inContact, Inc. NasdaqCM:SAAS

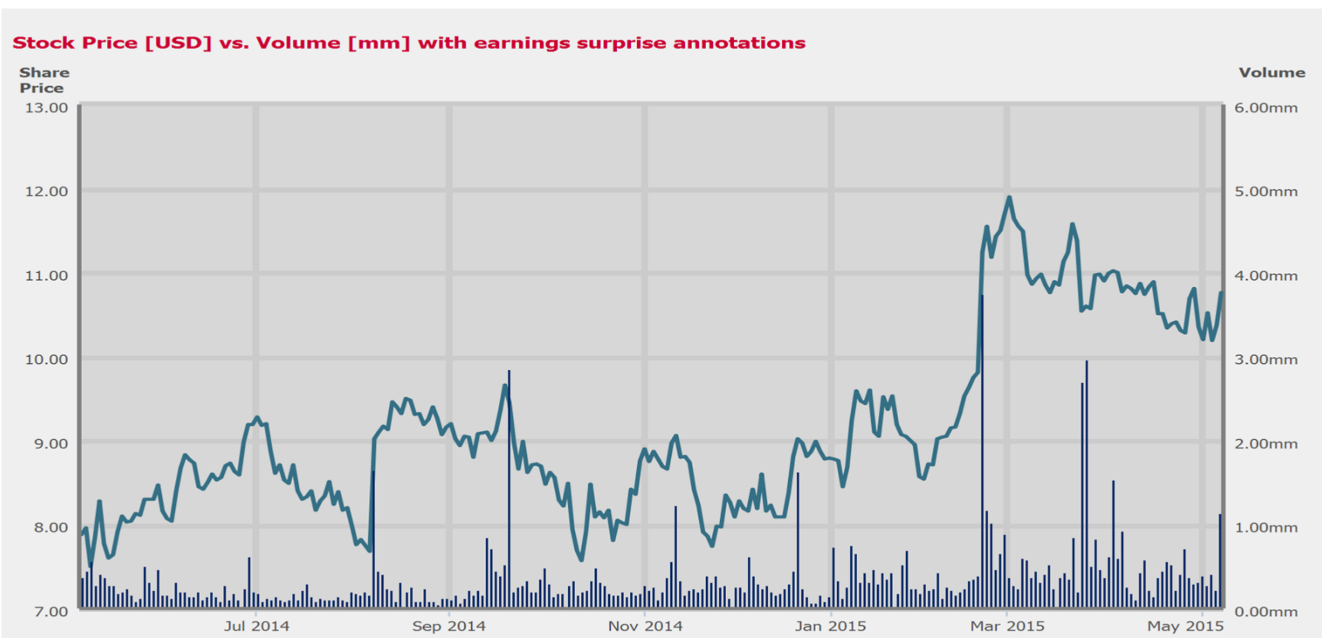
FQ2 2015 Earnings Call Transcripts

Thursday, August 06, 2015 8:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.07)	(0.12)	NM	(0.06)	(0.17)	(0.17)
Revenue (mm)	51.26	53.07	▲3.53	52.66	211.68	246.32

Currency: USD
Consensus as of Jul-13-2015 11:16 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	(0.07)	(0.10)	NM
FQ3 2014	(0.10)	(0.11)	NM
FQ4 2014	(0.10)	(0.07)	NM
FQ1 2015	(0.06)	(0.10)	NM

Call Participants

EXECUTIVES

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Paul Jarman
Chief Executive Officer, President and Director

ANALYSTS

Brian J. Schwartz
Oppenheimer & Co. Inc., Research Division

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

Katherine R. Egbert
Piper Jaffray Companies, Research Division

Mark W. Schappel
The Benchmark Company, LLC, Research Division

Michael J. Latimore
Northland Capital Markets, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to today's program. Today's program may be recorded. [Operator Instructions] It is now my pleasure to turn the program 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 Q2 2015 conference call.

I will begin the call with some prepared remarks and then I'll turn the call over to CEO, Paul Jarman, to review our second 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 second 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 for joining our call this afternoon.

