

June 11  
2019

# Stifel 2019 Cross Sector Insight Conference

**Michael J. Tschiderer**  
Chief Financial Officer

**TRANSCAT**<sup>®</sup> Trust in every measure

Nasdaq: TRNS

# Safe Harbor Statement

*This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact and thus are subject to risks, uncertainties and assumptions. Forward-looking statements are identified by words such as “expects,” “estimates,” “projects,” “anticipates,” “believes,” “could,” “plans” and other similar words. All statements addressing operating performance, events or developments that Transcat, Inc. (“Transcat” or the “Company”) expects or anticipates will occur in the future, including but not limited to statements relating to anticipated revenue, profit margins, sales operations, capital expenditures, cash flows, operating income, growth strategy, segment growth, potential acquisitions, integration of acquired businesses, market position, customer preferences, outlook and changes in market conditions in the industries in which Transcat operates are forward-looking statements. Forward-looking statements should be evaluated in light of important risk factors and uncertainties. These risk factors and uncertainties are more fully described in Transcat’s Annual Report and Quarterly Reports filed with the Securities and Exchange Commission, including under the heading entitled “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should any of the Company’s underlying assumptions prove incorrect, actual results may vary materially from those currently anticipated. In addition, undue reliance should not be placed on the Company’s forward-looking statements. Except as required by law, the Company disclaims any obligation to update, correct or publicly announce any revisions to any of the forward-looking statements contained in this presentation.*

*This presentation will discuss some non-GAAP financial measures, which the Company believes are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results compared in accordance with GAAP. The Company has provided a discussion of these non-GAAP financial measures and reconciliations of comparable GAAP to non-GAAP measures in tables found in the Supplemental Information portion of this presentation.*

## A Leader in the Calibration & Laboratory Instrument Service Market and Value-Added Distributor of Test, Measurement & Control Instrumentation

- ✓ Service segment is our primary growth engine
- ✓ Acquisitions will continue to be part of our growth strategy
- ✓ Long-term operating earnings to grow faster than revenue
- ✓ Distribution segment differentiated with cross-segment synergies
- ✓ Strong demonstrated leadership
- ✓ Leverage technology to increase productivity

Market Capitalization	\$179 Million	Average Volume (3 mo.)	19,900
52-Week Price Range	\$17.30- \$26.96	Common Shares Outstanding	7.2 Million
Recent Price	\$24.80	Ownership: Institutions	68%
		Insiders	6%

# What we do



## Calibration, Validation & Laboratory Services

## Product Distribution & Rental

The Calibration process is critical to ensure customers' test equipment is operating according to specifications.

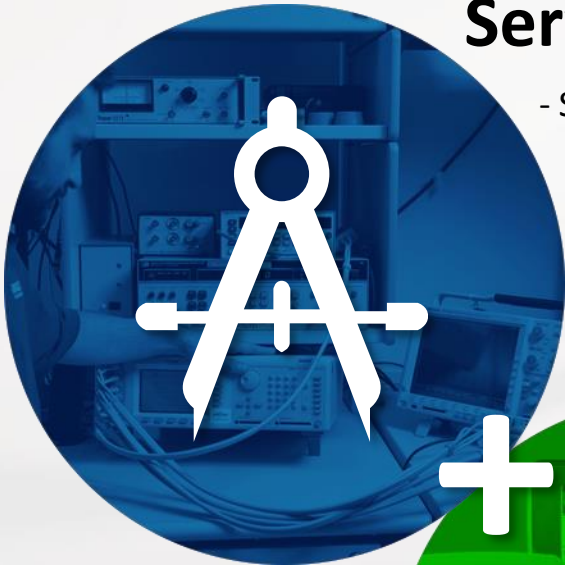
Our target customers usually operate in regulated environments like Life Sciences and Aerospace where the **cost of failure is very high** and require calibration services on a regular, recurring basis.

We sell and rent Test, Measurement and Control Instruments that are used in manufacturing processes.

Key instrument types include temperature, pressure, electrical, flow and physical/dimensional measuring disciplines among others...

# Two Complementary Segments

## Service



- Solid organic growth
- Recurring revenue stream
- Strong operating leverage
- Driven by regulation and the high cost of failure



## Distribution



- New test equipment
- Rentals
- Strong cash generation

**FY 2019 Revenue:**  
**\$160.9M**

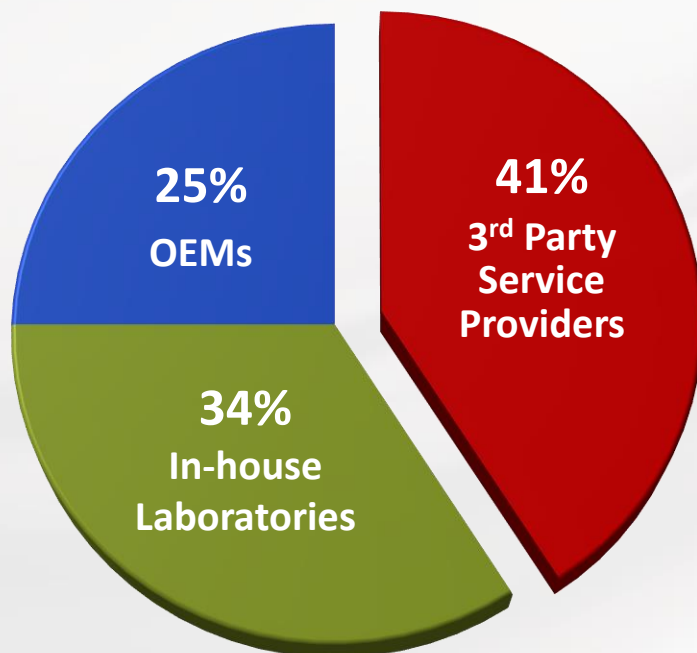
(Service 52%, Distribution 48%)

