ARI NETWORK SERVICES, INC.

Moderator: Steven Hooser
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Operator: This is Conference # 56616344.

Good afternoon, and welcome to the ARI Network Services First Quarter Year Ending 2016 Earnings Conference Call. As a reminder to our participants in the room, this conference is being recorded.

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

Steven Hooser: Thanks, Brian. Thank you to everyone for joining us today to discuss our first quarter fiscal year ending 2016 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 a 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 as well.

Before I turn the call over to management, I'd like to remind everyone that during today's call, including the question-and-answer 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, it 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 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 good afternoon, and thanks to all of you for participating in today's call.

Our results for the first quarter exceeded expectations. ARI posted record revenues and adjusted EBITDA and shown improvement in many of our operating metrics. We had another strong performance in terms of new bookings with dealer sales improving both consecutively and versus last year.

We also announced several new agreements which we think will translate into results later this year. Of particular interest are two large medical distributor agreements where we will provide websites to their dealers that include eCommerce and drop shipping capabilities. Combined, the audience for that solution is over 8,000 dealers and ARI is the preferred provider and the only provider that offers drop shipping built into the platform at this time.

We also signed a preferred agreement with Sys2K, who is one of the leading providers of accounting software into the RV market. Consistent with our strategy of integration with related platforms, we are building a unique integration between our lead generation and eCommerce platform and the

Sys2K accounting software and expect that, along with a major update to our RV platform, to accelerate our sales into that market.

We also won two additional awards during the quarter in the home medical equipment and outdoor power markets for our premium directory management offering, which underscores our commitment to being an innovator in helping our dealers sell more stuff.

Our quarterly revenue annualized now suggests a $47 million revenue run rate, which is consistent with my comments in the annual report regarding my expectations that we would report $47 million to $49 million in revenues for the full year.

Our adjusted EBITDA improved and now annualizes to about $8 million.

As a result of – I'm sorry, as a result of several product updates and improved focus, annualized churn improved 2.3 points from Q4. Keep in mind that we have two types of customers that contribute to churn, dealers and non-dealers. The non-dealers are OEMs, distributors and other large users.

While we are interested in keeping all of our customers happy, we put additional focus on dealers as this is our core business. We expect to see dealer churn improve through the year, but will likely see increased churn in our non-dealer base. This will be due to our continued focus on strategic dealer customers.

Related to dealer churn, one of our larger customers, with over 150 locations, STS Tires, was acquired by Mavis Tires earlier this year and is converting the STS locations to the Mavis software. We expect this churn to show up starting in Q2 and continuing through Q3 as they wind down locations. As a result, we could see a spike in Q3. However, it will be based on an item that is essentially beyond our control. While we will need to replace this revenue, we do not think this changes our overall churn strategy or speaks in any material way as to the effect it is having.

New bookings improved consecutively and versus last year. Dealer sales' new bookings were $1.8 million for the quarter. Overall new bookings, which are dealer sales, OEM sales and software sales, were $2.5 million, with all three areas showing improvement over last year. We feel like we have the right investment in sales and marketing as our CAC ratio remained under 11 months.

In summary, we continue to see strong new sales bookings across the board and a very large pipeline for OEM sales and in the point-of-sale or dealer business management system software teams. I continue to see very exciting leading indicators both in terms of the general economy and in our operating metrics that lead me to conclude that fiscal 2016 will be another record year for ARI.

Next I'd like to discuss ARI's long-term opportunity, but for now, I'll turn the call over to Bill to go over the quarter's financials in detail, and then I'll be back to comment on the opportunity in front of us and the 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 first quarter of our fiscal 2016, which ended on October 31, 2015.

Before I go through some of the financial details, I wanted to remind everyone the first quarter of fiscal 2016 represents the first quarterly reporting period which incorporates the full operational impact of the three acquisitions we completed in fiscal 2015. In addition, we closed the TCS acquisition on September 30, 2014. Thus, for year-over-year comparisons, it should be noted that for the first quarter of fiscal 2015, we had one month of TCS' operations in it.

