VIAVID
communications simplified.

Transcat, Inc.

Second Quarter 2023 Financial Results

November 1, 2022

CORPORATE PARTICIPANTS

Tom Barbato, *Chief Financial Officer*

Lee Rudow, *President and Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Greg Palm, *Craig-Hallum*

Gerry Sweeney, *Roth Capital*

Scott Buck, *H.C. Wainwright*

Ted Jackson, *Northland Securities*

Mitra Ramgopal, *Sidoti*

PRESENTATION

Operator

Greetings and welcome to Transcat Inc's Second Quarter 2023 Financial Results.

At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tom Barbato, Chief Financial Officer. Thank you, you may begin.

Tom Barbato

Thank you, Operator, and good morning, everyone. We appreciate your time and your interest in Transcat.

With me here on the call today is our President and CEO, Lee Rudow, and our Chief Operating Officer, Mark Doheny. We will begin the call with some prepared remarks, and then we'll open up the call for questions.

Our earnings release crossed the wire after markets closed yesterday and can be found on our website, transcat.com, in the Investor Relations section.

If you would please refer to Slide 2, as you are aware, we may make forward-looking statements during the formal presentation and Q&A 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 the actual results to differ materially from where we are today. These factors are outlined in the news release as well as in the documents filed by the Company with the SEC. 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 as 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.

Additionally, during today's call we will 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've provided reconciliations of non-GAAP to compared GAAP measures in the tables accompanying the earnings release.

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

Lee Rudow

Thank you, Tom. Good morning, everyone. Thank you for joining us on the call today.

Yesterday we announced our fiscal 2023 second quarter results that included significant revenue growth, solid earnings, and strong cash generation. Consolidated revenue for the quarter was up 12% to $56 million. Service revenue grew 19% with organic Service revenue growth of 9.3%.

Consolidated gross margin expanded 70 basis points to 29.7% driven by expansion in our Distribution and Rental business margin. Distribution margin was slightly offset by a 30-basis point decline in our Service segment gross margin, primarily the result of startup costs associated with several new client-based labs and a significant number of new technicians onboarded and trained to support future Service growth.

Adjusted EBITDA grew 6% from prior year to $7.5 million in the second quarter.

Turning to a closer look at the Service segment, as expected we generated strong Service revenue growth despite macroeconomic uncertainty. We continue to benefit significantly from a value proposition targeted to service the highly regulated life science and aerospace and defense industries. Both industries, among others, inherently have a high cost of failure which makes them an ideal fit for Transcat. Our reputation for delivering consistent, reliable services and solutions remains stellar across North America.

Service gross profit in the second quarter grew 18.3%, or $11.5 million, on Service gross margin of 32.6%. Strong organic growth continues to be fostered by inherent recurring revenue streams while strategic acquisitions have increased our capabilities, adjacent markets, and expanded our geographic footprint.

Our acquisition strategy continues to outperform. Foundational to our strategy is our focus on integration so the Transcat portfolio of acquired companies become one entity over time. This allows for uniformity, consistency, and continuous process improvement for our customers, regardless of which Transcat lab or operation they're engaged with. Our focus on integration also allows Transcat to capture the anticipated synergies both from a cost and a sales perspective.

In the second quarter, we continued the successful operation of our new Transcat Calibration Training Center. The Center has turned out an impressive number of new technicians to support both our current Service organic growth as well as our new Service pipeline that includes a significant number of traditional and client-based lab opportunities. New technicians coming out of the Transcat Training Center have gotten off to a great start, and we expect they will continue to achieve higher levels of productivity as they gain experience in the field. A trained technical workforce is a critical component of our business, and we believe the new Training Center provides clear differentiation relative to our competition.

Moving on to our Distribution segment, revenue grew 2% to $21.2 million despite vendor lead times and supply chain shortages that continue to make it challenging to convert open customer orders. Order backlog is up 18% from prior year's second quarter.

Distribution growth margin expanded 140 basis points to 24.9%, and as we progress to the third quarter, Distribution demand continues to be strong.

Acquisitions are an important part of Transcat's long-term growth strategy, and we closed two deals right after the close of our second quarter. Complete Calibration, located in Cork, Ireland, is a small, but very strategic acquisition. It provides Transcat with a local calibration capability and presence to support the robust life science market in Ireland and also brings expertise in the field of calibration robotics.

