



Transcat Inc.

Second Quarter Fiscal Year 2022 Financial Results

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PRESENTATION

Operator

Greetings. Welcome to the Transcat, Inc. Second Quarter Fiscal Year 2022 Financial Results.

Please note, this conference is being recorded.

I'll now turn the conference over to your host, CFO, Mark Doheny. You may begin.

Mark Doheny

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. We will begin the call with some prepared remarks, and then we will 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. The slides that accompany today's discussion are also posted 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.

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'll 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, 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'll turn the call over to Lee to begin the discussion. Lee?

Lee Rudow

Thank you, Mark. Good morning, everyone, and thank you for joining us on the call today.

We achieved excellent results in the second quarter on solid operational execution and our ability to capitalize on strong demand across both our Service and Distribution segments. We generated broad-based growth across a wide range of end markets, resulting in a consolidated Q2 revenue increase of 21%, to \$50.4 million, a second quarter record for Transcat.

In addition to the strong revenue growth, consolidated gross margin expanded 140 basis points to 29%. Adjusted EBITDA, a very important metric for us, given our level of acquisition activity, grew 36% from prior year, to \$7.1 million.

At the end of August, we acquired NEXA Enterprise Asset Management. The teams are actively working together. We've already identified numerous synergistic growth opportunities, and I'll talk more about NEXA in a few minutes.

Turning to our service segment. We performed at a very high level and recorded our 50th straight quarter of year-over-year revenue growth. That record continues to be an amazing accomplishment for both our sales team and the entire Transcat organization.

In the second quarter, we achieved approximately 14% organic service growth and 20% overall service growth. Regulated markets, where the cost of failure is high, continues to be an important driver of our service revenue. Transcat continues to perform exceptionally well in the life sciences market, where our value proposition resonates the most.

In the second quarter, we expanded our service gross margin to 32.9%. When we compare service gross margin to two years ago, in Fiscal 2020, our gross margin increased 730 basis points. That's an interesting data point and a testament to our effective deployment of continuous improvement initiatives as well as the inherent leverage in our service business.

Moving on to distribution. Despite elevated levels of backlog due to supply chain constraints, distribution grew 22% on strong demand with particular strength in the wind power generation market. Of course,

we're up against easier comparisons to a COVID-impacted prior-year quarter. Still, distribution gross margin improved to 23.5%, a 240-basis point expansion from the prior year, driven largely by favorable product mix.

After the completion of NEXA, the acquisition of NEXA, our balance sheet remains strong with a leverage ratio of around 1.5 times, up from under 1 times prior to the acquisition. By any measure, we are pleased with our second quarter performance, and as I mentioned in the past, the talent and commitment of our team continues to be an important strength and one that we'll continue to leverage.

With that, I'll turn things over to Mark.

Mark Doheny

Thanks, Lee.

I'll 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 \$50.4 million was up 21% versus prior year, on broad-based strength, across both of our operating segments.

Service segment revenue growth remained very strong at 20.3%, with 14% of the growth coming organically and the other roughly 6% from acquisition. As we mentioned, we closed the NEXA acquisition on August 31, so our second quarter consolidated and service segment results include approximately 3.5 weeks of NEXA, and this added about \$600,000 of revenue in the quarter.

Turning to distribution. Revenue of \$20.8 million was up 22% versus the prior year. We saw improved market conditions across our base business, compared to our prior-year quarter that was significantly impacted by the pandemic. We saw particular strength in the wind power generation market, as we shipped several large orders at a relatively higher margin.

Turn to Slide 5. Our consolidated gross profit of \$14.6 million was up 27% from prior year, and our gross margin expanded 140 basis points to 29%. Service gross margin expanded 70 basis points from prior year, and hit a second quarter record of 32.9% as we leveraged our fixed costs from the high level of organic growth, and our technician productivity remains strong. Distribution segment gross margin of 23.5% was up 240 basis points from prior year, on a more favorable sales mix, which included the wind market power generation strength.

Turning to Slide 6. Consolidated operating income of \$3.6 million was up 16% from the prior year. It should be noted that both consolidated and service segment operating income were impacted by approximately \$800,000 of one-time transaction costs related to the acquisition of NEXA, including a 1% Irish stamp tax on the full purchase price of the acquisition as is customary, when acquiring businesses based in Ireland. Distribution operating income of \$900,000 improved significantly from the prior year third quarter, which, of course, was impacted by the pandemic.

