

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TESS - Q2 2017 TESSCO Technologies Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2016 / 12:30PM GMT



CORPORATE PARTICIPANTS

David Calusdian *Sharon Merrill Associates - EVP, Partner*

Robert Barnhill *TESSCO Technologies Incorporated - Executive Chairman*

Aric Spitulnik *TESSCO Technologies Incorporated - CFO*

Murray Wright *TESSCO Technologies Incorporated - CEO*

CONFERENCE CALL PARTICIPANTS

Anil Doradla *William Blair & Company LLC - Analyst*

William Dezellem *Tieton Capital Management, LLC - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the TESSCO Technologies Second Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference call over to David Calusdian from Sharon Merrill Associates. Please go ahead.

David Calusdian - Sharon Merrill Associates - EVP, Partner

Good morning, everyone, and thank you for joining TESSCO's Q2 Conference Call. Joining me today are Robert Barnhill, TESSCO's Executive Chairman; Murray Wright, Chief Executive Officer; and Aric Spitulnik, Chief Financial Officer.

Please note that management's discussions today will contain forward-looking statements about anticipated results and future prospects. Forward-looking statements involve a number of risks and uncertainties, and TESSCO's results may differ materially from those discussed today. Information containing factors that may cause such a difference can be found in TESSCO's public disclosures, including the most recent Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

With that introduction, I'd like to turn the call over to Bob Barnhill, TESSCO's Executive Chairman. Bob?

Robert Barnhill - TESSCO Technologies Incorporated - Executive Chairman

Thank you. Good morning. Today, I want to give you the highlights of our second quarter and our fundamental vision for regaining growth. Aric Spitulnik, our CFO, will give you the details of our performance; Murray Wright, our new CEO, will review with you his initial observations and his high-level strategic plan. Then after Murray's remarks, we will take your questions.

Our second quarter was encouraging on several fronts. We continue our evolution from a carrier and transaction-centric product supplier to a relationship provider of end-to-end wireless solutions to deploy network and connectivity systems. We are beginning to see increased purchases and commitments from carrier contactors. The private system operator market is growing year-over-year and quarter-over-quarter sequential growth. And on the 1st of September, Murray Wright joined TESSCO, as President and Chief Executive Officer.

Overall, we achieved sequential growth and earnings, achieving \$0.12 earnings per share and \$0.38 EBITDA per share. We continue to maintain a strong balance sheet and declared a quarterly dividend of \$0.20 per share.

As I did in the past quarters, I'd like to highlight the five key initiatives to transform the way we do business to profit from the opportunities emerging from convergence of wireless and the Internet. First, we're expanding and enhancing our offer in the markets we serve. Our goal is to be your total source for the end-to-end wireless solution to deploy network and connectivity systems.

To us, the end-to-end solutions includes everything that is necessary to design, build and maintain a system to meet the customers' requirements. We have expanded beyond cellular, into data, video connectivity and controlled network systems, including Wi-Fi, fiber backhaul and consumer and industrial Internet of things. With our offer, we're aggressively expanding the markets and customers we serve. In particular, we're focusing on the organizations that build and maintain their own systems, such as businesses, schools, healthcare, property owners, utilities, transportation and governments.

Our second major initiative is enhancing our supply chain and procurement system to achieve complete air-free, configured and kitted delivery, when and where needed. All requiring flawless procurement and inventory management.

The third initiative is transforming our sales team from reactive product selling to proactive relationship selling. This requires the development of individuals capable of holistically understanding the customers' needs and then fulfilling those needs with a customized end-to-end solution.

The fourth area of transformation is responding to the customers' behavior and expectations to make it easy, simple and productive for them to do business with TESSCO. We are standardizing and digitizing our policies, procedures and pricing to improve the customers' purchasing journey. The standardization and digitalization will not better -- will not only better serve the customer, but will dramatically improve our productivity and lower our costs.

