Company: **MTS Systems**

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Operator: Good day, and welcome to the MTS Second Quarter 2018 Earnings call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Brian Ross, MTS Senior Vice President and Chief Financial Officer. Please go ahead, sir.

Brian Ross: Thank you, (Cody). Good morning, and welcome to MTS Systems Fiscal 2018 Second Quarter Investor teleconference. Joining me on the call today is Jeff Graves, President and Chief Executive Officer.

I want to remind you that statements made today, which are not historical facts, should be considered forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Future results may differ materially from these statements depending upon risks, some of which are beyond management's control.

A list of such risks can be found in the company's latest SEC Forms 10-Q and 10-K. The company disclaims any obligation to revise forward-looking statements made today based on future events. This presentation will also include reference to financial measures, which are not calculated in accordance with generally accepted accounting principles, or GAAP.

These measures are used by management to evaluate the operating performance of the company over time. They should not be considered in isolation or as a substitute for GAAP measures. A reconciliation of our non-GAAP measures to the nearest GAAP measure can be found in the company's earnings release.

I will now turn the call over to Jeff, so he can provide an update on our second quarter business performance.

Jeff Graves: Thank you, Brian, and good morning, everyone. Thank you for joining us today. Overall, our second quarter presented some great highlights for us, along with some challenges in certain specific market sectors that we'll discuss in a little -- detail a little later.

At a summary level, our sensors business had an absolutely outstanding quarter with very strong top line growth of 17% year-over-year, EBITDA margins expanding to roughly 22%, and a record orders performance providing a book-to-bill ratio above 1 and record backlog going into the second half of the year.

With the integration of PCB now moving behind us, our consolidated MTS Sensors business is executing very well and continuing to gain momentum in the face of strong market demand for industrial sensors globally. In short, I couldn't be happier with the trajectory this business is on and the leadership team we have in place to continue this momentum.

Our test business delivered mixed results for the quarter. On the positive side, materials test and our test services continued to show solid growth in the high single and low double-digit range, respectively. But we continue to experience market headwinds in our test ground vehicles sector as several orders were pushed into future quarters.

This push out corresponded to the shift in customer short-term investment priorities that I'll discuss in more detail in a moment. The net result of these factors negatively impacted both the top and bottom line performance of our overall test business.

With that high-level summary, there are four key takeaways from our second quarter. First, as I mentioned, revenue from our sensors business grew double digits for the fourth consecutive quarter in a row, reaching a record $81.5 million. This was driven by strong demand across most of our major markets and geographies.

In addition, sensors delivered a book-to-bill ratio above one and exited the quarter with a record backlog of $53 million. Given this momentum and the overall health of the global markets that we serve, we expect our sensors business to finish fiscal year FY18 by delivering strong double-digit year-over-year revenue growth and EBITDA in the range of roughly 21% to 22%.

Considering the relatively modest CAPEX required to sustain this growth, we're very pleased with the increased contribution this business now represents of our company. Second, the ground vehicles sector of our test business continues to be volatile, as automotive OEMs managed through the rapid technological advances in electric, autonomous and automated driver-assist vehicle designs.

The challenges of bringing these new vehicle technologies to market has resulted in some timing shifts related to OEM capital spending on new product validation, as our customers consider where and when to implement the needed strategic choices for capital investments and resource dollars.

We believe we continue to be a preferred partner with these customers with our premium technology and products in critical areas of new vehicle design and as we have been for well over four decades. However, order timing will continue to be volatile for this sector in the near term.

Meanwhile, the other major areas of our test business, including materials test, test services and structures test, all continue to perform well and to our expectations. With our 12-month opportunity pipeline for test, strong at over $1 billion, we continue to see an exciting future for our test business.

The third takeaway for the quarter is the restructuring related to our test China operations. On March 13, 2018, we announced our decision to restructure certain aspects of our test operations in China that will result in the closure of two local manufacturing plants located in Shanghai and Shenzhen. The transfer of production to a third-party contract manufacturer and the consolidation of engineering, sales and service organizations located in both cities.

As many of our investors know, we have a long history of sales in China and an outstanding customer base. The restructuring will allow us to improve our efficiencies in serving this strong and growing market for our test business. Our markets in China remain strong, and we believe this move will lead to further growth, improved operating efficiencies and, very specifically, will strengthen our ability to compete in a global monotonic materials test market, for which China is an enormous near-term opportunity.