I'm pleased to report that revenues for the quarter were at record levels. Sales through our partner channel are increasing, and we continue to see great success in winning against competitors.

In Q2, we continue to grow revenues at a very strong pace. Software revenues came in at $34.1 million, a 41% increase over the same quarter 1 year ago. Total revenues increased by 29% to $53.1 million. In addition, we now have 80 customers, billing over $0.5 million versus 63 a year ago.

We saw strength across our product spectrum, core ACD/IVR, predictive dialer technology and WFO software. We continue to dominate our market as the leading pure play cloud provider driving the most cloud revenue in the industry.

Now let's take a look at bookings during the quarter. We added 127 new contracts, which is a 27% increase over Q2 of '14, 74 from new logos and 53 from up-sells to existing customers. While the growth rate of 3% in Q2 bookings was below our historical average, we remain confident in our ability to grow re-occurring software revenues above 30%, and we are raising software revenue guidance for the full year. Greg will cover this in more detail later in the call.

As you look at the numbers, there are 3 factors that support a higher software revenue growth rate than you might expect given the percent growth in Q2 bookings.

First, I want to emphasize how important same-store sales are to overall software growth. This is becoming more significant because of the addition of follow-on incremental fees with the larger companies we are now closing.

For example, we capture most of that usage in the same-store sales metrics. We report same-store sales on a sequential basis, often 1% to 3% growth per quarter.

The compounding effect of steady same-store sales growth over the course of a full year is quite significant. In 2014, the total impact of same-store sales generated approximately 11% increase in software revenues.

In each of the last 3 years and also for the first half of 2015, the growth in cumulative same-store sales revenue has been greater than $1 loss of attrition. This add to the overall software revenue growth rate beyond new customer bookings. We expect this positive trend to continue indefinitely.

The second factor is the actual dollar value of bookings. Our software bookings for the quarter approximated $10 million in estimated new annual contract value relative to our Q2 software revenue of $34.1 million.

It's important to note that this level of bookings is sufficient to drive approximately 30% growth in recurring software revenues. This absolute revenue growth rate is significantly higher than the bookings growth rate posted in the quarter.

Third is our confidence in the sales pipeline for the second half of this year. We've expanded our partner channel, we've hired additional salespeople, and we are working on a number of significant opportunities, some of which moved from second to third quarter.

The combination of these 3 factors, in addition to the very strong second quarter revenue, gives us confidence to upwardly revise software revenue guidance for the year.

Now I'd like to share some more details about the deals closed in the second quarter. We won over 60% of deals against our primary competitors, including both cloud players and premise providers. We saw growth in new enterprise customers as well as with expansion contracts with large customers in health care, insurance and state and local government.

In Q2, we closed 2 noteworthy deals in the health care industry. The first is a new customer that provides consulting, sales and clinical support for health care companies. When fully implemented, this specialized outsource will have over 200 agents on the inContact platform.

Another major deal came in the Fortune 50 company, a long-standing customer in the health care industry, who is adding a new business unit with over 150 agents.

State and local government is another vertical where we continue to grow. One of the country's largest cities is rolling out the inContact solution to a new division with over 500 agents. We now have a separate sales team working with those carrier partners that have established relationships with key decision-makers in state and local government.

The pay-as-you-go billing model and the flexibility of the cloud is driving rapid adoption with government entities at all levels.

In May, we passed the 1 year mark since the acquisition of Uptivity. And we are making steady progress moving Uptivity premise customers to a recurring billing model. As an example in Q2, we closed a landmark deal with a long-standing Uptivity customer. This Fortune 100 insurance company has now deployed over 2,000 agents with the Uptivity WFO solution on a subscription basis.

I would like to now highlight the strength of our go-to-market and partner strategy. Our focus and investment in expanding our distribution model is propelling us forward with greater reach and scalability in sales and our capacity for implementation. We are seeing steady growth in our OEM partners, including Verizon, Unify and RingCentral as well as other partners, including carriers, VARs and referral partners.

