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CORPORATE PARTICIPANTS

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

Danny Vivier

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

Sterling Auty *JPMorgan Chase & Co, Research Division - Senior Analyst*

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

PRESENTATION

Operator

Thank you for standing by, and welcome to LegalZoom Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's call may be recorded. (Operator Instructions) I would now like to hand the call over to Danny Vivier, Head of Investor Relations. Please go ahead.

Danny Vivier

Thank you, operator. Hello, and welcome to LegalZoom's Second Quarter 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, confident and similar expressions and are not and should not be relied upon as a guarantee of future performance or results. Results could differ materially 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 all the factors that could cause the 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 GAAP and non-GAAP financial measures. 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, Danny, and welcome, everyone. Thank you for joining us today for our first earnings call as a public company. Noel and I enjoyed meeting many of you in the weeks leading up to our IPO and appreciated all the support along the journey.

Before we discuss our second quarter results and review our priorities for the duration of the year, I want to take a moment to reflect on our mission here at LegalZoom and to remind everyone of the significant opportunity ahead of us. A little over 20 years ago, LegalZoom started with a vision to disrupt legal services by leveraging technology. We believe then, as we do today, that legal services need to be democratized so everyone can access and afford them. We take our responsibility very seriously knowing that as we empower small businesses with the tools they need to thrive, we are, in turn, powering the success of the U.S. economy, a purpose all the more inspiring as these small businesses continue to navigate a global pandemic. Our journey to democratize law brings with it a compelling economic opportunity. Despite the digital transformations we've seen across many other large and highly regulated end markets like tax prep, financial services or health care, the $50 billion legal services vertical has seen very little technology adoption and therefore, very little innovation. In fact, last year, just 8% of legal services in the United States were provided online.

The majority of legal services are still conducted through an offline attorney, many of whom do not have a functioning website, let alone software to automate routine tasks, enabling lower cost of service. In a system plagued by inefficiencies, small business owners are left holding the bag, forced to spend their limited resources on services that are difficult to navigate at a price they often cannot afford. Ultimately, most will choose to avoid accessing legal protection altogether, leaving small business owners and their families vulnerable to significant financial risk. LegalZoom is very well positioned to serve this huge need in the market.

First, we are relentlessly focused on the customer experience and have built a differentiated product that makes business formation and legal compliance simple. The LegalZoom product distills complex government forms into easy-to-follow questionnaires that can be completed efficiently with little to no human involvement. Our product's ease of use and affordability has resulted in a Net Promoter Score of 65, more than double that of traditional attorneys. Second, we have a clear brand advantage with our unaided awareness nearly 8x higher than our closest competitor. The strength of our brands has been built over 2 decades of steady investment and cannot be quickly nor easily replicated. This gives us a meaningful head start. Third, we have a proven ability to navigate the complexity of the U.S. legal and compliance system across all 50 states and over 3,000 counties. We have a broad network of independent attorneys that are available to provide our customers with high-quality legal and compliance support when they need it. These attorneys have deep expertise in our SMB specific matter and geography which creates a superior experience for our customers, reflected in Net Promoter Scores 3x higher than a typical off-line attorney interaction.

Fourth, we operate within an attractive market that is both resilient and poised for growth. The rise of the gig economy and proliferation of SMB enablement tools are making it easier to start a business than ever before. We believe we are well positioned to benefit from these macro tailwinds, which should lead to accelerated share gains as the leading digital formations provider. And finally, we've methodically built a best-in-class leadership team with an attractive mix of SMB domain expertise and experience leading high-growth technology companies at scale.

I'd like to now highlight our results for the second quarter of 2021. For the second consecutive quarter, revenue growth accelerated, ending the period at $150 million, up 36% year-over-year. Performance was driven by the transactional side of our business, with revenue up 45%. We saw a mix shift towards business formations, which helped drive higher average order values in the period. This shift is a positive signal that our efforts to reposition the LegalZoom brand are resonating with small businesses.

The top line strength flowed through to our profitability metrics, with adjusted EBITDA ending the period at approximately $22 million or 15% of revenue. I'll let Noel unpack the quarterly results in more detail but it is important to remember that quarterly growth rates in 2021 are and will continue to be impacted by the effect COVID-19 had on business formations in 2020.

