

Operator: Greetings and welcome to the Transcat first quarter fiscal year 2015 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, 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 Craig Mychajluk, Investor Relations for Transcat. Thank you. You may begin.

Craig Mychajluk: Thank you 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 up the call to questions and answers.

If you don't have the news release that was sent out after the market yesterday, it can be found on our website at transcat.com. We also posted slides that will accompany today's discussion. Please refer to Slide 2 for our Safe Harbor Statement. 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 Securities & 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, sec.gov. 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, Craig. Good morning, everyone. Thank you for joining us. Today, we will review our first quarter performance as well as discuss upcoming initiatives and our outlook for the current fiscal year.

For those following along with the slides, I am starting with Slide 3 which is an overview of our long-term objectives. We are firmly focused on executing our strategic plan to build a foundation for future growth, while delivering near and mid-term earnings growth. We expect to achieve double-digit top-line performance in the Service segment through an organic and acquisition growth strategy. On the organic front, we have and expect to continue to leverage our integrated sales model and the talent and industry expertise that we have added to the organization. We will continue to build our calibration business through the development of larger, enterprise customer opportunities, while maintaining and growing our high-margin lower-volume accounts. As always, we will continue to focus on regulated industries, such as life science.

Importantly, as we have shown over the past two years, as we move beyond the inflection point on the service side, we expect profits to expand at a rate faster than revenue over the long term.

We also continue to target acquisition opportunities that allow us to take market share and consolidate the highly fragmented calibration industry. Our acquisition strategy is to increase our capabilities and expertise, allow for geographic expansions, and gain greater economies of scale. While larger acquisition opportunities exist, the majority of the potential opportunities are in the 1 to \$5 million revenue range. Our acquisition criteria are to pay four to six times EBITDA and achieve a target internal rate of return of 15%.

In the Distribution segment, we will continue to leverage the strong cash generation and customer interactions to support growth in the Service segment. We've developed a market-leading position on the distribution side and plan to maintain that position, and as a result, margin expansion is limited. We do have initiatives planned this year to support this segment, which I'll go into later.

Let me add some comments about our first quarter before I turn it over to John to review our results in detail. I am referring to Slide 4. We achieved modest top line growth of 1.4%, driven by organic Service growth of 3.4%. As mentioned in our news release, the 3.4% was below our expectation.

Organic sales are a combination of new business and retained business. In the first quarter, we experienced a slight dip in our retention and did not generate enough new business to offset the dip and get us to our expected growth rate. April was a slow month, May and June were strong. But again, May and June did not make up for the entire April shortfall relative to expectations.

Distribution sales of \$17 million were consistent with the prior-year period. It is important to note that we are comparing against a very strong prior-year period. Because we are still relatively close to the inflection point and our quarterly results fluctuate, we think it is important to look at the Service segment on a trailing 12-month basis. In the following slides, we will provide details on both our quarterly and annual performance.

Overall, our margins were particularly impacted by lower Distribution segment vendor rebates, and to a lesser extent, pricing strategies to maintain our market position. The bottom line for the quarter was \$400,000 of net income compared with 700,000 in the prior period. We maintained our flexible balance sheet, which will provide a foundation for future investments and acquisition activity.

With that, I'll turn things over to John Zimmer to go through the first quarter financial results.

John Zimmer: Thank you, Lee and good morning everyone. Let's begin with Slide 5. In the first quarter, we continued our trend of top line growth, driven by Service segment

revenue increasing to \$12.1 million from \$11.7 million in the prior-year period. As we mentioned, this growth was entirely organic.

First quarter Distribution segment sales were \$17 million, which was consistent with the prior-year period. We were able to offset our aggressive pricing due to the highly competitive market with additional volume during the quarter.

Moving on to Slide 6. Both segments had negative impacts at the gross margin level which were not fully offset by operating expense reductions. We do expect our Service segment gross margin to improve with increased revenue growth going forward. In addition, we continue to evaluate opportunities to reduce our outsource spend. For example, we recently added a state-of-the-art wind tunnel at our Rochester lab that will reduce related outsource costs in the future and offer additional revenue opportunities.

The Distribution segment was primarily impacted by lower growth-based vendor rebates which had a 240 basis point impact on that segment's gross margin, and to a lesser extent, increased price discounts. We did have some offset from higher cooperative advertising income. Each year, our vendors establish expected growth rates based on prior year performance in order to achieve certain rebate levels. As a result, rebates tend to be cyclical. In other words, our strong growth in certain brands in one year makes it more difficult to achieve the same growth the following year.

On a consolidated basis, our operating income for the first quarter was \$800,000, down from \$1.2 million in the prior year's first quarter. The Service segment operating income on a trailing 12-month basis was up 7.6% over the first quarter of fiscal 2014 trailing 12-months.

On Slides 7 and 8, 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 is a good measure of operating cash flow for each segment. 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, consolidated contribution margin was \$3.0 million compared with \$3.5 million in the prior-year period. For the Service and Distribution segments, contribution margin was \$1.3 million and \$1.7 million, respectively, or 10% of revenue for each segment.