With that noted, I will now go through the Q1 fiscal 2016 results. Total revenues for the first quarter were $11.7 million which compares to $9.1 million in the same period last year and $10.9 million in the prior quarter. The year-over-year increase was driven by the acquisitions as well as organic growth, primarily in our lead generation and website business. Sequentially, the increase was primarily a result of having a full quarter of DCi's operations,

whose revenue we classify under eCatalog compared to the fourth quarter which only had about a half a month of DCi's operations.

Recurring revenues were $10.7 million compared to $8.2 million in the same period last year and $9.8 million in the prior quarter. Recurring revenues represented 91.2 percent of total revenues for the three months ended October 31, 2015, versus 89.4 percent in the same period last year and 90.1 percent in the prior quarter.

The year-over-year and sequential increases in the mix of recurring revenue can both be largely attributed to the incorporation of a full quarter of DCi's results as the business typically operates with 90 percent-plus recurring revenues. Year-over-year, growth in the recurring component of our website, business management software and digital marketing offerings all also helped to improve the mix.

Turning to profitability. We are off to a good start for the fiscal year. As noted in the press release, this quarter reversed a three-year trend in which we typically see a drop-off in adjusted EBITDA performance between Q4 and Q1. Our gross profit improved to $9.7 million or 82.4 percent of revenue compared to $7.4 million or 80.8 percent in the same period last year and $9.0 million or 82.5 percent of revenue in the prior quarter. Sequentially, the margin performance was relatively flat as our cost of sales increased consistent with revenue. Year-over-year, the increase was primarily driven by a year-over-year decrease in amortization despite the higher revenue performance.

The firm recorded an operating profit this quarter of $808,000 versus an operating profit of $283,000 in the same period last year and $686,000 in the prior quarter. The year-over-year increase of 185.5 percent was principally a result of improvements in our gross margin as well as getting some scale on the sales and marketing and general and administrative lines of the business.

As we noted in prior calls, Q1 is traditionally a seasonal time of high trade show spend for us. We invested similar amounts into trade shows that we

have in the past; however, the impacts to the margin was less given the growth of our revenues.

Additionally, we continue to demonstrate an ability to manage a higher amount of revenue without adding a significant amount of G&A expense. We hope to see this improve further after we complete some of the work on our internal systems that we have noted on prior calls.

Sequentially, the operating profit improvement was really a result of holding the line on costs in our customer operations and support group. Quarter-over-quarter, this expense was relatively flat despite the increase in revenue and the incorporation of a full period of DCi's operations.

Pretax profit was $688,000 versus a pretax profit of $193,000 in the prior year and $573,000 in the prior quarter. The year-over-year increase was 257 percent. From an earnings per share perspective, net income for Q1 was $389,000 or $0.02 per share compared to a net income of $104,000 or $0.01 per share a year ago and $368,000 or $0.02 per share in the prior quarter.

The sequential performance was relatively flat. However, that is the result of a onetime benefit we received in the fourth quarter of 2015 in recapturing some state NOLs which drove down our tax rate. As previously noted, we did achieve a strong sequential improvement in pretax profit, which was a roughly 20 percent increase from the fourth quarter of 2015 to the first quarter of 2016.

Looking at adjusted EBITDA, this was the first time the firm has recorded adjusted EBITDA that topped $2 million in a quarter. Adjusted EBITDA was $2 million in the first quarter of 2016 compared to $1.3 million in the same period last year and $1.8 million in the prior quarter. This represents one of the strongest Q1 performances in the firm's recent history, and we believe it puts us on a great pace to show significant improvement in adjusted EBITDA in fiscal 2016 over fiscal 2015. The adjusted EBITDA margin was 17.2 percent compared to 14.3 percent in Q1 of last year and 16.5 percent in the prior quarter.

Turning to cash flow. We were able to improve our year-over-year cash flow from operations despite transitioning some of our customers from annual billing to monthly billing. Cash flow from operations for the quarter was $1.7 million compared to $1.6 million in the same period last year and $1.7 million in the prior quarter. On a trailing 12 months basis, our cash flow from operations now stands at $6.4 million.

Free cash flow, which we calculate as cash flow from operations less capital expenditures and software capitalization, was $1.2 million for the period versus $1.3 million in the same period last year and $1.1 million in the prior quarter. The free cash flow was slightly behind Q1 of last year as we almost spent nothing on capital expenditures last year, which was somewhat atypical.

