

**Operator:** Greetings, and welcome to the Transcat Fourth Quarter Fiscal Year 2020 Financial Results Call. At this time, all participants are in listen-only mode. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to our host, 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. With me on the call today we have our President and Chief Executive Officer, Lee Rudow; and our Chief Financial Officer, Mike Tschiderer.

After formal remarks, we will open the call for questions. If you do not have our news release that crossed the wire after markets closed yesterday, it can be found on our website at [transcat.com](https://www.transcat.com). Slides that accompany today's discussion are also on our website.

If you will 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](https://www.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.

I would like to point out as well that during today's call we will 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 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, let me turn the call over to Lee to begin the discussion. Lee?

**Lee Rudow:** Thank you, Craig. Good morning, everyone. Thank you for joining us on the call today. I hope you and your families are in good health.

I'll start the call today with an overview of the fourth quarter results and how we ended fiscal 2020. I'll also provide a quick look into the TTE Laboratory acquisitions, which closed on February 21, about a month before the end of our fiscal year. Then I'll turn things over to Mike to provide a closer look at the fourth quarter and the full year financials before I return to speak to our outlook for fiscal 2021 and beyond.

Before I get started, I want to take a moment to tell you how proud I am of the Transcat organization for both the agile response and the measured actions taken to ensure the health and safety of our employees and our customers as we work through the challenges of the COVID-19 pandemic. At the same time, we believe we're operating in a fashion that enables the business to prosper over the long term by securing our differentiation and critical resources. I'll talk to both of those opportunities in a few minutes.

Early in the fourth quarter, we formed a 10-member cross-functional response team that met on a daily basis to establish safety protocols throughout our 42 locations as well as procedures to safely service our customers at their facilities. We followed CDC and WHO guidelines to mitigate risk. And while so doing, we delivered continuous essential services to our customers across a broad range of critical industries including manufacturers of ventilators and test kits as well as pharmaceutical companies conducting research and development on a COVID-19 vaccine.

Within a matter of days, we split shifts in our labs, restricted travel and leveraged our recent technology enhancements, so that all those who needed to work from home, particularly at our headquarters in Rochester, were able to do so. The net result was that Transcat remained operational across the organization, and we're fully operational today. Like I said, I'm very proud and thankful for the dedicated service of all of our employees during these challenging times.

Yesterday, we reported our financial results for the fourth quarter and full year fiscal 2020. The results reflected strong performance in a challenging environment that not surprisingly got more difficult as we moved through February and March. Despite the unexpected headwinds that impacted our top line performance, we still produced record revenue for the quarter and for the year.

The Service segment achieved its 44th consecutive quarter of year-over-year growth, that's 11 straight years. And perhaps more importantly, even with the muted revenue in the back half of the fourth quarter, we delivered both gross margin and operating margin expansion as Service gross margin increased 120 basis points and Service operating margin increased 40 basis points. And we continued to prioritize the leveraging of technology throughout the organization, particularly to drive Service margin expansion.

Throughout fiscal 2020, we demonstrated both the effectiveness of our strategy and our ability to execute it. We generated solid cash from operations, which funded the advancement of our technology infrastructure, organic growth opportunities, acquisitions and debt repayments.

Turning to the acquisition of TTE Laboratories. The timing could not have been better for Transcat. The business is complementary and geared almost entirely to life sciences. TTE specializes in the sales and service of pipettes and operates primarily in the New England region, which is the #1 Life Science cluster in the United States. Pipettes, or laboratory tools, are commonly used in chemistry, biology and medicine to transport a measured volume of liquid. We look forward to executing the sales synergies that exist between Transcat's core life science customer base and TTE's specialized capabilities. And of course, the other way around as well, selling Transcat's broad suite of life science services to TTE's current pipette customers. We believe the deal is a big win for both companies.

Moving on to Distribution. Our diversified channels continued to foster solid performance in the fourth quarter. The rental market achieved double-digit growth in the quarter and for the full 2020 year. And while Distribution revenue increased in the fourth quarter, an unfavorable mix drove a 70 basis point decline in gross margin. Still, the segment grew 4% for the year. And most importantly, our Distribution segment continues to be a differentiator for Transcat, producing sales leads that ultimately fostered 8.4% organic Service growth and 11% total Service growth for the full fiscal 2020.

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

**Michael Tschiderer:** Thanks, Lee, and good morning, everyone. Today, I'll be starting on **Slide 6**, which provides detail for our revenue on a consolidated basis and by segment.

