

Operator: Greetings and welcome to the Transcat, Inc. Third Quarter Fiscal Year 2015 Financial Results conference call. A brief question and answer session will follow the formal presentation. At this time, all participants are in a listen-only mode. If anyone should require Operator assistance during the conference, please push star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, with Investor Relations for Transcat. Thank you, Deborah; you may begin.

Deborah Pawlowski: Thank you Adam and good morning everyone. I want to thank you for your time and your interest in Transcat. On the call with me are President and Chief Executive Officer Lee Rudow and our Chief Financial Officer John Zimmer. After formal remarks, we will open the call for questions. If you don't have the news release that crossed the wires after market yesterday, it can be found on our website at www.transcat.com.

There are also slides that accompany today's discussion which you can find at the same location on the website. If you would, please refer to Slide 2. This is the Safe Harbor statement, because as you are aware, we may make forward-looking statements during the formal presentation and the 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 actual results to differ materially from where we are today. These factors are outlined in the news release as well as 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. Please review our forward-looking statements in conjunction with these precautionary factors.

With that, I'd like to turn the call over to Lee to begin the discussion. Lee?

Lee Rudow: Okay, thanks Deb. Good morning everyone. Thanks for joining the call. Let me start by saying that generally speaking, Q3 was a solid quarter, particularly as it relates to our Service business where we continued our top line growth trend. We tripled our year-over-year Service operating income, which is consistent with the message that we try to convey, and our Distribution segment continued to generate significant cash, which we use to foster the growth of our overall business and our execute our strategic plan.

Before John walks through some of the financial data, let me take a couple of minutes and highlight some of the third quarter developments. We are about three months removed from the Ulrich Metrology acquisition in Montreal, Canada, and the early read has been very positive. As we anticipated, Ulrich is delivering expanded capabilities with strong leadership in the region. Shortly after the acquisition was completed in Q3, we signed a very significant deal with a major manufacturer in Montreal. When we acquire companies, we often combine our resources right out of the gate and commonly we experience the one-plus-one equals three scenario. That is what took place in the early days of the integration of Ulrich. In addition, we continue to work the acquisition pipeline. We expect to continue to make deals that fit our strategic plan. The drivers are the same. The expansion of our geographic footprint is important. We look to expand capabilities and always expertise within the industry.

We are still the only company that we're aware of that is making acquisitions in the life science and healthcare space. We remain very well capitalized and the biggest differentiator of all, on the acquisition front, is that we have the leadership in place today that can recognize good opportunities, negotiate deals, and effectively integrate the opportunities that we acquire. On the acquisition front, we think we are very well positioned and will continue to be very well positioned moving forward.

Shifting over to the organic Service front, our new C3 Metrology and Asset Management Software is off to a good start, and continues to be very well received, showing strong early adoption rates. As a reminder, the idea behind the software is to become more embedded, to become more intimate with our large customers and that's exactly what we're doing. The idea is also to foster enterprise level growth opportunities as we look to sell our services to larger companies. The C3 Metrology Software we developed is a key differentiator for us. For those of you who may be interested in looking at the software, there is a link on our website that takes you to the C3 Software overview.

In addition, during the quarter, we relocated our LA lab about 30 minutes from its former location. This new facility is state-of-the-art. It allows us to have the expanded capacity and capabilities we need. It is located in the heart of what we consider the Southern California life science cluster. With this new lab we expect to be more competitive in that region than we have been in the past.

Finally, during the quarter in the Service segment, we made significant progress selling into our expanded addressable services. We closed two nice size organic deals in the analytical space servicing guest chromatographs, dissolution and HPLCs. These are services that we acquired when we made the Anacor deal a couple of years ago. It's good to see big wins in that relatively new space for us. Overall, our organic service pipeline is strong as we head into Fiscal '16.

Let me take a minute before John gets started and move to Distribution. We're engaged now in some new interesting activities. As many of you know, the instrument market has been soft for the last several years. There's been downward pressure on margins, but when we look back on our performance throughout, we think Transcat has performed pretty well in that kind of a market. Back in Q2, in November, we launched our brand new website that we worked on for at least six months prior to the launch. This new platform puts us in a position to do some unique things that we have not been able to do in the past. First off, we are piloting a new program. We call it an instrument rental program. We have been pretty impressed with the early results and it has gained some early traction right out of the gate. This isn't a business that we think is going to move the top line needle, but it does have outstanding intrinsic margins and we will keep you posted as we move forward and continue to develop the business.

