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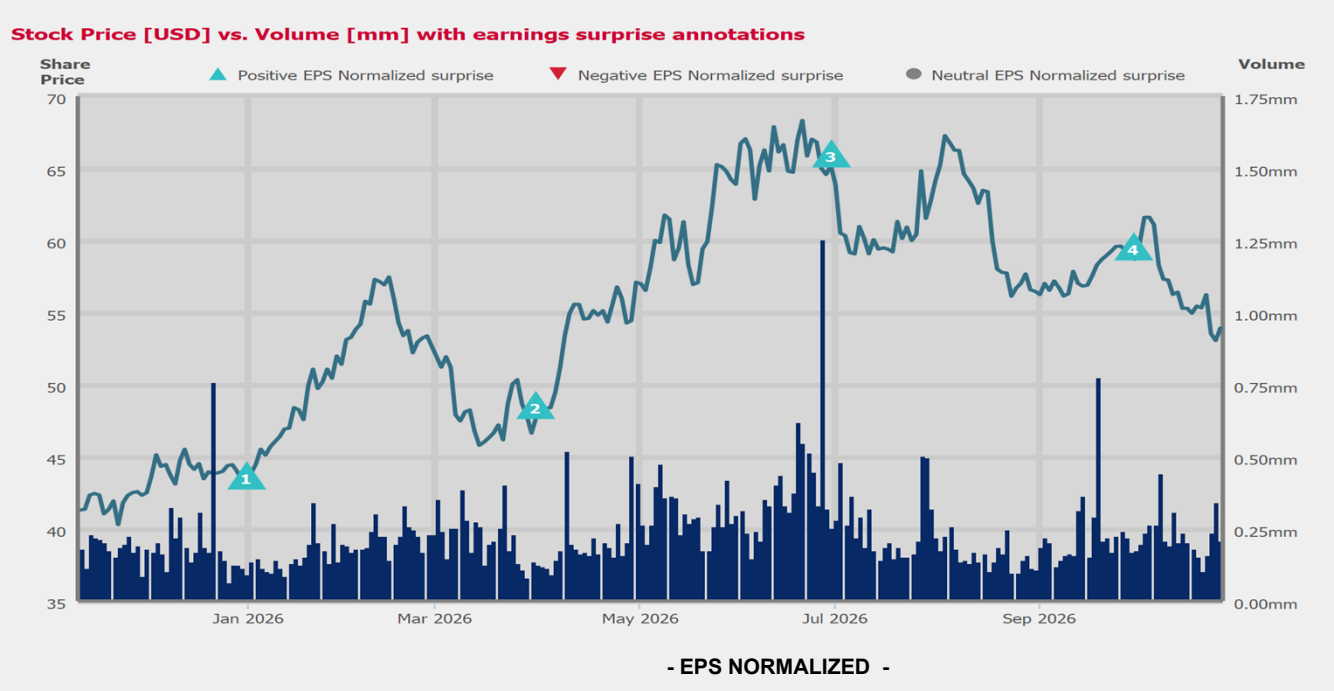
FQ3 2026 Earnings Call Transcripts

Tuesday, October 27, 2026 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2026-			-FQ4 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.65	0.77	18.46	0.64	2.65	NA
Revenue (mm)	145.95	149.58	2.49	143.56	573.53	NA

Currency: USD
Consensus as of Oct-23-2026 12:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2025	0.60	0.62	1 3.33 %
FQ1 2026	0.52	0.62	2 19.23 %
FQ2 2026	0.61	0.74	3 21.31 %
FQ3 2026	0.65	0.77	4 18.46 %

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Call Participants

EXECUTIVES

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VP & CFO

Pratik Trivedi
President, CEO & Director

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to CTS Corporation's Third Quarter 2026 Earnings Call.

[Operator Instructions]

I will now hand the conference over to Pratik Trivedi. Pratik, please go ahead.

Pratik Trivedi
President, CEO & Director

Good morning, and thank you for joining us. We delivered a strong third quarter with revenue growing 5% to $150 million. Our diversified end markets increased 7% year-over-year and represented 60% of total sales. Strong execution drove record profitability and robust cash generation with gross margin of 42.2%, adjusted EBITDA margin of 24.7% and adjusted diluted EPS of $0.77. While transportation sales increased modestly, continued growth across our diversified end markets enabled strong financial results and improved the quality of our earnings.

As announced last Friday, we are excited about the acquisition of Millar, a highly complementary business that strengthens our position in diversified end markets, primarily medical, and expands our portfolio in advanced pressure sensing technologies.

Ashish Agrawal, our CFO, will take us through the safe harbor statement. Ashish?

Ashish Agrawal
VP & CFO

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 with today's earnings press release and the supplemental slide presentation, which can be found in the Investors section of the CTS website.