Through these efforts, we expect to reduce our overall cost structure, lower the compliance risk profile of our China operations through technology and organizational investments and offer compelling customer experience to match our technical leadership position. Together, these improvements should help us generate a higher financial return on our invested capital in China.

As for timing for completion, the restructuring of our manufacturing operations will be completed by the end of September of this year and the office consolidation efforts will be completed by the first half of our fiscal 2019. Fourth, we continue to strengthen our balance sheet with strong working capital management and cash repatriation efforts, which has allowed us to continue to accelerate our debt pay down.

For the remainder of the fiscal year, we expect to repatriate additional cash from overseas affiliates and use our operating cash flow in the manner we previously stated that is investing to support growth in the businesses, returning cash to shareholders through our quarterly dividend and further deleveraging our balance sheet through accelerated debt payments.

Notably, Q2 marked our 145th quarter of consecutive dividend payments to our shareholders with no reductions occurring since inception. This is a testament to the long-term strength of our cash performance and our commitment to shareholders throughout many business cycles over the last four decades.

Let me now provide some additional color on our businesses and key markets. I'll begin with our test business, including the three equipment sectors that we serve: vehicles, structures and materials as well as test services. As I mentioned earlier, vehicles test orders remained weak in the first half of the year and continue to be a volatile area for us.

significant number of major automotive OEMs have altered their product development priorities, which has impacted their near-term investment strategies. Much of this is driven by the announced launch of several new all-electric platforms between 2019 and 2021, along with much higher degrees of autonomy.

In the short term, we believe these changes in automotive markets are causing capital demand to exceed the resources being allocated to testing equipment with the highest priority being given to electric vehicle performance and critical safety factors that pace the introduction of autonomous vehicles.

The good news is that during the second quarter we saw opportunity qualifications by our sales force increase, which is frequently a prelude to order placement. We continue to believe that the rapid approach of this next frontier of the automotive vehicles together with rising governmental and customer environment environmental stewardship focus will generate significant demand for ground vehicle testing systems, particularly in our core areas of expertise.

As I mentioned before, electric vehicle platforms are structurally different than traditional internal combustion engine platforms, since they most often use advanced lightweight materials and integrate large battery systems as structural elements of an electric vehicle platform. In addition, the smooth and quite characteristics of electrical vehicles also create new requirements for noise and vibration testing.

With current trends indicating the demand for autonomous vehicles is also coming from fleet applications, we'll operate a far greater duty cycles than traditional individually owned platforms. We believe this will result in incremental demand for rigorous durability testing in the future.

Regardless of the technological and functional changes that are being designed into these vehicle platforms, our orders opportunity pipeline indicates that customers believe their spending will increase and that we have industry leading solutions for durability and simulation testing applications. These will inevitably lead to exciting growth opportunities for our vehicle test business.

Moving next to structures test. As I stated last quarter, structures test orders are anticipated to be roughly flat in fiscal '18 with an expectation of growth in the years ahead. This outlook is driven in part by the growing need for sophisticated seismic test systems associated with the design of nuclear power plants, particularly in India and China, where air pollution is becoming a critical area of focus for the government.

We also anticipate increasing demand for civil structural testing, meaning systems that can test new buildings and bridge designs that are more durable and resistant to seismic stressors. This is true in the US, where infrastructure spending is a frequent topic of discussion as well as in the rapidly growing Asian economies and other seismically active areas of the world.

Supporting these large projects, we've recently launched the new generation of high-performance actuator systems that have longer service lives, while eliminating the use of hexavalent chrome containing surface coatings. In addition, advancements in our aerospace and seismic test software is allowing for greater test efficiencies for both new systems and for our installed base of products around the world.

The next sector I'm going to cover is materials test. In our second quarter, we again experienced strong high single digit growth in our materials test sector, as our customers continue to invest in systems that support vehicle lightweighting, added manufacturing, oil and gas exploration and the application of carbon fiber composites broadly across multiple end markets.

In addition, we've seen growing demand in aerospace, university and research markets, particularly in Asia and in Europe. For complex engineering solutions related to the application of advanced materials and componentry. These solutions are designed to perform complex testing of material properties using our industry-leading technologies.