One other thing to note is that our accounts payable balance is about $150,000 lower than it was in Q1 of last year. So we are continuing to post strong cash flow numbers while staying very current on our bills as well.

As we look ahead to Q2, it is seasonally a period of our lowest cash receipts and we will be continuing to transition customers to monthly payment. Similar to last year, we expect to see a drop-off in cash flow and free cash flow from Q2 to Q1; however, we are aiming to improve upon last year's Q2 performance.

As we look at the balance sheet, our strong cash flow performance in the quarter helped to improve the balance sheet. The balance of cash and cash equivalents stood at $3.2 million at quarter-end compared with $2.3 million at the end of fiscal 2015, a nice quarter-over-quarter increase.

Looking at debt, our line of credit remains clean as the balance was zero at quarter-end. Total debt, which we calculate as debt from our line of credit, notes payable and capital lease obligations, was $10.4 million at the end of the first quarter compared with a balance of $10.8 million at our fiscal 2015 year-end.

Net debt was $7.2 million at the end of the first quarter versus net debt of $8.5 million at our fiscal year-end. The company's debt-to-equity ratio stood at 37.8 percent versus 40.1 percent at the end of our fiscal year.

As we look to Q2 and the remainder of our fiscal year, I wanted to point out that given we have reached the anniversary of the TCS transaction, we will now begin paying down a portion of the principal related to the seller note associated with that transaction whereas previously we were just paying interest.

In addition, we will also start making payments associated with the year one portion of their earnout. These payments in total approximate $400,000 on a quarterly basis and we will be making these payments in addition to the principal payments we make on our debt from Silicon Valley Bank.

While we are very comfortable to make these payments, the point is that even with our strong cash flow, it will get harder to see an increase in the cash balance at the same pace through the remainder of the fiscal year. That said, we do aim to push the cash balance higher and are targeting to push it to around $4 million as of fiscal 2016 year-end. At that point, our debt balance will be roughly $9.2 million and net debt around $5.2 million versus $8.5 million, which is where it was at the end of our fiscal 2015.

As we – as was noted in our press release, we feel this positions us very well to take advantage of future investment opportunities that align with our growth strategy.

In conclusion, our performance in Q1 was a great start to our fiscal year. Our adjusted EBITDA at the end of fiscal year 2015 was $6.6 million. When you look at it on a trailing 12 months performance, however, incorporating our first quarter of 2016 performance, adjusted EBITDA now stands at $7.3 million over the last 12 months.

As we look ahead to Q2, we believe we can continue to improve upon our prior year performance and continue to increase the trailing 12 months adjusted EBITDA number from where it stands today.

I will now turn the call back over to Roy.

Roy W. Olivier: Thanks, Bill. In this section of the call, I'd like to focus on the long-term opportunity we face, discuss how the changes we have made in the past few years position us versus that opportunity and what the future might look like.

As a reminder, a few years ago, a vast majority of ARI's revenues were from one product, eCatalog, sold in four vertical markets. Those markets had a total addressable market measured in terms of dealerships or service providers of 25,000 in the United States. For purposes of these comments, I will refer to both dealerships and service providers as dealers.

Over the past few years, we have entered into several new vertical markets, increasing our total addressable market by 500 percent to about 150,000 dealers in the United States. In the process of making those decisions, we look for markets that met our strategic criteria, which remains we look for markets where the equipment is complex and requires repair, where those products are sold through a network of dealers, where those products are primarily – I'm sorry, where those dealers are primarily independently owned, where those dealers are multi-brand, and where those markets are large in terms of dealer account.

We also look for markets where our core competency fits well. We believe this includes our unique ability to help dealers who sell multiple brands manage the complex software and content required to be successful today. We provide software and services to reduce the complexity of their businesses and to help them be more successful.

The second part of our strategy was to obtain an increased percentage of the IT and marketing spending by those dealers through adding new products that would drive value while remaining focused on recurring revenue. As a result, we have expanded the three products and the service over the past few years.

These products include solutions to help increase the number of customers shopping for products online or in-store; ways to help those customers and dealers find what they're looking for across millions of items; help the dealer service those items; and finally, solutions to help the dealers run their business more efficiently.