In summary, we're very pleased by our second quarter results and believe we're entering this new chapter as a public company with momentum on our side. It's important to remember that we're building LegalZoom into the next great category leader. The executive team is focused on making the right investments today to support durable top line growth into the future. I'd like to spend the remainder of my time providing an overview of our 3 key growth vectors with an emphasis on areas of focus for the latter half of the year. The first vector is scaling our core formations offerings through marketing and core product experience. As the clear digital leader in a massive vertical with very little tech adoption, we believe now is the time to accelerate our growth and take share from offline competition.

We first started ramping our marketing investment in 2020 with customer acquisition spend up 77% annually. We were able to grow spend significantly while maintaining a tight 90-day payback period with most of our acquisition costs covered by the upfront transaction revenue alone.

We are confident that there is room to continue scaling our media spend, particularly as we add new cohorts at higher LTVs driven by additional monetization opportunities and improved customer retention. We are also entering new channels such as digital video and paid social, leveraging media mix modeling to optimize spend allocation and improve overall returns. In addition to our performance marketing efforts, we are also focused on making the right SEO and brand investments to drive a larger share of organic traffic.

Today, despite our brand leadership, the minority of our traffic comes from earned channels. This is both a problem and an opportunity. In the near term, we'll continue to add depth to our in-house team and will equip them with the tools they need to build a best-in-class SEO function. The other lever to drive core share gains is product. When I first arrived at LegalZoom in late 2019, our technology stack severely constrained our testing capacity. We quickly set in motion a plan to modernize our platform, making the critical investments we needed to scale. Today, the company has a product-centric mindset, and we are rapidly AB testing our product to drive improvements to conversion, subscription cross-sells and customer satisfaction. In the near term, we'll be focused on improving the formation process by refining our questionnaires, streamlining the purchase experience and optimizing our lineup of subscription bundles.

Our second key growth vector is building our ecosystem of SMB subscription services. We know that in 2020, approximately 2/3 of our customers had not begun operating when they formed their businesses through LegalZoom, giving us a unique position very early in the SMB life cycle. At formation, we have an opportunity to earn our customers' trust by introducing them to the right set of products and services they will need to operate their business. Certain of these services, we will deliver ourselves. LZ Tax, which launched in October last year, is a good example of how we want to build in-house expertise within compliance. The most frequent support questions we received at the time of formation relate to tax implications, and over 70% of small businesses do not have an existing accountant relationship at the time of forming their business. LZ Tax offers an accountant and bookkeeping bundle in a monthly subscription and an access to CPA that can provide tax advice and complete their annual business tax filings. It's early days here, and while we do not expect LZ Tax to be a material revenue driver near term, we remain very bullish on the long-term opportunity and are investing aggressively to accelerate its growth.

In the second half of this year, we expect to roll out a tax solution across 100% of LLC formation traffic. With more traffic, we'll be able to accelerate product testing to help fine-tune our commercialization strategy. In parallel, we will work to build out our operational infrastructure and scale our CPAs to meet anticipated future demand.

We also plan to expand the services we bring to our customers by partnering with best-in-class third-party solutions to offer business checking accounts, payments, website hosting and other relevant adjacencies.

In 2020, we made a significant change in our strategic approach. We're actively transitioning our existing one-way partnerships with bounty payment structures in favor of 2-way strategic and well integrated partnerships built on recurring revenue share models. We expect this transition to weigh on our partner revenue line in the near term. But we are confident that this change in approach will lead to a better customer retention and drive higher ARPU over time.

Our third and final key growth vector is integrating attorneys into our products so that small businesses can feel confident expert support is just a click away. Delivering this integrated service can help us in 3 ways. First, we believe it will increase our share of TAM by attracting new customers that never would have considered the digital category without knowing an attorney is available if needed. Second, when we bundle independent attorneys into our core offering, it will increase our AOV as a premium-priced digital solution, but will still be at a cost lower than existing off-line alternatives. And third, we expect it will drive higher conversion rates and provide opportunities to cross-sell subscription services at the time of formation.

Earlier this year, we introduced our first attorney-assisted solution as part of our trademark product. Users can now choose to file trademark themselves for $249 or file with the help of an attorney for $599. Since launch, we've seen a significant percent of our customers select the attorney led option, driving a meaningful uplift in AOV. Late this year, we'll begin testing new ways to integrate attorneys into our customer journey with a focus on our most popular on-ramp LLC formation. Similar to our LZ Tax initiative, integrating attorneys is a long-term play, and we fully anticipate our go-to-market strategy to evolve as we test and learn.