Our ultimate vision is to leverage this promising robotic technology in both Ireland and throughout North America. When taken together with automation, we have the potential to drive additional differentiation, efficiency gains, and improvement in our customers' instrumentation uptime.

E2b Calibration, located in Cleveland, Ohio, specializes in calibration services related to the aviation industry. We believe that we can leverage our national footprint and infrastructure to further accelerate the growth in e2b's capabilities across the U.S. and Canada. In addition, there's an attractive life science market in the greater Cleveland area which we are now nicely positioned to capitalize on.

All in all, we are pleased with our solid performance in the second quarter of fiscal 2023. We continue to see strong levels of demand for our calibration and asset management services that support our longer-term growth objectives. Our balance sheet remains strong with a leverage ratio just over 1.8 times.

We are positioned well to effectively execute our acquisition strategy and to work through what's currently a very strong acquisition pipeline.

With that, I'll turn things over to Tom for a deeper look into our second quarter financials, and then I'll return on completion of Tom's narrative to discuss our outlook.

Tom Barbato

Thanks, Lee.

I will start on Slide 4 of the earnings deck which provides detail regarding our revenue on a consolidated basis and by segment for the second quarter.

Consolidated revenue of $56.4 million was up 12% versus the prior year driven primarily by strength in our Services segment. Services segment revenue growth remained very strong at 19.4% with 9.3% of the growth coming organically and the other roughly 10% from acquisition.

Turning to Distribution, revenue of $21.2 million was up 1.6% versus the prior year. We continue to see strong demand for our products which is reflected in our open order backlog of $9.1 million, which is up 18% versus the second quarter of the prior year.

Turning to Slide 5, our consolidated gross profit of $16.8 million was up 15% from prior year, and our gross margin expanded 70 basis points to 29.7%. Service gross margin declined 30 basis points from the prior year. As Lee mentioned earlier, this is primarily the result of startup costs associated with several new client-based labs and a significant number of new technicians onboarded and trained to support future Service growth.

The Distribution segment gross margin of 24.9% was up 140 basis points from prior year on continued strength in our Rental business and a favorable sales mix.

Turning to Slide 6, consolidated operating income of $3.6 million was up 1% from the prior year. Increases in operating income in the Distribution segment were partially offset by declines in the Services segment.

Turning to Slide 7, Q2 net income of $2.4 million decreased $700,000 from the prior year, and our diluted earnings per share of $0.31 per share were down $0.09 per share.

In comparing net income and diluted earnings per share to the second quarter of the prior year, increased interest and tax rates accounted for all of the year-over-year decline of $0.09 per share. We expect our full-year fiscal 2023 tax rate to be in the range of 22% to 24%.

Flipping to Slide 8, where we show our Adjusted EBITDA and Adjusted EBITDA margin, we use Adjusted EBITDA, which is a non-GAAP measure, to gauge the performance of our segments because we believe it is the best measure of our operating performance and ability to generate cash.

Additionally, as we continue to execute on our acquisition strategy, this metric becomes even more important to highlight as it does adjust for one-time deal-related transaction costs as well as the increased level of noncash expenses that will hit our income statement from acquisition purchase accounting.

With that in mind, consolidated Adjusted EBITDA of $7.5 million was up 6% from the prior year. As always, a reconciliation of Adjusted EBITDA to operating income and net income can be found in the supplemental section of this presentation.

Moving to Slide 9, cash flow from operations was in line with expectations for the quarter apart from strategic inventory buys that were made to counteract both vendor price increases and ongoing supply chain lead time challenges. This inventory is expected to largely sell through during the balance of the fiscal year.

Year-to-date capital expenditures through the end of the second quarter were $4.8 million compared to $3.8 million year-to-date in the prior year, continued to be centered around Service segment capabilities and technology, including automation and future growth projects.

Slide 10 highlights our strong balance sheet. At quarter end, we had total debt of $50.8 million with a leverage ratio of 1.81X. We had $36.7 million available from our revolving credit facility.

Lastly, we expect to file our 10Q later this week.

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

Lee Rudow

Thank you, Tom.

Looking forward we expect our unique differentiated value proposition to continue to drive long-term, sustainable competitive advantage for Transcat. In the short term, amidst a fair amount of economic uncertainty, we are well positioned to deliver strong performance and to demonstrate the continued resiliency of our business model. Longer term we expect a rigorous execution of our strategy to drive consistent growth in revenue, margin, cash flow, and ultimately, shareholder value.