The fifth major initiative is to integrate the other four initiatives into digital marketing, commerce operations and intelligence platforms. Our goal is to make tessco.com the definite source for customers to gain knowledge, design solutions, choose products, place and track orders, receive invoices and make payments. It's to understand the customers' requirements to make suggestions and customize our offer by utilizing our predictive analytics system, to digitally interface with our manufacturers to better present their products on tessco.com and purchase our requirements from them. And lastly, communicate with the customers one-to-one contextual relevant information to create opportunities in sales for TESSCO.

We are making progress in all of our initiatives to transform what we sell and how we sell and do business digitally.

Now, I'll turn it over to Aric to walk you through the details of our financials and tell you what's happening in our markets. Aric?

Aric Spitulnik - TESSCO Technologies Incorporated - CFO

Thank you, Bob. Today, I'm going to give some comments regarding the results in the individual markets. Overall, our second quarter performance met the expectations we had laid out on our last earnings call. Revenues and EPS were up sequentially from the first quarter, but down from the second quarter a year ago. However, this performance is well short of where we ultimately want to be, sluggish demand from the public carriers continue to weigh on our results.

Gross margin held steady from a year ago at 21.4% of revenue and actually improved 40 basis points from the first quarter. The sequential increase in gross margin was primarily due to the improved product mix, particularly within the retail, commercial reseller and the government markets.

SG&A declined from the first quarter by approximately \$300,000. As a percentage of sales, SG&A was 19.8%, an improvement of 110 basis points from the sequential first quarter. As a result, operating margin improved to 140 basis points from the first quarter, but this is still down significantly from last year's second quarter.

Net income was \$1 million or \$0.12 per share, down from net income of \$2.7 million or \$0.33 per share in the same quarter a year ago, but up from \$0.1 million or \$0.1 per share in the first quarter.

Now turning to the markets. We continued to navigate uncertainty in our major markets. The carrier market in particular remains our biggest challenge, as the major wireless carriers have pushed out their plans for renewed spending to build out their wireless networks. Revenues were down 28% over last year's Q2. However, the carriers are increasing their activity and we have been successful in winning some new business from tower owners, contractors and carriers, because of the consultative relationships we have developed. Some of this new business has been for traditional build-outs, but we have also been successful in developing new opportunities, such as Internet of Things programs.

We were able to grow this market 12% over Q1. And we are well positioned to capitalize on renewed spending as it materializes. It just hasn't happened as quickly as anyone would like.

In the government market, we added four new state and local contracts to allow us to offer product solutions. We also renewed eight contracts. This being a presidential election year, several large projects and opportunities have been shifted into the 2017 calendar year, as we await approval of the federal budget.

For Q2, sales were up modestly from a year ago. Sales were up in the first quarter, which was very strong, as many state and local agencies completed their fiscal years. We continue to drive more opportunities in this market, based on the investments we've made in talent during the past few years.

The private system operators' market experienced significant activity within the utility sector during the quarter. Among these were opportunities for test equipment, broadband radios and signal enhancement projects. Overall, revenues increased slightly from the second quarter of the prior year and were up significantly from the sequential first quarter. As expected, we saw a pickup in sales to a particularly large retail center customer that purchases primarily Ventev products.

Within the VAR market, public safety continues to drive new demand for DAS equipments. We were also awarded our first NFL stadium DAS deal, and we have also -- we have additional demand for similar installations in the pipeline. However, we need to grow faster in this space, as revenue were down a year ago and sequentially.

Looking at the retail markets. Sales were up slightly year-over-year. On a sequential basis, revenues were up mid-single digits, largely driven by the iPhone 7 that was introduced towards the end of the quarter. Ventev continues to have success with mobile device and accessories. In the second quarter, we launched a new category of Ventev car mounts, which has received great reviews from both existing and new customers. We also launched our first Ventev-branded USB type C integrated backup battery and a 2-in-1 cable that includes both USB type C and micro USB.

On the infrastructure side, Ventev continues to have success with Wi-Fi applications, including closing a large national mall project and several stadium projects.

Total Ventev sales, which include both mobile device accessories and the infrastructure products, totaled 15% of overall revenues. Sales were essentially flat year-over-year, but up 19% sequentially. The increase was also largely driven by the acceleration of sales to the repair center customer I've discussed earlier.