Our new partnership with RingCentral is off to a great start. We closed 10 contracts in Q2, and we have over 100 new opportunities already in the pipeline for the second half of '15. RingCentral is the largest pure cloud player in the unified communications space. With their leadership and established customer base, this is a strategic opportunity for us to drive revenue and also to compete effectively in the SMB market with companies who are looking for a combined contact center and UC solution.

We have expanded our sales team to support our go-to-market partners. We are taking our partner program to a new level by offering joint marketing activities, materials and by supporting partner-led field events.

In Q2, we held our first-ever partner conference with attendees from our -- all of our major partners and many new partners of all types, including PBX, carrier, VARs and referral partners. We will be adding meaningful partnership that will expand this distribution channel.

In May, we launched our spring product release that included updated features in the Personal Connection, our patented no-cost dialer, and new features in our cloud WFO suite.

We continue to win on our intellectual property. We added 3 new patents for the quarter, which brings us to a total of 17 for the company.

With every release, we continue to provide new APIs and resources for our rapidly expanding developer ecosystem. Our open platform and these developer tools are great competitive advantage because they support customization with our enterprise customers and they fuel our partner ecosystem, which now has over 80 partners.

This spring, we also launched an upgrade to the popular inContact agent for Salesforce with an easy-to-use interface to handle inbound and outbound voice, email, voicemail and inContact chat interactions.

All of these innovations continue to distinguish inContact as the industry leader. As confirmed this week by the respected research firm, Ovum, inContact has been recognized as the market leader in its newly published Ovum Decision Matrix for 2015. We received top scores in every category, including the highest scores in customer sentiment. Quoted from the report, "inContact has established the commanding market position with a product that is widely accepted as best-of-breed."

Now let me address some important new initiatives regarding profitability. First, we have successfully implemented our new billing system. This new system expands our capabilities with partners and has created an operational foundation around which we can automate, scale and leverage additional business processes across the company.

Further in Q2, we conducted a deep dive into certain key components of our processes and operations. We identified a number of investment opportunities that will enable us to further scale and leverage our business model. We will take advantage of opportunities to automate key business processes and leverage our infrastructure.

For example, we will automate the customer onboarding process, which we believe can save millions of dollars when fully implemented. Another example is the 12-month data center infrastructure project, which will save us approximately $1.8 million annually when completed.

We believe these investments will enable significant leverage by reducing our per unit cost. They will create efficiency across the company and enable us to achieve sustained, non-GAAP operating income.

Beyond the impact on profitability, these actions will help us drive greater competitive differentiation and revenues by competing on value, innovation and customer satisfaction, and ultimately, strengthening our leadership position in the cloud contact center market.

Now I'd like to turn the time over to Greg.

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Thank you, Paul.

We achieved strong results in the second 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. Please refer to the press release for non-GAAP revenue amounts.

At this point, I would also like to remind everyone of the Safe Harbor statement made at the 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 Q2 2015, I'm happy to report that software segment revenue increased to $34.1 million, a 41% increase over last year's $24.2 million.

Uptivity, which we acquired in the second quarter of 2014, contributed $5.2 million in revenues in Q2. Excluding the Uptivity contribution, our software segment revenues grew 35% year-over-year. In Q2, we did not recognize any guaranteed revenues from our partnership with Unify, compared to $1.6 million of such revenues in Q2 2014.

The 3 key drivers of our recurring software revenue are customer retention, existing customer utilization and new contracts. Our software revenue retention rate for the quarter remained above 93%, a level we're very pleased with. Remember, unlike some of the other companies in the space, we measure retention as a percentage of revenues, not the number of customer accounts, and we exclude up-sells from this calculation.

The second driver of quarterly software revenue growth is the variable utilization of software services by existing customers. This metric fluctuates due to seasonality, macroeconomic conditions and customer service activities, as well as the revenue generated from the sale of additional services to existing customers. It's similar in concept to the same-store sales metric as used in the retail industry. And it excludes attrition and new customer revenues.

