



Transcat, Inc.

Fourth Quarter and Full Fiscal Year 2023 Financial Results

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CORPORATE PARTICIPANTS

Tom L. Barbato, *Chief Financial Officer*

Lee D. Rudow, *President and Chief Executive Officer*

Mark A. Doheny, *Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

Greg Palm, *Craig-Hallum Capital Group*

Gerry Sweeney, *Roth Capital*

Scott Buck, *H.C. Wainwright & Co., LLC*

Ted Jackson, *Northland Securities*

Mitra Ramgopal, *Sidoti*

PRESENTATION

Operator

Greetings. Welcome to the Transcat, Inc. Fourth Quarter and Full Fiscal Year 2023 Financial Results.

(Operator Instructions)

Please note this conference is being recorded.

I will now turn the conference over to your host. Tom Barbato, you may begin.

Tom L. Barbato

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; and our Chief Operating Officer, Mark Doheny.

We'll 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. Both the earnings release and the slides that we will reference—be referenced during our prepared remarks can be found on our website, transcat.com, in the Investor Relations section.

If you would please refer to Slide number 2, as you are aware, we make forward-looking statements during the formal presentation and Q&A portion of this teleconference. These 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 the documents filed by the Company with the SEC. 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 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've provided reconciliations of non-GAAP to compared GAAP measures in the tables accompanying the earnings release.

With that, I'll turn the call over to Lee.

Lee D. Rudow

Thank you, Tom.

Good morning, everyone. We appreciate you joining us on the call today.

Our strong performance in the fourth quarter rounded out another great year for Transcat. Broad-based strength across our business platforms drove an increase in consolidated revenue of 12% to \$230 million for fiscal 2023, a new record for Transcat. The results also included record revenue and gross margin in our Service segment, as well as on a consolidated basis.

Consolidated gross margin expanded 110 basis points to 29.6% and was driven by margin expansion in both our Service and Distribution segments. Adjusted EBITDA, a key metric for us given our acquisition strategy, grew 16% in the prior year to \$30.4 million. Another good year in the books, demonstrating the continued durability and resiliency of our business model in the attractive, regulated end markets we serve.

For the full year, our Service segment generated 19% overall revenue growth, including 10% organic growth. Demand in both our core calibration business, as well as our NEXA enterprise asset management business, remained strong. Our ability in fiscal 2023 to capture a significant number of revenue synergies between NEXA's professional services platform and Transcat's technical services platform continued to drive a sustainable, long-term competitive advantage in the highly-regulated, high cost of failure industries that we serve. The expansion of NEXA's suite of professional services has been well received throughout the United States, Ireland, and for the first time, we opportunistically performed work in various parts of Europe, including the Netherlands, Switzerland, and Germany.

For the full year, we expanded Service gross margin by 30 basis points to 32.2%. Service margins continue to benefit from our differentiated value proposition, inherent operating leverage, and our continued focus on automation and operational excellence, primarily through process improvement.

In fiscal 2023, we successfully acquired and integrated three companies: Alliance Calibration in Cincinnati, e2B Calibration in Cleveland, and Complete Calibration in Ireland. The acquisitions expanded our addressable markets, widened the breadth of our service offerings, and allowed us to leverage our existing infrastructure. We are very proud of the success our various teams are having around integration. The process of successfully joining multiple companies together into a cohesive, well-integrated system is one of the ways we continually differentiate Transcat, capitalizing on both sales synergies, which is our typical and primary objective, along with practical cost synergies as a nuanced process. The alignment of both synergies delivers operational excellence and a superior customer and employee experience.

Turning to our fourth quarter Service segment performance, steady demand drove Service segment revenue growth of 15% and organic growth of 10%. This represented our 56th straight quarter of year-over-year Service revenue growth. Recurring revenue streams in the highly-regulated environments that we serve continue to benefit our Service segment. Service gross margin in the fourth quarter expanded 90 basis points to 34%.

Turning to Distribution for the full year, despite continued challenges with supply chain shortages, revenue grew 3%. Gross margin expanded 180 basis points from prior year, driven primarily by significant growth in our high-margin Rental business. The \$30.4 million in EBITDA supported a strong balance sheet. Our leverage ratio of 1.6 times positions us to capitalize on growth opportunities, which include M&A activities in the highly-fragmented, third-party calibration services market and the NEXA-oriented professional services market.