Today, ARI offers a suite of solutions to help dealers sell more stuff in virtually all areas of their business. Prior to the TCS acquisition, excluding what we refer to as bulk customers, ARI had about 12,750 customers subscribing to its recurring revenue products. Today, due to new markets and additional products, that subscriber number stands at approximately 15,600.

The third part of the strategy was to offer products that have higher average revenues per subscriber than eCatalog. In the most recent quarter, our average revenue per subscriber or average revenue per dealer for eCatalog was about $1,800 in annual recurring revenue. Our new solutions have an annual recurring revenue ranging from about $3,000 per year or to $5,000. This allows us to scale revenues at a faster rate as we sell those products into our dealer base.

The result of all these changes is that we've increased the total addressable market from about $100 million in the United States to over $1.5 billion. It remains our objective to achieve $100 million of revenues in the next few years, and given the changes we have made, we now only need a single digit market share to accomplish that goal.

As a reminder, we have market share as high as 66 percent in some of the vertical markets we serve with eCatalog. The dealers know who we are, have done business with us for many years and have confidence that we can deliver value as we have done with eCatalog for many years.

In addition to our organic growth strategy, we continue to see good progress integrating the three acquisitions we completed in fiscal 2015. Even taking into account the unexpected churn from the Mavis/STS acquisition we

discussed previously, we remain confident in the opportunities brought to us through each of these transactions.

More importantly, we're seeing dramatically improved pipelines in the businesses because ARI can provide solutions across the entire dealership. We do remain committed to acquisitions as part of our long-term strategy, and we participate in markets that have many small competitors. For example, the markets – in the markets we serve today, ARI integrates with over 90 partners that have software in dealerships. Many of these partners offer a single solution to hundreds or a few thousand dealers. They are privately owned and they started in the 1970s or 1980s. Many of these entrepreneurs are looking to preserve what they have built and transition to the next phase of their life. We think we are well positioned to continue acquiring those businesses that align with our long-term strategy.

That said, we think the scale we have built over the past few years in terms of cash flow and EBITDA generation put us in a position to execute those opportunities through primarily senior debt. We have a strong relationship with our banker, Silicon Valley Bank, and we seek to fund future deals primarily through debt sources.

We expect to report between $47 million and $49 million in revenues in fiscal 2016, which will translate to a three-year compounded annual growth rate of 16 percent and a five-year compounded annual growth rate of 17 percent. Moving forward, we believe we can maintain those growth rates, delivering roughly half of that growth organically and half through acquisitions in line with our strategy.

Assuming we can maintain our historic growth rate going forward, we would expect to produce $75 million in revenues in fiscal 2019 and $100 million in revenues in fiscal 2021. We believe that $75 million supports an adjusted EBITDA level between 18 percent and 22 percent conservatively. At $100 million of revenues, we believe an operating model could be up to 24 percent.

In summary, I think ARI has demonstrated a successful track record executing from a business perspective. I think we've also demonstrated that we can acquire and integrate businesses to produce accelerated results. I think the business is positioned very well for the future opportunity and I'm confident that we can produce a significant shareholder return as we deliver on that opportunity.

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

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

Our first question comes from the line of Louie Toma with Craig-Hallum Capital. Please go ahead.

Louie Toma: Hi guys, congratulations on a great quarter. Just had a couple of questions. I guess, just for housekeeping. Could you give us the breakdown of the different segments for the quarter, the website, lead management, eCatalog, business management and so forth?

William Nurthen: Sure, yes, I can get you that. So our lead generation websites, I'll just – I'll round these numbers up, $5.9 million; the eCatalog was $4.5 million; digital marketing, $400,000; business management software, $800,000; and then our other revenue was a couple hundred thousand.

Louie Toma: OK. And I didn't hear, did you guys give out an organic growth number?

William Nurthen: No, we did not. And as we discussed on the prior call, it gets harder and harder to really get a true organic growth number as – especially in tire and wheel, we've integrated those sales teams from the core ARI 50 Below Sales team to the TCS team and now the TASCO team. So I think if we had to estimate it, I think a best estimate of the organic growth would be around 5 percent.

