

CTS Corporation NYSE:CTS

Q2 2021 Earnings Call Transcript

Tuesday, July 27, 2021 10:00 AM EST

Call Participants

Ashish Agrawal

Chief Financial Officer and Vice President

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

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Presentation

Operator

Good day and welcome to the CTS Corporation second quarter 2021 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 O'Sullivan

Chairman, Chief Executive Officer and President

Thank you, Tracy. Good morning, thank you for joining us today and welcome to CTS' second quarter 2021 conference call.

- Sales in the second quarter were \$129.6M, up 54% compared to the same period in 2020.
- Customer demand remains robust, while supply challenges persist, especially for automotive products.
- Second quarter gross margin was 36.8% up 525 basis points from 31.6% in the second quarter of 2020. Though improved, gross margin performance continues to be impacted by semiconductor and commodity price increases as well as increased logistics costs.
- EBITDA margin of 21.5% was up 480 basis points from 16.7% in the same period last year.

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- Second quarter adjusted earnings per share of \$0.52 were up 225% from \$0.16 in the second quarter of 2020. Later, Ashish will add color to the GAAP performance, including a non-cash charge related to the U.S. pension plan termination.
- Operating cash flow of \$19M was up from \$12M in the second quarter of 2020.
- New business awards of \$174M were solid and up from \$105M 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
Chief Financial Officer and Vice President

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 will now turn the discussion back over to our CEO, Kieran O'Sullivan.

Kieran O'Sullivan
Chairman, Chief Executive Officer and President

Thanks, Ashish. In the second quarter our sales were \$129.6M, up 54% from the second quarter of 2020. Excluding sales from the acquisition of Sensor Scientific, sales were up 52% organically. The SSI acquisition continues to deliver solid growth. As I referenced in our last earnings call, we expected the transportation sales run-rate to be slightly lower than our first quarter 2021 performance due to ongoing supply challenges. Our teams worked creatively and diligently to secure parts, approve substitutions, and adapt with speed to support our customers. Transportation sales, while up 88% from the same period last year, would have been stronger by a few million dollars if we did not have these supply challenges. We expect the supply challenges and some customer shutdowns to persist in the second half.

New business awards were \$174M for the quarter up from \$105M in the same period last year. We added 3 new customers in the quarter, 2 in transportation and 1 in telecom.

In Asia, we added a new transportation customer in China for a large platform that will ship in the 2023 timeframe. Across accelerator modules, we had wins with two existing customers in China, secured awards with two Japanese OEM's for the North American market and added a new electric vehicle customer in Europe. With passive safety sensors, we had wins with existing tier one customers across all three regions with one of the wins for an EV application. In Europe and North America, we had wins for throttle position and transmission position sensing. Bookings and sales for two-wheeler applications were strong in Asia.

We continue to advance our diversification strategy by growing in non-transportation end markets. In defense, we had several under sea-sonar wins and we also maintained good momentum with RF filter products for GPS anti-jamming applications. Temperature sensor wins were solid in defense and we had an important win for an aviation application in Europe.

In Industrial, we continue to see strong demand for temperature products across pool and spa as well as HVAC applications. We also had a large win in industrial printing, securing a two-year contract where the market has expanded into new applications such as garment printing.

Momentum in medical markets was positive, but with inconsistencies regionally due to countries emerging from lockdowns and some customers being impacted by material shortages. We had various temperature application wins, and additional wins in CPAP, medical ultrasound, and intravenous drug delivery. For medical ultrasound, our design wins are increasing through new programs with existing customers and several new customers sampling our solutions. We received two transportation OEM quality awards and were also recognized for delivery performance by an industrial OEM and a large distributor.

Overall, across all end markets, demand remains robust. Some automotive customers have confirmed demand through 2022. Order intake for electronic components was strong in the second quarter. Although we have not seen signs so far, we remain cautious of potential inventory build-up in various end markets.

This past quarter we announced a \$50M stock buyback program. As we look to capital deployment, our emphasis remains firmly on supporting organic growth investments and using our strong balance sheet to advance on M&A in alignment with our strategic priorities. We continue to strengthen our M&A pipeline. Potential changes in capital gains taxation may also provide some further momentum in our areas of interest. We continue to seek to expand our range of technologies, products, customers, and geographic reach and, at the same time, continue to diversify our end-market profile to complement our quality of earnings. For the second quarter, transportation sales represented 55% of our total company revenues as we made progress in industrial, medical and defense sales.

