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ZAGG - Q1 2016 ZAGG Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ZAGG first-quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Miss Kim Rogers, Director of Investor Relations. Ma'am, you may begin.

Kim Rogers - ZAGG, Inc. - Director of IR

Thank you, Crystal. Good afternoon and thank you, everyone, for joining us today for the ZAGG first-quarter 2016 conference call. On the call with us we have Randy Hales, President and Chief Executive Officer; and ZAGG's Chief Financial Officer, Brad Holiday.

By now, you should have access to our first-quarter earnings press release that was issued after the market closed today. And we have also published our CFO Commentary following the earnings press release. You can find both documents on either our Investor Relations website at www.ZAGG.com, or at the SEC website. We furnished the CFO Commentary in an 8-K this afternoon. We are recording this call, and a podcast of this conference call will be archived at the ZAGG Investor Relations page under the Events tab for one year.

Before we begin, I'd like to remind everyone that the prepared remarks we will make today contain certain forward-looking statements, and management may make additional forward-looking statements in response to your questions on this call. These statements include, but are not limited to, our outlook for the Company, and statements that estimate or project future results of operations, or the performance of the Company. These statements do not guarantee future performance and speak as of the date hereof.

For a more detailed discussion of the factors that can cause actual results to differ materially from those projected in any forward-looking statements, we refer you to the risk factors contained in our annual report Form 10-K and quarterly reports Form 10-Q filed with the Security and Exchange Commission. ZAGG assumes no obligation to revise any forward-looking statements that may be made in today's release or call.

Please note that on today's call, in addition to discussing the GAAP financial results and the outlook for the Company, we will also discuss adjusted EBITDA, a pro forma non-GAAP financial measure. An explanation of ZAGG's use of non-GAAP financial measures in this call and reconciliation between GAAP and non-GAAP measures required by SEC Reg G is included in ZAGG's press release today. Which, again, can be found on the Investor Relations section of the Company's website.

The non-GAAP information is not a substitute for any performance measures delivered in accordance with GAAP. And the use of such non-GAAP measures has limitations, which are detailed in the Company's press release.

And now I'd like to turn the call over to Randy Hales. Randy?

Randy Hales - ZAGG, Inc. - President & CEO

Thank you, Kim. Good afternoon and thank you for joining us to review our first-quarter 2016 results and update on our business.

I have three topics I'd like to address with you today. I'll start with a few highlights from our first-quarter results. I'll give you a progress update on the mophie acquisition, provide insight on the Company that ZAGG is today, before concluding with perspective on each of our product categories.

First of all, I'm very pleased with the Company's first quarter in which net sales grew 9% to \$62.4 million, versus \$57.2 million in 2015. We experienced strong year-over-year sales growth in screen protection, up 14%, personal audio up 20%, and power management up 383%.

Two of our channels were also up significantly with international up 67%, and dot com up 100% (sic - see press release, "95%"). You may remember from our last earnings call that we had projected ZAGG's results in the first half of 2016 would be lower than last year, as the mobile industry is experiencing a slowdown.

We also indicated that growth would return in the second half, due to expanded distribution, ZAGG product launches, and anticipated new major device launches. Today, we are maintaining our 2016 sales guidance of \$460 million to \$500 million with adjusted EBITDA of \$60 million to \$65 million.

Now, turning to an update on the mophie acquisition. In the 60 days since we closed the transaction, we have kicked off several key integration initiatives ahead of our original plan. Including the restructuring and assimilation of our international organizations to maximize sales and leverage the cross-selling opportunities.

We've kicked off the development of several collaborative product development activities that will result in creative product solutions being brought to market in the second half of 2016.

And finally, we've begun the integration of finance, accounting, operations, HR, legal, and IT to maximize efficiencies across the Company. We are working to improve inventory management, optimize our teams, and align processes within the organization.

This effort will be ongoing throughout 2016 as we identify additional opportunities to maximize sales and increase efficiencies. I'm very pleased with the -- our early progress and the spirit of cooperation that both teams are demonstrating.

Prior to the acquisition, mophie operated as a private company with very little performance data being publicly disclosed. Much like ZAGG, in mophie's early years, sales doubled every year with demand outpacing capacity.

