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ARIS - Q2 2016 ARI Network Services Inc. Earnings Call

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PRESENTATION

Operator

Good day, everyone. Welcome to the ARI Network Services second quarter year ending 2016 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 - ***ARI Network Services, Inc. - IR***

Thank you, Karen. Thank you for everyone for joining us today to discuss our second 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 Investors 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, and maybe 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 - ***ARI Network Services, Inc. - President, CEO***

Thanks, Steven, and good afternoon and thanks to all of you for participating in today's call. Results for the second quarter exceeded my expectations in many areas, but highlighted a few areas that need improvement.

ARI again posted record revenues and adjusted EBITDA and I was pleased with many of our operating metrics. We had another very strong performance in terms of new sales bookings with total bookings improving both consecutively and versus last year.

Our dealer bookings were 2.5 million, up from 1.8 million last quarter and 1.8 million last year. Total company bookings which include dealer sales, OEM sales, software sales and DCi were 3.2 million, up from 2.5 million last quarter and 2.6 million last year. Both dealer bookings and total bookings are record results and we remain optimistic about fiscal 2016 and growth in the back half of the fiscal year.

We also announced several new agreements which we think will translate into results this year and into fiscal 2016. Most recently we entered into an exclusive agreement with CDK Global Recreation, subsidiary of CDK Global to deeply integrate our award-winning Accessory Smart product into their dealer business management system used by over 2,000 dealers in the Powersports market.

Accessory Smart will be built into their menu and we will provide a free trial to all of their dealers. The potential revenue impact to ARI could be up to 2.4 million of annual recurring revenue if all CDK dealers subscribed after the free trial. I do not expect to see that revenue impact our results until Q4 fiscal 2016 at the earliest.

We also announced a new exclusive agreement with Toro where we provided 4,200 Toro branded websites to their dealers in exchange for allowing the dealers to use co-op funds to pay for their multi-branded websites.

We have had strong interest in the program with new Toro bookings being $245,000 of annual recurring revenue since the program launched, $135,000 of which was sold in February, the first full month of Toro sales.

That 135,000 represents 40 new dealers, so we have revised our target for this program upward based on early results. We're hoping to see this -- excuse me, we're hoping this program can also serve as model for how we work with other OEMs to develop a web presence and drive online leads to their dealer network.

In addition, we renewed our agreement with Brunswick to participate in their Dealer Advantage Program and entered into additional agreements with another manufacturer to be the provider of a lead-generation and e-commerce websites to their dealers.

Finally, we won two new product innovation awards underscoring our commitment to innovative solutions to help our dealers sell more stuff.

On quarterly revenue annualized -- I'm sorry, our quarterly revenue annualized continues to suggest $47 million revenue run rate which is consistent with my comments in the annual report regarding my expectation that we would report 47 million to 49 million in revenues for the full year.

Our adjusted EBITDA improved slightly and continues to suggest an annual result of about 8 million. We continue to focus on improving our products and services as it relates to churn. Annualized churn improved 1.1 points from Q2 last year. Sequentially while the number is a little higher than last quarter, there is good news in the number.

First, as we discussed in the last quarter's call, we were expecting churn in tire and wheel related to a large account that cancelled due to be acquired. We experienced about half of that churn during Q2, due to the timing of some of the cancellations and if you factor that churn out, our churn number would have been the best results since the first quarter of fiscal 2015.

Second, our catalog churn rate is tracking well below 10% annually and the endeavor churn, our primary lead-generation and e-commerce platform improved 0.2% for the quarter. While we're pleased with the progress, we continue to put a lot of emphasis on product innovation, integration with other systems, and partnerships like Sys2K, which we discussed in the last quarter's call, CDK and Toro announcements to make our products stickier.

One of the areas we need to work on is converting new revenue -- I'm sorry new bookings into revenue. While we have had strong new bookings in Q1 and now in Q2, we have outpaced the ability of ARI's teams to deliver those products and services to our dealers.

Right now both groups, ARI and TCS have backlogs related to some of our more complex offerings that are three times higher than normal. We have initiatives in place to improve our delivery times and we're confident that we can get these moving back down during Q3 and begin to further translate some of the strong bookings numbers into recognized revenue.

One of the initiatives that we have accomplished as opening an office in New Delhi, India. Almost a year ago we assigned a Senior Operations resource to investigate building additional capacity. We conducted a comprehensive review of the options and hired a VP GM in November and have continued to add staff.

