Operator: Greetings and welcome to the Transcat, Inc., Second Quarter Fiscal Year 2021 Financial Results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions.] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Craig Mychajluk. 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 here 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 the news release that crossed the wire after markets closed yesterday, it can be found on our website at transcat.com. The slides that accompany today's discussion are also on our website.

If you would, please refer to **Slide 2**. As you are aware, we may make forward-looking statements during the formal presentation and Q&A portion of this teleconference. Those statements apply to future events, which are subject to risks and uncertainties as well as other factors that could cause the actual results to differ materially from where we are today. These factors are outlined in the news release as well as with documents filed by the company with the Securities and Exchange Commission. You can find those on our website where we regularly post information about the company and 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.

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. Both professionally and personally, the last eight months has been significantly different for everyone, everywhere. There's been no escaping the impact of the COVID-19 pandemic. But amidst the obvious challenges, the pandemic has also fostered an environment to rethink how we do things. And in some cases, to move forward differently. I think the Transcat team has done exactly that. And as a result, I think we're a better company. Our progress has been intentional and will continue to be intentional. Had it not been for the investments we made in our people, technology and operational excellence over the past three years, we would not likely be in as much of an advantageous position as we are today.

Our Service business has been resilient. And in the second quarter of fiscal 2021, we achieved our 46th consecutive quarter of year-over-year growth. The consistent growth has validated our strategy, including our focus on the Life Science industry. And the recent acquisition of TTE has proved to be timely and as expected, is performing very well in the current pandemic environment. In the second quarter, we also saw encouraging trends in Distribution. Distribution revenue was down 6.6% versus the prior year second quarter, but was up nearly 7% sequentially from the first quarter of 2021.

In the second quarter of fiscal 2021, we delivered outstanding margins. Consolidated gross margin was up 260 basis points, primarily driven by Service productivity improvement, and our Service gross margin was up 660 basis points. Operating income was $3.1 million, which not only exceeded our expectations, it represented a record level of second quarter operating income. Our financial strength was fortified by standout cash generation of $8.5 million in the second quarter, and we made a sizable reduction to our debt during the quarter and year-to-date period given the strong cash flow and effective working capital management.

There are six primary drivers that impact Service gross margin; technician productivity, strategic pricing, channel mix, product mix, sales revenue and automation. In the second quarter, we hit on four of the six margin drivers, which resulted in the generation of 32.2% Service gross margin. Technician productivity and strategic pricing have been major contributors to the Service margin increase. And we believe both will be sustainable throughout our network of 42 labs on a go-forward basis.

The current productivity levels are also supported by the seasoning of our lab technicians, additional training, leveraging our strengthened management team and new processes to control costs and optimize client-based lab operations. Increased pricing is also a factor. Our differentiated level of quality continues to be recognized and

valued, particularly by the Life Science industry, where the cost of failure is so high. We believe our customers have embraced our commitment to quality and the higher costs associated with its delivery.

Channel and product mix can be impactful components of Service margin performance. Channel mix refers to the way our service is delivered, for example, on-site service versus depot or pickup and delivery versus mobile or client-based labs. Product mix refers to the type of instruments we are calibrating, again, for example, temperature, pressure, electrical or dimensional products. Both channel and product mix tend to be more variable on a quarter-to-quarter basis and in the second quarter of fiscal 2021, both channel and product mix had a positive impact on Service gross margin.

One final point I'd like to make on the Service gross margin is that in the second quarter the margin expansion was achieved without an increase in organic sales volume and without the benefit of automation. We believe our solid new business pipeline positions us well to return to strong organic growth when the COVID-19 driven delays are behind us, and our on-site work resumes at full pace.

Automation is currently being tested in a number of labs with the goal of broader implementation throughout our lab network over the next couple of years. We believe both the Service growth and automation represent upside to the current Service gross margins.

And with that, I'll turn things over to Mike, who will walk you through a more detailed review of the second quarter before I come back and talk to the outlook.

Mike Tschiderer: Thanks Lee, and good morning, everyone. I hope that you are all keeping safe and doing well. Today, I will start on **Slide 4**, which provides some detail regarding our revenue on a consolidated basis and by segment. As a reminder, we have two reportable business segments; Service and Distribution. Included in our results is the previously reported February 2020 acquisition of TTE Laboratories, which we now refer to as pipettes.com. Against the backdrop of a very challenging environment, our second quarter results were strong and especially demonstrated the resilience of our Service business and our continued focus on gross margin improvement. Our revenue remained stable at $41.6 million as modest Service growth offset lower Distribution sales. Pipettes.com added approximately $2.2 million of incremental revenue on a consolidated basis, with $1.2 million in Service and $1 million in Distribution.

