Bazaarvoice, Inc. (NasdaqGS:BV)

Earnings Call Transcript

Monday, November 26, 2012 4:30 PM ET

Call Participants

Executives

Brian Smith

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director

Analysts

Brendan Barnicle
Pacific Crest Securities, Inc., Research Division

Jennifer A. Swanson
Morgan Stanley, Research Division

Mark R. Murphy
Piper Jaffray Companies, Research Division

Stephen Ju
Crédit Suisse AG, Research Division

Thomas Ernst
Deutsche Bank AG, Research Division

Presentation

Operator
Good day, and welcome to the Bazaarvoice Second Quarter 2013 Earnings Results Call. As a reminder, today's conference is being recorded. At this time, I'd like to turn the conference over to Brian Smith, Vice President of Finance of Bazaarvoice. You may begin.

Brian Smith
Good afternoon, and welcome to today's conference call to discuss Bazaarvoice's financial results for the second fiscal quarter of 2013 ended October 31, 2012. I'm joined today by Stephen Collins, Chief Executive Officer, President and Chief Financial Officer. Following prepared remarks from Stephen and me, we'll have a question-and-answer session. Please note that we are simultaneously webcasting this call on our Investor Relations website at investors.bazaarvoice.com. The earnings press release with our results for our second fiscal quarter of 2013 was issued earlier today and is also posted on our Investor Relations website.

Please remember that certain statements made during this call, including those concerning our business outlook and guidance, growth plans and opportunities, potential acquisitions and our ability to capitalize on our opportunities, are forward-looking statements. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that are described in our SEC filings, including the Risk Factor section of our Form 10-K for the fiscal year ended April 30, 2012, our Form 10-Q for the fiscal quarter ended July 31, 2012, Form S-1 as filed with the SEC on July 12, 2012 and other documents we may file with the SEC in the future. Should any of the risks or uncertainties materialize or should any of our assumptions prove to be incorrect, actual results could differ materially and adversely from those anticipated or implied in these forward-looking statements.

In addition, forward-looking statements are also based on currently available information, and we undertake no duty to update this information except as required by law. Additional cautionary language regarding these forward-looking statements is further described in today's press release.

Finally, some of the numbers that we will discuss during this call will be presented on a non-GAAP basis. Today's press release, together with the accompanying tables, contain the calculations of these non-GAAP financial measures and a full reconciliation between each non-GAAP measure and its corresponding GAAP measure.

With that, I would now like to turn the call over to Stephen.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Thanks, everyone, for joining us today. I'm going to start by covering some basics about our core value proposition, economic model and strategy and how media fits into our business plan. Then I'll hit key highlights for our second quarter operational results and after that, turn it back over to Brian Smith, our Vice President of Finance, to address financial results.

But first the headlines. With the acquisition of Longboard Media, we've now achieved 3 critical strategic objectives in 2012. First, we reinforced our lead position in retail with the acquisition of PowerReviews. We have developed a powerful new version of our technology platform that will lower implementation costs, make self-adoption easier and has far greater data extensibility, and we have launched our shopper media business with the acquisition of Longboard Media on November 5.

I'm incredibly proud of our R&D team with the release of our updated Conversations platform. This was the culmination of over a year of intense effort that really began with the build-out of the team as it exists today from only about 35 people 2 years ago. We anticipate this release will accelerate implementation times, facilitate greater self-service functionality for our clients and, importantly, allow others to develop applications on top of our platform through open source APIs and SDKs. As a result, cost should come down for both the company and our clients, and it should be much easier for us to drive new product and feature adoption.

We're very pleased with the initial performance of our Connections business, which we announced last quarter. We added over 225 brands to our pilot base of approximately 75, and we beat our adjusted EBITDA guidance significantly through improvement in gross margin and scaling in R&D and G&A.

Since this is my first call as CEO, I'd like to begin my remarks by focusing on our core value proposition, what we do and why our clients do business with us. We have a straightforward business with a simple but compelling value proposition for our clients. We sell a consumer-facing technology platform to provide ratings and review solutions to help consumers make great purchase decisions. Data shows that when consumers use ratings and reviews, they buy more and return products less often. As a result, our clients increased their revenue and receive valuable content and data to help their businesses in a number of other ways. It's already well-documented that authentic review content is

the most important content consumers rely upon to make purchase decisions, and as such, we think we have a very significant and somewhat unique ability to directly influence our clients' revenue, as well as aid in pricing, inventory management and product design decisions.

Our economic model is equally straightforward, but we often receive questions as to how we price our solutions. I think this stems from the fact that we sell to the Chief Marketing Officer rather than the CIO, and our pricing is a function of our impact on revenue and brand value as opposed to an ability to reduce operating expenses. Our core business today is a pure-play SaaS model, and we plan to remain focused on growing our SaaS business as our #1 priority. In our view, shopper media is complementary to our core business, and I'll talk more about that shortly.