At the heart of our strategy is strong organic Service growth. We expect organic growth in the high single-digit range for the balance of the 2023 fiscal year.

We will continue to capitalize on the strength of our acquisition pipeline as we target additional capabilities, broadening our geographic footprint, and expanding our addressable markets. We believe the combination of these acquisition drivers will increase the trajectory of our business.

Operationally, we'll continue to leverage continuous process improvement in automation to generate sustainable margin improvement over time. The team has done a terrific job driving Service margin improvement into the operation. Still, there's work to be done and we have a great plan to continue margin expansion over time.

As I mentioned earlier, Transcat's ability to perform well and grow in more moderated economic conditions has been a hallmark of our business model over the years. With the acquisition of NEXA Asset Management last year, now we have another suite of services that inherently delivers strong performance in both growing and moderated economic environments.

Our strong balance sheet, supported by healthy cash flow, has supported both organic and acquisitive growth. We expect this to continue as we make our way through the back end of 2023 fiscal year and into the future.

With that, Operator, we can open the line for questions.

Operator

Thank you. Our first question comes from the line of Greg Palm from Craig-Hallum. Please proceed with your question.

Greg Palm

Yes, thanks. Good morning, everyone, and congrats on the good results.

Lee Rudow

Good morning, Greg.

Greg Palm

I wanted to first dig into the recent acquisition activity. Maybe first, can you talk about the growth opportunity in Ireland, specifically, with the opening of the new labs? Maybe start with organic, and then from, like, an inorganic standpoint, what's the opportunity to use this maybe as a starting point to maybe expand obviously within the region, but across other countries in Europe as well.

Lee Rudow

Okay, I'll take that. This is Lee. Good question.

We look at Ireland two ways. One, we will continue to build out that lab that we acquired so that it becomes a really nice general-purpose lab. We have a lot of customers in the U.S. that also do business in Ireland, and it's our ultimate goal to be able to service them in Ireland and in the United States. We think that will be a differentiator for us and we can work on some of our efficiency programs and continued process improvement with our customers by virtue of that factor.

But with the acquisition of Complete Calibration, we also pick up some robotics expertise. It's our goal also to work one discipline at a time so that some of the robotic capability there can be brought to the United States and then ultimately help us with efficiency and margin. We've kind of got a dual play there.

As far as expanding beyond Ireland, I mean NEXA has over 40 or 50 employees in Ireland, and ultimately, they're able to provide their services really kind of throughout Europe on a project-by-project basis. In a sense, we're prepared for that today.

We don't have any imminent or immediate plans for expanding our calibration activities. We're going to really focus on getting that lab up and running in the short term. That's really our focus.

Greg Palm

Okay. Yes, that makes sense, and it kind of dovetails into my other question because the robotic technology and automation opportunity just seems so significant. Maybe help us understand how they incorporate that into everything. I'm not sure if there's any, like, efficiency metrics that you can give us, either what the margin profile is, how different it is, revenues by employee, but my guess is they're probably able to become a much more efficient organization when you incorporate that kind of technology into the business.

I don't know, anything you can expand upon that would be really helpful.

Lee Rudow

I'm not going to be able to expand much in terms of data like you've requested, but I will say that robotics in general have a couple benefits, right? It always improves the quality of the calibration versus human calibrations. Really, at the end of the day, it allows us to use more operators, if you will, versus calibration technicians. That drives the cost of labor down over time, increases the availability of labor

So, you've got a lot of benefits from quality, to labor savings, to efficiency. Even the time of doing calibration, being run 24 hours a day. These are all potential benefits, and you're right. Over time, in theory, they should have a significant impact on margins, and we would anticipate getting some of that over time. It's not going to happen overnight. It's early days and we're just beginning to understand some of the potential.

I would say, Greg, just stay tuned with respect to robotics. It's very small, almost theoretical today, but we absolutely will be driving that over the long term into our operation. That's our goal.

Greg Palm

Let me ask you maybe in a different way. I mean, is there any sort of structural reason why you couldn't incorporate at least some or all of that technology into calibration centers here in the States?

Lee Rudow

No, it's our goal to develop technology, enhance the technology that's already in Ireland, and bring it to the United States. That is our expressed goal over the next couple of years, and we will be doing that.