As a reminder, we have two reportable business segments, Service and Distribution, and our results include the five weeks of TTE, which was acquired in late February 2020. As we mentioned, our fourth quarter performance was solid, considering the impact of the COVID-19 pandemic in the latter half of the quarter, especially in March, which historically is the strongest month of our fiscal year. Consolidated revenue for the quarter was up nearly 3% to \$45.8 million, which represents a record level. The increase in Service revenue to \$25 million reflects 1.1% organic growth, largely from new business within the Life Science market, and the quarter-over-quarter increase was 2.9%, including the incremental revenue from TTE. Distribution sales were up 2.9% in the fourth quarter versus the prior year fourth quarter, with higher rental revenue, as Lee mentioned. Rentals was up 11% over the same quarter last year.

Full year consolidated top line results were solid, reaching a record level of \$173 million. Highlights include 10.7% service revenue growth, with 8.4% on an organic revenue basis and Distribution growing 4.2%, including higher rental revenue of 19% for the full year.

Our consolidated gross margin performance in the quarter was also a bright spot and further demonstrated the strength and overall importance the Service business has on our margin profile. Quarterly Service segment gross margin improved 120 basis points from our various and ongoing productivity initiatives in spite of the COVID-19 impact on March revenue, as described. While Distribution gross margin was positively impacted by the higher-margin profile of rentals, we did have an unfavorable mix in the quarter which resulted in the 70 basis point decline. However, as Lee mentioned, Distribution is doing what we want, providing leads every day to Service while generating cash. We're very pleased with the 40 basis point improvement in full fiscal year Service gross margin in spite of a tough finish to the fiscal year in March. For the full fiscal year, Distribution gross margin declined 20 basis points.

**Slide 7** shows our operating performance. We got flow-through from our Service margin performance, although that leverage was somewhat muted at the operating income line as we continued to invest in our technology capabilities to support current and planned growth, and to advance our operational excellence initiatives. Also, onetime SG&A costs of approximately \$150,000 of legal and other TTE transaction closing costs were incurred in the quarter.

On **Slide 8**, we show our net income results, which reached a full fiscal year record of \$8.1 million, up nearly 13%. Net income for the quarter was down slightly due to the higher quarterly tax rate, which reflected the timing of discrete income tax benefits related to certain share-based awards. We expect our income tax rate to range between 24% and 25% in fiscal 2021, including federal, state and Canadian taxes.

On **Slide 9**, we show adjusted EBITDA and adjusted EBITDA margin. Among other measures, we use adjusted EBITDA, which is a non-GAAP measure, to gauge the performance of our 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 provided reconciliation of adjusted EBITDA to the closest GAAP measures, which for us are operating income and net income.

**Slide 10** provides some detail regarding our balance sheet and cash flow. In fiscal 2020, net cash provided by operations was solid at \$11.6 million and was used to fund capital expenditures of \$6.6 million, make acquisition payments and pay down debt. At fiscal year-end, we had total debt of \$30.3 million with \$12.3 million available under our

revolving credit facility. We had used \$12.2 million during the fourth quarter to acquire the assets of TTE. And during the full fiscal year, we spent a total of \$13.8 million for acquisitions, including releasing certain final holdbacks from other previous deals.

Our leverage ratio at the end of the fiscal year was 1.53 to 1 and is calculated as the total debt on our balance sheet at a period end divided by the trailing twelve months adjusted EBITDA, including giving credit for any acquired EBITDA. Other companies may calculate such a metric differently.

As we noted in the press release and on the slides, we have pulled some prudent levers on the cost side. The management team and Board have taken temporary reduction in salary and fees. We're aligning variable costs with demand and tightly controlling discretionary spending. We'll continue to closely monitor our cost structure and liquidity. For areas outside of technology, we've also put a temporary freeze on hiring and wage increases. We don't qualify for the Paycheck Protection Program, but we are monitoring various CARES Act programs and leveraging various federal and state government payroll cost-sharing and tax deferral opportunities.

On Monday, we executed an amendment to our credit facility, which, among other things, gives us an additional \$10 million in borrowing capacity and financial covenant modifications going forward. The amendment now extends the credit facility to October 2022. This amendment gives us more dry powder for investment opportunities such as acquisitions, while providing further liquidity capacity even though it is not expected to be needed under any current operating scenario.

