Operator: Greetings, and welcome to the Transcat third quarter fiscal year 2017 financial results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Transcat. Thank you. You may begin.

Deborah Pawlowski: Thank you, Christine, 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 the call for questions.

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

As you are aware we may make some 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 in 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 www.sec.gov. Please review our forward-looking statements in conjunction with these precautionary factors.

I would like to point out as well 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 and 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.

So, with that, I'll turn the call over to Lee to begin. Lee?

Lee Rudow: Thank you, Deb. Good morning. Thank you all for joining us.

As we stated in our release, we're certainly pleased with our third quarter results. As you can see, we're making good progress on the road to our long-term revenue objective of $175 million to $200 million.

We're demonstrating the impact of strong execution of our strategy, and we continue to like the long view of both Transcat's vision and our position in the market. I'll start with an overview of some highlights for the quarter and then turn it over to Mike for a more in-depth review of the financials before I get back on to talk about some outlook on the rest of the year.

The third quarter results were strong for both of our operating segments, and it represented our second consecutive quarter of record consolidated revenue. Consolidated revenue in the third quarter was just shy of $38 million, up 25% from the same quarter in fiscal 2016. Higher revenue and gross profit resulted in operating income growth of 40%. Operating margin increased 60 basis points to 6.2% and our Adjusted EBITDA margin expanded 150 basis points to double-digit 10.3%.

The Service segment achieved its 31st consecutive quarter of year-over-year growth. The growth was driven by both solid organic activity along with incremental revenue from our recent acquisitions. We continue to drive both cost and sales synergies from our recent acquisitions, and we expect margins to continue to expand as we continue to go down the integration path.

From an organic perspective, the combined organization has done a particularly nice job of taking market share in the targeted life science space. We ended the quarter with a strong backlog, of what we refer to as work in progress, and we believe the fourth quarter is setting up nicely.

Moving on to the Distribution segment, the business has performed well over the last two quarters and similar to our Service segment, revenue has been driven both by organic as well as acquisition-related growth. We've seen an increase in overall activity levels across the board, which includes quotes, leads, traffic to our website, and to our cost centers.

From a margin perspective, our Distribution business achieved volume-based rebates, which drove expanded margins along with the incremental revenue from the higher margin rental and used equipment businesses. In the third quarter, we also launched a new Canadian website that immediately generated positive results. We expect that to continue.

Turning to acquisitions for a minute. Our interest in finding good acquisitions remains as high as ever, and opportunities are numerous. Of course, we continue to be both selective and disciplined in our approach. Our recent deals have enhanced our strategic position and strengthened our value proposition.

In addition, we've driven diversification through both segments of the business, and diversification particularly in the Distribution segment has become a real strength and a true differentiator.

And with that I'll turn things over to Mike to discuss the results, and I'll come back shortly and talk about the outlook.

Mike Tschiderer: Thanks Lee, and good morning, everyone. I will be going through the results of the third quarter of our fiscal year 2017 that ended on December 24, 2016. Please note that when considering year-over-year comparisons, the results of this fiscal year's third quarter includes the acquisitions of Spectrum Technologies and Dispersion Laboratory in January 2016, and Excalibur Engineering in April 2016, which are not included in third quarter fiscal 2016 numbers. Calibration Technologies acquired in June 2015 and Anmar Meteorology acquired in September 2015, are included in both third quarters of fiscal 2017 and 2016, however only partially in the fiscal 2017 nine-month period comparisons.

Referring to the posted slide presentation, on Slide 4, our record quarter was driven by significant growth in both our Service and Distribution segments, in fact, both were up 25%. Service segment revenue was $17.5 million, which was driven by a combination of high single-digit organic growth and the impact of the acquisitions I just mentioned. On a trailing twelve-month basis, which is indicative of the long-term progress of the Service segment, revenue was up nearly 23%.

As Lee discussed, we are very encouraged by the progress in the growth of the Distribution segment. This was the second consecutive quarter of solid year-over-year double-digit improvement in sales. In the quarter, higher core products sales were supported by incremental sales from Excalibur's rental business and used equipment sales, combined with strong orders from our alternative energy sector customers.

Moving on to Slide 5, consolidated operating income increased 40% to $2.4 million, while our operating margin expanded 60 basis points. The Service segment gross margin improved 120 basis points from the leverage we achieved by more activity from organic revenue growth, and our cost controls.

Service operating margin was slightly impacted by a higher allocation of general and administrative expense to that segment versus the Distribution segment. At the beginning of each fiscal year, we adjust the allocation of G&A expense between our two segments based on the mix of prior year revenue of those segments. For fiscal year 2017, this meant that the Service segment received an allocation of approximately $140,000 more in G&A expense per quarter, than it did in the prior year. Without the incremental G&A allocation, the Services segment third quarter operating margin would have expanded 50 basis points compared with last year.

