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Transcript of Sharps Compliance, Inc.
Fourth Quarter and 2015 Year End Earnings Conference Call
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Participants
John Nesbett – Investor Relations, Institutional Marketing Services
David Tusa – Chief Executive Officer and President
Brandon Beaver – Senior Vice President of Sales
Diana Diaz – Vice President and Chief Financial Officer

Analysts
Joe Munda – First Analysis
Nick Hiller - William Blair
Kevin Steinke - Barrington Research
Brian Butler - Stifel Nicolaus
Craig Hoagland - Anderson Hoagland & Company

Presentation

Operator
Greetings and welcome to the Sharps Compliance Fourth Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

I'd now like to turn the conference over to your host, John Nesbett of IMS. Please go ahead.

John Nesbett – Investor Relations, Institutional Marketing Services
Good morning and welcome to the Sharps Compliance's fourth quarter 2015 earnings call. On the call today we have David Tusa, the company's President and Chief Executive Officer; Diana Diaz, Vice President and Chief Financial Officer; and Brandon Beaver, Senior VP of Sales.

David will review the company's business operations and growth strategies, and Diana will review the financials. Brandon will discuss the company's sales initiatives and related activities. Immediately following the formal remarks, we will take questions from our call participants. If you are listening via webcast, please note that you have the ability to submit questions through the Internet.

As you are aware, we may make some forward-looking statements during the formal presentation and in the question and answer portion of this teleconference. These statements apply to future events, which are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from where we are today. These factors are outlined in our earnings release as well as in documents filed by the company with the SEC. These can be found at our website or at sec.gov.

So with that, I will now turn the call over to David to begin the review and discussion. Go ahead, David.

David Tusa - Chief Executive Officer and President

Thanks, John. Good morning, everyone, and welcome to our fourth quarter and fiscal year end 2015 earnings conference call. Fourth quarter customer billings increased 28% to $9.5 million, led by growth in the retail, pharmaceutical manufacturer, and government markets. With this growth, we generated gross margins of 42%, operating margins of 15% and EPS of $0.08 a share.

In addition to clearly demonstrating the operating leverage of our business model this quarter, both at the gross and operating margin level, we also saw the results of additional launches of new solution offerings and shortly after the end of the fiscal year we closed an acquisition. So let's review a few more details by market.

In ~~T~~the ~~r~~Retail market, ~~the~~ billings increased 54% to $3.1 million in the fourth quarter as our retail customers prepare for the upcoming flu shot season. For the full year, this market grew by 36%. As we've said before, we believe this market will continue to drive our long-term growth as customers look to alternate sites to receive their flu shot and other immunizations, and as retail clinics continue to transform healthcare in this country.

~~Now,~~In ~~-~~the ~~g~~Government sector, ~~the government~~ billings increased 531% to about $800,000. This growth was driven by sales and increased awareness of our new TakeAway Medication Recovery System envelopes and our new MedSafe solution. For the full fiscal year 2015, we generated government market billings of $1.8 million, an increase of 255% over the prior fiscal year.

~~Now t~~These solutions were designed to meet all of the requirements of the DEA's October 2014 Secure and Responsible Drug Disposal Act. This act allows the collection, transportation and treatment of consumer-dispensed unused medications including controlled substances. Both the TakeAway envelope and the MedSafe solutions have been approved and added to our Federal Supply Schedule as well as DAPA for the purchase by the Defense Department agencies. These approvals are important as they enable the efficient purchase of the solutions by government agencies.

~~On to~~In the ~~p~~Pharmaceutical ~~manufacturer~~ Manufacturer market, ~~where the~~ billings grew 23% to $1.4 million for the fourth quarter. For the fiscal year, billings in this market were $4.9 million, a 30% increase over the prior fiscal year. During the quarter, we filled orders for new inventory builds for existing customers, and we launched one new patient support program for a new drug therapy.

We expect to launch two additional patient support programs for new drug therapies over the next three to four quarters, and once fully rolled out, the three new programs already launched in fiscal year 2015 plus the two additional programs, are expected to generate annual revenue of $4 million a year or higher. Our ability to provide innovative, customized programs for our customers and their patients have enabled us to build strong relationships in this sector. We’re focused on attracting new customers while also adding new programs for existing customers.

~~Now t~~The ~~p~~Professional market~~, it~~ grew by 5% to $1.5 million in the fourth quarter as we continue to educate and roll out sales and marketing initiatives around our Sharps Recovery System. For the fiscal year 2015, the market grew 17% to $6.2 million. The fourth quarter comparison was skewed a bit by the impact of distributor activity, and if you took it out, the fourth quarter was up about 14%, consistent with the full-year growth of about 17% year-over-year.