We're recruiting now for additional development in operational capacity to address this issue and position us for future growth and to scale down the customer operations operating line as a percentage of revenue.

Given the time it takes to fill vacancies in India, I do want to point out that this is not a short-term solution. However, we're confident that this will help us build a cost-effective way to accelerate our development and operational velocity in the future. Long-term, we're very excited about the efficiency and scale this office will bring to our business.

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

Next, I'd like to discuss ARI's long-term opportunity, but for now, I'd like to 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 as well as our outlook. Bill?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

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 second quarter of our fiscal 2016 which ended on January 31st, 2016.

Before I go through some of the financial details, I wanted to remind everyone the second quarter of fiscal 2016 represents the first quarterly reporting period in which we have fully anniversaried the TCS transaction which closed on September 30th, 2014.

Thus, year-over-year comparisons related to that transaction do not need to be adjusted. That being said, we acquired TASCO at the end of Q3 last year and DCi towards the end of Q4 last year. So, it should be noted that the operations for those transactions are included in our Q2 fiscal 2016 results, but are not included in the comparable for the prior year.

With those items noted, I will now go through the Q2 fiscal 2016 results. Total revenues for the second quarter were 11.8 million, which compares to 10.1 million in the same period last year and 11.7 million in the prior quarter. The year-over-year increase was driven by revenue from the acquisitions as well as organic revenue growth.

We did experience organic growth across all four of our core offerings of lead generation and ecommerce websites, e-catalog, business management software and digital marketing services. This growth was offset by a year-over-year decline in professional services revenue of roughly 160,000. Sequentially, it should be noted that quarter-over-quarter non-recurring professional service revenue was about $170,000 lower in Q2 than it was in Q1.

We have intentionally moved away from doing large non-recurring professional service projects and this did impact the revenue from both year-over-year and quarter-over-quarter perspective. We believe this will benefit us in the long-term however as we continue to focus on recurring revenue growth

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Recurring revenues for Q2 were 10.8 million, compared to 9.2 million in the same period last year and 10.7 million in the prior quarter. Recurring revenues represented 91.6% of total revenues for the three months ending January 31, 2016 versus 90.8% in the same period last year and 91.2% in the prior quarter.

The year-over-year increases in the mix of recurring revenue is largely attributable to the incorporation of the DCi transactions results as that business typically operates with 90% plus recurring revenues as well as the year-over-year decline in professional services revenue.

Growth in the recurring component of our website, business management software and digital marketing offerings, all also helped to improve the mix. Sequentially, the mix improved as a result of the decline in professional services revenue.

Turning to profitability, as we reach the mid-point of our fiscal year, we continue to experience significant improvement in our year-over-year numbers. Through the first six months of this year, operating income has increased 76% and adjusted EBITDA has improved by 35%.

Looking at gross profit, our gross profit improved to 9.7 million in Q2 or 82.4% of revenue, compared to 8.3 million or 81.6% in the same period last year and 9.7 million or 82.4% of revenue in the prior quarter. Sequentially, the margin performance was relatively flat as our cost remained consistent with revenue.

Year-over-year, the increase was primarily driven by amortization expense remaining relatively flat year-over-year, despite the increase in revenue as well as the royalty and third party cost component of our cost of sales increasing at a slower pace than revenue.

The firm recorded an operating profit this quarter of 873,000 or 7.4% of revenue versus an operating profit of 670,000 in the same period last year and 808,000 in the prior quarter.

The year-over-year increase of 30.3% was principally a result of the improvements in our gross margin as well as continued scaling on the sales and marketing and general and administrative lines of the business.

And looking at each of the operating lines on our P&L with the exception of software development, the aggregate increase in each of those lines can be attributed to the expense base brought on with the acquisitions.

And with respect to sales and marketing and G&A, this expense has been offset by efficiencies either have identified in our business or recognized through the integration of these acquisitions.

In software development, we have intentionally ramped our headcount and our expenditures as part of our initiatives to reduce churn. In Q2, some of that expense was offset as we reached technological feasibility on a couple of our core initiatives and as a result capitalize more cost than we did in Q2 of last year.

Quarter-over-quarter, we experienced a $65,000 improvement in operating profit. This was a result of a small improvement in gross profit as well as a reduction of about 45,000 on the operating expense lines. Similar to the yearend trend costs on all lines expect software development went down quarter-over-quarter.

