THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TESS - Q3 2018 TESSCO Technologies Inc Earnings Call

EVENT DATE/TIME: JANUARY 24, 2018 / 1:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Aric M. Spitulnik *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

David C. Calusdian *Sharon Merrill Associates, Inc. - President*

Murray N. Wright *TESSCO Technologies Incorporated - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Arjun Rohit Bhatia *William Blair & Company L.L.C., Research Division - Associate*

Michael Roy Crawford *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

William J. Dezellem *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter of 2018 TESSCO Technologies Incorporated Earnings Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded.

Now I'd like to turn the conference over to Mr. David Calusdian. Sir?

David C. Calusdian - *Sharon Merrill Associates, Inc. - President*

Good morning, everyone, and thanks for joining TESSCO's Q3 2018 conference call. Joining me today are Murray Wright, TESSCO's President and Chief Executive Officer; and Aric Spitulnik, the company's CFO.

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 could 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 Murray Wright, TESSCO's President and CEO. Murray?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Thank you, David, and good morning, everyone. Thank you for joining us on the call today. We continued to execute well on our sales and profitability initiatives during the third quarter.

Total commercial sales increased this quarter by 4%, and was particularly strong in our government, private system and VAR markets. The carrier market experienced, what we believe, would be a one-quarter slowdown.

In terms of year-over-year profitability, we extended our recent trend of bottom line growth. I'm proud to say this was a direct result of the improved operating leverage we have created through successful productivity enhancements.

The potential for continued increases in operating leverage is very exciting, considering some of the new revenue opportunities we are developing, especially in the carrier ecosystem.

As we have discussed on previous calls, we are balancing the implementation of our go-to-market strategy with better operating efficiency. Execution of this strategy is helping us increase both revenues and profits overall, and it will provide the foundation for our success in fiscal 2019.

And now, I'd like to provide an update on the progress we are making on our key initiatives. As you know, recalibrating our go-to-market strategy is a major undertaking for us this year, having completed the regionalization of our sales force, our sales professionals are now closer to our customers. Our sales teams have been reinvigorated and our engagement with our customers is higher than ever before.

Next, we are improving how we partner with our vendors. Just as we foster relationships with our customers, we are immersed in a similar process with our vendors. This is ultimately leading to better collaboration, and we are working together to uncover new selling opportunities.

Third, under our e-commerce initiative, we made several improvements in Q3. We launched the new ventev.com site for our mobile device and accessory products, we have signed a contract with an industry-leading EDI-managed services partner. The initial integration for the customer-facing portion will be in production by the end of the month. This will allow us a more seamless sales process with potential customers, especially large VARs and retailers.

And we are on track for a successful deployment of our new tessco.com website for our retail customers this quarter, and deployment for our commercial customers early in the next fiscal year.

And finally, this year, we've made significant headway on our goal of increasing operating margins by balancing growth and costs.

Throughout TESSCO, our efficiency initiatives have enabled better expense management, which is now flowing to our bottom line. Along with expense controls, we focused on putting the right people in the right jobs. This involves reallocation of resources, but it also means attracting new talent to raise the company's performance.

Just last week, we announced the addition of 3 new vice presidents: Tammy Ridgley was promoted to Vice President of Commercial Product Marketing. She will rely on her 22 years of experience within TESSCO as she executes the go-to-market strategy for the commercial product team.

Next, Jim Markisohn was named Vice President for Corporate Marketing. Jim has an extensive background in distribution with several Fortune 500 companies, which will be critical in his promoting TESSCO and our vendor partners. And then finally, Brenda Budzynski was appointed Vice President and General Manager for Ventev, our proprietary brand. Ventev is a chief component of our growth and margin strategy, and Brenda has a wealth of experience in R&D, engineering, product management, sales and marketing and -- in the telecommunications industry.

With these moves and the work we have already completed this year, we believe our team is well positioned to lead the organization to even greater success.

And now, I would like to provide a brief overview of our markets. Overall, sales are down 1% this quarter, with commercial revenue up 4% and retail down 8%. As I've mentioned in the past, we expect inherent fluctuations in our financial results this year, given the number of changes we are making throughout the organization.

Additionally, we should expect significant quarterly variations in the public carrier market to continue, as that business is very dependent on carrier activity.

That said, the year-to-date trend has obviously been very positive, and we expect that to continue.