Typically, the June quarter is the weakest period for same-store sales, averaging nearly 1% decline in recent years. This year, we experienced a 0.7% sequential decrease in utilization. More importantly, year-to-date Q2, same-store sales are up 3% versus 1.7% at this time last year.

The third and final driver of our Q2 software revenue growth is revenue from new customers, that is, contracts not yet included in the same-store sales metric. We closed 127 new contracts in the quarter, 74 from new customers and 53 up-sells to existing accounts, an increase of 27%.

As Paul noted, we set a new record for Q2 bookings. We estimate that the expected future value of these contracts will be approximately 3% higher than the estimated value of bookings in Q2 of 2014.

I'd like to take a moment to describe how inContact calculates bookings. We determine bookings based on the estimated annual contract value of new subscription software sales. This approach does not reflect the full value of a multi-year contract, it excludes an estimated Network connectivity revenues, nor does it include any perpetual license software revenues generated by the sale of WFO modules.

Another significant trend we've noticed recently is that new, larger accounts often start small and quickly scale up to seat levels in excess of those used in estimating our bookings value.

For example, a recent account signed in Q2 of 2014, which was counted at 170,000 in ACV is currently building at $700,000 in ACV, or 530,000 more than we counted in the bookings calculation.

Q2 2015 software segment gross margin was 57.8% compared to 57.7% a year ago. On a non-GAAP basis, software gross margin was 71.4% compared to 72.1% a year ago. GAAP and non-GAAP gross margins were impacted during the period by the absence of the $1.6 million in guaranteed revenue from Unify, which was present in 2014.

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 Q2 2015 was $19 million, a 12% increase over the $16.9 million in Q2 of last year. Gross margin for the Network connectivity segment was 37% in Q2, up meaningfully from 35.8% in Q2 of 2014. Operating margin for this segment was a robust 25.7% in Q2, a continued improvement from the 25.1% in Q2 of 2014.

With the exception of a council by telecom-based channel partners such as Verizon, contact center prospects typically request that we provide their connectivity services, and this is a distinct competitive advantage for inContact. In Q2, approximately 96% of our revenue was generated by customers using our contact center software and software-related Network connectivity.

Consolidated revenue for Q2 increased to $53.1 million, a 29% increase from last year's $41.1 million. GAAP consolidated margin was 50.3%, up from 48.7% a year ago. On a non-GAAP basis, consolidated gross margin increased to 59.3%, up from 57.6% last year.

Total operating expenses were $32.2 million in Q2, a 24% increase from Q2 2014 levels of $25.9 million. Sales and marketing expenditures rose 25%, while the rate of growth in R&D spending was 29%.

For the second quarter, G&A spending was 20% above the levels in the corresponding period a year ago. G&A expenses were actually down 2.3% on a sequential basis and decreased as a percentage of revenue 100 basis points. Operating loss for Q2 was $5.4 million, a decline of 8% from the operating loss of $5.9 million in Q2 of 2014.

On a non-GAAP basis, the operating loss for Q2 was $2.6 million compared to $3.1 million in Q2 of 2014, an improvement of $0.5 million.

Adjusted EBITDA, a non-GAAP measure, it's 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 $1.4 million for Q2, substantially greater than the $90,000 recorded in Q2 of 2014, but down by roughly $1 million from the first quarter of this year due to the sequential increases in sales and marketing and R&D.

This was our 14th consecutive quarter with positive adjusted EBITDA.

At quarter end, we had $52.8 million in cash and cash equivalents, $64.7 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 $115 million of 2.5% 7-year convertible notes, convertible at $14.23 a share.

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

Based on a strong software revenue results we've achieved in the first half of the year, we're raising our guidance for the full year. In 2015, we anticipate consolidated revenues to be between $211 million and $214 million for the full year.

We expect total software revenues to be between $135 million and $138 million for the full year. This represents 34% to 37% gross rate for software revenues. Based on the leverage investments Paul mentioned previously, we expect adjusted EBITDA will be between $8 million and $9 million.

