ARI NETWORK SERVICES, INC.

Moderator: Steven Hooser
October 28, 2015
4:30 p.m. ET

Operator: This is Conference #: 10333777

Good day, everyone, and welcome to the ARI Network Services Fiscal Fourth Quarter and Fiscal Year Ending 2015 Earnings Conference Call. Today's conference is being recorded.

I would now like to turn the call over to Steven Hooser, ARI's Investor Relations representative. Please go ahead.

Steven Hooser: Thank you, operator, and thank you for joining us today to discuss our fourth quarter and fiscal year ending 2015 financial results. With me on the call today are Roy W. Olivier, Chief Executive Officer; and Bill Nurthen, Chief Financial Officer.

After prepared remarks, we will open up the call to Q&A session. Please note that we are also webcasting this call on our Investor Relations website at investor.arinet.com. The earnings press release was issued earlier and is also posted on the Investor Relations website.

Before I turn the call over to management, I'd like to remind everyone that during today's call, including the Q&A session, we may make forward-looking statements regarding expected revenue, earnings, future plans, opportunities, and other expectations of the company. These estimates and plans, and other forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from

those expressed or implied on this call. These risks are detailed in our most recent annual report on Form 10-K, as such may be amended or supplemented by subsequent quarterly reports on Form 10-Q or other reports filed with the Securities and Exchange Commission. The statements made during this conference call are based upon information known to ARI as of the date and time of this call. ARI assumes no obligation to update the information presented in today's call.

During today's call, we will also discuss non-GAAP financial measures, including EBITDA and adjusted EBITDA. These measures, when used in combination with GAAP results, provide us with additional analytical tools that allow us to better understand our business. A reconciliation of GAAP to non-GAAP measures can be found on our Investor Relations website.

With that, I'd now like to turn the call over to Roy W. Olivier, ARI's President and Chief Executive Officer. Roy?

Roy W. Olivier: Thank you, Steven, and thanks to all of you on the line for participating in today's call. We appreciate your time and your interest in ARI.

Overall, it was a great year for ARI, and I'm very happy with our results. For the full year, we reported record revenues, operating income, cash flow, and adjusted EBITDA. We continue to post strong new sales bookings as a result of a strong U.S. economy. However, there were two results that did not meet my expectations -- organic growth and churn. Churn was up over last year for the first time in five years, and that increase was a drag to our overall organic growth rate, which I will discuss in more detail later in the call.

During the year, we've completed the acquisition of TCS, TASCO, and DCi. TCS and TASCO strengthened our position in the tire and wheel industry, and DCi put ARI squarely in the aftermarket performance parts segment of the automotive industry. I believe that the combined offerings of ARI, TCS, TASCO, and DCi will offer a strong value proposition to tire and wheel dealers and aftermarket service centers in the U.S.

During the year, we also announced 11 domestic and three international major customer wins, reinforcing that ARI is in a unique position to help manufacturers, distributors and dealers Sell More Stuff!™ We announced partnerships with Fidelitone Logistics, ChannelAdvisor, and Shopatron in order to help dealers and manufacturers efficiently route products and orders. We announced several new products and services during the year, including a new mobile app, integration with Dassault SOLIDWORKS, a leading provider of enterprise manufacturing, engineering, and design systems, and several major upgrades to our existing platforms resulting in a 2014 New Product Award from HME Business for our digital marketing service and a 2015 Boating Industry Top Product Award for our new mobile app.

We will discuss these items in more detail, but for now, I'll turn the call over to Bill Nurthen to go over the financials and detail, and then I'll be back to comment on our strategic progress and outlook. Bill?

William Nurthen: Thanks, Roy, and good afternoon to everyone listening on the call. I will now share with you some more details regarding our financial results for the fourth quarter and fiscal year ending July 31, 2015.

As Roy noted, fiscal 2015 was, in many respects, a record year for ARI. Not only did we achieve record revenues, operating income, cash flow, and adjusted EBITDA, but with the close of the fourth quarter, all of these items improved on a trailing 12-months basis compared to last quarter.

Before I go through some of the financial details, I wanted to remind everyone that we closed the TASCO acquisition on April 27, 2015, and the DCi acquisition on July 13, 2015. As a result, the fiscal fourth quarter results contained a full quarter of TASCO's operations and only about a half month of DCi's operations. Also in the fourth quarter, we did have significant transaction legal and accounting expenses related to the DCi acquisition, which totaled approximately $200,000.

