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TESS - Q2 2016 TESSCO Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the TESSCO Technologies Incorporated Second Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time.

(Operator Instructions) As a reminder, this conference is being recorded.

I'd now like to turn the conference over to your host David Calusdian from Sharon Merrill. Sir, you may begin.

David Calusdian - Sharon Merrill - IR

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 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 concerning 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 Bob Barnhill, TESSCO's Chairman and CEO. Bob?

Robert Barnhill - Tessco - President, CEO

Good morning and thank you for joining us today. In our second quarter we achieved solid progress. Revenues in all of our markets grew sequentially for the second consecutive quarter up 6% overall. We continue to expand into new private system operator in government markets. We build closer strategic relationships with the wireless carriers and their contractors as they prepare for renewed network builds.

Earnings per share were \$0.33 which was just above the high end of our \$0.26 to \$0.32 guidance range. Our balance sheet is strong with cash and no operating debt and in addition to our strong financial results, we made solid progress on our strategic imperatives and declared a quarterly dividend of \$0.20 per share.

Before Aric gives you the details of our second quarter performance, I want to provide you with a brief review of what we are seeing in the wireless carrier marketplace. We all know that there is sensational appetite from consumers for brand-band coverage and capacity. The carriers must and they will continue to expand and improve their networks.



We are working closely with each of the carriers their contractors and tower owners as they finalize their network design and product and supply chain needs. We see activity and planning, but with added defined build schedule.

Based upon our market intelligence we do however expect to see some momentum after the first of the calendar year. Each of the wireless carrier has a different outlook and plan. They all seem to be [delaying] in one way or the other due to a wide range of reasons.

These include financial concerns, network design, new spectrum deployment, network expansion outside the United States and major acquisition integrations. We also believe that a competitive threat of reliable carrier beginning to aggressively build or prompt others to begin as well.

While we foster closer strategic relationships with the wireless carriers and their contractors and prepare for their new renewed network build outs, our year-over-year growth and other markets was strong. Our retail market grew 22%, while the private system operator and government markets grew 8% year-over-year.

Our second quarter results reflect our progress as we continue to execute on our strategic imperatives.

We are changing the way we do business. The better enable organizations to capitalize on the opportunities being created by the conversions of wireless in the Internet and become the premier provider.

Now Aric will provide the details of our financial performance, as well as our outlook for this current quarter and year. I will then provide a more detailed update on the impact of our strategic imperatives. Aric?

Aric Spitulnik - Tessco - CFO

Thanks Bob. For the second quarter of fiscal 2016 revenues were \$142 million, compared with \$135 million in the first quarter and \$149 million in the second quarter a year ago. As Bob said, this is the second consecutive quarter of sequential revenue growth and once again this demands stretched across each of our markets.

The carrier market continues to struggle compared to last year declining 37% due to the slowdown in carrier spending, but did increase 3% sequentially. Retail sales led the growth over Q1 increasing 10% building on a very strong first quarter.

Gross profit was \$33.9 million in Q2, compared with \$35.9 million in last year's second quarter, and up from \$32.2 million in Q1 this year. Gross margin was 23.8%, essentially flat from both the first quarter and last year second quarter.

This quarter SG&A expense was \$29.2 million down from \$29.6 million in the second quarter of fiscal 2015. Operating margin was 3.3% versus 2.1 in the first quarter and 3.9 a year ago.

Our restructuring efforts in the ongoing value engineering initiatives contributed positively to operating margin in Q2 and we expect them to have a favorable impact for the remainder of the fiscal year.

Net income for the quarter was \$2.7 million or \$0.33 per share, down from net income of \$3.5 million or \$0.42 per share in the same quarter year ago, but up from Q1s 1.7 million and \$0.20 per share. As Bob mentioned EPS was just above the high end of the guidance range.

Now turning to the markets. In the public carrier market revenues were down 37% year-over-year and gross profit was down 31%. As we have been discussing this reduction was expected as the carriers have not begun significant build plan in calendar 2015.

Last year's Q2 was the last quarter with significant carrier builds and thus the quarterly comparisons going forward will get better even if we don't see significant carrier builds in the short term.