So currently, more than 95% of our revenues are recurring software subscription. It's important to note that we do not have a material separate revenue stream for services revenue, as our customer service is often included in the aggregate price for our platform. We set price based on expected ROI on a client-by-client basis. Each client has different expectations for impact of our solutions, but in general, our pricing tends to align with client revenue, online transaction volume and historical levels of marketing spent. Once we set the subscription price, it typically remains fixed, and we grow our relationship as we sell additional features and/or sell our solutions to additional geographies or brands for a given client.

Our SaaS subscription approach has facilitated the creation of our network of brand and retail clients, as well as our valuable presence on retail clients' websites to directly impact purchasing decisions at the point of sale. That said, we believe that our solutions and network are not yet fully monetized, and our acquisition of Longboard Media and corresponding efforts around our media business are natural steps in this direction. We believe that our media capabilities will significantly enhance our cumulative offering to clients and will accelerate our abilities to achieve a positive operating margin.

Another question we often get is how do we think about our addressable market. On the retail side, we want every retailer in the world to be our client because we think all retailers will and should eventually adopt authentic word-of-mouth content as a core aspect of their business, both online and offline. On the brand side, we want every brand and supplier in the world who sells through our retailers to also be our clients. I think these aspirations to have significantly more clients are realistic but require us to extend our solution set in adjacent areas by leveraging our lead position in retail.

So now we have 3 ways in which a brand may do business with us: capture ratings and reviews through our core Conversations platform; engage directly with consumer questions within the retail channel through our connection solution; and advertise their products on retail and shopper media sites similar to offline co-op advertising efforts. Only 6 months ago, the only way for a brand to do business with us was by adopting our core Conversations platform, so this is a big change.

Today, we are the leader in the category we helped to create. Of course, we have a significant level of online retail market penetration after 7.5 years of existence, but that's a good thing. This very level of penetration and scale within retail has opened up the opportunity to sell our solutions to brand clients, who want to syndicate content through our network of retailers and directly influence hundreds of millions of unique shoppers per month. Even so, we still haven't penetrated approximately 1/2 the U.S. IR 500 or 80% of the top Internet Retailer Top 400 in Europe. And we have not extended our solutions to our clients' bricks-and-mortar operations. Also, we haven't even scratched the surface within emerging markets such as China and Brazil, which will likely be huge opportunities as mobile and e-payments trends help create a robust -- helps create robust eCommerce activity in developing geographies.

We're still in the earliest phases of the evolution of social and eCommerce, and eCommerce is still only about 10% of global retail revenue. With the disruption currently facing retailers from eCommerce, social and mobile, the company that builds unique competitive advantages to benefit from this disruption will be the leaders over the next 10 to 15 years. I believe that the aggregation of consumer audience, content and data on a single technology platform at scale is a path to sustainable competitive advantage, which is exactly why I believe that the opportunity before Bazaarvoice is so substantial.

So with my remarks in mind, our strategy is simply to help consumers and clients make better decisions, and if we do that, we'll build a highly valuable business. To accomplish this, we must, number one, get as many retailers as possible on our technology platform to maximize our consumer audience, content and data; number two, connect brands to these retailers and consumers and let them communicate in many ways; and number three, build a powerful technology platform to use our network, content and data in as many applications as possible for the benefit of consumers and our clients. Put another way, the content we manage or review has a value. The more consumers who see it and the more things we can do with that review for our clients, then the more value we create.

Media helps us realize all strategic -- all 3 strategic imperatives I just listed. Media makes it more compelling for a retailer to work with us because it provides a retailer an opportunity to generate additional revenue from media

sales, and media provides brands with another way in which to connect to their consumers online by offering targeted advertising within the online shopping channel. Also, media gives us a number of other ways we can leverage our network reach, content and data on behalf of our clients from enhanced analytics to advertising.

Brands have historically connected to their consumers in this manner in-store through co-op advertising, but co-op advertising hasn't yet shifted online in a meaningful way. We believe that it will shift online and can see signs of this change coming. Our acquisition of Longboard Media strategically positions us to benefit from this shift. We also believe that advertising and merchandising for shopper media will have different characteristics as compared to online advertising more generally and will require unique and complimentary creative and targeting strategies. We now have a platform around which we can pursue these.

So here's what Longboard Media does. Longboard Media facilitates brand advertising to consumers while they are shopping online. What is unique about Longboard is that they have built one of the first ad networks for shopper media. This audience reach has not been a part of the online advertising ecosystem and constitutes what I call the undiscovered country of online audience reach, consider that globally it won't be too long before there are 1 billion online shoppers spending money and time on online retail sites with mobile and e-payments accelerating this trend. Until recently, brands could not reach that audience, but that is changing and changing quickly. Amazon.com has already built a meaningful media business and is putting even more competitive pressures on other retailers. Retailers are seeking every opportunity to increase yield per visit, and advertising is becoming and will become a standard aspect of the online retail economic model. It makes sense for Bazaarvoice to extend our capabilities into this area to help retailers increase revenue and help brands reach consumers in the retail channel and, by doing so, give consumers more robust information to make purchase decisions.

