



Transcat, Inc.

Third Quarter Fiscal Year 2026 Financial Results

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C O R P O R A T E P A R T I C I P A N T S

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Greg Palm, *Craig-Hallum*

Max Michaelis, *Lake Street Capital Markets*

Ted Jackson, *Northland Securities*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Transcat Third Quarter Fiscal Year 2026 Financial Results Conference Call.

As a reminder, today's conference is being recorded.

It is now my pleasure to introduce your host for today, Mr. John Howe, Senior Director of Financial Planning and Analysis. Please go ahead, sir.

John Howe

Thank you, Operator, and good afternoon, 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 Financial Officer, Tom Barbato. We will begin the call with some prepared remarks, and then we will open the call for questions.

Our earnings release crossed the wire after markets closed this afternoon. Both the earnings release and the slides that we will reference during our prepared remarks can be found on our website, transcat.com, in the Investor Relations section. 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. 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 Rudow

Okay. Thank you, John.

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

Transcat delivered strong performance across our entire business portfolio in the third quarter. Consolidated revenue was up 26% to \$83.9 million, driven by double-digit revenue growth in both our Distribution and Service segments. Our organic Service growth returned to more historic levels, growing 7%. Consolidated gross profit grew 28%, and gross margins expanded 60 basis points. Adjusted EBITDA grew \$2.2 million, or 27.2% in the quarter, to \$10.1 million.

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Our strong third quarter financial results were driven by four key factors. One, strong demand for our core calibration services in the highly regulated end markets we serve, including life science, aerospace and defense, and energy. Two, our unique value proposition and differentiated brand. Three, significant growth and positive mixed change in our instrument rental channel. Four, the strong performance by both our recently acquired companies, Martin Calibration and Essco Calibration. The acquisitions expand Transcat's geographic footprint and technical capabilities. We're working very closely with both companies to accelerate the capture of both sales and cost synergies.

I wanted to take a moment and thank our entire Transcat team for their ability to execute well and drive meaningful growth, despite what continues to be an uncertain geopolitical and policy environment. They're an impressive group.

Turning to our Service results in the third quarter, as I mentioned, organic growth grew 7% and contributed to an overall growth in our Service segment of 29%. The quarter marked our sixty-seventh straight quarter of year-over-year growth, almost 17 years. As we anticipated, and despite a fair amount of continued economic uncertainty, realization of Service orders that were delayed in the first two quarters of our fiscal year began to trend positive in the third quarter. The trend was most evident in the highly regulated life science space and the aerospace and defense markets. Demand for Transcat services remains high and we expect the growth momentum established in the third quarter to continue through the fourth quarter as we close out our fiscal year.

Service margins declined in the third quarter, but that is not uncommon in periods when we are onboarding elevated levels of new customers. Depending on the size and complexity of the new business, as we've seen in the past, we would expect productivity and cost to normalize over time. Overall, the Service segment continues to have a substantial runway ahead for growth, both organically and through acquisition. Throughout the last 10 plus years, we've demonstrated our ability to identify, acquire, integrate, and synergistically grow accretive acquisitions. This will continue to be an important element of our go-forward growth strategy.

Turning to Distribution in the third quarter, Distribution revenue grew 20% from high demand in both rentals and product sales. Gross margin expanded 330 basis points versus prior year, driven primarily by an increase in the mix of higher margin rental revenue within the Distribution segment.

With that, I'll turn things over to Tom for a more detailed look at our third quarter financial results.

Thomas Barbato

Thanks, Lee.

I'll start on Slide 4 of the earnings deck, which provides detail regarding our revenue on a consolidated basis and by segment for the third quarter of fiscal 2026. Third quarter consolidated revenue of \$83.9 million was up 26% versus the prior year, and both segments grew double digits. Looking at it by segment, Service revenue grew 29% with organic revenue growth of 7%, and the balance of the growth is a result of the Martin Calibration and Essco Calibrations. Turning to Distribution, revenue of \$30.2 million grew 20%, driven by strong performance in both traditional product sales and rentals.