Operationally, we can see the end of our journey in the roll out of the SAP system, though we will continue to optimize our learnings and capabilities. The previously announced restructuring savings of 22 to 26 cents by the second half of 2022 are tracking close to the target range. Building the CTS operating system capability continues with 4 sites advancing their proficiency on the system and tools as we aim to empower our teams and strengthen operational and enterprise expertise.

Transitioning to end markets, the semiconductor shortage is expected to reduce vehicle builds by 6 million units this year. The supply of global microcontrollers is improving from companies such as Renesas and NXP, which should deliver some improvements to vehicle OEM's. For the US light vehicle transportation market, demand remains robust. We still expect approximately a 15-16 million-unit range this year, up double digits year-over-year. On hand days of supply are between 25 and 30 days, the lowest in recent history, and down 50% since January of this year. European production is forecasted in the 16 to 18 million-unit range, with some uncertainty persisting due to the extended COVID lockdowns. The Chinese market has fluctuated recently, showing the first chip related impact. China volumes are expected in the 23 to 25 million-unit range for this year. The commercial vehicle market remains strong not only for this year but likely into the first half of 2022. The biggest challenge is the supply of semiconductors as demand remains robust. As I mentioned earlier, for transportation the supply challenges will continue to impact our sales in the second half of this year. However, we see improvements in the medical end market as well as solid growth in industrial and defense markets.

In terms of guidance for full year 2021, we are updating our range. Our previous guidance was for sales in the range of \$445M to \$500M, and adjusted earnings in the range of \$1.35 to \$1.70. We are now updating our guidance for sales to be in the range of \$480M to \$500M,

and adjusted earnings are expected to be in the range of \$1.70 to \$1.90. Further updates will be provided as we continue to monitor the ongoing supply challenges.

Phase two of our journey and our biggest priority as we advance towards our 2025 goals is layering on a more robust sales growth profile. Our teams are making progress as we continue to focus on existing accounts and add resources and capabilities to further support business development.

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

Ashish Agrawal

Chief Financial Officer and Vice President

Thank you, Kieran...

Second quarter sales were 129.6 million dollars, up 54% compared to the second quarter of 2020 and up 1% sequentially from the first quarter. Sales to transportation customers bounced back 88% compared to the pandemic driven lows in the second quarter of 2020. However, we were down 6% sequentially as we saw the impact of supply challenges on global production volumes. Sales to other end-markets increased 26% year-over-year and were up 10% sequentially. We had another quarter of solid year-over-year double-digit growth in the industrial as well as aerospace and defense end-markets. Sales to the transportation end market represented 55% of our total revenue. This reflects progress towards our strategic goal to further diversify our business by growth in the industrial, medical as well as aerospace and defense end-markets. Our two temperature sensing acquisitions have performed well and had strong top line growth in the second quarter. Changes in foreign exchange rates impacted our revenue favorably by approximately 2.7 million dollars.

Our gross margin was 36.8% in the second quarter, up 525 bps compared to the second quarter of 2020 and up 360 bps sequentially from the first quarter of 2021. These improvements reflect the progress in operational efficiency in our foundry operations over the last twelve months as well as improvements in other parts of our business. We also benefited from a larger portion of our revenue coming from the industrial, medical, and aerospace and defense end-markets. Raw material price increases as well as freight costs continue to impact us unfavorably, and we are working closely with our customer base to offset or share these cost increases.

In the last quarter, we generated 3 cents of EPS in savings from our restructuring program announced in the third quarter of 2020, bringing the total savings to 12 cents of EPS so far. As we mentioned back in April, the timing of some of our projects is being impacted due to the ongoing impact of Covid-19 on travel as well as an increase in demand. We are still on track to achieve the targeted annualized savings of 22 to 26 cents by the end of 2022.

SG&A and R&D expenses were 27 million dollars or 21% of sales for the second quarter. Operating expenses increased primarily as a result of reinstating cost cuts made during the pandemic to offset the impact of revenue declines, and higher incentive compensation expenses.

In the second quarter, we recorded a non-cash charge of 20.1 million dollars related to the termination of the U.S. pension plan. We are expecting the remaining non-cash charge of approximately 101 million dollars to be booked in the third quarter when we complete the settlement process. As a reminder, these are non-cash charges, and the U.S. pension plan is expected to be over-funded at settlement.

