Both of those are -- in 2022 will continue to be a drag on margins. I'll say that from a -- even with the investment from LZ Tax, given the strength in our subscription revenue, we expect to see a little bit of leverage in our gross margin line.

And then we talked about it in our prepared remarks that from a TAM standpoint, we're really moderating spending and looking for it to be relatively flat year-over-year. We're obviously guided most by the guardrails that we set for our marketing spend. And so we'll lean into it or pull back, depending on what we see as we spend into it and as we learn throughout the year.

And then across our other OpEx categories, we're really still looking to invest in our technology and development capabilities, in particular. Some of that, that you see in OpEx is annualization of expense from hiring that we've done this past year. So we've really nursed the business in terms of adding capacity this year. And then G&A, I would think of that more as like the exit rate with some modest increase throughout next year.

Operator

Our next question comes from Matt Pfau from William Blair.

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

I wanted to ask on the partner revenue. So at this point now, are we sort of past this transition period of getting some of those old transactional relationships reworked into recurring ones?

And then it seems like you expect to see some improvement in growth with that in the back half of 2022. But I guess, what needs to happen in order for the partner revenue line item to become a more material contributor to growth?

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

Yes. Thanks for the question, Matt. Yes, we're pretty much past the exit of the couple of partnerships that we felt like weren't aligned with our strategy going forward. And they're already being replaced with new partnerships, but we've talked about this before. New partnerships aren't structured with (inaudible). They're structured much more as like recurring revenue relationships that will build over time.

And so you won't see that significant jump up immediately in the partnership line. But you will see by the back half of the year that it is growing alongside the business in a healthy way, and then the hope is that it starts to accelerate, pass it in '23. And we do have some partnerships in the queue right now that I think are both really important ones for our customers, but also ones that definitely integrate closely with the formation transaction. So we're pretty excited about that as well.

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

Got it. And then one more for me on the transactional revenue side. Obviously, there's some difficult comps in the first half of the year that you're facing. But besides that, what sort of expectations are you factoring in? Or how are you thinking about business formations going forward and incorporate it into the implied guidance that you provided?

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

Yes. The -- to recap, last year, in the first half of the year, we saw growth 60% growth in census data. So -- and the census data, as we've talked about before, it's more directional than anything else. But when you start to think about that now lapping that transaction volume, on a 2-year CAGR, things look healthy. But obviously, it's a bit of a headwind. And so we've actually forecasted the macro to be down modestly this year, and you'll be able to get an interpolated calculation that kind of shows our transaction growth modestly growing.

And if you were to think about last year, we took share -- by our own internal calculations, we took share every quarter. And yet, at the same time, we weren't all that happy with our performance. If I'm reflecting on it, I didn't come here to chip away at share on a quarterly basis. We came here to go after the whole market and get ourselves to a place where we move from 10% to 30% share. That's not baked into this plan.

The things that we'll be testing this year from a product standpoint will enable faster growth in share, we believe, but we're not necessarily expecting it in the plan that we're providing right now because there's going to be lots of testing that we have to do and learning as we start to deploy it. Instead, what we've done is really assume something consistent with what we've seen last year in terms of the share gains.

Operator

Our next question comes from Sterling Auty from JPMorgan.

Jackson Edmund Ader - *JPMorgan Chase & Co, Research Division - Analyst*

This is Jackson Ader on for Sterling. The first one, Dan, you mentioned that you were looking to shift maybe some marketing activities or kind of channel activities away from things that maybe weren't working toward things that you expect to have a better return. Can we just have some specifics or examples on where things are shifting from and where they're headed?

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

Sure. Thanks for the question, Jackson. Traditionally, we've been very aggressive in 2 channels: so SEM, which is somewhat demand-constrained, so you can see that moving with the macro; and then linear TV where we're really trying to increase the brand awareness and drive demand. And

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over time, we've been making an investment in media mix modeling so that we can understand the interaction of those 2 channels, but also start to introduce new ones.

And what we've discovered over the last year as we did a lot of the testing of new channels is that, as we expected, some of those new channels have higher payback than the ones that we've been leveraging in the past. So -- and it's pretty common sense of where you're going to see that growth.

It's going to be in places like digital video. It's going to be in social. It's going to be in display. It's still performance marketing, but it's performance marketing that has sort of a mix of brand benefit as well as a return on the marketing spend. So that's the primary shift that you'll end up seeing. In fact, it's likely that will be down in linear TV this year.

Jackson Edmund Ader - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. All right. Great. And then as a follow-up, we're spending a lot of time, obviously, on the business formation transactions. But I'm curious. What about on the personal side or the non-formations? Are you seeing any particular trends there? Are there any areas where you're really looking to invest for growth in the coming -- in '22 or beyond there?