Total revenues for the fourth quarter were $10.9 million, which compares to $10.3 million in Q3 and $8.5 million in the same period last year. Sequentially, we experienced revenue increases across all of our product lines,

with the most significant increases in eCatalog as a result of the DCi acquisition and business management software as a result of the TASCO acquisition. Total revenue for the fiscal year was $40.4 million compared to $33 million in fiscal 2014, an increase of 22.5 percent.

The year-over-year revenue growth is primarily attributable to the TCS acquisition as well as organic growth in our website and digital marketing businesses. The overall company organic growth rate is hard to peg at this point given the integration of teams in cross-selling activities. However, we would approximate it at around 7 percent.

Recurring revenues, which we define as subscription or service revenue under fixed contracts that auto-renew, represented 90.1 percent of revenue for the 3 months ending July 31, 2015, and 90.2 percent of revenue for the fiscal 2015 compared with 93.6 percent of revenue for fiscal 2014. Overall, recurring revenues grew 18.1 percent year-over-year, primarily attributable to growth on our website business. The year-over-year decline in the mix of recurring revenue is a result of the TCS and TASCO acquisitions, both of which have lower recurring revenue due to their business management software offerings. That said, we are pleased that even with the incorporation of these businesses, we have been able to maintain 90 percent-plus recurring revenues for both Q4 and fiscal 2015.

Turning to profitability. Fiscal 2015 was a transformative year for ARI as the company experienced significant growth in both operating income and adjusted EBITDA. Looking at gross profit and gross margin, our gross profit improved to $9 million or 82.5 percent of revenue compared to $8.5 million or 82.7 percent of revenue in 3Q '15 and $7 million or 81.6 percent of revenue for the same period of fiscal 2014. Sequentially, the increase was primarily driven by continued efficiencies in the direct labor component of cost of sales as well as amortization cost that remained flat quarter-over-quarter.

For fiscal 2015, gross profit improved to $33.1 million or 81.9 percent of revenue compared to $26.6 million or 80.7 percent of revenue. The improvement in fiscal 2015 is attributable to our ability to maintain the direct labor and amortization components of our cost of sales relatively flat despite

the incorporation of the new acquisitions. Part of the reason we were able to do this from a direct labor perspective is related to the headcount adjustments we made in the second half of fiscal 2014, which translated into savings in fiscal 2015.

The firm recorded an operating profit this quarter of $686,000 or 6.3 percent of revenue versus an operating profit of $675,000 in Q3 and an operating profit of $430,000 in the same period last year. The sequential improvement represented the highest quarterly profit of the fiscal year and was achieved despite incurring approximately $200,000 of cost in the quarter related to our acquisition of DCi.

Operating profit for fiscal 2015 was $2.3 million versus an operating profit of $400,000 in the prior year, a 550 percent increase. Operating profit improved as a result of improvements in our gross margin as well as experiencing leverage on both our sales and marketing and G&A lines as both of these declined significantly as an overall percentage of revenues.

From an earnings per share perspective, for fiscal 2015, we were pleased to return the firm to a positive net profit and positive EPS for the first time since fiscal 2012. Net income for Q4 was the highest quarterly performance for fiscal 2015 at $368,000 or 2 cents per share compared to net income of $339,000 or 2 cents per share in 3Q '15 and $174,000 or 1 cent per share in the same period last year. For fiscal 2015, net income was $1.1 million or 7 cents per share compared to net loss of $102,000 or 1 cent per share in fiscal 2014.

As we turn to EBITDA, I wanted to make some comments regarding how we intend to discuss and report EBITDA going forward. Going forward, we will make reference to adjusted EBITDA, which will be our normal EBITDA calculation, adjusted for adding back stock-based compensation. Although stock-based compensation is not a significantly material item for the company, it was $141,000 in Q4 and $446,000 in fiscal 2015. We are making this change for two main reasons. First is to be more in line with many of our peers who also report an adjusted EBITDA, factoring in the impacts of stock-based compensation. Second, our cash flow performance has outperformed

EBITDA over the last 12 months, and we feel adjusted EBITDA provides a better understanding of our period-to-period results and the cash flow potential in the business. A reconciliation of the calculation for fiscal 2015 appears on our press release and on the Investor Relations portion of our website.