Behind the numbers, we continue to focus on leadership development. Strong financial performance over the past several years has supported investments in our people on a continuous basis. Leadership is another differentiator that widens the moat around Transcat and fortifies our ability to execute our strategic plan well into the future.

With that, I'll turn things over to Tom for a deeper look into the fiscal 2023 fourth quarter and full year financial performance.

Tom L. Barbato

Thanks, Lee.

I'll start on Slide number 4 of the earnings deck posted on our website, which provides detail regarding our revenue on a consolidated basis and by segment for the fourth quarter and full year.

Fourth quarter consolidated revenue of \$62.1 million was up 11% versus prior year on Service segment strength and solid revenue performance in our Distribution business.

Looking at it by segment, Service revenue growth remained very strong at 15%, with 10% of the growth coming organically and the other 5% from acquisition. Turning to Distribution, revenue of \$22.3 million was up 5% versus the prior year. We continue to see excellent performance from the Rental business, which continues to grow at a very meaningful rate, but we do continue to be impacted by extended vendor lead times which attributed to our year-end backlog of \$8.4 million, which is up 8% in comparison to the end of the prior fiscal year.

On a full year basis, consolidated revenue was \$230.6 million, an increase of over 12% compared to the prior fiscal year, which represents a new record high for Transcat. Our Service business continued to be very resilient, resulting in year-over-year growth of 19%. The Distribution business was up over 3% compared to the prior year, again, driven by strong performance in the Rental business.

Turning to Slide 5, our consolidated gross profit for the fourth quarter of \$19.2 million was up 15% from the prior year, and our gross margin expanded 100 basis points to 30.9%. Service gross margins expanded 90 basis points to a record quarterly high of 34%. The Service margin increase further demonstrates our ability to leverage our fixed costs and higher levels of technician productivity. Distribution segment gross margin of 25.2% was up 70 basis points.

For the full year, our consolidated gross profit increased 17% to \$68.4 million and our gross margin improved 110 basis points to 29.6%. Our Service gross margin was 32.2%, which represented an increase of 30 basis points compared to prior year. Distribution segment gross margin of 25.3% was up 180 basis points, as the segment benefited from significant growth in the higher-margin Rental business and also included the impact of previously-discussed strategic buys.

Turning to Slide 6, Q4 net income of \$3.7 million increased 20% from the prior year, and our diluted earnings per share came in at \$0.48. We report adjusted diluted earnings per share as well to normalize for the impacts of upfront and ongoing acquisition-related costs. Q4 adjusted diluted earnings per share was \$0.60. Full year net income declined 6% from prior year and down \$0.10 per share, primarily driven by higher interest expense, which drove a negative year-over-year impact of \$0.21 per share.

Flipping to Slide 7 where we show our Adjusted EBITDA and Adjusted EBITDA margin, we use Adjusted EBITDA, which is non-GAAP, to gauge the performance of our business, because we believe it's the best measure of our operating performance and ability to generate cash. 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 level of non-cash expenses that will hit our income statement from acquisition purchase accounting.

With that in mind, fourth quarter consolidated Adjusted EBITDA of \$9 million was up 18% from the same quarter in the prior year, and Adjusted EBITDA margins expanded 80 basis points. Both segments had Adjusted EBITDA growth and EBITDA margin expansion compared to last year. Full year EBITDA was \$30.4 million, which was up 16% compared to the prior year, driven by significant year-over-year profit improvement in both segments. 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 8, operating free cash flow was consistent with last year, with cash from operations well in line with expectations. Full year capital expenditures were \$800,000 lower than prior year and continued to be centered around Service segment capabilities, technology, including automation, and future growth projects. The spend was slightly down year-over-year due to several sizable investments in our facility footprint taking place in the prior fiscal year. For fiscal year 2024, we anticipate our CapEx to be in the range of \$10 million to \$11 million, with the areas of focus of remaining consistent with fiscal 2023.