Turning to Slide 7. Q2 net income of \$3 million increased to \$1 million from prior year, and our diluted earnings per share of \$0.40 were up \$0.13, a result of the strong operating performance. The second quarter included a favorable discrete tax benefit due to tax accounting associated with stock option activity. With this in mind, we now expect our Full Year Fiscal 2022 tax rate to be in the range of 14% to 15%, which is down from our previous expectation of 16% to 18%.

Turning to Slide 8, where we show our Adjusted EBITDA and Adjusted EBITDA margin. We use Adjusted EBITDA, which is non-GAAP, 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, and as we mentioned earlier, 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 levels of non-cash expenses, that will hit our income statement, from acquisition purchase accounting. For example, approximately \$1.6 million of intangibles amortization expense is expected to be recorded in the first year of ownership of NEXA, which is largely related to the value of acquired customer relationships.

In addition, per purchase accounting rules, we will amortize the acquired backlog of approximately \$500,000 over the first 5 months, post-acquisition, which will be a reduction to both revenue and therefore, gross profit and operating income. Once this backlog is fully amortized after 5 months, we would expect NEXA's higher level of profitability to add approximately 100 basis points to our service segment's gross margin profile, on a go-forward basis.

With that in mind, consolidated Adjusted EBITDA of \$7.1 million was up 36% from prior year, and our Adjusted EBITDA margin increased to 14%. Both segments showed strong improvement from 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 our expectations as working capital increased on the very strong organic revenue growth. Year-to-date Capex through the end of the second quarter was \$3.8 million, compared to \$3.1 million year-to-date in the prior year and 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 \$43 million with a leverage ratio of 1.5 times. We did utilize our credit facility for the NEXA acquisition in the quarter, and we had \$46.6 million available from the facility, at quarter end. Lastly, we expect to file our Form 10-Q later today.

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

Lee Rudow

Okay. Thank you, Mark.

As we look forward, we expect our strong balance sheet to continue to support our strategic capital allocation opportunities. Combined with our service revenue growth, sustainable gross margins, and an active M&A pipeline, Transcat is well-positioned to continue to deliver solid earnings growth.

Like I mentioned earlier, we're extremely excited about our recent acquisition of NEXA. NEXA brings a differentiated suite of technical, consulting, and staffing services to both asset management and to drive optimization of calibration programs for pharmaceutical, biotechnology, and medical device companies. Their current focus, primarily, is in the United States and Ireland. While it's still very early, the alignment between NEXA and Transcat is clearly visible on our end. The acquisition expands our addressable markets and accelerates the opportunity to add value to our present and future customer base.

As we look ahead to the third quarter, we expect to have another strong quarter of growth in both service and distribution. In service, we're projecting similar revenue growth as we just achieved in the second

quarter of 2022. We would expect roughly half of the growth to be organic and the other half to come from acquisitions. We're expecting the typical sequential service gross margin decline, as we move from the second quarter to the third quarter, from the normal increased level of holidays.

However, we do expect margin expansion over the prior year, similar to the level of expansion we achieved in the second quarter of this year. The primary driver for the expected third quarter service margin expansion will be the inherent leverage in the service business as it continues to grow.

Looking forward to distribution, while we're not immune to the supply chain constraints impacting most companies, the business has certainly improved over prior year, and we expect that to continue going forward, and to achieve low-teens revenue growth in the third quarter. The growth driver is improved market conditions, generally, and of course, comparisons to a COVID-impacted Q3 of last year.

In conclusion, the future looks bright for Transcat. We like our differentiated strategy. Our balance sheet and cash flow are strong. Our acquisition pipeline is active, and we're actively leveraging our past investments in infrastructure. We expect to perform well, both from a revenue and margin perspective.

With that, Operator, please open the line for questions.

Operator

Our first question is from Greg Palm with Craig-Hallum Capital Group. Please proceed with your question.

Greg Palm

Thanks. Congrats on the good quarter here.

Lee Rudow

Thanks, Greg.

Mark Doheny

Thanks, Greg.

Greg Palm

Maybe just diving in a little bit on the gross margin commentary, the guidance, specifically for the current quarter. I'm guessing, some of that implied guidance is just due to normal seasonality, but just wanted to make sure we're all understanding some of the impacts from NEXA. It sounds like there's going to be, I don't know, what, a \$500,000 gross profit impact from the purchase accounting, and that should be almost entirely through. Then, after that, you said something like a 100-basis point positive impact in the quarters ahead. Did I hear that right?

