



LiveVox Holdings, Inc.

Fourth Quarter and Full Year 2022 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Michael Funk, *Bank of America Merrill Lynch*

Vivek Palani, *Northland Capital*

Frederick Lee, *Crédit Suisse*

Brett Knoblauch, *Cantor Fitzgerald*

James Fish, *Piper Sandler & Co.*

P R E S E N T A T I O N

Operator

Good day, and welcome to the LiveVox Fourth Quarter and Full Year 2022 Earnings Conference Call.

All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note today's event is being recorded.

I would now like to turn the conference over to Alexis Waadt, Vice President of Investor Relations. Please go ahead.

Alexis Waadt

Good afternoon, and thank you for your participation today.

With me on the call today are John DiLullo, CEO, and Gregg Clevenger, Executive Vice President and Chief Financial Officer.

Before we get started, I would like to remind you that comments made during this conference call and webcast contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to risks and uncertainties. Any statement that refers to expectations, projections or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement. The Company's actual future results could differ materially

from those expressed in such forward-looking statements for any reason, including without limitation, those listed in the Risk Factors section of our SEC filings. LiveVox assumes no obligation to update any such forward-looking statements.

Please also note that past performance or market information is not a guarantee of future results. Certain information discussed on this conference call was derived from third-party sources and has not been independently verified and, accordingly, the Company makes no representation or warranty in respect of this information.

During this conference call, the Company will discuss non-GAAP financial measures as defined by SEC Regulation G. A reconciliation of each of these non-GAAP measures to the most directly comparable GAAP financial measure can be found in the earnings press release, which is available on the Investor Relations website, investors.livevox.com.

A recorded replay of this call, together with related materials, will be available on our Investor Relations website, investors.livevox.com. LiveVox's earnings release and Form 10-K will also be available on the Company's website.

With that, I'll turn the call over to John to begin.

John DiLullo

Thanks, Alexis, and thanks to everyone for joining our quarterly earnings call.

As you can glean from our press release earlier this afternoon, we had a strong Q4 that broadly met or exceeded expectations on nearly every metric that we track. It was a quarter rich with accomplishments of which we are extremely proud, including, most notably, completing our first pro forma EBITDA profitable quarter as a public company. For these achievements, I'd like to thank our customers, suppliers, partners, Board of Directors, our supportive investors, and especially the LiveVox team.

In a few moments, our CFO, Gregg Clevenger, is going to share with you more details about our financial results and provide guidance for the current quarter and the year ahead. However, in the brief time that I have today, I'd like to share with you a glimpse into some of my recent observations and a few of the initiatives we have put into place to build on the positive momentum we're experiencing.

In my first 100 days with the Company, I have toured nearly every global LiveVox office, met with most of our domestic and international employees, and visited existing customers accounting for nearly half of the Company's annual sales. I've participated in our 2023 sales kickoff, went to several trade show events, hosted a user group meeting, and met with many current and prospective investors. I have found the excitement surrounding LiveVox to be effusive and vibrant, especially when listening to our customers. Contact center teams that leverage our technology have shared with me that LiveVox products improve their productivity, lower their costs, help them to engage customers in more ways, and adroitly help them to support work-from-anywhere agent populations. I am reassured from my first hundred days at the helm of LiveVox that the loyalty of our customer base is high and the suitability of our solution for their business need is unrivaled.

Based upon customer interactions, we believe we are now the largest 100% public cloud CCaaS solution in the market. As a result of our partnership with Amazon Web Services, AWS, customers enjoy our ability to lower cost consumption-based solutions. They enjoy the potential global reach and reliability that 99 AWS public cloud availability zone support and they enjoy scalability that is orders of magnitude better than what any of our competitors offer. The LiveVox architecture has allowed us to innovate real-time reporting, integrated omnichannel solutions and AI-powered capabilities with an unrivaled velocity and nimbleness without the need for us to deploy precious CapEx dollars.

Despite our many platform and architectural advantages, we can always do better, and it is with this in mind that we have enacted a collection of company-wide initiatives comprising four key actionable objectives: to preserve, optimize, leverage and expand. The plan is easily remembered by the mnemonic P-O-L-E, or POLE, and aligning to these tenets is quickly becoming core to everything we do, how we measure our team's results, how we allocate scarce resources, how we establish KPIs and how we reward our team.