Turning to Slide 5, our consolidated gross profit for the second quarter of \$25.3 million was up 28% from the prior year. Service gross profit increased 25% from the prior year. We continue to leverage higher levels of technician productivity in our differentiated value proposition, but Service gross margins historically lag as we incur startup costs related to the onboarding of new customers. Distribution segment gross profit of \$9.8 million was up 34% with 330 basis points of gross margin expansion, driven by growth in the higher margin rental channel.

Turning to Slide 6, Q3 net loss of \$1.1 million decreased versus prior year, driven by higher amortization expense related to both the Martin and Essco Calibration acquisitions, the two largest in Transcat's history, as well as higher levels of interest expense and one-time charges related to the execution of the CEO succession plan. Our search committee is evaluating both internal and external candidates for our next CEO, and the process is nearing completion. In addition, we report adjusted diluted earnings per share to normalize for the impact of upfront and ongoing acquisition-related costs, as well as costs that are not directly tied to ongoing operations. Q3 adjusted diluted earnings per share was \$0.26 cents.

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 is 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 increased levels of non-cash expenses that will hit our income statement from acquisition purchase accounting.

Third quarter consolidated Adjusted EBITDA of \$10.1 million increased 27% from the same quarter in the prior year, with 10 basis points of margin expansion. 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 cash flow was slightly lower versus prior year, as net cash from operations increased, but was offset by higher capital expenditures. CapEx is in line with expectations and continues to be centered around Service segment capabilities, rental pool assets, technology, and future growth projects.

Slide 9 highlights our strong balance sheet. At quarter end, we had total debt of \$99.9 million, \$50.1 million available for borrowing under the secured revolving credit facility, and a leverage ratio of 2X. The growth in Adjusted EBITDA and associated margin enabled Transcat to continue a sequential reduction in our leverage ratio. We believe we are well positioned to grow both organically and through acquisition.

Lastly, our 10-Q was filed today after the market closed.

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

Lee Rudow

Okay, thank you, Tom.

In the third quarter, we returned to more historic organic service growth levels by achieving 7% growth, and we are off to a good start in the fourth quarter as we continue to experience an increased level of customer activity, strong retention, and realization of new business. For these reasons, we reaffirm our fourth quarter organic Service revenue growth expectations to be in the high single-digit range.

As fiscal 2026 comes to a close, we anticipate our results for the year will once again be a testament to our resilience and our differentiated business model that is anchored by recurring revenue streams driven by both regulation and the high cost of failure. We maintain a strong and stable balance sheet that supports our demonstrated growth strategy, our ability to acquire and integrate companies that increase our geographic footprint and capabilities or just bolt on to existing infrastructure. This drives both consistent value and synergistic growth opportunities.

We have a strong acquisition pipeline that will enable opportunities to expand our addressable markets and increase market share. Over the past couple of years, we've invested in leadership, technology, and overall process improvement. We are well positioned for the age of AI as our data sets are much improved and already contributing to incremental business insights that make Transcat a very difficult Company to compete with. We believe our investments are and will continue to drive differentiation for Transcat and foster our ability to continue to generate sustainable long-term value for our shareholders.

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

Operator

Certainly. Thank you, sir. Ladies and gentlemen, at this time, if you do have any questions, please press star, one at this time. If you find your question has been addressed, you may remove yourself from the queue by pressing star, two. Once again, that's star, one for questions.

We go first this afternoon to Greg Palm of Craig-Hallum. Greg, please go ahead. Your line is open.

Greg Palm

Yeah, thanks. Congrats on getting back to that high single-digit revenue growth in the quarter for Service segment. Maybe starting there, it'd be nice if you could just maybe sort of bucket out the various drivers that enabled you to return to that growth. It sounded like it was just sort of a ramp up of everything you've been talking about, but I'm not sure if there was anything specific you wanted to highlight.

