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CTS Corp. (CTS)

Q3 2019 Earnings Call

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Ashish Agrawal
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Brian Colley
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John E. Franzreb
Analyst, Sidoti & Company, LLC

Hendi Susanto
Analyst, G. Research

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the CTS Corporation Third Quarter Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Kieran O'Sullivan. Please go ahead.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman of the Board, CTS Corp.

Thank you, Lauren. Good morning. Thank you for joining us today and welcome to CTS' third quarter 2019 conference call. Third quarter sales were sales were $115.7 million, down from $118.9 million in the same period last year. In the third quarter we acquired QTI Sensing Solutions for $75 million which is consistent with our stated strategy of portfolio diversification.

Gross margins were 32%, compared to 35.4% in the third quarter of 2018. Adjusted earnings per share were $0.29, compared to $0.39 in the third quarter of last year. We are taking measures designed to improve our performance which I will discuss shortly.

Total booked business increased 2% to $1.86 billion, up from $1.83 billion in the same period last year.

Ashish Agrawal, our CFO, is with me for today's call, and will take us through the Safe Harbor statement. Ashish?

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

I would like to remind our listeners that this conference call contains forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Additional information regarding these risks and uncertainties is contained in the press release issued today, and more information can be found in the company's

SEC filings. To the extent that today's discussion refers to any non-GAAP measures under Regulation G, the required explanations and reconciliations are available in the Investors section of the CTS website.

I'll now turn the discussion back over to our CEO, Kieran?

Karl Ackerman

Analyst, Cowen and Company

Thanks, Ashish. In the third quarter of 2019, our sales declined by 2.7% to $115.7 million. Excluding sales from a QTI acquisition, sales declined 5.8%. We experienced softness in our transportation market primarily driven by weaker demand in actuator products for commercial vehicles. We continue to see softness in our industrial end market as a result of reduced demand in China. Distribution demand continues to be paced by the burn-off of inventories, and we expect this to continue through the first half of 2020. Medical and defense markets performed solidly in the quarter, and we continue to see increased demand as we move forward.

We are seeing continued softness in the second half of 2019 and into 2020 especially in transportation markets where volumes were down across the regions. This was a large factor in our disappointing financial performance in the quarter.

Gross margin performance was impacted unfavorably by the onetime gross of QTI inventory and by a product replacement charge for transportation product that has been corrected. The operational challenges we highlighted in the second quarter call at our ceramics foundry also impacted our gross margins.

Personnel changes and improvement projects are progressing. The total impact was in the range of 300 basis points. We expect the work begun earlier this year to address commodity pricing pressures will delivering through this next year as we qualify and add new sources of supply.

In addition, we are implementing projects to better align our cost structure to the current market conditions and to improve margins and operating expenses in the range of $0.03 to $0.04 of EPS in the fourth quarter. The annual impact is expected to be approximately $0.08 to $0.12 at the current revenue levels.

We continue to keep a focus on our strategic priorities and our long-term growth initiatives In the quarter, we converted the European manufacturing site to the new ERP system. We have strong new business wins of $147 million. Total booked business was up 2% year-over-year at $1.86 billion.

After a reduction of $55 million to account for softer market conditions, as we reduced revenue expectations to 2020 from previously awarded contracts, we added seven new customers in the quarter with applications in the industrial, aerospace and defense, medical and telecom and IT end markets.

Three of these customers were added by our QTI acquisition. We continue to see solid bookings for our throttle-sensing module in the Asian market as we ramped up to expected volumes. In Europe, we were awarded a two-wheeler application with a premium OEM.

In aerospace and defense, we secured new contracts for sonar rays and sensors and won a contract for RF filters. We received awards for flow measurement transducers and for an ultrasonic cleaning application.

In automotive, we were awarded multiple large accelerator module contracts with Japanese and North American OEMs. We've secured an important position sensor win for a safety application in electric vehicles.

In the third quarter, we acquired QTI for $75 million in cash with an earnout of up to $5 million, predefined performance objectives are achieved by the end of this year. QTI is the leading designer and manufacturer of high-quality temperature sensors serving OEMs with mission-critical applications in industrial, aerospace and defense, and medical markets. Based in Boise, Idaho, another location in Tecate, Mexico, QTI has established itself as a leader in temperature sensing technology as evidenced by its extensive product portfolio and longstanding customer relationships.

The addition of this talented team provides CTS with a new core sensing technology, expands our sensing product portfolio and builds on our strategy to focus on innovative products that sense connected move. We expect that these high performance products will expand our industrial and medical market sales and strengthen our quality of earnings. While most of QTI sales are in the Americas once fully integrated, we expect to grow sales in Europe and Asia through our existing footprint and sales team.