Given the actions we have taken to further strengthen our balance sheet and liquidity, we believe we are in a good position to weather this current challenging economic environment while still making investments that will benefit the company and its shareholders in the longer term.

As noted on **Slide 11**, we are forecasting our capital expenditures for fiscal 2021 to be in a range of \$5 million to \$5.5 million. The focus is expected to center on further investments in technology, to fund growth-oriented opportunities within both segments, and the purchase of rental pool assets. This amount includes maintenance CapEx, which is expected to be consistent with fiscal 2020 at approximately \$1 million to \$1.5 million for the year.

And lastly, we expect to timely file our Form 10-K on approximately June 8. With that, I'll turn it back to you, Lee.

**Lee Rudow:** Thank you, Mike. No doubt, we're all concerned about the high level of uncertainty that exists, both in our personal lives as well as from a business perspective. At Transcat, we're looking forward, and there are a few points I want to make and make sure I communicate well.

Back in 2013, Transcat made a strategic decision to focus our time and our resources towards the expansion and development of the Life Science sector of our calibration services business. We knew the market was essential, the demographic is attractive and the revenue stream recurring and driven by regulation. We also understood that the cost of failure within the Life Science sector is high and calibration plays an important role in the mitigation of risk. Life Science is a difficult market to get into and perform well in, but we're committed to developing the market and like calibration services in general, it represents our primary growth engine. Today, more than ever, I'm glad we did.

It's in difficult times like these that we believe our life science orientation provides both stability and opportunity, and we believe it adds a significant degree of resilience to our operation. We also believe our Service segment as a whole, by its nature, tends to be recession resistant, but even more so in Life Sciences. While we expect our Distribution business to feel more downward pressure from an extended economic slowdown, our Service business is expected to continue to be steady and strong and better position us over the longer term. Because we believe we're in a good position in our markets and with our customers, we have the opportunity to focus on a couple of important things.

First and foremost is taking care of our most critical resource, our people. While we are proactively managing our cost in the COVID-19 environment, we have made a strategic decision to fully retain all of our technical talent, even if that means having some excess capacity for a short period of time. In time, COVID-19 will pass, and when it does, by maintaining our technical workforce, we will be at the ready to support expected strong organic growth levels. We also believe there will be a higher level of acquisition opportunities coming out of the current economic slowdown. It is our goal to be ready, both organically and through acquisition, to capitalize on growth opportunities as we encounter them.

In addition to our people, our underlying strength will be our technology. In fiscal 2020, our work on the technology front yielded productivity gains, margin expansion, process improvement and improved data analytics. We expect continued improvement in all these areas on a go-forward basis. In fact, several of our key technology initiatives are being accelerated in fiscal 2021 to be ready to support growth and productivity. Outside of technology and our technical workforce, we have taken prudent cost actions in anticipation of headwinds throughout the first quarter of fiscal 2021.

In the first quarter of fiscal 2021, we believe we'll be in the range of breaking even on a consolidated operating income level, and we expect positive adjusted EBITDA and the generation of sufficient cash from our operations. Over the mid to long term, we expect our scale, our unique value proposition, and our strategy to play in our favor. With that, operator, please open the line for questions.

**Operator:** [Operator Instructions] Our first question comes from Gerry Sweeney with Roth Capital.

**Gerard Sweeney :** Obviously, you gave us a little bit of insight into what you're expecting for 1Q, but could you give us a little bit more detail maybe, with April slower, did Service see a little bit of a backup and then maybe a build of backlog of different services? And have you spoken with any of your customers and what they're saying about the demand, how are they coming out of COVID with social distancing? Are they going to see different changes to how they're allocating some of the work that you're going to be doing and things like that? Just sort of give us a little bit more detail in this new COVID world we're dealing with.

**Lee Rudow:** Yes. Fair enough, Gerry. So at a relatively high level, we have been pretty pleased with the Service pipeline and the level of service activity we've seen throughout the organization. Our CBLs, our client-based labs, are very steady just inherently. The amount of workload in the beginning of the quarter tended to be off by a few percentage points, but picked up throughout the quarter and even most recently. We like the pulse, the level of work that we're being asked to perform in the first quarter. And I'll even make a comment that, generally speaking, I think we're pleasantly surprised. It's held up really well.