For Q4, adjusted EBITDA was $1.8 million or 16.5 percent of revenues compared to $1.7 million or 16.8 percent of revenues in 3Q '15 and $1.6 million or 18.8 percent of revenues in the same period last year. For fiscal 2015, adjusted EBITDA was $6.6 million or 16.3 percent of revenues versus $4.4 million or 13.4 percent of revenue in fiscal 2014. The improvement in adjusted EBITDA represented a 49 percent increase year-over-year.

It should be noted that the adjusted EBITDA results are inclusive of approximately $200,000 of transaction-related expenses in Q4 related to the DCi acquisition and approximately $500,000 of transaction-related expenses in fiscal 2015 for the three acquisitions we completed in the year. If you remove the impact of these expenses, the adjusted EBITDA margin for Q4 would have been 18.3 percent and for the entire fiscal 2015, would have been 17.5 percent.

Turning to cash flow. Among the many improvements in our year-over-year performance, cash flow stands out as one of the strongest. Cash flow from operations for the quarter was over $1.7 million compared to $1.9 million in 3Q '15 and $1.3 million in the same period last year. Free cash flow, which we calculate as cash flow from operations less capital expenditures and software capitalization, was $1.1 million for the period versus $1.4 million in 3Q '15 and $0.9 million in the same period last year. For fiscal 2015, cash flow from operations was $6.3 million versus $2.4 million in the prior year, a 165 percent increase. The most notable improvement was in free cash flow for fiscal 2015, in which we rebounded from two years of negative free cash flow in fiscal 2013 and fiscal 2014 to produce positive free cash flow of $4.2 million. The free cash flow of $4.2 million for fiscal 2015 compares with negative free cash flow of $46,000 in the prior year.

In Q4, we started a program of transitioning many of our annual payers to monthly payments as we believe this will help reduce churn. While this will have some impact on cash flow for fiscal 2016 as we move through a year of this cycle, we believe our cash flow prospects remain intact in the long-term and our cash flow is strong enough at this point to allow us to make this transition, which we believe will benefit the firm in the long run.

As we look to the balance sheet, for Q4 and fiscal year ending 2015, the firm reported cash and cash equivalents of $2.3 million compared to $2.2 million as of the end of Q3 and $1.8 million for fiscal year ending 2014. In the fourth quarter, we did a great job of collecting our outstanding accounts receivable, bringing the balance down to $2 million, which was the lowest point for the year despite the integration of three acquisitions.

Looking at debt, at the end of the fiscal year, there was not an outstanding balance on our line of credit. Total debt, which we calculate as debt from our line of credit, notes payable, and capital lease obligations, was $10.8 million at year-end versus $4.5 million a year ago. Net debt was $8.5 million. The company's debt-to-equity ratio stood at 40.1 percent versus 26 percent at the end of last year, with the increases in total debt and the ratio attributable to the financing related to the three acquisitions completed in the year.

In conclusion, it has been a very strong year for ARI. To recap, over the last 12 months, we have generated over $40 million in revenue, over $2.3 million in operating profit, over $6.5 million in adjusted EBITDA and over $6.3 million in cash flow from operations. As noted, all of these are records for the company. As we look ahead, we intend to focus the early quarters of fiscal 2016 on integrating the acquisitions we completed last year, working to integrate sales teams and drive financial performance.

Turning specifically to Q1 of fiscal 2016. Typically in Q1, we experience a drop-off in adjusted EBITDA and margin from Q4 to Q1. This is because Q4 is traditionally our best quarter and Q1 is seasonally a time of high marketing spend for us as the post-summer trade show season begins.

If you look back at the first quarter of fiscal 2013 and fiscal 2014, you will note this impact as both quarters experienced sequential declines in adjusted EBITDA and margin, with the adjusted EBITDA and margin dropping 1.9 percent and 4.5 percent respectively. That said, given we should not have any material transaction-related cost in the first quarter, we expect this impact to be less pronounced than prior year's and look to post a quarter which will give us a great start to the new fiscal year.

I will now turn the call back over to Roy.

Roy W. Olivier: Thanks, Bill. Before I get into details, I want to reiterate our strategy and how we got to where we are now. When I joined the company back in 2006, we were doing about $15 million in revenue from predominantly eCatalogs. Today, ARI is a marketing-focused technology company helping dealers drive leads for new and used equipment or increase sales of parts, garments, and accessories, in-store and online, with over 50 percent of ARI's revenues coming from marketing solutions like lead-generation websites, eCommerce websites and digital marketing services.

