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TESS - Q1 2017 TESSCO Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2017 TESSCO Technologies Incorporated Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Mr. David Calusdian. Sir, you may begin.

David Calusdian - *TESSCO Technologies, Inc. - EVP, Partner*

Good morning, everyone, and thank you for joining TESSCO's conference call. Joining me today are Robert Barnhill, TESSCO's Chairman and Chief Executive Officer; and Aric Spitulnik, Chief Financial Officer.

Please note that management's discussions today contains 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 concerning factors that may cause such a difference can be found in TESSCO's public disclosures, including the Company's 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 Chairman and CEO. Bob?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Good morning. Today, I'd like to give you the highlights of our first quarter, an update on our strategy, and what's happening in the markets we serve. Aric Spitulnik, our CFO will then give you the details of our performance, and then we'll take your questions.

Our financial results do not yet reflect the progress we're making in evolving from a carrier and transaction-centric product supplier to a consultative provider for the end-to-end wireless solutions to deploy network and connectivity systems.

In the first quarter, we delivered sequential improvement in revenues and earnings, maintained a strong balance sheet with no operating debt and declared a $0.20 per share quarterly dividend.

Today, there are new realities that are driving challenges and new opportunities. Technologies, network, applications are changing in an advancing and unprecedented rate. Customer behaviors and expectations are dramatically changing. Manufacturers' go-to-market strategies are shifting, and doing business with digital platforms internally and with customers and manufacturers is essential.

We're responding to these new realities with intense focus to change the way we do business. We're expanding and enhancing our offer and value proposition to be your total source for the end-to-end solutions for a broad array of wireless systems.

The systems we support are backhaul, Wi-Fi, coverage and capacity, monitoring and control, base station infrastructure, in-vehicle and mobile communications, mobile device performance, installation, test and maintenance and Internet of Things.

To us, the end-to-end solution includes everything that is necessary to design, deploy and maintain a system to meet the customer's requirements. As an example of a new TESSCO end-to-end solution is the Internet of Things, or fleet and asset tracking and agricultural management. Our goal is to simplify and enable effective deployment of complex and sophisticated systems.

We're bringing together our logistics, program management, design, engineering, configuration, provisioning and site kitting capabilities to allow the entire system to be setup and ready to power and work in the field flawlessly. We're offering the complete vertically-integrated solution, hardware plus cloud data collection plus monthly wireless connectivity and installation by our contractors and VARs.

Our second major initiative is enhancing our supply chain and procurement system to achieve complete error-free, configured kitted delivery when and where required and flawless procurement and inventory management, which is critical to assure on-time delivery while lowering inventories in excess and obsolete products.

Our purchasing strategy also allows us to support our customers' supplier diversity procurement requirements. The goal of supplier diversity programs is to promote purchases from businesses owned by minorities, women and service-disabled veterans. Enhancing purchases from diversity enterprises is a critical requirement for companies who supply products and services to the government, which include the carriers and customers from all of our five markets.

TESSCO purchases products through a sophisticated procurement platform owned and operated by a certified minority and women-owned enterprise. This platform complements TESSCO's existing supplier diversity initiatives and provides diversity credits for both TESSCO and our customers.

The third initiative is transforming our sales team from reactive selling to proactive consulting relationships as solution selling. In a moment, I'll highlight some of the opportunities that are arising out of this effort.

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 and procedures affecting the customer's journey from deciding on a need, to placing an order, to payment, to delivery, to issue resolution.

The fifth major transformation is to build and deploy digital marketing, commerce, operations and intelligent platforms. Our goal is to make tessco.com the definitive source for knowledge, content marketing and a digital hub for doing business. To deploy predictive analytics, to achieve market and customer insights, to digitally interface with our manufacturers to better present their products, procure, track deliveries and resolve issues and to communicate one-to-one, contextual, relevant information to create opportunities and guidance.

We are making progress in all of our initiatives, which are a journey. However, we must accelerate the changes while we manage expenses.

Now I want to highlight what's happening in our market. The central theme for all markets is that our growth of shipments and pipelines is being driven by our end-to-end offers, supply chain, delivery excellence and our business generation talent. In general, our customers are showing a lot of activity, defining their needs, but they are still hesitant to release purchase orders.

The government market, federal, Government VARs and state and local combined, grew 52% sequentially and 25% year-over-year. Over the past year, we've solidified the foundation of contract vehicles in state, local and federal government, which is a requirement to do business with the government.