Just prior to the iPhone 6 launch, capacity and inventory levels caught up to sufficiently meet demand for the iPhone 5. The iPhone 6 quickly became one of the most popular mobile devices ever introduced and it caused an unforeseen and swift decline in demand for the iPhone 5.

This decline was much more significant than declines experienced in previous device update cycles. As a result, the mophie team found themselves with excess iPhone 5 inventory, causing severe cash constraints which restricted their growth from late 2014 until very recently.

Between the capacity constraints experienced up to the iPhone 6 launch and the recent cash constraints, mophie has never fully realized its potential. Despite these challenges, mophie established one of the top brands in our industry and created a very loyal consumer following.

As you know, all acquisitions come with a few surprises, both positive and negative and the mophie acquisition has been no different. The key to minimizing the surprise exposure is to ensure that you buy right. In the case of the mophie acquisition, we definitely bought right.

A few of the positive surprises have been the strength and resilience of the brand, the continued rapid development of a robust product pipeline, the strength of the overall power category, and the talent of the team.

One of the negative surprises has been the need to establish stronger business processes very reminiscent of ZAGG two or three years ago. Having been down this path in our recent history, we can help accelerate the implementation of best practices and disciplines.

The other surprise has been associated with how long it's taken to rebuild momentum in the supply chain. Since closing the acquisition on March 3rd, our focus has been on bringing suppliers current and restarting the supply chain to begin fulfilling demand for the product line.

It has taken longer to bring mophie's manufacturing partners back online and up to capacity than we had anticipated during the due diligence. We are making good progress, but we anticipate it will still take a few months to get where we want to be. Despite this short-term challenge, we continue to be very enthusiastic about the acquisition and the overall accretive value it represents.

The last topic I would like to discuss with you is what I referred to in my open remarks as today's ZAGG. We have become a Company that is generating sales approaching \$0.5 billion, servicing a diverse global customer base, and marketing an expanded product portfolio.

Based on our stock's low valuation as compared to our peers, I feel like we haven't done an adequate job of identifying the improvements in today's ZAGG as compared to years past. Or in communicating the Company's growth potential. Therefore, I want to take a few minutes to review our progress.

Over the last several years, our screen protection sales have grown by increasing market share and expanding distribution. We consider our screen protection business to be very similar to recurring revenue, due to the steady pace of new device launches.

The strong margins in this category have helped to sustain our overall gross margins. However, prior to the acquisition of mophie, screen protection as a percentage of total sales grew to the point of creating some concentration risk.

One of the goals of our business development strategy is to diversify our business and minimize the risk of any given product category. The mophie acquisition was a big step forward in reducing product concentration risk.

Since the end of 2012, we have significantly reduced customer concentration by expanding our customer base and growing our international presence. Our strength in screen protection has allowed us access into new accounts and paved the way for us to introduce other product categories.

Overall, ZAGG has significantly reduced both product concentration and customer concentration by executing on our three corporate objectives of introducing creative product solutions, becoming the preferred brand, and targeted global distribution.

The drivers that support the 7% to 8% top line organic growth rate we have talked about in previous calls fall within the framework of our corporate objectives. Growth drivers for the next year include, number one, continuing to focus on our primary corporate objective of introducing creative product solutions and improving our market leadership in the product categories we participate in.

We have grown beyond a mobile accessories company and are quickly becoming a mobile lifestyle company. This new identity is already being reflected in our recent product introductions like the Now Cam social media camera, and the Flex Arc personal audio device.

Number two, our objective of becoming the preferred brand is being demonstrated in the market by our leadership position in our key product categories where, according to NPD, we have four to five times the market share of the next largest brands.

The Company is building a strong portfolio of brands and will continue to add to that portfolio going forward as we consider acquiring or launching additional brands to address specific opportunities.

Number three, we will continue to execute our objective of targeted global distribution. Last year, we opened dozens of new customers. And this year we look to expand with them through incremental product placement and the introduction of mophie products, while continuing to pursue identified targets both domestically and internationally.