The increase in Service revenue to $24.6 million reflects our Life Science focus as we saw continued demand and secured new business from that sector, which helped offset both demand pushouts and softness from other markets. The Distribution segment appears to have started to rebound, although the sales number still reflected the current economic conditions as we have seen reduced demand from oil and gas-related businesses and other general and industrial manufacturing sectors. A bright spot was rentals, which rebounded 32% sequentially from the first quarter of fiscal 2021 and grew year-over-year.

As Lee described, the highlights of our second quarter were certainly around our Service margin performance, which drove our consolidated results. Our consolidated gross margin expanded 260 basis points to 27.6%, with Service up an impressive 660 basis points to 32.2%, even with only modest top line growth. This is the second highest quarterly Service gross margin level ever achieved. Back in fiscal 2015, we had one quarter with just a slightly higher gross margin.

This high level of performance more than offset Distribution where that segment's gross margin reflected actions taken by our vendors to lower their own costs during these challenging times as they reduced their co-operative advertising and purchase and sales rebate programs. We anticipate that Distribution headwinds will continue into the second half of the fiscal year.

Slide 5 shows our operating performance, which exceeded our previous expectations as we were able to deliver operating income of $3.1 million, which was a record level for a second quarter. Recall that we had guided to second quarter operating income being in the $2 million range, which would have been a $1 million increase over what we delivered in the first quarter of fiscal 2021. We were able to achieve these results even with continued investments in technology and operating infrastructure, and incremental pipettes.com SG&A expenses, which included $300,000 of noncash amortization expense of purchased intangible assets.

On **Slide 6** we show our bottom line results. Note that last year's second quarter had a much lower tax rate due to significant discrete income tax benefits related to share-based awards in that prior year quarter. On a pretax income basis, we were comparable with last fiscal year second quarter. Given that our year-to-date profitability has exceeded our previous estimates, we are adjusting our full fiscal year tax rate expectations to now range between 22% and 23%, which includes federal, various state and Canadian income taxes.

On **Slide 7**, 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.

We continued to generate cash from operating activities in this challenging environment. And as depicted on the slide, you can see the strength and overall importance that the Service segment has on our business. In the quarter, Service EBITDA increased more than 44% to $4.5 million, and Service segment EBITDA margin expanded 500 basis points to 18.2%.

Slides 8 and 9 provide detail on our balance sheet and cash flow. We ended the quarter with sufficient flexibility and liquidity as we generated $8.5 million of cash from operations in the quarter, which was used in part to fund our capex and reduce our debt. At quarter end, we had $22.7 million of total debt, which was down $7.6 million since our March 2020 fiscal year-end. With EBITDA in the quarter and this reduction in debt, our leverage ratio also came down and was 1.19. This is calculated as total debt on the balance sheet at a period end divided by the trailing 12 months adjusted EBITDA, including giving credit for any acquired EBITDA. Other companies may calculate such a metric differently. We had $28.9 million available under our revolving credit facility at the end of the quarter and nearly $25 million of net working capital.

Year-to-date net cash provided by operations was $12.5 million, up considerably from $2.8 million in the prior-year period. Capital expenditures were $1.9 million for the quarter and $3.1 million for the year-to-date period. As we have delivered solid results to date and have no liquidity concerns, our capital plan for fiscal 2021 has been increased slightly up to a now expected range of $5.5 million to $6.5 million. The focus is expected to largely center on technology infrastructure and Service growth-oriented opportunities as well as rental pool assets. This amount is inclusive of maintenance spend, which is expected to be consistent with fiscal 2020 at approximately $1 million to $1.5 million. And lastly, we expect to timely file our Form 10-Q on November 5.

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

Lee Rudow: Thank you, Mike. To date our employees have been vigilant keeping themselves and those close to them safe. Their safety has kept our business running, enabling us to provide outstanding support for our customers, which has increasingly become a competitive differentiator. As I previously mentioned, we believe our new business pipeline is positioned to generate strong organic growth, and we expect the retention and growth of our highly regulated Life Science customer base to provide stability and foster continued financial strength. Our acquisition pipeline is as expected, active, and our investments in people and technology have positioned us to capitalize on what we anticipate will be a higher level of acquisition opportunities.