Today, we have a total of 113 contracts, which has given us the ability to sell in all 50 states. Last year, we had only 75 contracts. Additionally, we have three GSA schedules with a total of 9,000 SKUs listed at pre-negotiated prices.

Private network operator market, utilities, transportation and enterprise combined, grew 14% sequentially and declined 2% year-over-year. The utility market is growing due to the broad base of customers and solutions sold.

As example, test equipment for troubleshooting fiber and network cables; wireless broadband radios and related equipment to provide Internet access to their customers; leased line replacement to replace their leased lines that are no longer supported by the carriers, providing signal enhancement inside the substation, allowing technicians to have cellphone coverage within the facility; two-way radio communications converging with a wireless backhaul to communicate with the control center; and also, Ventev's mounting products is being used for mounting smart grid radios on utility poles and rooftops.

The oil and gas market sales have continued to decline due to a reduction in consumption and lower price per barrel. Also, as a result, railroads are also reducing their spending due to the decline of oil and gas and coal transportation. However, oil and gas and transportation markets still present many opportunities. In oil and gas, we're providing maintenance and expansion of SCADA networks for pipeline monitoring, microwave and wireless backhaul from oilfields and infrastructure for communication sites along the pipelines.

In transportation, we're providing equipment for building and maintaining their communication and signaling requirements, WiFi backhaul in trains, microwave links, infrastructure for new tower builds and positive train controls -- site kits, which include base station antennas, site hardware and power systems.

Our opportunities in the enterprise market are promising but with longer sales cycles. Today, we have a large sales pipeline for DAS and WiFi systems in offices, retail stores, residential and hospitality buildings. We are working directly with the property owners or managers developing the opportunity, and then we bring in the VAR or contractor to install the equipment.

Here are just two examples of what's in the pipeline. There's a major DAS build for a 19-building corporate campus and a DAS and WiFi system for 28 sites with more to come with a national property manager and developer specializing in casinos, hotels, retails and -- retail malls and housing.

Value-add resellers, which are the network VARs and two-way radio dealers combined, grew 12% sequentially and flat year-over-year. A good portion of our VARs do business with the carriers, resulting in the lack of year-over-year growth. The VARs are very diverse and important to TESSCO to support the end users that do not have internal staff to build and maintain their wireless systems. The VARs look to TESSCO to provide end-user leads and the product equipment and services required.

I'll summarize just a few VAR opportunities. Fiber backhaul from the street to the home, we provide the fiber, cable, the connectors, power supplies and surge arrestors. We're also working with a security system integrator to provide equipment to the Department of Correction to block cellphone usage by the inmates while enhancing cellular coverage for areas where the guards are located.

We're also working with an NVAR to refresh a WiFi system across 3,000 guest rooms. They also plan to use Ventev concealed WiFi antennas along with the other equipment required. TESSCO will kit and stage all the products at local depots. We have also seen an increased demand for Ventev WiFi antennas enclosures. The quality, price competitiveness and aesthetics of the Ventev product has been well received by our VAR customers.

Now the major reason for TESSCO's lack of overall year-over-year growth is the carriers. The carrier contactors and tower owners combined grew 5% sequentially but declined 34% over -- year-over-year. The decline in the carrier organization purchases is still overshadowing the growth we are driving in our private network operators and resellers. The non-carrier growth is not yet at the pace we need to fill in the carrier void.

Today, the carriers are showing increased planning activity but not yet releasing significant purchase orders. We are being awarded future orders with the carrier, contractors and tower owners because of the consultative relationship we have developed, our product offering, diversity credits, project management, supply chain excellence, regional depots for local staging, inventory management and digital proposal, purchasing approval and order placement. We are in a very good position to profit when their purchases begin.

The retail market grew 10% sequentially and 3% year-over-year. We expect a lift this quarter due to back-to-school and new iPhone and Samsung handset launches. While expanding stores and cross-sell with our carrier agents, we will drive new growth from new services, new customers and Ventev products. Our services include digital store sales training, procurement and inventory management assistance and marketing programs. These services are creating a higher level of customer loyalty to TESSCO.

We are expanding into new specialty retailers, airports, truck stops and select consumer electronics stores. Also, Ventev power and charging products are leading the way with store penetration and profitability for the retailer and for TESSCO due to its design, alternatives, quality and packaging.