Slide 9 highlights our strong balance sheet. At year end, we had total net debt of \$47.6 million, with a leverage ratio of 1.6x. We had \$37.3 million available from our credit facility at quarter end, and as previously announced, we acquired TIC-MS for \$9.7 million just after the end of our fiscal year, paid for with a combination of 70% stock and 30% cash.

As we focus on fiscal 2024, there is one item to note in more detail. We expect our income tax rate to range between 21% and 23% in fiscal 2024. This estimate includes federal, various state, Canadian, and Irish income taxes, and it reflects the discrete tax accounting associated with share-based payment awards. Although the tax rate is consistent with recent years, there will be a difference in calendarization of the tax benefit from the vesting of share-based payments at fiscal 2024. These benefits are normally realized in the first fiscal quarter, but in fiscal 2024, we'll see the benefit in quarter two due to a timing difference of when the awards were made in fiscal 2021. In the first quarter of fiscal 2023, this benefit

positively impacted the tax rate by approximately 13%, and we would expect a similar impact in the second quarter of fiscal 2024.

Lastly, we expect to file our Form 10-K on June 6.

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

Lee D. Rudow

Okay. Thank you, Tom.

To wrap up, we are pleased with the team's performance in fiscal 2023. We have consistently delivered exceptional results through various economic cycles, as can be seen over the past 10-plus years. We believe the combination of our talented team and our differentiated portfolio of businesses is unique and will continue to drive longer-term, competitive advantage. Our business model remains durable and demand across our highly-regulated end markets remains strong. We expect to perform well in fiscal 2024 despite macro economic uncertainty. As we work our way through the first quarter of fiscal 2024, we have good momentum in our new Service pipeline, and we expect another year of organic growth in the high single digit range.

In fiscal 2024, we expect continued margin expansion across our Service channels, particularly in the back half of the year as we make incremental first quarter investments to drive scalability for longer-term growth. We are well-positioned financially, and expect our strong balance sheet, solid cash flow generation to support the conversion of our robust and diverse M&A pipeline.

At the very start of fiscal 2023 in April, we acquired TIC Metrology Services. Early indication points to a strong start to this St. Louis bolt-on. We expect acquisitions, along with strong organic growth, to increase the trajectory of our business over time and to continue to drive the sustainable growth journey that we've been on for over the past decade.

With that, Operator, we can open the line for questions.

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Greg Palm with Craig-Hallum Capital Group. Please proceed with your question.

Greg Palm

Yes. Thanks. Hey, Lee. Hey, Tom. Congrats on the good end of the year here.

Lee D. Rudow

Thanks.

Tom L. Barbato

Thanks, Greg.

Greg Palm

Let's maybe start with the commentary about some of these near-term investments in NEXA, in CBLs, maybe a little bit more detail on what you're seeing from those two areas, presumably better activity, but why now? Why not six months from now or a year from now, and just a little bit more details on what investments you're doing here?

Lee D. Rudow

Okay. Well, I appreciate the question. Yes, I think we called out CBLs and NEXA in the first quarter because it's just a natural by-product of our growth. When you look at CBLs, we know year in and year out, when you land a significant or meaningful material number, you sometimes have a short-term drag as you get your technicians up and running on margin before they become effective and efficient, so we've got that taking place, Greg, in the first quarter.

NEXA, they've continued to grow, perform really well as an acquisition both in the U.S. and in Ireland primarily, and it's time—we think it's appropriate to do an infrastructure build there around sales and even operations, so we continue to scale that operation. We think it's got some upside and we want to make sure we make the right investments in a timely manner. It's a combination of those two things. Those are the primary drivers, but we definitely expect margin improvement in the year, for sure.

Greg Palm

Yes, that makes sense. On NEXA specifically, I think it's been, I don't know, what, a year-and-a-half, two years under ownership now, so looking back, in hindsight, what's surprised you in terms of synergies? Can you just give us some sense on how that's played out? It sounds like you're pretty excited about the future of the business there, so a little bit more commentary on what's working would be great.