The first tenet, preserve, I'm proud to say the team executed quite handily last quarter. As mentioned in the 8-K filed on January 17, we completed a reduction in force of approximately 16%. We were able to complete this action in a manner that minimized disruption to our customers and zero committed revenue projects were delayed or canceled. As reflected in our results, we did see better than expected excess usage billings in our core finance, credit and collections vertical, and we garnered several significant wins, including a \$1 million ACV Avaya Displacement in the travel and leisure vertical, as well as a \$600,000 ACV Avaya Displacement to a credit Management company servicing student loans. In both cases, our consumption-based pricing, virtually unlimited ability to scale and open API-based integrations were defining capabilities that distance us from our competition.

The second tenet of our action plan is to optimize. Of course, several elements of our reduction in force that I mentioned earlier helped with this effort. However, as part of our restructuring, we concurrently moved more roles to our lower cost centers of excellence in Bangalore and Medellin, we releveled many roles, increased managers' number of direct reports, materially reduced underutilized domestic office space, and rightsized several of our lower impact sales and marketing efforts. We also made material advances toward deprecating older releases of our cloud-based platform and accelerating the migration of customers to our latest production environment, Release 17. These efforts are expected to provide long-lasting economic benefits in the form of durable COGS reductions.

The third tenet of our action plan is to leverage, or put another way, to better utilize partnerships and channels to streamline internal processes and accelerate our go-to-market efforts. Our early success in opening the aperture of our go-to-market to include channels has been very encouraging. Two of our larger transactions in Q4 were initiated by our agency referral network, including a new logo win of \$240,000 of ACV for a complete inbound and outbound customer care solution that will be deployed in a regional credit union's auto financing center. Our largest managed service provider grew their usage with us more than 50% in Q4, and in recent weeks, we signed our first two value-added resellers. In Q4, we also became an Avaya DevConnect partner and a member of Jack Henry's Vendor Integration Program. We expect that these collaboration efforts, together and in combination, will meaningfully improve our lead generation and sales productivity in future quarters.

The last tenet in our four-element strategic initiative is expand. As I shared last quarter, the markets in which we participate are burgeoning with opportunities outside of our historical focus areas of finance, credit and collections. We have exciting expansion opportunities to grow overseas, to participate in the mid-market customer segment, to adapt and certify our products for use in the government sector, and to improve adoption of our products in more traditional care segments by offering flexible pricing and consumption-based deployment options. Although it is early days, we are making good progress in all these markets. In many ways, our results in Q4 are a celebration of the market's acknowledgment of our competitive differentiators.

On the product front, I'm happy to announce that in January, we released the beta version of our flagship product, Release 19, which includes a live instance of our first AWS international point of presence in Dublin, Ireland. Release 19 will deliver more inbound contact center features, higher reliability, and lower compute and storage costs. In addition to opening the expansive European markets to LiveVox, Release 19 also has several special capabilities that will help us to exploit new customer segments and verticals, including a new agent assist functionality that automatically suggests call summary wrap-up notes derived from AI-powered automated speech-to-text translations, dramatic UI/UX improvements that greatly improve the typical agent desktop and reduce clutter, and a much requested integration with WhatsApp, a very popular support channel overseas.

In the go-to-market arena, I'm excited to report that we've made significant progress in a few of the most critical areas, including an effort to reimagine the LiveVox brand and to modernize our messaging so that it will find broader appeal. I'd like to invite you to visit our new website, which launched earlier this week, at www.livevox.com.

I'm also pleased to announce that for the first time in our Company's history, we have been included, and well positioned, in the most recent Forrester CCaaS Landscape Report, the Frost & Sullivan Cloud Contact Center Survey, the Aragon Intelligent Contact Center Grid and the DMG Cloud Contact Center Report.

It is well known that LiveVox enjoys a rich heritage and an enviable franchise in the finance, credit and collections vertical. These markets became quite challenging during the pandemic as lenders enacted forbearance, forgiveness and payment deferral programs. In recent months, we have seen early signs of improvement in these markets as government assistance programs are sunset and consumer debt originations continue to grow. Normalization of the consumer credit cycle is potentially a long-term tailwind for LiveVox. However, as yet, we have not seen a meaningful increase in utilization owing to this macroeconomic development and reacceleration of this business has not been included in our 2023 outlook.

