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Operator: Good day, everyone and welcome to the MTS Third Quarter 2017 Earnings conference call. Today's call is being recorded. At this time, I would like to turn the conference over to Brian Ross, MTS Senior Vice President and Chief Financial Officer. Please go ahead.

Brian Ross: Thank you, Kim. Good morning, and welcome to MTS Systems fiscal 2017 third 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 may also include reference to financial measures, which are not calculated in accordance with generally accepted accounting principles, or GAAP. These measures may be used by management to compare 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 any non-GAAP measures to the nearest GAAP measure can be found in the company's earnings release.

Jeff will now begin his update on our fiscal year 2017 third quarter results.

Jeff Graves: Thank you, Brian and good morning, everyone. Thank you for joining us for our investor call today. We appreciate having the opportunity to discuss our results for the third quarter of fiscal 2017, which ended for us on July 1, as well as our outlook for the full fiscal 2017.

Today, we'll cover three key areas regarding our business update and outlook. First, the integration of PCB with our legacy sensors business to create a single global sensors business segment under our unified leadership team, as well as the transition of PCB into our public company corporate structure is proceeding very well.

From a cost standpoint, the consolidation of our sensors manufacturing footprint and specifically the transfer of production from our facility in Machida, Japan to our manufacturing location in Cary, North Carolina is complete, with a focus now on maximizing operational efficiencies and supply chain cost savings in the phase of rapidly rising global demand.

Additional revenue and cost synergy initiatives that will provide incremental growth and profitability to the company are continuing to advance with the expectation that these contributions will be fully realized in four to five years.

Most importantly from my perspective, the outstanding cultural fit between MTS and PCB and the benefits from a unified passionate and intensely customer-focused leadership team are now beginning to pay real dividends, as reflected most clearly in terms of increasing sales momentum worldwide.

As we look to the future, MTS is now becoming a balanced global test and measurement company that brings customers unique value through technology leadership and an intense focus on total customer satisfaction. This is our sustainable competitive advantage in the world ever more dependent upon new products and higher degrees of automation in our industrial economies.

Second, we continue to devote significant time and effort toward improving internal controls across the company and reinforcing the importance of pursuing our company's goals in accordance with the letter and spirit of the MTS Code of Conduct.

Given the extent of our sales outside of the United States, which now exceed 70% and particularly the magnitude and growth rate we continue to experience in China and the emerging markets, which now comprise roughly 25% of our total revenue, this represents a strong focus for our entire organization.

While this task will continue to be a very high priority moving forward, we're pleased to report that following the conclusion of our recent internal investigation into the violations of our MTS Code of Conduct in China, the review of our self-disclosures to the SEC and DOJ over the recent past is now complete. And both agencies have notified us that their investigations are being closed without further actions being taken. We're pleased with this outcome and determined to execute well on our improvement activities going forward.

The third key message today involves our sales performance in Q3 and the market outlook for the full year. In short, as we described in our last earnings call, while we anticipated softer revenues in the second half of our fiscal 2017, driven by reduced test backlogs, given our market indicators, we anticipated a rebound in orders in the second half of the year. And as such, we were retaining our engineering workforce to support our customers as they completed their investment plans.

We were therefore delighted to see a strong rebound in orders for both our test and sensors business in Q3, and anticipate these trends to continue in the fourth quarter. I'll provide more color on the market shortly, and Brian will then summarize our financial performance and our outlook in more detail. With this overview, let's begin our business updates by first reviewing our test markets.

As we had discussed in recent conference calls, lower orders in the latter-half of fiscal 2016 and the first-half of fiscal 2017 were expected to be a short-term occurrence, and that order levels would strengthen during the second-half of the current fiscal year due to investment decisions that were being delayed while customers were assessing the requirements of rapidly changing trends across different markets.

We're pleased to report that orders in the third quarter increased by roughly 9% on a sequential basis over the second quarter of fiscal 2017 and were roughly 19% higher than the prior year. Our orders volume was relatively well balanced in terms of products, customers and size. We saw a very strong growth in the structures market, driven by incremental wind power investment in North America and aerospace investment in Europe.

Materials test orders also grew notably with particular strengthen our monotonic testing products in Asia. From a geographic standpoint, orders in Europe and the Americas were particularly strong year-over-year, reflecting strong customer demand for core products and system solutions across all markets.