So now let me address the second quarter. We generated $38.6 million in revenue and experienced strong year-over-year revenue growth of 54%. Assuming, however, a pro forma full first quarter revenue contribution from the mid-quarter acquisition of PowerReviews, our quarter-over-quarter revenue growth was $1.3 million or a sequential increase of 3.5%. This outcome was a result of a sale disruption we discussed during the first quarter conference call from the integration of the PowerReviews acquisition and the realignment of the sales organization based upon a general manager structure, with specific focuses on retail and brand clients. Our sales organization changes temporarily impaired our selling efforts as we brought in lots of new employees and several new leaders. While we believe the sale structure and personnel changes along with our 2 acquisitions are essential to our long-term strategy, I certainly acknowledge that we made numerous changes in the short amount of time, and, frankly, our first half execution was affected.

Our second quarter in terms of new sales was quite a bit better than the first quarter as we begin to realize the benefits of the sales team changes, but we'd certainly like to have more momentum moving into the second half of the fiscal year. We were still able to improve our revenue guidance, and we remain very confident about the attractiveness of our opportunity even though there is still much to do to realize that opportunity.

In the second quarter, we launched 71 new enterprise clients and lost 38 for a net change of 33. Our retention remains relatively consistent with past performance at 96.5% on a per-client basis, and it was actually much more favorable on a dollar basis. We now have 261 of the IR 500 and 115 Fortune 500 clients, up from 259 and 112 at the end of the first quarter, respectively. In total, we now have 1,109 enterprise clients as compared to 1,076 at the end of the first quarter and approximately 1,100 network clients as compared to 900 at the end of the first quarter. Annualized revenue per average enterprise client increased again by approximately 2% quarter-over-quarter, driven by upsells and cross-sells. We added great new clients, including Bealls Department Stores, FreshDirect, Hilton Worldwide, Hugo Boss, Mayo Clinic, Target and Tyson Foods, to name a few.

The large increase in network clients was driven by the addition of Connections clients. We experienced strong initial adoption from a couple of our retail hubs because they supported the program so vigorously. This was a better-than-expected start, but we do not expect to repeat performance in the next couple of quarters as we are still in the process of launching the solution. We are very optimistic about Connections, and we expect the solution to continue to evolve as we iterate on our marketing position -- on our market positioning and pricing.

During the third quarter, our primary objective with Connections is to launch the next version of the portal that includes the ability to respond to reviews in addition to answering questions. We plan to release this additional feature this quarter, and once it is released, we plan to engage in significant direct marketing efforts to educate the market and drive adoption.

Before Brian reviews our financial results, I would like to make some general comments about our performance and our plans going forward. In the second quarter, gross margin improved and we scaled on R&D and G&A expenses as a percentage of revenue. These trends were by design. Sales and marketing expenses, however, increased significantly by $3.4 million in the second quarter and were 43.5% as a percentage of revenue, up from 37.5% in the first quarter. First quarter sales and marketing expenses as a percentage of revenue were well below historical levels, and this was

partially due to PowerReviews having less investment in this area but also the sales personnel hiring during the first quarter manifested itself in the second. Now, we are back to what we believe to be a more appropriate level of sales and marketing spend.

As CEO, one of my key areas of focus is to improve our client acquisition cost and improve productivity for our sales and marketing dollar. I plan to focus our marketing efforts more on direct sale support and pipeline generation to narrow their charter. Investors should expect us to be more focused on driving toward profitability in fiscal 2014 and beyond while still focusing on top line growth as our #1 priority.

With that, I will turn it over to Brian to review our financial results. Brian?

Brian Smith
Thank you, Stephen, and thank you to everyone who joined the call today. As a reminder, we are on a fiscal year calendar ending April 30. So today, we are reporting results for our second fiscal quarter of 2013 ended October 31, 2012, and all accounting periods discussed herein will be fiscal. Unless otherwise noted in my remarks, I will cover our non-GAAP operating results that correlate with adjusted EBITDA as a measure of operating profitability, including discussions of cost of revenue and operating expenses.

Investors should refer to our press release for a complete overview of our financial results, including the reconciliation of GAAP to non-GAAP operating results, comparative information to prior periods and key operating metrics.

Before I review the financial results, I would also like to note that in conjunction with the announcement on November 5 of Stephen's appointment as CEO and President and of our acquisition of Longboard Media, we updated our revenue and adjusted EBITDA guidance for the second quarter and for the fiscal year 2013. This guidance was based upon our assessment of the preliminary results for the second quarter, which had just ended. These were updates to the guidance originally provided during our first quarter conference call in September 6, and I shall refer to both when discussing the second quarter's results.

As Stephen mentioned, revenue for the second quarter was $38.6 million, an increase of 54% year-over-year compared to revenue for the second quarter of 2012 of $25 million. This result exceeded the top end of our original guidance range for the second quarter of $38 million to $38.5 million and was in line with the updated guidance range of the second quarter of $38.4 million to $38.8 million.

Adjusted EBITDA for the second quarter was a loss of $4 million or negative 10% of revenue and was better than our original guidance for the second quarter of a loss of $6 million to $7 million and was in line with the updated guidance range for the second quarter of a loss of $3.5 million to $4.5 million.

Our non-GAAP net loss for the second quarter was $4.9 million or a loss of $0.07 per share, better than our guidance for the second quarter of a loss per share of $0.12 to $0.14. Onetime acquisition-related expenses for the second quarter were $1.4 million, and the impact of these expenses have been excluded from our adjusted EBITDA loss and from our non-GAAP net loss.