In the government markets sales increased 8% and gross profit was flat year-over-year. We continue to participate in more projects in this space than we have in the past do impart to the more strategy selling approach.

We saw early frets from these efforts in the second quarter. We expect to generate revenue growth in this market as more of these deals begin to close.

In the commercial dealers and reseller market, revenue and gross profits fell 7% from a year ago. Much of this decline relates to lower carrier spending and thus reduce purchasing through VARs. We did see slight sequential growth this quarter, but the building momentum has been very gradual.

In the private system operator market, revenues increased 8% and gross profit 5% year-over-year. Demand in this market continues to be tampered by the oil and gas downturn, however we did see growth and sales on the transportation, utilities and mining sector in this market.

Now looking at the retail market. The combination of our deeper OtterBox relationship, growth in inventory accessory sales and new iPhone launched help to produce excellent results. Otter in particular has been a substantial driver of retail sales, opening up opportunities for sales related non-Otter products to the same customer group. This includes Ventev power products, which were up 38% of our last year.

During the quarter, total retail revenues grew 22% while gross profit increased 12%. Total Ventev sales, which includes the power products and the infrastructure offering now totaled 14% of overall revenues.

Looking at the balance sheet, we reduced inventory by about \$3 million in last year. We expect another sequential decline in Q3 as well.

As we have discussed previously, one large tower on our customers pay for would ask us to hold the large amount of inventory and our facility and totally deploy it at which time we can recognize the associated revenue.

During Q2 we recognized almost \$2 million of revenue associated with this inventory and we currently have about \$3 million remaining. Those sales will continue to be recognized over time as the inventory is utilized and we expect the majority of it to be recognized sometime in the current fiscal year.

Cash flow from operations was \$2.1 million during the second quarter and \$3.9 through the first six months of fiscal 2016. Overall cash on the balance sheet was \$6 million and we had no balance on our \$35 million line of credit.

We also extended both our term loan and our line of credit on mostly similar terms. We remain committed to our dividend program and we expect our dividend of \$0.20 per share with a record date of November 11, and a payment date of November 25.

Now turning to our outlook. We are providing third quarter guidance of \$0.35 to \$0.42 per share. We are also maintaining our annual range of \$1.05 to \$1.25 for fiscal 2016. The continued uncertainty around the carrier build plans makes projecting the second half of the year difficult. While we expect some lift from the carriers, we don't know the exact timing. These projections do include modest year-over-year growth in our carrier market.

Now I'll hand the call back to Bob to discuss the success we are having on a strategic imperatives.

Robert Barnhill - *Tessco - President, CEO*

Thanks Aric. We are committed to regaining sustainable profitable growth regardless of the slow carriers spending environment and an overall sluggish economy. By gaining share in our existing markets, expanding into our new markets, supporting new wireless systems and improving our overall operational productivity and cost structures. Our strategic imperatives are designed to drive towards these goals.

We are managing the imperatives well focusing on the changing the way we do business to make the trusted difference in our customer's success and improving TESSCO's profitability. We are making progress but need to accelerate our achievements.



I want to provide a few highlights to the progress we are making. Our first imperative is the enhancement of our policies, procedures, and organization. We have identified and are working on the areas that must be enhanced, standardized, simplified, and changed. All policies and procedures including the customer value proposition, offer in pricing after being fully defined will be communicated and implemented on tessco.com.

Tessco.com will be the definitive place for the customer to gain knowledge and to do business and our team members to serve the customers. We expect the changes to go live early in the new calendar year and this will immediately drive a better customer's experience and enhance TESSCO's productivity.

To enhance our imperatives, we are reorganizing and adding talent to sharpen our focus on the customer and driving better collaboration across the organization, all with the goal of elevating performance and speed of execution.

To this end, we reorganized the market development and sales, solutions development and product management and strategic marketing units. We've also created a new unit called analytics, innovation and learning to centralize the development of customer and market intelligence, new offering innovation and customer and internal training.

The second imperative is the expansion of our end-to-end system solution offer. Our ability to offer more complete knowledge, product, service and supply chains solution is central to better serve our customers and gain market share.