Thomas Barbato

No, Greg. I think as we talked about in the past, some of these decisions have been delayed. We had kind of coming into the quarter, we had some ink on paper in some cases, and we knew that those would ramp throughout the quarter. There were other deals we anticipated would come to fruition, and they did. We feel good about the performance. I think we did what we said we were going to do, and we expect, as Lee mentioned in his prepared remarks, that'll continue into Q4.

Greg Palm

Okay. These startup costs, which I know you've incurred in the past, so that's nothing new, but are you able to quantify how big of a headwind that was? I don't know if it was related to CBL specifically or something different, and just from a timeline or what we should expect in the near term, when does all that stuff start to normalize, or I guess when does the new business wins fall off, and those just become normalized going forward?

Thomas Barbato

Yeah, we're not, we're not talking huge dollars. I would just say you could do some simple math and look at the difference between where we were and if we were flat or slightly accretive from a margin standpoint, right? It's not huge numbers, but it's just the reality of onboarding new customers. For us, the most important thing is to make sure that as we start these new partnerships that we get off to a good start. We're doing things right. We're treating the customers right, and we're doing everything we can to start a good relationship.

There's, in often cases, there's a reason why these customers are moving to Transcat, right? They want things done right. They want things done with a higher level of quality. That's our focus in making sure we get off to the right start.

Lee Rudow

Greg, I would add to that, the way we view some of these large customers, and really all of our customers, some of them have a real high lifetime value. Making sure they get off to the right start is a priority for us. Sometimes there's some costs associated with that that just go away over a couple quarters. Then you mentioned CBLs. We saw that in the past, right? This is not dissimilar.

Greg Palm

Okay. Then, lastly, Distribution was another, obviously, really strong quarter of revenue growth. Can you maybe talk to us a little bit about what you're doing there in the AI, the data center slash power gen markets? Then just broadly speaking, is there a longer term opportunity on the calibration services segment, again, longer term?

Thomas Barbato

Yeah, I think what are we doing? We're, I think we're executing very well on the Distribution side, both on the traditional equipment sale side, as well as rentals. As we've talked about also, we made a conscious effort 18 or 24 months ago to really invest fairly heavily in rentals for products used in, I'll just say the power generation, power conditioning, power management space, which aligns very well, not only with data centers, but EV charging needs and that sort of thing. It's really serving us well.

I think from a product sales standpoint, we're positioned well to support those same end markets. There absolutely are recurring calibration opportunities that are and will continue to come along with those end markets. I think it's an area where we're excited for. I mean, it's a—you read about it every day in the news, right? I think the fact that we've got alignment and we're kind of going aggressively after the businesses is an opportunity for us.

Greg Palm

Okay. All right. Appreciate the color. Thanks.

Thomas Barbato

Thank you, Greg.

Lee Rudow

Take care.

Operator

Thank you. We go next now to Max Michaelis at Lake Street Capital Markets. Max, please go ahead. Your line is open.

Max Michaelis

Hey, guys. Thanks for taking my question. I want to go back to the Service growth. Congratulations on returning to high single-digit growth at 7%. We look at Q4 2026, do you expect to see an acceleration thing to get better from the 7% or should we expect to kind of be in the same sort of range? Then when we think about beyond next quarter, how has been, how are the conversations been with customers around new business, I guess, going out into fiscal year '27?

Thomas Barbato

Yeah, Max, it's Tom. I would just say that we're committed to the high single-digit guidance that we've provided for Q4. I think when you look at Q4 and you look at, last year was a really strong Q4 for us as well, right? We're kind of building off a big number, right? We're comfortable in that high single-digit range. When we look beyond Q4, we're not giving any specific guidance at this point, but we'll just say that our pipeline, our new business pipeline continues to be strong, and we like where we're positioned and we think we've got the pipeline to support continued growth going forward.

Max Michaelis

Okay. That makes sense. Then, I guess, maybe around M&A, what are you seeing in the space and maybe could we expect to see sort of, I guess, remind us where the geographic locations you guys are looking to get into and maybe where you're at and the progress there?