I will now turn the discussion back over to Pratik.

Pratik Trivedi
President, CEO & Director

Thank you, Ashish. We finished the third quarter with sales of $150 million, representing a 5% increase compared to the third quarter of 2025 and up 3% sequentially from the second quarter. Our diversified end markets were up 7% year-over-year, while transportation sales were up 2%. Diversified end market sales were 60% of overall company revenue in the quarter, up from 59% in the prior year period.

For 2026 year-to-date, diversified sales were up 12% and transportation sales remained flat over the same period last year. Our book-to-bill ratio for the third quarter was 1.18, reflecting sustained customer demand across our portfolio. Diversified bookings were particularly strong with a book-to-bill of 1.3.

We added one new customer in the industrial end market and one in the transportation end market. The strength of our operational execution and favorable product mix was evident as we expanded gross margin to a record 42.2%, up 330 basis points compared to the third quarter of 2025.

Adjusted EBITDA margin reached 24.7%, an improvement of approximately 90 basis points year-over-year. Third quarter adjusted diluted earnings were a record $0.77 per share, up from $0.60 in the third quarter of 2025. We maintained strong cash generation, supporting our balanced capital allocation approach that includes strategic investments in growth and returning cash to shareholders. Ashish will add further color on our financial performance later in today's call.

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The recently completed acquisition of Millar represents another important step in our strategy to reshape CTS towards a more diversified portfolio of high-value differentiated technologies serving attractive end markets. The acquisition meaningfully increases our exposure to medical and industrial markets while expanding our capabilities into pressure, chemical and electrochemical sensing and differentiated catheter-based technologies. Millar's vertically integrated capabilities, spanning design, microfabrication and precision manufacturing enable differentiated solutions for demanding applications.

Beyond the strategic fit, we see compelling opportunities to accelerate growth by leveraging complementary technologies, expanding customer relationships and bringing CTS' broader engineering and commercial capabilities to the Millar platform. We expect Millar to generate revenues of approximately $30 million on an annual basis. The acquisition is expected to be accretive in the second half of 2027.

The medical end market continued to be a significant growth driver in the third quarter, generating revenue of $27 million, an increase of 21% year-over-year and a decrease of 4% sequentially, mainly due to timing of orders. Performance was fueled by broad-based demand across our sensing and actuation technologies, particularly in applications supporting advanced diagnostics and therapeutic treatments.

New business wins were impacted by timing of orders in the quarter, resulting in a book-to-bill ratio of 0.66. During the quarter, we had key wins in implantable pacemaker applications, ultrasound diagnostics and therapeutic applications across all regions. We continue to partner with leading global medical OEMs on next-generation programs across diagnostic imaging, therapeutics and several emerging applications. These opportunities, combined with favorable demographics and continued medical innovation, reinforce our confidence in the long-term growth of the market.

Aerospace and defense sales were $24 million in the third quarter, 7% below prior year, but 30% higher quarter-over-quarter, reflecting the flow of program funding and government contract orders. Orders remained very healthy as reflected in our 1.91 book-to-bill ratio, providing strong support for future growth. We continue to move up the value chain, expanding from components to higher-value sensing solutions and integrated subsystems for naval sonar, undersea warfare and secure communications applications.

During the quarter, we achieved an important win by successfully scaling production of a critical sensing solution for a U.S. Navy undersea warfare application. Increasing investments in traditional defense infrastructure as well as our customer engagements in modern warfare applications position us well for the long-term growth in this end market. Our industrial end market continued its strong momentum in the third quarter with sales of $40 million, increasing 7% year-over-year and 1% sequentially, further extending the recovery trend that began in 2025. Growth was broad-based across OEM customers and distribution partners and bookings remained healthy with a book-to-bill ratio of 1.36.

During the quarter, we secured multiple design wins across a diverse set of applications, including distribution components, industrial printing, data center applications, refrigeration, HVAC systems and industrial automation. We added one new customer during the quarter, expanding our presence for temperature sensing in industrial steam and condensate systems.

Looking ahead, we expect industrial demand to remain healthy, supported by favorable secular trends, including data center applications, automation, connectivity, digitalization and the increasing focus on energy efficiency. These trends continue to expand the addressable market for our industrial portfolio, positioning us well for sustained growth.

Transportation sales in the third quarter were $60 million, up 2% versus the prior year and up 1% sequentially. We secured important new business wins across our transportation portfolio, particularly in foot controls and sensing applications. These wins expand our presence across global vehicle platforms, establish our entry into the seat track market with Japanese OEMs and extend our floor-hinged pedal business into China, creating additional opportunities for future growth.

Total booked business was approximately $1.2 billion at the end of the quarter. We added one new Tier 1 customer during the quarter. We continue to build momentum around our e-brake technology with multiple customer opportunities progressing across future hybrid and electric vehicle platforms. Positive customer feedback, continued product development and upcoming vehicle demonstrations are building customer momentum and positioning e-brake for broader adoption.

