Operator: Greetings, and welcome to today's Transcat's First Quarter Fiscal Year 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Craig Mychajluk, Investor Relations. 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 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.

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.

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

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

I'll start today's call by acknowledging our dedicated team of 750 people that work at our 42 Transcat laboratories across North America. Without their tireless efforts and adaptability, we could not have produced the solid results that we did in the first quarter. Meeting our commitments to our customers, both on the Distribution and Service side of the business was no easy task, but we got it done. And as I mentioned in the past, many of our customers include those who are working to develop a COVID-19 vaccine, treatments and the medical devices required to save lives. Our team has made an incredible difference. And in my opinion, they define the word essential and I'm very grateful for their efforts.

On this call I'll provide an overview of our first quarter results, which, as many of you know, exceeded our expectations. The results validate our strategy, which entails providing calibration services to the Life Science and other regulated industries, and leveraging technology to improve our processes and enhance our gross and operating margins. At the conclusion of my overview, I'll turn things over to Mike to provide a closer look at the first quarter financials before I return and speak to our outlook for fiscal 2021 and beyond.

Turning to our Service segment. Despite the headwinds created by the COVID-19 pandemic, we achieved our 45th consecutive quarter of year-over-year Service growth. Perhaps even more important, we made significant improvement in our Service gross margins, even with modest Service revenue growth of 2.5%, in this challenging environment. Service gross margin expanded 240 basis points to 26.4%. The main driver behind the gains was the continued increase in productivity. Productivity, which is something we've been talking about over the last couple of years, benefited in the quarter by the effective execution of our operational excellence initiatives. The initiatives included a combination of improved processes, technical training and lab management, all of which we believe are sustainable. The improvements resulted in the generation of $1 million in first quarter operating income. This exceeded our expectation of operating income being in the breakeven range for the quarter that we forecasted in May 2020 when we released our year-end results.

In addition, our first quarter Service operating margin expanded 160 basis points and we generated $4 million of cash from operations. So while our Service segment was not immune to the headwinds created by COVID-19, it did hold up well. And as we generate higher revenue growth at some point when we move beyond and through this present pandemic that we're experiencing, we would anticipate additional traction and continued margin enhancement.

Moving on to Distribution. As expected, this segment felt the brunt of the impact from COVID-19. Reduced demand from oil and gas related businesses and most of the industrial sector drove the softness. We have experienced an uptick in Distribution sales related to the thermal and infrared measurement of body temperature. That makes perfect sense during these times, and we're in the process of introducing a new program to sell, install and calibrate permanently-installed elevated body temperature measurement systems. That market is a very natural fit for Transcat. And as you've heard me say many times in the past, the Distribution segment continues to be a differentiator as we leverage the segment touches to grow our Service business. With that, I'll turn things over to Mike.

Michael Tschiderer: Thanks Lee and good morning, everyone. Today, I will be starting on **Slide 4**, which provides some detail regarding our revenue on a consolidated basis and by business segment. As a reminder, we have two reportable business segments, Service and Distribution. Also included in our results is the previously reported acquisition of TTE Laboratories, which was effective February 21, 2020. Going forward, we will be referring to TTE as pipettes.com. The pipettes.com URL was one of the assets we acquired in that acquisition.

As expected, our first quarter performance was impacted by the economic downturn from the COVID-19 pandemic, which reduced customer demand, especially for the Distribution segment and resulted in consolidated revenue declining 8% to $39 million. Compared with Q1 of the prior fiscal year, fiscal 2021 Q1 Service revenue was up 2.5% and Distribution was down 20.3%. Pipettes.com provided approximately $1.6 million of incremental revenue on a consolidated basis. We are pleased with the performance and integration progress to date.

The increase in Service revenue to $23 million reflects the essential nature of our work to largely regulated industries, especially with our Life Science sector focus. We saw increased demand and secured new business from that sector such that the Life Sciences sector now represents almost 50% of our Service revenue. Included in the Service revenue results was $1.1 million of incremental revenue from pipettes.com.

The 20% decline in Distribution sales was not a surprise. And as Lee mentioned, was the result of COVID-19 impact on customer confidence and demand as Distribution is a barometer of changes in economic conditions. You may recall that our Distribution sales had historically been focused on oil and gas and general industrial and manufacturing sectors. Although in Life Science we have seen more opportunities with pipettes.com in the sale of handheld thermometers and elevated body temperature equipment that Lee referenced. For Distribution, pipettes.com contributed approximately $500,000 of revenue to that segment in the quarter.