Lee D. Rudow

Right. Well, we still love the deal, and September will be two years, so they got off to a really good start when we reflect back on the first year and three quarters. We like the team. We like the management team. I think it's met our expectations. It's probably exceeded our expectations. We knew we had potential there. I think the synergies that go both ways between Transcat customers offering opportunities to NEXA and vice versa, I think they've both come to fruition. NEXA certainly has picked up a fair amount of meaningful business from our portfolio of 35,000-ish customers, so that's all going well, and the infrastructure build is a by-product of that success.

Greg Palm

Okay, great, and then last one, and it dovetails into NEXA, but more broadly speaking, just expansion into Europe. You called out a number of additional countries where you're doing business now, so where does geographical expansion into Europe or other areas rank in terms of near-term priorities?

Lee D. Rudow

Right. Well, we used the word opportunistic when we talked about the development into some of these other countries, and what that means from our perspective, Greg, is that customers that we're doing business with in the U.S., customers that we're doing business with in Ireland, have locations throughout Europe, and it's not a difficult leap for us to start servicing them in those countries. A little bit different than a strategic approach where we're going to conquer Europe with our NEXA services, so I think today it's

opportunistic. It's part of our natural expansion. We're excited about it, and down the road when we think it becomes more strategic, we'll talk to that, but right now, we're pleased with the group's ability to service other parts of Europe.

Greg Palm

Okay, great. Best of luck. Thanks.

Lee D. Rudow

Appreciate the questions. Thanks.

Operator

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

Gerry Sweeney

Good morning, Tom, and Lee. Thanks for taking my call.

Lee D. Rudow

Good morning, Gerry.

Gerry Sweeney

Growth has been really good, and you even highlighted differentiated value to your customers. Can you give us a little bit more detail what's driving the growth, how you're really differentiating yourself, where you differentiate yourself, but also where you're also seeing some competition? Just trying to get a little bit better feel for the market and what's really driving this growth, market share or just geographic; obviously geographic expansion, service expansion, but just trying to dig in a little bit, if you would. Thank you.

Lee D. Rudow

Right. I get the question. The game plan hasn't changed much, Gerry. The depth and breadth of our services we think is as good as any in the industry. We focused many, many years ago, over a decade or so, on the life sciences space because we thought the demographics were favorable. There's high barriers to entry in that space, but we got an early start, and so some of those early years back in 2009, '10, '11, when we didn't even have a positive operating income, they were big investment years. That turned out to be a really good decision, so now we've got a good running head start on the competition in some of those highly-regulated spaces. We invested a lot into acquisitions to improve our geographic footprint, our capabilities. They all drive towards differentiation as well.

We've got different service buckets. We handle small customers, transactional customers, midsized, large, now ones both here and in Ireland, so we can enterprise accounts. I think that goes towards our value prop, and the thing that's always differentiated us in these highly-regulated markets is our quality. We've always come in at the high end of the scale, the most expensive, third-party vendor, at least that's what we think. But we provide services that's well-aligned with our pricing, and so when customers need the best service from a quality perspective, I think they consider Transcat, and so that's a very important

part of our value prop. All those things together are consistent with our plan for the last decade or so, and we're going to stick to it and keep getting stronger in terms of our value prop.

Gerry Sweeney

Got it, and what about NEXA? How much of an opportunity is there to cross sell, either their services into your 35,000 customers or even open up additional avenues, and where are you on that process?

Lee D. Rudow

Yes, well, get the question. We're very early in the process. Two years or a year and three quarters is not a long time. Literally, after we acquired NEXA, within the first quarter or so, we had started seeing opportunities. We started winning some opportunities, and we continue to do so, so it's just really—it's a good match for our Company. When you look at the five or six service tracks that they offer, when you look at the calibration services we offer, it's in the same ecosystem, it's with the same customer, in most cases, with the same buyer, and so it's just a natural way for their company to grow by capitalizing, leveraging our customer base and vice versa, so I like the acquisition. I like the match, and I think the synergies are available to us to continue the growth, so we'll continue to execute the plan.

Gerry Sweeney

Qualitatively, adding a point or two to growth you think with NEXA, or just as much as you can answer. I know you probably don't want to give up too much, but whatever you can say.

