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

I would now like to turn the conference over to your host, Mr. Alex Hamilton, Investor Relations for Transcat. Thank you. You may begin.

Alex Hamilton: Thank you, Diego, and good morning, everyone. We certainly appreciate your time today and your interest in Transcat. On the call with me today are President and Chief Executive Officer, Lee Rudow, and our Chief Financial Officer, John Zimmer. After formal remarks, we will open the call to a Q&A. If you don't have the news release that was sent out after the market yesterday, it can be found on our website at www.transcat.com. We also posted slides that will accompany today's discussion.

With that, 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. 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 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, so 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: Thank you, Alex. Good morning, everyone. Thank you for joining us. Today, we will review fourth quarter performance, as well as take a look at our overall performance and progress relative to this past fiscal year. For those of you following along with the slides, I'm starting on slide 3.

Fiscal 2014 was a good year for Transcat. We continued the execution of our strategic plan; a plan that calls for an acceleration of growth in our Services segment; a plan that continues to build momentum and position Transcat to deliver strong results into the future. In fiscal 2014, we achieved top line growth for the 10th consecutive year. Our Service segment grew 19% as we continued our double-digit growth trend. We achieved margin expansion in our Service segment as we moved beyond the inflection point, and operating earnings grew faster than revenue. Our overall operating earnings grew a solid 14% or $800 thousand.

This year was not without its challenges. We faced severe weather in the fourth quarter that temporarily shut down some of our larger labs for multiple days. The impact was also felt in our Distribution segment, where fourth quarter results were less than expected. We faced a temporary softness, in general, in our alternative energy markets throughout the year, but that said, we do expect the market to rebound in fiscal 2015.

Before I turn things over to John Zimmer to review our fourth quarter and year end results, I would like to add some color to fiscal 2014 and walk through some of Transcat's important accomplishments. Throughout the year, we established a strong organic sales pipeline in our

Service business. Pipelines for larger enterprise accounts take many months, if not years, to build and we like the position we are in entering fiscal 2015. We completed the integration of our last two acquisitions and have been working to identify future acquisition opportunities that will strengthen our competitive position and grow the business. In fiscal 2014, we capitalized on the opportunity to strengthen our leadership team, which is a critical task as we look to foster solid performance into the future, and we continued to be pleased with the balance we have demonstrated in terms of resource and capital allocation, striving to build for the future while achieving solid short-term results and the high expectations we have for the business.

With that, I'll turn things over to John Zimmer to walk through the fourth quarter results and the year end results.

John Zimmer: Thank you, Lee, and good morning, everyone. Let's start with slide 4. As Lee mentioned, we had our 10th consecutive year of revenue growth and our operating income, net income, and earnings per share were all at record levels. The year was highlighted by our Service segment, where gross margin improved by 130 basis points and operating income improved by 81.5% as a result of 18.5% revenue growth and the leverage in that business. For the fourth quarter, our strong Service segment revenue growth helped to offset the impact of the weather and continued softness in alternative energy on the Distribution segment.

We had total revenue for the quarter of $30.4 million, a decrease of about 2% or $700 thousand. Growth in Service segment revenue of $1.3 million, or 10.3%, was offset by a $1.9 million, or 10.3%, decline in Distribution segment sales. Operating income in the fourth quarter was $2.9 million, about flat with the same period in the prior fiscal year. I think it's important to note that the fiscal 2014 fourth quarter is being compared to an outstanding fourth quarter in fiscal 2013.

Now, onto Slide 5. In addition to the standard financial statements, 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's a good measure of operating cash flow for each segment. We are introducing adjusted EBITDA this quarter, because we think it's important to add back the expense associated with stock compensation, as that expense doesn't impact operating cash flows. We've adjusted the prior periods as well to have an apples-to-apples comparison. These are non-GAAP measures, so please review our reconciliations and related disclosures in our release and at the end of the slides.

For the quarter, contribution income remained about level overall at $5.3 million, or 17.3% of revenue, up from 17% of revenue in the prior fiscal period. Contribution margin for the Service segment declined to 19.1% from 20% in the prior-year period due to increased selling costs, but contribution income increased by $100 thousand due to the higher revenue in the segment. Contribution margin for the Distribution segment improved to 15.8% from 15% in the prior-year period due to lower selling and marketing costs, but the contribution income declined by $100 thousand due to the lower sales.

Please refer to Slide 6. On a consolidated basis, adjusted EBITDA declined by $100 thousand to $3.7 million in the fourth quarter of fiscal 2014 when compared with the same period of the prior year. Service segment adjusted EBITDA was up 12.5% to $2 million, and Distribution segment adjusted EBITDA was down 14.4% to $1.7 million.

