Operator: Greetings and welcome to the Transcat, Inc. Third Quarter Fiscal Year 2019 Financial Results Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Craig Mychajluk, Investor Relations. Thank you. You may begin.

Craig Mychajluk: Yes. Thank you, and good morning, everyone. We certainly appreciate your time today and your interest in Transcat. With me on the call today, we have Transcat's President and CEO, Lee Rudow, and our Chief Financial Officer, Mike Tschiderer. After formal remarks, we'll open up the call for questions. If you don't have the news release that crossed the wire after the markets closed yesterday, it can be found on our website at transcat.com. The slides that accompany today's discussion are also on our website.

If you would, please refer to slide 2. As you are aware, we may make some forward-looking statements during the formal presentation and Q&A portion of this teleconference. Those statements apply to future events, which are subject to risks and uncertainties, as well as other factors that could cause the actual results to differ materially from where we are today. These factors are outlined in the news release, as well as with documents filed by the company with the Securities and Exchange Commission. You can find those on our website, where we regularly post information about the company, as well as on the SEC's website at sec.gov. We undertake no obligation to publicly update or correct any of the forward-looking statements contained in this call, whether a result of new information, future events or otherwise, except as required by law. Please review our forward-looking statements in conjunction with these precautionary factors.

I would like to point out as well that, during today's call, we'll discuss certain non-GAAP measures which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP to comparable GAAP measures in the tables accompanying the earnings release.

With that, I'll turn the call over to Lee to begin.

Lee Rudow: Okay. Thank you, Craig. Good morning, everyone. Thank you for joining us on the call today. We'll follow the same format as we have in the past. I'll provide an overview for the quarter; and then, Mike will provide a more in-depth review of the financials before I wrap things up with an outlook for Q4 and fiscal 2020, which is right around the corner.

The third quarter was interesting in that, from a financial perspective, we started off slow in October and November, but finished strong in December. In addition, it appears January indicators are right where we want them to be; and so, we're off to a strong start in the fourth quarter.

There were a couple of factors impacting the softer than expected October and November that include productivity and a soft Canadian market, which I'll address in a moment, and it's worth mentioning the timing of the Christmas week.

Let's start with our technical labor force. Year-to-date in fiscal 2019, we hired a record number of new technicians to support growth in our Service segment. Many of the new hires were made to support traditional growth and a fair number were hired to support an unusually high level of large in-house labs that were recently outsourced to Transcat. That's really good news., but it does create a short-term timing challenge as the large number of new technicians have to be hired, on-boarded, trained and worked through the system.

In the early part of the prior year, fiscal 2018, we experienced a similar new hire productivity lag that quickly reversed itself in the following quarter or two. We expect the same thing to happen as we progress through the fourth quarter and into next fiscal year. In fact, even in the latter part of the third

quarter, we experienced notable improvements in productivity as new technicians became more efficient and work at a couple of the new larger client-based outsource labs commenced.

In addition, and as I mentioned a few moments ago, due to how our fiscal year works, this year the holidays occurred in the third quarter as opposed to last year when the holidays fell in the fourth quarter. The net effect was two less business days in the quarter. This is something we contend with and move on from, but it's helpful to know when comparing year-over-year performance and productivity.

Let’s move on to Service revenue growth in the third quarter. Our value proposition continues to resonate well and we continue to leverage our value-added Distribution business to drive Service growth. We generated more than 9% growth in our Service segment, which included incremental business from Angel's Instrumentation, which we acquired in the second quarter of fiscal 2019.

The U.S. generated almost 7% organic Service growth, offsetting soft results in Canada, which was down 3.6% versus prior year. The decline in the Canadian revenue was a result of a combination of factors, including challenging macros, tariffs and unsettling noise around trade agreements. The positive news in Canada was, for the most part, we maintained our strong customer base. What we experienced was a decline in the volume from a number of our existing customers and, in time, we would expect that to recover. Consolidated organic growth between Canada and the U.S. is 5.2%.

Moving on to Distribution, the segment continues to deliver on our stated goals of generating strong gross profit performance, differentiation in the market and leverage to drive Service revenue growth. It's important to point out that the prior year third quarter was very strong as we benefited from pent-up demand due to last year's hurricane impact. Still, even with the tough comps, in our present third quarter, we exceeded prior year gross profit, both in dollars and percent.