Lee D. Rudow

Yes, we won't get into details, but I think when we point to high single digits, obviously, the better NEXA does and the better we're able to execute those synergies, the more likely we are to hit those targets over time, and like in this past year, we actually exceeded them a couple of quarters. That's always good too, so this will keep us in our range of high single digits. In the uncertainty with which we're working, I think NEXA gives us comfort level, in part, that we'll be able to hit those targets.

Gerry Sweeney

Great, and then one or two more quick questions on the margin side. Would you remind me, NEXA's similar margin profile as the calibration side, or better or worse?

Tom L. Barbato

Gerry, it's Tom. We've always pointed out that NEXA is—their average margin is higher than our average total services margin for Transcat.

Gerry Sweeney

Okay, got you, and then I think in the past you've really pointed to 35% gross margins as a target. You have operational excellence, automation. Is it safe to say we're looking at 35% in the next year or two, and then maybe we'll readjust and look at some other improvements we can make internally?

Lee D. Rudow

Yes, we still look at—we ended the year at right around 32%, a little bit higher than that. We still see 35% as the next level of achievement in terms of margin gain. We think it's realistic. I don't want to put a

timetable on it, whether it's a year or two or three, but it's in our relatively near future. We think it's achievable over the next year or so, couple of years, and then we'll talk beyond that when we get there.

Tom L. Barbato

Yes, and just to clarify, that's Services margins we're talking about.

Lee D. Rudow

Correct. This would be Service. Right.

Gerry Sweeney

Oh, yes, yes, yes, yes. Absolutely, Service, yes. Got you. All right. Congrats on a great quarter, and thank you for taking my call.

Lee D. Rudow

We appreciate it. Thanks, Gerry.

Operator

Our next question comes from line of Scott Buck with H.C. Wainwright. Please proceed with your question.

Scott Buck

Hi. Good morning, guys. Thanks for taking my questions. Can you talk a little bit about the difference in margin between the Rental business and the Equipment sales side?

Tom L. Barbato

Sure, Scott. It's Tom, and again, as we've said in the past, the Rental margin is significantly better than the overall Distribution margin. We haven't gotten into details specifically, but it is significantly higher.

Scott Buck

Okay, and Tom, of the CapEx number that you gave us for 2024, how much of that is for rental replacement and whatnot in that business?

Tom L. Barbato

It's a quarter to a third, somewhere in that range.

Scott Buck

Okay. Okay, that's helpful. That's great, and then I'm curious, guys, given the rise in interest rates, does that make you rethink or change the way you're thinking about the cap structure and your use of debt?

Tom L. Barbato

Yes, it certainly does, right, and all you've got to do is look at what our interest expense has done over the past year, and as you model it out in the future, right? It's definitely something that we're looking at, we're talking about, and evaluating all of our options around.

Scott Buck

All right. I appreciate that, and then last one for me just on M&A, curious what the appetite is for a larger, more transformational type deal, and even if there are opportunities like that on the calibration side currently?

Lee D. Rudow

Yes, Scott, so this is Lee. We are always interested and more than capable of acquiring larger companies. We've got a strategy where we've got our three drivers that dictate our day-to-day focus, geography and capabilities, expertise, bolt-ons, and the like, but something more transformative is always on our radar, and I think when we use the word diverse pipeline, we're guiding towards the fact that we're open to more transformative opportunities. There aren't that many out there, but they're out there, and it's always something we're interested, and I think the Company's ready if one presents itself. We certainly have the infrastructure to be able to acquire and integrate, so it's on our radar and we'll see.

Scott Buck

All right. Appreciate that, guys. Thanks for the questions.

Lee D. Rudow

You got it. Thank you. Thank you, Scott.

Operator

Our next question comes from the line of Ted Jackson with Northland Securities. Please proceed with your question.

Ted Jackson

Thanks, and I also would like to throw my congratulations in for a great quarter and also a great fiscal year.

Lee D. Rudow

Thank you, Ted.

Ted Jackson

Yes, so my first question is kind of boring, but I'm just going to talk about the balance sheet really quick, and there was a pretty good jump in working capital, mainly from receivables. Inventory also, relative to my expectations, was a little higher, and so those things, I look at free cash flow a lot and wanted to have a little bit of color provided maybe on what we could expect to see with regards to those line items as we roll through '24. Excuse me, '23.