Greg Palm

Yes, okay. Sounds pretty interesting. I guess just last one, just a quick update on the CBLs. Any way to quantify what the impact on margins were in the quarter, how many are currently ramping up, and just any expectations for the go-forward period, too? Thanks.

Lee Rudow

Yes, we won't put a number on it, but there are—between the first quarter and the second quarter, there had been several new CBLs of a significant size that have had a somewhat material drain on short-term margins, as they always do. That's expected. Because of the lifetime value of these CBLs is very high, it's well worth the effort, so we wanted to be sure to call that out. The pipeline for CBLs is also strong, and so this is good news for us.

Coming out of the COVID environment, this is what we would expect, to pick up and carry on the momentum that we had prior to COVID. But when you do land several in one quarter, you're going to see some drag on margins that usually takes about a quarter or two to work itself through, so we're right on scheduled.

Greg Palm

Yes, makes sense. Okay, best of luck going forward. Thanks.

Lee Rudow

Okay, great. Take care.

Operator

Our next question comes from the line of Gerry Sweeney with Roth Capital. Please proceed with your question.

Gerry Sweeney

Hey, good morning, Lee, Mark, and Tom. Thanks for taking my call.

Lee Rudow

Hey, Gerry.

Gerry Sweeney

You answered my question on the CBL and how long it's going to work its way through, but the other thing I'm just curious about, Service seems to be doing well. You're hiring, got a good pipeline of CBLs. But we're seeing interspersed warnings on the economy. I mean, are you seeing any or this, or is this just everybody's talking about higher interest rates, cautious on the economy?

Lee Rudow

Well, it's interesting. I mean, we would expect, Gerry, to feel the impact of an economic slowdown first in our Distribution business. That's always sort of a leading indicator for us. It's almost real time. I've seen this over 20, 25 years. I'm kind of surprised, to be honest, that so far, the Distribution business has held up really well. I mean, it's grown, margins are expanded, so that business is holding up.

Secondarily, we might see some softness over time and sort of a lagging effect on the Service business, which we have not seen. Even if there is an environment where the economy softens enough that it affects our Service business, it's usually just a slight impact. Because remember, that's kind of the resiliency that we talk about with our model. This is a regulated environment in the life sciences. We're talking about medical devices, pharma, biomedical. We're talking on aerospace aircraft engines. These are not areas that are affected by normal economic slowdowns. Again, that's foundational to the way we think about our business and our business model.

You might expect some softness, a little bit, but it's not been very impactful through the years on our Service business. We're kind of recession-resistant in that sense.

Mark Doheny

The other thing I would add—this is Mark, Gerry—is the NEXA business. Now that we have owned it for 13, 14 months, we're getting a lot of inquiries there as we have some of our customers heading into more uncertain economic times. We have that, which has also held up well going into what could be another—the macro uncertainty, I guess, is ramping up.

Lee Rudow

It's a great point. The whole business model that NEXA operates is to increase the efficiency and decrease the cost of calibration programs. Inherently, in sort of a tightening environment, their services become more valuable and sought after, so I think that'll play well as well.

Gerry Sweeney

Got it. I know you talked about life sciences, aviation, etc., but a bigger emerging theme is sort of a manufacturing renaissance in the United States. We're seeing semiconductor chip plants being announced, etc., one up in Syracuse the other week. Is this an opportunity for you longer term as well? How do you look at that?

Lee Rudow

Well, I think anytime the manufacturing output increases in the United States, that's going to be good for our business. Through regulated and less regulated environments, that can only be good news, so we'll be prepared for any growth in manufacturing, for sure.

Gerry Sweeney

Got it. Then, final question, how much has Rentals become of the Distribution business? It's been growing. I think you even called out some very good growth in that area. Can you break that out, or will you break that out or give a little bit of view towards that?

Lee Rudow

Well, I won't break out numbers specifically as a percentage of our growth in the Distribution segment. However, Rentals has done very well, and it has done well for a number of years now. I think it was back in maybe 2016 timeframe when we launched that business to stabilize the Distribution business over time. That was the first goal. The second goal was to create a bridge between Distribution and Service, and so I think Rentals has accomplished both of those initial goals.

It continues to be strong. It continues to do well in a variety of economic conditions, and so we're going to continue to fund that business. It's an important part of our value proposition. It also makes us unique. It's a differentiator as well.