Let me end by saying we are incredibly excited for the journey ahead as a public company. I'm very proud of the team for delivering such a strong quarter while also meeting the many demands of an IPO process as well. We believe that the LegalZoom story is just beginning and that this company has an incredible growth potential for years to come. We have high conviction that the investments we are making will allow us to achieve that full potential.

With that, I'll hand it over to our Chief Financial Officer, Noel Watson.

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

Thanks, Dan, and good afternoon, everyone. Since this is our first earnings call, I'm going to start with an overview of our financial model and review our results for the quarter and wrap up with guidance for Q3 and the full year 2021.

Let's start with our financial model. We are driving a high-growth business at scale, and we operated with positive adjusted EBITDA, which allows us to reinvest operating leverage to drive durable long-term growth. The fly realtor business starts with a new business formation, which we view as an opportunity to introduce customers to the LegalZoom ecosystem, allowing us to offer ongoing subscription services and drive higher customer lifetime values. Our revenue is split evenly between transactional and subscription components. A bulk of our customer acquisition spend is covered by the upfront transaction repurchase alone, leaving behind a growing base of high-margin subscription revenue and driving attractive unit economics. Approximately 85% of our subscriptions are billed upfront on annual terms, providing a favorable working capital dynamic. In the near term, we are laser-focused on growing our share of overall business formations, leveraging our market-leading position, brand equity and superior customer experience to further penetrate the large opportunity in front of us in the legal services vertical.

To accomplish this goal, we are prioritizing growth over profitability and are focused on making the right marketing, infrastructure and people investments to drive sustainable top line results. In the long term, as we achieve our market share objectives, we expect strong profitability and cash flow metrics supported by a larger mix of subscription revenue.

Now I'd like to take you through our second quarter financial results. Total GAAP revenue in the period came out at $150 million, up 36% year-over-year. Transaction revenue, representing 49% of total revenue, was up 45% year-over-year. Within transaction revenue, we will report on 3 KPIs. The first is business formations, which includes LLC, Inc. and nonprofit formation events. Growing our share of business formation is a major strategic priority. When the business is formed through LegalZoom, we are then able to cross-sell value-added products and services to establish an ongoing relationship with the customer, driving higher lifetime values. We completed more than 123,000 business formations in the second quarter, up 34% year-over-year. Our second KPI is transaction units, which in addition to business formations also includes other transactions involving intellectual property and estate planning.

In the second quarter, we completed 260,000 transaction units, up 12% year-over-year. The strength in business formations was offset by a year-over-year decline in estate planning, which we expected given the spike we saw last year in demand for wills and trust following the onset of COVID-19. The mix shift away from estate planning into our business formations had a positive impact on our third KPI, average order value, which represents the average revenue contribution for each transaction unit. In the second quarter, AOV came in at $282, up 30% year-over-year. While we expect continued strength in AOV as business formations continue to account for a larger share of overall transaction unit, we expect AOV growth to taper in the back half of the year.

Subscription revenue, representing 46% of total revenue, was up 29% year-over-year in the second quarter. Within subscription revenue, we will report 2 KPIs. The first is subscription units, which includes compliance-related solutions, the primary being our registered agent service and adjacent offerings such as LZ Tax. Approximately 2/3 of these subscriptions were for our registered agent service, making us one of the largest registered agent providers for small businesses in the country. As of June 30, 2021, we had over 1.2 million active subscription units outstanding, up 69,000 units from the end of the first quarter. On a year-over-year basis, subscription units were up 25% in the second quarter, driving the bulk of our subscription revenue growth.

The second subscription KPI is ARPU or the average of the annual revenue contribution for outstanding subscription unit. Please note, we measure ARPU using the last 12-month subscription revenue, given the vast majority of our subscriptions are built on annual terms. In the second quarter of 2021, ARPU was $230, up 3% year-over-year.

Our final revenue line item, representing 5% of total revenue comes from our partnership channel, which was up 14% year-over-year in the second quarter. In the near term, we do expect lower sequential performance in our partner revenue line as we transition away from legacy partners that do not align with our strategic direction. As Dan described earlier, we are focused on the long-term opportunity to build an ecosystem of marquee brand partners complete with recurring revenue structures.