Overall, the market successes I've described are just the tip of the iceberg of the opportunities that we are developing as we aggressively transform what we sell and how we sell and do business digitally. All of us at TESSCO are confident that we'll regain our revenue and profit growth and improve shareowner value.

Before I turn it over to Aric to give you details of our performance, let me give you an update on our search for a new CEO. It is going very well. We've met a host of outstanding candidates with experience in achieving superior growth through innovative marketing and sales and productive operations. We expect to name the new CEO this fiscal year. Once the CEO is on board, I'll become the Executive Chairman committed to working with the new CEO to take TESSCO to a new level of success in the exploding world of wireless networks and connectivity.

So Aric, you want to give us the details?

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Sure. Thanks, Bob. The first quarter revenues were $129 million compared with $135 million in the first quarter a year ago and $114 million in the sequential fourth quarter. While many of our markets showed modest improvement from a year ago, the carrier market remains very soft, declining 34% year-over-year due to slow carrier spending. However, all markets achieved sequential revenue and gross profit growth.

Gross profit was $27.1 million in Q1 compared with $29 million in last year's first quarter and $23 million in Q4. Overall gross margin declined to 21% of revenues from 21.5% in Q1 of the prior year but up from 20.2% in Q4. Year-over-year, lower gross margin was primarily due to a decline in the retail market as gross margin in the aggregate for the other markets remained flat.

SG&A expense was $27 million, up from $26.1 million in the first quarter of fiscal '16, primarily driven by increased compensation and recruiting expenses related to our sales and marketing initiatives.

Operating margin was 0.1% versus 2.1% a year ago and a negative 2.8% in the fourth quarter. Net income for this quarter was $0.1 million or $0.01 per share compared with net income of $1.7 million or $0.20 per share in the same quarter a year ago.

Now turning to the markets. In the public carrier market, revenues were down 34% year-over-year and gross profit was down 32%. Carrier spending remains very soft as the carriers continue to delay significant network deployment. However, we do see -- we do believe that revenues in this market will show sequential growth in the second quarter.

In the government market, sales and gross profit increased 25% and 10%, respectively, from a year ago. We saw a strong finish as a result of the state and local government year-ends. We continue to drive more opportunities in this market with the investments we have made in talent during the past few years.

In the commercial dealer and reseller market, revenues were essentially unchanged from a year ago, while gross profit increased 2%.

In the private system operator market, revenues declined 2% and gross profit was down 12% year-over-year. However, the declines are primarily related to the repair center customer we have discussed on previous calls who purchases higher-margin Ventev products. Last year's Q1 was the height of sales for this customer, while this quarter was very slow as we had expected. We do expect sales to pick up this quarter for Q2, however, at somewhat lower margins than last year. Excluding this customer, sales were up about 10% in this market.

Looking at our retail market, sales were up 3% year-over-year and gross profit declined 2%. While margins are declining due to store consolidation and sales of lower-margin OtterBox product, the retail channel continues to be a source of strong revenue for us.

Total Ventev sales, which include both mobile device accessories and infrastructure offerings, decreased 12% and totaled 13% of overall revenues. The decrease was entirely driven by the reduction in sales to the repair center customer I discussed earlier.

Now looking at the balance sheet. We increased inventory by about $4 million from the sequential fourth quarter in conjunction with increased sales activity during the first quarter. Despite the fact that inventory levels are significantly lower than they were last year at this time, we continue to maintain very strong service levels.

Cash flow from operations was $0.1 million during the first quarter. Overall cash on the balance sheet was $12.6 million. We had no balance on our $35 million line of credit, and we paid off our bank term loan of approximately $1.9 million. We remain committed to our dividend program and have set our dividend of $0.20 per share with a record date of August 3 and a payment date of August 17.

Now for the outlook. Due to the uncertainty that persists in the carrier market, we are not providing earnings guidance for fiscal '17 at this time. We do expect both revenue and earnings for the second quarter to increase sequentially from the first quarter, while we anticipate results will be lower than in the second quarter of fiscal '16. This is primarily due to continued carrier market pressure, pricing pressure in the retail market and the impact of recent talent investments. As our visibility improves, we may provide earnings guidance later in the fiscal year.

As Bob alluded to earlier, while sales were up sequentially across the board, our results are not yet reflecting the progress we are making in the transformation initiatives. However, we remain confident in our ability to regain long-term profitable growth.