Allow me to take a moment to elaborate on these drivers for materials test in more detail, as we believe they are important and sustainable moving forward. While lightweighting of aircraft systems has been an ongoing effort by aircraft OEMs for decades, the rapidly growing need to lightweight ground vehicles, particularly those powered by electricity or battery range limitations as a gating factor is driving the use of carbon fiber composites in the new high-volume applications. The testing needs for these materials are significant at both the OEM and Tier-1 and Tier-2 supplier levels of vehicle systems.

In addition, the growing use of additive manufacturing with its resulting novel component shapes and material properties requires new testing capacity often combined with unique test system configurations. With MTS being founded on materials testing over 50 years ago, our strong brand, global support structure and technology leadership position enable us well to capture this rising demand moving forward.

Looking finally at test services, we're pleased with the continued strong growth of this critical aspect of the business, which, in the second quarter, grew by 14% year-over-year. For those of you that have heard us talk repeatedly of our focus on Test Services, these efforts have now taken us from roughly a $65 million level in 2012 to $100 million level this year.

This growth and service capability is important to our customers and that advanced testing systems are designed to perform for decades into the future, they require ongoing calibration and maintenance along with periodic software and electronic control upgrades over its life in a customer's laboratory. Having a large global service footprint and delivery capability is essential to our customers worldwide.

An example, this quarter was the award of our first sizable service order in India, where we see strong potential future growth in test systems. With our active installed base of equipment now approaching $5 billion, and our customers spending well over a $1 billion annually maintaining our equipment, we're excited about the scale we now have achieved in test services and the continued growth and value it will bring to our customers and to our shareholders for years to come.

Let's now move to our sensors business and review the four sectors that comprise this exciting part of the company. Looking first at position sensors. This sector delivered strong double-digit growth, achieving all-time record orders revenue and ending backlog in the second quarter. Key drivers were solid demand in industrial machinery, expansion and basic materials processing, such as steel and aluminum and another strong quarter growth in mobile hydraulic systems where we're benefiting from design wins and heavy construction equipment and mining machinery platforms over the last few years, which are now moving into full production. With the global industrial economies expanding, we expect these trends to continue.

Next sensor sector I'll comment on is what we call our test sector, which includes sensors used for new product testing as well as defense and aerospace high-precision applications. We generated strong double-digit increases in revenue for the test sector in the second quarter, driven by broad market strength, including our growing defense sales, as we continue fulfilling our first large order for a new defense platform program. This growth was delivered in spite of challenging market headwinds in the ground vehicles sector, driven by the factors I described previously for our test business.

Overall, for the second half of fiscal '18, we expect continued strong growth for sensors in the test sector and are optimistic that the new products we develop for the Department of Defense will lead us to further contract awards generating meaningful revenue growth in fiscal '19 and beyond.

Moving on to the industrial sensor sector. Overall, demand in the industrial sector was flat in Q2, as continued significant weakness in the industrial gas turbine market was offset by strength from renewable energy markets and from sensors used in industrial machinery for factory automation.

Our outlook for the remainder of fiscal '18 assumes the volume levels from the industrial turbine business will remain soft, finishing significantly below 2017 levels. However, growth from renewables and broad global demand from industrial equipment, automation markets will offset the turbine weakness resulting in modest overall growth for the industrial sector in fiscal '18.

And the last sector we talk about in sensors is called sensor systems, which are turnkey systems built around our sensor products. Following its strong first quarter, the systems sector delivered double-digit growth again in Q2, as positive business performance was reported across aerospace and defense as well as energy and automotive, which in this case has targeted at noise measurement, a critical attribute for next-generation electric vehicles.

In addition, the launch of a new product addressing both airport and environmental noise monitoring applications contributed to our growth. The successful introduction of new products and continued demand for calibration systems should continue to drive double-digit demand for this sector in the second half of 2018.

That concludes my prepared comments. Now I'd like to turn the call over to our CFO, Brian Ross, to further discuss our financial results and our outlook. Brian?

Brian Ross: Thank you, Jeff. Overall, from a financial perspective, I was pleased with our performance for the second quarter. We are on track with the forecast we laid out at the beginning of the year, and we were able to pay down more debt than we originally projected.

We are monitoring our ground vehicles sector in test, but our other businesses are doing well. My discussion on the second quarter fiscal 2018 results focuses mainly on a year-over-year quarterly comparison. With that overview, let's start with our total company top line.