In addition to the new web platform, we're also going to launch a new SKU expansion project. We are looking to add thousands of new items to our website that we've been unable to add in the past in an efficient way. That initiative, combined with the rentals, should create some momentum. We expect both of these programs to provide some offset on the margin pressure that we've been experiencing.

The real story behind Distribution in Fiscal '15 however is about rebates. We are down \$1.4 million year-over-year when it comes to rebates, and we'll continue to fight this significant headwind through our fourth quarter. The good news is that that challenge will end with Fiscal '15. We will not have a rebate issue in Fiscal '16 as it will be behind us. We are looking forward to that.

We have new programs on the Distribution front and we'll fight through the rebate. We feel we are doing the right things that are going to maximize the impact from Distribution and we expect that the significant cash generation of the past will continue into the future.

With that, John, I'll turn it over to you and we can walk through some of our performance data.

John Zimmer: Thanks, Lee, and good morning everyone. Slide 4 is an overview of the quarter and the important advances we have made so far this year that will help drive our growth. Our Service segment continues to deliver excellent results while our Distribution segment provides solid cash generation for investments that support our organic and acquisition growth strategies.

Looking at Slide 5, we continued our trend of top line growth, posting record third quarter results on a consolidated basis and record third quarter Service segment revenue. We achieved \$12.6 million in Service revenue, a 9.4% increase, driven by a combination of organic and acquired growth. This marks our 23rd consecutive quarter of year-over-year Service segment revenue growth.

The Distribution segment saw a \$500,000, or 2.9% decrease in sales. While the market in this segment remains highly competitive, we're executing multiple strategies to maintain and grow our market position.

Moving on to Slide 6, as we have seen in previous quarters, our Service segment delivered strong gross profit and operating margins. Gross margin for this segment improved 110 basis points to 24.5% while operating income tripled to \$600,000 with the operating margin expanding 320 basis points to 4.5%.

Distribution gross profit was down \$500,000 to \$3.9 million with gross margin declining to 21.2% from 23.4%. As Lee mentioned, the gross margin was primarily impacted by lower vendor rebates compared with the prior year period, which accounted for 190 basis points of the 220 basis point decline. We expect a negative impact to Distribution segment gross margin from vendor rebates in the range of 200 to 300 basis points in the fourth quarter.

On a consolidated basis, our operating income in the third quarter was \$1.4 million, up 2.6% from the prior year's third quarter.

We will now move on to Slides 7 and 8 where we look at both contribution margin and Adjusted EBITDA to gauge our performance. Contribution margin by segment excludes corporate expenses and focuses on the operating performance of the segment. We use Adjusted EBITDA because we believe it is a good measure of operating cash flow for each segment. These are non-GAAP measures so please review our reconciliations and related disclosures in our release and at the end of these slides.

On Slide 7 for the quarter, consolidated contribution margin was \$3.4 million compared with \$3.5 million in the prior year period. For the Service and Distribution segments, contribution margin was \$1.5 million and \$1.9 million, respectively, or 12% and 11% of revenue for each segment, respectively.

On Slide 8, consolidated Adjusted EBITDA was \$2.4 million compared with \$2.2 million, or a 5.8% increase, over the third quarter of Fiscal 2014. The Service segment achieved Adjusted EBITDA growth of \$500,000 or 69% over the prior year period. On a trailing 12-month basis, Service segment Adjusted EBITDA increased 22% over the comparable period in Fiscal 2014, and since Fiscal 2011 that segment has achieved a 34% compound annual growth rate.

Onto Slide 9, our third quarter net income was consistent with the prior year period at \$800,000 or \$0.11 per diluted share. Our net income compound annual growth rate since Fiscal 2011 is nearly 9%.

