inContact, Inc. NasdaqCM:SAAS

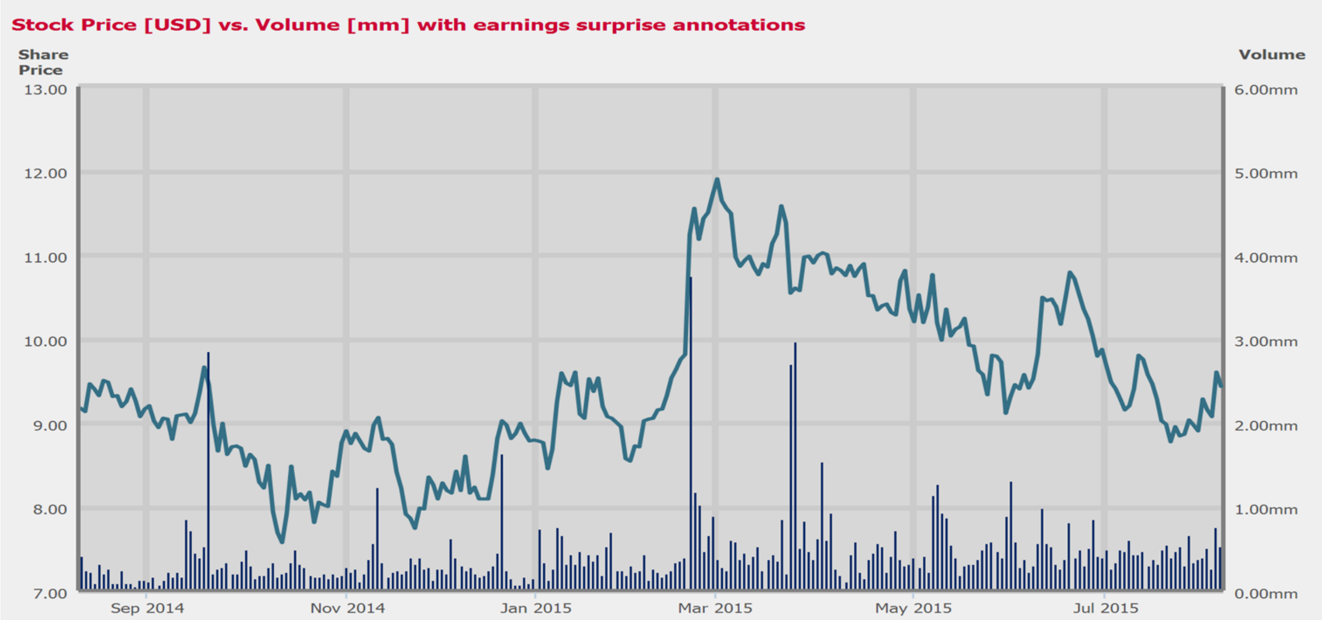
FQ3 2015 Earnings Call Transcripts

Thursday, October 29, 2015 8:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.08)	(0.09)	NM	(0.07)	(0.33)	(0.22)
Revenue (mm)	55.53	56.08	0.99	56.58	214.85	250.53

Currency: USD
Consensus as of Oct-13-2015 1:10 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	(0.10)	(0.11)	NM
FQ4 2014	(0.10)	(0.07)	NM
FQ1 2015	(0.06)	(0.10)	NM
FQ2 2015	(0.08)	(0.12)	NM

Call Participants

EXECUTIVES

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Paul Jarman
Chief Executive Officer, President and Director

ANALYSTS

Alexander Joseph Ljubich
Jefferies LLC, Research Division

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Kevin Kumar

Koji Ikeda
Oppenheimer & Co. Inc., Research Division

Michael J. Latimore
Northland Capital Markets, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to today's program. [Operator Instructions] Today's conference may be recorded.

It is now my pleasure to turn the call over to Greg Ayers. Please go ahead, sir.

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Thank you, and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Q3 2015 conference call. I will begin the call with some prepared remarks, and I'll then turn the call over to CEO, Paul Jarman, to review our third quarter results. Finally, I will provide additional detail on our financial results for the quarter before opening it up for Q&A.

For access to our news release and other information about inContact, please visit our website at www.incontact.com.

The purpose of today's call is to provide you with information regarding our third quarter 2015 results. Some of our discussion and responses to your questions may contain forward-looking statements, which are subject to risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize or should our assumptions prove to be incorrect, actual company results could differ materially from these forward-looking statements. These risks, uncertainties and assumptions as well as other information on potential risk factors that could affect our financial results are included in our filings with the SEC, including our most recent report on Form 10-Q, particularly under the heading Risk Factors. During the call, we may offer incremental metrics to provide additional insight into our business or quarterly results. Please be advised, this detail may be onetime and may or may not be provided in the future.