Turning to the outlook for 2026. For our diversified end markets, demand is expected to remain solid. In medical, we see continued momentum, especially with the acquisition of Millar. In aerospace and defense, revenue is expected to remain strong in the fourth quarter given our robust order backlog. In industrial, OEM and distribution demand is expected to remain healthy. Across transportation markets, global light vehicle production volumes are forecasted to be flat to modestly down given ongoing tariff, geopolitical and consumer demand uncertainties.

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We continue to closely monitor and evaluate the tariff and geopolitical environment. Our focus remains on agility in adapting to cost and price adjustments in close collaboration with our customers and suppliers. Assuming the continuation of current market conditions for the full year 2026, we are raising our guidance with sales now expected in the range of $580 million to $590 million and adjusted diluted EPS in the range of $2.78 to $2.88.

Now I'll turn it over to Ashish, who will walk us through the financial results in more details.

Ashish Agrawal
VP & CFO

Thank you, Pratik. Third quarter sales were $149.6 million, up 5% compared to the third quarter of 2025 and up 3% sequentially from the second quarter of 2026. Sales to diversified end markets increased 7% year-over-year, while sales to transportation customers were up 2%. Foreign currency changes impacted sales favorably by approximately $0.5 million in the quarter.

Our adjusted gross margin was a record 42.2%, up 330 basis points compared to the third quarter of 2025 and up approximately 70 basis points sequentially. The year-over-year improvement was driven by operational execution, a favorable impact of approximately $1.4 million from foreign currency changes and an above-normal favorable impact of end market mix driven by timing of certain projects. We expect some normalization in profitability in the next few quarters.

Gross margin from the Millar acquisition is expected to be accretive to our overall gross margin. Adjusted EBITDA margin was 24.7%, an improvement of approximately 90 basis points versus the prior year period. Our effective tax rate for the quarter was 18.9%, excluding discrete items. For the full year, we continue to expect our tax rate to be in the range of 20% to 22%, excluding discrete items. Adjusted earnings for the third quarter were a record $0.77 per diluted share, up from $0.60 per diluted share in the third quarter of 2025. Our EPS this quarter includes foreign currency favorability of approximately $0.04.

Moving to cash generation and the balance sheet. We generated strong operating cash flow of $44 million in the third quarter. Capital expenditures were $2.4 million in the quarter and free cash flow was approximately $41 million. Our balance sheet strengthened further with a cash balance of $144 million and borrowings of $55 million at the end of the quarter. In October, we deployed approximately $50 million in cash towards the acquisition of Millar.

During the quarter, we repurchased 57,000 shares of CTS stock for approximately $3.4 million. We have $75 million remaining under our current share repurchase program. We remain focused on strong cash generation and disciplined capital allocation and will continue to support organic growth, strategic acquisitions and returning cash to shareholders.
This concludes our prepared comments. We would like to open the line for questions at this time.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Gary Prestopino with Barrington.

Gary Frank Prestopino
Barrington Research Associates, Inc.

I wanted to ask you a question on Millar. You kind of answered it partially. The gross margin is going to be accretive. What about the adjusted EBITDA margin? Is that accretive as well?

Ashish Agrawal
VP & CFO

So, Gary, we are talking about on the call, like you heard us say, the gross margin is accretive. The EBITDA will be positive, obviously, but maybe not quite accretive at the beginning. But as we work through the synergies and sales growth in the business, we expect it to be very healthy as we move forward. And we also expect EPS accretion in the second half of 2027.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Could you maybe talk about what their historic sales growth rate has been and where you think you can take it and what you have to do to get the growth higher?

Ashish Agrawal
VP & CFO

So, Gary, the historical sales, we generally don't get into that with the acquisitions. What I would say to you is that they have a very strong play in advanced medical treatment with a strong base amongst the customers that are providing that kind of facilities. And we expect good growth. Their technology is well respected in the industry. And the primary driver for us to be looking at Millar is to drive revenue growth as we look ahead.

Operator

Your next question comes from the line of Jaeson Schmidt with Lake Street.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Just sticking with the acquisition, curious if you could comment if Millar has any significant customer concentration?

Ashish Agrawal
VP & CFO

Mostly in the medical market, Jaeson, we expect -- they've got a good profile of customers. They do have some customer concentration. But when you look at the total CTS level, that concentration will not look materially different from what we have today. It will not make it to our top customer list.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Okay. That's helpful. And then just as a follow-up, really nice to see the rebound in the transportation market. Curious if that growth here in Q3 was driven by 1 or 2 particular customers or if it was more broad-based?