- ✓ Unique value proposition
- ✓ Leverage between segments

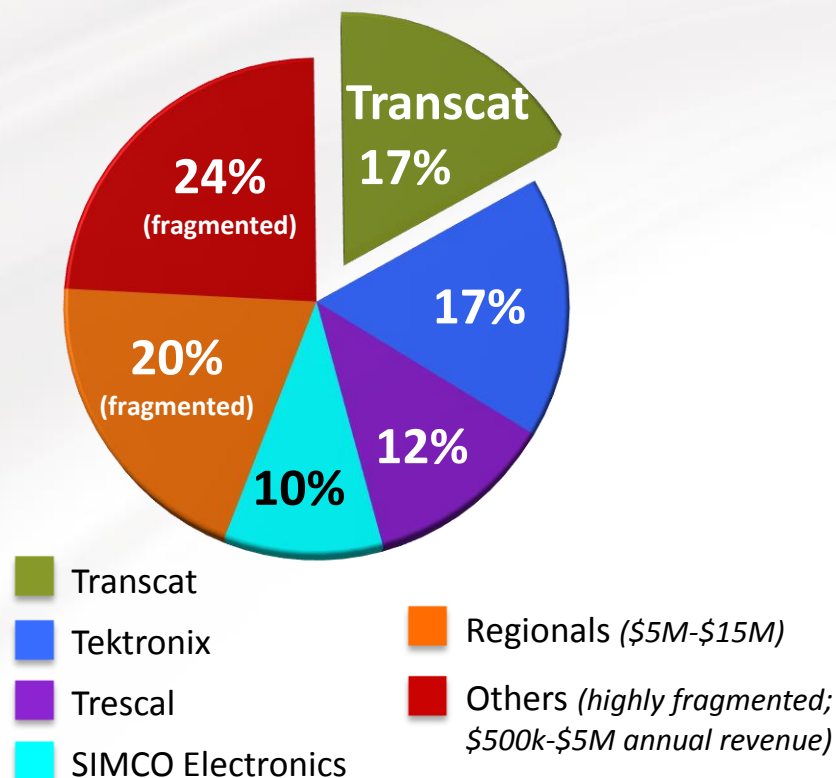


# Taking Market Share

**\$1.4 Billion Addressable Calibration Services Market<sup>1</sup>**



**Market Share by Revenue for 3<sup>rd</sup> Party Service Providers<sup>2</sup>**



<sup>1</sup> Estimated Addressable North American Calibration Market

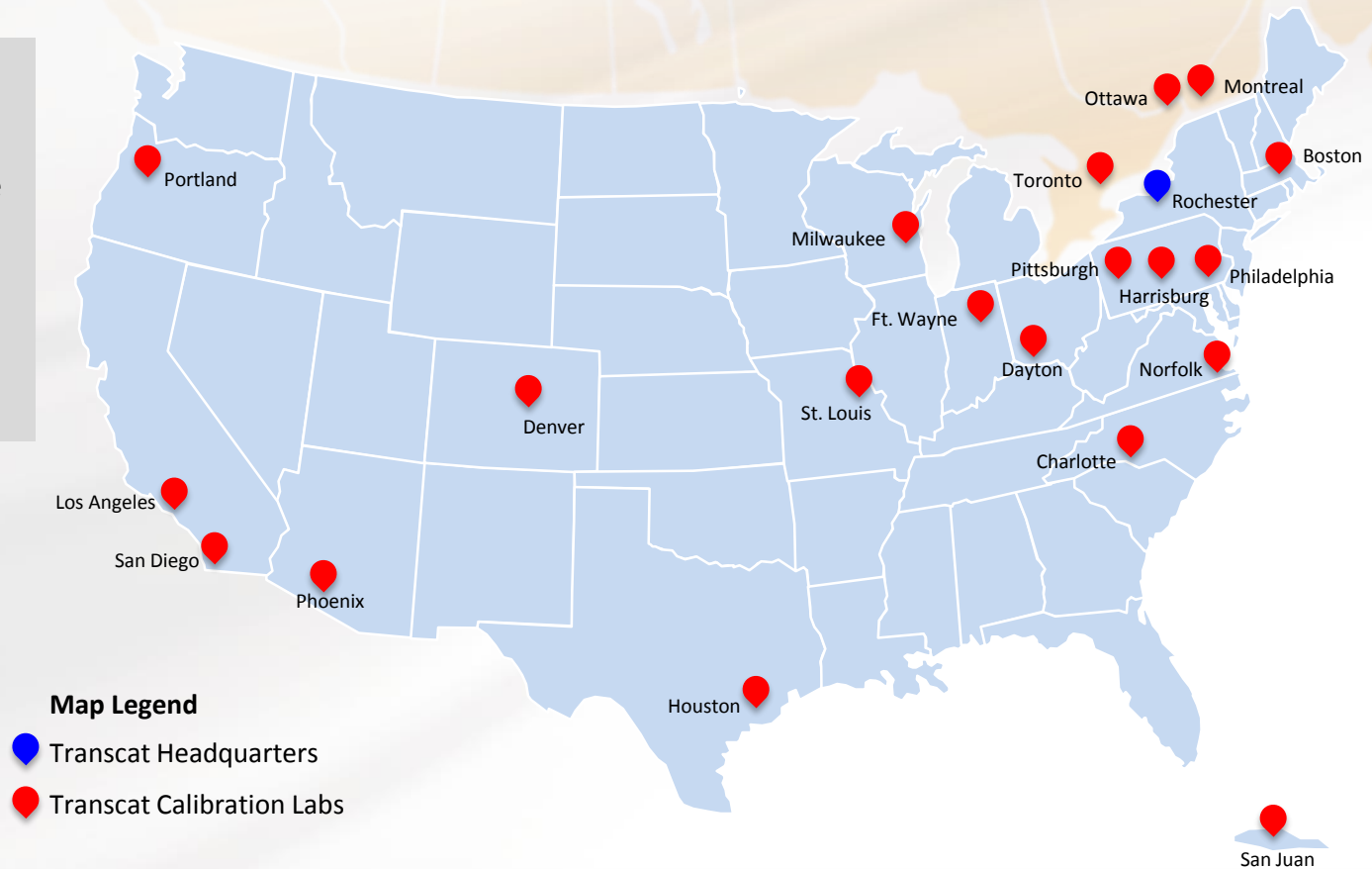
<sup>2</sup> Percentage of Revenue (North America), Company estimates