Gerry Sweeney

Got it. I appreciate it. Thanks for taking my questions.

Lee Rudow

No problem. Take care, Gerry.

Operator

Our next question comes from the line of Scott Buck with H.C. Wainwright. Please proceed with your question.

Scott Buck

Hi, good morning, guys. Thank you taking my questions.

We talk about the Service segment gross margin a lot, but I'm curious. On the Distribution side, what's the ceiling on the gross margin, because we've seen it come up here the last few quarters versus a year ago. I'm just wondering if you can get this into the kind of higher 20s percent range.

Tom Barbato

Hey, Scott, it's Tom Barbato. I would say that we're probably at or near the ceiling on the Distribution margins. I mean, as I mentioned in my commentary, we were able to do some strategic buys over the past six to nine months that allowed us to kind of get ahead of some of the vendor price increases which is giving us a little bit of boost to margin as well. But that's going to kind of dry up a little bit over time as things moderate.

We'll be able to continue to leverage the growth in the Rental, but I think you should think of where we are kind of as the ceiling.

Scott Buck

All right, thanks, Tom. That's helpful. Then, on the Rental business, I don't think I saw this anywhere, but what are you guys spending in terms of annual Capex in terms of keeping that business growing?

Tom Barbato

I mean, we generally target $2 million to $2.5 million of our annual budget towards Rentals.

Scott Buck

Okay, great. Thanks. Then last one, if you guys could give us a little more color on the acquisition pipeline in terms of what kind of deals you're looking at now. Are there some larger opportunities out there? Are the opportunities in Europe more attractive than in the U.S.? I mean, just kind of—any color there would be helpful.

Lee Rudow

Yes, Scott, this is Lee. I would characterize our acquisition pipeline as strong. It has a variety of opportunities that we're engaged with. They are not in Europe; they're all in the United States at this point, which is our strategy that we'll continue to implement. We've got some—it kind of runs the gamut of small, medium, and large-sized opportunities. We're always looking for something transformative for the business, and if that opportunity arises, we'll be ready for it.

But in the meantime, our drivers are as they have been in the past. We're looking to increase our capabilities, our geographic footprint, and expand our addressable markets where we can, like we did with the NEXA business. We think there's opportunities to do that, opportunities to pick up services that are adjacent to our core calibration. We'll be looking for those.

So, three main drivers, mostly in the U.S., and I would say a really strong pipeline of acquisition opportunities.

Scott Buck

Okay, greatly appreciate the time, guys. Thank you.

Lee Rudow

All right. Take care, Scott.

Operator

Our next question comes from the line of Ted Jackson with Northland Securities. Please proceed with your question.

Ted Jackson

Good morning and congratulations on a solid quarter.

Lee Rudow

Thank you.

Ted Jackson

All the fun questions were asked, so most of my questions are just going to be around your financials. So, I'm going to start out with regards to the Services business, you typically have a little breakout in terms of, like, calibration, third party, and freight. Can you just give those percentages?

Tom Barbato

I think, Ted, you're probably referring to what we put into the Q and the K.

Ted Jackson

Yes.

Tom Barbato

I'm not sure if we have those handy right now for the quarter, Tom. I think they'll be in the Q.

Lee Rudow

Yes, they'll be in the Q, which is—we're actually targeting to file at market close tomorrow afternoon.

Tom Barbato

But I wouldn't expect a huge change in the next—from what we typically report in any given quarter.

Ted Jackson

Okay, and then what's your view for Capex for the remainder of the year?

Lee Rudow

We're about halfway there. We were at $4.8 million and we expect to be in the $9 million to $10 million range for the full year.

Ted Jackson

Okay. Then, just maybe something more fun, but going back over to Ireland and the opportunities within Europe and such. Now that you have a toehold within that region, what kind of—obviously, you've already commented that you are putting some investment into that lab to, I guess, bring it up to snuff so that you can tackle Ireland as an opportunity.

Beyond that, what kind of infrastructure do you need to put into place to grow that business in terms of people, equipment, what kind of skills? I assume that there's clearly an opportunity over the longer term to run a similar consolidation strategy in Europe as you've done successfully here in the U.S., and what kind of talent do you need to do that? Just kind of how do you see yourself investing in that business over the long haul?