And now, I'll turn the call over to Paul Jarman. Paul?

Paul Jarman
Chief Executive Officer, President and Director

Thank you, Greg, and thank you to everyone joining our call this afternoon. I'm pleased to report that the company enjoyed an impressive third quarter on all fronts. Revenues for the quarter were at record levels. New business booked through both our direct sales force and our expanding partner channel also set new records. We made excellent progress in our efforts to improve margin and achieve efficiencies in our operations. Adjusted EBITDA of $4 million increased threefold from a year ago, and we will improve that in 2016. We continue to achieve great success in winning against our major competitors, as market adoption of the cloud continues to accelerate. And as noted by many industry analysts, our complete contact center solution stands out as a market leader.

In the third quarter, we increased software revenues by 40% to $36.7 million. Total revenues surpassed $56 million. Annualized reoccurring revenues for the last month of the quarter reached a $145.6 million, 51% above last year. This newly introduced metric truly captures the growth momentum of our key software products. With this strong quarter behind us, we've raised our guidance for the full year with software revenues now projected at $142 million to $143 million.

In the third quarter, we made great strides towards approaching non-GAAP profitability by the end of 2015. This is an important next step for inContact to demonstrate the path to profitability. Because of the strength of our software, the growth that we're achieving as well as investments in streamlining our processes, we are creating efficiency across the company, even as we press forward, disrupting the outdated premise software players.

We're pleased to report record bookings with 36% growth over Q3 2014. We added 137 new contracts, including 92 new logos and 45 from upsells to existing customers. We continue to win the majority of competitive opportunities, and are outpacing our competitors with our reputation and in true cloud market share.

The success and expansion of our partner channel is a key contributor to our growth strategy. We saw excellent bookings across all reseller types, including carriers, unified communication providers and VARs. Our carrier partners have been strong contributors. And in this quarter, they brought in significant new customer wins and expansion deals in enterprise as well as state and local government. This was a near-record quarter from our combined carrier partners who accounted for over 20% of bookings.

We continue to build our channel partnerships with several unified communications partners, including RingCentral, who brought in over 20 new customers in Q3.

One of our newer partners is ThinkingPhones, who unifies voice, text and conferencing services on a single cloud platform, and will resell the inContact cloud contact center solution bundled with it's Cloud UC offering. Partnering with them will further our reach and give us enterprise-level presence in the communications marketplace with another established leader.

Certain UC companies have recently acquired small software vendors to offer a combined PBX and contact center solution. Others have tried to internally develop contact center software in order to have a similar unified solution. In our view, these offerings fall well short of the capabilities that we provide with our UC partners and that customers are demanding in an environment of omni-channel support.

We have deliberately pursued strategic partnerships with the most highly qualified and fastest-growing UC companies. Both enterprise and SMB customers are thus able to reap the benefits of all-inclusive pricing and proven integration with the UC solution.

We have also been steadily adding new VARs to our channel program, which further expands our reach into different industries and market segments. In Q3, VARs contributed, both in overall bookings as well as news implementation, and were convinced many of the VARs that are critical to Uptivity's success to introduce our complete suite of products to the growing portion of their customer base interested in a cloud-based offering.

We have executed very well this year with growing and diversifying our distribution channel. These go-to-market partners are a distinct competitive advantage for us, expanding our reach and our leadership advantage. And frankly, we're just getting started. We have a significant market presence through our partners, and this will propel our growth in 2016.

Our direct sales group, including quota-carrying reps, sales engineers, inside sales reps and product specialists have been a major contributor to our new business efforts in 2015.

Here are 2 examples in the retail space. A rapidly expanding e-commerce company selected inContact because of our proven speed to implementation, overall flexibility and scalability. Initially, this new customer deployed 650 agents, but it's aggressive growth plan includes the opening of a 3,000-agent contact center in the Philippines next year, while also tripling their number of domestic agents. This customer is a good example of why we track ARR versus our traditional bookings model. Our bookings model would account for only the initial 650 agents. As this customer expands, our revenues expand without additional reported bookings.

A national retailer with over 1,000 stores in a thriving online presence is moving over 200 contact center agents from an outdated on-premise solution to inContact's cloud solution. In addition to our core customer interaction platform, this new customer is also implementing Personal Connection outbound dialer, workforce management and the inContact agent for Salesforce app. This deal was competitive against other cloud players. We won because of the breadth and depth of our platform, our proven scalability and our expertise in voice and connectivity.