Second quarter tax rate was 246% as a result of the impact of the pension settlement charge on our income statement. We anticipate our 2021 tax rate to be in the range of 19-21% excluding the impact of the pension settlement and other discrete items. We are carefully watching the new tax proposals and initiatives of the Biden administration and will discuss the impact on our business in the coming months as we get more clarity.

Second quarter 2021 earnings were 3 cents per diluted share. Adjusted earnings per diluted share were 52 cents, compared to 16 cents for the same period last year and 46 cents last quarter.

Now I'll discuss the balance sheet and cash flow...

Our controllable working capital is essentially flat from the end of 2020. While we remain focused on working capital efficiency, we anticipate carrying some excess inventory where possible to manage supply chain concerns over the next few quarters.

Our operating cash flow was 19 million dollars for the second quarter, which is an improvement from 12 million dollars in the second quarter of 2020. We generated 16 million dollars in free cash flow. Capex was low in the first half, primarily due to the timing of various projects. In 2021, we expect capex to be in the range of 4 to 4.5% of sales.

Our cash balance on June 30, 2021 was 117 million dollars, up from 92 million dollars on December 31, 2020. Our long-term debt balance was 50 million dollars, down from 55 million dollars on December 31, 2020. Our debt to capitalization ratio was at 9.9% at the end of the second quarter compared to 11.4% at the end of 2020. The combination of a strong balance sheet with a net cash position, and access to approximately 250 million dollars through our credit facility, gives us the liquidity to make progress on the right M&A transactions.

In early July, we successfully went live on SAP at Boise, Idaho and Tecate, Mexico. These are locations from our first temperature acquisition. As we have previously mentioned, more than 90% of our revenue now comes from sites that are running on SAP. We expect to complete the rollout to the remaining sites in early 2022.

Before we wrap up, as Kieran mentioned earlier, we see a sustained demand environment in the second half of 2021. However, supply chain challenges are expected to persist, for us and our customers, on both material availability and cost, through the rest of the year. Our current expectation is that Q3 could be the most challenging, with some improvements in the fourth quarter.

This concludes our prepared comments. We would like to open the line for questions at this time.

Question and Answer

Operator

Thank you, sir. If you would 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 your equipment. A voice prompt on the phone line will indicate your line is open. Please state your name and company before posing your question. Again, press "star" "1" to ask a question. We will now take our first question. Please go ahead, caller. Your line is open.

Justin Long

Stephens Inc., Research Division

Thanks, and good morning. So maybe to ...

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

((Inaudible)).

Justin Long

Stephens Inc., Research Division

Good morning. Maybe I'll start with one on the guidance. So if I look at the midpoint of the updated revenue guidance, it was up about 4%. The midpoint of the EPS guidance was up 18%. Can you just help us understand how your assumptions have changed from a margin perspective, along with any tailwinds below the line that can just help us bridge that gap between the revenue upside and the EPS upside?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Yes, I'll start with the revenue side of it, and Ashish can address the margin. If you look at it, you can see that we're being a little cautious in the second half of the year. The supply situation has been very challenging. We did - the team did a great job here in the second quarter where we faced an uphill battle on many parts, and we made a lot of progress. And to give you a sense of that, I'm on escalation calls on a regular basis here with our suppliers.

If you take the second half of the year, we're probably looking at a \$10 million to \$15 million risk per quarter in the revenue side of it. Now I will tell you, we are doing everything possible to get parts. And if you talked to us earlier in Q2, we would have been in a tougher situation, and we met a lot of progress, but it's still pretty challenging out there. And what we're seeing from some of the OEM customers extending some shutdowns in certain areas as well, along with the summer month shutdowns. So that's on the top-line. Ashish?

Ashish Agrawal

Chief Financial Officer and Vice President

On the profit side, you'll see that the gross margin and the EBITDA performance in the second quarter was considerably stronger than the first quarter. We are gaining more confidence in the operating efficiency in our operations. And we have been working hard on that for the last 12-plus months as we have updated you guys every quarter. So that is built into it.

We are actually being cautious, as Kieran mentioned, on the revenue. So, the same level of profitability may not continue in the second half, just as the volumes come down. And we still have the pressure from commodity pricing, freight costs, although some of it, as we've talked about, we are passing on to our customers. And so, it's a mix of all that, that is giving us a little bit more confidence on the earnings for the second half.