And I think while that seems lower than some of the more recent quarters, a couple of things to be noted. There was a large non-recurring professional services engagement in Q1 of last year that impacts that number. So also when you look at it, you kind of focus on just the recurring piece and remove the nonrecurring impacts, the recurring revenue organic growth rate was more like 7 percent to 8 percent. So churn is still affecting that number, churn from last year, but if we can continue to bring the churn down, hopefully, we can increase that organic growth rate.

Louie Toma: And If I heard you correctly, you said that churn improved by 2.3 percent. Is that correct?

William Nurthen: Yes, it's actually – it was, I think, it was 2.5 percent. If you're looking at the annualized for last quarter where it was 16.7 percent, it's 14.2 percent for this quarter.

Louie Toma: OK, 14.2 percent. Perfect. And then, last question. Can you talk about one of the things from the DCi acquisition that was exciting as you have 23,000 retailers using the electronic catalog product. And I believe one of your strategies is to upsell them to your website services. Can you talk a little bit about that in terms of an update, how you're approaching them, what your success has been with that so far?

Roy W. Olivier: Yes, Louie, this is Roy. I don't think we have not made that a priority. We'd made a decision that we wanted to let DCi perform as a standalone unit for a couple of quarters. We wanted to ensure that we were seeing the revenue cash flows and EBITDA performance out of the unit. And so starting really in our Q3, we'll start investing and increasing its sales footprint and integrating the technology and really start the cross-selling activities.

But given the fact that we did three acquisitions in the previous year, we wanted to let DCi continue to run and make sure there was no surprises in there, which there have not been, before we made additional investments in that business.

Louie Toma: It makes complete sense. OK, thank you very much and congratulations again.

Roy W. Olivier: Thank you.

William Nurthen: Thanks.

Operator: Thank you. Our next question comes from the line from Ed Woo with Ascendiant Capital. Your line is now open. Please go ahead.

Edward Woo: Yes, thank you and also congratulations on a great quarter. Roy, thanks a lot for giving us the long-term revenue EBITDA goals that you laid out. As you guys do get bigger, do you envision that your strategy for acquisitions will also change in terms of if you want to get half your growth from acquisitions, it sounds like you're going to do some pretty big acquisitions. Is that going to be kind of a different mindset than what you guys had done in the past?

Roy W. Olivier: I don't think so because there is, as I mentioned, today we partner with 90 companies that have software running in the same market, same dealerships we're in. They range in size from $1 million to $10 million of revenue. Last year, we did three acquisitions. One we expected to add $6 million of revenue, one we expected to add $4 million in revenue and one we expected to add $2 million of revenue.

So being able to do one or two deals a year that help us get half of that growth through acquisitions I think is reasonable and probable given the number of targets that are out there and given the size and our ability to fund them.

Edward Woo: Great. Have you seen any changes in valuations, whether it's gone up or gone down, or it's been pretty steady in the past year?

Roy W. Olivier: I think it's been pretty steady. I mean, the guys that have, as I mentioned in the calls, the guys that have been running their businesses since the '70s or '80s, they have pretty realistic expectations in terms of valuation where we see kind of unrealistic valuation expectations as newer companies that have an interesting piece of technology that really don't have a long demonstrated

track record of EBITDA or cash flow. And so far, we have not done a lot of acquisitions on that segment. I mean, there is some interesting technology out there that is consistent with our strategy, but we're not going to pay some of the crazy multiples that these guys expect to acquire.

Edward Woo: Great. And one last question is, what about international expansion? Do you envision that being a major piece of getting to that $100 million? Do you think that, that can all be done pretty much domestically?

Roy W. Olivier: The numbers I gave actually are almost all domestic. We continue to see a growth opportunity in Europe and Asia Pacific. However, given the amount of resources, capital and human, that we have, we continue to prioritize the growth opportunities in the U.S. beyond the Europe and Asia Pacific area.

That said, we've had few press releases about some success in Europe. And I would expect to see some additional releases over the coming quarters about some stuff we're doing in other parts of the world to try to kick start some growth there. But the numbers I gave are U.S. numbers.

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

Roy W. Olivier: Thank you.

Operator: Thank you. Our next question comes from the line of Avi Fisher with Long Cast Advisers. Your line is now open. Please go ahead.

Avram Fisher: Hi, Roy and Bill, I'm glad you're coming down with '20/'21 guidance already, I like it. Could you – I wonder if you said in the comments, the Mavis situation, did you quantify how much in revenue, what the revenue impact is of it?