We're very pleased with the gross margin performance we achieved. Our consolidated gross margin expanded 50 basis points to 24.2%, largely due to strong margin improvement in Service. Service gross margin was the highlight for the quarter, where our multiyear productivity initiatives showed results and are still gaining traction. Service gross margin expanded 240 basis points to 26.4% on modest top line growth. The Distribution gross margin reflects some mix changes as we saw less demand from core product sales, which tend to have a slightly higher margin profile. Also impacting that segment were actions taken by our vendors to lower their own costs during these challenging times as they reduced their cooperative advertising and rebate programs. We anticipate that headwind continuing into the second quarter. Rental revenue was $1 million in the quarter.

Slide 5 shows our operating income performance. We were able to deliver operating income of $1 million in the quarter, which exceeded our expectation of operating income being in that breakeven range that we had forecast. And we continued to invest in our technology capabilities to support our planned growth and to advance our operational excellence initiatives. In the quarter, we did have incremental amortization expense related to pipettes.com purchase accounting as well as some associated nonrecurring start-up costs. We also recognized $400,000 of severance expense in the quarter. Some of our technology enhancements have reduced and are expected to further reduce certain operating costs going forward, but we did pay some severance in the first quarter as a part of that evolution. The severance costs are noted in our adjusted EBITDA reconciliation as an add-back under restructuring expense as we view them as nonrecurring. Please see the supplemental slides for more information regarding this non-GAAP measure.

On **Slide 6**, we show our bottom line results. We recognized a tax benefit in both the first quarter of fiscal 2021 and fiscal 2020 due to the tax accounting impact of share-based payments and stock option activity. As a result, we have lowered our full fiscal year 2021 tax rate expectations to range between 20% and 21%, which includes federal, 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. 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 in this challenging environment, and as shown on this slide, you can see the strength and overall importance the Service segment has on our business. In the quarter, Service EBITDA increased more than 33% to $2.9 million and Service EBITDA margin expanded 290 basis points.

Slides 8 and 9 provide some detail regarding our balance sheet and our cash flow. We ended the quarter with sufficient flexibility and liquidity, and we generated cash from operations, which was used in part to fund our CapEx and to reduce our debt. At quarter end, we had total debt of $28.5 million, which was down $1.8 million from fiscal 2020 year-end. Our leverage ratio was 1.50:1 and is calculated as the total debt on the balance sheet at the 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.

In the quarter, as previously announced, we amended our credit facility, increasing our borrowing capacity an additional $10 million, and included some favorable covenant modifications. We had $23.6 million available under our revolving credit facility at the end of the quarter, and more than $27 million in net working capital. Net cash provided by operations was $4 million compared with less than $900,000 in the prior fiscal year first quarter, primarily from changes in accounts receivable and inventory levels at the measurement dates.

Capital expenditures were $1.4 million for the quarter. Our capital plan for fiscal 2021 is unchanged and expected to be between $5 million and $5.5 million. The focus is expected to largely center on technology and service infrastructure and growth-oriented opportunities and for rental pool asset purchases. This amount is inclusive of our maintenance CapEx, which is expected to be consistent with fiscal 2020 at approximately $1 million to $1.5 million.

Lastly, we expect to timely file our Form 10-Q on or about August 5. With that, I'll turn it back to you, Lee.

Lee Rudow: Thank you, Mike. As we move forward, we continue to focus on the safety and well-being of our employees and customers. We believe we're in a strong position and have the right strategies and leadership to succeed in our markets, especially at this time. We believe we have sufficient flexibility and liquidity to maintain our investments in technology and growth. Technology remains one of the four pillars of our strategic plan, which also includes strong organic growth, acquired Service growth to add capabilities, expertise and geographic footprint and leveraging Distribution as a differentiator to drive our Service business.

As mentioned in our earnings release for the quarter, demand for our services strengthened through June and into July, and we expect modest Service growth in the second quarter. And with similar improved margins, like we generated in the first quarter. The Distribution pulse picked up just a bit over the last week or so. We've remained cautious and expect Distribution sales to remain relatively unchanged, sequentially, in the second quarter. That's especially true given the recent trend in the new virus cases around the country.

As we look at the consolidated business, we believe that we can deliver second quarter consolidated operating income around $2 million, approximately $1 million in growth, sequentially, over the first quarter. On the acquisition front, Transcat remains an acquisitive company, and we expect there to be opportunities for acquisitions as we move through and beyond the current pandemic.