Slide 10 provides detail regarding the strength of our balance sheet. As of the end of the third quarter of Fiscal 2015, we have \$14.8 million in long-term debt. The Ulrich Metrology acquisition which Lee mentioned used \$6.7 million of borrowings available for acquisitions, leaving \$8.3 million available for acquisitions for the remainder of the fiscal year.

Our year-to-date cap ex was \$2.7 million and focused primarily on additional service capabilities and information technology, including C3 and our new website, which Lee discussed earlier. We expect full Fiscal Year 2015 cap ex to be approximately \$3.5 million.

Slide 11 is an illustration of key investments and the impact to debt on a trailing 12-month basis which demonstrates that we are generating cash to fund day-to-day operations and continue to make investments necessary to fund future growth. We believe that our balance sheet structure offers the

financial flexibility to facilitate our acquisition strategy and satisfy working capital requirements and capital expenditure needs.

Lastly, Slide 12 summarizes the key points we have discussed today.

That concludes my remarks. Operator, we can now open the line for questions.

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please push star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may push star, two, if you would like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star keys. One moment while we poll for questions.

Our first question comes from the line of Andrew Fleming with Heartland Advisors. Please go ahead with your question.

Andrew Fleming: Hey, good morning Lee and John. Congrats on a solid quarter, especially in the Service side of the business.

Lee Rudow: Thanks Andy.

John Zimmer: Hey, thanks Andy.

Andrew Fleming: I'm trying to get a better understanding of the gross profit margin profile and the Distribution side as we move into Fiscal '16. Should we expect the gross profit margin to revert back to 2014-type margins, or the 21 to 22% that we've seen in this fiscal year?

Lee Rudow: Right.

Andrew Fleming: Is that a good run rate to think of going forward?

John Zimmer: Yes, I think it's more accurate to say that'll be the run rate to pick up going forward. We anticipate continued pressure on the margins. To what exact degree it's hard to completely determine, but we're going into the year thinking the run rate will continue, that there will be some marginal pressure. That's why we're doing some different activities to try to offset that pressure. Now, if that doesn't happen, that's fantastic; if there's some stabilization in the margins that would be great for the business, but we'll go in with the assumption that margin pressure will continue. Most of it is Internet-based, increased competition, but obviously at some point there's a bottom. People have to make money. Have we reached it? We don't know, but best to prepare for it to decline a bit and the pressure to continue and offset it with some good programs and that's what we're doing.

Lee Rudow: Yes, and from a rebate perspective, while we don't expect it to decline, there may be some small upside next year. I don't think we should expect to see it rebounding to the level that it was last year.

Andrew Fleming: Okay, so more of the same.

John Zimmer: Or to this year.

Andrew Fleming: Okay, that sounds good. Regarding the Service gross profit margins, obviously there has been great improvement year-over-year, but I'm trying to understand from quarter to quarter, from the

second quarter to the third quarter, did this third quarter have a larger percentage of outsourced Service revenue?

John Zimmer: Not particularly. Every quarter is a little bit different and the mix of work that we did was different from the second quarter to the third quarter. The work that we did this year in the third quarter, other than new business, would be similar to what we did last year in the third quarter and that's why it's more relevant, it's more of a mix. Sometimes the type of work that we do for a particular company, whether it's a big on-site or another might be at a lower margin in the third quarter than the work that we did for a different customer in the second quarter. Those margins are going to fluctuate from quarter to quarter, but that's why we look at it year-over-year for the same quarter.

Andrew Fleming: Okay, great. With the Ulrich transition now being fully integrated, what percentage of annualized revenue for the Company as a whole is from Canada at this point?

Lee Rudow: Just Distribution, or Distribution and Service as well?

Andrew Fleming: Just total revenue.

John Zimmer: I think on the Service side of the business, our Canadian revenue is, in Canadian dollars, somewhere between \$9 million and \$10 million, roughly. On the Distribution side, it fluctuates on an annual basis, but it's in the \$4 million to \$5 million range.

Andrew Fleming: Okay, great. Then as we move into Fiscal '16 on the Service side, we still think that 10% growth with the 50% incrementals should be the way to think about things going forward?

Lee Rudow: Yes, I think our revenue, as always, we haven't changed our plan, will be a blend of organic activity and acquired activity, and we would absolutely look to see revenues grow in the double digits, so, you're on target with that.