Gross margin for the second quarter was 66.8%, down modestly relative to 67% in the same period last year but up modestly relative to 66.6% for the first quarter of 2013. The sequential improvement over our first quarter follows the onetime step-up in cost of revenue experienced in the first quarter related to the expansion of our data hosting services capacity to increase redundancy. As we stated on our first quarter conference call, we expect to continue to see sequential improvements in gross margin percentage on the core SaaS business for the remainder of fiscal 2013.

Sales and marketing expenses were $16.8 million and represented 43.5% of revenue this quarter as compared to 46.3% in the same period last year. Research and development expenses were $6.7 million, representing 17.4% of revenue this quarter as compared to 16.5% in the same period last year. And general and administrative expenses were $6.2 million and represented 16.1% of revenue this quarter as compared to 16.6% in the same period last year.

Our annualized revenue per average employee was approximately $200,000, an increase of 8% year-over-year and in line with the prior 2 quarters. This is also in line with our expectations discussed on our first quarter conference call. You will note that our employee count increased by only a net of 6 during the quarter from 771 to 777 full-time employees. As we previously discussed, we considered the 73 employees gained through our acquisition of PowerReviews in June during the first quarter as an opportunity to meet a substantial portion of our hiring needs for fiscal 2013. Following these and other hires within the first quarter, we believe that we have reached a suitable employee base for the time being, and we expect that the number of employees will grow modestly within strategic areas such as sales and marketing and within our Media business. This quarter's small increase is demonstrable of the strategy.

With regard to client count, we ended the second quarter with 1,109 enterprise clients, up from 1,076 enterprise clients as of the end of the first quarter. Annualized revenue per average enterprise client for the second quarter was approximately $141,000, up 2% from the first quarter pro forma figure of approximately $139,000 that we discussed on the first quarter call. As a reminder, this figure was provided for purposes of comparison on the call and is pro forma for the first full quarter revenue contribution from PowerReviews and includes the enterprise clients added during the first quarter in conjunction with the acquisition. It also excludes our network clients, which we track separately. We ended the second quarter with approximately 1,100 network clients, up from approximately 900 as of the end of the first quarter. This increase is due in most part to the addition of Connections clients during the quarter.

With regard to the balance sheet, we ended the second quarter with approximately $140 million in cash and cash equivalents and short-term investments, and we have no debt outstanding. Please note that this does not include the impact of the approximately $26.9 million in cash paid on November 5 in conjunction with the acquisition of Longboard Media. Our net deferred revenue increased to $49.5 million as compared to $39.4 million a year ago and $49.1 million in the previous quarter. From a cash flow perspective, for the second quarter, cash used from our operations was $4.1 million. Capital expenditures and capitalized internal use software development costs were $2.6 million, bringing total free cash flow to a negative $6.8 million.

Before proceeding to guidance, I would like to take this opportunity to orient investors around the financial impacts of our acquisition of Longboard Media. We saw a complete operational and financial results for this business during our third quarter financial results conference call. As Stephen has already discussed, Longboard Media is a full-service media management company with one of the largest digital media networks of shopper media sites, which include online retailers, mobile commerce apps and shopping publishers helping advertisers to target consumers throughout the online shopping experience and often immediately prior to the point of sale. In doing so, Longboard Media also helps its shopper media sites launch and manage on-site advertising solutions and site monetization strategies.

Advertisers who want to reach a shopping audience of scale will advertise on a Longboard network, and we share that advertising revenue with our network members, the shopper media sites. Longboard manages the entire process from sales to delivery to payment, and because of the location of the ad inventory on the shopper media sites, we believe this to be considered premium ad inventory. We typically earn revenue when advertisers pay us based upon the number of times ads are displayed on our shopper media websites. Revenue should be heavily influenced by online consumer impression volume to our shopper media websites, and as a result, there exists a high degree of seasonality within the Media business, with the majority of revenue earned during the months of November and December consistent with heavier online shopping traffic during the holiday months. It is also worth noting that our agreements with advertisers are campaign in nature and generally cancelable at any time at the advertiser's discretion. Given the foregoing, we expect a greater amount of volatility in and a reduced forward visibility into our media revenue as compared to our SaaS revenue. We expect to report this media revenue generally based upon the gross amount billed to the advertiser and report the portion of the gross revenue paid to the shopper media site as a cost of inventory within our cost of revenue. With this cost, as well as other the related costs of media revenue, we expect the gross margin percentage from our media business to range from between 35% to 40% of gross revenue, which compares to our SaaS business gross margin of 66.8% in the second quarter. Despite the lower gross margin, we expect the business to generate incremental gross profit dollars and ultimately be accretive to company-wide operating margins.

We believe that size and value of our retail media network is measured by the number of advertisers, retail shopping publishers and consumers served our ads. From January 2011 through the end of September 2012, Longboard has served ads for approximately 50 brand advertisers, including approximately 20% of the Advertising Age Global 100 to over 40 shopper media sites that reach more than 50 million unique visitors per month according to comScore. We shall continue to update investors around these metrics for our SaaS business in a similar manner to our enterprise and network client statistics that we provide for our SaaS business.