In addition to that, the pipeline on a go-forward basis, as I mentioned in the earnings release, is really quite strong. And so some of it is a matter of timing, right? Companies wanting to make the change and switch over to using Transcat services. So I like the pipeline. I like the work levels, and most of the anticipated declines are on the Distribution business, which is absolutely no surprise. And that will work itself in and out as the economy goes. But yes, Service is doing what we wanted Service to do. And that's why in the script, I talked a little bit about 2013 making that pivot, and I think it's worked in our favor.

**Gerard Sweeney:** Got it. And does this environment maybe change how some of your customers look at using Transcat. I mean could there be a shift more to CBL, client-based labs, over different opportunities? Any talk on that or is it still, I mean, too early?

**Lee Rudow:** Right. Not yet and not really, I have not gotten any feedback relative to that. I get the nature of the question. Right now, with our CBLs, everything is pretty steady state for us. We haven't seen a lot of conversions. We have converted many of our on-sites to depot, and that makes a whole lot of sense. But that may or may not continue. I'd love it for it to continue, but that may not continue over time. But no fundamental shift based upon COVID that I can pick up yet. We'll certainly keep you in the loop if we detect something.

**Michael Tschiderer:** Gerry, I'll just want to add one thing onto that. And I think it's kind of an advantage. Lee just mentioned at the end, on-sites and having that work done in depots. We proactively reached out to customers because we're worried about their visitor protocols. It's one of the advantages that Transcat has, is having 22 calibration facilities around the country where we're able to do that. And we've been lucky that they are all operational, and there has been a number of customers that have wanted to move their site into the facilities instead of having us go out there. But it's one of those where I think being decentralized does give us some ground cover. If there was going to be some issue at a particular lab, we have a lot of other labs to move the work into, whether it's on-site to a lab, or work from one lab to another lab.

**Gerard Sweeney:** Got it. And then switching gears a little bit. You talked a little bit about the operating line, just speeding up some investment. I believe that, if I heard you correctly, I apologize, but can you maybe talk about what you're doing there and potential outcomes. What the expected outcome would be on, obviously, I think margins would be what you're looking at, but just discuss that a little bit. And how much more you're sort of speeding up?

**Lee Rudow:** Yes, I'd be happy to. So we have, in the past couple of years, invested in cybersecurity in our infrastructure. We're building integration tools. Some of them are done. Some of them are really close to completion. We've invested in automation. As you know, our C3 software, which is the portal for our customers to sort of act in a self-service fashion. And we committed to this journey a couple of years ago, and you can see in our margins, we're just starting now to see some of the fruits of our labor. And it's exciting. And so as we pick up momentum, you kind of get awfully excited by it. And so we want to see it continue.

And in this environment, rather than make a choice to cut back on the expenses relative to technology, we want to keep going forward. In fact, we're actually in a hiring mode, both programmers and some project managers because we feel like the opportunity is real, it's current, and if we capitalize on it, these things will make a lot of sense to accelerate

versus doing the opposite. And that's what I meant to say, and we're going to stick to that plan because we will come out stronger because of it.

**Operator:** Our next question comes from Dick Ryan with Dougherty & Company.

**Dick Ryan:** So Lee, in your stress test of the business model for Q1, can you give us a sense of what revenue levels you might be looking at for an operational breakeven scenario? Or maybe to look at it more specifically, can you give us a little more feel of what you're thinking kind of the declines could either be in the Service and Distribution side?

**Lee Rudow:** Sure. If you look back at first quarter of last year, Dick, you'll notice that we had \$1.2 million of operating income in Distribution and about \$700,000 in the first quarter for Service. So we would expect the Service to hold up quite well relative to last year. And I wouldn't even be surprised if we outperform, but where you're going to see the decline is going to be in Distribution. You have rebates involved as well for volume and some of those go away in the short term. And so we'd like to see it getting close to breakeven year-over-year. And then we expect Service to hold up pretty strong.

Now it's possible we could outperform our estimates. That wouldn't surprise me, but we wanted to take a conservative approach and say, "Hey, if we hit breakeven, plus or minus \$100,000, that's about where we think we're going to be, though there is some upside, I think, to that." But I want to be a little conservative.

**Dick Ryan:** Sure. Appreciate it. The kind of offensive stance you're taking on keeping your techs employed given the speed bump is commendable. What do you see on the M&A side? I mean do you think coming out of this, the opportunities are going to be there? And what could they do to multiples that you were maybe looking pre-COVID-19?