Andrew Fleming: That's great to see. Well, keep up the good work. If that comes to fruition we should be at close to a mid-teens ROIC which is nice to see.

Lee Rudow: Exactly.

John Zimmer: Yes.

Operator: Thank you. Our next question comes from the line of Dave Rode with Stifel Nicolaus. Please go ahead with your question.

David Rode: Good morning fellas.

Lee Rudow: Good morning, David.

David Rode: Congrats on another record quarter and I also noticed you were listed in the Forbes 100 Best Small Companies last fall; I think that was third quarter as well.

Lee Rudow: You are correct and that's something we're particularly proud of. We didn't see that coming, and didn't know that we were being considered, but that's always good news.

David Rode: Yes. Some of my questions have already been answered. I'd like to ask one question. I know you used to post the amount of your product sales that were Internet oriented. Are you not doing that anymore? Can you disclose that number, or not?

Lee Rudow: We haven't been disclosing that number, David. It hasn't really changed much and so it wasn't really particularly interesting.

David Rode: Okay.

Lee Rudow: It's still in the low double digits and continues to be pretty consistent on that basis. I think one of the things that may be more interesting as we go forward now that we've launched our new website is that there's a settling in period. We have a new website where the spiders have to re-index so the traffic drops a little bit initially and then it starts to pick up again. I think once it settles in and is more consistent from a traffic standpoint, it might be interesting for us to provide an update, maybe in the first or second quarter next year. We are already seeing the traffic rebounding to the same levels it was at, and actually beyond where it was when we launched the new website, so our expectation is the new website will generate more traffic and more importantly the conversion rate, once somebody gets to our website, will be increased.

David Rode: Has there been any more thinking along the lines of analytics as far as marketing via the Internet yet?

Lee Rudow: You know, Dave, we think about that all the time. We have a new VP of Marketing.

David Rode: Oh.

Lee Rudow: He took the position in Q3, in fact. We have been really impressed with his aptitude, his ability, his energy level, his smarts, and when we have marketing meetings now Mike West steps to the front and sort of lays out his thoughts and his strategy. It is different atmosphere, and we're looking forward to what he's thinking and what he's going to implement. So, the analytics are becoming more and more important. With our new platform we now know who's looking at what. When they visit our website, we know how long they spend in each area of our website, what their interests are, and we have the ability to chat with them online. We have the ability to follow up quickly in a more effective way than we have in the past. From a data perspective, specifically addressing your question we are getting better analytics, and so to the degree that we can capitalize on that, our success will be accelerated.

One thing I wanted to add to what John had said is that we did some industry research and when you launch a new website and you have to go through that re-indexing process. It takes X amount of time to do that and we planned and knew that perhaps we would take one step back so that we could take two steps forward in terms of traffic. We have actually experienced a little bit of a different trend and we're recovering quicker than industry norms. We have even checked with Fluke and some of our manufacturers who went through a similar process; it took six to eight months to recover and we look like we're recovering within almost a quarter. So that's good news too, as well.

David Rode: That's great. It looks like you've got, what, \$800,000 left in cap ex for the fourth quarter here. Is that about it?

John Zimmer: Yes.

David Rode: Can you quantify at all? I know we've talked about the rebates and the effect that they've had on things can you quantify at all any EPS, or lack of, that occurred because of that in the third quarter?

John Zimmer: I don't have that number in front of me, Dave.

David Rode: Okay.

John Zimmer: But it was 190 basis points of margin, so we'd have to calculate the dollars associated with that and tax-effect it, because it really drops to the bottom line.

David Rode: Just FYI, I look back 10 years with you guys and you've really done an outstanding job. I ran some numbers. Your shareholders' equity in the last 10 years quarter-over-quarter is 773% increase.

Lee Rudow: Wow.

David Rode: Your Service revenues the last 10 years have increased 201% quarter-over-quarter, and the Service revenues 10 years ago were 30%; they're now 41% of the overall picture. My question to Lee is, going forward, and we don't have to go out 10 years into the future, but, how do you want to see that mix with Service and Product sales on a long-term basis?