Now I'd like to talk about 2 major events that happened in September, Dreamforce 2015 and our own inContact User Conference. At Dreamforce this year, we had a tremendous success bringing in more than double the number of leads from last year. Beyond lead generation, we had numerous meetings with prospects, customers, media and analysts. We made an exclusive presentation to the entire Salesforce service cloud overlay team to discuss our joint development road map. One of our customers, Arizona State University, presented a case study about the success they are having with inContact.

Our partnership with Salesforce is a significant factor for winning deals and for our continuing growth. Service cloud has grown nearly 39% this year. Major customers and prospects are excited about how we are working with Salesforce and how closely we are developing our platform to work seamlessly with the CRM. We now have a significant number of joint customers, and we will aggressively grow our partnership with Salesforce in 2016.

In late September, we held our 11th annual user conference, ICUC, here at Salt Lake City. At the conference, we had customers, partners and industry experts talking about the large-scale shift that is underway in how companies interact with their existing customers and prospects. Companies of all sizes are competing for customers like never before, and that underscores the importance of the advanced solution that inContact provides. We are helping companies to achieve their business goals, and as -- have many examples of customers who are good -- big advocates because they are doing just that, including Columbia Sportswear, Dyson and Hoveround as some of the latest success stories.

As an example, Hoveround Corporation has achieved some dramatic results with the inContact Personal Connection no-pause outbound dialer. Hoveround's connection rate to customers went from 19% to 46%, and drove a 116% increase in completed applications per day.

In conjunction with our user conference, we announced our latest 2015 fall software update, the inContact Cloud Customer Interaction Platform.

With every release, we bring more advanced features into the cloud, with omni-channel routing, workforce optimization and analytics. One of the most exciting features in this release is a new agent interface called inContact MAX, which stands for My Agent eXperience. Over the last 18 months, we worked with Frog Design, one of the leading industrial and digital design firms in the world to craft a modern user interface that improves agent experience and efficiency. inContact MAX enables Context-Aware and efficient handling of all contact center interactions regardless of channel. Other notable features from this release include a new supervisory interface, enhanced compliance tools for Personal Connection outbound dialing and a new gateway for Microsoft Lync's Skype for Business.

In Q3, we also announced that we have achieved the payment card industry's highest level of security compliance with PCI Level 1 certification, which is the only multi-tenet contact center solution in the market that is Level 1-compliant. We also introduced inContact Voice as a Service that builds on our unique strength as the only contact center provider that has a global carrier-grade network. Even though multi-channel service is growing, voice is still a critical channel, especially when the stakes are high, and customers are reaching out to a customer service representative. Our Voice as a service offering is second to none in the industry because we have more connectivity options than any other competitor, and we provide the best voice quality of any cloud player.

As part of the complete solution, we are publicly disclosing our quality score, as measured by industry standard benchmarks. inContact's average score for the last 6 weeks indicates "better than very good" voice quality.

In early 2016, we expect to provide individual voice quality scores for each customer. This is something that no one else in the market is providing.

I would like to now highlight some important recognition that we have received from leading industry analysts. We recently hosted 9 key industry analysts for a full-day seminar that included platform and roadmap details as well as our discussion with 4 of our customers. The response to our first Analyst Day event has been very positive, and helps us build industry credibility and third-party recommendations. Having key contact center analysts now reporting on the cloud is an important indicator of the growth and widespread interest in the cloud market among companies of all sizes and in all verticals. I'm pleased to tell you that we have been recently recognized as a market leader in 3 important analyst reports.

In Gartner's inaugural Magic Quadrant for contact center as a service, inContact was placed in the leader quadrant, with high ratings in both ability to execute and completeness of vision. Second is Ovum, which recognized inContact as a market leader in the Ovum Decision Matrix, with top scores in technology, ease of implementation and customer satisfaction. And the third, Frost & Sullivan, has recognized inContact with the 2015 Customer Value Leadership award for the contact center industry. This award is significant to us because it's given once a year to a company that consistently deepens customer relationships with superior products and services and then delivers a clear and demonstrable ROI.

Proven results matter. Our advanced cloud technology, coupled with the proven ability to grow our market share consistently, is now being recognized by industry analysts.

In summary, we hit on all cylinders this quarter. Our financial performance demonstrates a strong ability to execute and the strength of our business model. Our software revenues grew 40%, and new business activity was at record levels. We demonstrated significant operating leverage, with substantial improvements in gross margin and adjusted EBITDA.