With that, we'll now open the call for questions.

QUESTIONS AND ANSWERS

Operator

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

Joe Hodes - *William Blair & Co. - Analyst*

Hey, Bob and Aric. This is Joe in for Anil. Bob, what do you think is driving the continued uncertainty you're seeing in the carrier market?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

They have so many decisions going on in terms of how they're going to build the systems, where they're going to build the systems. They're doing a lot of small sales right now, but the major macro sites are still on hold. We have some commitments. But as they say, we're -- they're just waiting for it to break loose. And it's really, it's interesting, it's across all the carriers. It's not just one of the carriers in terms of what they're trying to put together. It's obviously very frustrating for everybody and trying to see what's going to happen.

One of the real problems is going to be product in terms of -- when they finally break loose, everybody's gone very lean, including the manufacturers, and how do we get the product that we need to satisfy them when it breaks loose. Also, when we say some of the hesitancy, is they're still working off the inventories that they had from the past slowdown. And so there's a lot of product that is being pulled out. And we see the product that's moving out that they have in their warehouse with their inventory and then we kind of fill in from that, so the orders are smaller. Now we're getting more orders, but right now, they're on the smaller side. Aric, you got anything you want to add to that?

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

No, I think that's right. I think we do see still a lot of optimism for the next couple of quarters. But until things start to really break free, there's still some significant uncertainty there.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

I think the other important thing is that we have never, with the new talent that we have, we've never been as close to the carriers as we've ever been. And so we're there, we're at the table. We talked about the diversity spend. That is very important. It's one of the things that we're doing well. The supply chain, in terms of being able to deliver where they needed to stage. I mean, all these new things that we've really developed as a part of these initiatives is really -- got us in a very good place. But as we said, we're still anxious in terms of getting some action going.

Joe Hodes - *William Blair & Co. - Analyst*

Okay. Kind of going off of that, how do you describe your headcount growth from a sales side over the past couple of quarters? Is that something that you feel like you've built out? Or is that something you're still going to be building out over the next couple of quarters?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Yes. We're continuing to build in the experienced talent. There's a big difference between transaction selling and solution selling. Right now, that the -- in the carrier markets, I mean, we're staffed very well. We've got a lot of good people. We're staffed. We've got a regional -- as well as focused with the various carriers. The major area that we do need to expand is our private network, the utilities, the transportation. I mean, this is where we're seeing a lot of opportunity, and we need to be -- go wider or deeper with more sales people.

Joe Hodes - *William Blair & Co. - Analyst*

Okay, great. I guess, we had maybe been a little optimistic on the margin profile. If you're looking forward over the next year or two, where do you see margins trending? And what do you think are driving the pulls and takes? Do you think retail will drive significant improvement next quarter?

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

As far as gross margin, retail will actually be a -- you invest the lowest margin market. So that'll probably continue to pull, at least on the gross margin line, the gross margin down.

Joe Hodes - *William Blair & Co. - Analyst*

All right. That's -- yes, I misspoke. Sorry about that.

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Yes. I think the key drivers are still the Ventev growth that we're hoping to see in the rest of the year. That will be a positive driver. If the carriers come back, that could be a slightly negative driver, some of those carriers are obviously bigger customers that have lower margins for us. So it's really a product mix within -- to see where the customers are going. I think the only market that we've seen a significant change in the overall margin profile over the last few quarters is retail, which we've talked about, as it relates to the consolidation in that area plus the increase in the OtterBox product, which has pulled down the retail channel. The other markets are relatively -- being fairly similar over the course of the last few quarters.

Joe Hodes - *William Blair & Co. - Analyst*

Okay. And kind of going off of that, how do you describe the pricing environment and how it's changed over the last couple of quarters?

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

I think outside of retail, I think it's been -- there's a little bit of pressure on that as we try to get to expand our total buyers. But in general, I think we've been able to maintain where we were, where we are in prices, in most cases. Again, the retail market is the one that's probably the most price sensitive right now.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Going forward, the carrier --

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Yes, the carriers will be --

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Yes. The carriers are -- again, the margins are definitely going down in the carrier market.

Joe Hodes - *William Blair & Co. - Analyst*

Right, okay. I guess, how would you describe what inning you're in, in the transformation? And I guess, what inning you'd think the carriers would be in turning around their spend?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

I'm sorry, the last part was?