Distribution segment margins expanded because of higher sales activity that earned us more volume related vendor rebates, and we had a more favorable mix of business with an increase in our high margin rentals and used equipment sales. Gross margin in the Distribution segment was up 100 basis points, and operating margin increased 150 points. The reduction in the allocation of G&A expenses to the Distribution segment helped the operating margin by 60 basis points for the quarter.

On Slide 6, we show Adjusted EBITDA and Adjusted EBITDA margins. Among other measures, we do use Adjusted EBITDA, which is a non-GAAP measure to gauge the performance of our Service and Distribution segments, because we believe it is a good measure of operating performance and is used by investors and others to evaluate and compare performance of core operations from period to period. I encourage you to look at the reconciliation of Adjusted EBITDA to the closest GAAP measures (operating income and net income) that we have provided. Adjusted EBITDA growth was strong for both segments in the quarter. For the Service segment it increased 35% to $2.1 million, and as a percentage of segment sales it was 11.8%, up 80 basis points. In the Distribution segment Adjusted EBITDA was $1.8 million, up 64%, and as a percentage of segment sales it improved 210 basis point to 9.0%.

On Slide 7, you can see that our strong performance in the quarter led to an increase in third quarter net income of 20% to almost $1.3 million. Diluted earnings per share increased $0.03 to $0.18 per share. We now expect our income tax rate to range between 36% and 38% in fiscal 2017, as we will earn less research and development tax credits in the U.S. and Canada based on the type and the amount of software and other development work that we will do this year.

Slide 8 provides detail regarding the strength and the flexibility of our balance sheet. Our trailing twelve-month ROIC, or Return on Invested Capital, was 7.7%. We do expect our ROIC to increase as we get the full benefit of operational and sales synergies from our recent acquisitions. As a reminder, ROIC is considered a non-GAAP calculation. We should not consider this information in isolation or as a substitute for results prepared in accordance with GAAP. Also, we calculate ROIC as the average trailing twelve-month total debt and equity divided by the trailing twelve-month net operating income after income taxes. Other companies may calculate ROIC using differing methodologies.

CapEx was $4.1 million year-to-date and was primarily for assets for our rental business expansion and expanded Service segment capabilities. We continue to expect that our capital expenditure range for the year will be between $5 and $5.5 million.

At the end of the third quarter, we had approximately $26 million in total outstanding borrowings under our credit facility. With $12.9 million in borrowing available to us, our leverage ratio at the end of the third quarter was 1.89. We calculate that as our total debt divided by the trailing 12-month Adjusted EBITDA.

We continue to have sufficient liquidity for our operations. And believe we have ample dry powder for any acquisitions that meet our strategic criteria.

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

Lee Rudow: Thank you Mike. Let's close with a quick look at fiscal 2017 as we progress through the fourth quarter. Amidst an uncertain macro environment we continue to be impressed with the team and what we've been able to accomplish. We've seen strong execution of our plan and we expect to finish the quarter and the year with solid results. While we've done a good job managing the growth of the business, I think we can do even better.

As we mentioned in our press release, Transcat recently added a Vice President of Operational Excellence as we look to accomplish two things. First, to improve processes for the delivery of unmatched, of what we're internally calling, EPIC service to our customers, and secondly, to focus on speed and efficiency with the integration of our current and future acquisitions.

From a Service revenue perspective, we'll continue to expect double-digit growth. The growth will continue to be a blend of organic and acquired revenue, and we expect to continue to be a calibration leader particularly in the life science space.

Looking at the outlook for the Distribution segment, we expect to finish fiscal 2017 strong. The business has been diversified and is performing well. We're seeing positive results and organic growth from a variety of initiatives, which include the higher margin rental business. The Excalibur acquisition has provided the Distribution segment higher margin rental and used equipment sales. Similar to the Service segment we have a solid backlog in the Distribution segment, and we expect a strong fourth quarter and strong full year results.

So with that I'll turn things back over to the operator, and we can take some questions.

Operator: Thank you. We will now be conducting a question-and-answer session. Our first question comes from line of Bill Nicklin with Circle N Advisors, please proceed with your question.

Bill Nicklin: I think your numbers speak for themselves, so I am going to ask a somewhat broader question. If we look back at the energy sector as a percentage of your business, what was that 5 years ago and what is it today? If you can, please answer that without looking at a lot of numbers.

Lee Rudow: This is Lee. I would say, if I look back at the energy sector, generally speaking, I don't have the specifics to dive into numbers. I will say though, that from an alternative energy perspective what we've seen in the last several years, is a pick up on alternative energy both from solar and wind, and I think some of that is driven by the production tax credit that you see kind of ebb and flow. We're in an environment now where there's been an extension to that agreement. And, both segments of our business are impacted in a positive way when that extension gets done. So that's one thing that comes to my mind.