Pre-tax profit for the quarter was 753,000 versus a pre-tax profit of 534,000 in the prior year and 688,000 in the prior quarter. The year-over-year increase was 41%.

From an earnings per share perspective, we reached an important milestone in Q2 as reported our best EPS performance since the fourth quarter of fiscal 2012. Net income for Q2 was 448,000 or $0.03 per share compared to a net income of 260,000 or $0.02 per share a year ago and 389,000 or $0.02 per share in the prior quarter. The improving year-over-year and sequentially were due to the higher pre-tax profile as well as the lower tax rate.

Looking at adjusted EBITDA, adjusted EBITDA was 2.1 million in the second quarter of 2016 compared to 1.7 million in the same period last year and 2 million in the prior quarter. Once again, Q2 showed a nice improvement over the prior year, as adjusted EBITDA improved by 20%.

The adjusted EBITDA margin was 17.8%, compared to 17.2% in Q2 of last year and 17.2% in the prior quarter. For the first half of the year, the firm has now produced adjusted EBITDA of 4.1 million versus 3 million in the first six months of last year.

Turning to cash flow, Q2 is seasonally our lowest time for cash flow.

However, we were able to continue to experience improvement in 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 1.2 million compared to 1.1 million in the same period last year and 1.7 million in the prior quarter. On a trailing 12-month basis, our cash flow from operations now stands at 6.5 million compared with 5.1 million a year ago.

Turning to free cash flow, we were able to improve free cash flow, despite the higher software capitalization outflows in the quarter. Free cash flow which we calculated cash flow from operations, plus capital expenditures and software capitalization was 605,000 for the period versus 465,000 in the same period last year and 1.2 million in the prior quarter.

An important thing to note is that our accounts payable balance is about $276,000 lower than it was in Q2 of last year, so we posted an improvement over Q2 of last year, despite an aggressive pay down of our bills.

As we look ahead to Q3, it is seasonally one of our stronger periods for cash performance and we aim to show improvement over Q2 as well as over our prior year numbers. As we look to the balance sheet, our strong cash flow performance of the quarter continued to improve our balance sheet. The balance of cash and cash equivalent stood at 3.2 million at quarter end, flat last quarter compared with 2.3 million as of the end of fiscal 2015.

The flat quarter-over-quarter balance is impressive given we began paying down some of the debt associated with the TCS transaction last quarter. Looking at debt, our line of credit remains clean as the balance was zero at quarter end.

Total debt which we calculate is debt from our line of credit, notes payable and capital lease obligations was 10 million at the end of the second quarter compared with a balance of 10.4 million at the end of Q1.

Factoring in the TCS debt repayments and the reduction of other debt, our net debt now stands at 6.8 million versus 7.2 million at the end of Q1 and net debt of 8.5 million at our fiscal year end. The company's debt to equity ratio stood at 35.4% versus 37.8% at the end of Q1.

As we look to Q3 and the remainder of our fiscal year, we aim to continue to improve both our cash balance and reduce our net debt targeting about 4 million in cash at year end and net debt of roughly 5.2 million.

As we noted in our press release, we feel this positions us very well to take advantage of future investment opportunities that are aligned with our growth strategy. In conclusion, we have seen strong improvement in the first six months of the year versus our prior year. This improvement has also translated into significant improvement in our trailing 12 months' numbers.

On a trailing 12 months' basis, we have now generated operating income of $3 million, adjusted EBITDA of $7.6 million which is a 17.1% margin and cash flow from operations of 6.5 million. When you compare this to our prior trailing 12 months' numbers as well as our fiscal 2015 numbers, these are all meaningful improvements. As we look ahead into Q3, I wanted to make a few points.

First, as Roy noted, our bookings were strong in the first half of the year and we have a bit of backlog we're working through to have those bookings translate in revenue.

We expect to see some of that revenue in Q3 and are looking to improve our growth rates both organic and overall in Q3 versus the performance in Q2 and additionally expect -- continue to see growth in recurring revenue outpace overall growth.

Second, our earnings growth for the first half of the year has been ahead of expectations and I do not think that as something that will continue at the same pace in Q3. Last year, Q3 was actually slightly down compared to Q2 from an adjusted EBITDA perspective and I suspect we may have a similar result this year in Q3.