Total revenue of $191 million was 1.1% below the same quarter results in fiscal 2017, as Sensors was up 17.2% and Test was down 11%. Test recorded orders of $105 million and ended the quarter at $299 million in backlog. Test orders and revenue have been negatively impacted, primarily by the ongoing volatility of order timing in ground vehicles markets, while the demand for materials testing equipment and services is growing from strong market fundamentals and dedicated investments.

Our sensors business had a strong quarter and continues to have a great year, as it experiences increased demand in several key markets and across all global regions. Consolidated gross margin of 39.1% declined 1.7 percentage points quarter-over-quarter as a result of shifts in product mix within both business segments and the decrease in test volume leverage. A partial offset to these gross margin declines was realized as we gained operating leverage from the growth in our sensors business and we continued to expand sensors as a percentage of the overall total revenue mix.

Sensors gross profit for the quarter was $41 million or 49.8% of revenue. This was a 0.8 percentage point improvement in the gross margin rate compared to fiscal year 2017. And was primarily due to favorable operating leverage from the increase in volume, partially offset by a change in mix created by strong revenue growth from new products and a shift among different markets.

Gross profit for our Test business was $34 million or 31% of revenue. A 5.1 percentage point decrease in the gross margin rate, due to unfavorable volume leverage and the higher proportion of revenue from lower margin customers and projects. Our expected increase in revenue in the second half of this year compared to the first half of the year, along with cost containment measures aimed at increasing probability will improve gross margin leverage on the business.

With that in mind, we expect that the Test business will achieve full year gross margins at the lower end of the 33% to 36% range that was provided in November. For the quarter, consolidated operating expenses declined 8% to $58 million when compared to the same quarter in fiscal 2017.

Fiscal year 2017 second quarter results included a $0.7 million of PCB acquisition integration expenses and $6.8 million of costs related to the China investigation. Both of these were nonrecurring in Q2 of 2018. Offsetting these reductions were various operating expense increases, such as composition and professional services.

Net interest expense of $6.7 million declined by $0.7 million compared to the prior year same quarter. This reduction is due to our continued focus on debt pay down and a lower interest rate, as a result of the debt repricing completed in July of 2017. We expect continued declines in the amount of interest expense as we continue to improve on our balance sheet position and debt reduction.

Moving to income taxes and earnings per share. Our effective tax rate for the quarter was essentially unchanged at 17% when compared to the prior year same quarter. The effective tax rate in the current year is due to the lower US corporate tax rate under the new tax act. In the prior year earnings were lower due to large onetime expenses, which provided for a lower tax rate. We anticipate a tax rate of approximately 16% to 19% going forward.

On a GAAP basis, earnings per share of 44 cents was higher than prior year GAAP results of 38 cents per share, due primarily to the non-recurrence of the acquisition integration expenses and China investigation expenses that were incurred in the second quarter of fiscal year 2017. Non-GAAP EPS was 45 cents per share. The 1 cent difference between GAAP EPS and non-GAAP EPS is related to the charges incurred for our China-based restructuring initiatives in the current quarter.

Adjusted EBITDA grew to $27.5 million in the second quarter, up 2.4% sequentially from the first quarter of fiscal 2018. This was down $5.7 million from the last year's second quarter, due primarily to a decline in test revenue. I would like to take a moment to provide you with additional details on the restructuring of our China manufacturing operations.

We took this action since we see significant growth opportunities for us in China, and we felt establishing a stronger foundation with a more operationally efficient infrastructure will deliver the greatest return long term. Jeff gave you a great overview of what we did and why, let me help you with some additional details with four main components.

The first component is the workforce reduction plan, which is estimated to result in an overall cost of $3 million to $4 million pretax. Approximately $2 million was recorded in Q4 of fiscal 2017, when we internally initiated this plan. Other remaining $1 million to $2 million for fiscal year 2018, we recognized $0.3 million in the second quarter and we'll recognize the remaining amount relatively equally in Q3 and Q4 of fiscal 2018.

Second, we are in the process of transitioning each of our Shenzhen and Shanghai manufacturing facilities to our contract manufacturing partner. Third, we will be consolidating and optimizing the majority of our remaining sales, engineering and service operations and will incur general expenditures as part of our normal operations.