**Lee Rudow:** Having been through some economic slowdowns in the past, each and every time we saw an increased level of opportunities around acquisitions. So there's no reason to believe that wouldn't be the case this time as well. Now, exactly the size and the pace at which that's likely to occur, I'm not sure. Multiples at this point, not really sure. We tend to be fairly disciplined between 4 and 6x EBITDA. But for TTE, we extended ourselves a little bit because the fit was so good. I'm going to reserve answering that question at this point because I'm just not sure what's going to happen. It's too early to tell on multiples.

But history would tell you that there should be an increased level, and that's why we talk to that possibility. And as time goes by, and when we report on first quarter, we'll give an update on those expectations.

**Dick Ryan:** Sure. Just to refresh me, you've got 20 CBLs. What did you have? I mean what did that grow in fiscal '20? And what kind of trajectory could we see from CBLs over the next 2, 3, 4 years?

**Lee Rudow:** Well, to refresh your memory, if you go back beyond last year, we typically would win these opportunities once or twice a year for several years. That was pretty average. And I think at one time, we had about 5 or 7 of them. If you go back the last 12 to 24 months, therein lies the difference. And there's the 10 or 12 opportunities. So we saw a pickup from 1 or 2 a year to 5 or 6 a year over the last couple of years.

To the second half of your question, do we see that continuing? I don't see why not. I mean COVID aside, the speed bump aside, we have a nice pipeline. We were marketing well and selling well and performing well in that particular space. And I can't really speak to a reason why that wouldn't continue. There's no guarantee. Some of our pipelines have been delayed a little bit as people are trying to make sense out of whether they want to change now versus next quarter or next month or a couple of months from now. But the general feeling from our sales folks are that the value prop is strong around CBLs, and we would expect that to continue. At the same level as the last 2 years, perhaps, maybe a little lighter, maybe a little heavier. We don't know at this point. I would expect about the same, if I had to guess.

**Dick Ryan:** Okay, great. And congratulations on the strong execution.

**Operator:** Our next question comes from Mitra Ramgopal with Sidoti.

**Mitra Ramgopal:** First, I just had a question on the Service segment. Lee, I believe you had mentioned some customers are delaying their project decisions. And just curious, I'm assuming it's in the non-life sciences areas, maybe aerospace, defense, et cetera. I was just wondering if you could maybe give us a little more color on that.

**Lee Rudow:** It's actually a mix of both. And so we had some nice opportunities. We've been sort of given a thumbs up, a verbal, "hey, we're going to go with you, but we're not going to make a change in the first quarter." You're right. A couple of those tend to be in A&D as opposed to Life Sciences, but there are some in Life Sciences as well. So I don't see it as a major setback. I see it as maybe a quarter, a quarter and a half. I mean, if things do pick up as we expect, and the first quarter is sort of the bottom period for us, I would expect that sentiment to change at a fairly rapid pace.

But right now, I'm giving you feedback on what we've heard. And again, it hasn't stopped us from growing to this point. I think it's just muting what we could be doing. I expect it to reverse itself at some point.

**Mitra Ramgopal:** Okay. No, that's great. And then as it relates to the organic growth, you obviously feel very good about the long-term prospects. And I know you'd added some technicians over the last year. And obviously, you've held the line in terms of any potential reduction of headcount. I was just curious, on the flip side, given the weaker labor market, if that's providing you maybe with some opportunities to continue to maybe add some technicians that might not have been available a few months ago.

**Lee Rudow:** So it's actually an interesting point. I mean we're not really focused on adding technicians at this point because we think we're more overcapacity than under capacity for the short term. Now that doesn't mean if a sensational opportunity presented itself, with someone with a specialized needed skill set, that we wouldn't jump on that, and in fact, of course, we would. But our general playbook says, let's stick with the technicians that we have. We're less concerned with the profitability over the next 30 to 90 days based upon having an overcapacity of technicians and more excited about having the opportunity to grow our business at some later point in the year.

So we're going to stick to that game plan and be open-minded to talent if it's out there and it makes us better. I wouldn't hesitate, but the plan is not to go looking proactively for more technical resources when we think we already have more than enough in the first quarter.

**Michael Tschiderer:** Yes. And I think that makes sense, Lee. And certainly, I think with a higher unemployment rate there would be more resources available when the time is right. And we'll always look for the best athlete available. I think we'll be in a position to take advantage of that when things settle down a little bit, Mitra.