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

Yes. I mean the consumer side of our business is interesting in that it's had a bit of an inverse reaction from the small business segment. So if you think about the pandemic, and we talked about this, the estate planning business actually had a really high performance at the very beginning of the pandemic as people were obviously concerned about their health and their families and did some advanced estate planning.

And then since then, it's had very tough comparables because of that. And so it's actually been declining in the background, but a slower decline. And there's opportunities there to be a little bit more tactical and a little bit better in terms of commercializing our product. But it really is not a big focus area. If anything, it probably masked a little bit more strength that we see in the whole ecosystem on the small business side.

Operator

Our next question comes from Andrew Boone from JMP Securities.

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

Can you talk a little bit about the opportunity of extending the portfolio into lower-priced products? Dan, I think you mentioned that in your prepared remarks. And then just as we're kind of almost midway through March, can you talk about your early learnings from LZ Tax as we make our way through tax season?

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

Thank you, Andrew. Yes. So I mean the big opportunity that we see is going after more of the TAM in our space around formations. And if you think about how we've been doing that historically, it's been at the premium-priced digital provider. And we really see 2 opportunities that we've been missing.

One is to go after cost-sensitive small businesses. So we know that the bulk of small businesses are really micro, micro small businesses, more like sole props that are converting to a legal entity. And they're going to be extremely cost-sensitive. And today, they may go to the Secretary of State site or a lower-cost digital alternative.

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Now the fact that we have created this awesome ecosystem of adjacent services now allows us to think about different ways to go after these customers by reducing the cost on that upfront transaction, establish a relationship and now build up a subscription business around them, which is an opportunity we frankly didn't have before because just the cost of processing these orders made it slightly prohibitive.

And so now we've been working on the infrastructure over the last couple of years. It gives us a lot more flexibility. Now we do the fun part, which is more testing and innovating and building a product, which is why I came here.

The other end of that, though, is equally as important. We still know a good portion of small businesses do the opposite. They have very little price sensitivity and they go to an attorney, and they're willing to pay thousands of dollars for help as they form. And we know that we can provide a much more efficient experience and a better experience if we integrate attorneys into our platform and offer that as a way to help them get started as a brand-new business.

And so both of these together are really the ways that we're going to go out and attack share. It may -- they may work in combination. They may work in different ways within the lineup, and that's really what we're going to be on the discovery of this year. But we think both of them are big, big opportunities.

Separately, on LZ Tax, as we've talked about this one, this is our first tax season here. I mean some of us have been involved in tax seasons in other environments. But it really is a different segment of customers. So we are in a learning mode in terms of how to service these customers and even understanding the demand curve as it relates to tax filing. Small businesses are later filers. They typically don't have refunds, so they're going to wait a little bit to file their taxes.

And there's some good news in here, too, though, because our small businesses are typically Schedule C filers, which makes them a little bit easier to process as well. But I'd say a couple of things have really stood out this season. One is we are seeing acquisition go up as we get closer to the season. And obviously, people -- it's on their minds. And so we're seeing a strong, strong attach at this point.

The second thing I'd say is the Net Promoter Score has held pretty well. I actually had a slight concern. I mean there's a bit of -- providing advice is something that's going to have a high Net Promoter Score outside of tax season. But when you get into the tax season, there's more urgency. You typically will see the Net Promoter Score go down a little bit, and we just haven't seen that erosion at all. So people are liking the service.

And then the third thing I'd say is that it's probably going to be a delayed tax season, just because what we've seen is the continuation of the trend over the last 5 years. People are really getting comfortable waiting for the last minute because they know that solution providers can actually still handle their return because they're much more efficient to use digital tools.

So we're very pleased with how tax season has played out so far, and it's exciting to be in the throes of it. And the team is energized, and we're looking forward to next year, making it a more efficient tax season as well. This year, we were a little less focused on how we manage the returns in an efficient way and much more focused on Net Promoter, but we know that we can do this with higher margins as well.

Operator

Our next question comes from Brent Thill from Jefferies.

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

This is John Byun for Brent Thill. We're more than 2 months into Q1, and I wanted to see if you could maybe provide a little bit more color as to how things are going quarter-to-date across some of your core segments, whether you might be seeing -- sometimes it's typically seasonally strong at the start of the year when people want to start and setup new small businesses.

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And then for modeling purpose, I'm wondering if you could maybe provide a little more color as to how AOVs and ARPUs might trend through the quarters this year.

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

Great. I can take the first one, and then maybe I'll hand it off to Noel on AOV and ARPU. We haven't seen anything surprising this season so far. And you can see the census has published EIN application growth that's negative. In January, it was down 11%. In February, I think it was down 3%.

So collectively, it's sort of where we thought it would be coming off of the strong season that we had last year, especially in those first 3 months. So everything has been pretty much as we'd expected up to now, and I wouldn't say that there's anything that has us overly concerned.