Justin Long

Stephens Inc., Research Division

Okay. That's helpful. And Kieran, following up on what you said about the \$10 million to \$15 million revenue risk in the second half. Is most of that in the transportation segment? Or is a

component of that within the non-transportation end markets. Maybe you could just give us a rough split on that?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Yes, Justin, absolutely. Nearly all of it's in the transportation segment. The other areas of the business had some small challenges, but we overcame those. It's really the transportation side.

Justin Long

Stephens Inc., Research Division

Okay. And then, Ashish, maybe a quick one for you on the share repurchase authorization. Anything on the timing of executing on this plan that you could share? And maybe you could clarify if this is baked into the updated 2021 guidance as well.

Ashish Agrawal

Chief Financial Officer and Vice President

So, the one thing that I'd like to point out that Kieran mentioned, our biggest priority in capital deployment is on organic and the right inorganic activities.

The share buyback program was authorized by the board in the second quarter. The primary purpose is not to significantly reduce the shares outstanding. It's more from an opportunistic as well as a maintenance sort of buyback. So, we'll periodically do stuff, but I don't think it will have a massive impact on our earnings per share in the second half.

Justin Long

Stephens Inc., Research Division

Okay, that's very helpful. Congrats on the quarter. Thanks for the time.

Operator

We will now take our next question. Please say your name and company before posing your questions.

John Franzreb

Sidoti & Company

Hi. It's John Franzreb from Sidoti. Good morning, Kieran, Ashish.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Morning, John.

Ashish Agrawal

Chief Financial Officer and Vice President

Hi, John.

John Franzreb
Sidoti & Company

I guess I want to start with some of the input costs that you expect in the second half. Is there any meaningfully different costs than you expect in the second half from the first half? Or are you dealing with the exact same issues?

Ashish Agrawal
Chief Financial Officer and Vice President

John, the issues are the same. The magnitude has actually increased. We saw inflation. We talked about roughly \$1.6 million impact. And that number has gone up slightly and freight costs also continue to impact us unfavorably. And as we discussed earlier in the year, we are actively working with our customers to pass on some of those cost increases, and we are getting traction in many cases, some more than others, obviously. But we are working closely to balance that out to the extent possible.

John Franzreb
Sidoti & Company

Okay, and ...

Ashish Agrawal
Chief Financial Officer and Vice President

Our indication, John, is that the cost increases will continue impacting us in the second half.

John Franzreb
Sidoti & Company

Okay. So - and recovering these costs, are these the price increases or surcharges?

Ashish Agrawal
Chief Financial Officer and Vice President

We've gone with price increases in most of the cases, John. We are also evaluating where it makes sense to do surcharges. Freight costs would be a good example of that. But in our case, it's mostly through price increases at the moment.

Kieran O'Sullivan
Chairman, Chief Executive Officer and President

And John, just to add to that, I mean, the main challenges across the supply base are on semiconductors and also on resins, and then there's some other areas, too. So those two really stand out and has been the biggest challenge.

John Franzreb
Sidoti & Company

Rising steel costs, a big supply issue? There was a doubt that that was only a Texas issue and that's kind of gone away for the most part, no?

Ashish Agrawal

Chief Financial Officer and Vice President

Yes. I understand the Texas piece, but there's other components or materials to go into it like some glass substrates and other things. And I would tell you, the inflation there is not just double digit. It's high.

John Franzreb

Sidoti & Company

Okay. And Kieran, you actually said something in your prepared comments, you - concerns about inventory buildup. Where are your concerns? What market are you seeing that in?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Yes, John, just to be clear, my comment was we are not seeing signs so far of any inventory buildup, but we remain a bit cautious. We're watching that, checking that, but we haven't seen any yet.

John Franzreb

Sidoti & Company

Okay. Okay. My misunderstanding. All right. And you have automotive customer confirmations through 2022, and it sound like class commercial vehicle construction through the first half of 2022, at least as far as visibility. How is that different than in prior years?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Normally, we would - while we have long-term contracts, the POS would extend for a few months as we go forward on the transportation side. So, some of our customers there have come and said, hey, we want to book out through the first half or the end of 2022 in transportation and in some other areas as well, John. So, it's a much longer - it's a firm commitment on the parts.

Ashish Agrawal

Chief Financial Officer and Vice President

And John, that does not apply to all customers. And there's a few customers that have done that more to ensure that we can provide more clarity on the supply chain continuity there.

John Franzreb

Sidoti & Company

And does that encompass the price increases that you're talking about? Is that kind of factored into those longer-term agreements?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

It's a mix, John. Some of the pricing terms are for this year. Next year is kind of probably going to get reevaluated as well.