Now turning to expenses and margins, where all of the following metrics are on a non-GAAP basis, unless otherwise stated. Cost of revenue, which includes government filing fees and other fulfillment and care costs, was $48 million in the period, up 41% versus last year. Gross margin came in at 68% of revenue, down from 70% in Q2 last year as our revenue mix shifted towards transaction, which carries a lower gross margin profile. Within our operating expenses, the largest line item is sales and marketing, representing just over 70% of spend. Sales and marketing costs came in at $59 million in the second quarter with 39% of revenue. Within that, customer acquisition spend of $45 million was up 61% year-over-year as we continue to aggressively scale our media spend to grow business formations volume and to build on our digital and brand leadership.

Our strategy is governed by a performance-based approach that is ROI driven and can be quickly dialed up or down as market conditions warrant. In parallel, a portion of spend is allocated to brand building initiatives and new channel testing, which we view as ongoing investments that will improve overall efficiency over the long term.

Technology and development spend was $10 million in the second quarter or 7% of revenue. In future periods, we expect this line item to grow faster than revenue as we invest to build out a best-in-class product and technology organization. General and administrative costs were $12 million in the quarter or 8% of revenue. There were approximately $2 million of onetime costs that we do not expect to recur in the third quarter. Over the long term, we expect G&A to grow but at a slower pace than our other OpEx linings. In total, non-GAAP expenses were up 42% annually in the second quarter of 2021, slightly below our transaction revenue growth of 45%.

Adjusted EBITDA was $22 million in the quarter or 15% of revenue. We continue to build a growing base of deferred revenue as cash from our subscription offerings is collected upfront and recognized as revenue ratably over the term of the subscription. In the second quarter, we grew our base of deferred revenue by $5 million. Free cash flow was $6 million in Q2, down from $25 million in the same period last year. The decrease in free cash flow was primarily due to working capital items, including an $8 million reduction in accounts payable. Cash and cash equivalents were $167 million as of June 30, 2021. On July 2, we raised $667 million net of underwriting discounts and commissions from our IPO and repaid in full $522 million of our 2018 term loan.

As we look ahead and think about capital allocation and the use of cash, our priority is to use our strong balance sheet to position us to invest in organic and inorganic opportunities that drive sustainable long-term growth.

Now we'll turn to our outlook for the remainder of the year. Quarterly growth rates in 2021 will be impacted by the effect COVID-19 had on business formations in 2020. In Q2 2020, the onset of the pandemic drove uncertainty in the economy, depressing business formation activity in the early portion of the quarter. Conversely, during the end of the second quarter and throughout Q3 of last year, business formations accelerated in part due to an unlock in pent-up demand from the prior quarter. For the third quarter of 2021, we expect revenue of $143 million to $147 million. For the full year, we expect revenue of $570 million to $578 million. We will not be providing specific quarterly adjusted EBITDA guidance because we believe that a dynamic environment such as the one we currently see, there are opportunities to go after additional share, and we believe we have an efficient approach to scaling our customer acquisition spend. For the full year of 2021, we expect adjusted EBITDA of $55 million to $59 million or roughly 10% of revenue at the midpoint.

Before we move to the Q&A portion of the call, let me end by reiterating that our leadership team is squarely focused on driving long-term results, which we believe will translate into outsized shareholder returns. We believe the second quarter's results reinforce the underlying health of the business and look forward to continuing to execute against our growth strategy.

And with that, let's go to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Sterling Auty of JPMorgan.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Welcome to the public markets. My first question is actually tying a little bit off of what Noel was talking about in terms of the guidance in COVID. With Delta variant kind of coming to the forefront, have you seen any impact here so far in this quarter? And I know nobody has a crystal ball, but how are you thinking about the potential impacts to the business in the back half of the year?

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

Yes. Well, thanks for the question, Sterling. First off, I just want to acknowledge a very strong quarter, great work by the team to deliver it, while in the backdrop of going public. So clear that first. But yes, we're actually -- it's interesting. We're seeing summer seasonality actually, which there's been a little bit more of a normalized pattern in general as we -- this year relative to last year because if you reflect on last year, we actually saw with COVID coming towards us a shutdown, which impacted us at the end of Q1 and the beginning of Q2, which is historically our peak. And then instead of staying at those levels, it increased, which normally you'd see the exact opposite. You'd see the peak happened at the end of Q1 and the beginning of Q2. And then you see a dropoff as you hit the summer months. So we aren't all that surprised to see a normalized pattern coming back a little bit.

