Operator: Greetings and welcome to the Transcat Fourth Quarter and Fiscal Year 2016 Financial Results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference today, please press star, zero on your telephone keypad. As reminder, this conference is being recorded.

I would now like to turn the conference over to Craig Mychajluk, Investor Relations for Transcat. Thank you. You may now begin.

Craig Mychajluk: Thank you and good morning, everyone. We certainly appreciate your time today and your interest in Transcat. With me here on the call today, we have Transcat's President and CEO, Lee Rudow; and our Chief Financial Officer, Mike Tschiderer. After formal remarks, we will open up the call for questions.

If you don't have the news release that crossed the wire after the markets closed yesterday, it can be found on our website at transcat.com. The slides that accompany today's discussion are also on our website.

If you would, please refer to Slide 2. As you are aware, we may make forward looking statements during the formal presentation and Q&A portion of this teleconference. Those statements apply to future events, which are subject to risks and uncertainties, as well as other factors that could cause the actual results to differ materially from where we are today. These factors are outlined in the news release, as well as with documents filed by the Company with the Securities and Exchange Commission. You can find those on our website where we regularly post information about the Company, as well as on the SEC's website at sec.gov. Please review our forward-looking statements in conjunction with these precautionary factors.

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

With that, I will turn the call over to Lee to begin the discussion. Lee?

Lee D. Rudow: Okay, thank you, Craig. Good morning, everyone. Thanks for joining us on the call today. I'll start with some highlights for the quarter and year. Then we'll talk to our acquisition strategy and the very successful year that we have had on that front, and then I'll turn things over to Mike for a more in-depth review of the financials, at the conclusion of which I'll provide an update on our outlook for fiscal 2017.

Results for the fourth quarter were mixed. Strong Service segment results were muted by softness in the Distribution segment. The bottom line was down in the quarter and slightly up for the year. From an expense perspective, we incurred additional one-time costs related to the completion of two acquisitions in the fourth quarter and a third deal that was completed just after the closing of the fiscal year. In addition, the variable-based compensation costs tied to the achievement of performance targets, mostly related to our Service segment, increased in the quarter. These costs were compared with difficult comps in that in the prior-year fourth quarter, there was no variable-based compensation cost.

We generated strong cash from operations in fiscal 2016, $11 million versus $4.4 million in the prior year. Our Service segment continues to be the primary growth engine from both a revenue and earnings perspective. Service revenue for the quarter was up 21% and 14% for the full year. That represents

28 consecutive quarters of year-over-year growth. And for the first time Service revenue exceeded Distribution as Q4 Service revenue was 53% of the total, and that's a trend we expect to see continue.

Service margins contracted, as I mentioned just a moment ago, mostly tied to those incremental expenses that were absorbed because of the two acquisitions that we processed in the fourth quarter, Spectrum and Dispersion, as well as the Excalibur deal that was completed just after the close of our fiscal year.

We entered fiscal 2017 with a strong organic pipeline and while we recognize that acquisitions deliver accelerated top line growth, it's organic growth that falls to the bottom line more quickly and therefore we will continue to work and drive the organic Service segment growth.

Moving on to Distribution, market conditions were challenging throughout most of the year. Distribution segment revenue was down double digits for the quarter and the year as headwinds from low industrial output and weakness in oil and gas, which represents about half the decline, continued. The goal for Distribution in fiscal 2017 is stabilization and I will talk to that in more detail in a few minutes after Mike reviews the numbers.

Slide 4 provides some highlights on our acquisition activity. As we talked about in the news release, fiscal 2016 was an excellent year for acquisitions, in part because the challenging economic environment provided a number of great opportunities. Anmar Metrology expanded our geography in Southern California with a general purpose lab in San Diego, a market rich in life science and aerospace business. Calibration Technologies and Dispersion were both bolt-ons that leveraged our current infrastructure. Calibration Technologies fortifies our laboratory instrument services in the pharma and life science markets and Dispersion increases our life science capabilities in Canada with, among many other capabilities, robotic mass calibration.

We increased our life science business and associated life science capabilities with Spectrum Technologies, a biomed play, with almost $6 million in annualized revenue. Excalibur Engineering brings $8 million of annual sales with the combination of calibration and rental service as well as a used equipment business. In particular, Excalibur and Spectrum are two of the largest deals in several years, and all the deals we made in 2016 were great strategic fits for Transcat, which leads to the topic of integration and the realization of sales and operational synergies.

While acquisitions remain an important element of our growth strategy, in fiscal 2017, the focus will be on digesting our recent deals and maximizing the leverage of our larger base of business and improving our margins. I think it's important to recognize that while the macros in 2016 were challenging on the industrial market, we made significant progress positioning Transcat for the future. On the Distribution side, we secured a significant pivot to stabilize the business and drive margins. On the Service side, our value proposition got stronger, which we expect will translate into accelerated growth and an increase in our earnings power.