With our Q3 results, we are confident that we will generate non-GAAP operating income in Q4 and for the full year in 2016.

In addition to strong financials, we are winning with our go-to-market strategy and highly diversified reseller channel, our advanced technology and expert service model, strong recognition in the industry and, ultimately, with growing numbers of very satisfied customers.

This level of overall performance heightens our confidence in our continuing strong growth as well as our ability to increase our leverage and operational efficiencies in the fourth quarter and into 2016.

Now I'll turn the time over to Greg.

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Thank you, Paul. We achieved very strong results in the third quarter, and now, I will provide more details about the financial performance. The financial results I will discuss are presented on both a GAAP and non-GAAP basis, however, all revenue figures are GAAP.

At this point, I would also like to remind everyone of the Safe Harbor statement made at a beginning of the call.

First, let's look at the software segment, which includes all revenue related to the delivery of our software application and associated professional services. For Q3 2015, I'm happy to report that software segment revenue increased to $36.7 million, a 40% increase over last year's $26.3 million.

In Q3, we did not recognize any guaranteed revenue from our partnership with Unify compared to 400,000 of such revenues in Q3 2014. Excluding the Unify guarantees, our software revenues grew 42%.

Annualized monthly recurring revenues at the end of the third quarter totaled $145.5 million, a 51% increase over the $96.6 million level for ARR 1 year ago. And note that ARR increased by roughly $22 million sequentially in the third quarter, despite the weaker-than-expected performance for bookings in the second quarter of this year.

Annualized monthly recurring revenue equals recurring software revenue for the last month of the quarter multiplied by 12.

Recurring software revenue includes all subscription software revenues, maintenance revenues from customers that previously purchased Uptivity's WFO software on a licensed basis, and professional service revenues that we recognized ratably over a 50-month period. It excludes licensed sales of our WFO software and the related professional services revenues and, of course, all revenues associated with our Network connectivity segment.

We believe the ARR metric is the best measure of the success of the company's growth initiatives and our focus on subscription revenues. It incorporates all components of revenue: existing accounts, new accounts, growth in the number of seats at all existing accounts, additional services implemented at the existing accounts and net attrition into one metric. Each of these components were important contributors to the growth in ARR for the third quarter.

Bookings as measured by annual contract value, or ACV, grew 36% over levels recorded in Q3 of last year. We will continue to report the year-over-year growth rate for bookings in 2015, but do not intend to disclose that metric beyond the current year. As Paul noted, we closed a 137 new contracts in the quarter, including 92 new logos and 45 upsells to existing accounts.

Our software revenue retention rate, which excludes upsells, remained above 93% in Q3.

Q3 2015 software segment gross margin increased substantially to 59.6% compared to 54.3% a year ago. Excluding noncash charges, software gross margin was up 300 basis points to 72.7% compared to 69.7% a year ago.

GAAP and non-GAAP gross margins benefited during the period from revenue increases attributable to higher seat volume as well as leverage in customer service, implementation and depreciation expenses. We believe this level of improvement in gross margin is sustainable going forward.

Our second segment is Network connectivity, which includes all communication services provided to our software customers as well as to legacy telco clients. Network connectivity segment revenue for Q3 2015 was $19.4 million, an 8.1% increase over the $17.9 million in Q3 of last year.

Gross margin for the Network connectivity segment was 36.6% in Q3, off 20 basis points from 36.8% in Q3 of 2014. Operating margin for the segment was a robust 26% in Q3, a slight decrease from the 27% in Q3 of 2014. The prior year amount benefited from the reversal of a bad debt expense.

With the exception of accounts sold by telecom-based channel partners, such as Verizon and RingCentral, contact center prospects typically request that we provide their connectivity services, and this is a distinct competitive advantage for inContact. We believe our global geographically-redundant carrier-class network, providing both TDM and voice [ph] connectivity, results in superior call quality.

Recently, we've quantified this qualitative advantage by publishing our MOS scores, a standard of measure of call quality used throughout the telephony industry. MOS scores for individual accounts will be available in early 2016.

Consolidated revenue for Q3 increased to $56.1 million, a 27% increase from last year's $44.2 million. GAAP consolidated margin was 51.7%, up from 47.2% a year ago. Excluding noncash charges, consolidated gross margin increased to 60.4%, up from 56.7% last year. All of the improvement in consolidated gross margin was attributable to our software segment.