We have identified the systems that we're supporting, wireless play stations, enhanced cellular coverage and capacity and vehicle and mobile communications. Mobile device, Wi-Fi networks, machine-to-machine, Internet of Things, wireless backhaul and test and maintenance systems.

In order to fully support these products we've added new - we have added new products services manufacturers to assure the customers that TESSCO can provide and will provide a best in the industry offering.

Two significant solutions have been launched. Our fleet tracking and management solution was introduced at the end of the quarter. The system is for small to medium fleet vehicles being marketed to our commercial resellers and private system operators.

Our fleet tracking solution will provide us with the initial and add-on equipment sale, as well as a recurring revenue stream, where we are providing ongoing data analytics and control support for our customers. In a matter of months, we have developed some meaningful opportunities that should develop into sales.

Secondly, supporting Wi-Fi systems is a major focus for us. This past quarter we added Samsung's Skyline equipment to our offer, allowing us to provide a very comprehensive Wi-Fi solution for a wide range of environments.

The addition of Samsung to our existing portfolio of Ericsson, Linksys, Ventev and others ensures that we have the end-to-end wire line solution for every situation including indoor, outdoor and industrial machine to machine applications.

Ventev our proprietary product units just introduced a new suite of warehouse Wi-Fi access point mounts to simplify the installation in high ceiling industrial environments, while improving safety and aesthetics. Ventev has an expansive line of Wi-Fi enclosures, mounts, talents, cables and jumpers.

The third imperative is enhancing our supply chain and operational excellence. TESSCO's historical promise was delivering what you need, when and where you need it. Today the demands for major base station construction is for the immediate delivery of the complete configured hit solution that is ready for rapid deployment at the lowest total cost.

As a result, we are enhancing our procurement and logistics systems, including the expansion of our network of depot's to have the customers' requirements closer to their location of construction. We now have the ability to enable the customer to pick-up or direct delivery from a network of over 200 locations across the country.



The fourth imperative is the development of strategic relationship selling. As we transform our offering to end-to-end solutions, we're transitioning from reactive selling to proactive selling, develop strategic relationships with the customer at all levels and departments.

We've reorganized around market segments and invested in new sales talent, training, coaching, opportunity guidance and go best rewards. Our relationship selling approach has helped us develop strategic plans for major customers in all of our markets resulting in significant opportunities and exciting sales pipeline.

Just some of the examples or results of strategic selling. In the retail market many new customers have been referred and are now significant buyers. New contract vehicles, all important to doing expanded government business have been established. The strategic relationships we have developed with the carrier customers have created many new opportunities and ways we can add important value to them.

And our sales force now has a new level of collaboration with marketing to productively generate, pursue, exploit and exploit opportunities to the development of the systemic selling process.

Fifth and last is our imperative to build and operate scientific digital marketing. We recognize that we are now selling in a digital age where the buyer has more control. As a result, we must digitized and webize our entire business making tessco.com, the definitive place to learn, procure and control their entire supply chain.

Our marketing imperative is integral to delivering the value proposition, offer and procurement system and understanding and anticipating the customers' needs and behavior to create opportunities and sales.

Over the past two years, we've been building and executing four subsystems. First is big data predictive analytics. The SAP HANA platform is measuring and predicting the behavior of customer. Just two examples is that we tracked the abandonment of web work sheets to determine whether they were abandoned to improve our offer, pricing and availability. Big data platform provides product alternatives and companion recommendations based upon the customer's present and prior purchases.

The second subsystem is one-to-one contextual marketing. Our customer profile and preference records allows us to digitally or personally communicate to the customer to his specific interest.

Third is the sales opportunity guidance and tracking system. We've optimized salesforce.com to provide our sales team with their key performance indicators, opportunities developed by marketing and the guidance to prioritize their selling activity.

Lastly, the central subsystem for digital marketing is tessco.com. Tessco.com has two components. First is the knowledge for products and system design and product selection. The second is the procurement and supply chain control which includes the author, policies and procedures, technical support, procurement and supply chain control as I discussed earlier.

We are now designing and implementing a totally new web experience that encompasses robust solution and product knowledge content and procurement and supply chain control. We plan to introduce this new tessco.com early in calendar 2016.