As we have focused on our corporate objectives, we have also established a culture of continuous improvement. That culture is constantly looking to reduce cost and increase efficiencies. Since 2013, EPS has grown at a compound growth rate of 53%, compared to revenue growth of 7%. With a strong leadership team in place and a track record of execution, today's ZAGG is a Company with less product and customer risk, growing sales, and strong cash flow.

I would like to take the last few minutes of my remarks to discuss each of our key product categories and provide additional insight into how they are performing.

Our InvisibleShield screen protection line continues to be an outstanding product category for us where we have 50% plus market share. During the first quarter, we grew sales 14% year-over-year due to expanded wireless retailer distribution.

Already in 2016, we've enjoyed successful launches for the Samsung S7 product line, the Apple iPhone SE, and the Apple 9.7-inch iPad Pro. We are anticipating other major new device launches later this year and believe they will be instrumental in further lifting screen protection sales.

In the second and third quarters, we'll be introducing several new InvisibleShield screen protection products. We'll be launching an industry-first glass-film hybrid protector with outstanding scratch resistance and the highest break protection we've ever offered.

We are also introducing a new glass screen protector that will be twice as strong as the industry-leading glass products with enhanced scratch resistance. These products are positioned to maintain our market share and retail price leadership.

Research indicates that category attach rates have increased slightly over the past year, ranging between 15% and 20%. Our objective is to further increase attach rates through product enhancements, improving installation methods, and expanding our in-store training.

Moving now to power management. We recently introduced our mophie juice pack battery case for the Samsung S7. The Samsung S7 cases represented our first entry into wireless charging. With wireless charging gaining broader consumer adoption, we are building a robust pipeline of wireless charging solutions that will reinforce our market leadership in power.

Going forward, our external battery case line will expand across a greater variety of price points to strengthen our market position, broaden distribution, and protect and expand our market share position.

Recent research data identified power as the highest growth category in mobile this year. And I believe mophie is positioned better than any other brand to take advantage of that growth.

Our audio products grew by 20% in the first quarter, due primarily to our expanded distribution. The personal audio category is forecast to experience high growth in 2016, driven by the growing demand for Bluetooth wireless products.

The highest growth in Bluetooth wireless is expected to come in the sub \$50 price points where the iFrogz brand is well-positioned. Look for our new Bluetooth wireless iFrogz audio line to be in retail in time for back-to-school and holiday.

With regard to the keyboard category, we are introducing several new products in the second half of the year that will incorporate all-new best-of-class feature sets. Some of the features include a new hinge design to support multi-function use, an ultra-thin profile, and the incorporation of mophie power management technology.

Our tablet keyboard line was down 47% due to strong sell [end] during the first quarter of last year and the overall market slowdown in tablet sales. However, we believe the type of benefits we are introducing will further differentiate us from the competition.

Our go-forward strategy with tablet keyboards is to support the market-leading tablets with keyboards that deliver greater benefits and flexibility than currently offered by the OEM products. We are encouraged that the Apple Pro series tablets and the Microsoft Surface are both being positioned to attract the business user.

The keyboard attach rates in the business-to-business channel is nearly 100%. And it represents an entirely new potential sales opportunity for ZAGG. We are optimistic that our new benefit-rich keyboards and focus on the business-to-business market will begin to stabilize the keyboard category.

Over the past several years, ZAGG has been steadily transforming itself to become a very different Company than it was just a few years ago. Today, ZAGG is generating record sales from a diversified product portfolio that has significantly reduced product category risk.

We have greatly expanded our customer base to the point where customer concentration is no longer a viable threat to the business. We've strengthened our operational efficiencies and improved our supply chain to help sustain our high EBITDA generation.

We have demonstrated repeatedly that we can build and maintain strong barriers to entry by executing against our corporate objectives. As a result of these barriers, we've witnessed several competitors come and go, while our market share has steadily increased.

Our best-of-class products, combined with our industry-leading lifetime warranty and high service standards, allow our premium-positioned products to generate high levels of gross margin dollars for our retail customers, leaving them with little motivation to substitute lower-priced product that generates fewer gross margin dollars.

Our transformation from a single-product startup Company to a multi-faceted product leader with some of the strongest brands in the mobile industry has occurred in just a few short years. Again, approaching the \$0.5 billion in sales, we are building scale that will help us continue to grow and strengthen as an organization.