Looking at the balance sheet, we increased inventory by almost \$14 million from the sequential first quarter. While this is a substantial increase, inventory is down from last year's Q2. And the increase is a temporary event that occurred at the very end of the quarter. This was primarily related to the new iPhone as well as Ventev inventory, as we gear up for the Q3 holiday season.

Cash flow from operations was \$400,000 during the second quarter and \$500,000 for the first six months. Overall, cash on the balance sheet was \$10.8 million, and we had no balance on our \$35 million line of credit. We remain committed to our dividend program. And we've set our dividend of \$0.20 per share with a record date of November 9, and a payment date of November 23.

Now turning to the outlook. We are now providing earnings guidance at this time for fiscal 2017 due to the uncertainty that persists, which primarily in the carrier market. While we currently anticipate modest sequential revenue growth in the third quarter, results are expected to be lower than in last year's third quarter, primarily because of near-term uncertain economic and market conditions, pricing pressure in the retail market and the



ongoing investments in our transformation. Overall, this quarter was a significant step forward for us, as we saw a sequential revenue and earnings growth. We are excited by the momentum that is building, and I believe we are in a strong position to grow as we execute our plan.

Now, I will hand it back to Bob.

Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

Thank you, Aric. This is a very exciting time in TESSCO's journey. For the first time since I founded the company in 1982, we have a new CEO. Murray Wright has the drive, experience and commitment to accelerate the transformations already underway to achieve breakthrough success. He has a strong background in sales and operations having worked -- working for leading technology companies, including Tech Data, where he was the President of the Americas.

Murray is ready to respond to the exponential pace of changing technologies, networks and applications, customer expectations and doing business digital. As executive chairman now, I look forward to supporting Murray as we transition leadership and achieve our transformation initiatives.

Murray will share with you his observations and his high-level execution strategy plan. Murray, take it away.

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Thanks very much for that introduction, Barney. I'm honored and excited to be here at TESSCO. It's now been nearly eight weeks since I joined the company, and in practically every meeting, I'm asked why I chose this company at this time? So let me provide you with my rationale for making this move and then give you an idea of what we'll be working on in the near future.

First, I spent my entire career in the information technology industry at each of the vendor, distributor, and VAR levels. This combination of experiences in the IT channel provides a great background for understanding the detail and the mechanics of TESSCO and how our business operates. I also heard very positive things about the strength of the TESSCO culture from colleagues who have worked here in the past. That culture has built on a rich 33-year history of achievement, financial success and an ability to adopt. And I can tell you today, and confirm that the culture is very healthy.

My own interaction with TESSCO has been extremely positive. There is a great atmosphere within the organization and every conversation I have had with the board and with team members prior to accepting this position was positive and productive.

You can be confident in the CEO selection process the board used, because it was long and it was thorough.

Looking outside the company, wireless is a growth industry. Market forecast that I'd seen show healthy growth for the next several years. Many of our focused areas, like Wi-Fi, wireless infrastructure, machine-to-machine communication and the Internet of Things, are expected to have double-digit growth rates for at least the next several years. This is a great industry to be part of, and I believe TESSCO is in an excellent position to take advantage of that growth.

Now, a few words about our approach as we move ahead. First, the strategy that's in place is a solid one. And we plan to keep that largely intact. Many key investments in intellectual capital and technology have already been made in the recent past. These investments will enable us to pursue the existing transformation strategy without significant outlays of new capital. Instead, we are looking to make changes that will improve the company operationally. We are doing many of the right things, but we need to do them faster. We are increasing our intensity and focus on execution, particularly in achieving the top line growth.

As just one example, we are actively engaged in a search for a new Senior Vice President of Sales. We've narrowed the search to a small group of candidates, and we're looking forward to making a hire in the near term.