# Flexible Service Value Proposition

*21 Locations to Serve Customers in the U.S., Canada and Puerto Rico*

## Flexible Service Delivery Options:

- ✓ Permanent on-site
- ✓ Periodic on-site
- ✓ Mobile
- ✓ In-house
- ✓ Pickup & Delivery



# Broad and Diverse Blue Chip Customer Base

*Percentage of Service Revenue\**



6%	Chemical/Process
7%	Energy/Utilities
10%	Aerospace/Defense
13%	Services
18%	Industrial
4%	Other
42%	Life Science / FDA-regulated





# What Makes Transcat Different

*Unique Value Proposition...Centered on Life Science, Aerospace and Industrial Manufacturing*

**Services**

**Distribution**

CALIBRATION SERVICES

NEW TEST & MEASUREMENT INSTRUMENTS

VALIDATION SERVICES

CONSULTING & REMEDIATION

RENTAL TEST INSTRUMENTS

ANALYTICAL LABORATORY SERVICES

MOBILE WIND ENERGY CALIBRATION UNITS

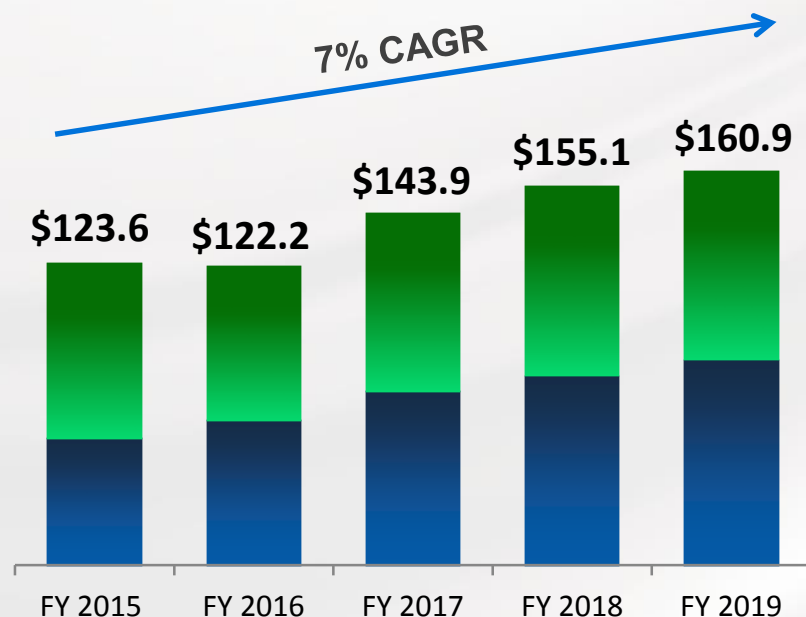
USED TEST INSTRUMENTS

# Financial Results

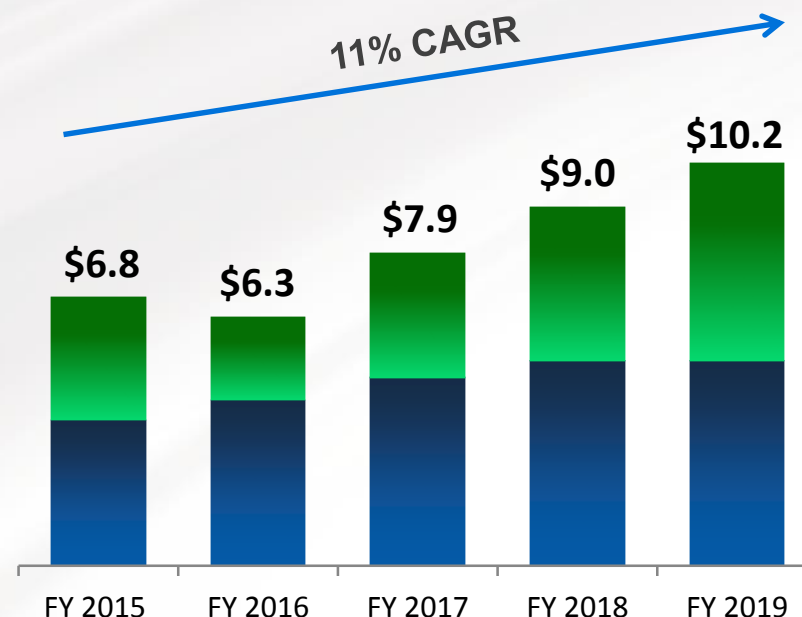
# Record Consolidated Results

(\$ in millions)