Overall, we believe we're managing and navigating this pandemic well, and we're going to continue to advance our growth and profitability strategies

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

Operator: [Operator Instructions] The first question comes from the line of Dick Ryan with Colliers.

Dick Ryan: Congratulations on the strong profitability showing guys. So Lee, is there a way to parse the margin performance in Service kind of between the better productivity issues and your cost reductions? I'm just trying to gauge the kind of sustainability you might have with margins?

Lee Rudow: Dick, we haven't broken that out and disclosed it, but I think I understand the nature of your question and the way I characterize, the way we look at it is the margin improvement that you saw in Service for the first quarter, as I mentioned, is sustainable. The only elements of the cost structure that went into Service that aren't going to go forward are things like some modest severance payments that affect above and below the lines in Service. But I think almost all of the improvements you saw were driven by an uptick and increase in productivity. I wouldn’t say less techs, but techs doing more and spending more time on the bench, being better at what they're doing and the overall management of our labs; an increase in operational excellence-oriented activities. I would expect that you'll see most of this improvement, if not all, continue. And I still think there's upside. We're still in the early days of this journey on margin improvement. So we're pleased. That's how I would characterize it.

Dick Ryan: Okay. Great. How are you sitting with technicians? Looking beyond the next quarter or so, is it at a good level for you guys?

Lee Rudow: We're at a good level, and right now, still we're at overcapacity. So as additional revenue comes in, we'll be able to handle it. That's what's interesting, we've achieved the margins we did and the performance we did and we could have handled more. And so that's an indication that more would drop to the bottom line if and when that revenue comes in. And it's going to come in. We're just trying to get through this pandemic environment, but we're in a good situation because we're in an overcapacity environment, and we're holding strong.

Dick Ryan: How is the life science exposure? You said it's 50% of Service. But when you look at your roster of labs out there, is it concentrated in a few or is it broad-based where a lot or most of the labs participate in life science?

Lee Rudow: I would say most of the labs participate. It's broad-based, not every single lab. So there are a couple of labs, in certain regions that may be more process oriented, for example, our Houston lab. But generally speaking, whether you're talking about Southern California or the New England area, mid-Atlantic, most of them do a fair amount of life science work. It's broadly distributed.

Operator: Our next question comes from the line of Greg Palm with Craig-Hallum.

Greg Palm: Nice job on the quarter here. I was hoping maybe we could start on any qualitative commentary, a little bit more detail on the cadence of demand in the quarter. It sounds like you saw some strengthening in June and into July with Service. And then when you referenced the expectation for modest growth in the upcoming quarter, are you talking organic or overall?

Lee Rudow: Greg, when we say modest growth in the quarter, it's always a combination of organic and even acquired growth because we did acquire TTE pipettes.com in February. So as we go through the year, a certain element of our growth will be certainly attached to that and a byproduct of that acquisition. However, we would expect organic growth along the way as well. And so when we see an uptick, when we use those words, uptick in June and into July, we're talking organic.

Greg Palm: Okay. That's helpful. Back to back really impressive quarters, margin-wise on the Service segment. If I think about your bridge to 30% Service segment margins, which I think you've referenced a few times in the past, how much improvement in productivity is left and can be realized versus maybe some of the volume or leverage that you'll get on higher revenue? I don't know if there's a way to sort of bucket out those items, but I'd be sort of curious to get sort of how you're looking at the bridge as we sit today?

Lee Rudow: Right. Well, you bring up some good points. When you look at the impact of increased revenue and the fact that we have the capacity for, you're right, volume alone will be an asset, will help margins as we go forward. We're doing the work we're doing, producing the results without the kind of volume. We normally look for mid- to high single-digit organic growth, and so without that, we were able to get the margin increase. So I would expect volume would be helpful. Of course, it would be because there's inherent leverage in the business. But in addition to that, we're still, Greg, very much in our infancy on automation. And I know we've been talking about that for 1.5 years. I'm sensitive to the fact that we're probably a little bit behind our expectations for the impact we anticipated. But it's still a very tangible initiative that we're working on. A lot of folks are concentrating it on, and we would expect automation to impact this business, impact our margins, and it has not yet in any kind of material way. So when you're looking at the margin gain that we've gotten, it's through improved processes, improved training with our technicians and better lab management. We're doing it without the volume, and we're doing without the automation. And so we talk about that bridge, you used the word bridge, to bridge the gap between where we are and where we could be, those are some of the elements that are going to contribute to getting that profit gain over time.