Further insight into our opportunity pipeline of approximately $1 billion shows that while we don't see large new programs from aviation OEMs driving our test equipment sales, our customer base at the component level of the supply chain is nevertheless providing a steady supply of orders and providing opportunities at new test lab sites, driven in large part by the accelerating adoption of advanced composite materials and metal alloys into these vehicle systems.

On the automotive side, OEMs appear to be experiencing some strategic uncertainty with regard to the timing of large investments associated with shifting from production of internal combustion engines to electric power trains and autonomous vehicle development. This uncertainty is symptomatic in our view of the rapid pace of technological change occurring in the automotive industry.

The good news for MTS is that, over time, all of these new developments in the automotive market will translate into exciting growth opportunities for our testing equipment in addition to the growth from expanding vehicle markets in both India and China, which increased the number of new product types that our OEM customers must provide.

The ripple effect of the move to new electric power trains for automobiles, which create new demand for advanced materials and required testing, is a good long-term driver of our overall test business.

Our pipeline reflects these increasing opportunities, which have now broadened to include driving simulators, such as the new system we announced this year in partnership with McLaren and durability test equipment to meet OEM needs for increasing test capacity within their labs.

In addition to the trends in automotive and aerospace, our materials market is also seeing an upswing in demand, driven by renewed investment in oil and gas research, the first we have seen in several years, as well as increased high temperature testing by aero propulsion system manufacturers that are working to meet the needs of next-generation aircraft for both commercial and defense applications.

In short, we're confident that MTS is well-positioned in the complex test markets worldwide, with a technically skilled workforce, the global reach and distinguished technology to provide customers with the rapidly evolving products and solutions required to address the dramatic changes in the ground and air vehicle systems and the components in advanced materials that enable their success.

While revenues for our test business will continue to be somewhat weak in the fourth quarter, the increase in orders we experienced in the third quarter was encouraging and reinforced our earlier convictions at this momentum will now continue in the fourth quarter and provide us with a strength in test backlog going into fiscal 2018.

Moving on to our sensors business. In short, we were very pleased with our orders performance in the quarter, which culminated in a book to bill ratio of 1.1, driven by a very strong second-half of the quarter. With our overall comment, let me give you a little color on the four market sectors that we address in our business.

Beginning with positional sensors, the market momentum and improved sales execution from prior quarters gained further momentum in the third quarter, as we continue to experience strong growth in our - with our key customers in the basic materials and heavy equipment industries broadly, with China sales being particularly strong, reaching a record level for the quarter. This volume has provided positive leverage in our operating efficiencies.

The second sector is our industrial market, where revenue growth continue to underperform, because lower demand from one very large customer in the energy industry which we now expect to begin strengthening in fiscal 2018. The impact of this revenue shortfall was largely unchanged from our last update, and we still expect fiscal year 2017 organic growth in this market to be negatively impacted overall by approximately 2%.

With that said, we were pleased to see some strengthening in the overall industrial sector late in the quarter, which we expect to continue in our fourth quarter, establishing an improving trend as we enter fiscal 2018. The third sector is systems, which we experienced some weakness in two growth markets, China and Russia. Looking forward, improved economic growth rates in China and expanded distribution coverage in Russia should result in higher sales to finish our fiscal 2017.

The fourth sector is test sensors. This market, which focuses largely on sensors used in the testing of new products, often follows a similar pattern to the trends in our test business. As such, we experienced some weakness in the first-half of the year, followed by strengthening in the third quarter, which we expect to further accelerate in the fourth quarter of our fiscal year.

As with our test equipment and services business, this demand is driven by aerospace, automotive and real test applications into a lesser extent materials testing. And a final note on our sensors business, we were very proud to begin initial shipments late in the quarter of our new product developed for the US Department of Defense.

With our final approvals in place and production coming online, we anticipate acceleration of these revenues in our fourth quarter and meaningful increase to follow-on in fiscal 2018. As we mentioned in our last earnings call, with the planned investments that have been proposed for new defense systems, we anticipate that DoD sensor sales will expand materially over the next decade. We'll provide more detail on these programs in the year ahead.

Moving on to our fiscal year 2017 outlook, we're projecting our fiscal year revenue to be in the range of $770 million to $785 million, driven by the current backlog in our test business and the order rates now being experienced in our sensor business.

Our forecasted GAAP earnings per share is $1.15 to $1.30 for fiscal year 2017, which is reflective of 15 cents in discrete tax benefits recognized in our third quarter, as well as overall operating expense management, which continues to outperform our prior forecasts. Based upon the revenue forecast and backlog mix profile in test, we're updating our forecasted - our forecast for adjusted non-GAAP EBITDA to the range of $115 million to $120 million for the year.