We saw fluctuations this quarter in the public carrier market as we experienced a decline in sales due to a timing-related order delays. That's the near term. Longer term, the changes we are making in our go-to-market strategy are yielding several new large opportunities. On this front, we are excited to announce that TESSCO has executed a multiyear contract with MasTec Network Solutions, LLC, one of the largest wireless services turf contractors and a subsidiary of MasTec. MasTec has more than $5 billion in annual revenue, approximately 45% of which comes from wireless and wireline communications. They chose TESSCO for our expertise in the areas of demand planning, site kitting and configuration, inventory and warehouse management, optimized logistics and just-in-time delivery.

We expect to begin recognizing revenue from this partnership toward the end of Q4. We have a very strong pipeline in this market, including significant orders for several Tier 1 carriers and contractors, which will shift this quarter.

We expect fourth quarter revenues to increase sequentially and be up double digits from the prior year.

Because of the buying power of these types of customers, we are experiencing margin compression in this market and expect that to continue as these relationships grow. At the same time, we are undertaking several steps to mitigate the margin compression in this space and across all markets, including action plans on pricing, product mix, Ventev and services.

Our government team extended its recent growth with a very strong quarter, as sales and gross profit were up double digits from a year ago. We saw growth at the federal, state and local levels. Government budgets for the new year have finally been released, and we are optimistic that projects that have been on hold will begin to receive funding. As a result, we expect our sales momentum to continue.

In the value-added reseller market, revenue grew 8% from a year ago, while gross profit decreased slightly. We recently launched an initiative within each sales region to win broadband opportunities, and we are excited about the potential for this new program. There is still a significant opportunity to expand share in this market, and we look forward to building on our progress in future quarters.

In the private system operator market, revenues and gross profit both grew 8% from a year ago. Our strength in this market is our relationship with these customers.

We are at the forefront of opportunity and project creation, which enables us to align the manufacturers around our efforts. This, in turn, helps to ensure that business flows through TESSCO.

Turning to the retail market. Sales decreased by 8% year-over-year, but due to margin improvement, gross profit was only down slightly. Some of our customers have seen a reduction in store traffic, as consumers hold on to their phones for longer periods of time. In addition, most of our customers experienced delays in receiving their new iPhone orders from Apple, which impacted the sales of related accessories from TESSCO.

We continue to expand our service offering in this market, including systemic integration with drop ship and endless aisle programs to give our retail customers new ways to capitalize our consumer spending trends. We expect Samsung to launch their new Galaxy S9 phone in the mid- to late-March. This launch is expected to be slightly ahead of last year's timing, which should help our year-over-year fourth quarter results.

Before I hand the call over to Eric, I want to emphasize a few key points. First, we are executing well on our strategic plan as we balance the implementation of our go-to-market strategy with improved operating efficiency.

Second, we are delivering improved results. For the past 4 quarters, we've reported year-over-year increases in net income, and we expect to show significant improvement as we move into our new fiscal year in April.

Finally, in what has historically been our seasonally weakest quarter, we believe we will achieve double-digit revenue growth in the fourth quarter for the first time in 3 years. We are confident in our value proposition and we are eager for new success in the quarters to come.

And now, I'll turn the call over to Aric for a discussion of the financial results. Aric?

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

Thank you, Murray, and good morning, everyone.

In the third quarter, revenues totaled $146 million, down 1% from the prior year; however, year-to-date sales are up 5%.

Gross margin for the quarter and year-to-date declined slightly due to changes in the customer and product mix, including a slower Ventev third quarter. As Murray said, gross margin improvement is a major point of emphasis for us as we move into fiscal '19.

As a result of our ongoing expense control initiatives, SG&A expense declined $0.4 million from a year ago. As a percentage of revenue, SG&A was 18.7% compared with 18.9% of revenue in the third quarter a year ago.

Largely as a result of the reduced operating expenses, operating income rose 4% year-over-year. Operating margin improved slightly from 1.4% to 1.5%. For the year, operating margin has increased from 1% to 1.6%. We believe that operating margin will continue to grow over time.

Net income for the third quarter increased to $1.6 million or $0.19 per share compared with $1.2 million or $0.15 per share in the third quarter of last year. Year-to-date, net income is $4 million or $0.48 per share compared to $2.3 million or $0.28 per share.

The new tax law also provided a benefit this quarter, as our effective rate dropped significantly. Most of the year-over-year reduction in that rate is due to the new law which allows fiscal year companies to blend their tax rates this year.

Our annual federal rate for this year is based on 9 months at the old 35% rate and 3 months at 21%.