Greg Palm: Okay. So if it's still early days, and you'll likely see leverage at some point, maybe 30% could end up being conservative?

Lee Rudow: Those are your words, not mine. It's not unrealistic to make a statement like that, though. So right now, we'll stick in that range of 30% as our goal.

Greg Palm: Okay. Great. Last one, you brought up this opportunity in thermal cameras, in body temp measurement. How big of a market is that currently right now for the company? And I guess more importantly, how big could that opportunity be if you put some resources behind that?

Lee Rudow: So the short answer is, I'm not sure, and we don't know. We definitely have gotten a significant amount of inquiries from our existing customer base and from new customers, asking if we can do this work. We've sold hundreds, if not thousands, of individual infrared thermometers that have a relatively low- to mid-price point. But what we're talking about, the system installation and this sort of ongoing permanent need, it's just too early for us to tell. It's very easy for us because of that natural fit that I spoke to, to convert and to offer this to our customers. So it wasn't an investment that took a lot of analysis. We just took a couple of our components, packaged them together with our ability to get on-site with the customer and do this work. So the risk is almost zero or very low. And so our analysis to figure out the upside in the market just isn't there yet. It's too early. I like the market, I like the fit and it's a really easy thing for us to do. We are just going to continue to dig deeper and figure out what the opportunity is, but we are jumping in because it's just easy to do it and a good fit. So more to come on, we call it EBT, Elevated Body Temperature, so more to come on EBT.

Operator: Our next question comes from the line of Gerry Sweeney with ROTH Capital.

Mike Colosimo: This is Mike on for Gerry. So first, just looking at the cadence of fiscal 2021, is it reasonable to expect a little improvement in Service activity and margins each quarter, barring any new economic developments?

Lee Rudow: Well, I think, as I mentioned before, there's still a lot of unknowns. In normal circumstances, if you just rewind the clock to last year at this time, we were doing very well in the marketplace. We're well positioned for growth. So we would have expected high single-digit organic growth. In a COVID environment, where half our business is Life Science and half of it is generally other regulated industries that run from aerospace and defense and runs the gamut, there is going to be some muted expectation on revenue growth probably for the next quarter or so. We can't really define it in any more detail than that. We did see uptick. We have seen an uptick in service flow of new work in the last several weeks. So will it continue? We hope so. We know it's going to continue and would expect it to continue over time. But we're really talking about what's going to happen in the next quarter, which is the nature of your question. And nobody knows. So I would expect we're fairly confident we'll have modest growth. The margin, as I said before, we've come a long way from what we would call our lowest point a couple of years ago to where we're headed in the 30% range. We're halfway there. And I would say, over time, we would expect to generate improved margins, not every single quarter, but over time, up and to the right with margins based upon volume, improvement in our productivity, improvement in our processes, including automation. These things will get the job done, we would expect over time. So that's the best I can do to define it.

Michael Tschiderer: Yes. And Mike, I'd just kind of say related to these productivity things that have impacted our margins, they're not over, I mean they're evolutionary and continuing. So it's not like we finished a project, and now we're going to see the fruits of it. We'll see the fruits of the ones that have been completed, but there's other ones that are still in various phases of implementation. So to Lee's point, we'd expect to kind of see it going up into the right each quarter, may not be as linear as some might like but there's no reason to think it won't continue even without volume, which will just be an added impetus.

Mike Colosimo: Okay. That's helpful. And last one for me. The $2 million of operating income you're expecting in the second quarter, does that assume any meaningful changes to the cost structure or bringing back any expenses that were previously scaled back?

Lee Rudow: Generally, I think you're going to look at a stable cost structure without any material changes from Q1 to Q2 when we make that estimate.

Michael Tschiderer: Yes. Agreed. That's one of the reasons we tried to break out some of this severance because we do think that's a onetime, so that won't be recurring. And a lot of the costs are variable in nature. So you'd expect those to be increased, but only when the revenue increases, Mike.

Operator: Our next question comes from the line of Scott Buck with B. Riley.

Scott Buck: I'm curious on the Distribution segment. The more depressed revenue levels, do you think this is lost revenue or are we looking at a potential kind of backlog or buildup in demand for either the back part of this year or early next year?