Total operating expenses were $32.9 million in Q3, a 20% increase from Q3 2014 levels of $27.4 million.

Sales and marketing expenditures equaled 32% of total revenues, a slight increase from the 31% level of the previous year.

R&D spending rose 16%, and was equal to 13% of revenues, in line with recent quarters.

In the third quarter, G&A spending was only 3% above the Q3 2014 amount, falling to 14% of total revenues. This is a drop of almost 300 basis points from year-earlier levels. On a sequential basis, G&A expenses were actually down $1.1 million. We are seeing some of the benefits of our program to increase efficiencies in customer on-boarding and back-office operations.

Operating loss for Q3 was $3.9 million, a decline of 40% from the operating loss of $6.5 million in Q3 of 2014. On a non-GAAP basis, the operating loss for Q3 was $426,000 compared to $2.5 million in Q3 of 2014, an improvement of $2.1 million.

Adjusted EBITDA, a non-GAAP measure, is an important metric of our operating results due to the significant amount of depreciation and amortization resulting from the acquisitions of software, customer bases and network technology, as well as the amortization of capitalized software development costs and stock-based comp.

Adjusted EBITDA was $4 million for Q3, substantially greater than the $1 million recorded in Q3 of 2014.

Adding back purchase price adjustments related to our acquisition of Uptivity, adjusted EBITDA in Q3 of last year would have been $2.3 million. So it was still a very large increase.

On a sequential basis, adjusted EBITDA increased by roughly $2.6 million. This was our 15th consecutive quarter with positive adjusted EBITDA.

At quarter end, we had $31.2 million in cash and cash equivalents, $76 million in short-term investments and access to an additional $15 million under our line of credit. Recall that in March, we completed the sale of a $115 million of 2.5% 7-year convertible notes convertible at $14.23 a share.

Turning now to updated guidance for 2015. I would like to remind everyone of the Safe Harbor statement at the beginning of today's call.

Based on the strong software revenue results we've achieved year-to-date, we're raising our guidance for the full year.

In 2015, we anticipate consolidated revenues to be between $218 million and $220 million.

We expect total software revenues to be between $142 million and $143 million for the full year. This represents a 41% to 42% growth rate for software revenues.

We expect adjusted EBITDA will be between $11.5 million and $12 million compared to our previous range of $8 million to $9 million.

For EPS, on a GAAP basis, we estimate a net loss of $0.40 to $0.43 a share in 2015. On a non-GAAP basis, we expect a net loss of $0.18 to $0.20 per share for the full year.

We'll provide more comprehensive guidance for 2016 when we report full year results in a few months. On a preliminary basis, we're going to provide top line guidance for next year at this time.

We anticipate total revenues in a range of $254 million to $262 million, with software revenues in the range of $175 million to $182 million for the full year.
Operator, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to John DiFucci with Jefferies.

Alexander Joseph Ljubich
Jefferies LLC, Research Division

This is AJ Ljubich on for John. First off, can you provide an estimate of how much license revenue you received in the quarter? And as a related question, can you please update us on where you are on the process of transitioning your in-house WFO to a true multi-tenet model?

Paul Jarman
Chief Executive Officer, President and Director

Yes. So first of all, we don't provide any license revenue guidance. What we do provide though, is that on the year-over-year basis, we increased our bookings number by 36%. And that's not -- that's an annual number, so it doesn't accumulate a lot of different licensing in it.

Alexander Joseph Ljubich
Jefferies LLC, Research Division

Okay, thanks. And just one quick follow-up. We understand that you guys don't receive Network connectivity revenue as an attach for sales through carrier partners, like Verizon or RingCentral. As you increase the breadth and the depth of these partnerships, do you have a longer-term view of how Network connectivity is going to trend, either in terms of actual growth or as a percentage of software revenue?

Paul Jarman
Chief Executive Officer, President and Director

Yes. So what you said is correct. So when we look at the amount of new business we get from carriers, from UC providers and also the growth of our workforce optimization revenue, those 3 areas don't attach additional telecom revenues. So that growth is really going to be low single digits as a total versus previous years.

Operator

And we'll go next to Katherine Egbert with Piper Jaffray.

Kevin Kumar

This is Kevin Kumar in for Katherine. There was a record number of closed contracts this quarter at 137. Just wondering, how many of those were partner-driven?

Paul Jarman
Chief Executive Officer, President and Director

About 1/2 came through partners, and -- so about 50-50.

Kevin Kumar

And how's the average selling price holding up, just given the mix towards kind of partner-like [ph] deals?