In a few minutes, Brian will discuss our third quarter performance and our fiscal year 2017 guidance in greater detail. A reconciliation of our non-GAAP EBITDA measures to net income, the closest GAAP measure is included in the non-GAAP financial measures and Exhibit D and E sections in our earnings release, which is available on our Web site and the SEC Web site.

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

Brian Ross: Thank you, Jeff. My remarks today will briefly summarize our third quarter of fiscal year 2017 results based primarily on a year-over-year comparison. Let's begin with a look at each of our business segments.

Sensors revenue was $69 million in the quarter, up $45 million compared to the prior year, driven primarily by PCB, which was acquired in fiscal year 2016 and contributed $42 million in the quarter. In addition, we experienced our third consecutive quarter of double-digit growth in our organic Sensors business.

Test revenue was $124 million for the quarter, a decrease of 7%, due to lower backlog coming into the quarter, which resulted from lower order rates in the first-half of the fiscal year, as discussed in our last earnings call, in addition to unfavorable foreign currency movements also contributing to the revenue decline.

Test experienced strong growth of 21% in service revenue compared to the prior year same quarter, which partially offset these negative factors. Test backlog ended the quarter at $284 million. Given the retention of our engineering workforce in anticipation of strengthening market, we were very pleased to see the strong rebound in test orders to a greater extent than we had - that we had anticipated at the time of our last earnings call.

Moving on to gross profit and gross margin by business segment. Sensors gross profit was $34 million, up $22 million from the prior year, driven by significant contributions from PCB and increased revenue in our organic Sensors business. These gains were partially offset by additional labor and other costs associated with moving one of our operations from Japan to United States.

As a result, our gross margin decreased from 51.2% to 49.6%. Going forward, we expect Sensors gross margin to be in the low 50% range on a quarterly basis, with improvements expected as the volume increases and acquisition integration expenses decline. Test gross profit came in at $41 million, down 10%, mainly due to lower volumes.

Gross margin decreased from 34.2% to 33. 1% as a result of lower volume and leverage on fixed costs. For fiscal year 2017, we expect the test gross margin to be in the 34% to 35% range, up slightly from fiscal year 2016. Gross margin for consolidated MTS continues to improve, as revenue from the higher margin sensors business is now a larger percentage of total revenue which is a direct result of the PCB acquisition.

Moving to consolidated operating expenses. Operating expenses increased $11 million to $59 million in the quarter and were 30% of revenue. The increase resulted primarily from the addition of PCB. We also incurred approximately $700,000 of expenses associated with the acquisition integration, restructuring and the China investigation.

Excluding these costs, operating expense remained just slightly below 30% of revenue. Going forward, we expect operating expenses to be in the range of 28% to 30% of revenue, excluding acquisition integration and restructuring charges.

Next, I want to discuss interest expense. Net interest expense in the quarter was $7.7 million, which is within our expectations. On July 6 of this year, we successfully repriced our debt, which reduced the interest rates on our term loan and revolving credit facility by 100 basis points. This repricing will result in a recognition of approximately $2.2 million of debt repricing expense in the fourth quarter of fiscal 2017.

As a result, we expect interest expense to be approximately $9 million in the fourth quarter after offsetting these costs with the result in savings from the lower interest rate. Looking forward, we estimate net interest expense will decrease to approximately $6 million to $7 million per quarter starting in fiscal year 2018.

Now, let's move on to income taxes. Over the last few quarters, we have conducted studies to validate some very significant deductions in credits applicable to prior years some of which will also be claimed for fiscal year 2017 operations.

These discrete tax items consisting of domestic manufacturing tax deductions, deductible PCB acquisition-related expenses and US R&D tax credits had a combined benefit of $2.8 million in the quarter and provided a benefit of 15 cents per share. As a result, our tax rate during the quarter was a benefit rate of 33%.

If we excluded the $2.8 million of discrete items just mentioned, our tax rate for the quarter was 2.2% and 11.2% year-to-date. We expect our actual tax rate to be approximately zero for fiscal 2017, largely due to the previously mentioned discrete tax benefits recorded in the third quarter. Going forward in fiscal year 2018, we expect our effective tax rate to be 23% to 27%.