Thomas Barbato

Yeah. The gaps that we always talk about, right? At this point, there's four. This time last year, 18 months ago, it would have been six, right? We filled some of those holes. But Northern California is an area we want to be. Dallas, we'd love to be in the Atlanta area. Then the Mid-Atlantic, kind of Baltimore area is a void for us. We're able to service it from other locations, but there's enough business there that we'd like to physically be there.

Then there's—when we talk about other—there's other opportunities to follow our customers, right? We're always looking at that and whether it's potentially—we've recently expanded our presence in Ireland, right? That's going very well for us. There could be other potential opportunities in Europe, there could be other potential opportunities, as an example, in North America or Central America to just make sure that we're properly servicing and we have the locations to service our existing customer base properly.

Max Michaelis

Okay. Then just the last one for me is around gross margin. I know you mentioned in the last question about startup cost is something you've dealt with in the past, but if we look at next quarter. I know you're taking on a lot of new business, is some of the costs you incurred this quarter in preparation for the new business in the next quarter? Are we going to see similar gross margins probably from the Service segment next quarter?

Thomas Barbato

Yeah. I'll just say that our gross margins in Q4 are always the highest margins of the year, right? As an example, last year in Q4, we were at 36.2% margins. But I would say that we incurred startup costs this quarter related to the revenue increase. I think there'll be new customers that onboard next quarter, but as we said in our prepared remarks, that'll normalize. It's not—we're not talking years out, right? We're talking normalizing over the next few quarters and seeing margin expansion.

John Howe

All right, guys. Thanks for taking my question. Great quarter.

Thomas Barbato

Thanks, Max.

Operator

Thank you. Just a quick reminder, ladies and gentlemen, star one, please, for questions today. We go next now to Ted Jackson of Northland. Ted, please go ahead.

Ted Jackson

Thanks very much. I reiterate, congratulations on the quarter.

Thomas Barbato

Thanks, Ted.

Ted Jackson

I got two or three questions for you. Let's—I want to talk a little bit first about the longer term. If you think about going out a couple of years, there's a lot of shifts with regards to administration-driven spending. If you think about life sciences, which is your kind of your bread and butter, your core vertical, your favorite place to play. You look at a lot of efforts to drive pharmaceutical manufacturing in the United States. You've seen Lilly is going to spend \$30 billion to put manufacturing in Alabama, Pennsylvania, Texas, Virginia. AstraZeneca has pledged \$50 billion. Amgen's talking about opening up new facilities in the Midwest and the Atlantic seaboard.

When I think—when I hear all this kind of stuff, it seems to me that this is a really substantial amount of wind in your sails as you look out, say five years and beyond. I mean how would an investor, over the long term, think about this stuff? How do you guys think about it and kind of handicap it? Then maybe in perspective, and I know every manufacturing plant is different, but, when you get into a new plant, say, like, in the Wall Street Journal last week, one of the Lilly plants was decided in terms of where it was going to be in Pennsylvania. Something like that when it's built, what's the revenue opportunity for a company like Transcat when it happens? That's my first question.

Actually, since I'm at it, there's a similar—my second question really is the same thing, but just on defense. It's a little less specific, but if you look at the defense spending, I mean, they're talking about, one and a half trillion dollars of spending next year. If you look at some of the major contractors, like a Lockheed, an RTX, a Northrop, I mean, they're talking about 30% increases in their CapEx. Maybe a similar discussion with regards to aerospace and defense. That's my first question. Thanks.

Lee Rudow

Okay. Ted, this is Lee. I'll take a shot at this and certainly Tom can fill in. But you're spot on. It's pretty simple for us. Any on shoring of manufacturing in the regulated business spaces is always going to be good for Transcat. AstraZeneca, of course, they're on our radar. You mentioned Lilly. They're on our radar. This is good for us. To the degree that it comes true, comes to fruition, and then over the next couple of years, we'll be ready and we'll be working to gain that business, right? Yeah, no question.