Lee Rudow

Well, there's no reason why we can't establish a highly functional calibration lab in Ireland, connect the dots between our customers here and there, hire the right people, train them, put some capital into the lab to increase the capabilities. I mean, that's kind of what we do. We've done that in the U.S. in the past, and we're pretty confident with our ability to be successful doing that in Ireland, which is really part of your question.

The second part of your question is what are our long-term plans to expand beyond Ireland. I would say that right now I don't want to get too much ahead of ourselves in terms of laying out plans. I mean, clearly, once we're there and doing business, if there are opportunities to expand down the road, we will always be open to that. It is a foothold for us. But we're going to focus on getting that lab up and running.

Remember, also, we have the NEXA business there. Between the services that they offer and the core calibration, we've certainly got a lot of runway to focus our time and attention on.

Longer term, I don't see any reason why we wouldn't be open to expansion beyond that.

Ted Jackson

All right. Well, I'm going to step out, and again, congratulations on a great quarter.

Lee Rudow

We appreciate it, thank you.

Operator

Our next question comes from the line of Mitra Ramgopal from Sidoti. Please proceed with your question.

Mitra Ramgopal

Yes, good morning, and thanks for taking the questions.

First, I'm just curious on the Service side as we look at a potential recession next year. How much of the business, or Service revenue comes from life science given that that's probably your most stable or defensive (phon) business?

Lee Rudow

Today it's in the 60%, maybe 63% range, low 60s.

Mitra Ramgopal

Okay, thanks. Lee, I believe maybe a quarter ago, or maybe even two quarters ago, labor shortages were sort of an issue for you. It seems, so far from the commentary, it's not as much of a concern today, especially given the new CBLs and the influx of new techs. But I know you're still looking to hire employees to support future growth, so maybe if you can help me how we should think about employee additions and investments there.

Lee Rudow

Well, having employees and technical staff is really the key to our growth strategy. That's why we, as I mentioned in my narrative, we set up a Training Center. We put 48 people through that Training Center in the first, I guess, two and a half quarters. Of the 48 people, I think 46 are in the field and working at their respective lab, so that's really good news.

Now, their productivity isn't what it's going to be a couple quarters from now or even a couple years from now, but they're up, they're running, they're in the field, and we've built our own. I think that's fantastic news.

Longer term—I assume we'll continue to do that, Mitra. Longer term, automation is important because it requires more of an operator profile versus a technician, and that will be easier for us to find, lower cost, and so we're kind of working the technical labor from several angles at once, right? We're working on the automation. We're working on process improvement. We're also building our own techs.

I think we have a really great reputation also in the industry, and so if techs are available, we've always—and maybe this is sort of an internal view, but we always think we're a desirable place that a tech would land and want to work for. We've got a great culture. We've worked really hard on being an attractive place for a technical workforce to engage in, grow in, develop in. So, I like the position we're in.

Mitra Ramgopal

Okay. Thanks, that's great. Again, looking out to next year, a lot of pointers to a recession. Companies concerned about labor, raw materials, cost inflation. If you can name it, it's something out there. But I was wondering for you now, as you look out to next year, what do you see is maybe the biggest headwind for you, if any?

Lee Rudow

Well, I mean, we, like everybody else, we have sort of a cautious optimism. We see the same headwinds that everybody else sees. But I've been in this business for 35 years and through a lot of economic cycles, and I just—the calibration business, and to the degree that you spend your time and your efforts in regulated markets, we're well positioned for an economic slowdown.

It hits every business in one way or the other, but I think that our business model is a pretty good hedge against the normal effects that you see from a slowdown. Mitra, I like the model that we're running, and I think we're in a good position should things slow down.

Mitra Ramgopal

Okay, that's great. Thanks for taking the questions.

Lee Rudow

No problem.

Operator

There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

Lee Rudow

Well, thank you all for—this is Lee. Thank you all for joining us on the earnings call today. We appreciate your continued interest in Transcat.

Transcat will be presenting in person at the IDEAS Conference in Dallas, which is November 16, and at Craig-Hallum Alpha Select Conference the next day in New York City, which is November 17. Feel free to attend our presentation or sign up for one-on-ones if you're going to be at those conferences. Otherwise, feel free to check in with us at any time. If we don't hear from you, we look forward to talking with everybody again after our third quarter results. Thank you for joining us.

Operator

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