Now, let's discuss earnings per share. On a GAAP basis, earnings per share increased to 55 cents per share, up from 46 cents per share in the prior year. EPS in the quarter was impacted by a number of things. As previously mentioned, we recognized discrete income tax items, which increased earnings per share by 15 cents. These discrete tax benefits were offset by higher amortization and interest expense.

In addition, we had more shares outstanding as a result of our public stock offering completed at the end of the prior year same quarter. Non-GAAP adjusted EPS was 56 cents per share for the quarter. A reconciliation of non-GAAP earnings per share to GAAP earnings per share is included on our earnings release, which is available on our company's Web site and the SEC Web site.

Next, I'll address our cash position. We ended the quarter with $102 million of cash and increased $4 million in the quarter, of which approximately 70% fits with our foreign affiliates. Operating cash flow was $11 million in the quarter, driven mainly by net income, and operating cash flow was $52 million year-to-date.

During the quarter, we paid $5 million for dividends, $4 million for capital improvements and continue to pay down our term loan intangible equity unit debt by $3 million. As a requirement of our credit agreement, we anticipate making an accelerated debt payment on our term loan for fiscal year 2017 of approximately $9 million based on our anticipated excess cash flow calculations.

Now, I'd like to provide an update on our fiscal year 2017 guidance ranges. As Jeff mentioned in his discussion, we are tightening our guidance with regards to revenue in the range of $770 million to $785 million. We are updating our GAAP diluted earnings per share guidance to be in the range of $1.15 to $1.30 for fiscal year 2017, which I will detail in a minute.

We are also updating our non-GAAP adjusted EBITDA guidance to be between $115 million and $120 million. We calculate EBITDA by adding back interest, taxes, depreciation and amortization expense to net income. Adjusted EBITDA is calculated by adding back stock-based compensation, acquisition integration expenses, acquisition inventory fair value adjustment, China investigation expenses and restructuring expenses to EBITDA.

A reconciliation of these non-GAAP measures to net income, the closest GAAP measure is included in our earnings release, which is available on our Web site and the SEC Web site. With regard to earnings per share, our updated GAAP EPS guidance of $1.15 to $1.30 per share is mainly a result of recognizing 15 cents per share of discrete tax benefits in the third quarter, and is also reflective of zero tax expense expected for the full fiscal year in addition to improved operating expense management measures.

In addition, diluted earnings per share includes $13 million to $14 million of acquisition integration and restructuring charges in fiscal year 2017, which impacts EPS by approximately 50 cents to 55 cents per share and a reduction in our previous guidance of $16 million to $18 million.

Diluted earnings per share also includes China investigation costs, which will cost approximately $9 million or 30 cents of EPS, incremental year-over-year net interest expense of approximately $23 million, or 80 cents per share; and higher acquisition-related amortization expense of $9 million or 31 cents per share.

This concludes my remarks for today. I will now turn the call back to Jeff for his final comments.

Jeff Graves: So just a few comments to wrap up our earnings call and conclude on our direction for the remainder of fiscal 2017. Although we experienced some headwind in our order demand during the early part of the current year, due primarily to customers temporarily delaying investment decisions to assess the evolving technologies for their products, we're pleased that these investment decisions are now being made and the outlook is strong.

We remain committed to our long-term ambitions and goals. We have two strong businesses, test and sensors, both of which have critical mass and leading-market positions in their major markets and geographies around the world. Through this balance in MTS's product portfolio and markets, we're very well-positioned to address regional and market demands and variations more consistently and effectively than ever before.

The fundamental long-term demand profile available to us is exciting for all of our stakeholders. Our leading products and services are essential to new product development for automobiles, aircraft and infrastructure, as well as being vital to intelligent equipment for manufacturing in the future.

These markets collectively present an increasing pipeline of future opportunities. The strength and future of these markets combined with the transformation and industrial automation and vehicle intelligence is leading to exciting and sustainable growth opportunities in the foreseeable future that we're well-positioned to capitalize on.

We're looking forward to a strong finish to our fiscal 2017 and an exciting year ahead in fiscal 2018. That concludes our prepared remarks. And Kim, I'll turn the call back to you for the Q&A session.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, it is star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal.

Our first question today is from John Franzreb from Sidoti & Company.

John Franzreb: Good morning everybody.

Jeff Graves: Good morning John.

Brian Ross: Hi, John.

John Franzreb: I guess I'm going to start with the incoming order book, I'm kind of confused. My recollection is as the $120 million in income orders in test, that's closer to truck kind of incoming orders. If I'm looking at the past five or six years, you're sizably higher north of $150 million.