We were also able to take a benefit on our net deferred tax liabilities this quarter, which are now recorded at the lower federal rate. While this quarter's effective rate is abnormally low due to these onetime adjustments, we do expect to realize significantly lower rates going forward than we have historically reported.

Moving on to the balance sheet. During this year -- this fiscal year, we've been investing in working capital to support our growth in the public carrier market. Due in part to the activity and timing of orders in this quarter, our working capital position improved.

During this quarter, we experienced sequential decreases in inventory and accounts receivable and a corresponding decrease in borrowings on our line of credit.

Looking ahead to Q4, we do expect significant increases in inventory to support the anticipated growth in the carrier business. Accordingly, we believe we will see a corresponding increase in the line of credit balance.

Finally, we remain committed to our dividend program and have set our dividend at $0.20 per share, with a record date of February 14 and a payment date of February 28.

We are enthusiastic about the progress we -- as we approach the close of our fiscal year. We are executing on our fiscal '18 plan to grow revenues and profitability. For the fourth quarter, we currently anticipate double-digit year-over-year revenue growth and to be profitable. We look forward to providing additional updates on our progress on future calls.

And with that, operator, we will open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Anil Doradla with William Blair.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

This is actually Arjun Bhatia in for Anil. Can we just start off by talking about the Q4 guidance that you provided about double-digit year-over-year growth? Can you just say what's giving you the confidence that this is going to come in, in the fourth quarter? And if you can maybe lay out how much of the upside is due to the MasTec deal?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Yes, go ahead.

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

So we've got -- as we said, some of the carrier decline in Q3 was due to some of the orders that we got in late in the quarter that weren't going to ship that quarter. So we've got a pretty strong pipeline in the carrier market for some of the carriers, not necessarily MasTec, but some of the other ones. We do think MasTec will start towards the end of the quarter. Not anticipating a real significant number there, but that's a little bit of an uncertainty right now as far as how quickly we will ramp that up and get that going by the end of the quarter. The other big change from last year is the release of the Galaxy phone, which we think is going to be a few days or potentially a week or 2 earlier than last year's was, so we'll get the benefit from that as well. And then, just generally speaking, across the other markets, we expect some small growths in those markets as well. So this is a situation where a lot of things are coming together well for us here in the fourth quarter from a revenue standpoint.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

Okay. So you have some visibility into the pipeline already going into the fourth quarter?

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

Yes, a little bit more than we have in some previous quarters just because of some of the earlier orders being placed by some of the bigger carriers.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

Got it. And the public carrier slowdown that we saw this quarter, that's mostly due to -- that seems like, from what you just said, it's mostly due to order timing, and then they came in late in the third quarter, so that's going to come into Q4. Is there any other competitive dynamics at play there that might be causing that slowdown?

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

Yes, I think with AT&T in particular, they've been working on getting FirstNet going. And they've been trying to consolidate the times they need to go to sites. So FirstNet was kind of finalized here at the end of the year with all the states opting in. Their plan is now, I think, to put that together with their normal work that they've been doing. So they were fairly slow in Q3. Whether that starts here that being -- where the issues right now, it's probably going to be towards the end of the quarter that they start to increase their builds and get FirstNet going. So that's another factor that may play well for us here in Q4, but if not, it'll certainly hit us well in Q1. So that's another reason why things were down a little bit here in Q3.

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Arjun, it's Murray. Just to add on to that, I think the way to think about this as well as it's a little bit like project business. So as these implementations and rollouts occur, it's not going to be in a steady state and very predictable. That's why we're spending so much time trying to ensure that we get ahead of the visibility in our pipeline and make adjustments to support our customers for the rollouts that they're engaged with.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

Okay, got it. Makes sense. Can we -- if we switch over to the retail side real fast. Can you maybe break down how much of that is caused by Apple delays versus the traffic slowdown in the stores? Do you have any insight into what that might be?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

I don't think we can give you a direct -- that's a good question. We don't have the answer to that. But I'd say there's a few factors to think about. One was the launch of Apple, and just access to product was certainly one. Consumers are changing the way that they purchase, and we're addressing that by providing more services, more merchandising capability, more technology, and we're working with our customers there to implement some new ideas. And then, the other side of it is retail is under pressure as I'm sure you know, and many of our customers are also looking for new business models. And we've had significant customer that we've referenced in the past that's trying out a new business model. So all of these things contribute to the quarter just being a little more sluggish than what we had expected in retail.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

Okay, got it. And last, I think last quarter you guys announced the win at the big-box retailers, any update on that? Are you seeing any interest in more SKUs? I know it was early stages, but if you can provide anything -- any color on that front, that would be great.