## Consolidated Revenue



## Consolidated Operating Income

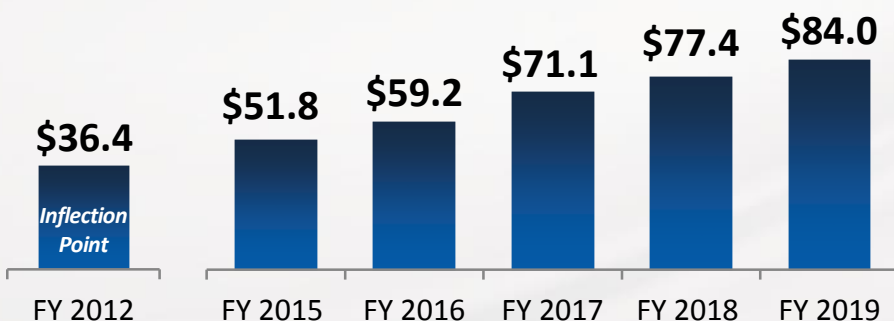


■ Distribution
 ■ Service

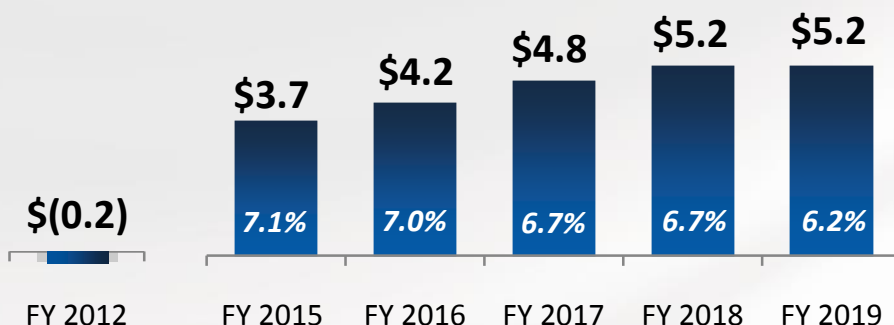
# Strong Service Segment Organic Growth

(\$ in millions)

## Service Revenue



## Service Operating Income & Margin



Taking market share in life science and adding new multi-year client-based labs

40 consecutive quarters of YOY revenue growth – **10 years!**

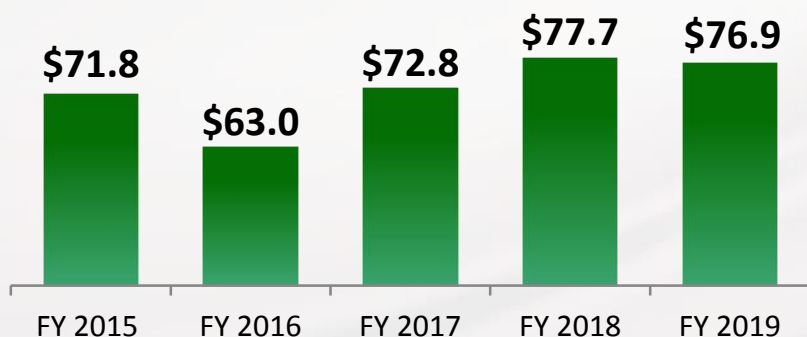
Organic growth: +13.6% (Q4 FY 2019)  
+8.6% (FY 2019)

Short-term productivity challenges from large number of new techs needed to support growth and soft Canada results

# Expanded Distribution Margins

(\$ in millions)

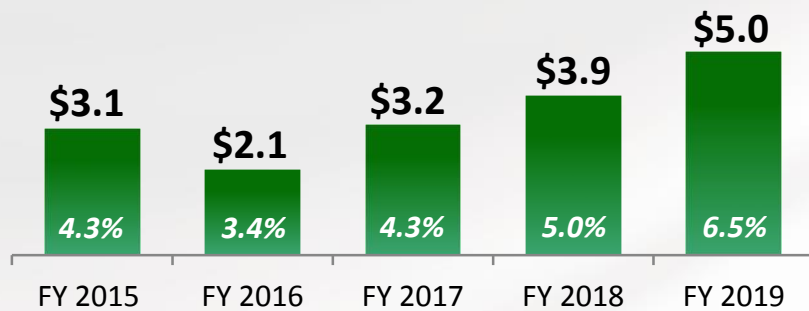
## Distribution Sales



Continued pivot to higher margin end-user customers and rental business

Investments in e-commerce capabilities and web-based marketing

## Distribution Operating Income & Margin



Margin drivers:

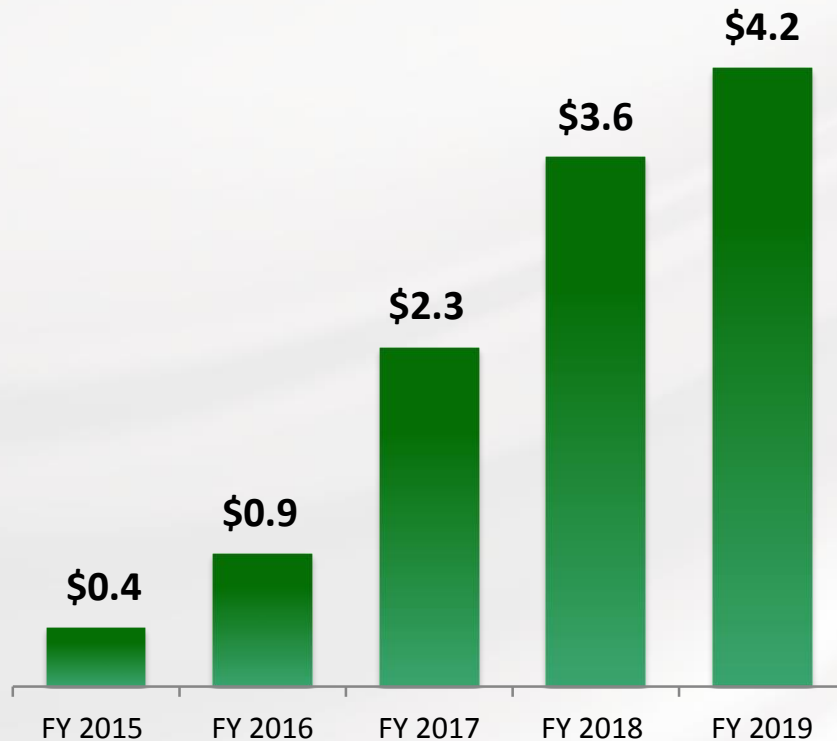
Automated pricing initiative

Strategic optimization of customer channel mix

# Diversification Driving Distribution

## *Strong Rental Revenue Growth*

(\$ in millions)



Provide higher margin profile

Enhances value proposition

Excalibur acquisition added incremental rental platform for higher-end electronic equipment

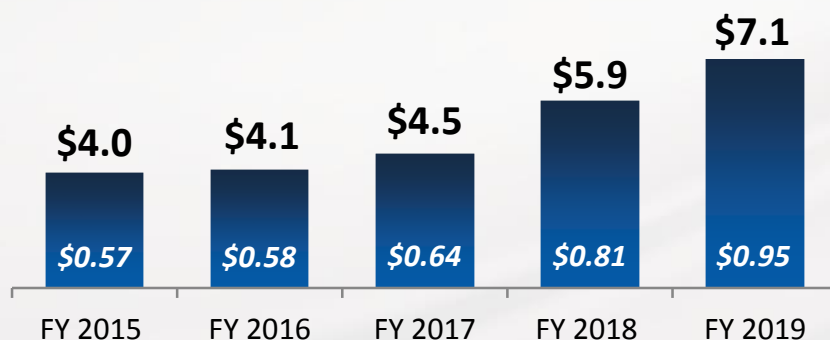
Used equipment business further complements and diversifies



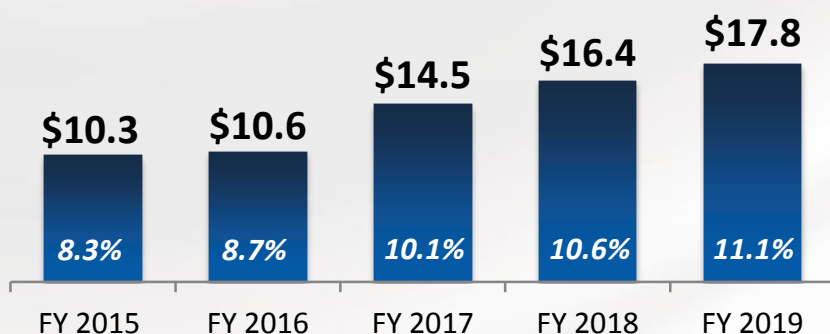
# Strong Cash Generation and Record Net Income

(\$ in millions)

## Net Income and Diluted EPS



## Adjusted EBITDA<sup>1</sup> and Margin



## Tax rate expectations<sup>2</sup>

Fiscal 2020: 22% to 23%

*(includes Federal, various state, and Canadian income taxes)*

Q1 FY20: 10% to 11%

*(impact of discrete income tax accounting for share-based payment awards)*

## 15% Total Adjusted EBITDA CAGR<sup>3</sup>

<sup>1</sup> See supplemental slides for a description of this non-GAAP financial measure, for Adjusted EBITDA reconciliation and other important information regarding Adjusted EBITDA.

<sup>2</sup> FY 2020 tax rate guidance provided as of May 21, 2019

<sup>3</sup> CAGR calculated FY 2015 – FY 2019

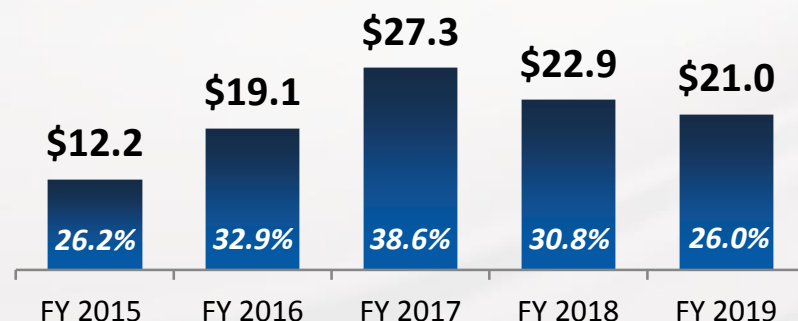
All figures are rounded to the nearest million; therefore, totals shown in graphs may not equal the sum of the segments.