**Mitra Ramgopal:** Okay. No, that's fair. On the acquisition front, obviously, TTE, still early days yet. And with the environment really difficult maybe to assess to perform in normal conditions. But I was just curious if you had any additional color as it relates to the integration and from what you've been able to see so far from that acquisition if it's sort of meeting or even exceeding your expectations?

**Lee Rudow:** So from a personal perspective, I love TTE. It's probably, of the 11 or so acquisitions, my favorite. I like the way it fits from a strategic perspective, I like the way it's run, and I like the upside to market their services throughout all of our labs and vice versa. So I'm pretty bullish on where I think that can go and there's no signs to point to anything different than that. In this environment, that particular space and that particular set of suite of services that they offer should do well, and I like their management team, which is one of the reasons why we acquired them. So I'm going to stick to my bullish outlook on them. And like I said, I'd acquire that company again in a second. I think it's going to be really good for us.

**Michael Tschiderer:** And Mitra, I think with the technology that we've deployed, not being able to kind of have as much face-to-face as we normally would, hasn't really slowed down any integration efforts. We're kind of used to doing that anyways. So we're not going to use that as a reason to slow down any of the integration or get the cost or the sales synergies out of it.

**Operator:** Our next question comes from Chris Sakai with Singular Research.

**Chris Sakai:** I had a question on the Distribution sales mix. I wanted to get to see what you guys are looking forward to, I guess, in the current quarter? Do we see any improvements there?

**Lee Rudow:** Well, Distribution, Chris, will typically follow the general economy, GDP and so on. So if the economy backslides in Q1 as, I think, we all recognize that potential to occur, then you would expect Distribution at the front of the line for us to feel that. So yes, the reason why we're projecting out for the first 90 days of our fiscal year a breakeven sort of operating income environment is almost exclusively related to the impacts that we think we're going to see on Distribution. But that could change. We could have a strong June, we could have a strong May still. And so we can't predict the future fully, but we do expect Distribution to feel the impact of a slow economy. And we'll see how it plays out over the 90 days of our first quarter.

**Chris Sakai:** Okay. Great. And then one other thing. It looks like the operating income for the Service segment was down year-over-year. Can you help me understand a little more about why?

**Michael Tschiderer:** Yes. Chris, it's Mike. As we tried to describe kind of a couple of different things. One, there's a lot of investment that's happening in technology that goes into SG&A, the operating expense lines and Service bears a lot of that because it's related to that segment. And then the TTE cost of onetime or the legal and the transaction cost muted operating income on a segment level and on a consolidated level.

**Lee Rudow:** And I would add to that, too, remember, Chris that March is an extraordinary month for us from a Service perspective. Every year, it's our largest month. And within the month, the last week or two tend to be when we bill a lot of

our service business, a concentrated level. And so in this particular March and even in February, we talked about that muted revenue. And the way our business works, we have sort of a fixed cost orientation. If you missed, let's just say, the last two or three weeks, \$1 million worth of billing that you typically would have every year, and you can look at our past fourth quarters to see this, that incremental \$1 million that you missed in a COVID environment really drops to the bottom line at a very high percentage.

And so if you just took \$1 million, \$0.5 million would have dropped or \$0.75 million would have dropped, you'd have seen that, that operating income wouldn't have performed as you stated. So I don't want to make an excuse for COVID, but no question that had an impact as we were unable to finish as strong as we normally do in a critical time for us.

**Chris Sakai:** Okay. That helps, but then, I guess, would that be pushed into the first quarter?

**Lee Rudow:** That's a good question. So will it be pushed into the year or the first quarter, hard to tell. It's hard to tell what's going to be pushed into the first quarter. We'll have to wait and see. At some point, calibrations on the Service side need to be performed. And for that reason, you'd believe there'd be pent-up demand and that we'd see that. If a location shuts down or a company goes out of business, which can happen, then no, that's not going to come back. But if a business starts to run as normal as usual at some point during the year, you would believe there'd be pent-up demand. And that's why we haven't laid off technicians. That's why we're staying steady state so that we're ready to capitalize on that because we think that's going to occur to some degree. The exact amount, I'm not 100% sure, but we see some of it coming back.

**Operator:** Ladies and gentlemen, there appears to be no additional requests for questions. I'll turn it back to management for closing remarks.

**Lee D. Rudow:** Thank you all for joining us on the call today. We appreciate your continued interest in Transcat. Feel free to check in with us at any time. Otherwise, we'll talk to everybody at the end of our first quarter 2021. Again, we appreciate everybody participating in the call. Take care.

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