Mark Doheny

That's correct. Yes. It will take 5 months, so all of our third quarter will be impacted by that. Then we'll get back to a go-forward basis. I guess, 1 month of the fourth quarter, we'll have it. Then as I mentioned, rough math, it should improve the service gross margin profile by roughly 100 basis points.

Greg Palm

Perfect. How are you viewing pricing out there? I'm not sure if that's been a driver, has to potentially become a larger growth driver, but how are you specifically dealing with some of these higher cost pressures that seems like everyone else is seeing out there?

Lee Rudow

Greg, this is Lee. From a cost perspective, we're seeing some pressure, obviously, on wages of our technicians and employees, in general. I've been pretty impressed with, so far, our ability to pass that along to the market. Where we've needed to make price increases, to hold margin and even in some cases, improve it, we've been able to do so. I think we've got a pretty decent strategy around that. So, I would expect our increased costs to be covered by an increase in revenue.

Greg Palm

Yes. Fair enough. Maybe you saw this coming, but certainly, labor shortages and challenges are what everybody else is talking about, these days. You've spent a lot of time and effort in improving your processes and automating some of those labor-intensive roles. I'm just curious, does that differentiate you? How much of a competitive advantage, do you think that is, in a time when nobody can really find adequate amounts of labor?

Lee Rudow

Well, without question, the more you automate, the easier time you're going to have with labor and labor shortages. We've also invested—and we're really in the early stages. I wish we were further along, but the fact is, we've had an intention to train more tech, to build our own tech, to launch our own tech school now, for years. We have started that, and it is yielding some early positive results.

But as we get further along with developing our own tech, as we get further along in automation, because they're both really in the early stages, that's going to bode well for us. That's going to be a differentiator for us, and it should support growth, differentiated growth.

So, you are right. Those are key issues, and it's just a matter of letting those investments kind of flow through and mature a little bit. I think we're early yet. We're doing pretty well, considering it's still early, and we have that to look forward to.

Greg Palm

Yes, makes sense. And I guess, just last one, now that NEXA is part of the Company, how do you think about geographic expansion, now that you have an owned asset in the European market? Is that a focus or priority or not really, at this point?

Lee Rudow

Yes and no. So, yes, from the perspective of we are in Ireland, there are 30-some employees there to work for us. They're engaged every day with life science companies. To me, I think having a calibration lab in Ireland is very logical. I'm not going to call it imminent, but it's definitely on our radar, something we want to get done, probably early in the next fiscal year, in that rough timeframe.

As far as expanding beyond that, beyond Ireland, that's not really on our radar today. Of course, it's something that we know is a possibility, when the timing is right. But right now, it's U.S. and Ireland, and yes, we're absolutely focused on it.

Greg Palm

Okay, great. Best of luck going forward. Thanks for all the color.

Lee Rudow

Bye, Greg. Thanks for the questions.

Operator

Our next question comes from the line of Jeff Van Sinderen with B. Riley. Please proceed with your question.

Jeff Van Sinderen

Good morning, everyone, and let me add my congratulations as well on the strong metrics. Given the recent acquisitions, what is life science concentration of your business at this point, where do you see that concentration headed?

Lee Rudow

I would estimate, Jeff, at this point—this is Lee—that the concentration is about 60% of our business. Remember, within life science itself, you've got biotechnology, you've got medical device companies, you've got pharma companies as well. So, it's kind of a range even within life sciences, but it's pretty darn close to 60%, and we'll gather some data on that and probably report the next time you see us.

Jeff Van Sinderen

Okay, great. Then kind of a multi-part question here, so if you can bear with me. Maybe you could speak to where we are in terms of recent acquisition integration margin synergies? Then if those are fully realized at this point or if there's more to come?

Then if you could give us your latest thoughts on the overall evolution of the margin profile of the Company, considering the acquisitions you've made. Maybe what kind of margins we could be looking at a year from now or ultimately. Then maybe touch on future acquisitions in the M&A pipeline, how they might impact the overall margin profile, going forward. It's a lot there, sorry about that.

Lee Rudow

Yes. Well, I think I get the gist of it. Margins, relative to acquisitions, can kind of go both ways. Generally speaking, like in the case of NEXA, they have pretty attractive margins. Once we sort of burn off some of the accounting costs in the short run, next 5 months or so, we would see that as enhancing our margins.