With the new tessco.com, all of these subsystems will come together to create one integral interface that provides customers with personalized knowledge delivery and simple and effective procurement while proactively generating new opportunities with existing and new customers.

We believe that TESSCO is well positioned to capitalize on the conversions of wireless and the Internet creating unprecedented opportunities to help organization build, use and maintain their wireless system. We're confident in our strategy and very excited about the future.

So with this, I'd like to open the call for any questions you may have.



QUESTIONS AND ANSWERS

Operator

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

Anil Doradla - William Blair - Analyst

Hi, Barnie, good morning. I had a couple of questions. So when we look at the career spending, this is the fourth quarter where they three handled year-over-year decline and based on your commentary into some extent your guidance, can we interpret that as you guys calling the bottom?

Robert Barnhill - Tescoco - President, CEO

I think where we are seeing is that we're starting to see activity. I'd say I believe it is the bottom because of what they are all trying to work on in the activity that we are seeing. I think that the startup could be bumpy which might be not as robust as we might expect but as I said, we really look at the first part of the year as being some acceleration. What would you say Aric?

Aric Spitulnik - Tescoco - CFO

I think that's right. I think Q3 and Q4 will probably slightly - small growth over what we've seen in Q2 and Q1 but not really dramatic we don't think but definitely as we get towards the end of Q4 and then definitely in the 2017, we will definitely expect to see some nice momentum and nice growth starting to have at that point.

Robert Barnhill - Tescoco - President, CEO

Again their plans, their conversations are very promising but as I said there is a not a calendar yet in terms of where there is - in our purchase orders to get it going.

Anil Doradla - William Blair - Analyst

So Barnie you've been in this business, you've seen many cycles and clearly I mean at least I have not seen something what we are in the midst of - I mean if you were to distill it down to one or two key things across service providers and across these different operators, what is that really boiled down to.

Is it that net neutrality is become controversial so these guys don't want to spend money or is it something else?

Robert Barnhill - Tescoco - President, CEO

I think there is somewhere a perfect storm I mean in terms of what is happened, the huge spectrum built, the question of net-net neutrality which is going to impact their pricing structure, what we're seeing from Google and even Apple in terms of current starting to think about how do they expand the network to include Wi-Fi, as well as the cellular networks.

And then for these large acquisitions they have made that are somewhat outside of the carrier space, digesting that. I really think that much of it's their planning in terms of - what is this system going to look like and where are we going to build sooner rather than later, this whole, the desk the cellular enhancement is that I mean that was thing that was really driven a lot of our sales before things collapsed.



And we're starting to think that that might be the last thing that really come back as they go back and build their macro sites and may be even some small cells before they start coming back and looking at that in-building because lot of that -- the problem with the in-building is that how you backhaul it and we've got some exciting products in the point-to-point, point-to-multipoint radios to carry the backhaul where you don't need fiber but that is a big decision in terms of how they're going to design their system.

Are they going to use wireless backhaul, are they are going to integrate Wi-Fi, are they going to use fiber, so I think that these are the areas that they - it's a long list you can't point to anyone and you're right in terms of we've been serving the carrier market since 1983 when several started and we've seen pumps in the road but we've never seen a dramatic pullback as we have -- able to do in past year and half now.

Anil Doradla - *William Blair - Analyst*

And Barnie is it fair to characterize that this set of events that we are witnessing is across the major carriers and well beyond the DAS systems that you have so it is macro based stations, line cards everything basically?

Robert Barnhill - *Tessco - President, CEO*

Absolutely all the carriers - and as I said is that, we have seen historically is that when one of the carriers starts to build then everybody starts to build because they can use it for advertising and getting new customers and today it's a lot easier with what Apple did and now what Samsung has done in terms of having a non carrier specific phone it's going to be easier for people to go back and forth.

So when somebody starts to build and says I've got better coverage in (inaudible) the other carriers have to start to move-out as well so they can offer the same type of coverage and capacity.

So there is different reasons for different customers but all comes back to just a major delay in terms of how they are going to build out their networks.

Anil Doradla - *William Blair - Analyst*

Great. You talked about the relationship between the commercial dealer, reseller markets would be public carriers and so if the carrier spending picks up would the dealer market also swing back in the same time or what it has been back with the certain lag?