In 2006, we served four vertical markets, with a total addressable market of about 25,000 dealers in the United States. We had ambitions to grow the business over $100 million in revenues, which was not possible in those markets with the products we had at the time. The actions we've taken over the past 5 years were intended to move us into larger markets, add additional products and raise the average price per dealer for those products. It is our strategic intent to offer solutions, both online and in-store, for virtually every area of the dealership in the verticals we support and compete for a higher and higher percentage of the IP and marketing spend at those dealerships.

Through the acquisitions we have completed, we now offer three products and a service into seven vertical markets, eight if you count appliances, with a total addressable market of 150,000 dealers in the United States. Our average revenue per dealer in each of the new products is substantially higher than our oldest product, which is eCatalogs. This puts ARI in a position to achieve $100 million of revenues while only achieving about 5 percent market share in the markets we serve today.

While we will always look for opportunities to grow in new markets, for the foreseeable future, we believe execution in our current markets is the quickest path to achieving our growth objectives. In order to help illustrate our progress, we will start recording more detailed subscriber data with our Q1 fiscal 2016 results, which we expect to announce in early December.

I will now review some key performance indicators, give an update on our strategy and outlook, and then we'll turn the call over for questions. Turning to key performance indicators or KPIs. The three leading indicators that drive our revenue are new bookings, upsells, and churn. Total bookings for the year were $9.8 million compared to $7.3 million last year. This number includes $7 million in dealer sales, $1.7 million in OEM sales, and $1.1 million in tire and wheel software sales. Dealer and OEM sales are for the full fiscal year. Tire and wheel software sales are for the 10-month period ending July 31.

New bookings are new products sold to new or existing customers, measured and recorded based upon the annual contract value or ACV in the first year of the customer relationship. For the full fiscal year, we continue to see strong new dealer sales, posting $7 million in new ACV for the year, up 6.9 percent over fiscal 2014. Upsells in the dealer sales team, which is the measurement of additional revenue derived from new features or catalogs sold to existing customers, were up 52.8 percent for the full year. Churn, the measure of a recurring revenue that does not renew, was 15.5 percent for the full year, up from 12.6 percent last year. This is the first increase in churn in the past 5 years. Our increase in churn was due to multiple factors which we have covered on previous calls. We have recently made several changes to the business, and we'll continue to make changes intended to improve our churn results, including increasing our retention staff, increasing our investment in software development, improving our team's visibility to leading indicators and transitioning more customers to monthly billing. In addition, we're developing a program to target dealers that have been a customer for two to three years, which is the peak churn point for our website customers. We will have additional details about this program in future calls.

The CAC ratio represents the number of months it takes to recoup our sales and marketing investment in acquiring recurring revenue from a new customer. The company's overall CAC ratio was 10.3 months for the full year, an improvement over the 12.1 months for fiscal 2014. While this is an excellent result, we do not anticipate continuing to add salespeople at the same rate as fiscal 2014, resulting in a moderate decrease in sales and marketing spend as a percentage of revenue in fiscal 2015.

Now I'll move on to review our progress against strategic objectives. We continue to see nice year-over-year bookings growth in virtually all vertical markets in fiscal 2015, posting a 17 percent increase in our dealer sales teams. Overall, new bookings growth was 33.5 percent when we include OEM sales, posting a 25.5 percent increase, and include software sales which were new in fiscal 2015. We expect to continue to see growth in fiscal 2016 in virtually all markets.

We also have a strategic focus to add new products and content that we believe will generate future revenue and improve our value proposition. As stated in my opening remarks, we announced several new products and upgrades during the year, which drove the growth in upsells to our dealer base. We also announced 14 new major customer wins, which will help continue to drive new sales in fiscal 2016. We will continue to invest in delivering world-class customer service and support as well as new products to our existing customers in order to improve our customer satisfaction, which should reduce our customer churn rates. As previously reported, ARI won two product awards during the year, one from HME Business for our digital marketing solutions, and one from Boating Industry magazine for our new mobile app. Both awards underscore our commitment to providing innovative solutions that help our customers sell more stuff.

We'll also continue to integrate our software products with other software solutions used by our customers in order to improve our overall customer experience, which should also reduce churn. In particular, we expect to see additional new sales opportunities from our announced relationships with Shopatron, ChannelAdvisor, as well as a third undisclosed partnership agreement. We will continue to seek out and execute acquisitions that align

with our core strategy, including those that provide for interesting new products, markets, and opportunities to consolidate our position in existing markets.