Sometimes, when we do a bolt-on acquisition, for example, and we leverage an already existing infrastructure, we're going to get some margin pop because we're going to be able to lower cost, one lab manager versus two and some reduction in infrastructure costs, relative to the 2 companies.

But sometimes we'll buy a company in a territory that we don't have a lab, and you're not going to get those synergies, and so there might be minimal. It goes both ways, and it really kind of depends on the acquisition itself.

Overall margins, Mark and I talk about this all the time with our teams, and we've gotten to where we wanted to go, where we said we hoped we would go several years ago, and now we've arrived. The question is, how much more runway is there? We think that our margins will continue to improve, maybe not at the same rate as the last couple of years, but we think we can get, over time, into the mid-30s, that's kind of our next threshold.

We'll do that through operational efficiencies that we're always working on and investing in. We'll do it through automation as that matures through our system. If we had the same gross margins in service 2 years from now that we have today, I would be disappointed. I see us improving and getting to a higher level. That will take some time, but I think it's pretty visible to us.

As far as the acquisition pipeline, and the number of acquisitions and how they will affect margin, I think it's too early to tell. We have a very attractive pipeline. There are some bolt-ons there. There's some new territories there. There's different drivers for the companies that are in our pipeline. I'd have to really look at it in a more specific way to come up with how margins will be affected by it. I think it's way too early to answer that question, but I would stick to the first two answers. It could go either way, depending on the type of acquisition we're making.

Jeff Van Sinderen

Okay. Thanks for taking my questions and continued success.

Lee Rudow

Thank you, Jeff.

Mark Doheny

Thanks.

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.

I'm hoping that maybe you can give us a little bit more color on organic growth. What of that is a benefit from just being in the markets that you're in versus maybe taking some share from some of your peers that are out there?

Lee Rudow

I think it's a combination of those two things and perhaps even more. We are taking market share from the competition. I think our value proposition is strong, and of course, I'm biased, but in my opinion, very strong, compared to our competition. So, I'd like to keep it that way. That's a contributing factor. Some of the organic growth is just some pent-up demand companies getting back running, and we just have a healthy sort of demand right now. That's helpful.

I think the third factor is life sciences. That particular market, as compared to automotive or semiconductor, some of the markets we don't concentrate in, life sciences is a nice place to be. It's that high cost of failure that I alluded to in my earnings script. So, good market, good time, and strong value proposition, which fosters taking market share from the competition. I think it's all three of those things.

The final thing I'd add too is when you have a tight labor market like we do today, Scott, what you find is that in-house labs are struggling to maintain their calibration technicians, for example. So, if you have a lab with 6 technicians that work for a pharmaceutical company and 1 retires, as we talk about, and another one perhaps is ill or goes to another employer, all of a sudden, they're out of compliance, and they've lost a third of their staff. So, they would turn to a company like Transcat to supplement, augment those shortages. I think all four of those factors are contributing to the strong organic growth.

Scott Buck

Great, Lee. That's really helpful. I'm curious on distribution. What's your inventory look like, and are you having any trouble sourcing equipment for potential retail, given the supply chain issues?

Mark Doheny

Yes. I would say, yes, it's very long lead times now. So just like I'm sure the rest of the companies that you report on, we're seeing that our overall backlog is up. Now, sales are up and orders are up, but it's also driven by the supply chain lengthening out.

Inventory, actually, came down a little bit. You might notice in the quarter it might be a little bit low to natural levels as we wait for some of this to come in. It's not something that we would call out as a huge difference from the last time we reported out. It's still there. Maybe the vendor lead times that are lengthening even longer though.

Scott Buck

All right. Great, Mark. I appreciate that.

Then last one for me. Could you just remind us, where your leverage comfort zone is, as we think about additional M&A from here?

Mark Doheny

Yes. We've talked about 2.5 to 3 times, in that range, is probably getting on the upper end of where we'd like to be. So, it's something that we talk about all the time, and that's kind of where we are now.

Scott Buck

Perfect. I appreciate the time, guys. Thank you very much.

Lee Rudow

Take care. Thanks.

Operator

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

Gerry Sweeney

Hi. Good morning, guys. Thanks for taking my call.

Mark Doheny

Hi, Gerry.