As we make our way through the third quarter, we have to recognize that a high degree of uncertainty exists in today's economic environment. Still, we expect Service revenue to grow modestly versus last year's third quarter, with solid improvement in year-over-year gross margins. Distribution will likely be negatively impacted by the current economic environment, but we anticipate it will perform in a similar fashion to the second quarter performance on a year-over-year basis.

We expect our third quarter consolidated operating income to be similar to the prior year's third quarter, which was about $2.1 million. And I'll close by saying that we believe we are executing the right strategy and are taking the right actions to generate strong performance and to push through and past the challenges of the current environment. We are encouraged by our technology investments and early impact on margin expansion, and we expect to continue to keep technology at the forefront of everything we do. Most importantly, we continue to believe the future for Transcat is very bright.

And with that, operator, we can open the line for questions.

Operator: At this time, I will be conducting a question-and-answer session. [Operator Instructions.] One moment, please, while we poll for questions. Our first question is from Gerry Sweeney with ROTH Capital. Please proceed with your question.

Gerry Sweeney: I would like to ask a question or two on revenue and then shift gears on to margins. But obviously, starting to see a rebound is pretty good. You talked about a little bit of weakness outside of Life Sciences. Have you spoken to those customers? Have you any insight as to what their expectations are going forward? And also, I believe some of that may have been some channel mix. I think some of the sort of intermittent stops where you do some of the calibration internally was a little slow as well. Just wanted to get a little

bit more clarity on just how that is sort of working out. And I know COVID is sort of rearing its head again, but wanted to see if you had any color on that?

Lee Rudow: I think I get the question, Gerry. So you're referring to some of the business outside of Life Science. Obviously, Life Science in this particular environment is going to hold up pretty well, and it has. We have general industrial customers and general industrial output factors in the business as well. And what we see from that customer base and what Mike alluded as being soft, this is where we're seeing where it's non-essential, noncritical business, you're seeing a little pent-up demand. This is where you're seeing on sites being pushed out. This is where you're seeing even the pipeline and the development of larger new accounts say, we're going to get through this quarter or through this month, and we want to wait until the first of the year, and you're seeing some of that.

We really like the pipeline. It's strong. It's just slower to develop than what we're accustomed to, but all the buying signs are positive. And with the existing customer base, any softness has been offset by Life Science, but there are definitely sort of general slowdowns related to on sites. They're back and they're better in the second quarter than they were in the first quarter, but not at full capacity. So what we're hearing from our customers specifically is a little bit less about if and more about when. And it's just a matter of getting some of that push through.

Gerry Sweeney: Got it. And then, obviously, COVID's starting to make some headlines just recently about accelerating again. I would suspect this go around may be different. I think a lot of procedures, policies are sort of in place, not only at Transcat, but with your customers. If things do sort of move towards, I don't want to say shelter in place because I don't think that's going to happen, but just curious as to your thoughts on how revenue may or may not be more resilient and if COVID picked up or those policies are sort of adequate to maintain or manage revenue.

Lee Rudow: Gerry, I would guide back to the first quarter. Even in that period, we really weren't as prepared as hopefully we are now. We performed well. And I think, again, I'd point back to the Life Science orientation of our business in certain markets that we serve, which is about half of our business. Even with a COVID pickup, I think we'll be more stable than we would be otherwise if we weren't focused on Life Science.

And so, in the first quarter, our operating income was still pretty solid. And I think we've proven we can do well. All bets are off if it’s deeper than we've seen in the past. But I mean, if the past is an indication of the future, I think we'll be just fine.

Mike Tschiderer: Gerry, I'd just add one other thing, too, that I think we have the benefit of being very decentralized. I mean we don't have just one calibration facility that heaven forbid, you know, it was in a state that was shut down. With 22 locations, plus 20 client-based labs, we have the opportunity and ability to spread work out if this thing is worse in regions than in some other regions. So we think that will help us minimize some risk.

Lee Rudow: And Mike, we did that in the first quarter. There were times we had to shut a lab down for a few days. We had two or three labs not operating, and yet we moved that work and still got it out. So I think you'll see something similar if need be.

Gerry Sweeney: Got it. That's helpful and a good point. And then finally, just on margins, and you described the six drivers. And you also mentioned organic growth. You're seeing the benefits of some margins without organic growth, i.e., maybe some absorption of overhead. When you look at tech, it sounds like they're being more efficient. I'm not sure if you necessarily have a stat that says, hey, they're running at 75% utilization. But any way you could provide how much capacity you could take on before getting bumped up against the next level of hiring? Granted, there's going to be different product mixes and things in there, but just wanted to see if you could provide any detail around that.