Rental sales increased 17% to $1.2 million in the quarter and contributed to a favorable mix that aided the margin expansion. Another contributor of the margin expansion was our pricing optimization initiative, an early by-product of our operational excellence program. In the quarter, gross margin expanded 180 basis points to 24.8%, and operating margin expanded 160 basis points to 8.9%.

So, with that, I'll turn things over to Mike to discuss the third quarter results in more detail; and then, I'll come back and talk to our outlook.

Michael Tschiderer: Thanks, Lee, and good morning, everyone. I'll start on slide 4 of the deck, where we provide some detail for our revenue for the third quarter and for the trailing 12-month period that ended December 29, 2018. As a reminder, our full fiscal year 2019 ends on March 30, 2019.

Consolidated revenue for the quarter was up 1% to $40.9 million, which is a record for third quarter revenue. We acquired Angel's Instrumentation on August 31, which was in our second quarter, so our reported results include a full quarter of that acquisition. Angel's contributed approximately $1 million of revenue in the quarter. The financial results for Angel's were in line with our expectations, and we're happy with their performance and the integration process to date.

As Lee mentioned, it's hard to definitively calculate the impact, but the Christmas holiday did fall in our third quarter this year as our quarters end on the last Saturday of a given month. Last year, Christmas happened to fall in the fourth quarter. Also as a reminder, our fourth quarter this year will have 13 weeks, while last year's fourth quarter had 14 weeks. That's why full year fiscal 2019 has 52 weeks, while last fiscal year had 53 weeks.

Service segment revenue did grow 9.2% to $20.5 million, with organic growth of 5.2% when excluding Angel's. This organic growth rate is towards the lower end of our expected range of mid- to high-single digits and was largely due to the softness in Canada, which appears to be macro related and especially so in the aerospace and defense sector there.

Breaking it down further, in the U.S., we had solid revenue growth of 6.9%, while Canada contracted 3.6%. The early read into the fourth quarter gives us confidence that we can achieve our organic revenue growth goals for the full fiscal year.

In the Distribution segment, our comps were tough as last year's third quarter was a very strong quarter for Distribution as we benefited from the hurricane recoveries. Distribution sales for fiscal 2018's third quarter were 6.7% higher than fiscal 2017's third quarter. This fiscal year's third quarter Distribution revenue declined 6.2% to $20.4 million, but the decrease was largely due to lower levels of non-core reseller sales, and we had more gross profit and higher gross margin than the prior year despite the 6.2% top line decrease. As we have discussed in the past, the focus is on improving gross margin by focusing on the higher margin opportunities, such as rentals, which did increase 17% in the quarter to $1.2 million.

Consolidated gross margin contracted 60 basis points and was negatively impacted by Canada soft results, by the Service mix changes, by short-term productivity issues due to the large number of new tech staff hires, and probably, to some extent, by the timing of the Christmas holiday this year. Total operating expenses were up very slightly to $7.2 million, reflecting our continued investment in infrastructure for the long term and our operational excellence initiatives.

Moving on to slide 5, consolidated operating income declined slightly to $2.4 million and operating margin contracted 70 basis points to 5.9%. Service operating income and margin was $0.6 million and 2.8%, respectively, not strong numbers as the gross profit shortfall in the Canadian business softness previously described fell to the operating income line. Distribution operating income increased 14% to $1.8 million and the segment margin expanded 160 basis points to 8.9%, solid Distribution numbers.

Slide 6 shows net income on a trailing 12-month and a quarterly basis. While we saw a slight dip for the quarter, we believe we are still well on our way to achieving record earnings for fiscal 2019. The effective tax rate this quarter was higher at 25.3% compared with 21.9% in the third quarter of last fiscal year, but the prior year was positively impacted by the reduction of certain deferred tax liabilities previously recorded as provided for in the U.S. Tax Act, which was effective in December 2017, right before the end of our prior year third quarter. Our expected income tax rate for full fiscal year 2019 has been lowered slightly to be in the range of 24% to 25%. That rate includes U.S. Federal, various state and Canadian income taxes.

On slide 7, we show adjusted EBITDA and adjusted EBITDA margin. Among other measures, we use adjusted EBITDA, which is a non-GAAP measure, to gauge the performance of our segments, because we believe it is a good measure of our operating performance and is used by investors and others to evaluate and compare performance of core operations from period to period. I encourage you to look at the supplemental slides that provide a reconciliation of adjusted EBITDA to the closest GAAP measures, which for us are operating income and net income.