Throughout the year, we continued to maintain a strong balance sheet, which provides the financial flexibility to support our growth strategy and currently, our total debt is less than two times our pro forma Adjusted EBITDA.

With that, I'll turn things over to Mike to discuss the results.

Michael J. Tschiderer: Thanks, Lee, and good morning, everyone. The results that I will talk about are included in the slides we have posted to accompany this call and I'll refer to some of those slides here as we dive in a bit more. To start, fourth quarter consolidated revenue increased 1.6% to nearly $33 million as revenue in our higher margin Service segment increased by double-digits, offsetting the impact of the decrease in the Distribution segment.

For the full year, consolidated revenue was down 1.2% to $122.2 million, largely due to the same factors driving the change in the fourth quarter. On a constant currency basis, if you were to remove the impact of unfavorable exchange rates between the US dollar and the Canadian dollar that we experienced in 2016, revenue was essentially flat. In the Service segment specifically, fourth quarter revenue was up more than 21% to a record $17.6 million and was comprised of both organic and acquisition-related growth. For the full year 2016, Service revenue was up over 14% to a record $59.2 million. The compounded annual growth rate for the Service segment revenue since fiscal 2012 is 13%. Sales in the Distribution segment declined $2.6 million, or 14.4%, to $15.3 million in the quarter due to the factors that Lee noted. For the full year, Distribution revenue was $63 million, down about 12%.

Our gross margin in the Service segment declined in the quarter due to the one-time expenses from recent acquisitions and higher expenses including variable performance-based compensation that were recorded in the fourth quarter of 2016 versus the prior year fourth quarter, as Lee just described. Acquisition costs also impacted our operating margin. I think it's important to note that we expense all acquisition costs in the period incurred, none are deferred. These costs were $187,000 in the quarter, up from $25,000 in last year's fourth quarter. For the full year 2016, acquisition costs were $555,000 versus $175,000 in fiscal 2015, an increase of $380,000. Our Service segment gross margin declined 290 basis points to 30.3%, of which 140 basis points was due to the compensation expense change. As a result, after factoring in the increased acquisition costs, the Service segment's operating margin contracted from 15.2% to 10.7%.

Moving to the Distribution segment, our fourth quarter gross margin for the Distribution segment increased 30 basis points due to changes in the customer and product sales mix that we experienced. Distribution segment operating income was $400,000. Our consolidated operating income margin was 6.8% for the quarter and 5.2% for the year compared with 9.6% and 5.5%, respectively, in the prior-year periods.

On Slide 7, we look at Adjusted EBITDA and the Adjusted EBITDA margin to gauge our performance. We use Adjusted EBITDA, which is a non-GAAP measure, because we believe it is a good measure of operating cash flow for each of our segments. The only thing that we adjust in our Adjusted EBITDA is to remove non-cash stock compensation expense. No other costs are taken out. Adjusted EBITDA for the Service segment increased 5% to $3 million in the fourth quarter, 16.9% of the Service revenue for the quarter. In the Distribution segment, Adjusted EBITDA was $600,000, down from $1.1 million in the fourth quarter of fiscal 2015.

For the full year, our consolidated Adjusted EBITDA was $10.6 million, which was up 3% from fiscal 2015. Adjusted EBITDA margin was 8.6% of revenue for the year, up 30 basis points. The driver in these full year Adjusted EBITDA results was the Service segment where Adjusted EBITDA for fiscal 2016 was up nearly 22% to $7.5 million and as a percentage of revenue, increased by 70 basis points to 12.6%.

Our fourth quarter net income declined to $1.6 million from $1.9 million and our diluted earnings per share was $0.22 per share compared with $0.27 in the fiscal 2015 fourth quarter. For the full year, net income increased slightly to $4.1 million and diluted EPS increased a penny to $0.58, as full year 2016 benefitted from $500,000 in R&D related tax credits in the US and in Canada. We expect our tax rate to range between 34% and 36% in fiscal 2017 with certain tax credits still being recognized although not to the extent recorded in fiscal year 2016.

On Slide 9, there is detail regarding the strength and the flexibility of our balance sheet. At the end of the fourth quarter, we had $10.9 million in availability under our credit facility, which was $30 million at the time. Subsequent to our fiscal year-end and concurrent with the Excalibur transaction that Lee described, we expanded our borrowing capacity by adding a $10 million term note to our bank credit facility. After funding the Excalibur transaction, we had approximately $27 million in outstanding borrowings under the now $40 million bank credit facility. This debt level is less than two times our go-forward pro forma Adjusted EBITDA and our available cash provides us sufficient liquidity for current operations and dry powder to execute our strategic growth plan.