Robert Barnhill - *Tessco - President, CEO*

That will be part -- they once impacted our bar of business, our value added reseller business has been lot of those were doing the part of the construction, they were a contractor for the carrier and they did do a lot of DAS work.

And so I think if you will see them start to come back along with the major carrier spend is one of their contractors but the DAS -- the major DAS systems that a lot of them were involved in probably will be delayed.

Anil Doradla - *William Blair - Analyst*

On the pricing environment, these delays, push-outs whatever we want to call it, is that creating some irrational pricing in the vendor supply chain or people are in the pricing environment holding up?

Robert Barnhill - *Tessco - President, CEO*

I think right now that everybody is looking for business and it's very tempting to use price as the weapon but sometimes you can drive yourself down on price when there is no business that we had.

So it's kind of -- we're waiting to see what happens. The carriers are very focused today and rightly so which has been our value proposition is that how do you lower the total cost, how do you get it's not just a price of the component but it's the price, the delivery, the service and lower that total cost rather than shopping for the best price.

And that's been one of our value proposition is that we might not be the lowest price but we're going to be the lowest total cost for your construction towards maintenance projects.

Anil Doradla - *William Blair - Analyst*

Great. And final from me Barnie is, indicates the double-edged sword but your OpEx level right now, are you - have you aligned your OpEx to be in this current environment if there is a risk of having a prolonged overhang.

And second which is a total flip of that is, if there is a sharp snapback, how quickly can you adapt to the increasing demand environment. So I think where I'm going with this is the OpEx at the current level, how agile you are to either handle some of fast changing upside on the demand and also a prolonged slump so to speak?

Robert Barnhill - *Tessco - President, CEO*

I think it comes back to the enterprise and industrial private system operators into utilities that the enterprise, the healthcare, the government is doing very well.

So this is where we're putting more and more resources on that can help drive that business and quite frankly is that as I said that's where we're going to get sustainable growth is that, yes we love to serve the carriers but at the same time we've got to build around it and this is the opportunities that are being created by the convergence of wireless and the Internet and we're very bullish on those markets and those opportunities.

Anil Doradla - *William Blair - Analyst*

So you're reallocating some of the sales force onto some of the other adjacent markets and depending upon how the market shape-out, you could move them around that's what you mean?

Robert Barnhill - *Tessco - President, CEO*

Absolutely. And this is one of the reasons why the emphasis is on the strategic digital marketing is that, with the carriers we know where all the carriers are, okay, but going after the private system, the enterprise, the industrial and even the government, you need the web marketing to find the opportunities.

You can't afford to smokestack and go from building to building and say, hi, you are building Wi-Fi systems or any point-to-point systems today, you've got to wait and have one of the customers raise their hand and say, I need your help to help me build this system.

So that's where we continue to make the investment and also the policies, procedures, offers implement on the web is going to be a dramatic cost savings for TESSCO, and improving the customer experience.

We have today - our sales force basically spends half of their time on logistics efforts taking care of the customer's returns, changing orders, entering orders and when we move it that where the customer can do it online, and we can help them online, we feel that we'll get - not quite but close to double the kind of the sales force can spend with the customer rather than the internal focus on the logistics.

So that's going to be a big productivity driver and cost. So now we have basically doubled our sales force with the same cost structure.

Anil Doradla - *William Blair - Analyst*

Very good. Thanks a lot and best of luck.

Robert Barnhill - *Tessco - President, CEO*

Okay. Thank you

Operator

Thank you. Our next question comes from Bill Dezellem of Tieton Capital Management. Your line is open.

Bill Dezellem - *Tieton Capital Management - Analyst*

Good morning, thank you. Have a couple of questions here. First of all, you have in the past referenced an intent to penetrate carriers beyond AT&T.

Would you please discuss those efforts and may be on same line I think that you referenced earlier in the call that you're developing strategic relationship with the carriers which is creating new opportunities.

And we are hoping that you can really address what you're referring to there in terms of these new opportunities and maybe you can scale in for us, please.

Robert Barnhill - *Tessco - President, CEO*

Yes, that's a very important question is that, with our team, we've got a very talented experienced team that is now looking at all of the carriers and all of the contractors, program managers, tower and tower owners.