Lee Rudow: That's an interesting question. I think it's going to be a little bit of both. There's some loss revenue associated with just the softening of oil and gas, for example, you're just not going to see that come back, but there's probably equal to or even greater amount at some point across the spectrum of Distribution revenue that will be driven by some pent-up demand. I mean people who manufacture products, they need test equipment to be able to do that, and they're holding off, and at some point, we'll see some of that back. But I wouldn't want to set up expectations that it's all going to come back. Maybe it's right down the middle in terms of loss versus pent-up demand.

Scott Buck: That's great. Very helpful. Second one, I'm curious on the Service side whether you're seeing a change in mix in how your customer base wants the services provided? For example, are you seeing less mobile work because customers don't want new individuals coming into their facilities? Or are you seeing a pickup of mail-in calibration work? Just curious what's going on there?

Lee Rudow: Yes. So it would be the latter. We are definitely seeing a pickup in people sending products to our lab versus us going out to do the work. In fact, we've had a lot of cancellations from customers who don't want us to do the work on-site. So in that case, you're either going to have pent-up demand or we've been able to convert them to sending stuff to our labs. I think there is an element of pent-up demand there that we should see at a later point. Now when people do send equipment to our labs that is also a more profitable profile for us. So we like that. And that is also a small but contributing factor to the fact that our margins have improved, that we're not going out to do those on sites. It would be our goal that anybody we've converted from an on-site to a depot where they send us the work, we want to offer them really spectacular service so we can continue doing that in the future. It's our preferred way to do business. But we're very flexible in terms of what it takes to meet our customers' needs. But there's a combination, pent-up demand there based upon some cancellations and people converting.

Scott Buck: Great. That's very helpful. Last one for me. On M&A., curious if you guys are seeing a pickup in the number of acquisition candidates being presented to you, given the broader environment and how you're thinking about that going forward?

Lee Rudow: I wouldn't characterize it at this point that we've seen an uptick, but I would characterize just saying, we would expect, at some point, there would be an uptick. We've been through cycles like this before, and it takes a little bit longer than 90 days. But at some point, this environment will have a negative effect on some companies, and I think will provide somewhat of an increased level of activity around acquisitions. We're fairly confident in that, but I wouldn't want to point to it as something that exists today as we speak and set up expectations in the next quarter or so. But we're pretty confident that we'll see a significant level of increase at some point.

Michael Tschiderer: Yes. And I think that's kind of reinforced by the fact that we have not seen acquisitions being made by others who might be acquirers. So it's not like we're losing out, still kind of in that wait-and-see period, but we do think it will be a good opportunity for us a little bit further out.

Operator: Our next question comes from the line of Mitra Ramgopal with Sidoti & Co.

Mitra Ramgopal: Just a couple. First, Lee, I just wanted to get a sense in terms of, I know you'd mentioned, the impact from COVID that will result in some revenue not coming back. But just wondering on the customer side of things, how they're faring in terms of maybe some of them potentially are closing up shop, et cetera, if you're seeing any of that?

Lee Rudow: Mitra, we haven't seen much of that. So when I mentioned about revenue coming back versus not coming back, let's be careful to look at each segment differently. So when you talk about Service, that's a situation where, in the case where there has been pent-up demand, and in some cases, there have been, we would expect that to come back at 100% or somewhere in that range. Our retention rates are very high. Remember, this is a regulated business space. This work has to be done. If a line has slowed down or shut down, then you can delay that work. But at some point, it's logical to anticipate that it would return. So no major concerns there. On Distribution, going to, I think, with Scott's question, that's a little bit different. People who aren't buying test equipment to go into manufacturing process because their process is shut down or they go out of business, that's not going to return. In some cases where they're holding off, they're just delaying expenses that they need OpEx to spend, that's different, and we'll get that back. So it's really a blend, but I would think about the losses on a permanent basis, more on the Distribution side of the business and pent-up demand where there is pent-up demand on the Service side. That's how I would characterize the difference.

Mitra Ramgopal: Okay. That's great. And obviously, on pipettes, that's coming along, and I was just curious if it's still too early, given the environment for you to be more aggressive on that front as it relates to cross-selling opportunities, et cetera?