John Franzreb
Sidoti & Company

Okay. And one last question, I'll get back into queue. You talked about the higher SG&A as other deferred costs come back. Is there anything else in that \$20.7 million number? That's kind of how I backed it out in the quarter? Or is that a good go-forward kind of a run rate for the balance, not only this year but through 2022? Or will there be changes from other restructuring items?

Ashish Agrawal
Chief Financial Officer and Vice President

John, we normally don't guide at that level, but the 20.7% should be a reasonably good representation of where our cost base is right now. And as we go forward, we'll give more updates on that as we generally don't guide on the SG&A, but we'll obviously talk about it as we publish our actual results.

John Franzreb
Sidoti & Company

Okay. But, I'll re-phrase the question, are there any other restructuring actions that have yet to happen that are going to lower the SG&A number going forward?

Ashish Agrawal
Chief Financial Officer and Vice President

The restructuring costs that we are working on - or the savings, are more associated at this point with the gross margin side. There will be some impact on overall operating expenses as well, but the larger portion of the remaining will come out from the gross margin numbers.

John Franzreb
Sidoti & Company

Great. Thank you, Ashish and Kieran. Thanks for taking my questions.

Kieran O'Sullivan
Chairman, Chief Executive Officer and President

Thanks, John.

Operator
We will now take our next question. Please state your name and company before posing your questions.

Eddy Orabi
Cowen and Company, LLC, Research Division

Hey. Hello, guys. Hey. Hello, guys. This is Eddy for Karl Ackerman from Cowen. Congrats on the quarter and - so last quarter, you indicated 18% of order backlog was tied to electric vehicles. While you have previously said, you are agnostic between electric vehicles and gas powered. Would you A very strenuous but helping generally no boxer

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

So just on the EV side of it, for pure transportation awards, it's - the automotive market is tough. It's always been difficult. And you got to win it and you've got to be reducing costs and good quality. So, I wouldn't say a huge difference at all.

Eddy Orabi

Cowen and Company, LLC, Research Division

Okay. All right. And you talked about commercial vehicle builds staying strong into the first half of next year. Maybe just discuss what assumptions you have for commercial vehicles and light vehicles unit growth for Q3? Any color would be helpful.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Just - I'll probably take the part of your question for next year. Obviously, we read some industry reports out there on the forecast and where the volumes are at. The biggest headwind there is just component supply. But where we're going from that is just what we're hearing from our customers and what we can secure in parts in terms of supporting that as well.

Eddy Orabi

Cowen and Company, LLC, Research Division

Thank you.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

You're welcome, Eddy.

Operator

As a reminder, to ask a telephone question, please signal by pressing "star" "1." We will now take our next question. Please state your name and company before posing. Please go ahead.

Hendi Susanto

Gabelli Funds

Hendi Susanto, Gabelli Funds. Good morning, Ashish. Good morning, Kieran.

Ashish Agrawal

Chief Financial Officer and Vice President

Morning, Hendi.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Hi, Hendi.

Hendi Susanto

Gabelli Funds

Kieran, I'm wondering whether you are - whether you can give us some insight on customer behaviors. At some point, given the supply shortage, the customer will start building up their inventory of components. I mean this applies to your customers as well. So, what kind of track or path are we expecting going forward? Like, okay, currently, there's a supply chain shortage and then at some point, customer will build like perhaps like higher inventory of components, which include some of your products as well. So, what is your expectation in that area?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Yes, Hendi, it's - as we said in the earlier comments, we're cautious about the inventory buildup, but we haven't seen any, certainly on the component side of it. On the transportation side of it, actually, inventory levels are way down. They're down at historical lows at 25 to 30 days on hand days of supply in North America when that should be up in the 65-day range.

Basically, at the moment, it's just get every part you can to build the vehicles. So, we're not seeing any inventory buildup. And looking at the forecast out there, there were some people saying, if we didn't have supplies, we could be getting back to, I don't know, 16 million, 17 million SAAR, I don't think we're going to fly back to a 17 million SAAR in the next year or two, but staying more robust around 16 million seems somewhat possible.

And, again, on the other end markets and through distribution, we are not seeing an inventory buildup. And believe me, we're keeping a very cautious eye on that.

The that is on escalation meetings with our suppliers, they're checking as well, making sure that people are not over-ordering because you can imagine they've got other customers who can take the parts as well. And so, it's really a pretty robust demand environment. It's just this whole supply chain. And we see it getting better in the fourth quarter and into next year, but it's just challenging at the moment.