Fourth, we will sell the Shenzhen and Shanghai manufacturing facilities to offset the operating expenditures for the items noted above. The sale of these facilities will generate gains for us due to the significant estimated market value of the properties.

Overall, we expect the actions above will result in net savings in fiscal year 2019, mainly due to the workforce reduction and approximately $5 million to $10 million of annual cost savings in the years to follow.

Moving on to review our total company cash position and balance sheet items, we ended the quarter with cash and cash equivalents of $84 million, a decrease of $10 million sequentially from the first quarter. Operating cash inflow for the quarter was $28 million. During the quarter, we paid dividends of $5 million, invested $3 million in capital projects and made total debt payments of $34 million, exceeding our minimum required payment of principal and interest by $25 million.

Finally, as a result of the tax act, we repatriated a portion of the cash held in our international locations. We have used this cash primarily to reduce the leverage on our business. We are currently evaluating additional repatriation of funds held by international locations.

The final topic, I would like to discuss in our fiscal year 2018 guidance ranges. We reiterate our fiscal year 2018 full year guidance. This includes revenue in the range of $780 million to $820 million, our adjusted EBITDA in the range of $120 million to $140 million and diluted earnings per share in the range of $3.55 to $3.85 per share.

Adjusted EBITDA is calculated by adding back stock-based compensation and restructuring expenses to EBITDA. A reconciliation of the range for these non-GAAP measures to net income, the closest GAAP measure, is included in the Exhibit E of our earnings release, which is available on our website and the SEC's website.

As I mentioned at the beginning of my comments, we remain on track with our business and continue to improve the flexibility of capital structure and strength of our balance sheet. I will now turn the call back over to Jeff for his final comments. Jeff?

Jeff Graves: Thanks, Brian. So before moving to Q&A, I'd just like to bring everything together for you here at our midyear mark for the year. Our test business continues to face headwinds in the automotive testing market, but is seeing robust growth in materials test and Test Services. Our strategy of driving growth in these markets with targeted investments and improved focus is paying off to increase revenue.

We believe the softness in our vehicles test business will be shorter term in nature, based upon the continuing strength of our opportunity pipeline, which remains over $1 billion. The plan we laid out at the beginning of the year for our test business, which included a softer first half and increasing strength in the second half of the year is still intact.

In addition, the restructuring of our China test business is proceeding very well and on track to support long-term growth and profitability in this exciting market. Our sensors business performed extremely well through the first half of the fiscal year, with double-digit growth in orders and revenue and strong flow through to EBITDA.

We ended the quarter with record sensors backlog setting up an exciting second half of the year. These results are a testament to our sensors management teams' continued focus on providing a market-leading total customer satisfaction and delivering innovative products to a world demanding ever more machine data.

Lastly, we further strengthened our balance sheet in the second quarter, make additional principal payments on our term loan B debt supported by a solid operating cash flows and the initial repatriation of a portion of our overseas cash. We expect these efforts to continue driving down our leverage meaningfully in the second half of our fiscal year, while we continue our investments in the business and returning cash to our shareholders.

With that, (Cody), Brian and I are happy to take questions.

Operator: ((Inaudible)). If you'd like to ask a question, please signal by pressing star you're your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star 1 if you'd like to ask a question. And we'll pause for just a moment to allow everyone an opportunity to signal.

And once again as a reminder, that is star 1 if you'd like to ask a question. We'll take our first question from Liam Burke with B. Riley FBR. Please go ahead.

Liam Burke: Thank you. Good morning Jeff. Good morning Brian.

Jeff Graves: Morning Liam.

Brian Ross: Morning Liam.

Liam Burke: Jeff, in the combustion engines days or ground vehicle, typically, the test business, you would see variability around the quarter, but typically, your annual growth rate should be fairly consistent. Is there any change now with new types of vehicles being introduced where we're seeing more annual variability in both backlog and orders?

Jeff Graves: Yes, Liam, I would tell you from our experience with customers right now, there is a profound change to the automotive industry in terms of investments. They're spending near record amounts of money on new product development. The issue is they're trying to bring electric vehicles and autonomous vehicles to market with some really revolutionary technologies. And their focus, clearly, they've made very public commitments.