William Nurthen: Yes. For the maintenance associated with that contract, it's about $30,000 a month in revenue.

Avram Fisher: And was that included in your annual – in the sort of guidance you put out in the annual report?

Roy W. Olivier: No. That's already reflected in those numbers.

Avram Fisher: And talking about the next three quarters, basically 16 percent growth for the rest of the year. And is that all based on what you have now as a company? It's all sort of organic as you stand today.

William Nurthen: No. I think what we are looking at, again, is we were just running that $47 million to $49 million, where we think we'll end up. And then assuming the low end of that range at $47 million, what would that imply from a three-year, five-year CAGR.

Avram Fisher: No, sorry. Just for this year. The midpoint is $48 million, you backed out $11.7 million. That implied 16 percent growth for the remainder of the year, if I did my math right.

Roy W. Olivier: I think that remainder of the year growth is a combination of DCi for the full year versus not plus the organic growth.

Avram Fisher: So it's no new acquisitions from this point. It implies no new acquisitions other than what you already have in your portfolio right now.

Roy W. Olivier: Right. Those numbers imply no new acquisitions.

Avram Fisher: Got you. And are you – and when you think about the future, can you talk about are there other markets you think about going into, or just broadly speaking, stick to the ones that are complicated that have a dealer network? Sort of if I allow my imagination to run wild, I could assume what that might be.

Roy W. Olivier: Yes, I mean, I think broadly speaking, we think we're going to remain in the markets that we currently serve. We think there's a huge upside potential in these markets. And if we expand, it will probably expand geographically to be more proactive with these markets and products in Europe and Asia Pacific versus going into something like heavy agriculture, mining or construction.

Because we think these markets are big and we think if we can execute, we can achieve those numbers without adding additional complexity to the

business by adding new markets, new content that has to be published, new verticals sales expertise that we don't have, et cetera. So we'll focus on the eight markets we're in for the foreseeable future.

Avram Fisher: Yes. Well, it gets harder going forward, but you've done a really nice job so far and 15 percent free cash flow margin is a beautiful thing. Just one last question, what is the expected amortization of software costs for the year? You generally do about $2 million per year. Is that consistent with this year?

William Nurthen: Are you talking about the amortization of software going through the gross margin?

Avram Fisher: Yes, yes.

William Nurthen: Yes. I think that's about – it's going to be about $2 million.

Avram Fisher: OK. When I – you look at adjusted EBITDA, I like to keep it in EBITDA because I look at it somewhat of an operating cost, so I want to make sure I'm just looking at it the right way, and based on what you put on your annual report, it sort of implies a run rate of about, you said $10 million in adjusted EBITDA. If I back out the two, you had a run rate of $8 million adjusted EBITDA, the way I look at it.

William Nurthen: Yes. Now we've – and that number has come down where – again, as I said, last year, it came down a bit as we're having less capitalization of the software and you're seeing more of that get expensed in today's numbers.

Avram Fisher: And you said you were forecasting $5 million in net debt at the end of the year?

William Nurthen: Yes, around $5 million, $5.2 million. Again, we just ran some numbers out based on historical cash flow from last year and the paydown schedule of the debt.

Avram Fisher: I mean, just based on what I'm seeing. I see $8 million in – not adjusted EBITDA but EBITDA, $5 million in net debt. I mean, at the current multiple, that implies a $6.50 stock price.

William Nurthen: (We like that).

Avram Fisher: Just put it out there. Thank you so much. Talk to you soon.

Roy W. Olivier: Thanks, Avi.

Operator: Thank you. Again, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star then one on your telephone keypad. Again, ladies and gentlemen, that is star then one to ask a question.

Our next question comes from the line of Louis Basenese with Disruptive Tech. Your line is now open. Please go ahead.

Louis Basenese: Congrats on the quarter guys. I just have a question about the guidance in the annual letter. You talked about hitting the $50 million run rate in the back half and then $10 million adjusted EBITDA shortly after. Can you just talk about the visibility there and your level of confidence in hitting those numbers?

Roy W. Olivier: Yes. I mean, as you probably expect, we do very, very detailed annual budgeting every year for the full fiscal year. We have a very good handle on number of subscribers and what the recurring revenue rate looks like. It's easy for us to apply a churn rate to that and we have, I think, a very good handle on what our new bookings are per quarter.