# Financial Flexibility Supports Growth Strategy

(\$ in millions)

## Total Debt

% - Debt to Total Capitalization

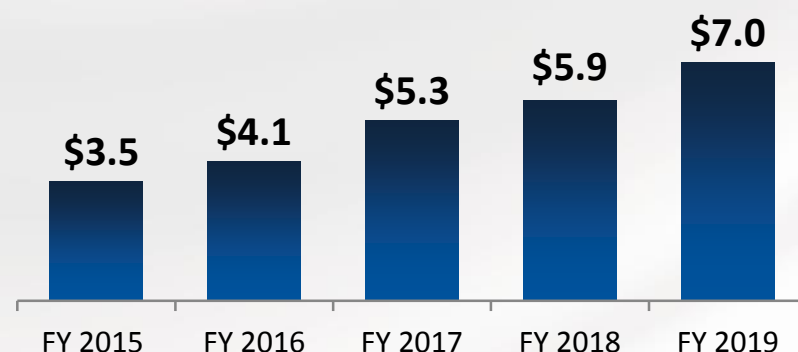


\$23.5 million available from credit facility as of March 30, 2019

\$15.0M term loan replaced in Dec 2018; extended maturity to Dec 2025 and converted to fixed rate of 4.15%

1.12x leverage ratio at fiscal year-end  
(Total debt to TTM Adjusted EBITDA<sup>1</sup>)

## Capital Expenditures



Anticipate CapEx spend of \$7.8 million to \$8.2 million in fiscal 2020, as follows<sup>2</sup>

Service capabilities	~\$4.0 to \$4.5 million
Rental assets	~\$2.0 to \$2.5 million
Maintenance	~\$1.0 to \$1.5 million

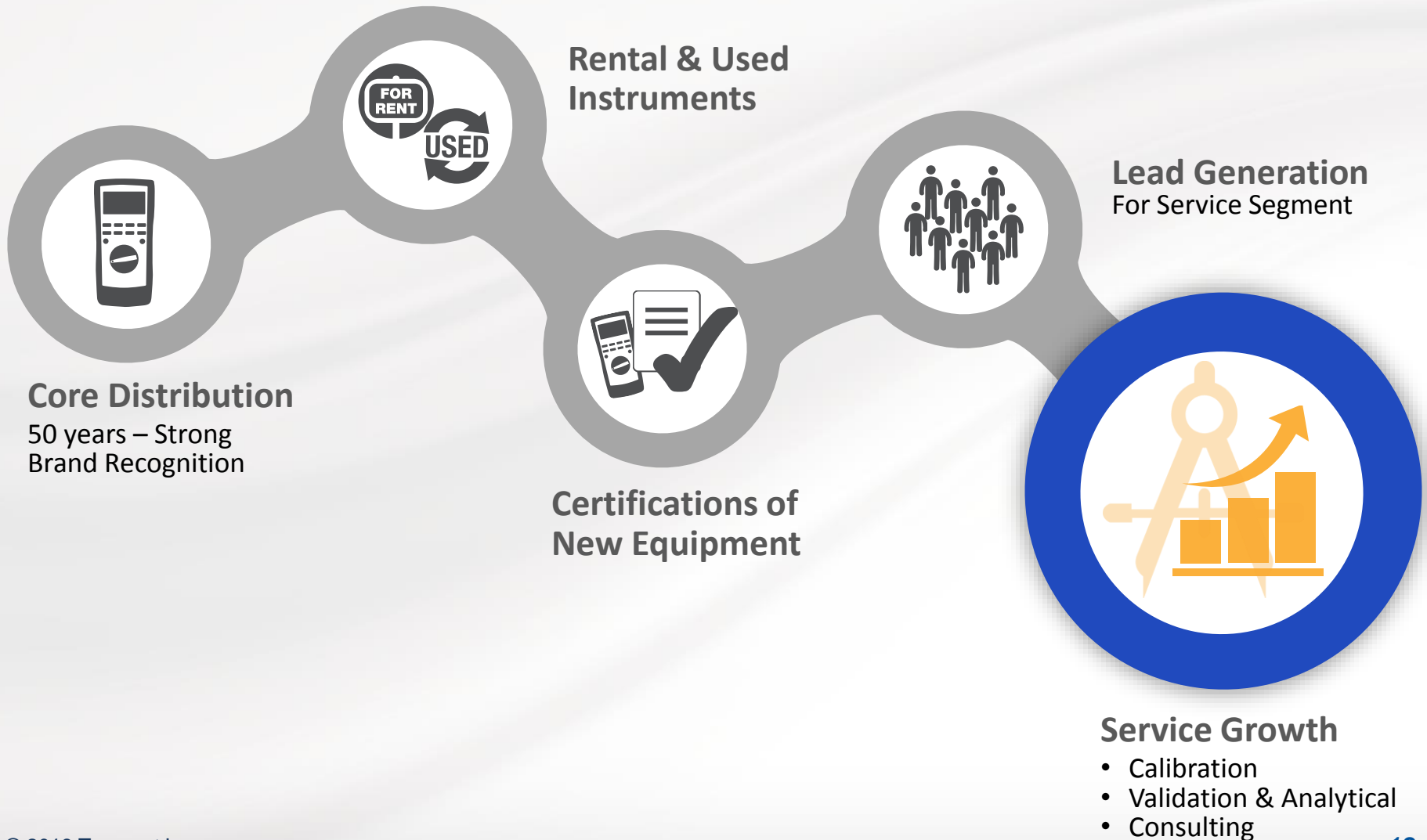
<sup>1</sup> See supplemental slides for a description of this non-GAAP financial measure, for Adjusted EBITDA reconciliation and other important information regarding Adjusted EBITDA.