Much of our work right now is focused on process. We are assessing each department, function and end market as we develop new ways to accelerate our performance. We are identifying priorities and putting functional action teams in place. TESSCO has several opportunities to improve productivity, execution, agility, customer focus and speed. We will be discussing these in greater detail in future quarters. We are also exploring new solutions that will forge collaboration with the existing customers and thereby enhance and strengthen those relationships.

In summary, it's quite clear to me, TESSCO is in a terrific position to capitalize on the growth of the wireless industry during the next several years. We have made significant investments in tools and talent. It's now time to accelerate our progress and capitalize on those investments. The building blocks are in place, and we look forward to discussing our achievements in the quarters to come. Back to you, Barney.

Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

Thank you, Murray. We are all very excited to welcome you to TESSCO.

Let me quickly summarize before we move to questions. First, I think the key takeaway is that we are positioned well in cellular and the new world of wireless networks and connectivity. Secondly, we have the roadmap for making the transformations required, and we believe these transformations will accelerate long-term growth. And finally, we are committed to making a difference in our customer's success and creating value for you, our shareholders.

So now, let's open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Anil Doradla with William Blair. Your line is open.

Anil Doradla - *William Blair & Company LLC - Analyst*

Congrats, Murray, on the appointment, and welcome to TESSCO. Looking forward to meeting you in person and working with you.

So let's kick off with a couple of questions, Murray. I'm going to put you a little bit in the hot spot here. So you come at a very crucial time in the history of the company, clearly. It appears that this fiscal year also revenues, in all likelihood, will decline, at least that's what I'm modeling, which means TESSCO's revenues would decline for four consecutive years. However you slice it and dice it, you just can't put a positive spin to that.

So I think -- let's start with a big picture question. What would you do to reverse these big issues. And why I ask that question? You talked about head of sales addition, but to me this is an important and crucial thing. But don't you feel that you have to retake a look at what TESSCO is doing, whether the fundamental strategy is right or wrong and whether this company is aligned for the future?

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Anil, thank you for that question. I'd just like to say, keep in mind that I've only been here for two months. And part of what I'm in the midst of doing at the moment is making sure that I understand the business and our customers. I think, I'll be in a much better position to answer that question on our next call. But I take a stab at it right now and say you could be right and anything that's happened from a past perspective on performance, I certainly can't deny it, but the transformation of becoming more solutions-oriented, I think, is the right move for TESSCO.

And I think the history of the company has also demonstrated that their ability to be able to go and secure very large transactions and develop large customer relationships. And so I think that could be part of our future as well. Making sure that we focus on driving more solutions, but then

we're also -- we demonstrated big deal opportunities in the past, and I think we've got some very interesting things that are, it's a little early to share with you, in our pipeline.

So I feel -- coming into it, without having the four years of previous history, I feel very good about where TESSCO is positioned.

Anil Doradla - *William Blair & Company LLC - Analyst*

And Murray and Barney, you can also pitch in here. But -- so if you guys are going to take a relook at your big picture strategy, how would M&A factor into that? Is that going to be an important component? In other words, from a capabilities acquisition point of view, given that I -- what I believe is time is running out a little bit and you guys have to show growth, are you guys open towards more M&A kind of deals, where you acquire some of these adjacent capabilities?

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Thanks, Anil. I think -- I'm sure Barney has -- would like to weigh in on this as well, because we have talked about this. I think we have to focus on the fundamentals and get some growth with the foundation of the business, and I'm confident we're going to see that. But you are absolutely right. And in fact, we've got our antenna up right now. And as you know, we've got a very strong balance sheet and we've got some flexibility that enables us to start to look at what smart potential acquisition should look like.

I would just add that I think it's part of a strategy that we need to craft into the company and we identify the spots where complimentary acquisitions make sense for TESSCO. And now with Bob being the Executive Chairman, frankly, I think we have more time to evaluate those opportunities in the marketplace.

Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

Yes, I think just a great point is that, first of all, as we look at the solutions or the systems that we're supporting, we've got to make sure that we really have the end-to-end products and services. You take the Internet of Things that we keep talking about is that we need to fill in some areas, when it looks for sensors and the other components that we need.

