CEOCFO Interviews & News!

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A Motto Of 'On hand-On demand' With Strong Inventory Of Equipment That The Cable Industry Needs When They Need It Has Fueled Growth For ADDvantage Over The Years

Services
Electronics Wholesale
(AEY-NASDAQ)

ADDvantage Technologies Group, Inc.

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Daniel E. O'Keefe, CPA
Chief Financial Officer

BIO:
Dan has approximately 15 years of experience in finance and accounting at the senior level. Most recently, he served as president of Interstate Express, Inc., a subsidiary of LinkAmerica Corp., from 2001-2005. Under O'Keefe's leadership, revenue for Interstate Express climbed to $30 million in 2005 from $13 million 2001 with steady improvements in profitability. From 1997-2001, he was the corporate controller for LinkAmerica when revenue grew from $20 million to $130 million.

Mr. O'Keefe also served as a senior accountant for PricewaterhouseCoopers, where he was responsible for the preparation of financial statements, audit activities, management reports including recommendations for enhanced reporting systems and controls, and more, on behalf of numerous private and publicly traded companies. He graduated with a B.S. in accounting from the University of Kansas in 1990.

Company Profile:
ADDvantage Technologies Group, Inc. supplies the cable television (CATV) industry with a comprehensive line of new and used system-critical network equipment and hardware from leading manufacturers, including Scientific-Atlanta and Motorola, as well as operating a national network of technical repair centers. The equipment and hardware ADDvantage distributes is used to acquire, distribute, and protect the broad range of communications signals carried on fiber optic, coaxial cable and wireless distribution systems, including television programming, high-speed data (Internet) and telephony.

ADDvantage operates through its subsidiaries, Tulsat, Tulsat-Atlanta, Tulsat-Nebraska, Tulsat-Texas, NCS Industries, ComTech Services, Jones Broadband International and Broadband Remarketing International.

Interview conducted by:
Lynn Fosse, Senior Editor

CEOCFO: Mr. O'Keefe, what is the vision for ADDvantage today and how do you get there?

Mr. O'Keefe: "The vision that we have for the future and what we have grown over the last twenty-two years on is maintaining a solid base of inventory for our customers to use when they need it. We carry a broad line of cable television equipment that all the major MSOs use and we maintain a large inventory so that when they have an emergency or there are inefficiencies in the supply chain, we can meet the demand. That is a business model that we have started twenty-two years ago and it is something that we have grown with significantly over the last seven years and continue to look for in the future."

CEOCFO: What is the competitive landscape like?

Mr. O'Keefe: "There are a lot of competitors in the distribution industry for cable television equipment. However, many of our competitors are smaller and don't maintain inventory, so they use our inventory to supply their customers. We feel we have a competitive advantage in the fact that our business model is a little different. We carry the inventory in-stock and have it ready for overnight delivery, when our customers are down and need that critical piece of equipment to get back up and running, to continue transmission to their customer base. That is what differentiates ADDvantage from our competitors. There are a few competitors out there in our industry that maintain some inventory, but nobody to our level in the domestic market."

CEOCFO: Do the customers that use you on the emergency basis tend to use you thereafter?

Mr. O'Keefe: "Yes. We like to think that when we supply the customer with that on-hand critical inventory for overnight delivery that they continue to use us on an ongoing basis. One of the things that we are challenged with in maintaining inventory is the cost. Sometimes we are not necessarily the cheapest alternative in the marketplace, but we feel that our service and our overnight delivery reward us with repeat business when we do supply them with that critical delivery that they need."

CEOCFO: What is the geographic footprint for you and how do you see it changing?

Mr. O'Keefe: "We have eight locations across the United States. We have locations in California, Nebraska, Oklahoma, Texas and Missouri and a couple locations in Pennsylvania and one down in Atlanta Georgia. We feel that we have a very broad domestic footprint that we don't need to expand upon. However, what we do look for is another piece or product line in our industry that could compliment our existing product offering. We look for products or product lines that all of our eight locations can sell and that would be something we would want to add to our existing company base here domestically. However, we feel like we have an adequate footprint to serve the domestic market with our eight locations. Growth-wise we are heavily expanding in the Latin America market. We have been penetrating the Latin American market for the last three years and have experienced double-digit growth each year in that region. What we are trying to do now in the Latin America market place is build our direct customer relationships. We have serviced that geographical market for years through brokers and through intermediaries. Now we are trying to develop direct relationships with end-users that will allow us to continue serving those customers increased demand over the next several years as they continue to penetrate deeper and deeper into their customer markets."