<sup>2</sup> Outlook provided as of May 21, 2019

# Growth Strategy

# What makes Transcat Unique

*Why We Win...*



# Leverage Technology as a Competitive Advantage



## Digital Transformation

With industry leading web domain authority



## Proprietary "C3"

Portal for customer asset management



## Operational Excellence

Productivity focus  
Lean/best practices  
Process automation

# Drive Double-Digit Service Growth

Dominate our local markets

Take market share from  
3<sup>rd</sup> party providers and OEMs

Outsourcing of internal labs

Expansion of RF microwave  
and high-end electronics  
capabilities

New fleet of mobile  
calibration labs

**Organic Growth  
Strategy**

**Acquisition  
Strategy**

Geographic expansion

Increased capabilities  
and expertise

Bolt-on/leverage  
infrastructure

Sweet spot = revenue  
of \$2M - \$6M

Look for minimum  
15% IRR



# Executing Acquisition Strategy



FY 2016

FY 2017

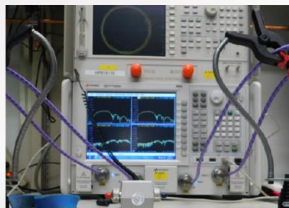
FY 2018

FY 2019



# Acquisition Drivers

	<i>Geographic Expansion</i>	<i>Increased Capabilities and Expertise</i>	<i>Leveraged Infrastructure</i>
Gauge Repair Service		✓	✓
Angel's Instrumentation	✓	✓	
NBS Calibrations		✓	✓
Excalibur Engineering		✓	✓
Dispersion Laboratory		✓	✓



**CALIBRATED**  
BY **TRANSCAT**<sup>®</sup>

# Building for the Long Term



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# Supplemental Information



# Adjusted EBITDA Reconciliation

(\$ in thousands)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Net Income	\$ 4,026	\$ 4,124	\$ 4,522	\$ 5,922	\$7,145
+ Interest	234	247	719	1,018	903
+ Other Expense / (Income)	111	48	51	60	91
+ Tax Provision	<u>2,397</u>	<u>1,883</u>	<u>2,642</u>	<u>2,026</u>	<u>2,090</u>
Operating Income	\$ 6,768	\$ 6,302	\$ 7,934	\$ 9,026	\$10,229
+ Depreciation & Amortization	3,090	3,946	6,184	5,991	6,361
+ Other (Expense) / Income	(111)	(48)	(51)	(60)	(91)
+ Noncash Stock Compensation	<u>507</u>	<u>359</u>	<u>453</u>	<u>1,411</u>	<u>1,327</u>
<b>Adjusted EBITDA</b>	<b>\$ 10,254</b>	<b>\$ 10,559</b>	<b>\$ 14,520</b>	<b>\$ 16,368</b>	<b>\$17,826</b>

In addition to reporting net income, a U.S. generally accepted accounting principle (“GAAP”) measure, we present Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, and non-cash stock compensation expense), which is a non-GAAP measure. We believe Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and others to evaluate and compare the performance of our core operations from period to period by removing the impact of the capital structure (interest), tangible and intangible asset base (depreciation and amortization), taxes, and stock-based compensation expense, which is not always commensurate with the reporting period in which it is included. As such, we use Adjusted EBITDA as a measure of performance when evaluating our business segments and as a basis for planning and forecasting. Adjusted EBITDA is not a measure of financial performance under GAAP and is not calculated through the application of GAAP. As such, it should not be considered as a substitute or alternative for the GAAP measure of net income and, therefore, should not be used in isolation of, but in conjunction with, the GAAP measure. Adjusted EBITDA, as presented, may produce results that vary from the GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

# Segment Adjusted EBITDA Reconciliation

(\$ in thousands)