Eliminating the step-down in Unify guaranteed revenue from the equation, yield and improvement in adjusted EBITDA over last year of between approximately 40% and 50%. For EPS on a GAAP basis, we anticipate a net loss of $0.38 to $0.43 a share in 2015. On a non-GAAP basis, we expect a net loss of $0.16 to $0.20 per share for the full year.
Operator, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to Katherine Egbert with Piper Jaffray.

Katherine R. Egbert
Piper Jaffray Companies, Research Division

I just want to follow up on the bookings commentary, just to be sure I have it right. So it's about $10 million in bookings, up 3% year-on-year, so that's about $9.7 million last June, is that right?

Paul Jarman
Chief Executive Officer, President and Director

Yes, that's correct.

Katherine R. Egbert
Piper Jaffray Companies, Research Division

Okay. And just to confirm, too, it's a 3:1 ratio, Paul, that you mentioned roughly between software revenue and bookings, is that correct? And also that holds for the quarter, would it also hold for the year, that 3:1 ratio?

Paul Jarman
Chief Executive Officer, President and Director

That's correct. So as I mentioned before, you take the $10 million in bookings that we created in ACV, and you take that against the software revenue run rate for the quarter and you apply that, that gives you enough bookings to sustain a 30% growth rate, and that would be before you add some of the benefit of same-store sales.

Katherine R. Egbert
Piper Jaffray Companies, Research Division

Right, exactly. Okay. Just wanted to be sure I have that correct. And given sort of the size of the company, you're getting pretty big -- software is obviously the majority now, almost 2/3. I mean, should we expect that the bookings become increasingly less important going forward, that really the same-store sales given the size of the installed base becomes sort of more important? Would that be okay to assume?

Paul Jarman
Chief Executive Officer, President and Director

I think the thing, Katherine, here to know is that we do have multiple levers to increasing revenue. First of all, we have same-store sales. Secondly, we have the bookings. And it's important to remember that bookings growth is not equal to the value of what we book to revenue. And as you walk through those different pieces, it's not as good as a barometer as it was, especially when we add additional partners and additional larger customers who often increase the orders without sending us a new booking to have, if that makes sense.

Katherine R. Egbert
Piper Jaffray Companies, Research Division

Yes, that makes a lot of sense. Yes, I think I understand. And then you commented on RingCentral. Can you add any more color there? What does the pipe look like for them and maybe for some of the other partners in the second half?

Paul Jarman
Chief Executive Officer, President and Director

You bet. So what I mentioned for RingCentral was even though it's only, really, launched for a month in the quarter, we did have 10 deals that we signed, and we have 100 new companies that we're actively working with, with them. So a very nice and quick start out with them as a partner, and we are very excited about what that might mean for us going forward, both for the bookings opportunities and also how we can combine the PBX and contact center together to give us a very complete mid-market offering. And so secondly, we see some very nice opportunities with our carriers, especially some significant deals in that area, we have some very nice deals that, frankly, we had in the second that got pushed to third. And as you know, as the CEO, you never can go backwards on those, you just go forward. But we see some really nice second half of the year opportunities with them. Third is we keep adding additional partners. And in the VAR area and in the PBX area, we're seeing some nice step-outs in new deals in those areas. And so all of that is giving me some nice confidence in that we are adding the scale necessary in our distribution model to match the scale of our growing revenues.

Katherine R. Egbert
Piper Jaffray Companies, Research Division

Okay, great. And then last one for me, and I'll let someone else take it. The -- you sort of raised guidance for the year, any commentary about approaching operating breakeven in Q4?

Paul Jarman
Chief Executive Officer, President and Director

You bet. So 2 things there. So first of all, as a company, we're on track for our own, what I'll call, model as it relates to our EBITDA for the year and how we've approached fourth quarter. Just remember that with the debt offering, that it created some interest, one. And two, we did say that we are making some short-term investments to create scale. And I wanted you know that though that adds some temporary cost, either in investing in automation or second in what I'll call transitional costs as we make some infrastructure investments, the return on investment in these areas are significant, especially when you remember that we're a company now over $200 million in run rate and an automation of processes can save literally now millions of dollars where they wouldn't have been so impactful before. And as we're growing our infrastructure, those same investments can really help solidify long-term continuous non-GAAP operating profit. So if you add some of that investment in, that will lower that breakeven, but it will net to our benefit in 2016.