On a consolidated basis, quarterly adjusted EBITDA was down slightly to $4.4 million, while adjusted EBITDA margin contracted 20 basis points to 10.7%. This reflects the solid Distribution performance, which was offset by the Service shortfall; however, we believe our full year 2019 bottom line profitability levels will be solid, albeit muted in year-over-year comparisons by the 53 weeks in the prior year numbers.

Slide 8 provides detail on our balance sheet and cash flow. In December, we amended our credit facility agreement and replaced our previous $15 million term loan that had a current balance of $12.5 million with a new $15 million term loan that has a 4.15% fixed interest rate through the new maturity date of December 2025. The previous term loan had a variable interest rate. The excess funds of the new term loan were used to repay amounts outstanding under the revolving credit facility. The revolving line of credit piece of our credit facility still has a variable interest rate, which has ranged from 3.2% to 3.8% during fiscal year 2019. We believe our new debt structure prudently manages interest rate change risk.

At the end of the third quarter, we had a total debt of $24.6 million outstanding, with $20.4 million available under our revolving credit facility. Debt levels are up $1.7 million since the end of fiscal 2018, primarily due to the cash used for the Angel's acquisition. The leverage ratio at the end of our third quarter was 1.30:1. We calculate this leverage ratio as the total debt and the balance sheet at period end divided by the trailing 12 months adjusted EBITDA. The trailing 12 months of pro forma EBITDA of acquired companies is used in the leverage ratio calculation as provided for in the revolving credit facility. Other companies may calculate such a leverage metric differently.

Year-to-date cash from operations increased nearly 25% to $7.2 million, which was used in part for the acquisition of Angel's, to fund our growth-focused investments and to drive operational excellence initiatives.

Year-to-date, capital expenditures were $5.5 million and primarily focused on customer-driven expansion of Service segment capabilities and acquiring assets through our growing rental business. Our anticipated capital expenditure plan for fiscal 2019 has been refined down to the $7.2 million to $7.4 million range. Our pipeline of acquisition candidates remain strong and we have adequate liquidity to act on any opportunities and investments that meet our stated strategic criteria.

On slide 9, we provide a breakdown of the various focus areas for CapEx spend expected for our full fiscal year 2019. And lastly, we expect to timely file our Form 10-Q after the market closes today.

With that, I'll turn it back to you, Lee.

Lee Rudow: Thank you, Mike. While the third quarter presented some challenges around productivity and a soft Canadian market, it did not change our long view on Transcat. We remain confident in our direction and how well positioned we are to capitalize on future growth opportunities. For the fourth quarter of fiscal 2019, we expect favorable quarter-over-quarter comparisons, when excluding the extra week from last year's fourth quarter.

For the full fiscal 2019, we expect record consolidated revenue and earnings. I also want to mention that, this past week, we launched a new state-of-the-art website that drives Transcat closer to the cutting edge of digital commerce. The site is faster, mobile and self-service-friendly and is expected to drive an increase in conversion rates and overall customer satisfaction. Best of all, the site further connects the dots between our combined business and business segments.

I'll conclude with the reiteration of our goal to drive double-digit Service growth via a combination of organic growth and acquisitions. And as I mentioned earlier, we expect to see improved productivity both in the short term as new technicians progress along the learning curve and, in the longer term, as we drive process improvement, automation and pricing optimization into our Service organization. Improved Service productivity and margins and double-digit Service growth are at the heart of our strategy. Combined with a continued solid performance in the value-added Distribution segment, we're more excited than ever as we look at the road ahead.

So, with that, operator, we can open the lines for questions.

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Matt Koranda with ROTH Capital Partners. Please proceed with your question.

Matt Koranda: Good morning.

Lee Rudow: Good morning, Matt.

Matt Koranda: I just wanted to start out with the commentary, I think, that you mentioned off the top that you were encouraged by your preliminary look at January. I just wanted to see if you could give a little more detail on where, specifically, you're seeing signs of strength that were in the commentary. Is it more

on the Service or Distribution side? And maybe dig in a little bit in terms of end market demand on the Service side.