And to Murray's point, that's one of the areas that I'm really going to be focusing on, in terms of looking at where we need product that we don't have it. Do we get it with an existing vendor? Or do we get it with a -- an acquisition? So it's certainly move we've always had a -- we're looking for things, but now our antenna is really up.

Anil Doradla - *William Blair & Company LLC - Analyst*

Very good. And so when I switch gears, clearly, Barney, there seems to be a fundamental paradigm shift away from the carrier market. In other words, carriers just don't want to take on the responsibilities and the dollars associated with CapEx. So you talked about the NFL stadium build-out. It sounds like the local facilities, local owners are taking on more of that relationship. Now, is this something you believe is the new way of doing this business? Or do you think this is I'm kind of over-extrapolating that comment?

Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

Well, yes, I mean, first of all, we're certainly still very focused on the carriers and the contractors. I mean -- and we have the best team that we've ever had and we are building those relationships and really working on relationships selling rather than how many feet of cables you need. We've got some very exciting things in the pipe. As we said that the commitments are being made, our back order has never been as high in terms of what we're looking at, so the carriers, but remember that carrier is going to be buying some direct, but a -- the majority of it is going to come through the contractors.

Also I think, as you know, is that when you look at the NFL stadiums and you look at public safety and where the carriers historically as they were building and they were owning, but now they're pushing that out so that the actual owner of the facility is putting in that DAS carrier system.

So the way that we're selling and who we're selling to is a lot different than what it's been historically. But just as -- and I'm sure you'll be talking about the AT&T and that the Times Warner is this is -- all of this content needs the network. And the challenge is going to be is, is the existing carrier today going to be a content and service provider? Or they going to be the infrastructure provider? So one way or the other, the infrastructure has to be built.

Anil Doradla - *William Blair & Company LLC - Analyst*

Right. And looking at the way we see --

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Anil, I would look at it, with just one -- I'd just add one comment. So that is, if you think about our business, strengthen the foundation, grow the foundation of our business and the base with solutions, selling more stuff to more customers and more stuff to current customers and the carriers are going to be a key part of our future, absolutely, it's just going to be the potential of being different than it was before. And in fact, we've got pilot projects in place today that it's too early to go prime time with them. But we -- with one of the major carriers with kind of very interesting projects underway.

So I think that while CapEx may be a concern for them, they are also trying to offload expenses and services and other capabilities to their partners. And I think, we're very well positioned to capitalize on that.

Anil Doradla - *William Blair & Company LLC - Analyst*

So go from kind of a CapEx-centric company to more of an OpEx-centric operational (multiple speakers) --

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Solutions oriented, right?

Anil Doradla - *William Blair & Company LLC - Analyst*

Right, right.

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Providing solutions that could provide that leverage and benefit to whatever the carrier is trying to accomplish.

Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

The other side of the carrier that we're really developing is that, they don't want to maintain inventory that they have done in the past, that we all know, and that's where some of the sales have been slowed, because they are working off their inventory. They want a kitted solution forward deployed so they can take it and they can deploy it immediately.

So it's totally kitted for a certain site or certain location and that's what we're developing when we say we're developing our supply chain so that we can totally get it and then we can forward-deploy it, so they have a close where they can put it into operation quickly.

Anil Doradla - *William Blair & Company LLC - Analyst*

Very good. Now Aric, switching to the finance part. Over the last couple of years, you guys have done a reasonably good job reigning in your OpEx, SG&A to ensure it just doesn't go out of hand. So sounds like 2017 will be another year where you'll have to just grind it out on the top line as you kind of pivot your strategy. So can you share some comments on how you're looking at the OpEx for the year? Would the decline be in line with the revenues? Or the decline will be more severe? Or you'll be in the spending mode in 2017?

Aric Spitulnik - *TESSCO Technologies Incorporated - CFO*

I think, you'll see something and somewhat similar to where we have been in the first two quarters. We're certainly looking at expenses. What we're trying to do is identifying areas where we may not have the right skill set and it's a lot of via making sure that, as Murray says, putting the right people in the right chairs.