That said, I do want to reiterate that our focus in fiscal 2016 will be to integrate and execute on the acquisitions we completed in fiscal 2015. It is our intent to position the company to complete future acquisitions through primarily (inaudible) and senior debt, which makes generating EBITDA from our current business the priority. Overall, the business is in a great position today to continue to grow.

In summary, we have made and expect to continue to make significant progress in terms of growing the business and improving our margins. I expect fiscal 2016 to be another record year for ARI, and in the second half of the year, I believe the firm can begin executing on a $50 million-plus annual revenue run rate.

With that, let me open up the call for your questions. Operator, please instruct our listeners how to queue up.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star then the one key on your touch-tone telephone. If your question has been answered or you wish to remove your question, please press the pound key.

Our first question comes from the line of Ed Woo with Ascendiant Capital.

Edward Woo: Yes, thank you and congratulations on the quarter and on the year. Roy, I know you mentioned that you were looking at acquisitions but your focus is on integrations of your recent acquisitions. I know that, you had, you had made a number of acquisitions over the past several years and you guys seem to be getting the integration process down much more efficiently. Do you think that these recent acquisitions will be faster than you're previous integrations, I guess setting up for potentially, you guys could be acquiring more companies faster?

Roy W. Olivier: I think we certainly learn from each one, and we think that we have streamlined the integration process as we've done integrations over the last few years. So it is certainly our intent to be in a position to do, to execute on acquisitions that make sense, a little bit shorter than the 18-month window that we ran historically. Previous to last year, we did a new acquisition about every 18 months. We would like to certainly be in a position to move faster. But given the fact that we have three that we've done over the last year, we need to make sure that we've made a significant amount of progress on integration on those three before we embark on another one.

Edward Woo: Great. And then in terms of – you said that you guys are going to focus on your existing markets. What about international? Do you think that's a core area that you guys want to grow in? Or do you guys want to stay focused domestically at least until you guys kind of get all these integrations done?

Roy W. Olivier: Certainly, for the two or three quarters, we're going to focus a lot on integrating, which is primarily domestic business. However, as I've reported in previous calls, we have closed some new international relationships, both content-wise and customer-wise. And we are doing some things to try to jumpstart a little more growth in our international business that I think we'll be talking about in the Q1 or Q2 call.

Edward Woo: Great. And if I can have just one last question, what are you seeing out there in terms of the macro environment? You know, it seems that the economy in the U.S. seems to be holding up relatively well, which actually bodes well for a lot of your dealers. Is that what you're seeing out there?

Roy W. Olivier: Yes, we actually, through our Q4, saw a drop in new bookings in terms of year-over-year compared to the previous three quarters. And the reason we saw a little bit of softness in new bookings in Q4 and early in our Q1 is because the dealers have been so busy throughout the selling season in the summer. They've been almost impossible to get on the phone, which is our primary sales vehicle. So we are looking forward to a very strong fall now that we're in show season because the dealers have had a very, very successful spring, summer, and early fall, and that bodes well for us providing additional

products and services to them as we move into what is our peak selling season.

Edward Woo: Great. Well, thank you and good luck.

Roy W. Olivier: Thank you.

Operator: Our next question comes from the line of Erik Kobayashi-Solomon with Asymmetric Value Strategies. Your line is now open.

Erik Kobayashi-Solomon: Thanks. And congratulations on the great quarter and the great year. I wanted to kind of do a follow-up on the integration question. When you're thinking about integrating these firms, what are the kind of the three main things that you're focused on? Is it more technology, more the sales force? Kind of what direction are you trying to do that integration?

Roy W. Olivier: Well, I mean, at a high level, we think about strategic, back-office, and culture. So how do their products fit into our strategic road map and product offerings, how do we integrate the culture of that business with the culture of ARI, and then how do we integrate the back-office? I mean, if we get into specific details, the early things we do obviously are cash management, payables, billing, and then we start to move, evaluating whether or not we're going to integrate software development, sales, retention and other parts of the business.

William Nurthen: Yes, certainly, too. We look at integrating from more of an operational standpoint. We attempt to integrate the sales teams probably the quickest because, one, we want to make sure that we're taking full advantage of some of the cross-selling opportunities that are out there, and that is a reason why we do a lot of these acquisitions. The other reason is do we want to make sure they're operating off of the same sales system so that we have an approach to the dealer that's a unified approach.