I'm very excited about the path ahead of us in 2016 and beyond. And want to thank all of our employees for supporting our corporate objectives and working tirelessly to build a great Company.

I will now hand the call over to Brad.

Brad Holiday - ZAGG, Inc. - CFO

Thanks, Randy.

Since many details of our financial performance were included in the CFO Commentary issued earlier today, I would like to take a few moments to cover a couple of items in a bit more detail. Including our annual business outlook and the timing on our amended 8-K related to the acquisition, which will include audited historical financial statements for mophie.

With regards to our annual business outlook, as mentioned in today's press release, we are maintaining the guidance we provided on our last call in early March. With annual net sales ranging from \$460 million to \$500 million, gross margins as a percent of sales in the low to mid 30%, and adjusted EBITDA from \$60 million to \$65 million.

However, given what we know today, there is the potential that our net sales and adjusted EBITDA could be at the low end of the range, due to a couple of reasons. First, as Randy mentioned in his comments, it has taken more time than anticipated to restart mophie's supply chain in order to fulfill customer demand for their products.



Consequently, sales in the first couple of months post-acquisition have been lower than expected, due to these supply chain constraints. But we're making good progress and are working to get this situation resolved as quickly as possible.

Second, we have seen recent market data indicating headwinds related to smartphone demand ahead of the launch of the iPhone 7, which could impact sales of our device-specific product lines.

Partially offsetting these two negative factors is that our ZAGG business momentum is strong and first-quarter sales exceeded our expectations. Considering these factors together, management believes that there is the potential that 2016 net sales could come in at the low end of the net sales range.

As we mentioned in the previous earnings call and reiterate today, we estimate lower year-over-year sales in the first half of 2016 but expect significant sales growth in the second half compared to the prior year, due primarily to the anticipated launch of the next generation of the iPhone.

Due to the potential for net sales to be at the low end of guidance, adjusted EBITDA will also be impacted. However, we have several initiatives underway that we feel will keep us in the range of \$60 million to \$65 million, albeit also potentially at the low end of the range.

It's early in the year and only eight weeks since closing on the acquisition of mophie. All of our teams are working hard to deliver on what we've guided to. And we believe the current guidance range is appropriate, based on our current forecast.

Secondly, I wanted to share with you what you can expect in terms of historical financial information for mophie in the 10-Q filed today and the amended 8-K, which will be filed in the next week or so.

Our 10-Q filed today includes a description of the transaction along with some additional detailed financial information related to the transaction. It also includes consolidated first-quarter financial results which include mophie operations from the March 3rd acquisition date to the end of the quarter only.

And also included in the 10-Q is pro forma information comparing the first quarter of 2016 to the first quarter of 2015, including mophie, assuming the transaction occurred on January 1st of this year.

On or before May 17th, we will file an amended 8-K along with mophie's audited historical annual financial results for 2013, 2014, and 2015, including balance sheets, income statements, and cash flow statements. As you will see, sales for mophie in those years were \$215 million, \$178 million, and approximately \$185 million, respectively.

That concludes my comments at this time. And we'd now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dave King, ROTH Capital.

Dave King - ROTH Capital Partners - Analyst

First off, on the -- for legacy ZAGG, it looks like that was down 4% year-on-year, if I did my math correctly. With stronger screen protectors offsetting weaker keyboard business.

I guess can you talk about the drivers there in terms of strength in screen protectors? How that's feeling versus expectations. And then also the weakness in keyboards relative to the expectations.



And then I guess a follow up to that sort of multi-part is, is it still fair to assume keyboards should hold flat for the year? Particularly with some of the new products that you have planned for the second half. Thanks.

Randy Hales - ZAGG, Inc. - President & CEO

Yes, Dave. Thanks for the questions. Screen protection is still benefitting from several factors. One would be expanded distribution, especially into the wireless channel where there's more of an assisted sale.

And we've talked in calls past, also, about the change in contracts in the wireless industry where phones are not being subsidized. And so the consumer's more aware of the need to protect that device through the life of a contract.

So we think those two things are combining to give us continued lift in the screen protection business.