So I don't think we are going to be best in a whole lot of new people, and I think from a technology and from a space and capacity situation, we are in great shape there. So I wouldn't expect any significant investments in the business from an operating expense standpoint. So I think we're kind of -- just kind of be where we are today, is a good trend line for where we're probably going to be for the next two quarters, with a little bit of ups and downs here and there and trying to get a little bit more productive with our sales force, but I don't expect any major changes in the second half of the year from where we are today.

Anil Doradla - *William Blair & Company LLC - Analyst*

Great. And one final question for Murray and Barney. Look, I mean, clearly as part of the big picture strategy, new talents, new talent acquisition, adjacencies are obviously are always of focus. But can you share with us, how much focus are you guys emphasizing on divesting properties or shutting down divisions or getting out of some of these businesses, because part of the pivot into this new paradigm is not only getting into new stuff, but also discontinuing the old stuff, too, right?

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Anil, I'm in assessment mode and analysis mode with Aric on that. And we'll be able to give you a better answer in January. But right now, I'd say it's on my list.

Anil Doradla - *William Blair & Company LLC - Analyst*

Very good. And once again congrats, Murray, looking forward to having a great time with you in TESSCO.

Operator

(Operator Instructions) And we do have a question from the line of Bill Dezelle with Tieton Capital. Your line is open.

William Dezelle - *Tieton Capital Management, LLC - Analyst*

A group of questions. First of all, the reseller and the government market were both down versus the first quarter. Would you please discuss the dynamics behind that, please?

Anil Doradla - *William Blair & Company LLC - Analyst*

Yes. On the government side, the state and local year-ends were in Q1, and we had a great amount of business there, that's one of our best government quarters we've had. So it was a difficult comparison. And as I said, some of the election-year stuff is causing some uncertainty in the government market and we actually expect -- normally, we'd see a better Q3 and a worse Q4, we actually expect that to be either close to the same or even better in Q4 than we were in Q3 for government.

So it's a little bit of -- some uncertainties in the political area now are affecting some of the federal government spending. So -- well, we certainly are confident that the government market is going to continue to grow on a long-term basis.

The commercial resellers, who has been a market that we're -- we've been struggling with a little bit, we're still working on putting together a little bit more of an outreach plan in that market, getting some more people out in the street. So that's been a longer-term focus, but we're still working towards. Nothing in particular. It's not like it's one customer. It's not a trend that we're seeing from a group of customers. Just happened to be another slightly down quarter from where we were last quarter.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

And why is it that you think over time you have been struggling with that reseller market, I mean it's not gaining a traction that you think it should?

Anil Doradla - *William Blair & Company LLC - Analyst*

Part of it's the carriers. They deal some work with carriers. So the carriers being down, that certainly impacts it. I think some of it's the transitions here that we are seeing and who is doing what, as far as the carriers versus the VARs. So there has been some work there. I think, we were doing more work with the two-way dealers in the past, and that's slowed down a little bit. So we need to make sure we have an edge there, and we are being more aggressive and trying to go after some of those guys.

So it's a sales strategy that we're still in process of executing and so haven't been as successful as we'd like, but -- and nowhere we're giving up on that market. That's a critical market for us. And we've got a lot of resources in that market that we think can drive a lot of success in the future.

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Bill, I'd just add, a lot of my past experiences, if I take a look at Tech Data for instance, it has been dealing with the VARs. I understand the marketplace pretty well and we are going through that assessment process and looking at our go-to-market strategy today, our coverage model, our target customers, our pricing strategies. But, I mean, you and I've talked about this before. I've been here two months. I think we're making some very good progress, and we're making changes. I anticipate those changes will deliver results, but it will be an evolution, not a revolution, for us to start to build momentum in that marketplace.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

That's helpful. Thank you, both. Let's shift to the iPhone introduction for a moment. Talk a little bit about the impact that you see on the business as a whole, and Ventev specifically, if you would?