Lee Rudow: Right. I get the question. Yes. So I think over time and an extended period of time, you're going to see some ebbs and flows in productivity. If you have really strong organic growth that exceeds expectations, then you could end up in a situation, and we've been that way in the past where your short-term margins get depressed a little bit as you're training and bringing on new people. We've not had to do that in the last year. So we alluded to the seasoning of our techs being one of the things that have benefited us.

But in addition to that, I think it's important to recognize we also are running different productivity measures. We're doing things in a more efficient and effective way than in the past. We're managing our labs differently. And this is all part of our initiatives around margin expansion. So some of that's going to hold up even independent of the factor of technicians. We have enough technicians. We have capacity to handle a normal amount of organic growth. But if we do really well, you could see a short-term impact like in the past. But again, we see that as

temporary. We see that's all part of growth, and we've proven that we can get beyond that in a relatively short period of time, and we would, again, in the future, if that occurs.

Mike Tschiderer: Yes. And just one other thing on that, Gerry. So yes, we hit four of the six drivers. The one that was not there was the growth, like you mentioned. But I think the other one that we still are going to get benefit from that we haven't yet, kind of keeping in our back pocket, if you will, is automation, which will change that productivity of the technicians, too. So that might offset. We're not saying it's dollar-for-dollar or anything like that. But automation will increase productivity that could be hindered by rapid growth. So there's both a good and a bad of those two drivers that I think will help us with our productivity and capacity planning.

Operator: Our next question is with Dick Ryan from Colliers. Please proceed with your question.

Dick Ryan: Thank you. So, Lee, you've mentioned the new business pipeline a couple of times. And I guess I'm wondering is that new business opportunities with existing customers or new customers in general; can you give us a little qualitative feel there? And maybe additionally, TTE is obviously a very good acquisition. Has that opened up any new doors to aid the business pipeline?

Lee Rudow: So it's a combination, Dick, as it always is, but I would say that it is absolutely weighted towards new opportunities from new customers. Some of the pipeline has new opportunities from existing customers. But I would say the lion's share are net new opportunities to us. Relative to TTE, I'd characterize it as there are a couple of opportunities. I don't think they're material relative to the entire pipeline. I expect they will be over time. But yes, we've had a couple of opportunities that are interesting. I think we've had actually one or two opportunities as a result of the sales synergies that we talk about on the Life Science front between the acquired companies.

But generally, the bulk of it is net new business because I think our sales engine is doing well. I think it's improved. It will continue to improve, and it's doing a pretty good job. So that's how we characterize it.

Dick Ryan: Okay. On the CBL side, it looks like you're still at 20 customer-based labs. What's kind of going on there or below the surface with some new opportunities given COVID?

Lee Rudow: Yes, so we have CBL's in our pipeline, potential new CBL's in our pipeline. But without question, we have not closed and started a new CBL since COVID started. And I don't anticipate we will until there's some clear vision and less uncertainty going forward. So to come into a person's lab with a crew of people and to establish and set up of facilities is not something our customers are interested in. So in those cases, we may be doing their third-party work, some of their overflow, but there's going to be delays around that portion of our growth.

Now having said that, I will add to the narrative that the bulk, a large percentage of our new business pipeline is not centered around CBL's. And so there's one or two in there, but we would expect things to flow through the pipeline at a nice pace independent of CBL's.

Mike Tschiderer: Yes. And I think that's just kind of the nature of the business and COVID-related to, whether it's new wins or pipeline percentages, it's still going to be skewed to non CBL's in this uncertain time.

Lee Rudow: Correct.

Dick Ryan: Okay. And then you said you expect increased levels of acquisitions. What's going on in the M&A pipeline? Are there smaller guys just raising the white flag given regional difficulties that could come up? Or what are you seeing on the M&A side?

Lee Rudow: I would say about half of our M&A pipeline would be characterized as normal pipeline activity. We brought on a new Vice President of Business Development recently, and he hit the ground running to develop our pipeline and push things through. I think we're seeing some of that occurring at a pretty healthy clip. And then I would say that a portion of our pipeline, a small portion, but an ever-growing portion is related to some of the challenges around COVID.