Paul Jarman
Chief Executive Officer, President and Director

The actual -- our discount structure and our value per deal is very good. The only thing I would add to that though, is, the more we sell through partners, we're going to get that net benefit of the sale, meaning that if the retail value was 100, and the -- what we sell through the partner is, let's say 60, we would record the 60. So the size of customers are getting bigger. The number of deals and the amount of deals are getting bigger. And then, a portion of our revenue, our bookings comes through, where we get the whole revenue, and a portion comes in net, because it comes through a partner. So I don't know if that makes sense to you, but that's how it works today.

Kevin Kumar

Okay, got it. And did you close both deals that caused the bookings weakness in the second quarter?

Paul Jarman
Chief Executive Officer, President and Director

Okay. So we closed one of those 2 deals. And the other deal is a customer that we already have over 1,000 seats with. And we expect to continue to get additional business from them over the next quarters to next year.

Kevin Kumar

Got it, great. And last question from me is, you had a nice boost in operating margin, do you still expect operating loss to contract into Q4? And then any color on margins for 2016.

Paul Jarman
Chief Executive Officer, President and Director

So as you look at what I mentioned in my commentary was is that we believe we'd be non-GAAP profitable in Q4, which obviously shows additional progress. And then, Greg updated the EBITDA guidance, which showed that as well.

Operator

And we'll go next to Jeff Van Rhee with Craig-Hallum.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

The -- a number of questions from me. Just maybe Paul, at the high level, you could start with Salesforce. I mean, you've had a relationship for a long time. It has not gotten traction in the past. You've done a lot of work to build better and better connectors over time, and it sounds like, as you called out on this call, you really see something different going on there. Maybe you can expand on that.

Paul Jarman
Chief Executive Officer, President and Director

You bet. So Jeff, the first thing is, is that Salesforce is growing their service cloud. That's a much more relevant division to us than some of the others. And so as I mentioned, they grew that division by 39%, and that growth is making their product and our product more relevant. The second thing that's happening is, is their -- that division is also starting to win larger and larger deals, which plays into our strengths of providing enterprise quality solutions. I mean, we now have 110 of the Fortune 500 or Global 2000. So we play very well there. And then I'd say, thirdly is we've spent a lot of time in the last 12 months adding a lot of innovation and how the 2 of us connect together and how we help them in our roadmap and their roadmap work together. And so I think those combined factors are what's helping us in that area.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Yes, got it. Certainly -- I mean, good to see, Ring is off to a great start; ThinkingPhones, Jive. So I guess the question I had is just as you think about the channel percent of mix in '15 and '16, how do you think of that shifting?

Paul Jarman
Chief Executive Officer, President and Director

We would like to continue to see that close to 50-50. And so obviously, our direct model that's supported by the referral, combined with our different reseller models. We're pushing on both levers and driving both at the same time.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Yes. And Greg, just a couple of quick ones for you. On the '15 guide, I mean, obviously, you're taking EBITDA notably, but the GAAP EPS looks like it's down a tad. What's the delta in there?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

I don't think it's down Jeff. I think...

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

I thought you guided -- wasn't the GAPP loss guide $0.38 to $0.42 previous, and now it's $0.41 to $0.43?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

$0.38 to $0.43. Yes. So it possibly is just a bit of rounding there or the estimate, with regard to the number of shares outstanding. But it shouldn't have changed, if it has numerically.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Okay. I'll save that and see if we can touch on that offline. And then on gross margins for software, I mean, obviously, your guidance and leverage, it's been one of the things people have been asking for, for a while. To get to non-GAAP profitability in Q4 is a great milestone for the company. As you look at software gross margins in particular -- I think you touched on it. But maybe could you just expand a little bit more -- how should we think about where software margins can go over time? How much room to expand do you see there?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Well, so again, we don't want to really establish any guidance with regard to gross margins, specifically in '16. But I think, obviously that we would look to continue to leverage our investments in network operations, customer service. We have been able to attract a larger group of system integrators that will do professional service implementation for us, which is obviously a lower margin. The fact that they are doing that will help us. So it's a number of different initiatives that all would contribute to an improved software and consolidated gross margin going forward in Q4 and into '16.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Okay. And I guess, just one more, if I could. On the partner front, obviously, you're adding some pretty good names here. What does the pipeline look for additional partners beyond here? Maybe you could give us some sort of qualitative commentary around that and where those partners land in the general ecosystem?

