CTS Corporation 1st Quarter 2022 Earnings Call

April 28, 2022









Forward-Looking Statements

This document contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events, and any other statements that are not based solely on historical fact. Forward-looking statements are based on management's expectations, certain assumptions and currently available information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause CTS' actual results, performance or achievements to differ materially from those presented in the forward-looking statements. Examples of factors that may affect future operating results and financial condition include, but are not limited to: the ultimate impact of the COVID-19 pandemic on CTS' business, results of operations or financial condition; changes in the economy generally and in respect to the business in which CTS operates; unanticipated issues in integrating acquisitions including TEWA Temperature Sensors and Ferroperm Piezoceramics (once closed subject to obtaining regulatory approvals and satisfaction of customary closing conditions); the results of actions to reposition CTS' business; rapid technological change; general market conditions in the transportation, as well as conditions in the industrial, aerospace and defense, and medical markets; reliance on key customers; unanticipated public health crises, natural disasters or other events; environmental compliance and remediation expenses; the ability to protect CTS' intellectual property; pricing pressures and demand for CTS' products; and risks associated with CTS' international operations, including trade and tariff barriers, exchange rates and political and geopolitical risks (including, without limitation, the potential impact the conflict between Russia and Ukraine may have on our business, results of operations and financial condition). Many of these, and other risks and uncertainties, are discussed in further detail in Item 1A. of CTS' Annual Report on Form 10-K and other filings made with the SEC. CTS undertakes no obligation to publicly update CTS' forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

Non-GAAP Financial Measures

From time to time, CTS may use non-GAAP financial measures in discussing CTS' business. These measures are intended to supplement, not replace, CTS' presentation of its financial results in accordance with U.S. GAAP. CTS' management believes that non-GAAP financial measures can be useful to investors in analyzing CTS' financial performance and results of operations over time. CTS recommends that investors consider both actual and adjusted measures in evaluating the performance of CTS with peer companies. The information included in this press release includes the non-GAAP financial measures of adjusted gross margin, adjusted operating earnings, adjusted EBITDA, adjusted net earnings, adjusted diluted earnings per share, debt to capitalization ratio, controllable working capital ratio, and free cash flow. Many of these non-GAAP financial measures exclude the effect of certain expenses and income not related directly to the underlying performance of CTS' fundamental business operations. CTS believes that adjusted gross margins, adjusted operating earnings, adjusted EBITDA, adjusted net earnings and, adjusted diluted earnings per share provide useful information to investors regarding its operational performance because they enhance an investor's overall understanding of CTS' core financial performance and facilitate comparisons to historical results of operations, by excluding items that are not related directly to the underlying performance of CTS' fundamental business operations or were not part of CTS' business operations during a comparable period. CTS believes that debt to capitalization ratio is a measurement of financial leverage and provides an insight into the financial structure of CTS and its financial strength. CTS believes the controllable working capital ratio provides an objective measure of the efficiency with which CTS manages its short-term capital needs. CTS believes that free cash flow is a useful measure of its ability to generate cash. CTS believes that these non-GAAP financial measures are commonly used by financial analysts and others in the industries in which CTS operates, and thus further provide useful information to investors. Note that CTS' definitions of these non-GAAP financial measures may differ from those terms as defined or used by other companies. CTS does not provide reconciliations of forward-looking non-GAAP financial measures, such as estimated adjusted diluted earnings per share, to the most comparable GAAP financial measures on a forward-looking basis because CTS is unable to provide a meaningful or accurate calculation or estimation of reconciling items and the information is not available without unreasonable effort. This is due to the inherent difficulty of forecasting the timing and amount of certain items, such as, but not limited to, restructuring costs, environmental remediation costs, acquisition related costs, foreign exchange rates and other non-routine costs. Each of such adjustments has not yet occurred, are out of CTS' control and/or cannot be reasonably predicted. For the same reasons, CTS is unable to address the probable significance of the unavailable information.