Operator

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

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

Paul, on the bookings front, can you just talk in a little more detail how the quarter played out as you progressed? I mean, clearly, at least, historically, this 20% to 40% has been the target range. Did you -- did it sort of steadily just not see deals closing at the pace you would normally see? Did it fall off more at the end? Just maybe touch on linearity to start.

Paul Jarman
Chief Executive Officer, President and Director

You bet. So first of all, our linearity was decent and I would say2 things there. One is, you have to remember that we have a bookings metric. We still play to revenue. So a couple of quick examples. So we had an opportunity in the quarter to make a deal significantly larger, making it larger, pushed it to the next quarter. So it'll never affect our revenue generation, but it does affect our bookings, and that did happen in literally the last week or 2 of the quarter. So we had a couple bigger deals pushed right at the end, and that obviously gives us a strong third quarter and took some out of second. But what I'll say is this, is that as we look at it for the whole year and often bookings can ebb and flow, we're still very confident in our stated range. For the year, our bookings will be between 20% and 40%. And as I said to Katherine, more importantly, is that the actual booking dollars are supporting our growth rates that we've talked to The Street about.

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

Sure. Yes, I mean, obviously, the bookings have got to grow over time or you'd start to run into larger numbers when the denominator gets bigger. So the -- I guess, as you look at the other partners -- I mean, obviously, Verizon. Historically, you've commented on them as a percent of the bookings. Could you give a little sense of your bookings or pipe? What kind of traction you saw there?

Paul Jarman
Chief Executive Officer, President and Director

You know what? Verizon is steady. They've been steady. So really, they've all -- it's been a steady process. I think as you look at people like Verizon, they're going to ebb and flow a little bit because their deals are bigger. But if you take it over the quarter over a multi-quarter process, they've been steady.

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

And with the pushouts, had those deals -- had you seen normal close rates? Would it have been enough to have you in that 20% to 40% range? Or was it more a function of the more a legion issue? The funnel wasn't getting populated at the tough at the top of the funnel, so to speak.

Paul Jarman
Chief Executive Officer, President and Director

So I would just say, first of all, we feel comfortable with the funnel. Certainly, in normal close percentages, we would have been very comfortable within that range. And so I wouldn't say that I see any aberration in the funnel or any aberration in our wins or losses. Really, I'd say as a function of timing and also a function that in some cases revenue is coming through where we can book at, and so why were confident raise the guidance and why we're confident in go-forward growth rate.

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

Yes. And with respect to the sales side, so maybe redundant to your answer just now, but just to clarify, the -- no structural changes, you wouldn't anticipate based on what you just saw and the way the team executed in the quarter, that there's no meaningful adaptations to process and anything meaningful to call out.

Paul Jarman
Chief Executive Officer, President and Director

No, I think I would just say that we continue to remember that as we have more partners, we don't have absolute control of the timing sometimes of the deals. And so that's not the thing we would change. It's something that we have to always be cognizant of.

Operator

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

Brian J. Schwartz
Oppenheimer & Co. Inc., Research Division

Continuing down the line of questions around the booking. Do you guys want to comment at all? I know it's kind of an end-of-the-year comment, but do you want to comment at all on the backlog growth that you saw in the quarter? The total contract value growth? And Greg, did you see shifts maybe in contract duration length this quarter compared to the year ago quarter that may be affected that ACD comparison?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Yes, Brian, I would say that we didn't see any meaningful trends with regard to the typical contract life, which, again, for smaller customers it's usually a 1-year contract with an auto renew provision; with larger customers, they're usually 3- to 5-year commitments. So there were no meaningful changes there. I think, again, as Paul alluded to, a little bit of lumpiness with regard to the productivity from our channel. Obviously, we have a little bit less visibility to that than our direct, but no fundamental disruptions in the sales process.