We also look to improve the product capability by leveraging our expertise in ceramics. As we build out the temperature platform, we also see advanced next-generation product development opportunities for transportation customers. We do expect the acquisition to be accretive by 2020. We continue to work our M&A pipeline, our objectives. Our growth objectives have not changed which is 5% through organic growth and 5% through acquisitions. As we have demonstrated, our priority is to evolve and grow our end market scale in medical, industrial and defense and aerospace.

We will also continue to invest and advance our product portfolio light vehicles and commercial vehicle applications. End markets remain challenging in the quarter due to the headwinds in vehicle production, trade disputes impacting industrial sales, and high inventories and distribution.

As mentioned earlier, in the third quarter we experienced the softness in demand for actuator products with application in commercial vehicles. Consistent with industry expectations, we expect the softness to continue into next year.

In the second half of next year of 2020, we plan to begin shipments to the second actuator customer in the Asian market. In the third quarter, we saw a small impact from General Motors strike in we also supply General Motors outside of North America where our business has grown.

North American data sales were down 3.6% in September. On-hand days of supply was 65 days which is slightly above the five-year average. European production for the quarter was down about 1%. China production was down in the range of 7%. Commercial vehicle production is slowing and is expected to remain soft into 2020.

With the addition of QTI Sensing Solutions we expect that the percentage of transportation revenues for CTS to trend downward against total revenues. We remain cautious about market trends over the next 12 months to 15 months and are prioritizing our strategic growth opportunities, our M&A pipeline, and order intake as we move beyond these near-term challenges.

We are carefully managing operational expenses in the fourth quarter and for 2020 and taking the opportunity to objectively review where our resources are deployed for maximum impact. For full year 2019 we are revising our sales guidance to be in the range of $460 million the $470 million and adjusted earnings per share to be in the range of a $1.40 to $1.50.

Profitable growth, margin improvement, ERP implementation, and the appropriate capital deployment remain priorities for us this year. As we move forward and plan for 2025, we are focused on four areas: our growth and quality of earnings, improving frontend engagement with our customers, accelerating our operational capabilities, and building our talent pipeline.

At this time, Ashish will take us through the financial performance. Ashish?

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

Thank you, Kieran. Third quarter sales were $115.7 million, down 2.7% compared to last year. Sales of transportation customers decreased by 4.8% and sales to other end markets increased by 1%. Excluding sales from QTI, sales to other end markets decreased by 7% primarily due to continued softness in the industrial end markets.

Currency rates impacted sales unfavorably by $900,000. The QTI acquisition added $3.7 million in sales over the last two months. We are pleased with the acquisition and the addition of a great team to our company.

Our gross margin was 32% for the quarter versus 35.4% in the third quarter of 2018. The decrease in gross margins was driven primarily by a onetime purchasing accounting step-up in the value of finished goods inventory from our QTI acquisition, a product replacement charge for a transportation product that has been corrected, material cost and wage increases, and execution challenges in our ceramic foundry operations. We have seen improvement in the ceramic foundry operations and expect further improvement in the coming quarter. We achieved approximately $600,000 in savings related to manufacturing transition and are on track to achieve approximately $4.4 million in savings from the manufacturing transfers in 2019.

SG&A and R&D expenses were $24.6 million or 21.3% of sales, compared to $25 million or 21% in the third quarter last year. 2019 expenses include incremental operating expenses and intangible amortization related to the QTI acquisition. Overall, these expenses are down compared to the third quarter of last year as a result of cost controls and a reduction in short-term incentive compensation expense.

We remain focused on managing expenses as we work through challenging market conditions. As Kieran mentioned, we are implementing measures designed to improve gross margin and manage operating expenses.

On income taxes, during the quarter, we recorded a net charge of $1.8 million for uncertain tax positions. As we communicated previously, we expect our full year 2019 tax rate to be in the range of 23% to 25% excluding discrete items.

Our third quarter 2019 earnings were $0.08 per diluted share. Adjusted earnings per diluted share were $0.29, compared to $0.39 in the third quarter of last year. Included in the adjusted EPS is an unfavorable impact of $0.03 from the QTI acquisition.

Now I'll discuss the balance sheet and cash flow. Our controllable working capital as a percentage of sales was 16.8% in the third quarter. The increase was driven by the addition of working capital from the QTI acquisition. We generated $16.6 million in operating cash in the third quarter. CapEx was $5.9 million.

Year-to-date, we had spent $15.3 million in CapEx. We are carefully managing CapEx in light of the current market condition. We expect our 2019 spend to be in the range of $20 million to $25 million, down from the planned 6% to 8% for the year.