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Yes. It's progressing well. We're continuing to work with the customer today to try and increase the number of SKUs that we are selling to them. And it's really step-by-step, but there's no material spike at this stage from -- this past quarter. But things are progressing as expected, and we are engaged in that step-by-step process of trying to increase our footprint there.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Associate*

Got it. Okay. And then, last one if I can sneak in one is, on the tax rate, I know it's coming in around mid-20s right now. For the next fiscal year, are you expecting that to be around the low-20s, 21%, 22%? Or is it going to stay in this 24% range?

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

Yes, I would say probably closer to the mid-20s, mid to almost upper 20s. Because you have the 21% rate for the federal -- well, it should be the number, but then once we add in the state rates and some of the permanent issues that go into that, we'll probably get in the 25% to 28% range, is probably what I would anticipate going forward. This year's -- remember, it has the lower rate, but also has a onetime adjustment for the deferred tax liabilities coming down. So there's a few moving parts within this current quarter's rate. And also includes the whole impact of the lower rate for the three quarters, not just the current quarter.

Operator

Our next question comes from Mike Crawford with B. Riley.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Murray, on the margin front, what are some of the measures you're taking to counteract the greater buying power of your larger partners?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Yes, that's a good question, Mike. We're working with -- our Ventev business is a significant contributor to our margins. And as you saw in the commercial business, government, PSO and the VAR business were up pretty nicely this quarter. And that's really a margin offset to allow us to accelerate growth in some of these highly competitive large transactions. I would make sure though that you think about our business model. And the business model, the reason that these large transactions are exciting for us is because we get a lot of leverage out of this business. And so as a result, we don't have to have an equal corresponding amount of SG&A to support some of these large agreements. And I think that mix is going to really play out nicely. We've got a lot of initiatives and tools as well, systems changes that we're making around pricing. So there's a flurry of activity here at TESSCO on a number of initiatives to enhance our gross margin, and also to be very aggressive in winning some of these large opportunities.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Okay. And then, with -- I know public carrier inventory is going to be increasing in the near term, but what -- do you think TESSCO can get your annual inventory turns over 7x?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Well, I think that's an opportunity for us, and we are focused on inventory turns right now. And we've got some consultants that are in working with us to help determine some steps that we might be able to take that are a little different than what we've done in the past. So there's no news to report on that, other than we recognized that there's potentially some opportunities there, and we're looking for ways to figure out how to execute.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Okay. And then, last question relates to another Tier 1 carrier, Verizon. So now that it's consolidated down from 400 to, I think, 6 suppliers of which you're one of, what are your prospects of that customer, or is that just one of these project things that's going to be up and down and too hard to call at this point?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Probably a little bit of the latter, Mike, where it's going to be a little bit too hard to call. I would tell you that our team is working very well with Verizon to try and take care of a lot of the administration and setup that's required to reduce from 400 down to 6 suppliers. And there's been some delays that we didn't necessarily anticipate, not on our side, but just because of the magnitude and complexity of making that transition. But I think as we get through this quarter and into the new fiscal year, then we'll start to see some impact on that particular contract win that we announced a couple of quarters ago.

Operator

(Operator Instructions) Our next question comes from Bill Dezellem with Tieton.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

Group of questions. First of all, Murray, would you expand on your MasTec win, and not the implications for the fourth quarter, specifically, but longer term? And how you're viewing that, please?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Sure, I mean, MasTec is a very large company. They're a publicly traded company. And there was an RFP process, and we won. And so we're currently working with MasTec on determining how, as I mentioned in the call, how we can provide the services and products that they're going to need to affect a build-out, particularly on AT&T. So anytime -- this is pretty fresh, Bill, so anytime you win something like this, there's still some setup that's required. And we expect this agreement to be able to deliver tens of millions of dollars. It's a multiyear contract, and so we're pretty excited about that. But right now, it may or may not have some impact for us in the fourth quarter. We'd certainly like that to happen, but certainly, as we move into next fiscal year, it will definitely help us.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

And so, if you were to be a betting man, what would you guess that the revenues from MasTec would be in fiscal '19?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Well it's a good thing I'm not a betting man. I think we -- I would just say that we've got an opportunity over the term of the agreement to see tens of millions of dollars. And how that's going to unfold, I think it remains to be seen, Bill. I would feel much better commenting on that in a quarter from now, after we've had an opportunity to really work together for this quarter and get things set up.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

That's fair. So what is the length of the agreement? And if you already mentioned it, my apologies.