Roy mentioned that we are in the process of ramping up our India development office. We will do this in a discipline manner. However, the reality is that there what we cost increases in the initial phases of this process before we start experiencing cost savings and efficiencies.

Long-term, this office will allow us to greater scale the customer operations and software development operating lines on our P&L. As noted previously, we are already seeing scale in the sales and marketing and G&A lines of our business and this will compliment that.

In addition, we remained committed to the additional spent we have added on the software development line associated with our churn mitigation initiatives. All this being said, we believe we remain on track for a year of significant earnings growth in fiscal 2016 and at the same time are laying the ground work to be able to scale our margins higher over the next three to five years.

I will now turn the call back over to Roy.

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Thanks, Bill. In last quarter's call, we focused on the long-term opportunity we faced; discussed how the changes we have made in the past few years, position ARI versus that opportunity and what the future might look like.

In this quarter's call, I'd like to focus on the challenges facing our customers and how we are positioning our company and our products to address them which we believe will make our products more valuable and stickier to our customer base.

As you know we provide SaaS and other solutions to dealers in selective vertical markets where the equipment is complex and requires repair is sold through a dealer network where that dealer network is primarily independently owned and where those dealers are primarily multi-brand.

Examples of complex equipment include a motorcycle, car, RV, boat, et cetera. When we say multi-brand, we mean that the dealership typically offers several brands for sale. For example, a typical motorcycle dealer will offer about five brands or typical outdoor power dealer will offer about eight brands. These are dealers authorized by the manufacturer to sell and service those brands and we do not believe that will change in the foreseeable future.

In short, we believe that consumers will continue to view and authorize dealership as the destination to purchase complex equipment to have that equipment serviced, in many cases, to buy parts and accessories for their unit.

When we consider consumer shopping prints today, we know that overall retail sales is growing at a low single-digit rate, while online shopping is growing in a double-digits. We also know that over 50% of search today are started on a mobile device and the consumer reviews are an important part of any purchasing decision that most consumer research products before they purchase them and that 80% of the final decision is made in store.

ARI today has over 7,500 lead-generation and e-commerce websites helping dealers manage their destination for consumers to search for new or used equipment, schedule a unit for repair, buy parts and accessories for their unit. We have been and will continue to collect vast amounts of analytics regarding consumer's online behavior.

ARI today also has agreement with over 90 different software providers who sell in-store systems to dealers including the dealer business management system or DBMS which is in-store accounting system.

ARI is also entered into the DBMS space more directly over the past two years with the acquisition of TCS and TASCO. It is our intent to have deep integration with the leading DBMS players in the vertical markets we serve or to acquire those companies.

Our reasoning is very simple online and in-store shopping is and will continue to converge both in the broader retail space and in the markets we serve. We intent to provide omnichannel retail solutions for our customers. In short, we want to deliver solutions that are personalized to specific customers and their preferences online and in-store.

More specifically, we want to provide personalized websites and mobile experiences to consumers based on what they own and what their interests are based on search history. We want to utilize the latest technology in-store to show them using a Powersports dealership as an example what helmets are on sale and in-stock based on their search history online as they walk by that helmet counter. We want to be able to specific we craft and deliver marketing messages to sport bike riders that is different from people who enjoy cruisers.

As we enter this falls trade show season, it is our intent to showcase what the dealer of the future will look like. We intend to show and demonstrate how ARI can help manufacturers and dealers understand how to leverage the current shopping trends or what we call the digital path to purchase and how our technology helps dealers to sell more stock by leveraging those trends.

We intent to show solutions including new mobile solutions and beacon technology to target specific products to visitors based on their online history, personalized websites that are build based on the visitors browsing history and what they own and the unit sales, I'm sorry, kiosk for parts for our technology and more.

In short, we want to help dealers understand the benefit from the intersection of online and in-store trends. We're very excited about where we're going and we're confident that we'll not help our customers sell more stuff, but we'll help our investors by providing shareholder returns and excess the general market.

As we've discussed in the last call, we continue to expect 47 million to 49 million of revenues for fiscal 2016 which would translate to a three-year compounded annual growth rate of 16% and a five year compounded annual growth rate of 17%.

Moving forward, we believe we can maintain those growth rates delivering roughly half of that growth organically and half through acquisitions that align with our strategy.

Assuming we can maintain our historical growth rate going forward, we would expect to produce 75 million of revenues in fiscal 2019 and 100 million in fiscal 2021. We believe that 75 million supports adjusted EBITDA levels between 18% and 22%, at 100 million of revenues we believe the operating model could be up to 24%.