Are you suggesting that we are going to see a sharp rebound in Q4 orders and maybe Q1 orders '18? Is that what you see in the opportunity pipeline? Because when I'm looking at the backlog and ((inaudible)) in test, I'm not seeing that.

Brian Ross: Yes, you're correct - you are directionally correct, John. We were pleased to see the change in slope. You know, certainly we went from a four quarters of decline to improving orders. It's not back to historical norms and we anticipate that number strengthening in Q4 and then we faced some really nice demand in fiscal '18.

So, yes, I see no reason why we shouldn't see a nice rebound in orders. As always, you know, the rate of increase is subject to some larger - landing some large orders that are in the opportunity pipeline. But yes, directionally you're correct.

John Franzreb: Okay. And switching over to the sensor business. I guess two quick questions on sensor. One, the legacy business had a nice recovery in Q3, is your bookings telling you that's sustainable into Q4?

And two, you actually mentioned something, I think it was Jeff, interesting I thought about, in the test sensor side of the business. Is that business lagged or will lead recovery in equipment sales?

Jeff Graves: Well, you know, it's interesting, John. I mean, it's relatively new to us in the last year, that's a great question, the lag versus lead. I - my perception is our customers are using their capacity fully right now and they're consuming a lot of sensors. So I would tend to think it's almost more of a leading indicator.

Certainly the capacity expansion is something they need to do, our customers need to do because they're launching a lot more new product designs. The - what's held them up, John, and just in my opinion from what we see, is the pace of change in the technology of their products is so high, they want to make sure they put in the right kind of capacity.

So, you know, this whole move toward electrification has had some pretty profound effects on the type and amount of testing that they are doing. It's all directionally good for us, but the specifics, you know, the devil is in the details in those specifics and they're still working through those, as well as the move towards autonomous vehicles now and what types of testing are going to be required in those cars that may be running more hours in the day and things like this.

So, fundamental issues for us like the - you know, and for our customers about durability testing of those product. So, I think it caused them in the first half of the year, particularly, really think through what kind of capacity expansion they needed and what is specifically - what kind of equipment. And you see that reflected in our custom orders. It's quite high and it remains high because of the pace of change of their products.

So, back to your question, I think the consumption of sensors is probably more of a leading indicator and it's certainly picking up nicely in the test business right now. We are - but the lag to equipment is not very high because we see a real nice uptick in orders as well. And while automotive wasn't the leading market for us in Q3, I think in Q4 and beyond you'll see a real resurgence in automotive testing. So it's a nice trend for us right now.

So that may be more than you asked. But that's - it's a fascinating time right now, particularly in the automotive space.

John Franzreb: I think I got the gist of it there Jeff. And the legacy sensor business?

Jeff Graves: Oh, yes. You know, for three plus years John, our legacy sensor business was really impacted because you think about the markets we're exposed to is basic materials like steel and aluminum. And it was heavy mobile hydraulics related equipment, construction equipment, mining all of that, it was really in the doldrums for over three years. That's really picked up quite nicely this year and the momentum continues to grow.

Our largest single customer five years ago dropped by 2/3 in the trough of that and now this year they're on a record pace. They've already exceeded the prior record for a full year after three quarters. So, that whole heavy construction, mobile hydraulics driven part of our business and basic materials quite nice, and we see that particularly in - not only in the developed economies, but in China. China had a record quarter for us in our legacy sensor business.

John Franzreb: Okay, great. And I guess one last question. I'm sorry, but Brian you suggesting a zero tax rate for the year. Does that suggest that EPS will have a 10 to 15 cent tax benefit in the fourth quarter or am I just misreading that?

Brian Ross: From the previous guidance, it's directionally correct.

John Franzreb: Okay. So 4Q will have a 10 to 15 cent tax benefit embedded, roughly?

Jeff Graves: It's a carryover, Brian, from Q3. Right?

Male: Yes, that's right.

Jeff Graves: It's a rollover, John, it's not incremental in Q4.

John Franzreb: That's what I meant, incremental not …

Jeff Graves: We saw that in Q3 and yes, it'll be retained.

John Franzreb: So the 15 cents is all that we expect for the full year as far as tax benefit?

Brian Ross: So the 15 cents is just the discrete tax benefit. We also had discrete - we also had - so and this is for our catch up of prior year benefit. In fiscal 2017 through the normal rate we're also experiencing a reduction of that rate with the same type of benefits for domestic production R&D.