Aric Spitulnik - *TESSCO Technologies Incorporated - CFO*

So the iPhone launched in mid-September. So it was a very strong launch. The first few weeks of this iPhone are almost two times higher from what we saw from last year's iPhone. So I think the 7 is definitely generating a lot of momentum, and we've seen that continuing into October.

On the Ventev side, Ventev is more of power. They don't do a whole lot of cases. So it did see a little bit of a lift. But if you have an iPhone 6 and you upgrade it to a 7, you don't necessarily need another power right away. So Ventev is certainly -- saw a lift from that, but would not have seen the cases -- case manufacturers is what we primarily sell when there is a new iPhone launch, but power is an auxiliary product that goes along with it sometimes, not as much as a case or a protective screen.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

And the inventory increase that you referenced in part tied to the iPhone, but in part with Ventev. Can you dial into that a little bit more, because the magnitude of that increase appears to be bigger on a sequential basis than what you have experienced in prior periods with launches, if I've done my homework correctly?

Aric Spitulnik - *TESSCO Technologies Incorporated - CFO*

Yes. A lot of it is timing. So there is a lot of inventory that came in right at the end of the quarter that there were so much of it. We couldn't get it all, turned around and get out the door as quickly. Some of that is also starting to ramp up again for the holiday season.

The Ventev piece of that is a lot of the connectors that we buy overseas and those are a little bit of a constrained resource right now. So we went a little heavy with purchasing those. So that was a significant increase over previous years. Those connectors are also more expensive than they've been in the past. So that contributed to that as well.

We're still down as I said from last year's second quarter inventory, and we would expect by the end of Q3 to be significantly down from where we were -- where we are right now, both with iPhone inventory, Ventev inventory and overall inventory.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

Thank you. And then let's keep on the inventory front for a moment. The channel inventory in the carrier market has been a problem. Just wondering, what's your current update in terms of what you are seeing with inventory levels, and if you have some perspective as to when we might get to that level that the carriers that would consider appropriate?

Aric Spitulnik - *TESSCO Technologies Incorporated - CFO*

Yes. I mean, it's still out there. It's definitely come down quite a bit in the -- over this calendar year. They are not to a point where they are down to zero by any means, but they are certainly at a point where they are starting to order some things that they didn't need before. So it's a good sign overall. We can't speak exactly to how much anybody has, any particular carrier, but we're seeing that come down quite a bit. We're seeing some of the stuff that we haven't sold in a while starting to move a little bit, including the one customer that we have some inventory for.

So I think, overall, it's a good trend. It's not -- we're not to the bottom of that yet, but we're heading in the right direction with it.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

And then finally, the microcell market is an area that you all have not really played deeply in the past. Is that an area that as you go through the strategy evaluation create -- where you're finding that there might be more of an opportunity there than you had historically thought?



Robert Barnhill - *TESSCO Technologies Incorporated - Executive Chairman*

Yes. We still can't participate in the small cell itself, the active components. But we are already supplying the carriers antennas, cabling. We're looking at the enclosures. So there is a lot there, and there's going to be a lot of the densification as we go forward. And there's -- CommScope, for an example, has just acquired public knowledge a small cell manufacturer, which is, I believe, that's going to help us as we go forward in terms of actually getting that access point that we need to play.

But it's -- some of these deployments are pretty interesting in terms of you see the ones that they are doing here in Baltimore is still on that power poles and they are actually putting -- for every three poles, they are putting a small cell on top and it's a good-looking thing. It's painted brown. It kind of blends in, but we are also looking at these various disguise antennas that will be very important as we do more of the small cell deployment.

William Dezellem - *Tieton Capital Management, LLC - Analyst*

Great. Thank you all. And welcome aboard, Murray.

Operator

Thank you. I'm showing no further questions. I'd like to turn the call back to Murray Wright for closing remarks.

Murray Wright - *TESSCO Technologies Incorporated - CEO*

Well, great. Thank you, everybody, for being on the call today. Let me just say that we value your support and we're confident we will regain our growth. There is just too many opportunities in the marketplace for us not to start to generate momentum. I look forward to talking to you again in January. Thank you very much for being on the call. Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Everyone, have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.