Q1 2022 – Delivered solid growth, Further advances in diversification

First Quarter		
$148M	37%	$0.67
Sales	Adj. Gross Margin	Adj. diluted EPS
+15%	+400 bps	+45%

All comparisons vs. same period in prior year unless otherwise noted

- Organic growth +14%
- Non-transportation revenues +30%, organic 28%
- Transportation revenues +4%, excl. Smart Actuators 0.4%
- Tewa acquisition added $1.4m in sales in March
- New business wins $117M; added 4 new customers
- $19M operating cash flow, $16M free cash flow

Improved profitability despite supply and inflation challenges

Non-transportation end markets – solid organic growth

Industrial



Momentum in inkjet printing – packaging material demand from growth in e-commerce







Temperature sensing growth in commercial appliances, pool & spa, HVAC, refrigeration

Medical

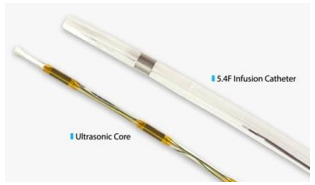


High Resolution Ultrasound

Strong mid to long term growth expected in imaging, wins in minimally invasive surgery and other applications



Hearing Aids



Drug Delivery



Cataract Equipment



Endoscopic Ultrasound

Aerospace & Defense







Wins for Temperature and RF Filter products in satellite and GPS anti-jamming applications



Continued traction in European military applications

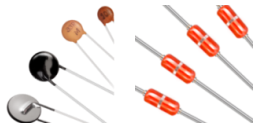
Secular trends providing strong growth momentum

Strategic acquisitions fueling diversification – M&A as a catalyst

TEWA TEMPERATURE SENSORS

- Founded in 1964, based in Lublin, Poland
- Leading designer and manufacturer of high-performance, high-quality thermistor and temperature probes in Europe
- Broad product portfolio to measure temperature for various industrial and medical applications
- Expanded CTS presence in Europe (footprint, commercial)
- Enhanced position with the distribution channel
- ~$15m/yr revenue, Expected to be ~$0.04 accretive in 2022

Key Products & Applications



Thermistors



Probes / Assemblies



Temperature Sensors



Boilers



HVAC



Instrumentation

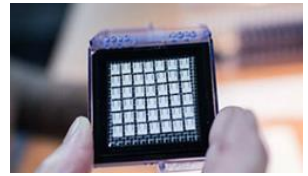
Ferroperm™ Piezoceramics

- Founded in 1952, based in Kvistgaard, Denmark
- Closing subject to obtaining regulatory approvals and satisfaction of customary closing conditions
- High performance piezoelectric ceramic components for medical, industrial and defense applications
- Medical therapeutics products, complements CTS diagnostics focus
- Expansion into automation (Flow, Level, Vibration)
- Strengthens European presence in Piezoceramics

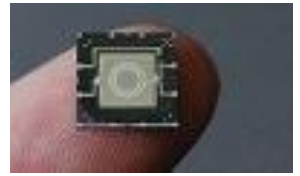
Key Products & Applications



Piezoceramic Components



Multilayer Tape Cast



PZT Thick Film



Medical Therapeutics



Medical Diagnostics



Aero & Defense

Expecting non-transportation sales closer to 50% in 2H 2022

>95% Light Vehicle portfolio carries over to Electric Vehicles

Traditional light vehicle key product Portfolio


Accelerator Modules


Chassis Height Sensor


Seat Belt Buckle Switch Sensor


Seat Track Position Sensor


Brake Position Sensor


Belt Tension Sensor

2022: $2.4Bn



Available Market (SAM)