Our focus is on raising awareness and understanding of this solution in the small quantity generator sector which is largely made up of doctors, dentists, vets and other healthcare professionals. We believe our mailback systems offer significant cost savings, improved operational efficiencies and convenience for the small quantity generator.

As we've often discussed, our long-term growth strategy has always included the evaluation of acquisition opportunities, as well as additional solution offerings that will allow us to offer complementary value-added services to our current and prospective customer base. So following the quarter, we announced the acquisition of Alpha Bio/Med.

Alpha is a route-based pick-up service located in Pennsylvania, and ~~with~~ the addition of Alpha, ~~this~~ expands our capabilities and footprint. ~~So we~~We now service Pennsylvania, Maryland and Ohio with both route-based pick-up service as well as our Sharps Recovery mailback systems. We're also launching a route-based pick-up operation in Texas serving Dallas, Houston, San Antonio and Austin, as well as Shreveport, Louisiana. The inside sales team has been well trained to cross-promote our new services.

~~Now the~~The route-based pick-up services are focused on the professional, assisted living and long-term care markets, and they're designed to allow us to expand our service offering beyond small quantity generators to medium quantity generators as well, especially surgery centers. We're also exploring the possibility of a treatment facility located in Pennsylvania which will be a great fit for our Northeast operations. These are exciting developments for our business that we believe will significantly augment our ability ~~that~~ to meet the needs of our customers and drive growth.

So with that, I'll turn the call over to Brandon who will give an update on our sales initiatives. Brandon?

Brandon Beaver – Senior Vice President of Sales
Thank you, David. As David mentioned, we continue to see very strong results from the retail and pharmaceutical manufacturer markets this quarter. The Professional sector saw solid growth and~~. As well,~~ we believe it will benefit greatly from the addition of our new services. We have very strong relationships in the pharma market where our partners recognize the value of our unique solution.

We offer not just a disposal solution for patients in the home setting but an opportunity for ~~p~~Pharma branding and data generation related to patient compliance and medication adherence. Among the data we provide are alerts to the manufacturer if a patient is not using the drug the way they should be, which gives the manufacturer an ~~meeting~~ opportunity to reach out and touch the patient.

We're encouraged by the ongoing opportunities we are seeing ~~pharma~~Pharma, especially as we are seeing programs for new self-injectables, additional indications and higher patient counts. As a result, we are optimistic about the long-term growth prospects for the market.

Let's touch on ~~a~~Assisted ~~l~~Living. Assisted ~~l~~Living market billings grew 16% in the quarter and we're focusing our resources on closing new customer deals to drive growth in this~~e~~ market ~~that~~ which we believe holds significant untapped opportunities. The addition of the pick-up service offering is expected to facilitate growth in this market as volumes from the ~~a~~Assisted ~~l~~Living and ~~l~~Long-term ~~c~~Care market can be higher than those in the traditional small quantity generator sector, thereby warranting a route-based pick-up service to supplement the mailback system.

Professional market billings grew 5% in the quarter. As mentioned previously, distributor activity negatively impacted the comparability to this quarter. Without distributor activity, the ~~p~~Professional market grew 14% compared to the prior year and 17% year-over-year. This market remains a key focus of our ongoing sales efforts as we continue to educate the market about the convenience and cost efficiency of our mailback solutions. We continually launch inside sales initiatives and promotional activities to attract healthcare professionals from all practice areas and our field sales team is actively pursuing larger, multi-location professional market opportunities.

As David mentioned, with our recent acquisition, the inside sales group now proactively includes a pick-up service in addition to mailback in Pennsylvania, Ohio, Maryland and Texas. The interest-to-date in the route-based offering has been extremely positive. We have already begun closing new customers where the route-based pick-up better serves the customers' needs. We continue to supplement our service areas where needed with our network of over 35 subcontractors for larger opportunities.

We're in the process of launching a route-based pick-up operation in Texas servicing Dallas, Houston, San Antonio and Austin as well as Shreveport, Louisiana. We see this move as an extension of our treatment facility operations in Texas where we're fortunate to have personnel with experience in the route-based pick-up service business.