CEOCFO: What is the financial picture for the company?

Mr. O'Keefe: "We are a small micro-cap company. Our revenues last year were just right around $ 65,000,000.00. We are unique in the micro-cap industry in that while we are a small company we have always produced positive, profitable results. Our EBITDA numbers were just right around 20% and our PAT numbers were right around 10%. Those types of margins are something that we have maintained over the twenty-two years that we have been in business, so we have always run a business that was very profitable and we are driven to growing as profitable business. Our financial results are unique in our industry in that most micro-cap companies that we compare ourselves to in our market place are not as profitable as we are."

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- Daniel E. O'Keefe, CPA

CEOCFO: You have been focusing on operational efficiencies; what are you changing there and how do you continue to ring out the excess?

Mr. O'Keefe: "The operational efficiencies that we have been focused on are trying to reduce our cost and increase our revenue-generating capabilities. One of the things that we have done here in the last two years is consolidate the multiple warehouses of our Tulsat division, which is based in Oklahoma. A couple years ago, we had approximately eight warehouses throughout the area. We subsequently bought one big warehouse facility of 100,000 square feet and we added another 65,000 square foot warehouse at the back of the property. This combined new 165,000 square foot facility has allowed us to bring all of those outside warehouses into one piece of property. Therefore, we have reduced cost of rent and it has also led to some other operational efficiencies by having all of our employees located in one area. Another area of operational efficiency is we had some preferred debt outstanding that we were paying dividends on the last several years and we were able to replace that preferred stock, which was paying non-tax deductible dividends, with bank debt. We were able to go to the bank and secure financing at very favorable rates in comparison to what our dividend rate was. The benefit of having the interest expense be tax deductible is a double efficiency for our P&L. That is another area of operational efficiency that we think is going to provide positive results for the quarters coming up."

CEOCFO: You have a series of companies; why not just one big company under one name. What is the strategy there?

Mr. O'Keefe: "A lot of our growth in the last five years has been through acquisitions. The acquisitions that we purchased had a brand-name themselves, and leaving them in the local marketplace with their local brand-name, we felt was a competitive advantage to our company. We are all underneath the ADDvantage umbrella but having different arms with different names does tend to target different customers more effectively."

CEOCFO: What do you see in the next two or three years?

Mr. O'Keefe: "We are a secondary supplier of equipment so we don't necessarily drive the industry into what equipment they are going to use in the future. What we are there for is to supply them with the equipment that they need on a replacement basis or to plan an addition to an outlying area or add another subdivision into their existing plant structure. We don't necessarily drive the equipment in the industry, what we supply is the equipment they need when they need it. As far as where the industry is going over the next several years. We believe that there is going to be a large push to 1-gig, which is the platform for communications speed the cable companies are needing to get to in order to compete with the satellite companies and their HD offerings as well as the fiber optic plant that telephone companies are offering such as Verizon and AT&T. We think that the competition from the telephone companies and the satellite companies is going to drive the cable companies to get to 1-gig platform across their networks. Right now, the majority of the cable companies are still using an 870 plant, or a 750 plant and some are still using a 550. We see the competitive landscape is going to drive that up to a plant level of 1-gig and we hope to capitalize on that upgrade and the additional business when they do that."

CEOCFO: Why should potential investors look at ADDvantage and what might people miss that they really should understand about the company?

Mr. O'Keefe: "For an investor one of the things that I would want to see from a company is solid performance. We are a company that has had significant growth over the last five years. We have also produced bottom line results in each one of those years and stellar bottom line results in comparison to companies of our size in the public market place as well as to our competition. I think that investors that understand that we are a well-run company that is bottom line focused that takes into consideration all of our stakeholders which include our investor base, our employees, our customers and our vendors. In addition, we have an experienced management team that takes that holistic approach and looks at all factors not just one in driving the business. If an investor is looking for a company that is going to continue to perform on a solid basis and use its own internal cash flow to generate future growth, I think we are a solid investment for them."

CEOCFO: Final thoughts: what should people remember most when they read about ADDvantage?

Mr. O'Keefe: "On hand-On demand, that is our motto and that is what really differentiates us from our competition. We have the equipment that the cable industry needs when they need it. That is a business model that has fueled our growth over the years and is something that we pride ourselves on and differentiate ourselves from our competition."

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Technologies Group

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