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

Yes. On the ARPU and AOV side, in terms of ARPU, ARPU is -- grew 6% year-over-year in the quarter, and we saw it was up a couple of points sequentially as well. And as we've talked about previously, we expect ARPU to be an ongoing tailwind. So we'll see modest improvements throughout next year in ARPU.

And we talked about that being tied to the fact that within our ecosystem, we're now bringing higher price point subscriptions to bear, namely tax, which we've talked a lot about, but also being able to add ECM in this year as well are among factors that will provide upward pressure on ARPU moving forward.

As far as the AOV side. So AOV, as we noted on our prior call, we said that AOV, we expect it to flatten out from a year-over-year standpoint in Q4. And so we've seen that. Really, we've now lapped a significant shift that we saw towards business formations within our overall unit -- within our overall transaction unit mix. And so it's kind of leveled out. We would expect it to be fairly level next year as well with the normal seasonality that you would see.

So from a seasonal standpoint year-over-year, we'd expect it to be within a fairly tight range, noting that there is seasonality in AOV. For example, in Q1, we expect AOV to be down from Q4. It's a period where we actually have really strong volume and transaction unit orders. But because of that, the size of the volume, sometimes those orders pull over into the second quarter in terms of fulfillment.

And so the revenue recognition tied to the fulfillment generates higher AOV in Q2, lower AOV in Q1. So there is some seasonality in the quarters. But from a year-over-year standpoint, we expect it to be relatively flat next year.

Operator

Our next question comes from Stephen Ju from Credit Suisse.

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

So Dan, your [CAM] on a dollar basis is down sequentially during the fourth quarter, and yet your net subscriber unit growth is seemingly accelerating. So can you talk about what may be happening here underneath the hood? Are you seeing greater efficiency in gross subscriber adds? Or is the churn rate dropping?

And also give us an update on the adoption rate for attorney assist. I think last time it was about 50% or so for trademarks. So I'm wondering where that's currently landing. And anything you can tell us about expansion into other product categories?

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

Can you just repeat that second one on trademark? I missed that.

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

Yes. I think you said attorney assist for trademarks was about 50% adoption, right? So yes, where that's currently nonbank and anything you can talk about in terms of expansion into other product categories?

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

Yes. Got it. Okay. On that first one, I want to make sure I understand the question as well here. You're talking about the CAM dollars being down sequentially, but formations up. Is that what you're asking?

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

Yes. Well, the gross -- the net subscriber additions actually nominally accelerated, right? So the optimist in me wants to believe that the efficiency in your advertising is coming up, but I'm just wondering if there's other factors at play here.

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

Yes. Okay. Yes. I mean, you threw me off on the CAM piece of that because there's a little less of a relationship there necessarily on the subscription side. So the -- what we are seeing is we are seeing improvements in retention in our core subscriptions. And then you're layering in as well what we've talked about, which was in Q4, we were willing to make some trade-offs.

And we're looking at the overall value of the parts and at times, erring on the side of the value being leaning heavier towards subscription and transaction, which would in period, it hurts us a little bit. But from a lifetime value perspective and from a bookings perspective, that's quite positive.

So that has continued to drive our subscription growth up. And I think you'll see us make that decision quite often. I mean that's the direction we want to be, is continue to drive that mix up further and further on the subscription side.

Trademarks, it's interesting. Our trademark product has been split between a DIY product and an assisted product. And when we first launched it, which was now almost 2 years ago, we were seeing a split of about 1/3 of customers choosing the assisted. We're now seeing it over 50%. And we're getting to a point where we're starting to really consider whether or not that should only be offered as an assisted solution.

There are certain types of transactions that are pretty complex, and so they require an interaction directly with an attorney if you want the filing to be done successfully. And in the case of trademarks, that actually is a better experience for our customers in terms of the acceptance and success rate of the trademark itself, the Net Promoter Score, and it's also at a much higher AOV. So you might see us lean a little bit more into that assisted solution over time. And then you want to take the last one?

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

This is moving into other categories, any new products.

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

Oh, yes. On that piece, we're always looking at whether or not we should be providing additional subscriptions as adjacencies. That is -- there are things that are on our horizon where we're considering opportunities. They would be smaller acquisitions most likely is how we would enter, and they would be compliance-related primarily. So there are some areas where we've got our eyes on them, but there's nothing that we're ready to announce at this point.

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

And Stephen, this is Noel. Obviously, we're really excited about ECM and adding that as a product. And so one of our big focal points for this year is going to be to properly integrate them and integrate the product offering and commercialize it on the site, and that will be done in phases. So that's one of the big focus points for us this year.

Operator

And that does conclude our question-and-answer session for today's conference. I'd like to turn the call back over to Dan Wernikoff for any closing remarks.

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

Thank you, operator. Well, I just want to thank all of you for taking the time today. And special thanks to all the Zoomers at LegalZoom, our employees, who have continued to execute and perform incredibly strong throughout the year, and looking forward to the next year. So thank you, guys.

Operator

Thank you. This concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.

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