On Slide 7, our fourth quarter net income was down slightly from the prior year, but earnings per share were flat at $0.24 per share in both periods. For the year, net income was $4 million, up from $3.7 million in the prior year, and earnings per share increased by just over 10% to $0.54 per diluted share. We continue to have a very strong balance sheet, with total assets of $53.9 million and just $7.6 million of debt borrowed on our $20 million credit facility. We spent $2 million on cap ex in fiscal 2014, but there are a number of projects which we started in fiscal 2014 that will be completed in fiscal 2015, so we expect our capital expenditures to be in the range of $3 million to $3.5 million in fiscal '15. Lee will discuss some of the investments we are making in addition to the maintenance cap ex to run the business.

For fiscal 2015, we are seeing increased volume in the Distribution business in the first quarter after the tough winter, but that market will remain very competitive and it's likely that we'll have a reduction in growth-based manufacturer rebates during fiscal 2015, which may impact the segment operating income. On a positive note, we expect some rebound in the alternative energy markets during fiscal 2015. Also for fiscal 2015, we expect continued growth in Service revenue and operating leverage leading to higher operating margin and higher operating income for the year. Our first quarter of fiscal 2014 was very strong, so that will create a tough comparable period, but we expect significant growth for the year as a whole.

That concludes my remarks. Lee, I'll pass it back to you.

Lee Rudow: Okay. Thanks, John. As I stated earlier, fiscal '14 was a good year at Transcat. We drove top line growth, we drove earnings growth, we drove solid operating margins, we generated very healthy cash flow, and we did a nice job of leveraging our two business segments.

Looking at 2015, we are hard at work positioning Transcat for a successful year and a successful future. We expect our Service segment to become a much larger contributor to the business as it will continue to grow at a faster rate than Distribution. We expect to continue to move beyond the inflection point in our Service segment and demonstrate the inherent leverage in the business. In so doing, we expect operating earnings to increase at a faster rate than revenue.

We will launch a brand new state-of-the-art website that will support both our Distribution and Service segments. We will introduce a brand new online Service interface that manages our customers' cost control and compliance data. This will immediately strengthen our value proposition and, in the future, simplify the process of servicing smaller, highly profitable transactional business. We expect Distribution, as John said, to be challenging as we measure ourselves against a record year in terms of vendor rebates and manage the potential increase in margin pressure; however, we are encouraged by what we think will be a rebound in the alternative energy market.

We expect to continue to allocate capital resources towards acquisitions as we look to increase our competitive advantage in the market. Lastly, as I mentioned earlier, our new business pipeline is developing well and the selling of larger enterprise accounts will continue to be important.

With that, we would like to open the call to questions.

Operator: Thank you. At this time, we will begin our question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. To remove yourself from the question queue, please press star, two. Once again, to ask a question, press star, one on your telephone keypad.

The first question comes from Steve Shaw with Sidoti & Company. Please state your question.

Steve Shaw: Hey, guys. How are you doing?

Lee Rudow: Hey, Steve.

Steve Shaw: For revenue growth for the full year, do you have a breakdown of organic versus acquired?

John Zimmer: No, we don't have that broken out. As we said, we did our acquisition of Cal-Matrix at the end of January last year, so for two thirds of the quarter, it was all organic. The rest of the year, we had the blend of both the acquired and organic. Because of the way that we integrate our acquisitions, it's difficult for us to break those components out.

Steve Shaw: Okay. For the fourth quarter, do you have a dollar amount of the weather impact?

John Zimmer: Most of the decline, we believe, is due to the weather. That's where we were seeing it in terms of the volumes of calls and clicks on our website and other metrics that we look at. We also get a lot of feedback from our manufacturers, whose products we carry, about how their business is going in the quarter, and we had a lot of feedback about the weather. It's hard to put a number on what it would have been had the weather been nice, but we think that most of the negative impact in the quarter was due to the weather.

Steve Shaw: Okay. Then shifting over to the cap ex increasing, I know you mentioned support the online business and lab capacity. Can you give a little more detail into that? What are we looking to do on the internet business and, if possible, how much capacity are we looking to add and what kind of capabilities?

Lee Rudow: Steve, this is Lee. We have a new website—we call it Web 3.0—that will be launched later in the year. The functionality that we'll be obtaining in this new platform will enable us to process a significant amount of business, on both Service and Distribution. It will enable us to be more dynamic in all the functions of the website: pricing, additional products, vendors, vendor stores. There's a lot of capability that we don't have today that will be additive for us, so we're looking forward to that.

Relative to the software that we will be releasing that supports the cost control and compliance data for our Service business, this is a piece of functionality that is really important, not only to embed ourselves with our current customer base and large customers in the future as we obtain their business, but it's also important in winning their business. Our pipeline right now has several accounts that have taken a very close look at this functionality and it's been impressive so far. We're pretty encouraged by the early read. As we launch this functionality, I think it'll bode well for us in developing the business.

Of course, we have a website today, but those are two online tools that we didn't have in the past that will improve our capability to complete in the future.

Steve Shaw: Okay, and you said later this year for the website,. Do you have a more specific timetable for when that will be launched?