Light vehicle key products For BEV/HEV/PHEV and ICE


Accelerator Modules


Chassis Height Sensor


Seat Belt Buckle Switch Sensor


Seat Track Position Sensor


Brake Position Sensor


Belt Tension Sensor

2025: $2.5Bn

+

New products for Electrification


eBrake™


AC Motor Current Sensor

In Development

AC Motor Position Sensor

>2030: $1Bn+

~ 50% expansion in Available Market with EV-related new products

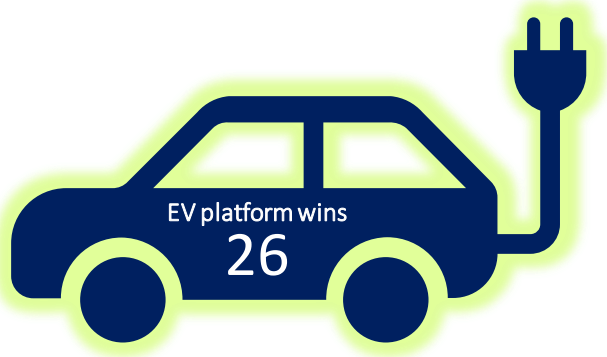
5 EV platform wins in Q1 – Total 26



2 GM platforms



RENAULT





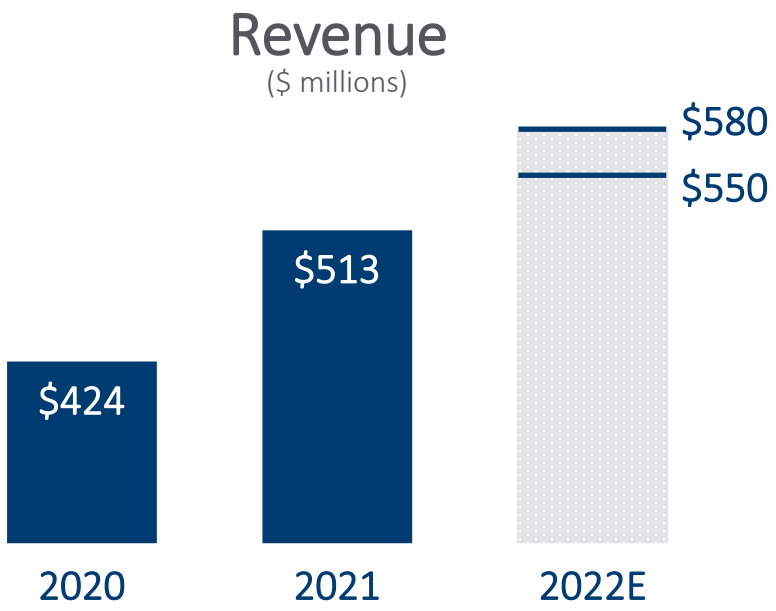
HONDA

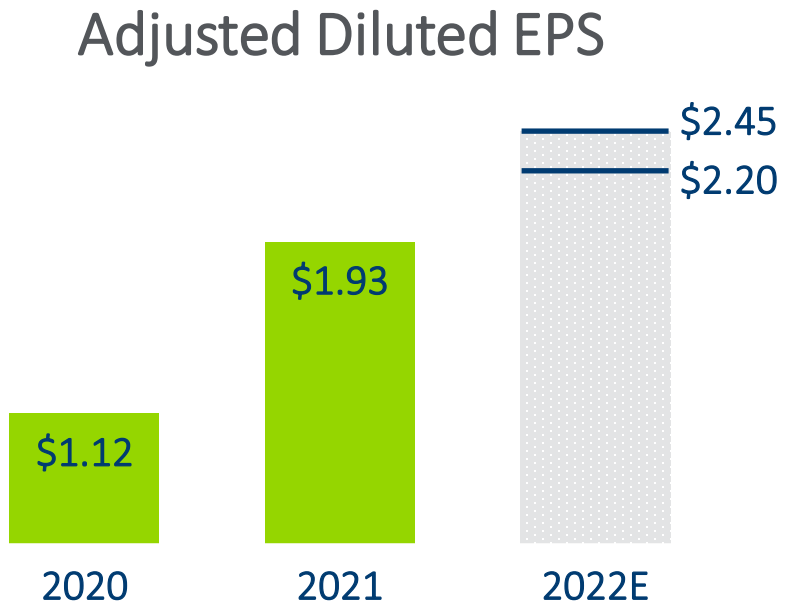


NISSAN

8% of light vehicle sales from EV/Hybrid platforms, Goal: >25% by 2025

FY 2022 Guidance





Key Assumptions

- Light vehicle market – US 13.5-14M, China ~24-25M, Europe 15-15.5M units, forecasts lowered from earlier this year
- Robust commercial vehicle market through 2022
- Non-transportation markets robust in 1H, monitoring 2H demand
- Supply challenges and inflationary pressures persist, China COVID-19 shutdown resulting in additional risks
- Tax rate in the range of 21-23% excluding discrete items

Your Partner in Smart Solutions

1st Quarter 2022 Financial Results

Q1 2022 Financial Summary

Revenue
($ millions)



	Q1 2021	Q4 2021	Q1 2022
Net Income	$12.0	$9.2	$20.2
Diluted EPS	$0.37	$0.28	$0.63
Adj. Diluted EPS	$0.46	$0.49	$0.67
Adj. EBITDA	20.0%	20.9%	23.5%