At LiveVox, we're excited about 2023 and beyond. Though there is much economic uncertainty in the world, we fervently believe that the next five to ten years uniquely hold great promise for LiveVox owing to three unswerving factors:

- First, the increasing geographic dispersal of contact center agents and their post-pandemic proclivity to work from anywhere is compelling operators to embrace cloud-based omnichannel solutions in support of remote and distributed ad hoc work environments.
- Second, controlling costs by utilizing consumption-based solutions is quickly becoming a must-have throughout IT, and it is especially crucial in the deployment of contact center technologies.
- Third, the increasing scarcity and turnover of contact center personnel is driving operators to seek AI-powered solutions that automate workloads and shorten the ramp time of onboarding new contact center agents.

These three macro trends are powerful and enduring. Together, with our committed loyal employees and our obsession with customer success, they form the foundation upon which LiveVox is built.

Thanks again for your time today. It's my pleasure now to introduce Gregg Clevenger, our CFO, who will walk us through the numbers. Gregg?

Gregg Clevenger

Thanks, John, and good afternoon, everyone.

I want to remind you that all non-GAAP financial figures that I discussed on the call today are reconciled in a presentation posted on the investor Relations section on our website, in our press release issued just prior to this call and in our 10-K.

I'll start off with a recap of a very solid fourth quarter and into 2022, followed by some key operating metrics for the year, before moving on to guidance for the first quarter and the full year 2023. Our total revenue for the fourth quarter was \$35.7 million, 12% higher than the fourth quarter of last year and above the high end of our guidance range of \$33.7 million to \$35.2 million. This was supported by continued strength in our contract revenue, which was \$28.8 million for the fourth quarter, 18% higher than the fourth quarter of last year and at the higher end of our guided range of \$28 million to \$29 million,

and it strengthened our excess usage revenue which was \$6.9 million for the quarter, which while being down 8% year-over-year, was above the high end of our guidance range of \$5.7 million to \$6.2 million.

Total revenue for the full year 2022 was \$136 million, 14% higher than 2021, and above the high end of our guidance of \$134 million to \$135.5 million. This was comprised of contract revenue of \$108.7 million, 20% higher than 2021, and at the higher end of our guidance range of \$108 million to \$109 million, and excess usage revenue of \$27.3 million, which was also above the high end of our guidance range of \$26 million to \$26.5 million, although down 5% year-over-year.

ARR, which is annualized total revenue for the quarter minus all non-recurring revenues, such as professional services, for the fourth quarter was \$142.8 million, 16% higher than \$123.5 million in the fourth quarter of 2021, with the higher growth rate, as compared to our total revenue growth rate, reflecting the lower non-recurring revenue in this quarter relative to the fourth quarter of 2021.

Our net revenue retention strengthened to 113% versus 105% last year and 109% last quarter, as existing customers continue to add additional products and usage volumes stabilized relative to 2021.

Our adjusted gross margin for the fourth quarter was 68.1%, an increase of 180 basis points versus last quarter and higher than our guidance of 67%, as we continue to drive cost efficiencies across our 100% public cloud platform as we scale. We have increased our adjusted gross margin by over 900 basis points since the fourth quarter of last year, a significant accomplishment by the Engineering and Operations Teams that have made this happen and a testament to the financial leverage that can be achieved by running SaaS business on a pure 100% public Cloud platform.

Our adjusted EBITDA for the quarter was a positive \$500,000, an increase of about \$2 million sequentially and achieving our guidance of being adjusted EBITDA positive in this quarter, which, incidentally, we achieved, including all of the expenses related to our CEO transition incurred in the fourth quarter, which was about \$1 million, which was unanticipated when we initially provided the guidance of a positive adjusted EBITDA quarter in 4Q. That brings our adjusted EBITDA for the full year to a loss of \$14.8 million, above our guided range of negative \$17 million to negative \$15 million.