Joe Hodes - *William Blair & Co. - Analyst*

So basically, you said the carriers are looking more positively. How would you describe where they are in the transition from sort of a bottom moving back toward positive spending, obviously, with a little uncertainty in there also?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

I guess, I mean we've been two years, in terms of -- saying, it's right around the corner. But we are seeing more activity than we've ever seen in terms of their planning. So it's definitely -- I mean, we've got -- we are working hard to provide them with the proposals, with the plan and there's a lot to come. So I mean, we hate to say it's coming, but it looks like -- with all this activity, something's got to happen.

Joe Hodes - *William Blair & Co. - Analyst*

Right. Aric, just housekeeping. Do you have a share count number for us this time or --

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Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Yes. One second. The diluted shares are 8,318,000.

Joe Hodes - *William Blair & Co. - Analyst*

That's all I have. Thanks.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Okay, thank you for the questions.

Joe Hodes - *William Blair & Co. - Analyst*

No problem.

Operator

Thank you. (Operator Instructions) Our next question comes from Bill Dezellem of Tieton Capital Management. Your line is now open.

Bill Dezellem - *Tieton Capital Management - Analyst*

I'd like to just continue on the carrier front. You mentioned that the planning's picking up. Would you talk about how that planning activity is different today from what you were seeing six months ago and from what you were seeing a year ago?

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

So we work very closely with the contractors that are doing work for the carriers. And they're starting to get more specific on what they're doing and where they might be doing it. So it's more of a specificity as to what they're looking at that's much tighter now than it was a few months ago. It's still a question of exactly when things are going to start. But they're being much more specific on what are they doing and where they might be doing it.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

I think that the locations are a big thing in terms of where they're going to build, what kind of depots we have for pickup, how we can provide that supply chain when they finally need the equipment. They're also looking at the various proposals in terms of what the products that they're looking for. So that there's a lot of "plan, structure, are you ready" and -- but they're just not pulling the trigger yet.

Bill Dezellem - *Tieton Capital Management - Analyst*

And then, you had referenced margins will be under pressure as the revenues there grow. But curiously, in the June quarter, revenues were up for carriers versus the March quarter and gross margin was up there, over 1%. Would you talk a little bit about that improvement?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

I guess product mix --

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Yes, I think as we start to see the Tier 1 carriers buying some more things directly from us over the -- hopefully, over the course of the next year, that's where the margin declines will start to show up. Right now, most things are going through carriers, and they're not as active component related, they're more cable and antennas, which are a little bit higher margin. So as the product mix gets more weighted towards active components and the carriers are doing more of the direct purchasing, we would probably expect the margins to come down some in that market.

Bill Dezellem - *Tieton Capital Management - Analyst*

Thank you. And then you also referenced orders were being awarded. It's just that we're not executing those orders yet. Talk a little bit about those orders that you are being awarded and how that compares to orders that you would have been awarded historically.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Yes, first of all, it's the components. It's smaller orders than we've -- and if you go back historically, that where the big dollars were was in the DAS business. And the carriers have essentially said that they're not going to do the DAS. They're not going to -- they would subsidize, if not pay for the DAS for the various large venues -- and they're not doing that now. And I think that's why, in the commentary, in terms of the various markets, we're seeing the DAS opportunities come through the VARs that -- and some of the enterprise -- because the carrier is not doing it anymore.

And again, that's a relatively long sales cycle because they've got to design it and then they need to get the approvals from the carrier. And that is probably the biggest constraint to building out more DAS systems. So when the carriers were doing it, they would just build it. They didn't have to get approvals from anybody. Today, when you're trying to do a DAS system in an office building or a venue, a large venue, you've got to get the carrier to agree that you can pick off the signal from the tower or you have to come up with a backhaul approach. And so -- and then, you have to do it with at least three of the carriers, because you don't want to put -- you can just imagine putting in just Verizon only and I've got an AT&T phone. And so you need to get all three, at least all three carriers, to agree that you could put a DAS system in.

So I think that the -- we're not seeing those big dollars through the carriers, but also that we've got to see the big macro builds -- macro sites, that, that's always been our sweet spot. And today, again, we're just kind of filling in. Also that I think it goes back to that point about the inventories that they're working off. That's why these orders were smaller, because they're using most of what they have in inventory and then they're letting -- they're coming to us to fill in.