Keyboards, we were comping a really aggressive and strong first quarter of 2015 where some of our new products were still hitting the market then. Selling was strong. So we knew that we would be down. We didn't anticipate it to be down as much as it was.

And we're, in the last call we said we think that keyboarding -- our keyboard sales may be flat. I would say that we've revised that now, having been through the first quarter, say it'll be down year-over-year.

Or not as stable as we thought it would be, even with the introduction of our new products. Although we do believe that'll give us a nice kick in the second half of the year.

Dave King - ROTH Capital Partners - Analyst

Okay, that's great. Great color. Thank you. And then on mophie, I think last time we talked, you mentioned \$210 million, I want to say to \$230 million revenue contribution, with it being more front-end loaded.

Obviously, that's a bit tougher now with the supply chain constraints that I think should weigh maybe for a few more months, I think you guys said. How much revenue do you think you left on the table in March?

And then as you think about your full year guidance, what does that assume in terms of contribution from mophie?

Brad Holiday - ZAGG, Inc. - CFO

Yes, Dave, this is Brad. On that number that you threw out with, that was a full 12 months.

Dave King - ROTH Capital Partners - Analyst

Okay.

Brad Holiday - ZAGG, Inc. - CFO

What we had in our guidance at the time was \$175 million to \$195 million was built into the guidance. And we're thinking it's more like \$165 million to \$185 million. So we're down about \$10 million.

First quarter, I mean, the first month, really, I don't know really know how much it's down. It's probably down \$5 million to \$10 million, maybe. It's a little hard to tell just because we're trying to get in and understand it.

But we've kind of lowered that range for the -- it was in the press release today. But we lowered the range on that down about \$10 million, both top end and bottom end. And then we think that there's some upside on the back.

Dave King - *ROTH Capital Partners - Analyst*

Okay. That's great. And then I guess lastly for me, just to better understand the balance sheet. It looks like the inventory balance was obviously -- was up a fair bit. Obviously, that's the addition of mophie.

I guess what's included in that inventory balance? And as we ended the period, I guess, particularly in the context of some of these supply chain constraints, I guess I would've thought that maybe you wouldn't have as much of that inventory there.

And as I look at it, it seems like it was up even more than I would've expected. Just including the addition of mophie. So just some color around that I think would be helpful. Thank you.

Randy Hales - *ZAGG, Inc. - President & CEO*

Yes. The mophie inventory represented just under \$42 million. The actual ZAGG inventory dropped about \$3 million compared to last year. And the mophie inventory is really what they would call appropriate current inventory across all their product lines. Appropriately reserved.

And I would tell you one of the things that the Company went through is they went, as part of the whole purchase price, and we still have a little bit of work to do there, is to make sure that it's appropriately reserved and consistent with how we reserve it against what we think the market demands.

So I think it's a fair representation of their inventory at this point in time. But it represented about \$42 million of the total.

Dave King - *ROTH Capital Partners - Analyst*

Okay. So then if I think about that, so it's -- if it's current product, it sounds like that might be different product, though, than what you were constrained on in terms of supply chain? Or am I not understanding (multiple speakers) --

Randy Hales - *ZAGG, Inc. - President & CEO*

Yes. That would've been older version. I mean, just like with any inventory, you have the stuff that's selling through at a faster pace. That's the stuff they were constrained on trying to get back into the supply chain, back up and running.

So they had certainly ample product of other models. Obviously, you have faster moving inventory. That's the stuff they were constrained on. That's what we're trying to bring all the contract manufacturing up to speed on.

So as we do that, then we should start to see the ability to meet demand for kind of the faster moving products. We were a little bit light on the kind of what I call the fast-moving products.

Dave King - *ROTH Capital Partners - Analyst*

Okay. That helps a lot. I'll step back and good luck with the rest of the year.



Brad Holiday - ZAGG, Inc. - CFO

Thanks, Dave.

Operator

Rommel Dionisio, Wunderlich Securities.

Rommel Dionisio - Wunderlich Securities, Inc. - Analyst

Thanks very much for taking the question. As we look at the mophie business, I just wanted to take a little longer-term view at things. Does this in any way, the temporary supply chain restraints -- constraints, change any of the outlook regards to product developments of international expansion of mophie?