Lee Rudow: So, Matt, relative to what we see in January, we're seeing strength in both operating segments, so that's good news. We're seeing a pickup in productivity, which is a problem that we had earlier in third quarter that I alluded to. We're starting to see some efficiency work its way through with some of our new technicians. But I think probably the most encouraging part of the uptick is the volume of quotes and orders on both segments, and I think we would expect, seeing the early indicators, that this is going to continue. We're almost halfway through the quarter at this point and there are no letups, so we're encouraged by that; and again, it crosses both segments.

Matt Koranda: Okay, that's great. And then, why the bifurcation in the U.S. and Canadian markets this quarter in particular? I mean, trade issues and tariff sabre-rattling has been going on for almost, it feels like, the better part of a year now. Why do you think it's kicked in and you felt the impacts in terms of the organic growth in Canada most acutely this past quarter.

Lee Rudow: We've experienced some softness in Canada really for the whole year. If you go back to Q1 and Q2, it wasn't to the degree that we saw it in the third quarter, but it was still sort of soft or flattened. And to that point, it really even goes back to Q4 of last year, so for about the last year or so, Canada has had some softness in revenue. Now, retention rates are very high, and as I mentioned in the earnings call script, it tends to be more volume based than customer based, which is a good sign for an ultimate recovery.

But I think what we saw in Q3 was just a more drastic trend than we have seen in the previous quarters, but this has been going on for about a year. I don't have a clear indication on when that's going to end, but we are encouraged that Canada too has gotten off to a good start in the fourth quarter. It's too early to tell, but I just think that the third quarter was a little bit more intense in terms of what we saw in terms of decline than previous.

Michael Tschiderer: I'd just like to add a couple of things, Matt. In Canada, I think there's a larger shockwave from some of the GM plant closing activities that were announced this quarter and the layoffs there just impact Canada on a percentage basis, probably more than the U.S. as far as head count. And remember, Canada has a larger aerospace and defense concentration than we do in the U.S. We've started to move to some life sciences with Dispersion, the company that we bought a few years ago in Canada. So we were able to fight our way out of it with some of the new wins that we've had in the U.S., primarily life science, especially some of these client-based labs, these larger wins that Lee alluded to that were won. So, that mix is a little bit different and I think there's more of that impact in the aerospace in Canada than we're feeling in the U.S. because of that mix.

Matt Koranda: Okay. That makes sense. And then, in terms of the Service margins, I wanted to see if we could either quantify things or at least give some directional commentary on how much of a drag was the staffing up of on-site technicians versus the normal expansion of techs to support your traditional growth? I know you called out both of those as factors that might have caused some of the drag that we saw in the Service margins. I want to see if you could break those out.

Lee Rudow: Sure, to a degree that I can. We probably had in the range year-to-date of about 65 to 70 new technicians, and that's a big number for us, which I alluded to earlier. Probably about 15% or 20% of that is for some of these larger outsourced type opportunities. What makes that a little bit different is, you have to hire these folks in advance of the contract starting, so you can get them on-board and train them on our systems. Sometimes we get the staff from the customers when they're outsourcing and sometimes we have to go outside of that and recruit, but either way, we have a month or two of costs in advance of any revenue that's generated. That's a certain type of drag related to productivity on those large accounts.

Of the 65 to 70 new technicians, roughly a little more than half are just traditional technicians, and some of that is to support growth. We've had our normal attrition rates, nothing that catches your eye in terms of attrition, but the combination of new techs in general and to support that growth, that's a high number. And so, if you look back on what happened last year, you really do see a productivity pickup, typically a quarter or two after they're on-board; and then, it even ramps up from there.

So independent of anything we're working on in terms of automation or process improvement, you're going to just see that time is going to help these folks, both on the large jobs and on the traditional end. The only difference between them, from a financial impact perspective, is these large jobs incur costs a month or two before the job commences.

Matt Koranda: Okay. That's helpful.

Lee Rudow: Did that add some color for you, Matt?

Matt Koranda: Yeah. That definitely helps a lot. And then, in terms of the pathway to getting back toward those normalized segment EBITDA margins in Service, the low double digits, what levers do we have to pull in the near term and how quickly do we get back there? Do we have a quarter or two where we sort of track toward that or do they snap back pretty quickly toward the more normalized levels next quarter?

Michael Tschiderer: You're talking about the revenue growth in the mid- to high-single digits, Matt, or are we talking op margins?

Matt Koranda: No. I'm talking about the Service EBITDA margins. They were relatively depressed this quarter. How quickly do we snap back to the more normalized low teens EBITDA margins in Service?