Cash was $101.2 million at September 30, 201, compared to $100.9 million at the end of 2018. Our long-term debt balance was $112.7 million at the end of September, up from last quarter due to the activation. Our debt-to-capitalization ratio was at 22.2%, compared to 11.7% at the end of 2018.

During the third quarter, we repurchased 107,000 shares of our stock for $3 million. Year-to-date, we have purchased 287,000 shares of CTS stocks. We have $17.5 million remaining under our current repurchase plan.

We are continuing our SAP implementation and went live at an additional site in Europe. We now have seven manufacturing locations and two shared service locations live on SAP. Our expectation is to complete the rollout to our remaining sites during 2020, and we will keep you informed of our progress. This concludes our prepared comments, and we'd like to open the line for questions at this time.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Brian Colley with Stephens.

Brian Colley
Analyst, Stephens, Inc.
Q

Hey, guys, good morning.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

Good morning, Brian.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.
A

Good morning, Brian.

Brian Colley
Analyst, Stephens, Inc.
Q

So my first question was just on the guidance. I was wondering if you guys could just talk about how much you expect QTI to impact to top line and EPS in the fourth quarter. Just to give a sense for the organic change in your outlook. And also just what the biggest drivers were just the reduction to the outlook from organic perspective. It sounds like it's transportation but just some more color.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

Yeah. So if you look at QTI, you'll see that the revenue was $3.7 million for two months so you can expect that to continue at that run rate. And we'd like the business it's very healthy and then where it complement the end markets where we're trying to diversify. On the challenging side of it, because we've had a tough quarter, it was mainly driven by transportation and you can see and we called out on the commercial vehicle side of it the actuators were down high-single digits which was more than we hadn't seen at all this year.

Brian Colley
Analyst, Stephens, Inc.

Q

Okay. Got it. And then looking at next year, could you just maybe give us a sense for the impact you expect from QTI from a top line perspective? I guess kind of assume...

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

I think if you just take the run rate ...

Brian Colley
Analyst, Stephens, Inc.

Q

...more a run rate ...

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah, take the run rate this year, you get a kind of an annual rate and we would provide full guidance in our next earnings call.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

And, Brian, Kieran already mentioned that we are expecting a small amount of the accretion from the acquisition in 2020.

Brian Colley
Analyst, Stephens, Inc.

Q

Right. I mean, since the magnitude, I mean, modest accretion or something low-, mid-single digits?

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

It will be modest, a few cents.

Brian Colley
Analyst, Stephens, Inc.

Q

Okay. Got it. And then lastly, just based on current end market conditions, just wanted to understand, in transportation, do you think organic growth can still be positive next year or should we be thinking something closer to flattish to down?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah, we'll give you good guidance on next year in our next earnings call. What we are saying though is two things. Number one, the commercial vehicle, the actuator product line has a strong headwinds this quarter. We think that'll continue. When we look at the rest of the transportation portfolio, it still outperforms the market as we said it will.

Brian Colley
Analyst, Stephens, Inc.
Q

Okay. So from a transportation perspective, are you saying the similar revenue decline run rate kind of looking forward to the near to medium term would be a good assumption there?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

Yeah, Brian, when you look at our fourth quarter guidance by implication, we are continuing to see market pressures in that space. And just at a very high-level we are continuing to expect that to continue in the early parts of 2020. And so, yes, that will impact us in 2020 as well.

Brian Colley
Analyst, Stephens, Inc.
Q

Okay. Got it. I appreciate the time...

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

Brian, I just want to bring up one another point. You saw on our total booked business that we made an adjustment of $55 million and still with the strong new business performance we still grew 2%. And just to give you a bit of color around that I'm sure there are other questions on the phone in relation to that too. What we do is we get multi-year contracts. So if we have a customer and we're seeing an softness in the sales this year and you've got a two-year contract, we'd take a realistic look at the volumes and make that correction. So we're pretty conservative in terms of how we manage our backlog.

Brian Colley
Analyst, Stephens, Inc.
Q

Got it. That's helpful. I appreciate the time to that.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

You're welcome, Brian. Thank you.

Operator: Our next question comes from Karl Ackerman with Cowen and Company.