I will say July had a little bit more softness, but that was not incredibly unexpected for us. As you said, it's a very unique backdrop, people traveling for the very first time. And then right at that period of time, we saw the Delta variant creep up as well. So while we're pacing well, we really do have to acknowledge we're in this unique territory. Now SMBs, are they completely open for business? Yes. But do they have some restrictions? Yes, they also have them. Are people locked down? No. But are people starting to be a little bit more cautious? Yes. And so all that lack of visibility makes it a tough time to launch a business. But again, I'm very surprised just by how resilient small businesses are. From a historical perspective, formations actually remain relatively strong. And so for us, I mean we definitely need to see how the next couple months play out. But there's no really large surprise at this point in terms of what we're seeing.

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

And just to add to that, Sterling, maybe if I can jump in here and also take a quick second just to note the Q2 results, how we're pleased with the results that we presented for Q2 and feel like it represents continued strong execution by all of our zoomers.

To your point, to your question, there are a number of variables at play and a certain level of uncertainty. But we believe that the ranges that we provided reflect a fairly broad set of outcomes, and we're confident that we can continue to execute and deliver results within the ranges provided.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

That makes a lot of sense. And then my follow-up is a little bit of a loaded question. It's one of the most popular that I get. When you talk about the opportunity with tax, given your former employer Intuit, investors are still struggling to understand do you compete? Do you partner? What's the relationship going forward in the marketplace for your tax opportunity?

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

Yes. Yes, thanks for the question, and it's important to have this one be relatively clear. Intuit doesn't provide tax services directly through experts. That's actually a really important channel and it's called the ProAdvisor channel, where large practices that work with Intuit and both in terms of establishing their customers on QuickBooks Online as well as providing advice on top of it and completing taxes, leveraging products like Lacerte, for instance, which is an Intuit product. You can think of LegalZoom as 1 giant practice now that partners with Intuit. We have a wholesale relationship on the QuickBooks Online side. So we're actually helping to distribute that to our customers. We internally have our own CPAs. And we also are providing full end-of-year tax filing for our small businesses. The really important thing to note here is that when small businesses form with us, they almost have as many tax questions as they have legal questions. and 70% of them that come to us just have no account relationship at all, and they're looking for a trusted partner. So it's just such a natural place for us to play a role, and we did not want to recreate the wheel. There's an amazing wheel out there called QuickBooks Online. And so we just wanted to partner with them.

Operator

Our next question comes from Elizabeth Elliott with Morgan Stanley.

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

Congratulations on a strong second quarter. I was wondering if you could help us either quantitatively or qualitatively understand some of the signposts that you guys are seeing on how marketing can translate to better digital penetration, understanding that it has been a slow moving market. So what are those signposts that are seeing that marketing is really what was needed to drive the better digital penetration?

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

Yes. I mean I guess what I'd point to is that there's a couple of things that we have opportunities. We talk about 3 different growth opportunities. One is growing the core, 1 is adjacencies and 1 is attorney assist. A lot of the growth that you're seeing right now is just us improving the product experience, which in turn is helping with conversion and then becoming more efficient in our marketing spend. And we started from a great spot. I mean you can't get much more efficient than having a 90-day payback and then having lifetime value thereafter. But what we're on the journey doing now is really scaling that up pretty significantly. So we're trying to drive that up to a point where we're talking about north of 50% increases in CAM spend year-over-year. And so that's exactly what we're trying to do at this point. You can see us doing that through different tools like media mix modeling, where we're able to use data and understand the interplay between different channels. We're also entering new channels such as digital video and OTT, social, and we're increasing our investment in search engine optimization. So we feel like we have a lot of levers. There'll be 2 steps forward, 1 step back at times as you start to scale up a new channel. Oftentimes, you'll have to then start to reassess the efficiency of that incremental spend. But in general, it's an important level for us.

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

Great. And then just a follow-up, kind of more longer term, and thinking about business formations, understanding that right now, there may be some tough comps as it relates to COVID. But I think the other side is that COVID has kind of fundamentally changed how many people operate in the world, and that creates a business opportunity. So kind of as we get through some of these tough comps, how do you think structurally about the rate of new business formations over the next couple of years, trending above or below kind of what you saw at a pre-COVID level?

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

Yes. I mean we definitely think it's going to trend above where it was pre-COVID. I mean there's just the reality of people adopting digital enablement tools. There's also the reality of people realizing that they can form a business in their house relatively quickly because, in some cases, they've been forced to do it. And then there's some really interesting regulatory tailwinds in that some platforms are now requiring or requesting that the people who work on them actually form as an entity to help from a legal liability standpoint, but also from like an employee status standpoint. So we see this continuing. And actually, you're right, there's a little bit of a bump in Q3 because as Noel mentioned in the opening comments, last year, we just saw a dramatic increase in Q3 in formation. And so we have to lap that. But we think it will get back to a normalized level that was significantly higher than where it was when we were back in 2019, for instance.