Our GAAP earnings per share for the quarter were a negative \$0.06 on both the basic and diluted basis versus negative \$0.13 in the fourth quarter of last year, continuing our steady march to GAAP net income profitability.

Our Capex for the quarter totaled only \$50,000, coming to \$900,000 for the full year 2022, which was about 40% less than our 2021 Capex.

Lastly, we ended the year with \$55 million of debt and \$69 million of cash and cash equivalents and marketable securities, a use of about \$2 million during the quarter.

Our headcount at year end was essentially flat versus the end of the third quarter at 627 and down 7% from the end of last year, as we not only slowed hiring throughout the year, but reduced our headcount by about 3% early in the third quarter, and otherwise, we're extremely diligent in managing all backfills from normal attrition, particularly in the second half of the year.

We ended 2022 with 340 customers, down from 353 customers at the end of 2021, adding 33 new logos over the course of the year, with customer churn largely coming from smaller customers that were acquired in prior acquisitions. In fact, the customers we added to our platform last year contributed about twice the ARR of the customers that churned. The addition of larger customers, coupled with the churn of smaller customers, is evident in our annualized average revenue per customer in the fourth quarter of 2022 of \$420,000 per year, up 15% year-over-year and in the increase in our average monthly revenue per user as of the end of 2022 of \$186 per user per month, up 5% year-over-year, all of these measures excluding the impact of political customers, users and revenue. Finally, we had 34 customers who billed

more than \$1 million last year, versus 28 customers in 2021, further demonstrating the traction we are getting with larger enterprise customers.

Bookings were softer in 2022 than we had initially anticipated, and this is reflected in our revenue guidance for 2023, but we believe that focusing on the core tenets John outlined earlier, preserve, optimize, leverage and expand, will set us up for success as we move forward. However, due to a combination of concerns about the macroenvironment, our sales leadership change, tepid pipeline growth and a general lengthening of sales cycles, as we discussed last quarter, we anticipate that maintaining the same growth rates in the second half of the year could be challenging.

So, let's pivot to forward-looking guidance.

As I mentioned on the call last quarter, we believe that it is becoming less informative to focus on the individual contract and excess usage revenue components of our total revenue as usage increases on the platform and more customers move to lock in more revenue under contract. You can see this happening in the sharp improvement in our net revenue retention metric in the quarter, that I mentioned earlier, up to 113%, and it's making it more difficult to forecast and guide on the individual components and, as a result, less informative. Therefore, going forward, we will only be providing guidance on total revenue and not the individual components that comprise it. However, we do plan to provide our ARR each quarter going forward, which we believe is a more informative metric for our business.

So with that, I'll start first with the first quarter revenue guidance. We expect first quarter total revenue to be between \$34 million and \$35 million, 6% to 9% growth over the first quarter of 2022. We expect our adjusted gross margin in the first quarter to be between 68% and 69%, and we expect for this to trend up to 70% by the fourth quarter of this year as we continue to optimize our AWS costs and scale on the public cloud infrastructure. We expect our Adjusted EBITDA to be between zero and \$500,000, a little lower than the fourth quarter, as the first quarter is burdened by additional operating expenses, such as our annual sales conference in the quarter and payroll taxes, which are always higher in the early part of the year relative to the latter. And, as I've guided previously, we expect to be free cash flow positive in the second quarter and thereafter, building on a minimum cash balance of \$60 million that we expect to have at the end of the first quarter. Keep in mind that we always tend to have seasonally high cash utilization in the first quarter, which includes the payment of annual cash bonuses and some annual vendor contract renewals, and this year will include the cash impact of the restructuring that we announced in January of about \$3.1 million.

In terms of full year guidance for 2022, we expect our total revenue for the year to be between \$143 million and \$148 million, 5% to 9% growth over 2022. We expect our adjusted gross margin to trend towards 70% by the fourth quarter, and we expect our Adjusted EBITDA to be between \$3 million and \$6 million for the full year, with an Adjusted EBITDA margin of 6% in the fourth quarter.

With that, Operator, can you please open the line for Q&A?

Operator

Our first question today comes from Parker Lane at Stifel. Please go ahead.