I'm referring now to the OEMs in the automotive space. They've made very public commitments on getting these new vehicle technologies to market. And they're dealing with -- they reprioritized their investment to deal with the gating factors. So right now, I think on the autonomous side, you see it expressed in safety. So they're trying to make sure these colors are fully safe when they hit the roads.

And in electric vehicles, they're really struggling to make sure they get the performance expectations of customers met in terms of range and cost, but also get their fundamental cost position in a point where they can make money. So I think you see -- what we've seen is a pretty dramatic reprioritization of their investments toward those gating factors.

Now right behind those, you have the traditional gating factors, which in large part is where we built our business on and that's durability testing and somewhat aerodynamic performance. So the needs for those are as big or bigger than they've ever been. It's just they sit behind this priority in terms of safety and basically cost in a range for electric vehicles. And so as they work their way through those issues to meet their day commitments, what we see is a wave of investment required in our space basically for durability testing in aerodynamics.

So, that's why our pipeline hasn't changed. We've just seen a push out of orders. So fundamentally, it's tough to test those attributes, but it's just sitting behind this kind of revolutionary product change they're making in automobiles today. And I think some of our OEMs have actually put this in their annual letters from '17 about this revolutionary time in the automotive industry.

So, the good news is you look longer term, there's a profound need for what we do for a living and that's durability testing primarily. It's sitting behind these gating factors on these new platforms right now and companies are spending like crazy to get through those issues. So kind of a long way to answer your question.

We look at it very critically every day because we've been continuing to invest in our infrastructure to support that long-term durability need out there in the marketplace, but at the same time, we balance short-term profitability issues of that. So for us, it's a critical balance every day.

I'm pleased with the progress we're making on cost in terms of lean manufacturing and redesign for cost take out, but in reality, we need those orders to flow in order to drive growth in that business. So, we think it's out there. It's a matter of timing.

Liam Burke: And then just as a follow on where does that leave the traditional ground vehicle business or the combustion engine business. I mean, have they completely stopped investing on the R&D front there or is that going to change how the test business -- how your test business is going to be affected?

Jeff Graves: No. I don't think -- I mean, these changes, Liam, are really fundamentally are very positive for our Test business because these new vehicles are really exotic. The new autonomous vehicles, electric vehicles, they have all these advanced materials in them. They require a lot of testing. So that's fundamentally is a good change for us.

But I don't see any real let up in our customers' needs for gasoline-powered cars. I think they would say maybe they pick and choose the model types they launch. You see some of that in the American car companies. They're going to focus more on certain markets than others.

But in terms of the backdrop of gas-powered cars, I think it'll still be out there and they'll still be at base demand for that. It's just there as these new types of cars coming on the market. And generally, increasing types of cars is always fundamentally really good for us. It means more testing requirements.

Liam Burke: Great. Thank you Jeff.

Jeff Graves: Thanks Liam.

Operator: Thank you. And once again as a reminder that is star 1 if you'd like to ask a question. We'll hear now from Dan Bittman with Point72.

Dan Bittman: Hi, thanks so much for taking my question. My first …

Jeff Graves: Morning Dan.

Brian Ross: … Dan.

Dan Bittman: Many of your peers exclude stock comp and ((inaudible)) amortization from adjusted EPS calculations to move to a cash EPS. And it looks like if we did the math on your company it may be a dollar or more of earnings to kind of just show what the true cash earnings power is. Is that something that you guys are considering doing?

Brian Ross: Dan, thanks for the question. So we've been looking at that. Right now, we've ((inaudible)). We had an adjusted EBITDA metric that was introduced at the acquisition of PCB in 2016. And rather than increase the additional non-GAAP items that are out there, we stuck with that adjusted EBITDA number.

We do look at it internally, but we have not been disclosing it externally. The numbers are there.

Jeff Graves: We try to give you all the ways to calculate it, Dan. And we've just had a tendency to not want to introduce a bunch of non-GAAP measures. So adjusted EBITDA is one overwhelmingly that people want to hear, so we give that number. The rest of it we try to give you enough color to calculate it and do that rather than have a proliferation of non-GAAP measures.

Dan Bittman: Okay. Thanks. And then my second question was, if you think your sensors business is doing well, growing fast, having near 50% gross margins. And it seems like there's not maybe that much overlap between the two businesses and maybe the weakness in the Test business might be somewhat obfuscating the strong performance there.