Paul Jarman
Chief Executive Officer, President and Director

You bet. So we have team members that are both helping the ones that we've just closed to get them to bookings and revenue, and we have other people that are working with additional new partners. We see opportunities with carriers. We see opportunities with additional VARs. We see opportunities with additional UC providers, and also with additional referral partners. So we actually have activities in recruiting and signing in all 4 of those areas. And also, a lot of activities in taking the ones we've recently signed into bookings and revenues. So I would just say, Jeff, expect us to continue to add them, and expect us to continue to leverage the ones that we have.

Operator

And we'll go next to Mike Latimore with Northland Capital.

Michael J. Latimore
Northland Capital Markets, Research Division

On the new ARR number, I guess, is there any -- is there going to be any natural seasonality there, where certain quarters would have more sequential growth than others? Or is that really -- is there not going to be any discernible kind of seasonal barrier in there?

Paul Jarman
Chief Executive Officer, President and Director

Because it's year-over-year, it should incorporate any concept of seasonality because you're comparing the same quarter. The one thing I would add is that, when you look at it this quarter, there's some non-GAAP revenue from a year ago that makes this a little different. So we recorded GAAP to GAAP, 51%. If you go GAAP this year to non-GAAP last year, it'd be 46%. So that's the only aberration we've seen. Otherwise, it should be pretty consistent year-over-year.

Michael J. Latimore
Northland Capital Markets, Research Division

I guess, it seems though the sequential growth was over 20% in the third quarter and -- or $20 million I'm sorry, and then it was $3.5 million in the second quarter. So I guess I was thinking more about that kind of sequential change. Is there any kind of seasonality to that?

Paul Jarman
Chief Executive Officer, President and Director

Now really, that comes from the strength of new business. I mean -- because you're comparing again the same quarter, so that's really coming from growth of recent contracts that we've signed, growth even outside of the bookings numbers that we've given. That really came from the growth of new customers and new revenue.

Michael J. Latimore
Northland Capital Markets, Research Division

Okay. And how about on the -- just deployment time frames here. Are they kind of -- have they normalized at a certain level? Or are they improving? Or are they not gaining [ph] -- how are deployments going?

Paul Jarman
Chief Executive Officer, President and Director

So first of all, about 25% of our deployments now are coming through third parties, and they've normalized. Easier deals are a month or 2. Harder deals are 3 or 4 months. It's all a just a function of the complexity of the turnup, the number of departments or divisions, and the number of products. So we're fully staffed, between us and our partners, to support the new business that we're bringing on.

Michael J. Latimore
Northland Capital Markets, Research Division

And obviously, a lot of focus on big deals. But how is the -- how are the activity levels, business patterns for kind of the under 100 PCLs [ph] let's say. Is that kind of -- is the normal trajectory accelerating, slowing?

Paul Jarman

Chief Executive Officer, President and Director

It's been a nice growth area for us this year. Some of the UC providers or partners that we have will help support us in that area as well, because they're bringing in new opportunities that we wouldn't have normally gotten. So we see good strength in that small to mid. And we had also a very good quarter in the larger deals as well.

Michael J. Latimore
Northland Capital Markets, Research Division

And it looks like the RingCentral-related deal doubled sequentially, I believe in terms of just deal count. Are the size of those deals getting any bigger? Or are they similar at this point?

Paul Jarman
Chief Executive Officer, President and Director

We saw some good deals from them. And we are really comment individually on these partners as per our agreements. But I would just say it's mostly been market focused, but we saw some nice deals come from them.

Michael J. Latimore
Northland Capital Markets, Research Division

Great. And just last question. The e-commerce retailer you highlighted -- I think you talked about the 3,000-seat potential expansion in the Philippines. Did you also say that the -- you could triple the number of domestic agents there as well?

Paul Jarman
Chief Executive Officer, President and Director

That's correct. So this is just a very high-growth company, and we'll be there to support them on all their growth initiatives.

Operator

And we'll go next to Brian Schwartz with Oppenheimer.

Koji Ikeda
Oppenheimer & Co. Inc., Research Division

This is Koji Ikeda for Brian Schwartz. I was hoping maybe we could take a step back a little bit. I wanted to hopefully get some commentary on the demand environment from the contact center industry and maybe the unified communications industry as a whole for cloud services. When we were talking to customers and partners at your conference this year, we noticed a change in their tone versus prior years, where in the prior years, cloud service had to be more evangelized by the seller. But this year, it was really notable that they were saying that their customers are taking in more of a cloud-first mentality. Could you maybe give some commentary that this is the same kind of dynamic that you're seeing at your end as a whole?