Consolidated Adjusted EBITDA was \$1.5 million compared with \$2.0 million in the first quarter of fiscal 2014. Although we experienced a decrease in Service segment Adjusted EBITDA for the quarter, we are still above a 32% compound annual growth rate since the 2011 fiscal year and nearly 8% higher on a trailing 12-month basis, demonstrating the longer term growth of this segment.

On to Slide 9. Our first quarter net income was down from the prior year with diluted earnings per share of \$0.06. Our net income compound annual growth rate since fiscal 2011 is above 9%.

Slide 10 provides detail regarding the strength of our balance sheet. We currently have \$10.8 million in long-term debt, leaving \$9.2 million in availability under our \$20 million revolving credit facility. The increase in debt of \$3.2 million since the end of March was due in large part to our opportunistic purchase of inventory in the first quarter which allowed us to obtain additional cooperative advertising funds to support our marketing efforts.

Our first quarter CapEx was \$700,000 and focused on additional service capabilities in Information Technology. Our fiscal 2015 full year CapEx is expected to be in the range of \$3 million to \$3.5 million.

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

Lee Rudow: Okay, thanks John. While the first quarter provided its challenges, we continue to execute our strategic plan and remain excited about our near and long-term growth opportunities. For the remainder of fiscal 2015, we expect to see an improvement in our operating income and margin in the Service segment. While Distribution margins are limited, we are maintaining our leading position in the market and leveraging the business to maximize opportunities in the Service segment.

Capital allocation continues to be focused on growth initiatives. In fiscal 2014 and into fiscal 2015, Transcat completed a significant capital investment in upgrading and redefining our client-facing software, CalTrak Online. The new and innovative online service interface that manages our customers' cost, control and compliance data, is branded as C3 Asset Management Software. We have already begun to gain customer confidence with the system and we are winning additional customers because of the value it provides for them.

We will also be launching our new state-of-the-art website supporting both segments of the business. The new site will allow for improved transactions, enhanced search capabilities, strategic vendor stores, banner advertising revenue and an enhanced platform for premium content and customer reviews.

As previously stated, we are continuing to work our acquisition pipeline to support our growth strategy.

With that, we'd like to open the call for any questions.

Operator: Ladies and gentlemen, if you wish to ask a question at this time, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue, and you may also press star, two if you'd 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 key. Once again that is star, one if you have a question at this time. We'll hold for one more moment to see if there are any questions. It seems that we have no questions at this time. I'd like to turn the floor back to management.

Craig Mychajluk: Brenda, it looks like someone just came into the queue.

Operator: I just saw that as well. We have a question from the line of Steven Stern with Stern Investment Advisory. Please proceed with your question.

Steven Stern: Sorry to be a little late on the queue. I have a question about the vendor rebates. Who are our biggest vendors and are they the ones who provide us the bigger vendor rebates?

John Zimmer: Yes. Steve, this is John Zimmer. The largest of our vendors is Fluke and the rebates are primarily driven by them.

Steven Stern: Okay. Do they rebate in the same period as our orders or is there a delay?

John Zimmer: There are a variety of different rebate programs. Some of them are on an annual basis and some of them are on a quarterly basis.

Steven Stern: Okay. But, in reporting periods such as this first quarter, the rebates that are being referred to, are they for previous quarters or are they specifically for the first quarter?

Lee Rudow: They're for a calendar year.

Steven Stern: Okay, very good. Thank you very much.

Lee Rudow: Thank you.

Operator: Thank you. We'll pause for one more moment. Again, that is star one on your telephone keypad if you have a question. Okay, and we have a question from the line of Joe Manko with the Horton Fund. Please proceed with your question.

Joe Manko: Hey, John and Lee. It's Joe from Horton Capital. How are you guys doing?

Lee Rudow: Hey Joe.

Joe Manko: Just a question, can you articulate how you are doing on your life sciences strategy? Are you making progress there? Is that some of the big wins that you are seeing? Or, are they related to other things?

Lee Rudow: This is Lee. Joe, we think we are making good progress. We like our pipeline. Some of our recent wins; such as the accounts that we will actually begin work shortly are in the life science space. Our pipeline continues to be weighted towards the life science opportunities. Acquisitions that we work on are life science oriented. So, that will be a yes all around your question and that strategy has not changed.

Joe Manko: Okay. Then I just have a follow-up. The double-digit growth in terms of revenue, is that a going forward basis or do you think you will be able to makeup this year from a weak first quarter?

Lee Rudow: When we talk about double-digit growth, we are always talking about over the long-haul and into the future. I understand what you are saying. I'd say that we are confident that the activity levels that we are participating in now will produce better revenue growth results throughout the remainder of the year. Our intent is always to produce double-digit growth through the blend of acquisitions and organic revenue growth, and we are pretty confident that we'll have significant increases in the back half of the year.

Joe Manko: Okay. Thank you, guys.

John Zimmer: Thanks Joe.

Lee Rudow: Thanks Joe.

Operator: Again, that is star one if you would like to ask a question, and we will pause for one more moment. It seems that we have no further questions at this time.

Lee Rudow: Okay. Thank you to everyone for participating in today's call. We certainly appreciate your interest and your support. We look forward to updating you on our progress. Hope everyone has a nice day.

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