

# Mossberg's Investor Digest

## Best Idea Profile

inContact (Nasdaq: SAAS)

### DESCRIPTION:

Based in Salt Lake City, inContact provides software and services to call centers. As its stock ticker implies, the company's software solutions are delivered as a service, SaaS, and "on-demand" software. The company also offers legacy telecom services (65% of revenue) such as long distance voice and data transport. Telecom services are offered separately and bundled as part of the company's on demand contact center software solutions. The company has software deployed in over 650 small and medium sized call centers (20 to 400 seats), used by 60,000 agents in 32 countries.

### KEY INVESTMENT CONSIDERATIONS:

**Software as a Service will play a larger role in contact centers and presents a significant growth opportunity** – Currently, only about 2% of contact center infrastructure uses software as a service. The company's offering addresses 75% of the contact center market (a \$3 billion addressable market), which leaves plenty of room for growth. Traditional contact center technology deployment involves significant premise equipment and software licensing that is expensive to implement and maintain. It also requires up-front capital expenditures and the increased risk of delays and cost overruns to implementing new technology. Interest in deploying call center technology "on demand" is growing among enterprises because it offers reduced costs, lower up-front capital expenditures, lower deployment risk, and can scale easily. Because the software is delivered over the Internet, SaaS can be easily deployed at any location, such as by at-home workers. This makes it a particularly attractive model for the contact center industry. IDC projects the "on demand" delivery of contact center technology will grow at 47% per year for the next three years. It appears that inContact's software segment is well positioned to keep pace with this growth rate. During the first three quarters of 2009, inContact's software segment revenue grew 52%.

**SaaS revenue creates predictable and stable revenue streams** – While there is lower initial revenue than in a traditional software licensing business model, SaaS recurring revenue model offers greater stability and predictability. inContact's SaaS services contracts range from 12 to 36 months and enjoy 93% renewal rates.

**Partnerships with the leading CRM (customer relationship management) integrators** – The company's sales model leverages partnerships with CRM providers and systems integrators, including major players in the CRM space, Salesforce.com and Microsoft Dynamics CRM. This is an efficient way to reach a large base of customers and the company has recently gained significant traction with its partners.

### RISK:

Competition is always a risk with any software story. SAAS competes with much larger premise vendors including Nortel, Avaya and other call center software providers.

### VALUATION:

The company trades at 1x revenue, which is a long way from the more mature SaaS players such as Salesforces.com (7x revenue) or LivePerson (4x revenue). As the company's SaaS offering continues to grow as a portion of the overall revenue mix, multiples should expand. In addition, growth of higher margin SaaS revenue will drive improved and sustainable profitability, which should also support higher multiples.

#### (Nasdaq: SAAS)

Investment Data (as of 12/22/09)

<b>Recent Price</b>	<b>\$2.73</b>
52-Week Range	0.93 - 3.94
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	31 MM
Average Trading Volume (3 mos)	50,000
Market Capitalization	88 MM
Cash	4 MM
Long Term Debt	10 MM
Enterprise Value (EV)	91 MM
LT Debt/ Equity	1.3
BV/ Share	0.25
TTM Revenue	84 MM
P/ Revenue	1.0x
2010 EPS Estimate	0.01
P/ EPS	NA
TTM EBITDA	136,000
EV/ EBITDA	NA

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