In summary, I continue to 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 and I am confident we can produce significant shareholder return as we deliver on that opportunity.

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

Operator

Certainly.

(Operator Instructions)

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

Ed Woo - ***Ascendiant Capital - Analyst***

Yeah. Thank you for taking my question and congratulations on another good quarter. I was just curious about the macro environment. I know you mentioned that at least on the technology side, more and more people are going online to make their purchase decisions, but what are you seeing out there in terms of how the dealers are feeling, especially since it seems like the first target of 2016 it seems that a little bit macro uncertainty than what we have seen last year?

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Hi. Thanks. That's a good question. I think we see mix messages in terms of macro environment. Certainly, you guys probably all follow Harley-Davidson, Polaris, and the other public motorcycle manufacturers or other manufacturers in the verticals we serve, many of whom are reporting a lot of headwinds in their results, especially as it relates to sales growth and profit. I think that when we look at the dealer metrics that we do see, it varies dramatically by part of the country.

Some dealers are reporting year-over-year sales losses in many segments of their business outside of service, other dealers are doing very well. And just to illustrate that point, I think we all know we've had a very mild winner that means that not lot of snowblowers are getting sold and not a lot of snow mobiles are getting sold.

So, dealers in those markets are not doing near as well as dealers in southern markets where they don't carry those products, they didn't stock up, expecting a good winter that didn't happen.

Other markets where they typically had colder winters or having a much milder winter, which has allowed them to sell more motorcycles or ATVs or movers. So, we get a little bit of mixed message in terms of the macro environment. However, our dealers for the most part report loss of traffic in some weather-impacted areas not as much.

And I continue to be very surprised in a good way at very strong new bookings from the sales teams and the sales teams -- our sales teams continue to report that it's a very good environment in terms of dealers wanting to invest in their business to position themselves to grow the business.

So, we're not seeing a big downturn, but there's a mixed message in terms of some of the metrics that we follow. Bill, is there anything you want to add to that?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

No, I think that covered it.

Ed Woo - ***Ascendiant Capital - Analyst***

Great. And it's good to see that you guys are improving your -- I guess operational efficiency by going international, at least, on the revenue side, do you have any more plans to broaden yourself outside of your focus in U.S.?

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

I'm sorry; I didn't catch it; could you repeat that?

Ed Woo - ***Ascendiant Capital - Analyst***

Sure. In terms of international opportunity, do you guys see it as more of a focused that you guys are opening international office in India?

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Well, as you know, we've had the office in Europe for a number of years; we do dealer sales and dealer tech support for Asia-Pacific out of The Netherlands. We will eventually move that to the New Delhi office and I suspect given the fact that its closer certainly from a time zone perspective, we'll some improvement there.

That said, I think we've also indicated previously that we make investment decisions every year on growing the business and we have not made a lot of investment decisions in terms of new products for international markets.

Today, we only sell one product in the international markets and that's eCatalog. As we go forward, we'll look for those opportunities to invest there, but certainly in the first 12 to 24 months, our focus on that office is to build additional operational capacity to allow us to deliver systems faster, redesign systems faster, and basically close the gap from point-of-sale to when we can deliver it to our customers.

Ed Woo - ***Ascendiant Capital - Analyst***

Great. Thank you and good luck.

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Thank you.

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

Thanks.

Operator

Thank you. And our next question comes from the line of Gary Prestopino from Barrington Research.

Matt Gall - ***Barrington Research - Analyst***

Hi, good afternoon, everyone. This is Matt Gall on for Gary. Thanks for taking our question. First off I just wanted to see if the segments breakout in the quarter for the lead-gen website, eCatalog that has been comparable to previous quarters if there is anything different -- if you could provide a breakout that would be great?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

Sure. I can do that. Yeah, the lead-generation e-commerce website was about 5.9 million for the quarter about 50% of the revenue; eCatalog was about 4.4 million, almost 4.50, so about 38%; Digital marketing little under 400,000 or 3.3%; and business management software was about 900,000 or 7.4%.

Matt Gall - ***Barrington Research - Analyst***

Okay, great. Thanks. That's helpful. And then turning to one of the agreements that you had with CDK Recreation, I think you had mentioned with -- potential was up to 2,000 powersports dealers, you expect that there could be some revenue towards back half of the year.