I guess, that's a way of saying in more words than I need to that our level of confidence is high in the plan, the $47 million to $49 million. My level of confidence in a $50 million run rate is high. And my level of confidence that a $10 million EBITDA run rate will happen shortly after that, maybe not this fiscal year, but shortly after that, is also high.

Louis Basenese: OK.

Roy W. Olivier: So I mean, all the indicators for us are – continue to look up and to the right. So absent some significant event that we don't foresee today, I've got a lot of confidence that we'll hit those numbers.

Louis Basenese: Great. And then, on the EBITDA, is that – you say shortly thereafter, I mean, or is it one quarter, two quarters? Any guidance in terms of timing there for possibilities.

Roy W. Olivier: I think you're in the zone right there.

Louis Basenese: OK, fair enough. And then, last question, and forgive me if you mentioned this already and I missed it. In terms of the cash flows and the transition to monthly payments, is there a quarter that has a higher percentage of these transitions that we should be thinking about? Or is it fairly consistent each quarter?

William Nurthen: I think we're actually getting to the point where the worst is behind us on that. We started that in Q4 of last year, and then we did this year. I think we can peg the impact on it for this quarter. I'd probably say it was between $275,000, $300,000, and I think it will go down from there in the next quarter. It will probably still be a six-figure impact. But then as we get into Q3 and beyond, I think it becomes less of an issue.

Louis Basenese: OK, great. Congrats on the quarter again and thanks for taking my questions.

Roy W. Olivier: Thank you.

Operator: Thank you. Again, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star then one on your telephone keypad. We also would like to ask that you limit yourself to one question followed by one follow up.

Our next question comes from the line of Erik Kobayashi-Solomon with Asymmetric Value. Your line is now open. Please go ahead.

Erik Kobayashi-Solomon: Roy, Bill, terrific quarter, congratulations. I just had one question, and forgive me if you'd already talked about this. In the last call, you'd talked

about some of the strategies, especially kind of more focus on customer service to reduce churn. Just wonder how that's working right now.

Roy W. Olivier: Yes. There's actually multiple things going on that are targeted toward dealer churn, including a series of product roadmap, product updates, expanding the amount of time that the retention people have to proactively talk to dealers instead of being reactive, doing a better job of measuring what dealers are doing with the technology. So we have leading indicators that tell us whether or not they have a high likelihood of churn because they're not using it as well as improving customer service.

I think we've made progress in each one of those areas, and that's why we saw a churn improvement of 2.5 percent consecutively quarter-over-quarter. However, there is a lot of work left to be done.

And to proactively answer a question somebody else asked me, I don't think there's a tipping point where we're going to see a stair-step drop off on churn. It's going to be incremental improvements throughout the year, and we expect to see incremental improvements in churn throughout the year other than what I mentioned in the call with a couple of larger customers.

Erik Kobayashi-Solomon: Great, thanks. And so you mentioned some improvements or some development work that you're doing as well to help reduce the churn. You're seeing a good uptake on the new technology there?

Roy W. Olivier: Yes. I mean, we do major product release pretty much every 30 days for the lead gen and eCommerce platform. We made a series of releases designed to drive more leads to those dealers and convert more visitors to those websites to a lead and the early results of the changes that we have made all look very, very good. So I think we're seeing in some of the test dealers that we test stuff on before we roll it out to the broader dealer base, literally, triple-digit improvement in leads to the dealership based on the changes we've made. And so that will translate back to reduced churn, because if we're giving more leads to the dealers, they're less apt to try another solution or cancel.

Erik Kobayashi-Solomon: Sure, makes sense. Thanks very much for taking my calls. And again, congratulations. Terrific quarter.

Roy W. Olivier: Thank you, Erik.

Operator: Thank you. There are no further questions. I will now turn the call back to Roy W. Olivier, Chief Executive Officer, for closing remarks.

Roy W. Olivier: Well, thank you again for joining us for today's call, and we look forward to talking to you at the conclusion of next quarter. And have a very good evening.

Operator: Ladies and gentlemen, this does conclude today's program. You may all disconnect. Everybody, have a wonderful day.

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