Parker Lane

Yes, hey, guys. Thanks for taking the questions. John, congrats on the Release 19 and the establishment of a point of presence in Dublin. Curious, when you think about international expansion opportunities, do you anticipate most of that will be agency or channel-led in the future, or does the company anticipate building out a salesforce around the international opportunity? Thanks.

John DiLullo

Thanks, Parker. I really believe that we'll start that mostly being led with channels and through agencies and to amplify on that with a lot of existing customers that are asking us to participate in those markets. We'll be very cautiously building out sales teams and other types of support in that process.

Parker Lane

Got it, makes sense. Then, Gregg, in the context of the guidance you just provided, 33 new logos during this year, obviously, a tougher demand environment out there, but a lot of changes to your go-to-market, and obviously the platform is coming along nicely, so how would you expect that new logo acquisition to trend in the context of the guide? I think we understand the usage-based component.

Gregg Clevenger

Yes, I think we'd be disappointed if we didn't have more—add more logos in this year than we did last year. It was a little softer last year than the year before, as you know, in terms of new logos. I think, as John talks about opening the aperture, we've got a lot of new initiatives to expand in various areas and leverage partnerships. We talked about international and things like that, that are all ways that we think are going to open up the pathway to more new logos this year than last year.

Parker Lane

Great, thanks for the feedback, guys.

Gregg Clevenger

Thank you.

Operator

Our next question today comes from Michael Funk with Bank of America. Please go ahead.

Michael Funk

Thank you for the questions. Yes just following the question about the (inaudible) in Ireland and using channel and agencies, how should we think about that affecting your expense as you ramp up that region?

John DiLullo

This is John, Michael. I don't—I think a lot of that—when you work through channels, a lot of that is contra and I won't—I'll let Gregg answer that, but I don't think that that's going to be a meaningful add from an expense perspective, and we're going to be really, really careful about how we engage and how we invest in expensive elements of go-to-market, like feet on the street and marketing.

Gregg Clevenger

Yes, I think, just add to that, with the risk that we did, we loosened up some ability to invest in things like this, so, no, we don't expect to be building out a direct salesforce in these markets. There's a lot of partners out there that we can leverage, that are excited about working with us, and we'll do that, it's a much lower cost way to go about it on the front end, and the costs that we do expect are factored into the guidance that we've given for the year.

Michael Funk

Okay, understood, and if I heard you correct in the call, I believe you said that maintaining growth in the second half could be challenging, and if I heard that correctly, I guess maybe some more details on why the growth are going to be challenging to maintain, and then what that implies for growth exiting the year, thinking about the annualized for next year?

John DiLullo

I think we're being conservative in terms of the recovery of usage, and that is part of it, and part of it is the little softer bookings that we had, particularly in the latter half of last year. They just make the year-over-year growth a little lower than what we would have expected to have. Overall, the guidance that we are providing is, I think, conservative and achievable, and that's what we set out to provide for you.

Michael Funk

Okay, thank you so much for the time.

John DiLullo

Yes, thank you.

Operator

Our next question today comes from Vivek Palani with Northland Capital. Please go ahead.

Vivek Palani

Hi there. I have a couple of questions with me. The first one is what percent of bookings came via upsells?

Gregg Clevenger

We don't actually provide that, but the bookings for upsells, bookings to existing customers, that was actually a good bright spot for us. As you know, we talked about kind of reorienting our focus a couple of quarters ago, because we do have a tremendous amount of white space opportunity within our existing customers, and that was a big part of the bookings that we did achieve last year. Obviously, we had a lot of new logos, also, we added 33 new logos, and typically pretty big customers, given the uplift that we have in the average annual revenue. But, particularly bright spot in upsells. I think you saw that, Vivek, in the NRR rate.

Vivek Palani

Yes, that makes sense, and my second question is how strong has demand been for messaging and AI?

Gregg Clevenger

Vivek, can you—can you ask that again? I'm sorry.

Vivek Palani

Yes. How strong has the demand been for messaging and AI?