Lee Rudow: Remember, fourth quarter is our most impactful quarter, so, typically, you're going to see a volume increase, which is ultimately going to work its way through. Some of it is volume-based, so you'll see that in the fourth quarter, no doubt about it. You'll also see a pickup in productivity in the fourth quarter versus the third quarter and even the second quarter, so we have two things going for us entering this quarter.

Over the longer term, you'll get to a point where we should be at our normalized productivity. This is not what you saw in the third quarter, but you should see in the fourth quarter. Beyond that, the improvement you're going to see will be based on some impetus, some change that we make in the organization, and that's all the things that we're working on relative to optimizing our process, automation, functionality in our software. All of these things are, over a longer period of time, what's going to drive it above our normalized level. So, I think I would look for the normalized levels in Q4, based upon all the things we stated.

Michael Tschiderer: And I think a big piece of that is these larger client-based opportunities that we happened to have a large win rate recently. What's great about these is, once you incur the cost and the project starts, it's a very sticky business, so it will impact the fourth quarter as well as next year, too, but we felt the pain with the hiring and the start-up in the third quarter.

And I think you have all of those other ones, Lee, that I was just going to mention, too, the productivity as the staff that have been here for another three months; that will have an impact. Some of the tools are very close. Some of them we're actually seeing in beta now, and we're able to use some of the productivity metrics to help us run the business on a daily basis. These are things we've talked about in the past, but actually, some of them now are in that beta test, and that will impact the short term and will certainly impact fiscal 2020 too.

Matt Koranda: Great. I assume then that the quarter results don't really show the full impact of those new onsite contracts that you won. I think, Mike, you're alluding to seeing those ramp over the next couple of quarters. Is there any way to think about how those impact core growth in the Service segment? Should we be bumping up our expectations in terms of the organic growth rate in the next couple of quarters as those come online, or are those just part of the normal mid- to high-single digits that you typically talk about?

Michael Tschiderer: I think it's a little higher than what normally we've built into the higher range of that single digits, Matt. I have to just caution everybody again, when you're looking at last year, you have to remember it's 53 weeks versus 52 weeks, so you're going to have to, in modeling, somehow normalize one way or the other, because we have to make up for that extra week when you're comparing year-over-year.

So, my long answer is, I think some of the growth and some of the wins that we've had would be built into that normal rate that we should be able to get to the higher part of our range. It would be nice if Canada has a little bit of recovery too, and the productivity needs to recover as we're anticipating that it will.

Matt Koranda: Okay. Last one and then I'll leave it to someone else here. I noticed that you said you were starting to deploy some of the pricing analytics and optimization that has been helping your Distribution margins to drive better margins in Service. So, is there a way to provide an example or two of how that actually works in the Service segment at the ground level?

Lee Rudow: At a high level, I will say it is a similar platform that we're going to be employing, and it really helps control margins particularly on the transactional side of our business. So we have three buckets. You have the transactional business, which, let's say, is everything around $10,000 a year or under. These are people who eventually will be more automated through our website in terms of price quoting; all that will be automated, taking our sales out of people's hands.

Then, we have the $20,000 to $120,000, on an annual basis. The pricing optimization will also help that group. So, it's a set of guidelines. It's a set of features that really understand and help interpret what's going on in the market and what our ultimate price should be. And it's all put into a schematic, with the ultimate goal of expanding margins.

Once you get above the $120,000 a year, some of the larger accounts, it probably has less effect there, because we go through modeling with every one of those accounts, with a different threshold for review.

So I would say anything under $120,000 a year, which represents roughly 70% of our business - don't hold me to that number, but it's around there - that's the group of customers that are going to be potentially impacted in a positive way from some of these new tools we're putting in place.

Matt Koranda: Okay. Very helpful. I'll jump back in queue. Thank you.

Michael Tschiderer: Thanks, Matt.

Lee Rudow: All right, Matt. Thanks.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Dick Ryan with Dougherty & Company. Please proceed with your question.

Dick Ryan: Thank you. So, Lee, can you give us some perspective on Canada? I think you have three centers up there. What percent of Service revenue do those Canadian centers represent?

Lee Rudow: In total, you're in the 10% range for Canadian sales as a percentage of our overall Service sales.

Dick Ryan: Okay. And did you say that's mostly aerospace and defense related?