Operator

Our next question comes from Mario Lu with Barclays.

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

Congrats on the first quarter out of the gate. The first question is on retention. I was just wondering if you could provide some additional color on how retention has trended in recent months, in particular, from the newer cohorts that came on during the pandemic a year ago. And I know it's still a bit early, but has the addition of expert services aided retention thus far?

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

It's just maybe just to make sure everybody tracks the commentary here. What we really talk about what we look at as the leading indicator is that 13-month retention on annual subscriptions. And they're primarily driven by business formations as well. The 1 thing I'd say here is that it's probably too early to tell. We need to bake a little bit post the annual subscriptions. And most of the accelerated growth happened in July and August last year. And so there is an element right now of not having complete visibility into what that looks like. I will say we haven't seen anything in interim periods that has us concerned. And if you were just pointing to, for instance, the Q2 data, which sort of has the subscription units forecasted within it, it was essentially right spot on of where we expected it to be.

As it relates to expert services and the impact that, that will have on retention going forward, we know that when people work with an expert, whether it be an attorney or an accountant, that small businesses have a much more likelihood of succeeding. And so we do expect that over time, it will improve. And it's probably more of a factor of just how many of our customers adopt those expert guided services which will drive it. So that's why we're so -- if you think of our strategy, there's 2 big pillars in there. One is the adjacencies in LZ Tax where we're layering in a CPA, but also just that attorney assisted side, so people can get off on the right foot and then have an expert that they can go to, to get advice along the way.

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

Great. That makes sense. And then just 1 on the competitive landscape. You guys are reinvesting back into marketing in the back half of the year. I guess any color in terms of what you see from your peers? Are they doing the same? And any color there would be helpful.

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

Yes. I mean I don't think we've seen any changes with the competitive landscape. I think we expect there to be over time as people continue to emulate our model. The thing that we're squarely focused on is that only 8% of legal services are delivered digitally today. So when we think about competition, it's really an off-line attorney or it's an off-line accountant now as well, someone who doesn't leverage technology. And so we feel comfortable that we have a superior solution relative to those alternatives. And it's -- as measured by Net Promoter, you can see it. When someone works with one of our experts, they have 3x the Net Promoter Score of when they work with an offline attorney. When they work directly in our product, it's over 2x the Net Promoter Score of working with an attorney. And so I think that's the competition we focus on the most. And we know that there's going to be people who emulate our business model and try to compete with us directly.

Operator

Our next question comes from Stephen Ju with Credit Suisse.

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

So I'll add my congratulations as well. So guys, following up on the earlier tax question, I think you came out with a new subscription products like tax advisory last October. So as you go along this path of widening your product offerings, like what has been the adoption rate been like so far? What kind of attach rates and perhaps incremental ARPU are you seeing?

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

Yes. Thanks for the question, Stephen. Well, we tend not to provide attach rates on individual products. And actually, the reason why is because oftentimes, there's a relationship between our cart and 1 attach rate will go up, and 1 will go down dependent on how -- what we're solving for in terms of the mix of subscription and AOV and ARPU. But what I will say is we have been surprised by the attach rate that we've had. I think I've noted this before that we're seeing an attach rate that's pretty much on par with our attach rate for our legal attorney subscription, which, when you think of a company named LegalZoom, you wouldn't necessarily think right off the bat that the tax product would have a similar attach rate. So we're feeling really confident about where we are.

We're just getting started here, too, by the way. We initially, we're doing outbound sales primarily to access this customer base. And right now, we're doing lots of testing of how we put it in the product itself and some early reads there are showing some promise. So we think there's lots of opportunities to continue to increase attach. And like I said, one of the interesting things here is there's a symbiotic relationship between once you start to have 1 expert that is helping you as a business, it probably helps in terms of when you start to feel the success and you start to feel the support they're providing and helping us do other cross-sells of some of our other expert services. So -- but very early in the journey, but feeling good.

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

Yes. And Stephen, just to add to that, one of the important focus areas for us around tax is really on the operational side, making sure that we're focused on scaling up operations to meet the demand that we're seeing through our formations flow and that we're protecting the consumer experience as we do that and really investing the right way in that business.