When you look at the life cycle of a project, a capital project, it kind of starts from the building of the actual physical plant all the way through to buying equipment, commissioning equipment, validating equipment, ultimately calibrating equipment for an upstart, and then calibrating equipment as time goes by on a regular basis. There's probably a half a dozen phases. Transcat is capable of participating in most of those. Obviously, calibration is our bread and butter. We do commissioning and validation as well, and it's always on our radar to look for those opportunities. We'll call them capital projects. Yes, we can participate. I think over time, as we expand our addressable market, we'll be able to participate even more, but it's right down our wheelhouse for most of that work, and it is on our radar and on shoring is good.

As far as defense goes, same basic story there, right? A lot of the defense contractors like Lockheed have their own in-house calibration lab, and so, in that case, we'll do their overflow work. We can do their standards, and occasionally, we actually do the work at any particular plant, but the more defense contracting work there is, the bigger the government gets from that perspective. That's a highly regulated space, which means it's a good space for Transcat.

Thomas Barbato

Yeah, and I think, you specifically referenced their CapEx budgets and the increases in CapEx budgets. The more equipment that's out there, that's good for Transcat, right? The ultimate kind of brass ring for us is that recurring revenue, right? We've got a broad offering, the broadest in the industry that allows us to participate in all of those aspects of a new plant being built, but the brass ring for us is clearly the recurring revenue streams, and that's the calibration work that takes place there.

Ted Jackson

But like the bread and butter business that you guys operate in, I mean, you talk about it every quarter, 60-plus quarters of growth. You have been able to grow your business organically, for conversation's sake, we'll just call it 7%, for years which just says your business grows at 7%. When you see this kind of stuff happening, does it make you recalibrate what you think you could grow organically if it comes to pass? Is there a case to be made that we get towards the end of the decade and the organic growth rate for Transcat might kick up because you're seeing all this investment and all the—as, you know, like there's, I don't know, like a pig in the python as these things are coming online?

Lee Rudow

There's two ways I look at that. One is to say, even over the past 10 years, and maybe we've averaged 8% growth over the last five, there are quarters and there have been quarters when we have double-digit growth. That's not impossible for us to do that. I would expect that you're going to see that at different points. We're comfortable in the high single-digit range because it just makes sense for us. That's where we are more consistently in that range than above that.

We have quarters when we're not, when we don't meet our goals. Remember also, we're a bigger Company today. When we started in 2011, I think we had \$30 million of calibration, but today's \$230 million are in that range. The number gets bigger and obviously to grow on a larger base, a larger number is a challenge too. But I think Tom and I and the entire Management team, when we look at our strategic planning, organic and inorganic, we're thinking to ourselves, we don't see a reason why we can't get in the high single-digit range on a pretty darn consistent basis. I think it includes all the variables that you're mentioning.

Ted Jackson

Okay. Then just my final question for you is just jumping over to the CEO search, you put a charge in it. You're—could you just kind of—is it fair to expect to see the conclusion of your efforts during this quarter? Would we be able, would we have some clarity by the time you report your fourth quarter?

Lee Rudow

I think that's a reasonable expectation.

Ted Jackson

Okay. Then what would there be, given the charge, which was a new line item within the pro forma earnings, will we see additional one-time expenses associated with that search in the fourth quarter?

Thomas Barbato

There will be some additional expenses in the fourth quarter, yes.

Ted Jackson

Okay. Okay. I'll let other people take over. Thanks very much for answering my questions, and congrats.

Lee Rudow

All right, Ted.

Ted Jackson

Appreciate it.

Lee Rudow

Take care.

Operator

Thank you. Gentlemen, it appears we have no further questions this afternoon. I'd like to turn the conference back to you, Mr. Howe, for any closing or concluding remarks.

John Howe

Thank you all for joining us for today's call. We look forward to sharing more on our story at upcoming investor events, including facility tours, institutional investor conferences, and non-deal roadshows across key cities throughout the United States in the spring of 2026.

If we were unable to answer any of your questions, please reach out to our IR firm, MZ Group, who would be more than happy to assist. Thanks again for your interest.

Operator

Thank you, gentlemen. Again, that will conclude today's Transcat third quarter fiscal year 2026 financial results call. Again, thank you so much for joining us, everyone. We wish you all a great day. Goodbye.