I've mentioned before on our earnings call and with investors that if you go back to the major recessions we've had in the past, and you look at the early 2000, 2008, byproduct of tough times, there are always people who sort of raise the white flag, as you describe it, at some point and say, hey, I'm a little tired and I'd be interested in a partnership or I'd consider an acquisition. So we're seeing some of that. No question about it. We're seeing a development of our traditional pipeline more efficiently and effectively as we sort of messaged earlier and the combination of the two leads us to use the word active.

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

Greg Palm: Thanks, and congrats on the results. Really fantastic third quarter margins here. Are you willing to give the growth rate for Life Sciences? I'm just curious what level of outperformance you're seeing, at least broadly speaking, for some of your non-life science customers?

Lee Rudow: At this point, I don't have a breakout of the exact growth rate. I just don't have that in front of me. I will tell you that we've gone from about 45% to 47%, I think we're very close to 50%. So it's in that general range as a percentage of our overall business in the Service segment.

Greg Palm: Got it. Okay. Presumably, that mix has gone up because that sort of segment has been growing versus the non-life science. So that's the right way to think about it?

Lee Rudow: Yes, I think that's the right way.

Greg Palm: Okay. And any way to bucket out the margin tailwinds in Service, specifically from the four different sources you alluded to? I mean, specifically, how big of a tailwind was the mix part versus the pricing and productivity? Do you have that handy?

Lee Rudow: I would characterize saying at least half to three-quarters of it was around productivity, pricing and some of the things I mentioned, just in that rough range. It's probably half or more than half. It's not 100%. And so that's the part that we believe should, by definition, be sustainable. So it's a significant portion of it.

Greg Palm: Yes, okay. And the strategic pricing specifically, I know that's been mentioned before from time to time, but you certainly seem to highlight that a lot more this quarter. Did something happen? Did you take pricing up across the board for certain customers or verticals? Or I'm just sort of curious why you're so confident that's something that will be sustained here going forward?

Lee Rudow: As we see our concentration of Life Science business increase as a percentage of our customer base, it's natural that you're going to see some elevation in pricing and margins as a byproduct of that. That's where, as I mentioned, the cost of failure is so high. That's where our value prop resonates the most. And as we get more and more into Life Sciences, whether it be in the pharma world or med device or bio, you're going to see margins do better and potentially improve and that's what I think you're seeing.

Greg Palm: Okay. Last one, as it relates to Distribution and the guidance for that segment. Are you taking into any account a potential for a budget flush environment? I think usually, in the month of December, you usually see a pretty big bump. I'm just not sure what guidance assumes if it assumes kind of a continuation in recovery from here or if it assumes that things sort of level out at current?

Lee Rudow: Yes. We were referring to year-over-year in the third quarter. We typically have a bump in the third quarter in the Distribution business. And so all things being equal, we're comfortable saying that barring any major change, that we would expect the third quarter to be similar to the second quarter and less similar than the first quarter. We had a lot of sequential improvement in Q2, and we expect to stay at about that range going through the third quarter on a year-over-year basis.

Greg Palm: Yes. Okay. So you're not talking in absolute, you're talking about a growth rate year-over-year, that's what you're referring to?

Mike Tschiderer: Well, I think the way we tried to describe it was that we would expect the third quarter, like you said, is normally our largest quarter because it's the end of the year. But we would expect this one to be more in line with what the second quarter was with a slight pickup in what we normally would see in the third quarter. So I wouldn't expect it to go back to last year's Q3 levels. We've seen rebounding and some improvement in the sector as a whole, but it would be a big step to get back up to what last year's third quarter was.

Operator: Our next question is from Kara Anderson with B. Riley. Please proceed with your question.

Kara Anderson: Just one question for me. Just hoping you can talk a little bit about the rental business. It rebounded in the quarter. What are you hearing driving those decisions for customers, and is it bringing in new business or are you offsetting what would have been an equipment purchase? Just some color there would be great.

Mike Tschiderer: It's a little bit of everything, Kara. I think it kind of shows what we've always thought would happen with rental in uncertain times that it's another lever for us to have. It's another option for customers who

need equipment but aren't committed to buying capex. There could be some short-term cannibalization because of the nature of that. But I think it's doing what we said it was going to do, and it just gives those potential customers another option for us. We always said that uncertain times, good or bad, we think rentals can grow and they kind of showed it this quarter.