Lee Rudow: Longer term, Dave, there's no question that our strategy is driving us towards growing Service, at a faster rate than Distribution. We want to see Distribution grow. We want to add thousands of SKUs and expand our product line, on the Distribution side, but we're going to look to grow Service. It's got the higher margins. It's got the recurring revenue streams. The bottom line is the most important thing and Service is going to drive that. I can't look out 10 years in a crystal ball, but I can say there are a lot of companies to acquire in our space throughout the country. If we acquire the right companies, for the right reasons we will drive growth. We have a very talented leadership team in place. We've recruited some of these folks from the competition from around the country. We're well positioned to grow this Company and the strategy to grow Service faster and at a faster rate than Distribution is a good one. I would expect Distribution to grow, but it's going to be Service that's going to get us to the Promised Land and really pop the bottom line. The future looks bright and the long range plan is solid.

David Rode: In your acquisition arena and strategy to date, you've done nine acquisitions over the last seven years. Have they all been accretive?

Lee Rudow: John, you may be able to answer that because I wasn't here for all of them.

John Zimmer: Yes, I would say it's a really interesting question. I think on the surface it's sometimes hard to tell because we integrate quickly and some of those acquisitions generate organic opportunities as well as the revenue that we've acquired. You have to really look at the aggregate of what we've done and the way that we've grown, and I appreciate your pointing out the growth over the last 10 years. I can only speak for the last eight and a half years, but I think when I started we had \$19 million of Service revenue and we were losing money and now we're north of \$50 million. A lot of that came through acquisitions and we've seen the profitability and the increases in gross profit associated with that. I think in the aggregate, which is the way we really look at it because they are the one-plus-one equals three scenario, they've been accretive.

David Rode: Okay, great.

John Zimmer: We haven't had any real dogs in that group, I can tell you that.

David Rode: That's amazing. That's a good record. My last question is in the stock area. When I've looked at the filings, it seems as though you've attracted some purchasers over the last 12 months. I recognize some high-quality long-term investors, both funds and institutions. Heartland was on; I think Opus has bought; Grandeur Peak; Dalton and Punch to name a few. I have noticed presentation slides as well posted on your website. I'm assuming that's part of your Investor Relations efforts. Can you comment on your commitment and plans at all for this going forward during the next 12 months?

John Zimmer: We plan to continue to meet with investors on a quarterly basis. We'll continue to do these conference calls. This is all part of our investor outreach. We do have a plan to go to the West Coast in a couple of weeks. We're going to be there from the 9th through the 11th and if anybody who's on the call or listening to the call and is interested in meeting with us, then they should contact Deborah Pawlowski and we can set up a one-on-one meeting. We'll be in San Francisco, LA and San Diego during that time, and we plan to do that kind of trip quarterly. We will look at some conferences as appropriate. You'll probably see more of the same as what we've been doing over the last 12 months.

David Rode: Thank you.

Lee Rudow: Thanks, Dave.

John Zimmer: Thank you, David.

Operator: Thank you. Ladies and gentlemen, once again, if you would like to ask a question, please push star, one, on your telephone keypad at this time. One more moment while we poll for more questions.

Our next question comes from the line of Donald Porter with DGHM. Please go ahead with your question.

Donald Porter: Hey, good morning guys.

Lee Rudow: Hi Donald.

John Zimmer: Morning Donald.

Donald Porter: What was the organic growth rate in the quarter?

John Zimmer: We haven't been splitting out the organic growth. We integrate very quickly and we don't typically break that out and we don't plan to, because once we acquire these businesses, they become part of our network and some of the opportunities that Lee was talking about earlier are generated through that sort of one-plus-one equals three scenario where we have trouble putting it in a bucket, it's organic or acquired.

Donald Porter: Okay.

John Zimmer: It's not really meaningful to break it out.

Donald Porter: You said with the Ulrich you won a contract. Can you quantify the size of that kind of contract?

Lee Rudow: This is Lee, Donald. It's a six-figure contract, mid to low six-figure contract range.

Donald Porter: Okay. You said you expanded Service and you won two deals, what was the magnitude there?

Lee Rudow: One is mid six-figures and one is around low six-figures.