Bill Nicklin: Well, let me follow up to that. What I've seen in the wind sector, where there are a lot of offshore areas, at the East Coast that have now been approved for wind farms, and if a foreign company is actually coming in and funding a lot of it, it appears to me that there shouldn't be any slowdown in that area, on the other hand there could actually be a pickup. Is that what you are looking at, or is that too granular of a view to have an impact on your business?

Lee Rudow: I would agree with that sentiment and we've got pretty close relationships with all the major manufacturers, particularly on the wind side. We're looking at that momentum, some plans for production that should keep the business strong in the foreseeable future.

Bill Nicklin: Adding on to that, they used to have power generation at big central plants and then there was Distribution, and now we're coming along with wind and solar, and it appears that there is going to be a significant addition of storage. Would the requirements of storage have somewhat of a similar effect as the wind and solar, and if you look at the storage, it seems to me that you're going to need higher levels of the performance assurance, that are certainly different technology that many had in the past. So again, I hope I am not getting too granular, but does that make sense as you look at your business?

Lee Rudow: Yes, Bill, it does. I would add that my reply is very similar to my former reply that I agree with you. We see the same thing to the degree that regulation drives, the testing at all the points that ultimately would be impacted. That will be good for our business. With and without regulation there's always going to be a play when you're transmitting energy. And we do a lot of work now in that respect, I see that continuing, and the real question is will it be incremental as this new technology develops and is stored, and I would anticipate that there's going to be some incremental play there. I will say that if and when that occurs or is occurring, we're well positioned to take advantage of it.

Bill Nicklin: There is a lot of discussion these days about import and export, domestic and international, and as we've seen the Company grow over the years it's been pretty much fully domestic. Do you have any numbers on that as a percentage of your business as far as a revenue source?

Lee Rudow: It's still the same today as it was, Bill, we're focused domestically. There is ultimately an indirect input or derivative effect from exports. We follow the manufacturing curve, industrial output is an important part of the numbers and the data we look at as output increases our business benefits. As exports increase the output, we benefit from that. So, we have a derived output based on exports but not direct, and it's hard to determine, when you sell to a Boeing or a Caterpillar or any major manufacturer, whether the end result is going to be exported or not.

So, I don't have good data around it other than to say that it does impact us, but we've been doing and selling domestically like we always have, and that hasn't changed much.

Mike Tschiderer: Bill, this is Mike, and I'll just add one thing as it relates specifically to Distribution. As part of our diversification, last year, but especially this year, we have reduced the number of resellers that we actually sold to, who would sell more to the international markets than we would directly.

So, the mix of reseller versus end-users has changed dramatically to more of the end-users, to any impact of tariffs or any problems with exports leaving here. We've couched that already by the mix of end-users that's going through reseller channel customers.

Bill Nicklin: How about the sourcing that go through your Distribution system, can you see any impact on that? I would imagine that a good part of the instruments that you are filling probably have been manufactured outside of the country.

Lee Rudow: Yes, there is, and we continue to watch that with our supply chain people. There's still quite a bit that is U.S. manufactured, because customers need it to be manufactured especially in regulated industries. There has been some unexpected move of some factories to China and other countries. So, we'll to continue to watch that to see what they're going to do, if they're going to change where the sourcing comes from.

Operator: Our next question comes from the line of Dean Trudeau, a private investor. Please proceed with your question.

Dean Trudeau: Hello, nice quarter and congratulations on executing your strategy over the years. It's good to see. My question relates to the used and rental equipment. I'm just trying to get a sense of the materiality on the Distribution side. Are you able to provide any numbers or any context to that?

Lee Rudow: At this point we haven't provided detailed information on that, but I can say that from a revenue perspective it hasn't moved the needle that much, because the segment is in the $70 million range and we're talking about 10% or under in terms of volume and revenue. However, what's interesting and attractive about this business is that the margins are significantly larger. So, even though it might not move on the top-end in the short run, we have felt the impact in margins and on the earnings volume. That's about what we're able to provide at this point, we'll add more color as the business develops.

Mike Tschiderer: Yes, it is growing. We certainly compare it to any SEC requirements on segment reporting. It doesn't meet any of the criteria both for qualitative or quantitative, but we'll continue to evaluate it as it grows both those segments.

Operator: Thank you. We have no further questions at this time. I would now like to turn the floor back over to management for closing comments.

Lee Rudow: Thank you all for joining us on the call today. As always, we appreciate your interest and support. As Transcat grows and continues to demonstrate our operating leverage in the business, we're seeing more and more interest in the Company, and that's a good thing. As a result, we're looking to meet with more investors. We're scheduled to be at the ROTH Conference from March 13th to the 15th, and at the Sidoti Spring Conference on March 29th.

Once we have our reported results for fiscal 2017, we plan on participating as well in the IDEAS Conference, which is in Boston on May 17th through the 18th. So, we welcome the opportunity to meet anyone. Please feel free to get in touch with us if you'd like to have a one-on-one meeting. Again, thanks for participating on the call today. We appreciate it.

Operator: Ladies and gentlemen this does concludes today teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.