I would now like to conclude my remarks by discussing our forward-looking guidance that falls under the Safe Harbor provisions outlined at the beginning of the call and is based upon preliminary assumptions, which are subject to change over time. As a reminder, in conjunction with the announcement on November 5 of Stephen's appointment as CEO and President and of our acquisition of Longboard Media, we initiated revenue and adjusted EBITDA guidance for the third quarter ending January 31, 2013 and updated our prior revenue and adjusted EBITDA guidance for the fiscal year ending April 30, 2013. Given that the Longboard Media acquisition had just closed, these figures excluded any financial impact of the acquisition. The following guidance figures, however, that I will now discuss do include the financial impact of Longboard Media and we've bifurcated our revenue guidance for this purpose into SaaS and media revenue, and henceforth, we shall refer to revenue generated by the Longboard Media business as media revenue. It's important to note that as we discussed in the acquisition call, the inclusion of Longboard Media was not dilutive to our bottom line guidance when it was included -- when our guidance only included the SaaS business.

For the third fiscal quarter of 2013, revenue is now expected to be in the range of $43.5 million to $44.5 million. This includes SaaS revenue of $40 million to $40.5 million and media revenue of $3.5 million to $4 million. Adjusted

EBITDA loss is expected to be in the range of $6 million to $7 million, unchanged from our previous guidance, which excluded the impact of media. Non-GAAP net loss per share is now expected to be in the range of $0.11 to $0.13. For purposes of calculating non-GAAP loss per share for the quarter, weighted average shares outstanding are expected to be approximately 71.3 million shares, which includes the impact of the share issuance associated with the acquisition of Longboard Media of approximately 460,000 shares.

For the fiscal year ending April 30, 2013, revenue is now expected to be in the range of $161 million to $164 million. This includes SaaS revenue of $156 million to $158 million and Media revenue of $5 million to $6 million. Please bear in mind that given the seasonality of the Media business, we expect majority of the revenue contribution for fiscal 2013 to occur during our fiscal third quarter.

Adjusted EBITDA loss is expected to be in the range of $18 million to $19 million, unchanged from our previous guidance, which excluded the impact of Media. Non-GAAP net loss per share is now expected to be in the range of $0.37 to $0.40. And for purposes of calculating non-GAAP loss per share for the year, weighted average shares outstanding are expected to be $68.8 million, which includes the impact of the share issuance associated with the acquisition of Longboard Media of approximately 460,000 shares.

And with that, I'll now open the call up to questions.

Question and Answer

Operator
[Operator Instructions] And we'll take our first question from Brendan Barnicle with Pacific Crest Securities.

Brendan Barnicle
Pacific Crest Securities, Inc., Research Division
I had 2 questions. First, on the Media side of the business, that's an area I'm sort of unfamiliar with. And so is that a business that's typically just going to be transactional in nature? And how do you get visibility and comfort around that the way you have on the SaaS business?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
So it is transactional in nature. It works very similarly to other online advertising business models. You can get more visibility, I think, in these models than people may expect because you're tapping into budgets. Those budgets tend to recur even though the sale has to be repeated. You have a known amount of inventory that you're managing for your clients. You're typically working with large advertisers and agencies who have planning cycles that have begun well in advance of running of the ads. So I think to some degree, it's not true that Media businesses are crazy and highly volatile and you can't forecast them. Of course, you can. However, software-as-a-service businesses are fundamentally different because you have a recurring revenue arrangement, as you well know. And I think what's important to note about our acquisition of Longboard is how critical we think it is to be able to offer our retail clients this solution set, so we can help them increase yield per visit, help them compete in a very highly competitive eCommerce space. And we see third-party ad technologies entering into this sphere. So for us, this gives us an opportunity to help our retailers more. It extends our data set. We think it will help us pursue cross-site analytics, which will make our Bazaarvoice intelligence offerings more attractive to more of our clients and just again generally believe it is complementary. And to conclude, we're just going to explain our SaaS revenues and the media revenues separately so you guys can model. But for the time being, you're talking about a company that has 25 employees, pays for itself and is helpful to our operating margins going forward. And so we think that, that's highly accretive.

Brendan Barnicle
Pacific Crest Securities, Inc., Research Division
Great. And then just following up on the deferred revenues, which were basically flat sequentially. Was that what you were referencing, Stephen, in your comments about the transition in the sales that we're seeing that impact?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes, it is. I mean, you're really seeing the first quarter performance essentially come through our financials this quarter. I'll let Brian talk a little bit more about deferred revenue. But also keep in mind that we do have a mix of billing frequencies, and so what you're seeing in that change in deferred is not necessarily indicative of the underlying business momentum, which as I mentioned in my remarks was actually a good bit better than the first quarter as we begin to scale up from adding more salespeople and just getting our -- getting back in the groove. Brian, would you like to provide a little more detail?