Erik Kobayashi-Solomon: That great. Very helpful. Thanks. And you had mentioned that you've moved to monthly pricing to reduce churn. Can you talk about that dynamic a little bit?

William Nurthen: Yes, sure. Yes, we – one of the things that – as Roy mentioned, we're doing a number of things to address churn, and one of this is moving to a monthly payment. The situation is if you sell to someone and you have annual payments, you essentially have to resell them every year even though the contract does auto-renew. With the monthly payments, it becomes more of a monthly amount that's run through typically through their credit card every month, and you don't have to resell them typically at that renewal point. The contract just auto-renews and they continue to make their monthly payment. So for us, it's a way to, from a financial perspective, combat churn. And into the cash flow, what we've generated over the last 12, 15 months has really put us in a position to make that transition.

Erik Kobayashi-Solomon: Great. Makes sense. And then I was happy to hear that you're talking about publishing more data about subscription metrics. I wonder, could you, this quarter, talk about kind of what areas you saw the most subscriptions? Was that more on the digital marketing side or more on the website side? And I'm talking about organic subscription growth obviously.

Roy W. Olivier: Yes, I mean, I think in terms of organic subscription growth, the leader continues to be eCommerce or lead-gen websites. We hope to have pulled together the subscription data for this call, but given the complexity of the three acquisitions on top of our own business, we want to make sure that we publish accurate data. So we'll have a lot more detail for you in the next call.

Erik Kobayashi-Solomon: That's great. Looking forward to it. And do you mind if I ask just one more quick one?

Roy W. Olivier: No, go ahead.

Erik Kobayashi-Solomon: I was surprised that the rate of increase in your upsells, that's 52.8 percent, is what I heard. Is that including the DCi integration? Is that why that is so big?

Roy W. Olivier: No, DCi had immaterial impact on those results. That number is so big because we, really, last year, set out to release a series of new features that are high value-add features that are billable, so we'll typically give that feature to a dealer for two or three months, and then if they want to keep it, they can pay

incrementally to keep it. And those are things like the mobile application, like the application that feeds their inventory to craigslist and CycleTrader and eBay and other sites. It's things that really help the dealer drive leads or sell more stuff, but there's an incremental charge on top of our base product charge form.

Erik Kobayashi-Solomon: Great. Thanks very much. That’s all for me.

Roy W. Olivier: Thank you.

Operator: Again, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star and then one.

Our next question comes from the line of Louie Toma with Craig-Hallum Capital. Your line is now open.

Louie Toma: Hi, guys. Congratulations on a nice quarter. I just had a couple of questions. I didn't – I know you gave the annual churn numbers of 15.5 percent. Did you give the churn number for the quarter or did I miss that?

William Nurthen: Yes, I don't believe we did. It was 16.7 percent annualized for the quarter, Louie.

Louie Toma: Sixteen-point-seven, percent. A couple of things that I was wondering about is your sales and marketing expenses declined a couple hundred thousand dollars sequentially, and as a percentage of revenues was down, I think, 23 percent versus 26 percent-plus last quarter. So I guess the first question is, is this the beginning of the trend of expect to see lower sales and marketing as a percent? And is – I know you mentioned you added less salespeople, but is this – does this have anything to do with the increased churn at all?

Roy W. Olivier: I'll add a couple of comments and then I'll have Bill, Bill can add some as well. I mean, first off, you know, the acquisition of these new companies, they typically spend a lot less in sales and marketing than ARI does. So as an example, DCi has basically two salespeople. And so their sales and marketing spend as a percentage of revenue is far below ARI's. So as more and more of that revenue hits, it will affect our sales and marketing as a percent of revenue.

Secondarily, I think there is a slight influence on churn, and that if we had fiscal 2015 to do over again, I think we would have probably been a little less aggressive on new salespeople and a little more aggressive on ramping the retention people at the same rate that we were adding salespeople. And retention people do cost less than a quota-carrying salesperson overall. So I think we would have had a few less hunters, if you will, quota-carrying salespeople and a few more retention people, which would have dropped the percentage a little bit. But, Bill, you want to add to that?