Paul Jarman
Chief Executive Officer, President and Director

Right. And I would just add to that, Brian, we feel good. We saw a very nice additional creation of funnel during Q2 going towards the back half of the year, and we also are starting to get certain key partners really up and moving, too. And we've already seen some of that benefit in Q3 with some of the newer partners.

Brian J. Schwartz
Oppenheimer & Co. Inc., Research Division

Okay. Greg, I apologize if I missed it on your commentary, but did you give the metric on what the channel booking mix was? And maybe why you sourced that, if I could just ask Paul the question. You're reiterating your bookings guidance here for the year. You've done less than that here through the first half, so that's going to assume an acceleration in the bookings trend to meet the target in the second half. Can you talk a little bit about some of the levers that you have to pull here in the second half that's given you guys confidence here to raise your revenue guidance and reiterate that bookings target?

Paul Jarman
Chief Executive Officer, President and Director

Well, first of all, is that as we went through second quarter, we didn't lose some of those key deals, we just had them pushed. So that means that they're still going to happen, one. Two, is that we see nice pipeline coming from these partners and our own direct sales team that helps us with that confidence. And three is, if you take that weighted average or you take the 20% to 40%, as we talked to in the past, and if you take the 4 quarters together, we certainly feel like we can end up between that range.

Brian J. Schwartz
Oppenheimer & Co. Inc., Research Division

Great. And then maybe last question, I'll just pass it along. Just kind of give us some comfort here. I assume that the new ACV growth sequentially in the quarter, that did grow sequentially compared to Q1?

Paul Jarman
Chief Executive Officer, President and Director

I'm not quite sure if I understand the question. But we certainly booked more than we did in Q1, if that's the question.

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

I think what Brian was alluding to there was that, yes, Brian, I think every quarter we've seen new bookings grow before they come into the same-store sale metric. So we'll close deals in Q1, we'll turn them up Q2 and then they will steadily ramp up to full productivity with regard to that annual contract value. And then to circle back in your previous question, the bookings were pretty much evenly split between channel partners and direct, so almost 50-50.

Operator

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

Michael J. Latimore
Northland Capital Markets, Research Division

So on the -- I guess, Paul, you mentioned a couple of bigger deals that moved out of the second quarter. I guess just to clarify, have they closed in the third quarter already? And then second, I don't know, how many seat would they represent in aggregate?

Paul Jarman
Chief Executive Officer, President and Director

So Mike, first of all, some have closed and some are closing, and I really don't want to give a number of seats, but I'll just say that they're significant. Certainly, as we look at our average deals there, significant to us and significant to our bookings. And so -- and some, as I mentioned, some have come in and some are coming in and some are coming from current customers who are just add-on sales.

Michael J. Latimore
Northland Capital Markets, Research Division

Yes. Okay, got it. And then, I guess, Greg, if I normalize the revenues in the quarter for Uptivity and Unify, I've got one that's something like 47% software growth, does that sound about right?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

That's correct.

Paul Jarman
Chief Executive Officer, President and Director

And Mike, one thing I would just add there that's of interest is if you look at that 47%, and you remember that our average bookings, really, is really around 30% or low-30s, that's almost 17% growth over the actual bookings growth number, which helps demonstrate how we have revenue coming from other sources that's supporting the revenue growth.

Michael J. Latimore
Northland Capital Markets, Research Division

Okay. And I believe Uptivity grew a little bit sequentially, but the general trend on the software side, it should be down over time, isn't it, in terms of enterprise software sales?

Gregory S. Ayers
Chief Financial Officer and Executive Vice President

Well, in terms of revenue recognition, right? So the whole idea is to migrate that business from what used to be principally a premise-based, immediate recognition business model to in-the-cloud subscription. So obviously, the impact of that would be potentially lower sequential revenue, but you're building that long-term sustained recurring revenue base.

Michael J. Latimore
Northland Capital Markets, Research Division

What percent of new customers are just trying to go with Uptivity kind of future cloud offering as part of their overall seat purchase?