Gregg Clevenger

It's a great question, and certainly one that is on people's minds these days. We're pretty excited about artificial intelligence, machine learning, expert systems. It seems to have a perfect fit in contact centers,

especially in the area of trying to automate agent workloads and the deployment of virtual agents. I'll refer you back to my prepared comments from earlier. I talked about Agent Assist, for instance, which that actually captures the conversation as it's happening with the agent, transcribes it, automatically deposits it into their CRM, but it helps suggest different content to that agent, making the agent much more efficient. You can only really do that type of application with—you can only deploy that type of functionality, I should say, with AI. The other thing that we do in that environment is things like caller sentiment, to understand if the caller is happy or sad, and so that's a wonderful application of the tech on an inbound side. On the outbound side, we do things like figuring out the best time to call or which customer to call next. So, these are—it's just the beginning. I think it's very early days in AI.

Just to point you in the direction as far as strategy goes, we've been partnering heavily. I came from the AI world and I understand that we're not, per se, building a lot of ton of AI technology, but we are partnering very heavily with Google, with AWS, with Verint, and we're even talking with OpenAI now. So, we plan to leverage all those tools. That's what our customers are asking for. We think it's very timely, especially with the shortage of contact center agents. It's an area of the business we're super-excited about. Thanks for the question.

John DiLullo

I think you also talk about messaging, and if I just add to that, a lot of our upsells are around omnichannel, which includes messaging, so we are seeing a big uptick in messaging from our existing customers, in particular, also new logos, but it is a pull for existing customers to expand through our omnichannel product suite, which includes messaging.

Vivek Palani

All right. Thank you.

John DiLullo

Thank you.

Operator

Our next question today comes from Fred Lee at Credit Suisse. Please go ahead.

Frederick Lee

Hey, good afternoon, everybody. Thanks for taking my question. With regards to the customer count that you mentioned was down, and recognizing that the new logos you added to ARR, I'm just wondering—because you mentioned that they came from prior acquisitions, and so I was wondering if we had gone through the churn, the entire cycle of churn through the customer base that you had acquired, are we finished there, or is there more to come?

Gregg Clevenger

There's probably more to come. We do have some smaller customers. If you take, just for example, like the 20 smallest customers who churned, their revenue is a 20th of our top 20 logos that we added—not in the logos that we added, but customers that were actually put on the platform, so some of them may have been logos that were added in the prior year, sold in the prior year but installed in this year. But, it's just the bell curve is pretty huge. There's a tail of smaller customers out there that, literally, some of them in the hundreds of dollars, that \$100 a month kind of thing, that we expect won't last forever.

Frederick Lee

Okay, and then another question on a comment that you made earlier about agents leaving their roles in the context of enforcing upwards to choose AI, and so has turnover actually risen? Because, a contact center turnover rates have always been in the 60s and 70s, and so I was wondering if there's something different that's happening in the market today that is more recent.

John DiLullo

This is John. That's a great question. I can only share with you anecdotally what I hear from our customers, and what they're saying generally is it's hard to fill some of these roles and it's taking longer to fill the roles and there's less of a supply of resumes, and this is just anecdotally what I'm sharing with you, and I think that's pretty consistent with what I've heard.

Frederick Lee

Okay, thank you, and then just one final question with regard to macro. Did it deteriorate for LiveVox sequentially through December, and how has it trended so far this quarter? Thank you.

John DiLullo

I don't feel that the macroeconomic environment has deteriorated meaningfully in Q4. What we did see, and I mentioned in my prepared comments, was we started to see some return of volumes in our more traditional finance credit and collections markets, and that was part of what led to some of the strength in the quarter. Generally speaking, if I were to give you some guidance, we didn't incorporate a lot of this into the 2023 outlook, but if we do see—and there are certainly green shoots—if we do see normalization of the consumer credit cycle, that could be a long-term tailwind. In some ways, unemployment could be a tailwind for us if it makes more people available to take contact center jobs. In the macro sense, if the economy is not as resilient as we're hoping, that could be downward pressure on some of the verticals that we support, such as finance, travel and leisure and healthcare. So it's a pretty mixed bag, but I don't think we saw anything dramatically change in December or November. Gregg, anything on that?

Gregg Clevenger

I wouldn't say that there was any deterioration over that time period.

Frederick Lee

Great. Thank you very much.

John DiLullo

Thank you, Fred.

Operator

Our next question comes from Brett Knoblauch with Cantor Fitzgerald. Please go ahead.