Karl Ackerman
Analyst, Cowen and Company
Q

Hey. Good morning, gentlemen. I wanted to go back to your outlook for a moment. If we [indiscernible] (19:18) about the contribution of QTI, it would appear our core growth is around 455 this year and lower than the outlook you offered at the beginning of the year. But I can understand the headwind you face in automotive and perhaps or to a lesser extent distribution, but are you seeing increased cancellations as you referenced in your total book-to-business that is compelling you to have a more cautious outlook or are there other factors we should consider in the back half of calendar 2019?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.
A

I think, Karl, you've covered the transportation. You've got a sense of where we are with QTI. Distribution, as you know, is a smaller percent of our business, and that's dependent on the burn off of inventory. Probably the other challenging piece we've had is we've got one or two customers, one in particular, where we've – had good revenue with that they've been impacted by the China trade into casings and lost some volume there. We would expect that to improve next year but not getting back to full levels, just to give you some color around that.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

Karl, more than, I mean, cancellations, not really, it's more the reduction in market expectation that's driving the impact on our revenue.

Karl Ackerman
Analyst, Cowen and Company

Q

That's helpful. Thanks. Your implied December quarter guide, a little over $110 million and $0.37. The midpoint would seem to suggest a healthy uptick in gross margins or strong reduction in OpEx. But it sounds like in your prepared comments pro forma gross margins for Q3 were closer to 35%. That appeared to not be explicitly excluded from non-GAAP gross margins, some of the inventory step-up. So maybe we shouldn't expect much of a mix shift change in Q4. Regarding the OpEx improvement initiatives you outlined in your prepared comments, is that related more toward head count or is that more a mix between facility and head count? How do I think about the contributions of OpEx initiatives you're doing in Q4, and how to think about them going forward?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. So we did start out with the gross margin and particularly the onetime impacts out. I would tell you then, that's a good news. The other piece is the improvements we're seeing in the foundry are moving along and we have more work to do there. And then as we move forward, what was the second part of the question?

Karl Ackerman
Analyst, Cowen and Company

Q

The gross margin – the actions that we are taking.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. The actions we're taking, Karl, they're pretty standard in terms of how we run our business. We are careful on our OpEx expense. We may have open headcounts we're not filling, but we are still driving our strategic growth plans. We're just diligent about things on the variable comps when we get softness as well. We really hone in on that variable part of the cost structure and then prioritize where our fixed costs are and head count.

Karl Ackerman
Analyst, Cowen and Company

Q

Thank you. I'll cede the floor.

Operator: We'll take our next question from John Franzreb with Sidoti & Company.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Good morning, guys.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. Hi, John.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

So just frame the commercial vehicle side of the business, how much of that was of revenue in 2018 and how much do you expect that to be at the end of 2019?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

And, John, probably the best if you just look at our filings in there, we talk about the percentage of each of our customers and that will give a good indication of where our commercial vehicle revenues are. It's a little bit of down almost high-single digits in the quarter. I'm just trying to get a good handle on where it's going for the first half of next year. If you look at the traffic trucks, you can see from the market conditions out there, there's a decline and there's a buildup of inventory. On the mid-range where we have more of our volume, that's something we're kind of trying to get a better picture on, it's been a little bit more stable.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

I'm hearing that the Class 8 truck downturns typically last on average 1.5 years. Is that the kind of expectation you're thinking or do you think you have market share penetration that kind of offsets the kind of a downturn?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Well, John, we definitely will have softness that we're managing through in the first half of next year as we said in the prepared remarks; and on the other side of it, we've also said we're adding a second customer in the second half of next year.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Okay. All right. Just wondering a little bit about the – I didn't probably catch this right, Kieran, when you talked about the $0.03 to $0.04 in EPS improvement being 12% on an annualized basis, can you just revisit those remarks and clarify what you're talking about there?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Well, I'll start off and I'll let Ashish add some color as well. So in the fourth quarter we said we'd be taking actions to improve margins and operation expenses to improve by $0.03 to $0.04 of EPS. And next year, at a similar sales run rate, that would be $0.08 to $0.12. So as we said earlier, we're prioritizing our variable costs and addressing it because the volume has changed. We're prioritizing our fixed cost and our headcounts where we see the most opportunities to give us some color around that. Ashish?