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Multiyear.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

That's hard math for me to do. Tens of millions across multiyear.

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

I know, I know. But I've got some white lines that I'm trying to stay in between here, Bill.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

No, that's no problem. Thank you. So allow me to shift, if I may, to FirstNet. How many states opted in? And which important ones did not? And what are they doing if they're not -- if they did not opt in?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Yes, that's a very good question. And I don't know if you were tracking or watching this, but we certainly were. And there was a lot of -- towards the end of the year, to try and meet the deadline, there was a lot of news saying that some states were going to opt out. At the end of the day though, Bill, everybody opted in, 50 states, and so -- and the territories, too. So I mean, mission accomplished from AT&T's perspective with everybody opting in, and that's just been finalized as of the end of December.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

Congratulations. So let me shift, if I may, to Verizon. You had mentioned -- reiterated the 6 suppliers, of which you are 1. What is your perception of how the mix of business will be? Is it 1/6 for each of the suppliers just divided by regions? Or some other forms? So help us understand how to think about Verizon and your 1 of 6 positions with them going forward, please?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Yes, I think the way to look at it is it's still going to be hand-to-hand combat in the marketplace with the 6 award winners. But I would much rather have that scenario than 394 other ones. And so the setup, getting SKUs aligned, getting systems aligned is a pretty big deal, and so they are parsing some of that out right now and we're in the midst of it. That's what I mentioned just earlier in the questions is, it's pretty complicated to go through the setup process, because if you can imagine, there's thousands of SKUs, and we have to make sure that our systems are all aligned in the regions that we'll be ordering from Verizon. No, I was just going to say, so there's still work to be done there, and as much as I'd like it to be a sixth, a sixth, a sixth, I like our chances. I think in our -- the feedback that we've received from being able to help them get all of the setup done properly, I think we're performing very well. The downside, of course, Bill, is there's no revenue or margin associated with that, but it will come.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

Is there costs associated with it that we are bearing in the P&L today? Or does that end up getting capitalized?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

It's more just time from a labor perspective. It's our team, our program management team and our sales team that's working hard on this, our operations team that's working hard on it. So you have to do the work in order to set up for the business turning on in the future.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

Okay, a couple of more questions, if you don't mind, please. First of all, are you feeling that some of the other 5 suppliers are not handling this burdensome administrative setup process as well as you all are, and therefore you may be gaining favor with Verizon and may get more than your fair share, your 1/6 share of the business?

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Well I think there's a lot of assumptions in there. But the feedback that we've received from Verizon is that we're performing very well at helping them. And so I take that at face value, Bill, and say if we're performing really well, that's positive feedback for our team. That means when it's become go time, that we should be positioned to capitalize on the hard work that we're putting into it now.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO, and Chief Compliance Officer*

Right. And then, my last question is, in the retail business, you'd mentioned that some of your customers are seeing a reduction in traffic. Are you getting any sense that customers were simply waiting for the iPhone X rather than the launch last -- early last fall? And so, it's really not that they were holding onto their phones longer, they were just waiting for the X?

Aric M. Spitulnik - *TESSCO Technologies Incorporated - CFO, Senior VP & Corporate Secretary*

I think that's a small piece of it. Yes, there was a -- the X came pretty quickly after the 8, so there was not a lot of time there. But I think it's still hard to argue that the thousand-dollar price of a phone is going to make people hold onto them slightly longer, but I don't think it's going to be -- we're not talking about going from 1 year or 2 to 10 years, but it could be an extra 6 months or 1 year. So I think there will be a small impact on that, and we're starting to see that. But it's hard to say with 2 pretty significant launches right on top of each other, how many people were really waiting versus getting the most recent one right away.

Operator

I show no further questions in queue. So I'd like to turn the conference back over to Mr. Wright for closing remarks.

Murray N. Wright - *TESSCO Technologies Incorporated - President, CEO & Director*

Great, thank you. And thanks to everyone for joining us. We appreciate your support of TESSCO, and we look forward to speaking with you again on our next earnings call in May. Have a great day.

Operator

Thank you. Ladies and gentlemen, that does conclude today's conference. Thank you very much for your participation. You may all disconnect. Have a wonderful day.