Hendi Susanto

Gabelli Funds

I see. So, Kieran, so let's say, if supplies shortage like (persists) for several quarters, I'm wondering whether (accelerated) inventory buildup may happen later. And then, therefore, inventory buildup may not be in the second half of 2021.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Yes. And, we're not seeing any signs of inventory buildup in the second half of 2021. And it's probably a little too soon to comment with great detail on 2022, but all the signs we're seeing are just securing supply for more sustained demand.

Hendi Susanto

Gabelli Funds

I see. Yes. Okay. And then second question is for Ashish. So, Ashish, I think my understanding about gross margin is directionally, for the second half, we will still see some headwinds, but

there's also some improvement. And then I think can we look at your long-term target range as our base case scenario or the restructuring may take gross margin a little bit above the high end of the gross margin target range?

Ashish Agrawal

Chief Financial Officer and Vice President

So Hendi, I think you're right on in terms of restructuring, we would expect further improvements. Some of the headwinds that we did talk about, volume is probably the biggest one that we are anticipating in the second half. And you can see the magnitude of that based on our guidance that we've provided. And the material cost increases that we just mentioned, they've gotten slightly worse compared to the first half. So, there will be some added pressure there.

And the other thing that does have an impact on our cost structure is the foreign exchange rates. Most of our manufacturing is done outside the U.S. and that can also have an impact on the gross margin percentage from time to time.

Operator

We will now take our next question. Please go ahead.

John Franzreb

Sidoti & Company

Hi, guys. Just a quick follow-up. Ashish, I think you said you've realized 12 cents of savings. And maybe I didn't hear you properly in the first half of the year from restructuring actions. Is that - did I hear that properly?

Ashish Agrawal

Chief Financial Officer and Vice President

12 cents from the launch of the restructuring program, John. So, I believe the number was 3 cents in the first quarter, 3 cents in this quarter. And we had said (5 cents) in the second half of last year, and there's some rounding in there. So, it's 12 cents program to date.

John Franzreb

Sidoti & Company

Okay. So that's an annualized number, 3 cents in the first quarter, 3 cents in the second, you're running at an annualized 12 cents. Is it - am I understanding that properly?

Ashish Agrawal

Chief Financial Officer and Vice President

It would be 12 cents in the last 12 months, and we are looking for more savings as we go forward.

John Franzreb

Sidoti & Company

Okay. Okay. Okay. I was just confused on that one. Okay. And just on the revenue that expectations to go down, can we just work through that one more time? Why is that the case?

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Supply chain challenges, John, particularly in transportation. That's where the real issue is and getting semiconductors is the real crunch point at the moment. And then the other side of that is some of the customers are doing extended shutdowns as well or shutting down because there's other semiconductors that they can't get like microcontrollers.

Ashish Agrawal

Chief Financial Officer and Vice President

Sorry, John, I was going to say Kieran's comments earlier on the call. We were able to pretty reasonably manage the second quarter, and we did better than we expected to be able to do because of the supply chain challenges. We are expecting things to be much tougher in Q3.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

And John, obviously, we'll be doing everything we can to support our customers and minimize that as much as possible, but that challenge and risk exists at the moment.

John Franzreb

Sidoti & Company

Well, I guess I'm just curious because we had a fair amount of high-profile shutdowns in the first half of the year. So, are you suggesting you expect more shutdowns in the second half of the year than the first half?

Ashish Agrawal

Chief Financial Officer and Vice President

Yes, at least the same or a little - sorry, a little more is what we're reading, John. When I look at the whole forecast, we see about 6 million of shortage on vehicles overall globally. And I think 5 million has been announced up to about a week ago, but there's other noise out there that's indicating more like 6 million.

John Franzreb

Sidoti & Company

Okay. All right, thanks for clearing that up. Thank you, guys.

Ashish Agrawal

Chief Financial Officer and Vice President

Okay. Thank you.

Operator

As a reminder, to ask a telephone, please signal by pressing "star" "1." We'll pause for just a moment to allow everyone an opportunity to signal for questions. It appears there are no further questions at this time. I would like to turn the conference back to Mr. O'Sullivan for any additional or closing remarks.

Kieran O'Sullivan

Chairman, Chief Executive Officer and President

Thank you, (Tracy), and thank you to everyone for your participation on today's call. We look forward to updating you on our performance in October and getting through these supply chain challenges as best we can. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.