John Franzreb: Okay. Okay guys, thank you, I'll let somebody get in.

Jeff Graves: Thanks, John.

Operator: Moving on, we'll take a question from Paul Coster from JPMorgan.

Paul Coster: Yes, thanks for taking my question. Clearly there's another trend here which is towards the emerging markets in China. That sounds great. But can you perhaps disclose for us what the margins on the emerging markets business is and will it in time be materially different from the established markets?

Jeff Graves: Hi Paul, they've always been for us and they will - and we expect they will continue to be equivalent to any place in the world. And the special thing, Paul, because that is an unusual statement, the special thing for us is, not only are they technology leading products that we can command a premium for, but it goes into R&D labs and new product labs in China.

So, all of our equipment and our sensors go into those type of environments. So they are treated differently by Chinese customers than the standard purchase. There's frankly less competitive pressure from a strict pricing standpoint. You're really competing on technology and productivity in the Chinese laboratories related to new, for example, new car development.

So, we sell on that basis and they purchase on that basis as well. Big barriers to entry, it's so we can command the same type margins that we do anywhere in the world, Paul.

Paul Coster: You also, Jeff, talked about this DoD products, it sounded like it might actually be important moving forward. Can it be material? Is it one product or is it a family of products? Any color there please.

Jeff Graves: Yes, it's a family with limited variety; but it's a family of products for a specific application in the DoD. And I apologize, Paul, I'm restricted from talking much about it yet, there's a lot of approvals required. But it is in the mainstream of the defense force and it's certainly among the core discussion points for the refresh of the US military.

So, we're quite confident that the system itself is strongly supported by the government and our components will play a key role in that. So it's a limited family. It was designed and built for a specific application and that application is really starting to take off for us now. So, once we fulfill this first order, which again will span '17 and primarily impact us in '18, in fiscal 2018, we anticipate a good strong decade outlook for that product. And I expect we'll talk a lot more about DoD programs in general in the future, and this one particularly, starting later in '18.

Paul Coster: And it could be sort of 5% revenues? Is that feasible?

Jeff Graves: Yes. Over the life of the program, Paul, I - just to give you a round number, I wouldn't be surprised to see it be a $300 million opportunity over the next decade for MTS sensors business.

Paul Coster: Okay, great. And then my last question, Jeff, is, you talked about industrial slowly turning. Why is it taking so long for industrials to really start to accelerate? Thank you.

Jeff Graves: Paul, I'll tell you, it's been frustrating me, because it's the only disconnect I see with the headlines. There's so much talk about factory expansion and automation of industrial equipment. At the heart of it is putting sensors into these machines. And I can tell you for us, first-half of the year was pretty dull. There wasn't - there was actually real softness in that market.

And I can speculate. Like anyone, I think people were deciding where they were going to put their factories. And certainly, if they're going to refresh factories in the Western world in the United States, they wanted to make sure they had all the automation pieces correct to make them as productive as possible.

And now, I was pleased to see in the third quarter some uptick broadly in that industrial space for us from a sensor standpoint. We still have one lagging large customer in the energy space that we put in that industrial segment. So that will weigh on the full-year for that segment. But ignoring that one customer, which we do expect to begin rebounding in '18, ignoring that one customer, the rest of the market actually showed strength for the first time this year, particularly in the second half of our third quarter.

So I hope that trend continues. All signs are, it will. I think, in a prior question, somebody asked about the sustainability of our sensor orders. I'm very bullish on that right now. I think, this - the bookings we saw in Q3, and again the book-to-bill was 1.1, I think, there's every evidence that those orders won't retreat. I think, we'll hold those gains and we'll look to further gains as we move into fiscal '18.

Paul Coster: Thank you, Jeff.

Jeff Graves: Thanks, Paul.

Operator: Our next question today is from Rich Kwas from Wells Fargo Securities.

Rich Kwas: Hi, good morning.

Jeff Graves: Good morning, Rich.

Rich Kwas: Question on the tax rate just to be clear, is the 0% the GAAP number, or is that also the adjusted for doing adjusted EPS too?

Brian Ross: Yes. So we are ((inaudible)) a 0% for a GAAP perspective. We're not providing much of the guidance in the way of the non-GAAP, especially when it comes to an EPS perspective just due to the variability of that out there.

Rich Kwas: Okay. So then on a non-GAAP basis, though, you typically traffic in the high 20s non-GAAP-wise. Should we - is there anything that would keep you away from that based on - I mean, I understand things can move around with mix and what not. But anything we should be thinking about as it relates for the balance of the year and into '18?