So is there a way that you're looking at to better kind of crystallize the strong value of the sensors business?

Jeff Graves: Well, I would tell you, Dan, it may be vary in the numbers a little bit. But if you look at the market overlap between those two businesses and this was part of a rationale in the acquisition we did in late '16 is that test market, there is a pretty significant overlap. So the sensors that we manufacture in the sensors business go into, for example, new car testing, new aircraft testing.

And we've been in those laboratories for four to five decades on the test side of the business. So we're able, you know, the PCB acquisition, relatively small company, we were able to take them into new labs in China and in India and elsewhere at a much faster rate than they could do on their own because we own the test business.

And that, you know, while we got some cost synergies out upfront, the long-term revenue synergies between those businesses, we believe, is meaningful. And certainly, from our customers' standpoint, they really enjoy being able to buy all of that from MTS, because we're in there with service, we're in there with equipment and now we're in there selling them sensors, so they really enjoy that.

So our sensors performance, we were thrilled with. And the quarter, we've had now three quarters in a row that are just increasingly wonderful. I mean, they're really doing a great job. And that's in spite of a headwind from the vehicle test market. So, we're really pleased with having that business.

It's got global reach now and critical mass in all the markets we serve. And we're very happy to keep it all together and look for how we leverage both working together.

Dan Bittman: Okay, and then just my last question. It seems like some members of management bought stock in March, which I imagine was kind of a view of the longer-term outlook of the business.

So, can you just help us refresh kind of the view on that longer-term outlook and the targets that you've laid out and kind of your confidence in achieving those?

Brian Ross: Well, so we've talked periodically about long-term performance measures for the business. Test certainly is a lumpy business, so you have to take a longer-term view of where it can go. But if you look at where sensors is headed right now, Dan, we believe we can sustain double-digit top line growth in sensors.

You're seeing right now 50% kind of gross margins flowing through to 20%, 21% kind of EBITDA margins. As that business continues its rapid growth, will give more volume leverage. We've got some exciting new products hitting the markets, some new opportunities, for example, in the defense space that we believe will further fuel growth in our business. So I think you could see our margins climbing from where they're at today, EBITDA margins going from the low-20s toward the mid-20s over the longer term.

So, Dan, I would tell you it's a wonderful business. Over the long term, we spend 2% to 3% of sales on CAPEX for that business to support that organic growth, so it's a low-capital consumption business. And you've got working capital needed to grow, but it's a marvelous outlook for that whole space. So I couldn't be happier.

On the test side of things, we see that growing at a more modest level, but we've generally earmarked twice GDP kind of levels for growth. And if you look at what will get us there, certainly, in the short term here, materials growth is exciting. Materials test and services is exciting. The automotive business is spikier or lumpier, but in the long term, there are some real good fundamental drivers for growth.

So you'll see mid- to slightly above that top line growth from the test business. And we believe EBITDA margins have, certainly, a mid-teen kind of performance. It's certainly very doable. So if you look over the long term -- and again, on the test side, it's not a very capital-intensive business. We basically design and assemble products and we provide services to those, so both of them fundamentally are good return on invested capital type businesses.

So, again, from an ROIC standpoint, we've historically been in the top quartile, comfortably in the top quartile of the Test and measurement space. And that means, ROIC level certainly from 15% and above, we've, at times, been above 20%. We like those numbers. We want to stay in the top quartile from an ROIC standpoint, and we believe we can get there. So, we love these businesses. There is big barriers to entry. We've been in them for five decades.

And it's very, very difficult for new players to come into this very high-tech niche kind of markets that we serve. So we like them. We think there is nice margin and cash flow potential. And that's where we're headed. So when you see management out buying, and I'm one of those guys, I believe in a long-term performance of this business. And I think we've got customers that are incredible and spending ever more money on this kind of stuff we make. We just need to run the business well.

Dan Bittman: Great. Thanks a lot for your time.

Jeff Graves: Thanks Dan.

Operator: Thank you. And that does conclude today's question and answer session. I would like to turn the conference back over to Mr. Jeffrey Graves for any additional or closing remarks.

Jeff Graves: Thanks, (Cody). Well thank you all for participating in the call today. We look forward to updating you on our progress again next quarter. Thank you, and have a great day.

Operator: And that does conclude today's presentation. Thank you for your participation.