I just want -- if you could walk out how that kind of pilot phase through the next couple six months or so and kind of what you see as the opportunity with their powersports dealers

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Yeah, good question. Thank you. I mean there's about 2,000, we're breaking them into three phases. So, the first phase actually is not going to be a third, but it will be a little bit less than a third. We will turn on the product inside the accounting system, the point-of-sale system that's used inside the dealership everyday on a free trial basis. They will be able to free trial it for a couple of months.

At the end of that free trial, we'll make an effort to convert them into a subscriber. And we'll do that about a third, a third, a third and each free trial period is about 60 days. So, it will take six or seven months. We're starting trials in March, but it will take six or seven months to understand the full impact of the program.

We frankly have no idea what kind of conversion rate we're going to get. This is a new program. We have not done something like this before. We have assigned full time ARI Resource to work full time with CDK sales teams to make sure they have collateral material what we call the call framework, the marketing messaging. We've built in some technology so that we can whether or not the dealers are using the free trial and we can contact them if they're not.

So, I think we've taken all the steps to try to get the dealers turn that thing on and use that and we know if they turn it on and use it, we have a very high conversion rate. But if the jury is out as to how successful that will be as I mentioned in the conference call script, the annual recurring revenue, our portion, it's a revenue share, but our portion of the annual recurring revenue on that project would be about $2.4 million if all dealers converted which obviously is not going happen, some percentage will convert. But we don't have a good feel for whether that convert percentage is going to be 3, 5 or 50.

As a reminder, we have about 44% or somewhere in the 40% range of powersports dealers that use one of our OEM catalog products. So, about 40% of them already used one of our catalogs, but conversion on this solution is going to be new ground for us.

Matt Gall - ***Barrington Research - Analyst***

Sure. Well, no, that sounds like exiting opportunity which is best (inaudible) for shareholders. And then, just one last question from me, I'll get back in the queue. You've gone through as part of the increase backlog with bookings team -- getting a little bit further than revenue. And it's kind of said that it was little bit higher than normal and your plan is to increase that for Q3.

Can you just explain -- maybe I don't know what some of the initiatives in New Delhi, but how that backlog will -- how you kind of expect that to go may be over the next 12 months? Thank you.

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Well, our expect -- we actually have very specific backlog targets. And as I mentioned in the script, we're running about 3x our target delivery window for some of our more complex products.

So, over the next 12 months we expected to get it back down to our target. We're not adjusting the target. I think we were simply increasing our capacity to do deliveries. The reason that it kind of jumped up to three times target is much stronger new booking sales than we expected in the first half of the year which is a good problem to have, either have than those sales.

And then the other issue is we've started a migration project which migrates dealers on couple of older platforms. We have about a 1,000 dealers roughly -- less than a 1,000 that are on some older platforms that we're moving over the new platform and we made some estimates about how fast that those dealers would adopt the new platform which were a bit low and we also have a couple of options when you move with the new platform.

Option A, it takes X amount of time to do the conversion or migration. Option B, it takes two times that amount of time to do the migration. And we have more people opting for the 2X version and we had originally staffed headcount for.

So, we've kind of slowed down the migrations. We've increased the headcount in the areas that are delivering those services to catch up. And then, overtime, we've actually made some pricing changes through our setup fees to promote people taking the more efficient way of migrating.

And then overtime, of course, we're going to build out more operational capacity in the New Delhi to enable us to more quickly turnaround those types of implementations. Bill, anything you want to add to that?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

I think that pretty much sums it up. I mean again, it was -- we obviously have to get that delivered, but it turned out to be result of some good things that really caused that. One was I think the response to the Toro program was much higher than we anticipated and the sign-up of new dealers that was much faster than we anticipated.

And so, again, that's a very good thing, but when you combine that with the migrations we were doing from our four platforms down to two, essentially, we're getting much more uptick from dealers as well, excited about moving to the newer platforms. So, again, we got a heavy backlog both for -- in terms of the new sales from that Toro program as well as other sales as well as just the migrations.

Matt Gall - ***Barrington Research - Analyst***

Okay. That's very helpful. Thanks again for taking our question.

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Thank you.

Operator

Thank you.

(Operator Instructions)

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

Louie Toma - ***Craig-Hallum Capital - Analyst***

Hi, guys. Thanks for taking my question. Just had a couple of things first just curious on the acquisition front, are you guys still actively looking for acquisitions, or are you kind of staying off on the sidelines digesting what you have. Just curious what your thoughts are on that?