Brett Knoblauch

Hi, guys. Thanks for taking my question. I just want to make sure I heard you correctly. The press release says Adjusted EBITDA loss is expected for the full year between 3% and 6%, and I feel like I heard you guys say that you're expecting to be positive 3% to 6%?

Gregg Clevenger

You are absolutely correct, it is positive. The press release says a mistake in it that is seriously being rectified, or actually was done now, but the guidance is for positive EBITDA, and very much apologize for the confusion there, Brett.

Brett Knoblauch

Got it. No, that makes sense. I guess growth for 2023, you guys are guiding kind of like half what I guess I was expecting. I guess, how should we think about you exiting the year? Is retention going to stay above 110%. Are you going to get maybe a bigger contribution from new customers to the exit the year to kind of bring growth back to the story?

Gregg Clevenger

Yes. In terms of retention, I do think that retention will strengthen. The likelihood of strengthening is greater than the likelihood of going down from here. As you know, kind of historically, we've been in the very high-teens pretty consistently before the ups and downs of the pandemic and we're working our way back to that. It's kind of a long-term measure, as you know, it's a 24-month measure, so it takes time for it to work through, and we do expect that we're going to continue to have success with our existing customers and upsell. We still have a lot of opportunity with our existing customer base to expand. I mean, just for example, we've talked about in the past the average number of products per customer. This year, we're at 4.9 products per customer, and that's up from 3.6% from the year before, so we continue to penetrate, but that is still kind of a fraction of the products that we have available for customers, so there's a lot of white space left just on a seat basis, much less all of the additional lines that we can—I'm sorry, agents that we can get as we expand into broader use cases across our customer base.

Brett Knoblauch

Got it, and, I guess, is your retention number a 24-month number? I thought it was a trailing kind of four-quarter number.

Gregg Clevenger

It is 12 months over the prior 12 months.

Brett Knoblauch

twelve months of the prior 12 months. Okay, got it. All right, thank you, guys, very much.

John DiLullo

Thanks, Brett.

Operator

Our next question today comes from James Fish at Piper Sandler please go ahead.

James Fish

Hey, guys. Thanks for the questions. You guys have started to kind of mention about the delinquencies being up, which should kind of help your collections business, and some of the lead indicators from the Fed are pointing in that direction, as well. Just maybe broadly, what did you guys see in Q4 for the growth rate of the collections vertical relative to the rest of the business? Gregg, can we get the annual update we normally do for the contribution for the year? I guess, not to separate collections versus the rest of the

business, but what are you expecting that collection vertical to then do in 2023 underneath, given this kind of mid-to high-single-digit growth rate for the year?

Gregg Clevenger

The contribution of collections to our revenue for the year was 28%. I think it was 33% in the year before. So, it is down as we continue. Collections has been kind of flat as you know for a while, and so that's reflecting growth outside of the collection space. If, over the course of the year, there is a strong rebound in collections, even if the rest of our business continues to grow, it could be that that 28% actually gets bigger, it's a possibility but we do continue to expect that, over time, that the contribution of collections will continue on a decline path, as opposed to staying where it is or increasing.

James Fish

All right. So, I mean, roughly, that collection vertical is above 20% again—I'm sorry, the non-collections piece was about 20% year-on-year again, but maybe unpacking the numbers here—I appreciate the ARR disclosure. I think that's the right way to go. ARR during the year is about 143, and I get that it includes usage of the minority here, but that's already at the low end of your guide. Is that you, Gregg, just kind of being conservative, or are you expecting a greater falloff in the contracted revenue specifically on the customer engagement side, or broader usage from here, as the reason why we won't get closer to that double-digit growth that we're currently experiencing on ARR.

Gregg Clevenger

I think that, as I said, the guide that we gave is conservative and achievable, and it does not reflect a strong recovery, you know, as much of a change from where we are in terms of contribution collections, or said another way, the excess usage piece that we have talked about in the past. So, yes, that's all factored into the guide that we've given.

James Fish

Thanks, guys.

Gregg Clevenger

Thank you.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to the Management Team for any final remarks.

Gregg Clevenger

I want to say thank you very much, and thank you to all the investors and to all of the employees that help make this quarter possible, and have a great afternoon.

Operator

Thank you. Ladies and gentlemen this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.