Pratik Trivedi
President, CEO & Director

Jaeson, I would say that the growth in Q3, which was a very moderate growth, was a combination of some growth in our commercial vehicle segment, but we still -- the automotive or the light vehicle market was still pretty much flat to slightly down for the quarter.

Operator

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Your next question comes from the line of John Franzreb with Sidoti & Co.

John Edward Franzreb
Sidoti & Company, LLC

I guess I just want to go back to the Millar and the financing of the deal. Did I hear you properly and that was entirely cash? Or did you borrow in addition to doing that?

Ashish Agrawal
VP & CFO

It was entirely cash, John.

John Edward Franzreb
Sidoti & Company, LLC

And another good backlog number in A&D. What does the delivery schedule look like in that business? How should we think about that on a go-forward basis?

Ashish Agrawal
VP & CFO

So, John, in defense, we generally have an over time revenue recognition approach where we recognize revenue based on percentage of completion. So Pratik already mentioned, we have a healthy backlog going into Q4. It positions us well, and we want to see the momentum continue with additional funding.

Pratik Trivedi
President, CEO & Director

Maybe just to add, it's also another reflection of the lumpiness that we've described in the previous quarters around that when we get the orders, we get in lumps and then there are quarters where the book-to-bill is below 1. So it's just a reflection of that timing of those orders.

John Edward Franzreb
Sidoti & Company, LLC

Right. I know the volatility. I just wanted to see if I could kind of expand and maybe some clarity how to model it all. And just quickly, does the acquisition require any kind of consolidation into the business or it's going to be run as a stand-alone? Does it change the spend rate maybe on your R&D?

Ashish Agrawal
VP & CFO

No, we're not expecting any sudden changes to the structure or anything, John. It's a great business. We are excited about the team joining us. They've got a good talent pool that is running the business today, and we hope to leverage them to leverage their capabilities and our capabilities to drive growth. From an integration standpoint, we will look at some things we do very quickly in terms of cash transactions and things like that. Some things we take a little bit longer time to make sure that we are getting the right balance between cultural integration as well as systems and processes and things like that. But we are not expecting any drastic changes in how the business is being run.

Operator

Your next question comes from the line of Hendi Susanto with Gabelli Funds.

Hendi Susanto
Gabelli Funds, LLC

I would like to congratulate on a very strong gross margin, 42.2%. And then any puts and takes? I know that margin is influenced by the mix. So the diversified end markets now is already like 60%. Any puts and takes that we should keep in mind when we think of gross margin coming ahead?

Ashish Agrawal
VP & CFO

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Yes. Hendi, in the prepared comments, we mentioned that we have an unusually favorable mix even within the diversified markets based on the timing of certain projects. We do expect good gross margins in the next few quarters, but maybe not quite at the same level as the 42%. We were very happy with what we were able to deliver. It reflects strong performance by our global teams on execution and also growth in the right areas. So in the mid- to long term, we will look to continue expanding gross margins. But from quarter-to-quarter, there can be changes that hold us back from straight up north movement every single quarter.

Hendi Susanto
Gabelli Funds, LLC

I see. And then, Pratik, do you have any update on the turbo smart actuator business in terms of customer allocation?

Pratik Trivedi
President, CEO & Director

Hendi, so, as it relates to the actuator, we continue to work towards getting approvals on additional engine platforms. And while our customer production provides a pretty important demand indicator, the volumes can vary based on the sourcing mix between CTS and the competitor. So as a result, the production volumes do not necessarily translate directly into comparable changes for CTS volumes.

Hendi Susanto
Gabelli Funds, LLC

And Pratik, may I ask further, like, when you mentioned working towards like new products, what kind of timing are we looking?

Pratik Trivedi
President, CEO & Director

So we are working on the products to qualify additional engine platforms, Hendi, and we are looking at somewhere around the middle of 2027 for some critical approvals.

Hendi Susanto
Gabelli Funds, LLC

So approval in, let's say, like in 2027? And then how soon will, like, delivery following the approval process?

Ashish Agrawal
VP & CFO

It should be a quarter or 2 after that.

Pratik Trivedi
President, CEO & Director

A quarter or 2 after that, Hendi.

Operator

There are no further questions at this time. I will now turn the call back to Pratik Trivedi for closing remarks.

Pratik Trivedi
President, CEO & Director

Thank you all for your time today. I am proud of our team's performance this quarter, and the results reflect strong execution of our strategy of driving sustainable organic growth, diversifying our portfolio, delivering consistent operational execution and deploying capital strategically. The acquisition of Millar represents another important step in our portfolio transformation, expanding our presence in the medical and industrial end markets. The CTS business system provides the foundation for how we execute these priorities with a focus on growth, operational rigor, employee engagement and supporting our communities. We look forward to updating you on our fourth quarter and full year results in February.

Thank you for joining us today.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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