Now let's talk about the sales team. As of today, we have 11 field sales and sales support personnel and ~~,~~ 10 inside sales personnel, for a total of 21 employees in the sales department. With the addition of the route-based pick-up service offering, we'll likely add more ~~internal~~ inside sales personnel to take advantage of the multiple service offerings primarily in the ~~professional~~ Professional market. We have assembled what I truly believe is one of the strongest and most experienced sales teams in the ~~c~~Company's history, and we are intent on accelerating the closure rate for additional new business in multiple markets throughout ~~the~~ calendar year ~~in~~ 2015.

Our new TakeAway envelope and MedSafe solutions are making inroads not only in the ~~government~~ Government sector but also in the ~~r~~Retail ~~p~~Pharmacy and ~~a~~Assisted-~~l~~Living markets. Sales-to-date of the MedSafe have been to smaller chains that quickly realize the convenience and safety of a new DEA-approved collection receptacle. Our sales team continues to pursue MedSafe opportunities in ~~r~~Retail, ~~a~~Assisted L~~l~~iving, drug treatment, hospice, law enforcement and other commercial markets. We believe we are the leader in the marketplace with our innovative and convenient unused medication management solutions and plan on taking advantage of our position as this market continues to develop.

I'll turn it back to you, David.

David Tusa - Chief Executive Officer and President
Thanks for the update, Brandon. Now let's turn it over to Diana to cover the financials.

Diana Diaz - Vice President and Chief Financial Officer
Thank you, David. During the fourth quarter, the company recorded revenue growth of 27% to $9 million as compared to $7.1 million in the fourth quarter of last year. Gross margin was 42% in the fourth quarter as compared to 36% in the prior year fourth quarter. The margin increase was driven by the leverage gained from higher revenue this quarter. Selling, general and administrative expense was flat at $2.3 million for the quarter, and decreased to 26% of sales as compared to 33% of sales in the fourth quarter of last year.

The company reported operating income of $1.4 million in the fourth quarter as compared to $1.7 million in the fourth quarter of fiscal 2014. Sharps reported net income of $1.3 million or $0.08 per basic and diluted share this quarter compared with net income of $1.6 million or $0.11 per basic and diluted share in the fourth quarter of last year.

In ~~L~~last year's fourth quarter, both operating income and net income included a positive impact of $1.5 million or $0.10 per share legal settlement related to the company's claims against the U.S. government related to a

January 2012 contract termination. So, without the impact of the legal settlement, operating income and EPS in the fourth quarter of 2015 increased by $1.3 million or $0.07 per share respectively.

Now let's take a look at the highlights for the year ended June 30, 2015. Revenue increased 16% to $30.9 million for fiscal 2015. Customer billings increased 18% to $31.5 million. Retail billings grew 36% to $8.7 million, primarily due to increases in flu shot related business. While the retail market is traditionally inconsistent quarter ~~by~~ to quarter due to the variability and demand for flu shot solutions, the expansion of healthcare services in retail pharmacies overall will drive growth for the company.

Government billings increased 255% for the year to $1.8 million in fiscal 2015 compared to the prior year. This was largely due to increased orders for the company's new unused medication disposal solutions including the TakeAway Medication Recovery System and MedSafe solutions, which have been approved for purchase and use by several government agencies. Pharmaceutical manufacturer billings increased 30% to $4.9 million in fiscal 2015 and professional billings increased 17% to $6.2 million.

Fiscal 2015 gross margin improved to 35.6% as compared to 33.8% in fiscal 2014. SG&A expense increased to $9.5 million in fiscal 2015, an increase of 4% over the prior year period, as a result of the increased investment in sales and marketing initiatives. The company recorded operating income of $1.2 million in fiscal 2015 compared to operating income of $1 million in fiscal 2014. Without the impact of the prior year legal settlement, operating income increased $1.8 million over the prior year.

EBITDA for fiscal 2015 was $2.1 million, consistent with EBITDA for fiscal 2014. Net income for fiscal 2015 was $1.2 million or $0.08 per basic and $0.07 per diluted share, compared to net income of $1 million or $0.06 per basic and diluted share in fiscal 2014. As discussed earlier, fiscal 2014 EBITDA, net income and EPS includes a positive impact of a $1.5 million or $0.10 per share legal settlement related to our claims against the government for a contract termination. Without the impact of this prior year legal settlement, EBITDA, net income and EPS grew $1.5 million, $1.7 million and $0.12 per share respectively.