Gerry Sweeney

Just a follow-up, almost, on labor, but more about tech utilization. Just curious as to how much utilization you have available. Obviously, everything you talked about in-house labs, people leaving, you probably have some transition going on. You've had some great organic growth. Do you have enough utilization to keep growth going?

Lee Rudow

It's a great question. I think the answer to that is, yes, generally speaking. The first lever you pull, Gerry, when you think about increased business, is overtime. A lot of our technicians really like overtime, not all of them, but a lot of them do. It's an opportunity, obviously, to earn more income. That would be the first thing you would do.

We are training techs at all times. I've told the market this before, and we talk about it at the Board level, it's always been hard in this industry to find trained technicians that can join our Company and create value day one. It's been hard for 30 years. That's not going to go away, but I think you build a good training program internally, you use overtime, you sell intelligently the right margins, the right kind of customers that are a good fit, you select how you want to grow and who you want to grow with.

I think it's a combination of all those things that makes it manageable because I think the core of your question is, will we be able to grow in a tight labor market and manage the challenges that are inherent in that. I think the answer, generally, is yes. If I thought we couldn't grow and meet our goals, I would be voicing that. I think there's a myriad of ways to get over that challenge, and we're employing all of them at the present time because I think it's necessary. I think we're doing it pretty well, and it's not keeping me up at night, so I think we'll continue to do well, in that respect.

Gerry Sweeney

That's very helpful. I appreciate it.

Then automation, obviously, even automation could play into that a little bit. I know this is sort of a process journey that you're working on developing. Using a baseball analogy, since it's a World Series, etc., what sort of inning are you in with the automation program, either getting more comfortable with it, rolling it out to subsectors, etc.?

Lee Rudow

Well, good question. I would have said, a quarter or two, and I think I did say we're probably in the second or third inning, maybe this time last year, or maybe it was a couple of quarters ago. I would say, we are definitely, doing more automation than we were doing a year ago at this time. We are definitely making progress. It's hard, but we're doing it right, and we will reap the benefit somewhere down the road; we certainly expect to.

I would say, we're going from the third to the fourth inning. So, it's still early, but we've made progress. That's encouraged us and it's helped us to tweak our initiatives to be more effective. So, I feel pretty good about where we are and where we're heading, but it's early.

Gerry Sweeney

Okay. That's sort of what I anticipated. You said it was a multi-year process. So, I just wanted to make sure that it's on track.

Finally, a final question, acquisitions, obviously. I think NEXA is a little bit different than just buying a traditional lab. If you look at on the playing field, is there anything different, unusual, you'll say, "Hey, Transcat could really use this to either differentiate you more or add some type of service"? I'm just curious, from that perspective.

Lee Rudow

Right. Well, the first thing it comes to mind is geography. Many of you have heard me say this before, and I'm happy to route it off in 20 seconds and under. This Company needs to be in Florida, and we're working, we're focused on that, and I think we're going to get that one put behind us before too long. We need to be in Dallas. We are in Houston, but we need to be in Dallas. We have 2 labs in Southern California.

We need to be in Northern California. Minneapolis would be nice because it's a vibrant medical device market with Boston Scientific and St. Jude and Medtronic, we need to be there. We need to be in Maryland, the Mid-Atlantic area needs to be covered more. We have gaps in our geographic footprint, and that alone, Gerry, is a good driver for us. In addition to that, we're always looking at the capability increase, too. So, we've got our eye on all the ways that acquisitions can help us improve the Company.

Gerry Sweeney

In other words, there's lots of runway.

Lee Rudow

I think so.

Gerry Sweeney

Sounds like it. Okay, perfect. Appreciate it. Thank you.

Lee Rudow

Bye, Gerry. Take care.

Operator

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

Mitra Ramgopal

Good morning. Thanks for taking the questions.

Actually, speaking of runway, I just wanted to follow-up on some end-market opportunities. Maybe you could provide some more color, in terms of on the alternative energy side, the wind power generation, solar potential. What are the opportunities you think that might be out there for you? Also, maybe if you can give us an update on the Pipettes business, how that's coming along, and opportunities to expand, also in that area.

Lee Rudow

Okay. So, wind energy is doing well, right now. For those of you, who are familiar with that market, without getting into too much detail, it runs in cycles. In the 10 years I've been here, I've seen it get hot and cool off, get hot and go off, and some of it used to depend on government subsidies and the like. But right now, we just had a good run for the last couple of quarters, and that's helped support the distribution business. We're thrilled with it, but we do expect it to cycle in and cycle out and cycle back again.