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

Yes, it's a really good point. Right now, we have no demand issue whatsoever. We actually, in many ways, are actively throttling demand in some cases to make sure we get the experience perfect before we sort of unload and get all of the attach of the entire base. And so you'll see us do a little bit of this. There's testing the channel and making sure that the channel is working and then there's ensuring that the experience is perfect for the customers. And at that point, we're getting close to the point where we're really ready to just go broader on it.

Operator

Our next question comes from Matt Pfau with William Blair.

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

Great results. I wanted to ask on the partner program. Can you just give us an update on where you're at in that revamp and when that line item could become more of a contributor to revenue growth?

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

Yes. Thanks for the question, Matt. I think this is one of the areas that I think we've made the most progress, and yet, at the same time, it probably looks the worst because in a lot of ways, we're revamping everything that we've done with partnerships. Historically, they've been somewhat tactical, bounty, one-way directional relationships with brands that couldn't necessarily offer traffic back to us. They just didn't have established large bases of customers. And we're really rethinking this to have it be more bidirectional, be brands that we're really excited about offering our customers but also brands that are willing to market our services directly to their customers. This last quarter, we actually signed 4 different partnerships, all of them with strong brands, all of them, I would say, in a pilot mode right now, but the early results are very strong.

And one of the things that we're also doing at this point, which had never historically been done, is we're targeting, leveraging the data that we have in a couple of cases. And you can see, almost immediately, you can see conversion improvements just by offering them the right solution based off of the type of business they are. So this has been an area where it's been almost flat to down in terms of its year-over-year growth rate, flipping, hopefully, to being accretive to our growth rate in the next couple of years. But it will be a slow build back up because most of these, again, are more ratable relationships. They're, again, more bidirectional and there's a lot of testing we want to make sure, again, the experience is good between these companies that we're partnering with.

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

Great. And I just wanted to follow up on the business formations. As you guys look at either at the quarter or the first half of this year, do you continue to take share of business formations in your estimation?

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

We're not -- one of the things we've decided and it's actually interesting. So the EIN data that most people look, at the census data, is a great directional indicator of the macro but it's also pretty noisy. For those who have been looking at that data, it's inclusive of companies that are trying to get a PPP loan. And typically, it has to be processed through a bank account, which requires an EIN. So you might need an EIN, but you may not have formed an entity. If you go bankrupt, you actually have to get an EIN. If you hire an employee and it's your first employee, you have to have an EIN. So these are things that kind of dislocate it from the true macro, which is looking at businesses that are forming through secretary of state data. It's proprietary data. It's something that we have. We choose not to release it, and we don't want to on a regular basis. We probably will consider doing it on an annual basis. But as I've said before, our whole strategy is to take share and drive lifetime value, and we're feeling pretty good about how things are going this year.

Operator

Our next question comes from Andrew Boone with JMP Securities.

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

Understood we're in a dynamic environment currently and that marketing spend is ROI based. But spend was up 77%. And as I think about this as probably the biggest swing for profitability and understood you guys aren't giving guidance there, why didn't you spend more, right? Like how do we think about that?

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

Do you want to take that?

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

Yes. I mean Andrew, thanks for the question. Our spend was up, from a customer acquisition and marketing standpoint, 61% year-over-year, which is still a massive uptick in spend. To your point, it is -- the vast majority of our allocation is to -- against performance and ROI and it's ROI based. And so we're setting guardrails for the spend. We will tweak that dial up or down as we see different opportunities where we can be more aggressive. And we also keep an allocation for kind of testing and learning in new channels so that we can make sure that for the longer term, there are opportunities for us to continue to spend up. The approach that we're taking on the ROI base is we are stepping into it as we're learning and making sure that we're just paying attention to our efficiencies. And also, in conjunction paying attention to the other opportunities that we're creating to monetize our customer relationships and to expand LTV through things like tax and through things like our partner channel, which we are looking to grow. And so as those become additional monetization opportunities that are material to our overall LTV equation, that will allow us some visibility into spending up even more aggressively. But we do plan to continue to stay aggressive in our marketing spend.