Our capex was $4.1 million in fiscal 2016, up from $3.5 million last year and was primarily for our expanded Service segment capabilities and the acquisition of assets for our growing rental business. We expect total capex in the range of $5 million to $5.5 million in fiscal 2017 with a bulk of this additional capex being focused on our growing high margin rental business.

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

Lee D. Rudow: Okay. Thanks, Mike. I'll wrap up with a few comments regarding expectations for the year ahead, fiscal 2017. We expect double-digit growth in our Service segment. As always, Service growth will be a blend of acquired and organic growth, and organic growth will be our primary focus throughout the year. We expect sales and cost synergies from recent acquisitions to drive operating leverage as we work to integrate the recent acquisitions. We expect the short-term macros to be about the same, but have a good plan in place to drive the business. Certainly, more stability in energy and industrial markets would be a positive.

We expect growth in our instrument rental business and that growth with its attractive margin profile will aid in the stabilization of distribution. The Excalibur acquisition, which in addition to its calibration business offers rentals and used equipment, is expected to contribute positively as well to the stabilization of distribution. Excalibur also brings to Transcat a new sales engine by way of their well-established nationwide rep network. Longer term, we expect to continue to strengthen our value proposition and to be a leading provider of calibration services throughout US and Canada. We'll continue to target consolidated revenue between $175 million and $200 million and double-digit EBITDA margins at that level within the next five years.

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

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

Our first question is coming from the line of John Sturges with Oppenheimer. Please go ahead with your question.

John Sturges: Thank you. Nice acquisitions, congratulations. Things look like they're progressing well. I am just curious if you could review some details on the variable compensation, what your thinking is or what the goals are behind that?

Lee D. Rudow: Okay, thanks, John, I appreciate the question. Relative to the compensation for the quarter, we have all of our compensation based upon performance of the Company. We set targets, we detail this, John, in our proxy and those targets are strategic for the Company and the variable piece is paid to the staff and to the management based on performance against those targets. I think what you see year-over-year was the fact that in fiscal 2015, we did not meet our targets and therefore in the fourth quarter particularly, there was no compensation expense. This year, our targets were primarily geared towards achievement of certain performance targets in the Service business. Some of those targets were met and so we had the year-over-year difference. Does that answer your question?

John Sturges: Thank you, yes, it does. Thank you.

Operator: Once again, to ask a question today, you may press star, one from your telephone keypad. Thank you. At this time, there are no additional questions. I will turn the floor back to management for closing remarks.

Craig Mychajluk: It looks like somebody just jumped into queue.

Operator: Yes. We have a question coming from Steven Stern with Stern Investment Advisory. Please go ahead with your question.

Steven Stern: Good morning, everyone. I had several questions and they've been subsequently answered in large part. The tax rate shift you addressed very well in the primary statements. John Sturges' question on the variable compensation touched on a topic that I'd like to follow up on a little. I noticed that the compensation expense was split between cost of services provided and operating expenses. Is there a formula by which you allocated 200 thousand at one level of the income statement and 500 thousand at the other?

Michael J. Tschiderer: Yes, Steven, this is Mike. There is an allocation that we go through based on the actual participants in the plan and the achievement of each of those individuals towards their goals as well as the corporate goals, and then we look at the headcount, the dollars of each of those people and where those costs normally reside. Lab costs would be more in the cost of sales if it's directly related to lab functions with others being put into the administrative or selling, general or warehouse expense. So, it is based on headcount and dollars earned by each person.

Steven Stern: Oh, very good. So it's actually allocated by the function of the person receiving the compensation.

Michael J. Tschiderer: Correct.

Steven Stern: Okay very good, and then my final question, on your lines of credit, you seem to have a lot of leeway and a good margin there with availability, can I ask who your banks are or who your providers of credit are, are they only banks?

Michael J. Tschiderer: Yes and it is disclosed. So the credit facility is actually filed and our primary bank for lending. It's all with M&T Bank. We use other banks for operating accounts, but the credit facility is all with M&T Bank, Steven.

Steven Stern: Very good, thank you very much.

Lee D. Rudow: Thanks, Steven. Okay, thank you all for joining us. We appreciate your interest and support in Transcat. I do want to announce, for those of you that are in the Cleveland area that we are going to be presenting at the Midwest Investment Conference, which is hosted by the Cleveland CFA on June 22. So let us know if you have any interest in meeting with us, we'll be happy to meet with you there and again, thank you all for participating.

Operator: Thank you, everyone. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.