I think if you look at the longer-term picture, Mitra, the world is going to turn to alternative energy. I think it's a matter of when versus if. Transcat has been in that market and developing our value prop in that market for over a decade. When that happens, and as that happens, we're really well-positioned. So, that's helped us over the last couple of quarters. In and out during the future as it goes through the cycles, it will continue to be well-positioned.

The Pipettes business, to your second question, is doing terrific. We knew, going into that business, when we were going through a due diligence process, that it was a strong business, well-managed, and it has not disappointed. So, the market is good for pipettes, that's helped, but more than even the market, it's just a well-run company before we bought it, it's even better run now because we've taken advantage of some of our expertise and some of the synergies that existed. So, I think we're really pleased. I see a good runway for that part of our Company to grow as well.

Mitra Ramgopal

That's great. Thanks for taking the questions, and congrats on a great quarter.

Lee Rudow

Thank you.

Mark Doheny

Thanks.

Operator

Our next question comes from the line of Dick Ryan with Colliers. Please proceed with your question.

Dick Ryan

Thank you, and congratulations on the strong execution.

Say, Lee, looking at NEXA, can you talk a little bit about what the immediate strategy is? Is it bringing your calibration services over there to their customer base, or their solutions over here? Can you talk about the cross-selling opportunities, and how you're staging that?

Lee Rudow

Sure. I'll certainly talk to a degree. I don't want to get into too much detail about our strategy. I will say that I think it's a good one, and it's an exciting one, but at a high level and at the start, there's no reason why we shouldn't be cross-pollinating their customer base with ours. There are customers that we deal with, that are currently in our pipeline, and that exist as part of one of our enterprise accounts that would absolutely benefit from the suite of services that NEXA offers.

It goes both ways. NEXA has a customer base, a growing customer base that absolutely, would benefit from understanding and learning more about our calibration services. I think, day 1, quarter 1, year 1, that's what we're going to focus on. The opportunities that exist right in hand, today.

The only thing I would add to that is that the next time we uncover an opportunity, and we're putting our plan together and we're going to sit in front of a customer, we absolutely have the ability to bring both teams together and form a team to go after that opportunity. We've already done it a couple of times with early success, and I think that that's going to be a big part of it.

What we have today, needs to be leveraged from both sides, both ways, and then new opportunities as we encounter them. Our value proposition got stronger because of NEXA, and we will leverage that to try to win new opportunities.

Does that cover for you? Is that what you wanted?

Dick Ryan

Yes. That gives me a good flavor.

Also, you talked about the tight technician market, and I know CBLs, maybe the growth kind of stalled out, and I know that's not a strong lever for growth, but it certainly brings some complementary business in. Have you added any CBLs, and what is the tone of conversation that you're having with potential customers in the pipeline there?

Lee Rudow

We've definitely seen an uptick in CBL activity. You are right, the faucet sort of got shut off with CBLs due to COVID, and that makes a lot of sense, but we are definitely seeing a higher level of activity in our pipelines and our new business pipelines, around CBL. That, to me, is not surprising at all.

Two reasons. One, COVID's getting a little bit in the rear-view mirror. I don't want to get ahead of myself, but we're certainly managing it better than we did a year ago at this time, and that helps. And certainly, the tight labor market is going to foster opportunities. So, the combination of the two is driving the pipeline activity.

Dick Ryan

Okay. How is the rental business?

Mark Doheny

Yes. It's actually still very strong. It's a really good environment for that business, with supply chains type (phon) able to get new equipment. So, it's a really good environment, and continue to have a really good quarter.

Dick Ryan

Okay, great. Thank you.

Lee Rudow

Thanks, Dick.

Mark Doheny

Thanks, Dick.

Operator

We have reached the end of the question-and-answer session.

I'll now turn the call back over to Lee Rudow with closing remarks.

Lee Rudow

Thank you, and thanks, everybody, for joining us on the call today. We appreciate your continued interest in Transcat.

Just as some points to note, on November 16, we'll be participating in the Craig-Hallum Conference, which is virtual. On November 18, we'll be participating in the ROTH Conference, which is also virtual, and on December 8 and 9, we'll be participating at the Sidoti Conference, which is also virtual. So, feel free to check in with us at any time, at any of those conferences.

If we don't talk to you then, we look forward to talking with everyone after the third quarter results are published. Again, thanks for participating today. Take care.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.