Aric Spitulnik - *TESSCO Technologies, Inc. - CFO*

Yes. I think the carriers are -- I think this echoes what Bob just said, but they're being much smarter in how they're buying today than they were a year or two ago, during the height of the build. And that is good and it's bad. It's good that they're requiring some supply chain expertise that we are -- can give them. And to make sure that what they're buying is the right stuff and delivering it to them when exactly they need it. So that they don't get over inventory like they did this past cycle. So I think that's going to be the trend, is smaller orders but more precise and probably more extended as far as more of a long-term build as far -- instead of the big bang that we saw a couple of years ago.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

That is a very important point. Is that, before, they would just bring in large quantities to make sure they'd have it. And now as Aric said, that they're going to be very precise. And that's what we can do well. I mean, we can do that planning and where we can kit and bring in exactly what they need for a particular site that then it's going to be built and they are going to -- buy that product or order that product within days or weeks of when they're going to deploy rather than just stocking up and seeing what's going to happen.

Bill Dezellem - *Tieton Capital Management - Analyst*

Let's switch to the small cell opportunity, if we could. You have historically done better with the macro sites. Talk a little bit about small cells and why you have historically not participated there to the same degree and what opportunity there is going forward. I mean -- and I'll tell you, I'm asking the question because I am a little bit confused why that wouldn't be a great opportunity for you. Although smaller orders, because there's so many distinctly different locations and the logistics almost seem more complicated than putting a cell site out in the midst of nowhere.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Well, so if you just visualize the small cell, number one, it's what it says. It's a small cell. So that's -- your hardware, in terms of installing it, is pretty small. Now we're providing that when it goes -- for mounting on a pole. I mean, we have the mounting kits that you can do the small cell.

Also, what most of these small cells deployments have been done is that they're all fiber backhaul. And we're trying to -- where the opportunity is, is where we get them to do wireless backhaul as well as fiber, because the wireless backhaul is less expensive when you're really thinking about trenching and laying fiber but are also -- there's speed for deployment.

So we're working on really getting in with the -- we have a major initiative, they're going after the wireless backhaul for the site. So then lastly is that the small cell itself is being procured by the carrier on a direct basis because it's not yet approved for distribution. And so once we get the approvals and the release, it would be that -- where we could also be selling the small cell.

The other exciting thing, when you look at overall with the "small cell" is with Samsung, with WiFi, is we're going to have very quickly a voice over WiFi system with them that we'll be able to deploy in a building, that's through your WiFi, is then you can make a phone call. And so it's going back to this whole concept that, again, the carriers are looking at in terms of how do we -- does everything go through the air? Or can you put it on to the Internet channel? And so we see that as an opportunity that's going to -- definitely, in this year, we'll be seeing that opportunity as well.

Bill Dezellem - *Tieton Capital Management - Analyst*

That's helpful. And I would like to switch very quickly and I'll turn it over to someone else. You've mentioned that you, a year ago, you had, in the government arena, 75 contracts. How many do you have today? You said it --

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Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

113.

Bill Dezellem - *Tieton Capital Management - Analyst*

Great. Thanks for repeating that.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

And an addition is that we've created a lot of federal contract vehicles. I don't know exactly what the count was there, but now we have -- so the federal government never buys anything on a direct basis. It has to go through one of these contractors. So we're now -- in other words, when you go into the Navy, they can't give you an order. It's got to go through one of the other -- so we get the order and then we take it to one of these contractors to fulfill. It's very much like the VARs in the enterprise market as well. So it's -- now again, the government, it's still a relatively small number, but the percentage growth is good, and we've got a lot of opportunity in the pipe. And again, it's all due to the new talent that we brought in.

Bill Dezellem - *Tieton Capital Management - Analyst*

So the growth you experienced this quarter, you would consider more of a normal -- normal rather than an aberration?

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

That's what our plan is.

Bill Dezellem - *Tieton Capital Management - Analyst*

Excellent. Congratulations.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

Thank you.

Operator

Thank you. And at this time, I'm showing there are no further participants in the queue. I'd like to turn the call back to management for any closing remarks.

Robert Barnhill - *TESSCO Technologies, Inc. - Founder, Chairman, CEO*

All right. Well, thank you for being on the call today. We really value your support as we navigate through market and economic challenges. We're very confident that we'll regain our growth from the vast opportunities in the world of wireless. So thank you. Have a great day, and we look forward to talking with you in October.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This concludes your program. You may now disconnect. Everyone, have a great day.