Our balance sheet remained solid with $15.2 million of cash and cash equivalents at the end of 2015 fiscal year, compared to $13.7 million at June 30, 2014, with no debt this year. At June 30, 2015, working capital, stockholders' equity and total assets were $19.7 million, $23.6 million and $29.7 million respectively. Inventory of $2.7 million at June 30, 2015 is higher than the balance at June 30, 2014 of $1.3 million. The increase in inventory is a direct reflection of growth in the business as well as preparing for upcoming flu shot season.

And with that, I'll turn the call back to David.

David Tusa - Chief Executive Officer and President
Thanks, Diana. Just a couple of comments before we turn it over to the Q&A. While we are very excited to end fiscal year 2015 with strong organic growth, improved margins and profitability, we are very much focused on fiscal year 2016. We enter fiscal year 2016 with new solution offerings from route-based pick-up service capabilities. We are also reviewing additional acquisition opportunities that we believe could drive additional and strategic revenue growth.

And finally, just to thank our employees for all their efforts this past fiscal year. As you can tell, it's been a very busy one. We generated significant growth, we've launched new products and we closed on an acquisition, and all of this would not have been possible without ~~the~~ our talented and dedicated group of employees.

So with that, operator, let's go ahead and open it up for questions.

Operator
(Operator instructions.) Our first question comes from Joe Munda from First Analysis.

<Q>: Few questions, real quick, but congrats on a great quarter. I guess my first question, David, to you, you talked about acquisitions. On the Alpha Bio/Med acquisition, I was curious, how well did you know these guys prior to making this acquisition as far as were they a contractor that you had used in the past, any color there would be great, as far as return on capital, some of the metrics you were looking at to make that acquisition?

David Tusa - Chief Executive Officer and President
~~Sure.~~ We've probably spent the last year, or~~a~~ year and a half~~,~~ meeting with many different acquisition candidates across the country. We focused on a number of areas, the Northeast being one of them. And I don't think we used this one as a subcontractor, but we met with them along the way and it was just a really good fit, well-run operation, a great area, and one that we thought that we could build ~~off~~ on.

If you look at the metrics, we look at a number of different things, obviously the area, the revenue base, the profitability, and again, the strength of the management team, the quality of the customers. So this one fit quite well and we think that we could use this as an opportunity to start to build a bigger base in that Northeast area.~~,~~ ~~and even~~Even with just this one acquisition, we can cover three states. We're looking at also adding a treatment facility and potentially going into two other states. So it was a great place to start and it was just a really good fit from a personnel standpoint.

<Q>: In regards to treatment facility, would that be an autoclave facility that you're looking to add~~—~~?

David Tusa - Chief Executive Officer and President
Right. That's traditionally how medical waste is treated across the country. We do have the incinerator ~~down~~ in Texas, but this would be autoclave facility ~~up~~ in the Northeast. So you're probably looking at about a year, maybe 15 months to have that permitted, but we're working on that actively right now to facilitate that buildout in the Northeast.

<Q>: Any ideas on what it would cost, the buildout on autoclave including the permitting?

David Tusa - Chief Executive Officer and President
I think you're probably be looking at—what are we looking at, Diana, about $1 million? Probably $1 million or less.

Diana Diaz - Vice President and Chief Financial Officer
Yes.

David Tusa - Chief Executive Officer and President
~~If what we looked at b~~Between the permitting and maybe some buildout and the autoclave equipment, ~~so~~ you can get into it for a relatively low cost.

<Q>: And that would allow you to expand your reach, you're saying, your customer reach?

David Tusa - Chief Executive Officer and President

Well, expand your reach and kind of control your destiny as well, by having your own treatment facility and being able to treat the waste that you are picking up ~~[ph]~~ and allow ~~the~~for growth and also potentially for third-party treatment ~~up~~ in the Northeast as well, similar to what we do in Texas.

<Q>: Few more questions, thank you. As far as gross margin is concerned, a nice bump here. Is this a level we can expect going forward? I know in the past you've talked about incremental margins here. But as we're going forward with everything that you have planned, is this a normalized level we can look at going forward?

Diana Diaz - Vice President and Chief Financial Officer
Yes. This is reflective of the business model that we've talked about in the past, perhaps a little bit higher this quarter than just assuming $1.1 million in fixed cost of sales plus 48% to 50% of variable cost of sales.~~,~~ ~~it~~It was a little bit higher because there was a higher mix of mailback solutions and other solutions versus non-mailback solutions. But I think this is consistent with that margin, and as we grow the Alpha operations, they will get to that level of operation as well as performance.

<Q>: And then, Diana, I'm not sure if I missed this but operating cash flow and cap ex for the quarter, any ideas what that was?