Just over a longer term basis. It sounds like these are temporary issues which, obviously, will affect 2016 to some degree in the first half of the year. But does this derail the strategic plan on a longer-term basis in any way? Thanks.

Randy Hales - ZAGG, Inc. - President & CEO

Yes, thanks Rommel. No, not at all. They're very independent of one another. The -- getting the supply chain and operations up and running. And the vendors back up to capacity is happening independent of the longer-term product development opportunities, the expansion internationally and so on.

I mentioned in my remarks that we've already consolidated our international organizations. And we're leveraging each other's strengths internationally to open up new distribution to the two various brands.

And I think that's going forward very nicely. One of the pleasant surprises I mentioned as we came through the acquisition was the talent that came over as part of the mophie acquisition.

So people and opportunities, product development, all of that's running along as planned. It's just this supply chain thing that slowed us down a little bit. And again, if you look at the category growth in power as being identified as the strongest area in mobile this year. I really think that we're well-positioned.

So we feel great about the longer-term. And it's a pretty short-term bump on the supply chain. That's why we maintained the guidance. Brad talked about perhaps the lower end of guidance because the ZAGG business is stronger than we'd anticipated. And mophie's just having a couple month ramp-up issue right now.

Rommel Dionisio - Wunderlich Securities, Inc. - Analyst

Randy, just a quick follow up. Could you also address product quality (multiple speakers) of the mophie? Are there any sort of red flags that may have cropped up initially? If you're seeing any at all. Thanks.

Randy Hales - ZAGG, Inc. - President & CEO

Yes. No quality issues at all. And, in fact, we feel like some of the disciplines that mophie has been or has had in place in their product launch initiatives over the last couple years are things that we can learn from on the ZAGG side of the business. They put out a very high quality product with very little concern from the customer perspective.



Rommel Dionisio - *Wunderlich Securities, Inc. - Analyst*

Great. Thanks so much.

Randy Hales - *ZAGG, Inc. - President & CEO*

Thanks, Rommel.

Operator

Mike Malouf, Craig-Hallum Capital.

Mike Malouf - *Craig-Hallum Capital Group - Analyst*

Yes, thanks for taking my questions. So I'm looking at, first off, can we talk a little bit about the gross margin side? They were pretty good on the ZAGG side. And I know that last time you talked a little bit about warranty cost.

And I think out there, there's a sense that maybe the gross is a little bit high on warranty cost for you. And so I'm just wondering how that's working for you right now as far as that gross margin side.

Randy Hales - *ZAGG, Inc. - President & CEO*

Mike, are you talking ZAGG gross margins or the mophie gross margins? I'm not sure I understood.

Mike Malouf - *Craig-Hallum Capital Group - Analyst*

No, I'm just curious about (multiple speakers) the glass has been the -- a big seller for you. And I noticed last time you talked about warranty costs impacting you. And I'm just wondering if you've gotten a little bit more color on that as we've gone through the holiday and through the first quarter.

Randy Hales - *ZAGG, Inc. - President & CEO*

Yes, glass is an interesting one where with film, you get some self-healing characteristics and glass you don't. If you drop your device and hit it on the edge and chip the edge of the glass, we're going to be replacing that.

So our warranty costs have run a little bit higher on glass but nothing more than what we experienced through the -- I'd say, the third, fourth quarters of last year. So very consistent that way.

We are encouraged, I mentioned in my remarks that we're introducing a new high-end glass product that is twice as strong as anything that's in the market. And that will have a net effect of we think helping to slow down some of that warranty that we're experiencing today with first generation glass.

But we didn't see anything in the first quarter that was different from the third or fourth quarter.



Brad Holiday - ZAGG, Inc. - CFO

Yes, Mike, also, overall, our gross margins for the ZAGG brand actually went up by 2% and 200 basis points. It went from 40 to 42. So part of that was the mix associated with screen protection. But just I think just better overall inventory management in margins.

Mike Malouf - Craig-Hallum Capital Group - Analyst

Okay, great. And then on the competitive side, has there been any impact? It doesn't look like it, but has there -- have you seen any impact on your screen protection from the Apple-Belkin relationship that was announced a few months ago?