Paul Jarman
Chief Executive Officer, President and Director

Well, so first of all, we have the opportunity to both sell Verint and Uptivity. And if you look at those 2 together, I'd say, especially at the enterprise side, probably about 50% of the enterprise orders are coming in with WFO. And so we're seeing a couple things there. First of all, WFO is a key part of the sale. And secondly, we're seeing that our sales teams can sell recurring WFO, and that's supportive of the transition of that Uptivity revenue from one time to recurring. And also, it's the same -- it's as an important part of our differentiation and our ability to win deals as that part of that equation.

Michael J. Latimore

Northland Capital Markets, Research Division

And then just back on the indirect versus direct mix, it sounds like you're putting a little more emphasis on the partner channel this year. I guess, should that indirect percent sort of trend up to maybe average more like 60% retirement?

Paul Jarman
Chief Executive Officer, President and Director

Our goal is to keep it 50-50. And obviously, it's going to fluctuate a little bit quarter-over-quarter because of the deals and deal sizes and new partners. But we are keeping and growing our direct sales team, so it should, in general, represent about a 50-50 split.

Operator

And we'll take our last question from Mark Schappel with Benchmark.

Mark W. Schappel
The Benchmark Company, LLC, Research Division

Paul, based on your total revenue guidance and your software revenue guidance, it appears that the connectivity revenue growth rate is really coming down at the back half the year here. So I wonder if you could just talk about what dynamics you're seeing in that business.

Paul Jarman
Chief Executive Officer, President and Director

You bet. So what we see there, Mark, is a couple of things. So first of all, as more of our bookings come from a PBX or carrier, we would not be including telecom in those deals. So the strength of that growth would lower new contracts with telephony. Secondly, as we are seeing strength in the offering of WFO, that's adding additional software revenue against the telephony. We still see about a 90-plus percent attach rate when we sell it directly on our own direct sales team. So that's not really changed. But what has changed is the mix, based on the partners and based on more and more part of the sell being WFO, which doesn't need or include the telephony.

Mark W. Schappel
The Benchmark Company, LLC, Research Division

Great. And one final question. Paul, in your prepared remarks you also talked about a few productivity initiatives, I'm just wondering if you just go through those briefly one more time.

Paul Jarman
Chief Executive Officer, President and Director

You bet. So Mark, one of our key goals here is that we're focusing on both on growth and in creating financial leverage. And so as we have the balance sheet and the scale in the company to really attack both at the same time. So I'll leave a fair number of our initiatives related to growth, but we have more and more initiatives now related directly to scale and profit. So in these cases, as I mentioned, we've spent the last year really redoing and reimplementing a whole new billing system. That really served as a key foundation for additional automation. That system is now up and running, and we're building from it across other parts such as automation of the customer, set up and other areas like that. So in that area, I mentioned that we see millions of dollars of savings in the process with payroll and other things to have that automated. Secondly, we're seeing, as we're growing our infrastructure, ways to really be more cost-effective there. So we began a 12-month project to change how we use some of our infrastructure or our facilities for managing all of the computers and other things. And so over the next 12 months, we're taking action there and at the end of that, it will be about a $1.8 million annual savings going forward, with that complete. So we are making some short-term investments in some tools, some automation and some overlap expenses for infrastructure that allows us really long-term leverage, which really becomes very large numbers as we grow the revenue and as we keep scaling. So we did see this as an opportunity to keep leveraging what we think is a key part of our future strategy, which is getting to non-GAAP profits and continuing the growth rate.

Operator

And thank you. I believe that is all the time we have for questions today.

Paul Jarman
Chief Executive Officer, President and Director

Well, first of all, thank you for being on the call. And in closing, I just like to say that, first of all, we're excited that we're exceeding the revenue target we've set out at the first of the year. And secondly, that we believe we are taking action and have an actionable plan of really moving inContact from a company that can produce positive EBITDA to a company that can start to produce non-GAAP operating profitability.

So we look at those as both 2 key focuses going forward. We appreciate your time 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, and you may disconnect at any time.