Diana Diaz - Vice President and Chief Financial Officer
It's consistent with what we've been showing on a quarter-to-quarter basis. It will be somewhere around or less than $1 million for this fiscal year of cap ex.

<Q>: And then I guess my last question, in terms of Brandon's comments regarding the sales force looking to add here, Brandon, as far as the inside sales, I mean what would be an ideal number for you going into—that we could look at going from 2016 into 2017, any color there would be great?

Brandon Beaver – Senior Vice President of Sales
~~Sure.~~ Thanks, Joe. ~~So~~ ~~r~~Really we're monitoring that daily. We've had a strong start with the inside sales teams. They are extremely excited to be able to sell the pick-up opportunity now directly with us. Looking at headcount and body count back there, we have~~'ve as I mentioned have 11 back there,~~ 10 or 11 back there now, and we've got future growth opportunities. Without giving an actual body count, I can tell you we're looking every single month at where we're at as far as number of prospects we've reached out to, closures, and if we feel that ~~we really think that this is getting to the point where, you know what,~~ if it's as successful as we think it's going to be, it's unlimited as far as the number of bodies we'll put back there, but we are doing it very methodically. ~~But if~~If I had to say, Joe, we're probably looking at adding a handful a quarter for now, but we'll ~~kind of~~ update you each quarter as we go.~~ on that.~~

Operator
Our next question comes from Ryan Daniels from William Blair.

<Q>: This is Nick Hiller in for Ryan Daniels. Thanks for taking my questions. I was just wondering on the acquisition of Alpha Bio/Med services, can you talk at all about the purchase price paid there and expected financial contribution in 2016?

David Tusa - Chief Executive Officer and President
They generated historically—what was it, Diana, $550,000 or so in revenue?

Diana Diaz - Vice President and Chief Financial Officer

That's correct.

David Tusa - Chief Executive Officer and President
Of course we think we have the opportunity to grow that. But you can look at the purchase price multiple on that, just as a holler only, roughly around 1.5x revenue, trailing revenue.

<Q>: Okay, great. Thanks. And then with the launch of the pick-up service in Texas, I know it's really early, but you talked about the great customer feedback thus far, could you just talk about maybe one and two year opportunities you see from that both on a revenue and margin front?

David Tusa - Chief Executive Officer and President
I think it's a little early to look just at a particular operation. I will tell you this. We have a lot of business in Texas right now that's being subcontracted out that we would take over and perform the pick-up and the disposal ourselves. I think that'll give us an initial bump. But we're marketing these services every day. So give us a couple of few quarters and ~~what we'll do is~~ we'll start reporting ~~really~~ on ~~kind of~~ the pick-up service business, no different than ~~maybe like~~ thea mailback business, but we'll talk about ~~that~~ it as a service line and hopefully be able to show some growth in that service offering.

<Q>: Okay, great. Thanks a lot and congrats on a great quarter.

Operator
Our next question comes from Kevin Steinke from Barrington Research.

<Q>: I wanted to follow up on the route-based service you're launching in Texas. Do you anticipate that being any sort of kind of meaningful drag on profitability as you ramp that up or it sounds like in the near term you can transition some clients over? How are you thinking about that as you look over the next year or two?

David Tusa - Chief Executive Officer and President
That's a good question, and when you're starting up something like that, yes, there is potentially a drag, not a material drag, a relatively small drag, but we're hoping to make that up with moving business over there quickly to minimize that. ~~But i~~It could be quite ~~possibly~~ possible that for six months ~~ther~~e in the Texas area there could be a small drag, but we think it makes sense from a long-term perspective as we grow that business and we offer that service.~~ more and more.~~

<Q>: So you can transition over customers in addition to serving new I guess as you get that rolled out?

David Tusa - Chief Executive Officer and President
Correct.

<Q>: All right. And then also on Alpha Bio/Med, obviously has its own customer base. Do you anticipate transferring over some of your existing customers to have them served by Alpha Bio/Med as well in addition to them enabling you to serve larger customers in the future, new customers?

Brandon Beaver – Senior Vice President of Sales
Kevin, this is Brandon. That's exactly what we plan to do in the Northeast. We have a book of business with subcontractors, there that we will go ahead and take on directly with our Alpha operations.~~ up there.~~ It's a great platform. Routes are built and already working daily in three or four states right now, as we already alluded to in

the release. We plan to grow that significantly, not just with the business that we'll move over from our subcontractors but actively pursuing ~~as we speak the growth with~~ medium-sized customers up there.