William Nurthen: Yes, just a couple of things. I think one is just, as I mentioned in my earlier script, the Q1 is seasonally a high time of marketing trade show spend for us and Q4 is seasonally the lowest time. So, again, we will typically see a dip in Q4 just out of the trade shows not happening in that quarter. So I would expect that Q4 to Q1, you'll see it bump up a little bit again. But I do think the overall trend is down a little bit further even this year. If you look at last year, we were at, or in fiscal '14, 28.3 percent of revenue, and now we're at 25.8 percent on a trailing 12 months.

I think Roy's point is important on versus new sales versus retention because if you look at actually new sales, despite reducing the sales spend there, we actually had new sales bookings of a 17 percent increase on the dealer side. So from a sales perspective, we performed really strong and we're getting more out of our existing new sales team. I think we just need to beef up a little bit on the retention side to address the churn issue.

Louie Toma: Got it. And then my last question is just moving down one line item to customer operation and support. So this looked like it increased sequentially absolute and as a percentage of revenue. So can you just talk a little bit about what was driving that line item up and what should we expect going forward?

William Nurthen: Sure. Yes, so sequentially, it was about a $600,000 increase. A lot of that was the acquisition. So about $300,000 of that was related to the acquisitions, and that is TASCO coming on full as well as DCi coming on for half a month. And as Roy noted, the companies we acquire tend to have less sales and less

G&A and so where they really sort of impact the line is on the customer ops line.

You know, there was a couple of other items within the specific quarter in Q4. We had a onetime expenditure that was also about $100,000. And then just one of the unique things about our Q4 is we actually had two more payroll days than last quarter, so that picked up about another $100,000 of the variance there. I would expect that to drop, you know, kind of adding into Q1, but it's probably somewhere between the levels of Q3 and Q4, given what has been added with the acquisitions.

Louie Toma: Got it. Makes sense. OK, thank you very much.

Operator: Thank you. And again, if you'd like to ask a question, it is star and then one.

Our next question comes from the line of Lou Basenese from Disruptive Tech Research. Your line is now open.

Louis Basenese: Congrats on a strong quarter, guys. Just a quick question. You mentioned organic growth coming in at about 7 percent, and forgive me if you mentioned this, but what are you targeting for the next year, you think, is possible moving forward?

Roy W. Olivier: Well, I think, you know, last year, we've mentioned we were looking for high single digit, growing to low double digit as the year went on. And I think this year, unfortunately, we're back to that same position. We need to correct and get the churn going back in the right direction in order to get to that low double-digit organic growth rate, which is our target.

Louis Basenese: OK. And then just another question. You guys have been active with the acquisitions, but it seems like there's a lot of private equity interest in the industry. Have any potential buyers approached you? Or do you consider that a possibility now that you guys have grown to, you know, over a $40 million run rate?

Roy W. Olivier: Well, I don't – I think we certainly get lots of phone calls and talk to lots of people, both buying and selling, and we've said publicly before that we have a

five-year plan to grow the business, which we think will result in an EBITDA number that even without multiple expansion produces a stock price, which would be a great rate of return for our shareholders. However, at some point, we'll attract interest from a larger entity, whether it's private equity or whether it's a big competitor. So we're certainly aware of what's going on in the market and it's an interesting aspect of the business today. I don't know if you …

(Crosstalk)

Louis Basenese: I was just going to say, as you think about that possibility, I mean, is it something where you look like CDK and would run a full process if an offer came around? Or how do you guys think through those potential outcomes?

Roy W. Olivier: I'm going to kick that one to Bill.

William Nurthen: Yes, I think it's something that we discuss at the board level on a regular basis. At this time, there's been no plans to move forward with some kind of formal process or come out with any information like CDK did. So we continue, as Roy noted, just to manage the business and invest for growing the business. We do feel like with the new markets we're in, there's significant opportunity there for growth. And as we scale the business, we think we've shown that both – scale can happen both in the profitability and the cash flow side of the business as well. So we feel pretty good about our prospects. We revisited within the board on a regular basis. And if there is something to report at some point, we would report it, but nothing to report today.

Louis Basenese: OK, great. I appreciate it. Best of luck, guys.

Roy W. Olivier: Yes, great questions, Louis. Thank you.

Operator: I'm showing no further questions at this time. I would like to turn the call back to Roy W. Olivier for any further remarks.

Roy W. Olivier: Well, thank you again for joining us on today's call. We'll look forward to talking to you in early December at the conclusion of our current quarter. Have a great evening.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Everyone, have a great day.

END