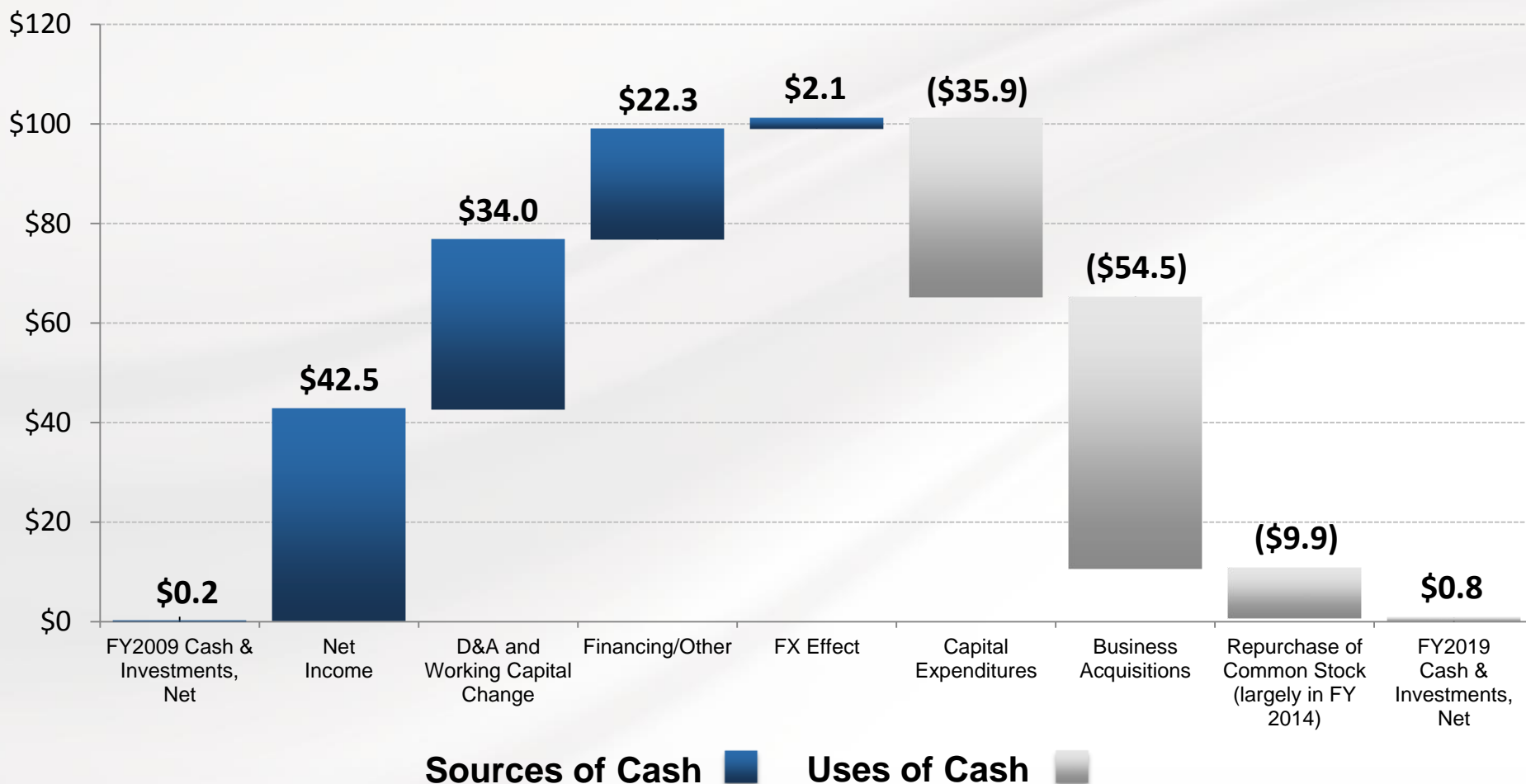
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Service Operating Income	\$ 3,693	\$ 4,155	\$ 4,769	\$ 5,158	\$ 5,202
+Depreciation & Amortization	2,362	3,216	4,660	4,397	4,754
+Other (Expense) / Income	(138)	(64)	(55)	(61)	(69)
+Noncash Stock Compensation	224	171	217	706	702
Service Adjusted EBITDA	<u>\$ 6,141</u>	<u>\$ 7,478</u>	<u>\$ 9,591</u>	<u>\$ 10,200</u>	<u>\$ 10,589</u>
Distribution Operating Income	\$ 3,075	\$ 2,147	\$ 3,165	\$ 3,868	\$ 5,027
+Depreciation & Amortization	728	730	1,524	1,594	1,607
+Other (Expense) / Income	27	16	4	1	(22)
+Noncash Stock Compensation	283	188	236	705	625
Distribution Adjusted EBITDA	<u>\$ 4,113</u>	<u>\$ 3,081</u>	<u>\$ 4,929</u>	<u>\$ 6,168</u>	<u>\$ 7,237</u>
Service	\$ 6,141	\$ 7,478	\$ 9,591	\$ 10,200	\$ 10,589
Distribution	<u>4,113</u>	<u>3,081</u>	<u>4,929</u>	<u>6,168</u>	<u>7,237</u>
<b>Total Adjusted EBITDA</b>	<b>\$ 10,254</b>	<b>\$ 10,559</b>	<b>\$ 14,520</b>	<b>\$ 16,368</b>	<b>\$ 17,826</b>

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# Generating Cash to Drive Key Investments

*FY 2009 (start of acquisition strategy) to FY 2019*

(\$ in millions)



# Seasoned Executive Team Driving Growth

## Lee D. Rudow

**President and  
Chief Executive Officer**

- More than 32 years of industry experience
- Demonstrated growth record
- Joined Transcat in 2011

### **Benjamin P. Hawley** *Vice President of Operational Excellence*

- Extensive business process re-engineering and enterprise quality assurance leadership
- Joined Transcat in 2017

### **Robert A. Flack** *Vice President of Service Sales & Operations*

- Broad sector experience; previously with Davis Calibration and Tektronix
- Joined Transcat in 2014

### **Jennifer J. Nelson** *Vice President of Human Resources*

- Comprehensive HR experience in different sectors
- Joined Transcat in 2012

### **Andrew J. Quaranto** *Vice President of Information Technology*

- Proven ability to leverage technology with infrastructure, cloud and software solutions
- Joined Transcat in 2017

### **Michael W. West** *Vice President of Distribution Sales & Marketing*

- 15+ years of B2B distribution marketing and consulting expertise
- Joined Transcat in 2014

### **Michael J. Tschiderer** *Chief Financial Officer*

- Public company, PE and VC experience
- Joined Transcat in 2015