Tom L. Barbato

We've talked about strategic buys in the past, and that being something we're taking advantage of when we can, and that's really the driver to the inventory increase, and we've talked about that quarter-to-quarter. From an AR standpoint, to some extent, it's a function of the growth that we've seen in the business and the timing of when billings take place within a quarter. There's nothing to be concerned about there. It's just with working capital, there's cycles that we experience and nothing out of the norm and nothing inconsistent with what we've talked about before.

Ted Jackson

No, I don't have any concerns with it. I just want to think about it (inaudible) roll through. Would we expect to see your receivables maybe trend down as we roll through '24 or hold steady? If we think about it from a turns or days basis, where your thoughts are with regards to that in particular?

Tom L. Barbato

I think we should expect AR to grow with the increase in the business, the overall percentage increase in the business, and inventory I would expect to probably remain flat. I think we just continue to see increases in pricing, which is going to have an impact, but I think some of the strategic buys, as we've talked about before, are going to dry up on us this year, and then we'd expect to bring inventory down as a result of that.

Ted Jackson

Okay, and then just jumping over to a, I don't know, way to set expectations or set things with regards to the current fiscal year, with the acquisition that you did in St. Louis, can you provide maybe a little more color on how you think about first quarter revenue and the incorporation of that into the revenue mix for this current quarter?

Lee D. Rudow

Yes, I think we'll be able to achieve the growth targets that we've alluded to in the earnings release. The St. Louis acquisition is a pure bolt-on. They're within striking distance of our current lab, so there'll be some integration activities where we're going to put these two labs together if that makes a lot of sense, but I don't think that's going to really impact revenue to any large extent in the first quarter. I think we'll look at high single digits, in that range. I think we'll be able to achieve that from a Service perspective.

Ted Jackson

What's there to think about? You wouldn't provide any color on what would be additive relative to the first quarter by X million dollars or anything like that? There's no color or commentary around that you could provide?

Lee D. Rudow

No, we won't be adding any color like that, at least at this point.

Ted Jackson

Okay. Okay, and sorry for being so mellow. I woke up this morning with a horrible cold, but okay, then, moving—not that you care, but moving over just on the Distribution, do you expect to see growth in your Distribution business in '24?

Lee D. Rudow

Well, the way we look at Distribution is the way we've looked at it for the last several years, and that is we've always wanted core Distribution just to be a stable segment for us. Just to remind you, Ted, and others, we primarily use Distribution as an opportunity to crack open the door for Service opportunities. It's an important differentiator for us, so every time we have a Distribution order, that oftentimes leads to a Service opportunity. We expect that to continue, but it's never been our goal to grow Distribution, to take it from roughly \$70 million, \$80 million to \$100 million or \$150 million. That's not our goal. It is our goal to grow our Rental business, though, and Rentals falls under Distribution, and that's had significant growth both in margin from a gross profit perspective and revenue perspective. It moves the needle more on margin than revenue, but that is more strategic, so I'm going to say steady as she goes with core Distribution, and you would expect growth in Rentals over time.

Ted Jackson

Okay, and then my last question, which is a little more fun, is with the Irish acquisition, the thing that was exciting about it and sexy was the efforts they were making in terms of robotics and automation, and I know that's a slow burn, a long-term opportunity, if you would, for the Company, but I was wondering if you could provide a little color on things that are going on on that front and efforts and successes and such? Thanks.

Lee D. Rudow

Well, it is a slow burn, and I would characterize it as being in the first inning. That's a good place to start, but just because you asked the question, we actually did install a couple of robots in our Philadelphia lab that are related to mass calibrations, which is weight, and so they are up and running, and we're working through the kinks, but yes, we started the process. The key is looking at the disciplines that we perform work on and putting it into some logical order that makes sense from a robotics perspective and to continue to develop that technology over time, but I think characterizing it as a first inning is important. There's a lot of work to be done. It's more of a longer-term play, and so when we get to the mid-single digits in our Service margins in the next year or so, couple of years, then we'll start talking about robotics somewhere down the road, I'm sure.