David Tusa - Chief Executive Officer and President
I think it's also important, Kevin, to note that when you look at our opportunities ~~that we have~~ in the pipeline, in particular the field sales opportunities, we see more and more of those that have an ~~portion of them that some~~ element where the pick-up is best for the customer, or our mailback service isn't best ~~or for~~from whatever regulatory standpoint, so it's better to service them in with a pick-up. ~~So~~ We're very happy with what we see, that in most of the near-term opportunities ~~that~~ we are working on closing, there would be an element of pick-up.

Brandon Beaver – Senior Vice President of Sales
It's a great point, David, because I would say 60% to~~,~~ 70% of our prospects that are in our pipeline for the field have an element of pick-up, and typically that element could be that roughly half of the deal value would be just in pick-up.

<Q>: Okay, that's helpful. And you talked about potentially building a new treatment plant. But aside from that, I mean getting into the route-based business here, do you anticipate any meaningful change in just the overall capital intensity of your business?

David Tusa - Chief Executive Officer and President
~~First of all, w~~We've been in the route-based business for probably the last year and a half~~, and obviously~~ primarily through subcontractors. On a going forward standpoint, we're looking at additional opportunities. So, yes, there is some element of capital. It's not a lot. Again we talked about a treatment facility that could probably service five or six states, probably roughly $1 million. ~~And then~~Then when you look at these individual opportunities and as the revenue grows, ~~what you really do is~~ you just add trucks. So you may add a $40,000 truck assuming that the volume increases. So that's really relatively limited from a capital standpoint.

<Q>: Okay, perfect. And a nice pick-up in the government market here. Just wondering how we should think about that as we look over the next year. Was the fourth quarter kind of an inventory build that might get replenished in future quarters and what else is in the new business pipeline in terms of opportunities there?

David Tusa - Chief Executive Officer and President
It's good to see the ~~g~~Government sector becoming more relevant ~~with~~ in our numbers. It's becoming a material line item. And ~~what did we do~~we did, $1.8 million for the fiscal year, which is almost 6% of the revenue of the company. Why? First of all, we've developed products and solutions that solve a problem for them, primarily unused medication between the TakeAway envelope and the MedSafe. They are approved under Federal Supply Schedule; they are using them, it works.

~~So we~~We think that from a long-term perspective, the ~~g~~Government sector can play a role in being one of the key markets of the company. We don't provide guidance but we feel optimistic that the government sector will continue to provide growth. But let me say this, Kevin, we're not—I've said this a number of times, the beautiful part about this company is that we have seven or eight different markets. Let's not lose sight of the ~~r~~Retail, the ~~p~~Professional, ~~p~~Pharmaceutical ~~manufacturer~~ Manufacturer market. We're not building the company for just the ~~g~~Government sector. So we think that there ~~is~~ are growth opportunities in all of our key sectors, and we're optimistic about the government as well.

<Q>: Okay, good. And how should we think about SG&A spend over the next year, any meaningful ramp-up there in terms of sales or marketing or how are you thinking about that?

Diana Diaz - Vice President and Chief Financial Officer
We think that next year we'll have about 5% increase in SG&A. It may be a little lumpy depending on when we have various marketing initiatives, but we saw 4% increase this year and would see something similar next year.

David Tusa - Chief Executive Officer and President
~~Now t~~The only thing that could change that is, ~~now with~~ the new offerings, the additional offerings that we have, and again the receptionn~~vity~~ has been very positive. ~~,~~ Brandon, in your crew if we see that this thing is really ramping up and working on the inside sales team, then it's possible we would go over that 5% and put more into sales and marketing and I would think probably add more inside sales folks.

<Q>: Okay, good. That's all I had and congrats on a nice quarter and the moves that you are making to build the business here.

Operator
Our next question comes from Brian Butler from Stifel.

<Q>: Congratulations again on a good quarter. Most of my questions have been answered. I just wanted to go a little bit on some of the top line growth in some of the segments. When you look at the retail, it had a very strong quarter this quarter. Should we expect going into the first quarter of 2016 a slower quarter as some sales may have been pulled forward? And then thinking about the full-year, is that pace of call it above 20% growth the right place to target for 2016?

Diana Diaz - Vice President and Chief Financial Officer
We did have a nice year at 36% growth year-over-year and that's ~~kind of~~ the way we look at the flu shot business, as year-over-year rather than quarter-to-quarter. ~~And w~~We see that the flu vaccine manufacturers are projecting a 15% increase in the doses of vaccine that they'll be providing into the market this next year. And we've seen year-over-year that more and more people are getting their flu shots in a retail pharmacy. So our internal estimates are that this market could increase 20% to 25% over the next year.