Lee Rudow: In Montreal, the bulk of our business, based on the acquisition we made years ago, is aerospace, primarily aerospace and defense. As you go into Toronto, you're going to see more general purpose, general manufacturing, but you're also going to see some aerospace and defense.

And to the point that Mike made earlier, if you just take the last 12 months, there's no question that 80% or some high percentage of our growth has been within the life sciences segment, because that's where we're concentrating.

So, our overall plan in Canada in the last couple of years has been to shift to our specialty, which is life science. It doesn't mean we ignore aerospace and we're certainly capable of servicing that market, but

we want to do some sort of a pivot in Canada to life science, so it reflects and mirrors what we do in the U.S., because of the success we've had here.

Michael Tschiderer: And our life science company, Dispersion, is Montreal-based, so geographically, there would be more of the impact in Montreal versus Toronto, which is more general purpose.

Lee Rudow: Correct.

Dick Ryan: Okay. Great. So, on the large customer labs, are you seeing wins expanding applications within existing labs that you already control or are these new wins altogether?

Lee Rudow: On the large side of the outsourcing opportunities that we've won, these are all new, and they're predominantly in life science, but not exclusively. I would say the bulk of them will be in life science, and our sales staff is certainly attuned to selling to these in-house labs, but the success we've had in this past year, and you'll see some of it play out in future quarters, could be a by-product of the economy, hard-to-find technicians and some of the struggles and challenges that these in-house labs have. It's not their specialty, it's not their core competency, so it is a new opportunity that's really good for our company. We've mentioned in the past how well positioned we are as a company to capitalize on these sorts of shifts in the market, and I think that's to be noted, because we were really well positioned once these opportunities presented themselves. That's a good thing for Transcat.

Dick Ryan: Can you give us a rough count of how many in-house labs you're now running?

Lee Rudow: I would say probably in the 15 to 20 range.

Michael Tschiderer: Yeah, that's the exact number. Normally, we pick up maybe one a year. We never lose them, because they're very sticky. Once they transfer and move to us, it's very hard for them to go back. They use our software and we have the technicians now on our payroll, but there has been a move, maybe it's labor market related or maybe it is just other circumstances, but we picked up more than one in this past 90-day period for sure.

Dick Ryan: And how's the margin on that business?

Lee Rudow: It depends. Overall, the margins, on an incremental basis, because the volume is a little bit lower, tend to run anywhere from 25% to 35%, depending on the account. Like Mike said, you're locked in for the future and you get embedded very quickly versus more of an incremental tech margin on a product that reaches one of our depot labs, which could be 50% or higher. So, it all gets blended together, but it's on the lower end. I would also add that, in this past year, and there have been several leads that had been won, they've been at a little bit higher margin than we typically see in these types of large accounts. That's been strategic for us. We have tried to drive that through a variety of tactics when dealing with these larger customers.

Dick Ryan: Okay. So you mentioned the tight labor market and that you haven't really seen attrition, but have you had to pay more to keep what you have or attract new or how's that dynamic?

Lee Rudow: Yes, we have seen attrition, but the attrition is within the normal percentage of what we'd typically see on any given year. I didn't want you to come away with the idea that we don't have any attrition, because we do have some. It was not material enough to necessarily bring up, but since you asked the question, in the last quarter or two, we are seeing some escalation in price in the cost of our labor to maintain our quality workforce. If all things work out the way we intend, we'll get that into our pricing over time. Some of these deals are under contract for a period of a year or two years and you have to wait sometimes to get the escalation in price, but we do have annual price increases that, in the end, at least theoretically, should cover the majority of the increases there in our labor force. But, the short answer is, yes, we are seeing an escalation in wages.

Dick Ryan: Okay. Great. Thank you.

Michael Tschiderer: Thanks, Dick.

Operator: Thank you. We have reached the end of our question-and-answer session. I would like to turn the call back over to management for any closing remarks.

Lee Rudow: Okay. Well, thank you all for joining us on the call today. We appreciate your continued interest in Transcat. I did want to announce that, for those of you on the West Coast, we'll be participating at the ROTH Conference in Dana Point, California on March 18, so if you're attending the conference, feel free to check in with us. Otherwise, feel free to call Mike or me at any time. We look forward to talking with you all again after the closing of our fourth quarter. So, take care and thanks for joining.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.