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

Yeah, John, the run rate that you're thinking of, some costs will be contained in the longer term, some will be shorter term in nature, so that's where the $0.03 to $0.04 doesn't translate exactly on an annual basis, but we'll continue monitoring the market conditions; and just our cost base to reflect the environment that we are operating in.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Okay. So, just so I understand that these are new actions and don't relate to any expectation of improvements in the gross margin from the absence of the step-up to QTI; and I guess, the product replacement thing that you just answered in addition to not including those in guidance.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

Yeah that is correct, John. We are adjusting our operating expenses as well as, as Kieran mentioned variable and fixed costs on the production side to reflect the current market condition.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Got it. I understood, thank you sir that helps a lot. And I guess lastly on the ceramics foundry, I'm just curious what the timeline is to getting that on fully operational – operations up to your expectations?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. We would – John, we made progress in the last quarter and we will continue to make progress into the fourth quarter. And I think we'll see things normalize in the first half of next year.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Perfect, got it. I guess one last question, on that $55 million reduction to the backlog, I thought the backlog extended beyond two years, Kieran, so I'm kind of trying to reconcile the $1.86 billion and the $55 million reduction and how that was – what's the timeline of that expectation of the revenue reduction can kind of walk me through how we should be thinking about that?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah, no, good question, John, because we do not see any significant impact beyond 2020 in the backlog and when we look at it some contracts that we have are two years. So if we're seeing softness this year we're adapting it for next year as part of that $55 million and the same will go – some of that is in ceramics, some of that is in transportation. So we've got a very clear picture on how we adjust with that.

John E. Franzreb
Analyst, Sidoti & Company, LLC

Q

Got it. All right. Thanks, guys, I'll get back into queue.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Okay, John.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

Thank you.

Operator: [Operator Instructions] Our next question comes from Hendi Susanto with G. Research.

Hendi Susanto
Analyst, G. Research

Q

Good morning, Kieran and Ashish. Would you walk us through again on how things deteriorate, in particular its linearity in Q3 and would you clarify how long this weaknesses will last when we see like different markets. I think you mentioned that the weaknesses may last through 2020, but if you can give like more colors on different markets, I think that will be helpful.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. The main deterioration, Hendi, was in the actuator product line, commercial vehicles. It was high-single digits. We expect that to continue through the first half of next year. Beyond that, we won't have the kind of a clean line of sight at this stage. So that's where it was. And then on the other side of things, we've got a good acquisition here that's got nice growth potential as we expanded outside of North America into Europe and Asia. And on the ceramic side of things, we've had one or two customers that have had a tough year here because of tariffs and we think they're going to start to pick up as we move into the second quarter next year. We should see improvements there.

Hendi Susanto
Analyst, G. Research

Q

Got it. And then you also mentioned inventory burn-off at distribution. I would assume that inventory burn-off started long before Q3. So I will appreciate any additional insight and whether there's any indication how much longer inventory burn-off can continue. How will that inventory burn-off at industrial markets, but I'm not sure whether that's the only one. So can you share any colors there?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Yeah. Just for the distribution side of it, we have seen a gradual decline in inventories. It usually takes some work from the peak of inventory to three quarters to four quarters. We think that's going to be somewhere between the end of first quarter, second quarter next year where we get back to normal levels.

Hendi Susanto
Analyst, G. Research

Q

Okay. Okay. And then for QTI, is it reasonable to assume that because of the trade tensions, the potential growth may be somewhat delayed?

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

We haven't seen any significant trade implications there. It's a very solid business, very good quality of earnings, nice growth, and we look at it as a platform where we can build out once we've through integration expanded our existing sales teams and product teams in Europe and Asia, and actually expand into other end markets as well. We really like the technology. We can leverage our ceramics capability to improve the performance as well. And it's a platform we will continue to build out.

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

And, Hendi, Kieran talked about three new customers that that business has added in the last quarter, so they're continuing to do a good job in terms of driving within their own business. And we'll be looking to leverage that as we move forward.

Hendi Susanto
Analyst, G. Research

Q

Okay. And, Ashish, with regards to the cost measures, you talk about $0.03 to $0.04 on a quarterly basis. In terms of when the cost saving will take place, should we assume some lag [indiscernible] (30:54) one to two quarters?

Ashish Agrawal
Vice President & Chief Financial Officer, CTS Corp.

A

So, Hendi, the $0.03 to $0.04 improvement is intended for the fourth quarter, and these actions will help us improve margins and operating expenses into 2020 as well and that's where we were seeing the annualized impact is expected to be in the range of $0.08 to $0.12.

Hendi Susanto
Analyst, G. Research

Q

Got it. Okay. Thank you, Ashish. Thank you, Kieran.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

A

Please end the Q&A.

Operator: And it appears there are no further questions at this time. I'd like to turn the conference back to Mr. O'Sullivan for any additional or closing remarks.

Kieran M. O'Sullivan
President, Chief Executive Officer & Chairman of the Board, CTS Corp.

Thank you, all, for your participation on today's call. So we've had a tough quarter. It's time to get back to work here and make the progress we need to make that we outlined in our call, and we look forward to updating you in the first quarter of next year. Thank you.

Operator: And that does conclude today's conference. We thank you for your participation. You may now disconnect.