And when we say we're building strategic relationships, that's with all of these peoples. So every one of the carriers, role of carriers, as well as the major carriers, we're there with the customer, we're building these in-depth relationships, so we can see what the opportunities are, what their needs are and be a part of that buildup.

And that's when I say that we have a very exciting plan with the customers and need for the customers and are participating in there, they're planning and in some cases their -- so we can be there.

So again we are going, we want to expand beyond any one carrier to not be in a heavily concentrated area. Aric, you have anything you want to add to that?

Aric Spitulnik - *Tessco - CFO*

That's right. We are really going after all the carriers but Tier 1 and even Tier 2s and end of the lower levels below that. So, it's not just in the four big one, there is plenty of other smaller carriers out there that are also doing a little bit of work and there is some federal money out there for those guys and following that closely as well to make sure we are participating in the entire ecosystem of the carriers band.

Bill Dezellem - *Tieton Capital Management - Analyst*

Aric, would you please talk about that what I sense is free federal money that you are talking about?

Aric Spitulnik - *Tessco - CFO*

There is some ruled broadband money that I think it was just recently put out there. So we are doing the work that's following where that money is going and following up with those carriers that are trying to get into that space and making sure that we can support those carrier builds as well as the real big AT&T price and cut ones as well.

Bill Dezellem - *Tieton Capital Management - Analyst*

So that's the GAAP funding that you're referring to there as -

Aric Spitulnik - *Tessco - CFO*

That's right.

Bill Dezellem - *Tieton Capital Management - Analyst*

Okay. Thank you. And then one additional question, you talked about fiscal 2017, your first quarter there that's really one you expect the carrier spending to pick up.

So are you able to - actually would you please kind of give some characterization, directional thoughts of fiscal 2017 and the rate of growth relative to fiscal 2016, not asking to provide guidance where it recognizes too early for that but maybe what you might be seeing there, little bit more than you have already placed.?

Robert Barnhill - *Tessco - President, CEO*

Sure, difficult question to answer but we look at it by market.

Certainly as we said, we expect the carriers to pick-up so little bit early to say exactly what we are looking at there, so just see what the carriers are really going to do, but we will certainly expect some year-over-year growth in that market and we think that the commercial resellers will start to come back some and then really as we've been investing in these private systems we really want to make the big year-over-year growth and that as well and we have seen some nice year-over-year growth this year but we continued to expect that going forward.

So we really think that all the markets are primed for growth. We're not quite ready to go with any kind of numbers or ideas of exactly what kind of growth we're forecasting for next year yet but as we get closer towards the end of this year we're certainly going to be doing that with that that time.



Aric Spitulnik - *Tessco - CFO*

So much of it is again determined on how quickly we implement our imperatives. I mean the better we get with everyone that we discussed is going to impact the customers and how they want to do business with this and that's in terms of what our profitability is.

so we're excited but at the same time as I mentioned in the call is this economy is becoming little bit sluggish, I don't know whether you all notice that the article in the Wall Street Journal that fasten all was quoted by saying that their top 100 customer are showing a 10% decline in purchases.

And so that's why we are focused and we were saying on market share, as well as expansion in the new areas is what's going to give us the growth that our goal for next year.

Bill Dezellem - *Tieton Capital Management - Analyst*

That's helpful and then next you're going to try to push just one step further if I may. Will it fair to say from what you see today and that may change but from what you see today that you would expect double digit revenue growth next year?

Robert Barnhill - *Tessco - President, CEO*

If all the swimmers start to percolate the same way -- we get all cylinders running, its going to give us when we adapt to the new realities and we're changing to anticipate the future and as I say if all of our imperatives start to running, yes that's our goal

Bill Dezellem - *Tieton Capital Management - Analyst*

Great. Thank you both.

Robert Barnhill - *Tessco - President, CEO*

Thank you. Great questions.

Operator

(Operator Instructions)

Our next question comes from George Prince of RBC Capital Markets. Your line is open.

George Prince - *RBC Capital Markets - Analyst*

Hi congratulations, nice quarter. Could you talk more about the retail, maybe some about OtterBox or Zag or other players like you're distributing and maybe what inning you're in there? Thanks.