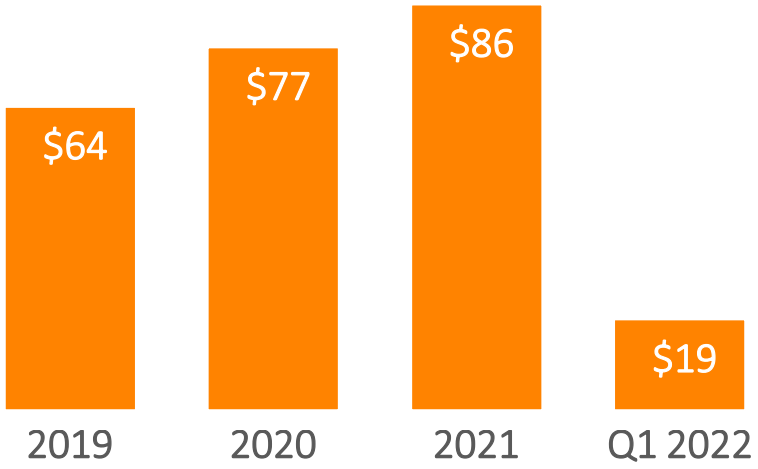
Highlights

- Revenue up 15% vs. Q1 2021 and 11% vs Q4 2021
- Non-transportation sales up 30% vs Q1 2021, organic growth +28%
- Transportation sales up 4% vs Q1 2021, up 6% sequentially
- Transportation sales up 40 bps excluding sales of smart actuators
- Continued margin pressure from supply challenges and cost increases
- Strong execution and ~$1.5m in unusual benefits helped mitigate margin pressure
- Operating cash flow $19M

Consistently strong cash flow generation

Operating Cash Flow

($ Millions)

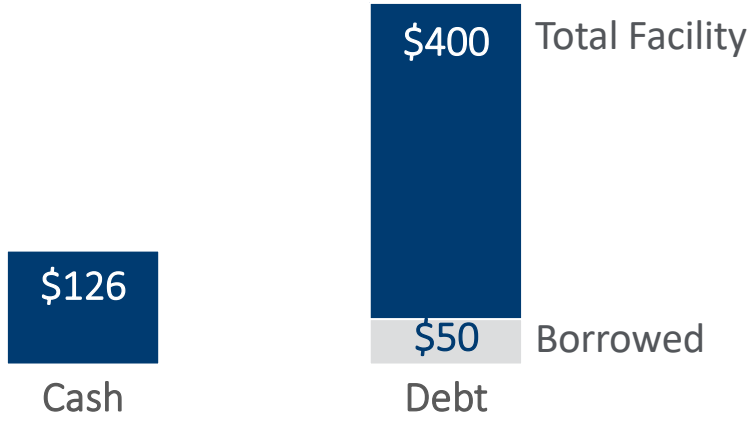


Q1 2022 – $16M
2021 – $71M
Free Cash Flow

Q1 2022 – $3.4M
2021 – $16M
Capital Expenditures

Cash and Debt

($ Millions)



Note: Cash and Debt balance as of Mar 31, 2022

Q1 2022 – $5M
2021 – $14M
Returned to shareholders

Strong Balance Sheet
Solid Foundation for Strategic M&A

Q & A

Appendix

Financial Summary

($ Millions, except percentages and Adjusted Diluted EPS)

	Q1		Full Year		
	2022	2021	2021	2020	2019
Net Sales	$147.7	$128.4	$512.9	$424.1	$469.0
Adj. Gross Margin	$54.9	$42.6	$184.6	$139.1	$157.6
Adj. Gross Margin % of Sales	37.2%	33.2%	36.0%	32.8%	33.6%
Depreciation and Amortization	$6.7	$6.8	$26.9	$26.7	$24.6
Adjusted EBITDA	$34.7	$25.7	$107.8	$77.5	$89.5
Adjusted EBITDA % of Sales	23.5%	20.0%	21.0%	18.3%	19.1%
Adjusted Diluted EPS	$0.67	$0.46	$1.93	$1.12	$1.45
Operating Cash Flow	$19.3	$20.1	$86.1	$76.8	$64.4
Total Debt / Capitalization	9.4%	10.3%	9.7%	11.4%	19.7%