I know you give guidance later in the year, but as we think about longer-term?

Brian Ross: Yes, nothing in regards to the balance of the year. We've - you know, we're completed with the studies that are out there. We've taken the discrete events in Q3 here of 15 cents but nothing anticipated for Q4.

Rich Kwas: Nothing anticipated for Q4, okay. Okay and then Jeff on the auto side of things. So, as you look at - it sounds like you're more optimistic about this quarter in terms of test activity, but then the commentary and the release also talks about longer term.

Jeff Graves: Yes.

Rich Kwas: And there's some - there's maybe some uncertainty around what on the power train side, et cetera? I mean, how do we decipher that as we think about the nearer term and into first part of fiscal '18 …

Jeff Graves: Yes.

Rich Kwas: … in terms of what you expect?

Jeff Graves: Yes. Thanks for the question, Rich. The - so we have a very well defined opportunity pipeline that we can analyze all the time, which looks out 12 months. And what we see in that is, there is increasing opportunity in the automotive space.

I expected a little more flow through of that in Q3 than we actually saw, but we saw some nice strengthening in other sectors like infrastructure, testing, equipment and materials testing then you go into that industry. The automotive testing, I would expect to pick up in Q4 here and certainly in '18. There's a lot of new testing needs out there.

As you - I don't know how much visibility people have into the fundamental changes in a car, as you move from gas powered engines to electric powered engines. But there's a lot of changes that happen in the body of the car that require testing. So, new materials being introduced ranging from advanced metals to even composite materials now to support these battery systems.

And the other on top of that, the move to these and more intelligent cars and active systems within the car responding by computer control, all of that requires increased testing. So we're actually quite bullish on automotive, due driven by both of those things, the move to electrification and move to autonomy. And that probably stretches out, Rich, for the next few years.

And then on top of that, you have the geographic growth in China and India. So there's just overall increased demand for product types to address those markets on top of all the technological change. And we're very well-positioned in both China and increasingly in India to support that growth. So I remain very bullish on automotive.

Again, we're not pegged to what ((inaudible)) is, what - how many cars are being produced. Our revenue stream is determined by how many new product types are under development, and that remains extremely robust out there. Again, the timing will vary quarter-by-quarter. But if you look out over the next couple of years, we remain very bullish about the automotive space.

Rich Kwas: Okay. Thanks for the color. And then just last one for me as it relates to PCB. It doesn't look like margins for just PCB seem to be diluting overall sensor margin, excluding some of the restructuring what not. Can you just give us an update on the synergies there?

And then, is in fact, that when we're looking at the numbers, it does look like in terms of the sensor segment PCB is having some negative impact on margin, but if you could help us understand better I'd appreciate it.

Jeff Graves: Yes. Sure, Rich. The first-half of the year was - it was - if you exclude our historic position Sensor business, first-half year for PCB was fairly dull. The industrial space was soft-driven, as I mentioned, by one large customer in the energy space. But in general, industrial automation was a little bit soft in the first-half of the year for us.

And in the test space, it certainly didn't really begin ramping up here until the third quarter. So you see we had a little bit of softness on the sales side of things and we were heavily focused on closing one of our factories in Japan and consolidating back into the US.

So we were very focused on getting some of the cost synergies positioned well with that factory closure, we just finished that up. So you wouldn't have seen the benefits in the first half. So a little bit of softness on the top line and a heavy focus on executing some of the cost - positioning ourselves for the cost synergies, if you will, in the first half.

I was very pleased with the second half of the third quarter to see the rebound broadly in PCB sales. And obviously, our position sensor business is having a bang up year this year, really good year. So that all added up to this 1.1 book to bill ratio. It was not only driven by our legacy business, but some really nice contributions now starting to come from PCB.

So first half of the year, kind of, unexciting, but a lot of work going on, especially to convert them from a private to a public company environment. And you'll start seeing some of the benefits now as we exit '17. And especially with the uptick in revenue, we would anticipate in the fourth quarter here and the leverage that comes from that and then continue that momentum in fiscal '18.

Rich Kwas: Okay. So nothing has changed in term of the cost synergies and you feel better about …

Jeff Graves: No.

Rich Kwas: … the underlying business trends within PCB?