Brian Smith

Sure. We do have a mix of upfront billing consists of monthly, quarterly and annually, and this can shift pretty much up or down in any given quarter. A lot of this has to do with the types of clients but also just with the type of sale. Well, large upsells from existing clients often come with perhaps less upfront billing. New clients often pay more upfront at the onset of our relationship. So we're continually focused on the ability to push up deferred revenue, improve cash collections associated with continuing our new client base. And that's what I would add.

Operator
We'll go next to Mark Murphy with Piper Jaffray.

Mark R. Murphy
Piper Jaffray Companies, Research Division
I wanted to clarify in terms of headcount growth, are you saying that you would expect to add, I guess, roughly a handful of employees per quarter here in the next few quarters? And I wanted to clarify as well, if you can, on the overall trajectory of your quota-carrying sales reps here in the next few quarters.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes, so you got that right. That if you look on a total company basis, you shouldn't expect big jumps in personnel. One of the big synergies that we realized in acquiring PowerReviews as we -- as Brian said, we really were able to build on top of that without really having 2 people doing the same job in the marketplace. On the sales front, we actually increased our quota-carrying capacity over the course of this quarter by about 15% to 20%, whereas the number of quota-carrying salespeople had been fairly flat for several quarters. I think this is something that we would have liked to have been more aggressive on. But we had to get our new sales leaders in place for the brand team and the retail team, and it was more appropriate to let them do the selection in terms of their personnel. In addition, we have done some upgrading, bringing on some much more experienced salespeople in key markets on the West and East Coast and in the Midwest closer to prospects and clients. So we definitely have increased our capacity there and plan to do that a bit more through the remainder of the year, but we'll be funding that through scaling in other areas.

Mark R. Murphy
Piper Jaffray Companies, Research Division
Okay, great. And Stephen, can you give us a feel for -- maybe for how many quarters you think that the hiring will be at a lower level here?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Well, one of our objectives is to drive revenue per employee up. Today, it's about $200,000 of revenue per employee. If you look at a best-in-class software-as-a-service company like salesforce.com, they're closer to $400,000 an employee. I think that a healthy level for us to target is in the high 2s, and we're going to move deliberately toward that objective in the ensuing quarters. Obviously, you shouldn't see huge step functions up in any particular quarter but steady improvement. That's an important objective, and it's critical to driving operating leverage and profitability.

Mark R. Murphy
Piper Jaffray Companies, Research Division
Okay, great. And I wanted to ask as well at a high level maybe what you think we could be expecting our modeling in terms of quarterly net client adds in your enterprise segment in the next 12 months or so, and I know that you don't or you've not been in the habit of giving specific guidance there. But is it possible that, that would progress upward a bit from this low 30s level as you move past the re-org and maybe see productivity on some of those recent sales hires? Or do you think that there's just going to be a bit of, I guess, volatility in those numbers?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Well, I don't have any problem saying that we expect and I expect us to increase the number of net new client adds in the coming quarters. I think that, that's an area where we can do a better job. We can be more aggressive than we've been about expanding into emerging markets. We can be more tuned in and focused to new account acquisition in terms of structuring our sales compensation, which we've done. I think perhaps on the last call or in other conversations, I've certainly mentioned that it's wonderful when you sign these big brand clients like Procter & Gamble that can grow through upsells but they can also create an environment where sales efforts are focused too much on upselling and not enough on new account acquisition. We're in a growing market and we need to have a balanced attack, and that's what's driven our performance today. So generally speaking, my focus in the role of CEO is to accelerate our new account acquisition. And I want to point out, we added over 225 Connections clients. Those are all brand clients, who wouldn't have had a reason to buy our solution before. And we're very optimistic that Connections will become a funnel to help us build brand -- more brand clients on our core technology platform. So

that's a very exciting development, and we were extremely pleased with how that went. So if you look at it that way, this was a huge quarter for new account adds compared to what we have been doing for the last year.

Mark R. Murphy
Piper Jaffray Companies, Research Division
Great. And then, Stephen, just one last really quick one. I think you had quickly signed up, I think, 8 of your top retailers on Connections and that you gave them this incentive to sign up new brands. It sounded like they did sign -- based on what you said, they signed up about 225 clients on the Connections product. Is there any way you can give us a flavor for what kind of an ASP that is realizing?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes. So what we talked about is that our aspiration for the product was that in its initial incarnation that we would target a price and let's call it the $4,000 to $8,000 range. And so far, that price level looks like it's appropriate and it's holding. So -- and that's without even having review response. So Connections will allow a client to do 2 things. One is answer a question. The second with review response is respond to a review, presumably a negative one, so you can understand what the issues are for that consumer. Once we release that this quarter, we will actually increase the price of the offering. But so far so good on that. And obviously, to build a significant business here, we want to sign up hundreds, frankly, thousands of suppliers over the coming quarters. And again, we were really optimistic about how this quarter went. It was well ahead of our plan. We got some great sponsorship from a couple of our hubs. We also nearly doubled the number of hubs that are signed up. And we really -- we haven't even started our direct marketing efforts here. One of the reasons our adjusted EBITDA loss is higher for the third quarter, when I've just talked about how we're not necessarily adding lots and lots of people, is that includes budgets to push for the launch of Connections, among other things, and also to be more aggressive in terms of expanding in emerging markets.