Regulation G Schedules

Adjusted Diluted EPS

	Q1		Q4	Full Year		
	2022	2021	2021	2021	2020	2019
Diluted earnings (loss) per share	**$ 0.63**	**$ 0.37**	**$ 0.28**	**$ (1.30)**	**$ 1.06**	**$ 1.09**
Tax affected adjustments to reported diluted earnings (loss) per share:						
Restructuring charges	0.01	-	0.04	0.06	0.04	0.18
Foreign currency (gain) loss	(0.01)	0.04	0.06	0.10	(0.16)	0.05
Non-cash pension expense	-	0.04	0.03	3.13	0.06	0.02
Environmental charges	0.01	0.01	0.03	0.05	0.07	0.05
Transaction costs	0.02	-	-	-	0.01	0.02
Inventory step-up	0.01	-	-	-	-	-
Legal settlement	-	-	-	-	-	(0.01)
Discrete tax items	-	-	0.05	(0.11)	0.04	0.05
Adjusted diluted earnings per share	**$ 0.67**	**$ 0.46**	**$ 0.49**	**$ 1.93**	**$ 1.12**	**$ 1.45**

Total Debt to Capitalization

($ Millions, except percentages)

	Q1		As of December 31		
	2022	2021	2021	2020	2019
Total debt **(A)**	$ 50.0	$ 50.0	$ 50.0	$ 54.6	$ 99.7
Total shareholders' equity **(B)**	$ 480.2	$ 435.7	$ 463.6	$ 423.7	$ 405.2
Total capitalization **(A+B)**	$ 530.2	$ 485.7	$ 513.6	$ 478.3	$ 504.9
Total debt to capitalization	**9.4%**	**10.3%**	**9.7%**	**11.4%**	**19.7%**

Regulation G Schedules

Adjusted EBITDA

($ Millions, except percentages)

	Q1		Q4	Full Year		
	2022	2021	2021	2021	2020	2019
Net earnings (loss)	$ 20.2	$ 12.0	$ 9.2	$ (41.9)	$ 34.7	$ 36.1
Depreciation and amortization expense	6.7	6.8	6.7	26.9	26.7	24.6
Interest expense	0.5	0.6	0.5	2.1	3.3	2.6
Tax expense (benefit)	5.5	2.8	5.6	(19.0)	10.8	14.1
EBITDA	**33.0**	**22.2**	**22.0**	**(31.8)**	**75.4**	**77.5**
Adjustments to EBITDA:						
Inventory step up	0.6	-		-	-	-
Restructuring charges	0.3	0.1	1.1	1.7	1.8	6.9
Environmental charges	0.5	0.2	1.4	2.3	2.8	2.3
Legal settlement	-	-	-	-	-	(0.5)
Transaction costs	0.5	-	-	-	0.3	0.7
Costs of tax improvement initiatives	-	-	-	-	-	0.1
Non-cash pension expense	-	1.9	1.3	132.4	2.5	0.8
Foreign currency loss (gain)	(0.3)	1.3	1.9	3.3	(5.3)	1.8
Total adjustments to EBITDA	1.7	3.5	5.7	139.7	2.1	12.0
Adjusted EBITDA	**$ 34.7**	**$ 25.7**	**$ 27.7**	**$ 107.8**	**$ 77.5**	**$ 89.5**
Net sales	$ 147.7	$ 128.4	$ 132.5	$ 512.9	$ 424.1	$ 469.0
Adjusted EBITDA as a % of net sales	23.5%	20.0%	20.9%	21.0%	18.3%	19.1%

Regulation G Schedules

Adjusted Gross Margin

($ Millions)

	Q1		Full Year		
	2022	2021	2021	2020	2019
Gross margin	**$ 54.3**	**$ 42.6**	**$ 184.6**	**$ 139.1**	**$ 157.6**
Adjustment to reported gross margin:					
Inventory fair value step up	0.6	-	-	-	-
Adjusted gross margin	**$ 54.9**	**$ 42.6**	**$ 184.6**	**$ 139.1**	**$ 157.6**
Sales	$ 147.7	$ 128.4	$ 512.9	$ 424.1	$ 469.0
Adjusted gross margin as a % of net sales	37.2%	33.2%	36.0%	32.8%	33.6%

Regulation G Schedules

Free Cash Flow

($ Millions)

	Q1		Full Year
	2022	2021	2021
Net cash provided by operating activities	**$ 19.3**	**$ 20.1**	**$ 86.1**
Capital expenditures	$ (3.4)	$ (1.6)	(15.6)
Free cash flow	**$ 15.9**	**$ 18.5**	**$ 70.5**
Free cash flow as a % if Adj. Net Earnings	73.3%	123.1%	112.0%