David Tusa - Chief Executive Officer and President
It's just a great market as well. I think at the beginning of the fiscal year ~~that~~ we ~~had~~ said that the retail market would grow by, I think we said, 25%. We ended up at 36%. So it was a good year, more shots administered in the retail setting, and more flu shots. ~~So we~~We continue to be optimistic about this market and I think at least internally we're looking at probably about a 25% increase for 2016.

<Q>: Okay, great. And on the professional, I was surprised by the 17% growth in 2015. I mean still an excellent number but this is a segment that has been above 20% for a while, last four or five years it feels like. Is this kind of the new range that this professional segment is going to be in, is kind of that mid-teens or is there something else that can drive it higher kind of going into 2016?

Brandon Beaver – Senior Vice President of Sales
Brian, I'd say that we could expect higher than the mid-teens. Certainly with the pick-up addition, now being able to sell that route-based business as well as the mailbacks, I honestly believe with additional bodies we're putting back there, you're going to see it get back up to 20% plus. Again, we need to just be aggressive internally. I think our ~~p~~Professional market is just an enormous market. We look at that daily and ~~say,~~ the opportunities there are endless and it fits our mold perfectly. You are talking to doctors, dentists, vets, things like that. It fits our mold

perfectly for the mailback as well as ~~actually~~ some opportunities for pick-up in there. So with the addition of pick-up, I will say we're able to now diversify ~~that~~ a little bit and I think you'll see the professional market take a jump.

David Tusa - Chief Executive Officer and President
We're also working on some larger multi-site deals as well. So it's not all just the onesy-twosies, we've got a number of them in the pipeline that could accelerate the growth as well.

<Q>:   Okay, very good. And then on the pharmaceutical side, the three new programs that you started recently and relating that to the $4 million you talked about those three programs plus the two new over the next three to four quarters, it's supposed to be $4 million incremental revenue. How much was the contribution in 2015 from the three programs that were started in 2015?

Diana Diaz - Vice President and Chief Financial Officer
$900,000.

David Tusa - Chief Executive Officer and President
Call it $1 million.

<Q>:   Okay, so incremental there is $3 million to be looking at over the next 12 months from the new programs?

Diana Diaz - Vice President and Chief Financial Officer
Right.

David Tusa - Chief Executive Officer and President
Right.

Diana Diaz - Vice President and Chief Financial Officer
These are just barely started. They were launched, they were built and the fulfilment really hasn't kicked in yet.

David Tusa - Chief Executive Officer and President
These are deals that are vendor-managed inventory deals. The start dates, the approval dates get delayed sometimes, but we're really excited about this market because we've got a number of larger programs that are coming online. We're setting the standard ~~out~~ in the pharmaceutical manufacturer industry. We're setting the standard for the patient support programs, for self-injectable drugs. ~~So w~~We think this market is going to continue to grow and we're excited about the opportunities going forward.

<Q>:   So again, the sustainability of the current programs are fairly good. I mean I know you guys don't have a 100% visibility on these kind of things but there is no like hard end date for some of these programs where you're going to have some of these programs going away and you know that there's going to be a loss of X dollars of revenue?

Brandon Beaver – Senior Vice President of Sales
Brian, we can't tell when a marketing person is going to come back and say, you know what, we're ~~kind of~~ done with this program; ~~, we're looking to save, but~~ there is no end date at all for all of our programs. And just to go back to what Diana had said, we had a couple of programs just launch towards the end of Q4 ~~actually~~ that ~~really~~ we have not even seen the fulfillment of them yet, we've just ~~-~~built the inventory. ~~yet.~~ So really that's when you ~~really~~ start to see the revenue drive is when you start to see fulfilments and the turns that these systems go through. ~~, so that gives some color.~~

<Q>: Okay. And one more on the segments side, on the home healthcare market, I mean it's still the second largest I think segment you guys have, so that was down 6% in 2015. What are your thoughts on going into 2016 and kind of what's the dynamics in that market that's kept it down in 2015 and does that change going forward?