Lee Rudow: Kara, I would add a little bit to that and say that in starting the business about four or five years ago, we had a run of about 16 straight quarters, if my memory serves me correct, of growth in rentals. And the only quarter that didn't grow with the first quarter of this year. So in that period, I just think all bets were off, and we're talking April, May and June, and people just weren't doing business of any kind.

We were really pleased to see it improve and get back to normal rates in the second quarter. And barring anything unusual that we're not anticipating, I would expect that in the third quarter, you'd see something similar as well. So it feels like one bad quarter, and we got past it. So we're pleased with that.

Kara Lyn Anderson: Got it. And actually, one more for me. Just wondering if you're seeing any pickup in sales related to kind of pandemic supplies or the body temperature devices? You have them highlighted on your website. So I'm just curious what you're seeing there.

Lee D. Rudow: Right, yes. We are seeing business around pandemic oriented devices. I know we calibrate hundreds and perhaps even thousands of the lower cost thermometers, you know, the ones you're seeing around the environment. They tend to be very inaccurate and within one or two degrees. And so we're getting a significant number of those into our labs to apply the appropriate correction factor. So the people know when it is 99 it could be reading 101 or vice versa.

So, yes, we are seeing an uptick in that, and it's a little too early to provide more detailed data on some of the permanent installations that we're doing with temperature. But yes, it is out on our website. It is a new offering. And as we get through the next quarter or two, we'll add some color around that.

Operator: [Operator Instructions.] Our next question is from Chris Sakai with Singular Research. Please proceed with your question.

Chris Sakai: A question on automation. Do you have an estimate of in the future? How will this improve margins?

Lee D. Rudow: Generally speaking, I think it can have a material impact on margins over time. So when we talk about automation, we're talking about a technician that normally would take 20 minutes to do a calibration or half an hour to do a calibration and they can push a button and that calibration runs on its own. And that allows the technician to turn around and, let's say, perhaps do a second cal, simultaneously. And so the real question is what percentage of our work that we do today lends itself to that opportunity? And we're getting our arms around those numbers. We've thrown out 20% or 30% of our cals potentially being impacted by it. We feel like that's still in the range that is correct.

So over time, as we get more into automation, we'll provide more color on it. But theoretically, the answer is yes. The more automation we use and the more labs that use it and on more disciplines as we move from pressure to temperature and other variables, the better our margins should be. And we're fairly confident that all that will take place over time. What we're less confident in is the timetable for it. It's been slower than we would have liked, but it is absolutely back on track, and we expect to be talking more about that as the future unfolds.

Mike Tschiderer: Chris, I think it's kind of two things. One is the actual technology and the software that Lee mentioned has been a little bit slower, but we're still very confident in what it can do. The other piece to get the full benefit of automation and why we can't just throw a number out there now is it has to change some of the logistics and the setup. You get the benefit in Lee's example, when you push the button and have another calibration to work on. So there's some batching, logistics, asset movements that you really need to take full advantage of that two for one automation. So it's hard to just put a number on it right now.

Chris Sakai: Okay. Great. And then you guys mentioned about M&A activity is strong. Do you have any sort of timing on that?

Lee D. Rudow: So the word we used was active, but I would say that's synonymously strong. And the best guidance I can give you is just to tell you that we are working on some things that I think would be helpful to the company and make us better and satisfy the drivers behind acquisitions. If you recall, we look to fill our geographic footprint, we look to add capabilities that we don't currently have, and we're always interested in a bolt-on where we can leverage some of our current management. And so we've got elements in our pipeline that satisfy several, if

not all of those, in some cases. And we're going to push it through as fast as we can. I'm not going to add any specific guidance as to the timing at this time.

Chris Sakai: Okay. Great. And then one last question. As far as margins go for next quarter, I mean would you say that it's fair to say that they'd be about the same with the same product mix?

Michael J. Tschiderer: Talking Distribution or Service, Chris?

Chris Sakai: Service.

Michael J. Tschiderer: We were pretty conscious in the release to say that we'd expect Service margin improvement, but you should look for the margin improvement over what we delivered last year's third quarter, not on this second quarter just because the third quarter of our year has always had a lower margin profile with holidays and everything else. So we expect improvement, but you should do it off of last year versus the second quarter of this year.

Operator: It appears that there are no further questions at this time. I would like to turn the floor back over to management for concluding comments.

Lee D. Rudow: This is Lee, and we thank you for all joining us on the call today. We appreciate your interest in Transcat. Feel free to check in with us at any time. Otherwise, I guess we look forward to speaking with everyone after our third quarter results are completed. And again, thanks for participating.

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