Robert Barnhill - *Tessco - President, CEO*

The OtterBox is a very important partner. We're working very closely together in terms of new mega retailers that has really helped us in terms of penetrating new customers since we're saying our goal is to go after new customers, new markets and new products. Ventev is helping and is moving along with us, as well as our other offerings.

So we've got every key product that we should have to really serve these retail stores.

We also have whole series of services that we're providing one is online training for the in-store people that we're driving and extending, and two a procurement assisted systems that we can actually measure through iQmetrix, we get the inventories and the consumption and then we can make suggestions as far as what products that they should be adding.

Tessco.com has been and will become a much greater tool for the customer for the retailer to make their purchases but then also impact stock rotations much easier than they are today.

So we've got some -- we're looking at some new initiatives what they call the endless aisle where you can the - retailer might not want to stock everything or might be out of stock and where the consumer can actually go on to a computer screen in the store and place an order and then we will fill it directly to the end consumer.

So, there is a lot of exciting things going on in the retail market. We've got again an extraordinary team of both in the product side, as well as sales side really to make these things happen. I mean the sales growth we have is one with the new products, new customers but also our value proposition we give to the customer, as well as our execution of taking care of the customer.

George Prince - *RBC Capital Markets - Analyst*

So I find that Ventev products are terrific and typically way better than other alternatives in the marketplace, so my guess is - are they are more expensive? Is that true and is that a drag for you?

Robert Barnhill - *Tessco - President, CEO*

They are more expensive because you're getting the quality batteries, the quality construction of the product. The biggest challenge we have is building the brand. I think you know that the actual - the backup batteries are -- is fabulous but the consumer doesn't understand what that thing is today.

They are still looking at chargers rather than having a backup battery that charges as well as backs you up if you're on the airplane and your iPhone starts to lose its juice.

So we are looking at more and better merchandising and advertising and explanation. We're also working on ventev.com to be more of the consumer side, as well that will help us get that brand recognition and the recognition of what the products are.

So, I think again to answer your question, pricing is really not - once it's out there in the store and people see it, we make the sale.

And so it's not the fact that our product is more expensive than a lot of things you can get because a lot of the consumers have been burned by a cheap charger and have a blow up or cables for example that the Ventev cables, I mean that is the connector of that is Apple's connector, the iPhone lightning connector.

And so, our product is from charge and sink is superior. Now it cost a lot more but it is a both charge, sink and with the OEMs actual connector on it which again if you go onto the store you get something cheaper, you're going to get something that doesn't work.

George Prince - *RBC Capital Markets - Analyst*

Yes, those are great products. You mentioned something earlier about - if I go to a store which happens frequently and I can't find what I want, I go up to the cashier and they will order it for me through your system and deliver it to my house? Is that -

Robert Barnhill - *Tessco - President, CEO*

That's where we are going -

George Prince - *RBC Capital Markets - Analyst*

You're going, right, okay, because that's not ubiquitous - is that a hard thing to implement? I would imagine the stores would love it but it takes training expertise.

Aric Spitulnik - *Tessco - CFO*

Yes. There is a lot of technology that goes into it. I mean you got to present the products that you have inventory of. You've got to do - it's basically a mini sell site.

You got to have the image, you got to have the descriptions, you got to have the availability and then place the order and they get paid for store, and then we fulfill it to the consumer and then we build the store for the product that we ship to them.

George Prince - *RBC Capital Markets - Analyst*

And the shipping cost.

Aric Spitulnik - *Tessco - CFO*

Right.

Robert Barnhill - *Tessco - President, CEO*

I mean so what it does that's where the term endless aisle is, I mean it really allows say retail store to dramatically improve or expand their offer.

George Prince - *RBC Capital Markets - Analyst*

That's pretty good. Yes, that's a pretty good product. All right, thanks. Good luck.

Operator

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

Robert Barnhill - *Tessco - President, CEO*

Thank you. Thank you for being with us today. We know that the execution of our strategic imperatives will produce the performance we all expect as we've been discussing. I thank you for your continued support and we look forward to sharing with you our progress in January if not before.

So, have a great day. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference.

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