Operator
We'll go next to Thomas Ernst with Deutsche Bank.

Thomas Ernst
Deutsche Bank AG, Research Division
First question, I just want to follow up on a couple of the previous on your comments about the sales disruption and seeing it get better. So since you don't give us booking data understandably or -- and I'm inferring from your comments before, that's what you've actually seen improve off of Q1. Is that true...

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
That's right. No, that's exactly right.

Thomas Ernst
Deutsche Bank AG, Research Division
Pipeline as well?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes, I feel comfortable saying that we're happier with where our pipeline stands. One of the areas that I am most focused right this minute as I dig into the responsibilities of the CEO is really understanding our pipeline. I think there's a lot of goodness there. The Connections ads, again, were very encouraging because that will help drive our pipeline. But I think we can continue to do better on this front, and part of that involves just being attentive to creating the market that we compete for, if you will. So Brett mentioned last quarter that only 5% of our deals come inbound from an RFP. That's -- we'd like that to be better. I think we can do a better job of educating the market, in particular, working with channel partners such as advertising agencies to help CMOs know that we're out there and how critical a solution we have for them. And so I believe that in doing that, we can continue to improve our pipeline because we have to make our market. That's a wonderful thing because we're the unquestioned leader in the marketplace. But it's still new, it's not a replacement market and that demands a good amount of planting of seeds along the way. But yes, I feel optimistic about our pipeline and optimistic about the sales team and generally very good about our capabilities, and we're seeing progress.

Thomas Ernst
Deutsche Bank AG, Research Division
Okay, perfect. Shifting gears -- and I know I asked a question similar to this from the last call, but it's the most common question I get still even this week. Can you give us a specific example or 2 of how your customers or new

customers at Longboard when placing ads are going to benefit from some of the data in your word-of-mouth content database you got?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes. So one of the things that is really essential for our retail clients and ultimately our brand clients to have is a better understanding of consumer intent. So we have a very unique position in that we see what consumers are doing on an online retail site in terms of the reviews they're writing and, importantly, the reviews that they're reading. These behaviors are obviously highly predictive. The retailer wants to understand what's going on with client intent or consumer intent. That informs many decisions they make, everything from how they advertise to drive traffic to the site to how they merchandise to them while they're on the site. And the better information they have to make product suggestions, make pricing decisions, et cetera, the better they can run their business. What Longboard brings to the table is when we work with a retail client, we simply have more robust and a more complete set of content and data about consumer intent. Whereas if they're just deploying our core platform, while we have some of that data, it's more oriented around product ID than consumer. And by combining both, we can really, I think, impact the audience more successfully. We can help consumers make great purchase decisions, as I talked about on the script. In addition, as retailers adopt advertising technologies as part of their core business model, somebody is going to come along and provide these sorts of services. And because we have perhaps more online retailers on a single technology platform with all the data and content in a single database, we have probably more audience reach in that regard than any other company in the world, it might be a bit of an exaggeration but we're certainly up there, it makes total sense for us to add this capability to complete the data set around consumer and product. I hope that made sense.

Operator
[Operator Instructions] We'll go next to Adam Holt with Morgan Stanley.

Jennifer A. Swanson
Morgan Stanley, Research Division
This is actually Jen Swanson-Lowe calling in on behalf of Adam. I wanted to double back a little bit on the customer adds again, and I know it was asked a couple times earlier. But just to make sure that we're putting that sort of in context to the commentary of the improvements in the pipelines. Should we think of that -- I know that the way that you recognize customers is on, I think, on implementation rather than on signing. So should we think of that 33 customers as really representative of Q1 findings where things were a little forward...

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes, I think that is a good way. It's exactly how you should think about it. You can't implement them if you don't have them to implement. Also, it is notable that we launched 71 new enterprise clients. The 38 losses, that loss rate was a bit higher than in the past, but on a dollar basis, many of those losses were well, well below our average revenue per client. So with all that being said, I think harketing [ph] back to the answer I gave, our expectations for new client acquisition are higher than the number of clients we've added over the last few quarters. Part of that has been our focus on upselling and cross-selling, and so we just have to be balanced on that front. But for us to drive the kind of growth that we think we can realize, it's important for us to keep adding new accounts, and it's just simply a matter of focus, in my view.

Jennifer A. Swanson
Morgan Stanley, Research Division
And maybe just to follow up on that point you made. The churn there was a little higher than what you've historically seen. Is that churn within the core Bazaarvoice customer base? Is that churn within the PowerReviews base? How should we put that in context with what you've seen historically and whether there's something changing or whether it's more of a temporal effect of the acquisition?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
It's a little of both. There certainly were some PowerReviews losses, but, again, the dollar churn on this was quite a bit smaller than the absolute client churn. Some of it I would characterize as cleanup. There's no fundamental change in the terminations rate. I mean, normally, we've been at 97.5-ish, and this is 96.5%. And I think that there's nothing going on there that's fundamentally different.