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

Yes. The only thing I'd add there is that because we're entering a lot of new channels, we really are sort of a measure twice, cut once on that. And we look at the marginal spend return and also the interplay between the different channels. And so there's almost a spend up and then a measure and then reallocate and then spend up. And what you see is it's sort of a gentle increase in the marketing spend that should continue on a dollar basis but it's going to start looking smaller on a percentage basis just because we're at a different scale. The 1 thing I would also add in there is that we are looking for what I would call more brand partnerships in areas where we can make investments to just raise awareness. One of the bigger opportunities that we still have, we have a high awareness level. But if you ask small businesses what we do, you get a lower level of understanding of our product in that we're really squarely focused on this concept of being the platform, the destination, the starting place to form your business.

And so we're looking for ways to get that out in a broader way through brand arrangements. And so you'll start to see a little bit more of that activity probably in the back half of the year.

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

That dovetails very nicely to my next question. So just given the fact that LegalZoom is faster and cheaper than off-line alternatives, what's the biggest hurdle to getting people to move online? Do you think Assist unlocks that? Or how big of a step function is awareness versus just that education piece versus holding someone's hand?

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

Yes, I think it's a little of both those things. I mean there's an awareness component of this, which is I don't think anybody really knows of this category. There's not like a defined category around business formation. And so we're trying to establish that. But as soon as you establish that, you'll have some people who just have a fear of doing it on their own, and that's where the backstop of having attorneys available if you need them. Again, we don't really feel like most people will require an attorney. It may just help them try the product knowing that if they run into a problem, they'll be able to access that attorney. And so having them be part of our ecosystem and a core part of our ecosystem is extremely important. But those 2 factors together are what are really going to drive people's acceptance of the category. And then obviously, we want to be putting more fuel on that with our TAM spend.

Operator

Our next question comes from Brent Thill with Jefferies.

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

This is John Byun for Brent Thill. I had 2 questions. One, if you could maybe remind us of the typical seasonality by quarter. And how you expect it to be different this year due to COVID, lot of factors? And then in terms of product investments, if you can maybe delve into what are the biggest priorities for the near term?

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

Great. Thank you, John. Yes. So seasonality, traditionally, we've seen -- it's almost sort of an aspirational component at the beginning of the year where people start a new business. We also see a lot of people get a tax refund, a consumer tax refund and that becomes the seed money for their business. So there is kind of a natural peak that happens at the end of Q1 and at the beginning of Q2. And then you generally see it taper off for the rest of the year, with Q4 being the lowest quarter for formations. Last year was the exact opposite with COVID. Q1 was one of the weakest quarters. Q2, it took a while to build back up. Q3, it started to accelerate momentum. And we've been sort of off cycle really until we got all the way through April this year, and we started to see some normal pattern return in seasonality. And so I actually think that's encouraging because the normal seasonality that we're now seeing is at a completely different level of what it was relative to where we were in FY '19, which again gets to the secular tailwind around the idea of businesses being easier to form now.

From a product investment standpoint, I mean again, I'll go back to the framework that we use. There's a lot we can do in our core platform and our core products today. This year, we launched a whole new redesign of the site. We also made it completely mobile responsive. And pretty quickly, we saw improvements in conversion that kept building as we've gone throughout this year. And since then, we've now been investing in the purchase experience and recommercializing it with new parts of our ecosystem like LZ Tax. And then we're also now focused on the engage experience post formation, where we're creating a hub where -- we call it My Account, where you can go in and schedule with your experts or you can message with your experts on demand. You can start to get compliance dashboard where you can see different compliance events happening in your company. And we want that to be a place where customers are coming back on a regular basis and seeing the value that they're getting from the services that we offer.

But in terms of product investment, I'd say right now, probably the biggest investment is on LZ Tax, where we are spinning up essentially an extremely large tax business, which is offering full service tax filing, tax advice and again, the wholesale relationship with Intuit on the QuickBooks Online side. So I think that adjacency opportunity doesn't really stop at LZ Tax. We think there's other areas where we can be investing in the future. But we really want to get that one right before we go to our next one. And today, that's a significant area of investment.

Operator

And I'm currently showing no further questions at this time. I'd like to hand the conference back over to Mr. Dan Wernikoff, Chief Executive Officer, for closing comments.

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

Yes. Well, I want to thank you guys. Obviously, it's a lot of work to get to this point. Noel and I and the broader team, though, feel like we're really, really just at the very beginning of a journey here. I want to thank all the Zoomers out there who've done the hard work when we've been on the road to go public and excited to get digging back into the business in a deeper way. And we're really excited to keep innovating for small businesses and look forward to catching up with all of you next quarter. So stay safe, everybody, and we'll be talking soon.

Operator

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