Donald Porter: Okay.

Lee Rudow: They're both significant.

Donald Porter: Okay, great. Not to beat a dead horse on the rebates thing, but is this an off year where it reverts every other year, or is it generally more competitive and so it's more difficult to get margin there?

Lee Rudow: Sure. Last year, Donald, we had a really good year with Fluke in particular, and it drove a very high growth rebate for us.

Donald Porter: Got you.

Lee Rudow: The bar gets raised. It's based on growth and so when you're coming off of a very good year, it's difficult to hit that threshold next year; possible, but sometimes difficult, and we've had that challenge this year. Coming off of this year going into next, that's absolutely not going to be the case. It's not completely cyclical and there are off years, there are anomalies in there, but generally we're coming off of a high year and that's the result.

John Zimmer: I think going forward though is that the market is very competitive and I don't think that the expectation is to see the level that we saw last year. I think no further declines but we're not expecting to see the rebound.

Donald Porter: Got you.

John Zimmer: The margin going forward may be similar to what we were seeing this fiscal year and we're also getting an increased contribution of our revenue from more a variety of manufacturers and that spreads the revenue out and I think that diversification is positive for the business in the long run.

Donald Porter: Got you, great. How is the M&A pipeline looking?

Lee Rudow: We have a decent pipeline. It's something that we work pretty hard at and we like the pipeline as it is today. We expect that it will result in future deals that fit our strategic plan.

Donald Porter: Got you. Okay, great. Thanks guys. Appreciate it.

John Zimmer: Thanks, Don.

Operator: Thank you. Our next question comes from the line of Steven Stern with Stern Investment Advisory. Please go ahead with your question.

Steven Stern: Good morning.

John Zimmer: Good morning.

Lee Rudow: Good morning, Steve.

Steven Stern: I have three quick, somewhat unrelated questions. In your release, you refer to cost discipline in Distribution and reduced expenses related to performance-based compensation. I'm curious; is that commission, sales commissions for the sales staff, or is that operating rewards for the Distribution Management?

John Zimmer: It's more of the latter. Our compensation throughout the Company is very performance-based and heavily levered that way. As we see something like a reduction in the gross profit year-over-year, that has an impact on everyone's compensation.

Steven Stern: Very good. What are some of the parameters? Is it sales growth, margin change? What are the benchmarks by which they are measured?

John Zimmer: The most important is EPS. When we talk about our Management performance-based compensation plan, EPS is the highest percentage, and there are other factors that are outlined in our proxy statement. For Management, it's based on the overall Company performance and the most heavily weighted factor is EPS, and then we also have a plan that all employees share on which is based on our success relative to our plan every year.

Steven Stern: Do you have an ESOP plan?

John Zimmer: No, we don't.

Steven Stern: Very good. My third question is, with the drastic decline in petroleum prices, what is your exposure to the refining industry, drilling or retailing?

Lee Rudow: Steve, this is Lee. Such a drastic decline is likely to impact a lot of areas in a lot of companies. I don't think there will be anything really significant on our end. We do have a certain push out of our Distribution business that sells into the pipeline industry. We are pulling our own data within the last month or so to try to gauge the potential impact. It's not really all that material. Will we have some decline in that market? Of course, but we're not concentrated on the Distribution side relative to refinement of oil and so on and so forth.

On the Service side, there's even going to be less impact. We have always talked about targeting the life science industry and that's where the bulk of our customers lie, not in the oil refining industry. We do some work at the utility level, but oil should have a minimal impact.

Steven Stern: Very good. Okay, that's it. Keep up the good work.

John Zimmer: Thanks.

Lee Rudow: Okay Steve, thanks.

Operator: Thank you. Ladies and gentlemen, there are no further questions at this time. I would now like to turn the floor back over to Management for closing remarks.

Lee Rudow: Okay, so thank you everyone for joining us on the call. We certainly appreciate your interest and support. As John mentioned, we're going to be in California February 9th through the 11th. I think we're stopping off in San Francisco, LA, San Diego, so if you're in that area you ought to contact Deb and we'll do everything we can to, accommodate a meeting. We appreciate you all being on the call.

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