Ted Jackson

Okay, and again, congrats on the quarter. It was a really nice (inaudible).

Lee D. Rudow

Appreciate it. Hope you feel better, Ted. Take care.

Operator

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

Mitra Ramgopal

Yes. Hi. Good morning, and thanks for taking the questions. First just on the Service segment, I know it's a being driven by the life science industry in particular. Just curious if you're seeing growth from any of the other areas that might get you excited whether it's aerospace, energy, chemicals, industrial, anything that might accelerate the growth in this segment?

Lee D. Rudow

Yes, most of our growth in the low 60 percentile range is where we see life sciences, but we have had growth as well, Mitra, in aerospace and defense. Our pipeline has some interesting aerospace and defense opportunities in it. There's been a little bit of growth as well in general manufacturing, so it is broad-based. Once you get outside of the concentration that we naturally have in life sciences, which is pharma, biomedical, medical device, you start seeing some. The next ranking down would probably be aerospace and defense and then general and mid (phon) chemical and some alternative energy as well is in there.

Mark A. Doheny

Yes, that's what I was going to say. This is Mark, Mitra, is our wind energy business has actually picked up a little bit in the recent quarters, and so there's pockets of activity. We haven't talked a lot about the (inaudible) business, which is life science as well, but that's also a platform that's continuing to grow nicely and supporting our organic growth that's been strong recently.

Mitra Ramgopal

Okay, no, that's great, and then just digging a little deeper in terms of the biotech space and biotech companies having difficulty given the capital markets currently, etc., just wondering if you're seeing any slowdown in that area?

Lee D. Rudow

When we think of bio, we think of biomedical. We do a hospital business that came many years ago through an expanded addressable market with the Spectrum acquisition, and that business has performed well over the last year and continues to grow, and that's where we focus our energy on. As far as biotechs and the development of that, smaller market for us, so we haven't been impacted much.

Mitra Ramgopal

Okay, thanks, and then one of the things you're excited by in terms of the investments you're making, Transcat University, so to speak, just wanted to get an update on that in terms of how far along are you on that front and as it relates to the investment, etc., and when do you expect to really see that paying off for you?

Lee D. Rudow

Well, it continues to progress. This time last year, I think we had 50 students that had been put through the program. I think we're upwards to about 100 now, which is great news for us, and the original 50 are more productive than they were, as you can imagine, Mitra, in the first couple of quarters that we put them out into the field after their initial training, so we're scaling that. It's a competitive advantage for us if we do it right. It took a long time to get that program up and running, but we're pleased with where we are, and the large percentage, the lion's share of the people that have been through school are still with us, so we're getting good retention rates, and that's just as important as getting them through is keeping them progressing in their careers here with Transcat, so I think it's good news on that front.

Mitra Ramgopal

Okay, thanks, and then finally, just on M&A, obviously, you have an active pipeline and a lot of opportunities out there, but was just wondering, in light of NEXA, etc., if you're more willing to maybe consider M&A activity outside of the U.S. than maybe you might have been willing to do in the past?

Lee D. Rudow

I think that day will come, but generally speaking, our focus has been on the U.S. primarily. We did a small acquisition in the calibration space in Ireland after NEXA, and it's not like we wouldn't be able to do something like that in the near future, but if you look at the pipeline and you want to characterize it by its geographic impact, 95% of it's in the U.S., and I see that as pretty much what our tent is and I see that not changing anytime soon. We'll certainly add some color to it if that changes, but right now, we're mostly U.S.-focused with our acquisition strategy.

Mitra Ramgopal

Okay. Thanks for taking the questions.

Lee D. Rudow

Appreciate the questions. Thanks.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Lee Rudow for closing remarks.

Lee D. Rudow

Thank you all for joining us on today's call. We appreciate the questions. We appreciate the continued interest in Transcat. We'll be presenting at the Craig-Hallum Investor Conference in Minneapolis, so on May 31, so feel free to check in with us there. Otherwise, you can check in with us at any time. We look forward to talking to everybody again after our first quarter results. Hope everybody has a nice Memorial Day, and again, thanks for participating. Take care.

Operator

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