Brandon Beaver – Senior Vice President of Sales
Home ~~h~~Health, as we've talked about in the past, ~~we grew up with home health, let's say that,~~ the ~~c~~Company grew up with ~~h~~Home ~~h~~Health. And I think over the years, we have been able to diversify our book of business within the different markets extremely well. Having that slit helps us when we do have a down market such as ~~h~~Home ~~h~~Health. What are we doing about it? It's a challenging market. ~~, i~~It's extremely—as far as individual type of home health agencies, it's tough to get your arms around the larger ones, but I'll tell you ~~what we're doing is we've got a lot of our current business,~~ we're trying to up-sell a lot of our current business, trying to hold onto a lot of the larger term contracts. We do have distributor relationships and that does play a key in home health as we have a little ~~bit of lack of~~ less control if you will, with the distributors.

So it's a challenging market to say the least. Certainly we're going to continue plugging ~~our way~~away at it, but as I mentioned, being able to diversify our markets ~~I think~~ has helped us long-term.

David Tusa - Chief Executive Officer and President
~~It's fragmented, I mean i~~It's a very fragmented market, it's distributor primarily, ~~. I think~~ a majority of that business goes through distributors. So it's very difficult to manage and it's very difficult to predict that business. ~~But it's~~It's one that we are focused on, but I've said this for many years, it's probably the lowest growth market opportunity that we have and that's why we're focusing on many of the other markets. And to be honest, the addition of the route-based pick-up service should help offset the potential volatility in ~~h~~Home ~~h~~Healthcare.

<Q>: Okay. And then just one housekeeping one. Do you have the cash from operations number for the fiscal year 2015?

Diana Diaz - Vice President and Chief Financial Officer
No. Depreciation will be very consistent with what we had in the past. So you can start with net income and add back depreciation, you'll get ~~sort of~~ close to it. Our 10-K will be out in a couple of weeks.

Operator
Our next question comes from Craig Hoagland from Anderson Hoagland & Company.

<Q>: All of mine have been answered, except Diana, could you comment on the gross margin dilution we might expect to see from the Alpha acquisition closing?

Diana Diaz - Vice President and Chief Financial Officer
David mentioned the revenue level. At that revenue level, they have about a 35% gross margin. ~~Pretty small, it~~It will have a small impact on our gross margin. And obviously we expect and hope to increase that revenue fairly quickly, and we'll get margins close to what we've had this past quarter.

David Tusa - Chief Executive Officer and President
And what did we talk about? We talked about ~~we can~~ getting that business from $550,000 up to about $700,000 or $750,000, then the margin should be consistent with our overall margins.

Diana Diaz - Vice President and Chief Financial Officer

Correct.

<Q>: Right. Okay. Guys, great to see the revenue coming through and great to see the operating leverage and congratulations on the expense control.

Operator
Our next question is a follow up from Joe Munda from First Analysis.

<Q>: Just a few quick follow-ups here. Diana, on the inventory builds you saw, obviously you guys touched a little bit about the inventory being up here in the quarter and there's a number of programs in ~~p~~Pharma, you saw ~~r~~Retail, the ~~g~~Government. Can you give us some breakout of or some idea of where that inventory is derived from or where it's going? That would be definitely helpful on our part.

Diana Diaz - Vice President and Chief Financial Officer
It's ~~just~~ across all parts of our business and we sell two and three gallons to all the different markets but it's a lot of flu-related supplies to get ready for the next few couple of quarters.

David Tusa - Chief Executive Officer and President
And we'll get some other changes as well, besides that. ~~, yes, w~~We pride~~oud~~ ourselves on being able to fulfill orders,~~. S~~so, ~~yes, we go~~ this time of the year we go heavy on inventory. The other thing is we're now in the MedSafe business. These are collection receptacles ~~and these are~~ built in advance of selling them and that increases the inventory level as well. We obviously have increased the inventory level on our TakeAway envelopes. We have lot of opportunities out there on the TakeAway envelope side. So we have built up inventory and we think it's important so we can fill orders. ~~So p~~Probably those three sectors are the ones that are driving the increase.

<Q>: Okay. And then as far as the growth in ~~r~~Retail, I know you guys alluded to flu shot season, is there any way to extrapolate, David, you had talked about ancillary services, healthcare services in the retail pharmacy setting, is there any way to extrapolate how much of the growth was stocking orders from flu shots versus other business with the retail pharmacies?

David Tusa - Chief Executive Officer and President
That's a vast majority of it, ~~t~~what's driving that growth in the quarter and for the year, Joe.

Operator
Thank you. At this time, we have no further questions. I will turn the call back over to David Tusa for closing comments.

David Tusa - Chief Executive Officer and President
Thank you, everyone, for joining us. We look forward to speaking with you next quarter, and we appreciate your continued support.