And then also, on the keyboard side, have you seen any undue pricing pressure, given that that category is probably a little bit over-supplied at this point?

Randy Hales - ZAGG, Inc. - President & CEO

Yes. Well, interesting, because we didn't have any presence in Apple, we really haven't lost anything with the Belkin applicator going into stores there. Again, we think it's great technology and we like it because it creates more awareness in the category overall. And probably helps to serve to lift the entire category. But we haven't had any pullback because of that hitting the market at this point in time.

As far as keyboards are concerned, we haven't had a lot of price pressure, either. The OEM keyboards are priced higher than anything that we've had in the market. And so the only time that you would see a little bit of price pressure is probably more of our own promotion and discounting to move some slow moving inventory.

Mike Malouf - Craig-Hallum Capital Group - Analyst

Okay. Thanks a lot for the help.

Randy Hales - ZAGG, Inc. - President & CEO

You bet. Thank you.

Operator

Mike Latimore, Northland Capital Markets.

Unidentified Participant - Northland Capital Markets - Analyst

Hey, guys, this is Nick filling in for Mike. Hey, couple questions. Assuming we get a iPhone launch here in the second half, do you guys expect ZAGG's organic revenue to follow kind of the same pattern that it did in 2014 when there was a similar iPhone launch?

Randy Hales - ZAGG, Inc. - President & CEO

Yes, I -- we think so. We think that we've mapped back to previous launches to try to anticipate the lift. But we've also mapped it across our distribution, which is very different today than what we had in the past.

So we kind of had a double-whammy in the past where we were picking up new distribution plus enjoying the lift of the iPhone device launches. And going into the holiday. Maybe there was three things all driving that up.



Now with expanded distribution, that percentage growth will -- probably won't be as high as what we've experienced in the past. But we think that the historical lift associated just with a new device launch will map and mirror what we've seen in the past.

Unidentified Participant - *Northland Capital Markets - Analyst*

Great. And then Mike kind of asked a similar question here. But so you guys reported 38% gross margin and then 42% excluding mophie. Looking forward, do you guys think there's really any opportunity to improve specifically mophie's gross margin here this year?

Brad Holiday - *ZAGG, Inc. - CFO*

Yes, I think -- I'll jump in on that. I think first of all, there were some expenses in there for the first month that had to do with the write-up of inventory for purchase accounting, Mike. Or Nick, excuse me.

And so I think the 38%, if you would back out the expenses that went into cost of goods sold, it would really have been flat at 40%. And I think with regards to kind of the go-forward, I think mophie's historical gross margins have kind of run in the high 20%.

I think the areas that we're looking at trying to come together on and -- is taking a look at how we combine and with scale now. Leverage all of the brands against pricing with suppliers, logistics, freight. All of those expenses where we think that we might be able to get some leverage.

So there could be some upside as we go forward. And that's certainly what we're going to kind of direct. And Randy even mentioned in his comments that we have a environment and culture around here of continuous improvement.

And now we're taking this scale, if you will, and trying to leverage as we look across that whole supply chain, if you will.

Unidentified Participant - *Northland Capital Markets - Analyst*

Great. Thanks, guys.

Randy Hales - *ZAGG, Inc. - President & CEO*

Thank you.

Operator (Operator Instructions) Matt Dane, Titan Capital.

Matt Dane - *Titan Capital Management, LLC - Analyst*

Thank you. I was hoping that you folks could discuss the wireless retailer strength. I know that an area and opportunity for you has been the independent wireless retailer channel. Are we seeing success in that channel? Is that what you're seeing that led you to highlight the wireless retailer strength?

Randy Hales - *ZAGG, Inc. - President & CEO*

Yes, Matt, at this point in time, we're not seeing a lot of lift from that channel. We're still new into that channel and finding our way through it. And it requires us to step cautiously just because we've got to protect all of our partners from a retail price point position.

And there's just a few nuances in that channel that it -- we have to be careful of. So we're exploring it. We have a team on the ground. We're now starting to knock on some doors. But the lift came really from just strengthening our relationships with the wireless retailers on a direct basis.

And really, again, that change in contracts where a consumer's more mindful about protecting their device.