Jeff Graves: Yes, exactly, that's a good summary, Rich. And I would - I mentioned this at the outset, Rich. I've gone through a lot of different acquisitions, integrations, and the cultural fit, you start seeing after a year if it's working or not. And while it sounds like a soft thing, it's actually probably the most critical thing in integrating an acquisition in two cultures.

PCB and MTS are like twins, and the cultural fit's outstanding. We've got a consolidated leadership team now that's extremely growth oriented and customer focused, and I just could not be happier from that standpoint. And I think that was also a factor in the improved bookings in the third quarter. You see those guys really starting to get some traction broadly, and that should continue in Q4 and as we go into '18.

Rich Kwas: Okay. Thank you.

Jeff Graves: Thanks, Rich.

Operator: And Liam Burke from FBR Capital has our next question.

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

Jeff Graves: Good morning, Liam.

Brian Ross: Good morning, Liam.

Liam Burke: Jeff, Brian highlighted in his comments about service revenue being up 21%. Are you still - do you still have a good momentum on the order side of the service business?

Jeff Graves: Yes, frankly, orders in Q3 on the services side I was a little bit disappointed with we were - where we did about - Brian will remind you about 2% to 3% increase will be lighter than usual there, but there were some unusual factors Liam. So it's just kind of normal variation. It's kind of vacation time of the year. Some of our customers are going through some shutdowns.

I wasn't horribly surprised by that, but we'll see some variation quarter-to-quarter. But overall, our service business is doing very well, and I expect to see a nice rebound in both orders rate and continued momentum on the revenue side going forward. It's going to be a hit for us for a long, long time.

Again, it's approaching $100 million business now, and we view that as a $1 billion total market, of which a half a billion is really what we're targeting out there. So, it's just a matter of how fast we can deploy folks to go after the business.

Liam Burke: Okay. And on the materials side, is there any change to competitive environment there? It's typically a little more crowded space than automotive, test and aerospace.

Jeff Graves: Yes. It's - it was - it's a fascinating area, which is why we're splitting it out as a, say, as a separate business in the year ahead here, Liam. But, we have a tremendous history in dynamic testing, you know, fatigue testing in materials. And the missing link in that one in the last really few years has been oil and gas.

We do a really nice business in what's called rock mechanics. It's basically watching - it's building equipment to fracture rocks for supporting the fracking industries. For the first time, that business is actually picking up for the first time in a few years, which is really a nice space for us. Overall, dynamic testing for aircraft engine materials and now increasingly automotive materials, really nice business for us. What I was pleasantly surprised that was the robustness of our monotonic testing business, which are simpler testing systems in China. We do have a harsher competitive landscape in China, and we just had a very nice quarter in monotonic testing. It's - the team's focused. It's growing.

We've got - we launched some new products in the last couple years. They are really getting some nice traction in China, and it's going to be a strong focus for us. You'll hear us talk a lot more about China materials testing over the next few quarters, because it is just - it's going to be a terrific market.

And I would tell you, Liam, on the heels of it, India will be the same for us. So while the competitive dynamics are a little bit harsher, going in with a premium brand in technology really does carry some real weight there. So we're quite pleased.

Liam Burke: Great, and thank you, Jeff.

Jeff Graves: Thanks, Liam.

Operator: And moving on, we have a follow-up question from John Franzreb from Sidoti & Company.

John Franzreb: Hey, guys. Just about the restructuring charges. If I look at the guidance, it looks like you dropped it down to 13 to 14 in less quarters, 16 to 18 for the full year. Is that because you need less actions to complete the PCB integration or have you pushed some of it in 2018? Thanks.

Jeff Graves: Yes, thanks, John. No, the - actually, we're just incurring - the acquisition integration costs are starting to wind down, at least, from an external and what we're classifying as non-normal going forward business operation. So that is a big piece of the decrease of the down to $13 to $14 million.

Brian Ross: It does not reflect, John, any fewer actions. I think, we - it's just does what we originally estimated of the cost to be, and what's their current turning out to be. So, it's going well. It's on plan, and we're spending a little bit less money doing it.

John Franzreb: Okay. Thank you. That's all I got.

Brian Ross: Thanks, John.

Operator: And one final reminder it's star 1 if you have a question today. It appears there are no further questions today. Dr. Graves, I'll turn the conference back to you for additional or closing remarks.

Jeff Graves: Thank you, Kim. So thank you all for participating in the call today. We look forward to updating you on our progress again following the close of our fiscal 2017. Thank you, and have a great rest of the summer and a great day.

Operator: And this does conclude our conference today. Thank you for your participation. You may now disconnect.