Jennifer A. Swanson
Morgan Stanley, Research Division
And then just one last one for me. Thinking about sort of how you see the business evolving over the next couple of years, the Media business is sort of a newer area for you all. You're expanding the product portfolio with things

like Connections and with some of the work that you're doing in analytics. So as you look out 2 to 3 years, is the goal to really see that piece of the business outside of the core Conversations platform grow in a meaningful way? Or is it going to be more tactical and opportunistic? How are you sort of putting that in the context of sort of the core business versus some of these emerging opportunities?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
I think that the core business should experience robust growth, and also our add-on solutions, whether they are SaaS solutions or other types of solutions, should grow in meaningful ways. Otherwise, I don't it would be worth doing them. I think it's essential to understand the needs of our client base. So if you're an online retailer, you need online word-of-mouth content to be competitive. You're going to want to increase yield per visit with various aspects of media. That's going to become a standard part of the model. You're going to want cross-site consumer analytics. Retailers today participate in data co-ops and a number of other -- and use a number of other solutions to provide robust analytics. We've got a very, very compelling set of data and content that's true intent data, and we can do a better job of monetizing that in the future with media involved. So all these elements form the solution that we want to bring to a retailer. We want to come in and say, "Hey, we give you all the content you need, we can help increase yield per visit with media and we can provide the most robust analytics solutions for you as well and give you a number of other ways to connect to brands so they can influence your client base through Connections." And that is how the retail teams pitch will change over time. So I think that we certainly have every intention of building a significant business in our core SaaS business and the other things that we add on top of that. And the same thing goes for the brands.

Operator
We'll go next to Stephen Ju with Crédit Suisse.

Stephen Ju
Crédit Suisse AG, Research Division
So among the retailers who are currently with you, have any of them been running ads in the inventory such as what you are proposing to do with Longboard? And the type of advertisers who will be advertising, is it safe to assume that they're predominantly brand advertisers looking for lift? Or is it, at some case -- cases, direct response guide [ph] ?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
So some of Longboard's clients are Bazaarvoice clients today, okay? One other notable point is that Longboard is servicing Buzzillions, which we acquired through PowerReviews. So for what it's worth, that particular inventory becomes 100% margin. As far as advertisers, you -- what you would expect is what's happening. Brands and suppliers that sell products on those particular retail sites are buying advertising on those sites very similar to co-op advertising tactics for bricks-and-mortar stores. And so that is essentially what Amazon is doing, and that's where we thought and where we think it's best to start to introduce media capabilities to online retail. Over time, the things that retailers do around media, I think, will get much more sophisticated. I mentioned in my remarks that we believe that the audience for shopper media is different, and we weren't -- and we aren't looking at advertising strategies that require a consumer to click away from the retail site. We're looking for cooperative or complimentary strategies that help, let's say, Samsung, influence a shopper and connect with that shopper while they're shopping at a consumer electronics store. And so that's really the logical starting point, we think, Amazon agrees, that's what they're doing, and we'll build from there.

Stephen Ju
Crédit Suisse AG, Research Division
Okay. And to follow up on the prior question, I guess, it seems like the shopper media is like -- is a relatively under-monetized inventory as you put it at the undiscovered countries. So it just seems like the growth rate for this segment should be in excess of your core SaaS business. Or is that a little bit too much to expect right now?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Well, I think that, a, you're correct. This is an emerging strategy for online retailers. The addressable market, really, in part, comes from a shift to co-op advertising dollars from in-store to online, which we think is a shift that we can -- that will happen and we can see happening. So as retailers' business models evolve, we think that this could be a potentially very fast growth opportunity for us, but it's still very new. Because Longboard is an emerging company it has the potential to outperform the guidance that we've given, but it wouldn't be prudent right now to bet on that until we learn more. We love the people there. We love their strategy. We did months of research on this and looked at a number of different opportunities here both in terms of going and doing it ourselves versus acquisition. And what was great about the Longboard team is they had essentially the same strategic approach to supporting retailers that

we would have implemented organically, and they had already established the viability of their strategy. So this was a people acquisition and a know-how acquisition and a process acquisition that immediately catapulted us into this opportunity that you know we've been talking about since our IPO. And we ultimately concluded this was the best way for us to make our initial foray into this space.

Operator
[Operator Instructions] We'll go next to Thomas Ernst with Deutsche Bank.

Thomas Ernst
Deutsche Bank AG, Research Division
Just 1 quick follow-up. I assume by the lack of content, there's no update on the DOJ review for the PowerReviews acquisition?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
There's no update at all. They're just going through their process of asking questions and understanding our business, so, really, nothing has changed at all.

Thomas Ernst
Deutsche Bank AG, Research Division
Does the review change anything you do with the integration? Or are you proceeding at full speed on the integration?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
No. No, it really doesn't. They're right now trying to understand our business and the implications for the marketplace. We're being as helpful as we can. And -- but no, we're running the business the way we had planned to run the business, and the Longboard acquisition is an example of why we felt it was so important to reinforce our lead position in retail to build the largest network possible when it comes to a shopper audience.

Operator
[Operator Instructions]

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Operator, if there are no further questions, we can conclude our call now.

Operator
All right. And ladies and gentlemen, once again, that does conclude today's call. We do appreciate everyone's participation.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Thank you.