Lee Rudow: Our estimates right now tell us that it'll be launched in the second quarter.

Steve Shaw: Okay. Lastly, I know you can't talk much about acquisitions, but is there a certain geographic region or maybe capability that you would really like to get into?

Lee Rudow: Well, we always talk, Steve, about the drivers of acquisitions, and when we look to do a deal, we're looking at one of the following drivers. Number one, we'll always look for bolt-on opportunities. If there's an opportunity to acquire a lab in a geographic region where we already have a lab and we can leverage that infrastructure, that's always great. Two, We look to acquire labs in regions where we might have a gap, and there are two or three places within the country where there's an opportunity to expand our geographic footprint and our competitive position. And three, we look to acquire, Steve, if we think we're going to gain expertise or new capabilities that we currently don't have today.

So, bolt-on acquisitions are the easiest, but, depending on what the opportunities are in the marketplace, sometimes we'll focus on increasing our capabilities, sometimes our footprint, sometimes our expertise. It really varies, but those are the three drivers.

Steve Shaw: Okay. Thanks, Lee. Thanks, John.

John Zimmer: Thank you.

Lee Rudow: Take care.

Operator: Our next question comes from Michael Howe with Horton Fund. Please state your question.

Michael Howe: Good morning, Lee and John. Thanks for making time and congratulations on a good year.

Lee Rudow: Thanks, Michael.

Michael Howe: I wanted to talk a little bit about the alternative energy segment. It's a two-part question really. One, regarding the rough order of magnitude to the Distribution business, what's the relative impact that, in general, the alternative energy segment accounts for in that business? Then two, with respect to that segment, what really is driving your business in that segment? Is it more cap ex related or is it more op ex related, or is it something else?

Lee Rudow: Well, relative to the impact in the alternative energies, and we're talking primarily solar here, you're probably talking more or less about a couple million dollars, negative impact.
As you may know, Michael, and as we talked a little bit about in the past, the signing of the production tax credit by the government really impacts the business today. We hope in the future it will be less impactful, but today, when that tax credit expires, then production essentially stops. Now, the current tax credit has expired, but any company that initiated the process of building turbines in 2013 will be allowed to obtain the tax credit in this calendar year. We expect that business to pick up sometime around the second quarter and be pretty robust for the

remainder of the year, based upon our having started these projects prior to the conclusion of calendar 2013. Hopefully that answers part of your question.

John Zimmer: I would just add that, just from a sense of magnitude, on an annual basis, the wind and alternative energy markets represent somewhere between 5% and 10% of our Distribution sales, so they're not a huge percentage of our overall sales, but when they're down by a couple million dollars on the margin, it makes a difference in terms of whether we grow or don't grow our Distribution business, which is only growing on an annual basis in the low to mid single digits. That kind of gives you a sense of the order of magnitude.

Michael Howe: Great. Thanks so much. That's helpful.

Operator: Thank you. Just a reminder, if you'd like to ask a question, press star, one on your telephone keypad. We'll pause for a couple moments to see if there are any more questions. Thank you.

Our next question comes from Steven Stern with Stern Investment Advisory. Please state your question.

Steven Stern: Good morning and congratulations on a very good 2014/13. I have a quick question on the financings. You recently renegotiated your bank lines and it looks very well managed with using only $12 million of the $20 million, and we appear to be in good shape for that. On the long-term financing, the long-term debt, I'm just curious, what are the Company's potential future sources for long-term debt financing and how would that differ from the current sources of the $7.5 million long-term finance that are on the balance sheet today?

John Zimmer: Okay, this is John Zimmer. I'll answer that question. First, though, I just want to clarify a couple of things. We didn't recently negotiate or renegotiate our debt. Our credit facility was started in September 2012. It's a $20 million credit facility with a three-year term, so we have another almost year and a half left on the revolver term. There's $7.6 million of debt outstanding as of the end of March.

We have been using a revolver for the past several years. I've been here for eight years and that's been our facility over that time. The way that we've been managing our cash flow has been, typically, to borrow money from the revolver when we do an acquisition and then generate enough cash flow from our business to repay the revolver, so it goes up and down. It's a pretty good use of that type of a facility, because of the short-term nature of the borrowings. We're pretty comfortable with that going forward. We do, from time to time, look at alternatives for longer-term financing, but given where we are in terms of our cash generation and our current needs, we haven't looked at anything seriously to extend the term on any of our debt.

Steven Stern: Thank you.

Operator: There appears to be no further questions at this time. I'll turn the conference back to Management for closing remarks. Thank you.

Alex Hamilton: Okay, that's all we have today. Thank you for joining Transcat and we look forward to any follow-up questions you may have. You can reach us at Transcat or Kei Advisors. Thank you.

Lee Rudow: Take care.

John Zimmer: Thank you.

Operator: This concludes today's conference. All parties may disconnect. Have a great day.