Paul Jarman
Chief Executive Officer, President and Director

You bet. So yes, you're right. I mean, what's happening is, is that, first of all, at the top level, more and more companies are struggling with the quality of their customer experience, and with the dynamic changing in technologies that's happening right now. And secondly, more and more of them have had other good cloud experiences through other verticals. So they're more willing to go to the cloud. And then third, companies, like ourself, with over a 110 of the Fortune 500, are very credible options for them to go to. And so we're seeing better interest and less, I'll say, evangelism in the sales process to get them to the cloud. And you see that also through having the 9 analysts there. You see having a lot of analysts' reports coming out in our sector, and just a lot of interest in that area. So I would say, yes. It's getting easier to selling in the cloud. And we're frankly -- as companies like ourselves are becoming much more competent in how we can solve both SMB, mid-market, and enterprise solutions are giving them great options.

Koji Ikeda
Oppenheimer & Co. Inc., Research Division

Great. Thanks. And then, at the conference, you also introduced some of the new products and software -- software enhancements, especially that new user interface MAX, where -- we were talking with customers, and we actually had some great feedback from them regarding it. Going forward, maybe could you comment on which of those new enhancements or products you see as near-term potential ARPU lifters?

Paul Jarman
Chief Executive Officer, President and Director

You bet. So first of all, the MAX, what's important about MAX is it truly transforms our user interfaces from what would have been in the past more voice-centric to now truly omni-channel, where that agent can effectively do e-mail and chat and text and voice and other channels as they come in a far more effective fashion. So that enhanced really our entire platform. We don't charge extra for it, but it certainly supports us charging more for the whole product as we sell it. Voice as a Service also really supports the quality of the offering, though we don't charge extra for it. We did other enhancements in performance management, which we get additional charges for. We've done other enhancements in other areas that support our price points. And so really -- we've also discounted less, frankly, in the last couple of quarters. And that's been good as well. So some pieces of this, we charge a little more for. Some pieces of this just support the entire product. But we are also picking up additional services that we can now upsell and cross-sell across the base as well. And as you look at our roadmap going forward, it's combined in both things that enhance the core and things that add additional upsell, cross-sell revenue to our base.

Operator

And we'll go next to Eric Martinuzzi with Lake Street Capital.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Curious about competitors, competitive landscape. Just wanting to know -- I understand, obviously, the growth rate that you guys are putting up, you're taking share. But competitors don't go quietly. Curious to know if you'd seen any change in responses to maybe some competitive deals in Q3, either unnatural acts by on on-premise competitors or maybe some frozen cycles by prospects as they evaluated other contact centers in the cloud offerings.

Paul Jarman
Chief Executive Officer, President and Director

Yes. So really, you think of 2 types of competitors. You think of the traditional premise competitor, such as an Avaya or a Cisco. One thing that's interesting, which will help us is, as you look at the new Gartner Magic Quadrant, they weren't included as cloud options. And so that delineation is very helpful to us, as it proves how really there's a new set of cloud companies that are different than the legacy. We expect to continue to get competitive environments and then competitive deals. Our win rates are very good for the quarter. We really haven't seen the interactive new product yet in the market. We've held our own very well against the other ones we compete with that are more pure play. And I think what we are seeing is, it's getting easier in a lot of ways to take business from the Avaya or other legacy players that don't really have a good alternative to either prem or hosted single instance today in the market.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Okay. And then, with regard to the growth of 2016 on the software side, the guidance talks to a 25% number. Curious to know just headcount-wise, you guys have done at least a preliminary level of planning here. What's the headcount today at inContact? And what is it a year from now?

Paul Jarman
Chief Executive Officer, President and Director

So we have about 1,000 employees, and what I would say basically is this, is that our headcount will not grow as fast as our growth rate. We're getting to a point where we have enough scale, enough people. And we're doing enough work on automation of processes, where that scenario, as we grow, we will need less headcount as a percent of new business or of revenue. And you'll find that, that will be some of the leverage for us as we gain additional non-GAAP operating income.

Operator

Thank you, and there are no further questions at this time.

Paul Jarman
Chief Executive Officer, President and Director

Well, we'd like to thank everybody for your time today. We're winning in this cloud market. You're seeing nice growth from us, some great leverage coming out of our model. And we're excited about what really is an untapped, large addressable market, where we feel we have a leadership position in. And we're excited for 2016 and for the fourth quarter of '15.

And we appreciate your time on the call today, and have a great day.

Operator
And thank you for joining us today, ladies and gentlemen. This does conclude today's program. We certainly do appreciate everyone's participation. You may disconnect at any time.