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

No. Thank you. That's a good question. I think we've communicated previously that we did not expect to do acquisition certainly in the first two or three quarters of fiscal 2016, as we continue to focus on integrating what we have.

That doesn't mean we've stopped our activity, we continue to look at lots and lots of opportunities.

And frankly, Bill and I have kind of turned down and walked away from several deals over the last four, five months for various reasons, didn't like valuation or didn't like the business or didn't think of a strategic.

That said, we still have lots of interesting opportunities in the Q and our thinking is we've made a lot of progress on integrating the acquisitions that we do have and we're certainly getting more serious about looking at options out there as we progress through the year.

That said we're not operating on a timeline, we're operating on what's a good valuation, what's a good business, what lines up for our strategy and what make sense if that were to come available in Q4, great, if it comes available in Q2 of next year. That's fine too. Bill, anything you want to add to that?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

Yeah. I think just in the interim, we continue to want to be in the best position we can to finance any deals through the use of debt. And so, as I pointed out on the script and in the press release that's really why we continue to drive as much as we can to both increase that cash balance and reduce the net debt balance. So, we just have to leverage we need available to us to do with the right deal when it comes along.

Louie Toma - ***Craig-Hallum Capital - Analyst***

Got it. Got it. And then just in terms of your latest acquisitions with TASCO and the DCi, can you talk a little bit about the cross-selling opportunity that you have there, when might we start seeing those cross selling opportunities translates into accelerated revenue growth?

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

I think we've seen some accelerated revenue growth in terms of point of sales side of the business. I frankly we have not been doing some of the software development integration to, for example, put DCis data into the TCS point-of-sale system or the ARI website that we think is a significant cross-selling opportunity into the DCi customer base for really two reasons.

One is we needed to execute on a series of initiatives to address churn and new sales rate and we made a lot of good progress there.

The second is, we wanted to make sure that DCi which is the latest acquisition was delivering the financial performance we expected them to deliver and that there wasn't any skeleton in the closet if you will before we make investments in integrating those technology pieces.

So, -- I mean to answer your question I think in Q3, Q4, we'll make some of those investments that will allow us to drive more cross selling opportunities both in TCI and DCi's base. But we have already seen -- I think Bill mentioned consecutive increase of $100,000 on quarter-over-quarter in terms of point of sale revenues. I mean I sound like a lot but it is relatively small base, so I think on $700,000 base is now 800,000 this quarter.

So, it's growing along, but obviously we need to make some investments to get it to grow a little bit quicker, but we wanted to do those at the right time. Bill, anything you want to add to that?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

Again, that pretty much covered it. We definitely have integrated those sales team selling the business management software on tire and wheel side, we are now starting to see an uptick in sale of the task of a product through the sales force which was predominantly TCS going into that transaction in some of those sales in the quarter.

Again, not a much to dramatically impact the revenue, but we are starting to see the uptick and the ability of those sales teams to effectively sell both of our business management products.

Louie Toma - ***Craig-Hallum Capital - Analyst***

Got it. Thank you. And then just one last question. Can you give us an organic growth number for the quarter or a pro forma growth number?

Bill Nurthen - ***ARI Network Services, Inc. - CFO***

Sure. Yeah. It's again we've talked about this before. I think it does get hard because we have integrated not only to TCS TASCO sales team but they -- we originally integrated tire and wheel sales teams here at ARI with the TCS sales team. So, it does get harder and harder to do that.

I think we were estimating and I would estimate it about 4% organically for overall revenue and about 5% organically for recurring revenue. I think the good thing is that if you look at recurring revenue, we did experience organic growth across all of their business line even eCatalog which we had some trouble with organic growth last year.

That said, 5% is little bit lower than our target rated highest single-digit, low double-digit that we said in the past, but that is part due to the backlog issue that Roy mentioned and we hope to improve upon that in the back half of the year.

Louie Toma - ***Craig-Hallum Capital - Analyst***

Great. That's all I have. Thank you very much.

Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to Roy W. Olivier for any closing remarks.

Roy W. Olivier - ***ARI Network Services, Inc. - President, CEO***

Well, thank you again for joining us on today's call. We're excited about our results and we look forward to talking to you at the conclusion of the current quarter. Have a good evening.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a good day.