Matt Dane - *Titan Capital Management, LLC - Analyst*

Great. Thank you.

Randy Hales - *ZAGG, Inc. - President & CEO*

You bet.

Operator

Jon Hickman, Ladenburg.

Jon Hickman - *Ladenburg Thalmann & Company, Inc. - Analyst*

I got kicked off the call for a few minutes. So if I -- if somebody asked this question, I'm sorry.

Could you talk a little bit about the retail -- the -- what the retailers are thinking or doing as you now come to market with the premier screen protection. And now you have the premier power case? What -- is it -- what's that doing to you in kind of the retailers in general?

Randy Hales - *ZAGG, Inc. - President & CEO*

Yes, I would say, Jon, across the board, it's been a real positive. And we're just a much more meaningful partner to all of our retail customers because we're in the two categories that are most important to a consumer.

We talked in the last call a little bit about top of mind for a consumer in mobile computing is running out of power in my device. And protecting the device from damage.

So I think we're much more meaningful as a supplier, as a partner. All of our key retailers have been here to our Salt Lake City offices for combined meetings. We've been out with them not just once but multiple times.

And strategizing how we use the strength of both of these brands to drive more value in-store for them and ultimately to the end user. So very positive and they see the combination as a strength.

Jon Hickman - *Ladenburg Thalmann & Company, Inc. - Analyst*

So what can you tell us about the two new products you mentioned? The camera and the arc flex? How's the early (multiple speakers) acceptance going?



Randy Hales - ZAGG, Inc. - President & CEO

Yes, both of them -- it is still early. But they're starting to get in the market. We're having great success. The Flex Arc audio piece we continue to sell out. Frankly, we're chasing demand right now.

And so we'll continue to ramp up and try to catch up for that here in the next couple of months. So great success there.

The Now Cam is being sold primarily online. And our early reads are very positive. The reviews have been positive and it seems to be hitting a price point and a need in the market that's favorable right now.

Jon Hickman - Ladenburg Thalmann & Company, Inc. - Analyst

And one last question. So this -- the latest multi-product for the S7, that's wire -- you don't -- it -- the case doesn't actually physically plug into the phone? It's all done wirelessly? The charger.

Randy Hales - ZAGG, Inc. - President & CEO

So it does plug into the phone. But it offers wireless charging through the case. So you can still charge, plug the case in with a cable or you can set it on a wireless charge pad. That's the wireless (multiple speakers) --

Jon Hickman - Ladenburg Thalmann & Company, Inc. - Analyst

Oh, I see. That's what you meant. Okay. Okay.

Randy Hales - ZAGG, Inc. - President & CEO

Yes. (multiple speakers)

Jon Hickman - Ladenburg Thalmann & Company, Inc. - Analyst

Thank you. That's it for me.

Randy Hales - ZAGG, Inc. - President & CEO

You bet.

Brad Holiday - ZAGG, Inc. - CFO

Thanks, Jon.

Operator

And I'm showing no further questions from our phone line. I would now like to turn the conference back over to Mr. Randy Hales for any closing remarks.



Brad Holiday - ZAGG, Inc. - CFO

Hey, Randy, before you jump in with closing remarks, I think one thing that might be helpful just for everybody with regards to guidance is we did talk about sales being down kind of year-over-year as we look at the first half.

Because of limited visibility against mophie, and we typically wouldn't do this. But I think it would be helpful just to let everybody know that as we look at mophie sales for the second quarter, we're looking right now at probably about \$30 million to \$35 million is kind of what our forecast is.

And that might be helpful as everybody's looking at their models over the balance of the year. And part of that still is kind of a hangover, if you will, because of the ramp up of the supply chains.

But I think it might be helpful. Everybody has a lot of detail on how ZAGG did last year. But mophie's a little bit of an unknown right now. So I thought that might be helpful. So we're about \$30 million to \$35 million is what we think of mophie right now. And then ramping up in the second half of the year. So just wanted to clarify that.

Randy Hales - ZAGG, Inc. - President & CEO

Thanks, Brad. I think that is helpful. Well, thank you, everyone, for joining us on the call today. And we look forward to discussing our second-quarter results with you on our next call. Thank you.

Operator

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

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