Lee Rudow: We are being aggressive on that front, and we really like that acquisition, right acquisition, right management team, right time. One of the things that we like about it, just as a reminder, is that as powerful as their URL, pipettes.com is, and as well as they ran that company, it was really just a localized New England-based pipette company. Because of our national footprint and because of our exposure to the Life Sciences business, probably more than any other acquisition we've made since I've been here, this just offers more upside, more national exposure. Transcat is very strong in marketing and outreach and our domain authority and all of our link equities and all the things that from a digital world are important, that's our strength. And so when we buy a company with that powerful URL, there's a lot of marketing upside under our ownership versus theirs. And we'll call that a sales synergy. So all that is to come. I don't want to build it up too much, but we are excited about growing and promoting that company. I think it's going to be an asset for years to come.

Mitra Ramgopal: Okay, that's great. And then finally, I think you touched on it earlier, but just wanted to be clear. I know you had mentioned, obviously, in some of the project delays, you're expecting it to be maybe a quarter, 1.5 quarters out. In light of what we are seeing with the environment expected to get probably worse before it gets better, has that time frame changed for you in terms of your conversations with customers?

Lee Rudow: It really hasn't. Generally speaking, it's still really hard to define. That's why Mike and I have used the words, modest growth.

Michael Tschiderer: Yes.

Lee Rudow: We want there to be growth we expected but we don't want to set up expectations in the next 90 days because we're just not sure. We're having a lot of great conversations with our customers. There is a lot of interest in Transcat services throughout our business development team. But at the same time, we are hearing from customers, we really like you guys, but we're not making any major changes in the next 30 days. Or we're going to start sending you some work, but we'll give you an opportunity to start to get to know us. We'll get to know each other, but we're probably not going to make a move this quarter. We hear things like that, which is both good and bad news. Good news in that they're very interested, and we've done the heavy lifting and we've got a customer interested in our services. Kind of bad news in that, we wish it would be more turnkey and it start tomorrow. I'm not overly concerned with that. I think we're taking a balanced approach, and in the long run, we'll be just fine. But over the next quarter, it's really hard to tell. I can't offer any more clarity than I have and what we have.

Operator: Our next question comes from the line of Chris Sakai with Singular Research.

Chris Sakai: Just got a quick question on the Distribution segment. I wanted to know, is there a metric or is there some way we can tell or that we could see as far as when there may be a bottom to the Distribution segment or when it may be growing again? Is there something we can see to sort of help us understand when that may come?

Lee Rudow: Chris, I would probably, in an effort to answer that question, I would guide you back to 2016. So in 2016, if you recall, that was the last time the oil and gas market was really deflated, the dollar was strong, exports were down. We don't export, but it has a derivative effect on the business. Our goal coming out of that was to stabilize the business, at that time, with the exception of starting a rental business. It's a pretty good indicator of how long and what type of recovery we had. So go back to '16, look at '17 and '18, and I think you'll get a pretty good indication of what a reasonable person would assume is going to happen and what the recovery will look like. We did recover and we even got better both from a margin and revenue growth perspective. And there's no reason to believe that a similar pattern wouldn't follow. I can't guarantee it, but that's certainly what we would expect from the business over time.

Michael Tschiderer: It's a really hard one, Chris, only because it is so dependent on the economic uncertainty. If you could predict that COVID's impact on the economy and unemployment and U.S. industrial output would stay the same next quarter, as it did last quarter, well, you'd probably expect around the same results in Distribution, which is kind of what we're assuming. We're not assuming many changes. Now the downside of that could be if something very drastic happens, with the pandemic, it could be that it could go down even further. We're not anticipating that based on what we're seeing now, but it really is a barometer of that economic uncertainty and confidence level of customers to spend dollars right now on equipment.

Lee Rudow: And I'd just follow-up by saying we're in a fortunate position. We've spent the last decade pivoting to our Service business, not in anticipation of a pandemic like COVID-19, but anticipation that at some point we were going to be a service-oriented company. And that was our goal, and that was our strategy, and we've been laser-focused on it. And here, a pandemic hits that does affect our Distribution business and affects everyone, everywhere, and yet, we're able to be a very liquid, profitable company, still generate cash and still grow our business. So that's a testament to our strategy working. And I think it will be nice when Distribution recovers, but we're going to be successful, whether that takes a quarter, two quarters, we would anticipate being able to execute our strategy well regardless. And so we're in a good spot. And we hope it continues.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back over to management for closing remarks.

Lee Rudow: We appreciate everybody joining us on the call today. Thank you. Your interest is always valued. Feel free to check in with us at any time. Mike and I are available to talk with each one of you if you have questions. And if not, then we'll look forward to speaking with everybody at the end of the second quarter when we send out our results. Again, thanks for participating. Appreciate it.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.