CTS Corporation 4th Quarter 2022 Earnings Call

Feb 7, 2023









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, including supply chain disruptions; changes in the economy generally, including inflationary and/or recessionary conditions, and in respect to the business in which CTS operates; unanticipated issues in integrating acquisitions, including our acquisitions of TEWA Temperature Sensors and Ferroperm Piezoceramics; 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 U.S./China relations and 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' most recent 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 in this presentation includes the non-GAAP financial measures of adjusted gross margin, adjusted EBITDA margin, 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 EBITDA margin 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. 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.

Q4 and Full-Year 2022 Highlights

Fourth Quarter

$142M	36.3%	$0.56
Revenue	Adj Gross Margin	Adj. Diluted EPS
+7%	(38) bps	+14%

- Non-transportation revenues +22%
- Transportation revenues (4)% primarily due to semiconductor shortages
- New business wins $71M
- Book-to-bill ratio 0.9, added 10 new customers
- Generated $26M operating cash flow

FY 2022

$587M	36.5%	$2.46
Revenue	Adj Gross Margin	Adj. Diluted EPS
+14%	+50 bps	+27%

- Organic growth +10%
- Non-transportation revenues +24%
- Transportation revenues +7%
- New business wins $523M
- Book-to-bill ratio 1.03, compared to 1.14 in 2021
- Generated $121M operating cash flow

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

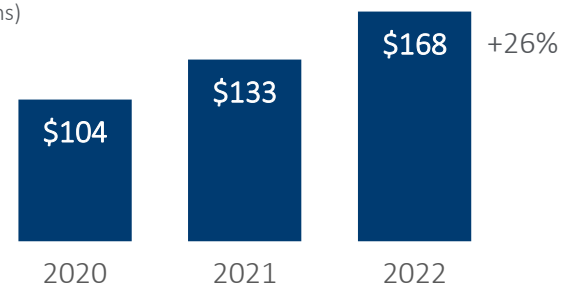
Executing diversification & electrification strategy to support profitable growth

Establishing leadership in Non-transportation end markets

Industrial

Revenue

($ Millions)



- Added new customers in refrigeration and cooler display applications



- Secured new design wins in industrial food preparation applications



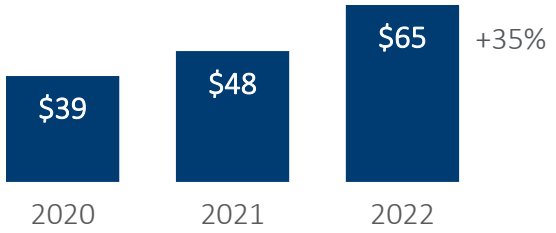
- Added temperature sensor products to distribution portfolio across Europe and US markets



Medical

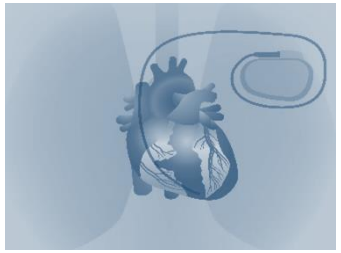
Revenue

($ Millions)



- New awards in medical ultrasound and ultrasonic dental cleaning applications



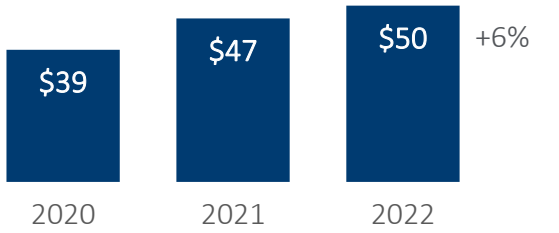




Aerospace & Defense

Revenue

($ Millions)



- Continue to make progress in unmanned underwater vehicle applications
- New wins for munition detonation and counter-measure applications







Capturing secular trends to expand into premium, growing markets

Strategic acquisitions fueling diversification – M&A as a catalyst

Enhancing Piezoceramic Technology and Geographic Reach

Pre 2016	2016	2017	2022	Current
CTS	+ HC Materials Channel Technologies Advanced Materials Division	+ noliac	+ Ferroperm Piezoceramics	= CTS
Bulk Technology	Single Crystal Technology	Tape Cast Technology	Medical Therapeutics Europe Defense	Growing Piezoceramic Platform

Building a Strong Global Temperature Sensing Platform

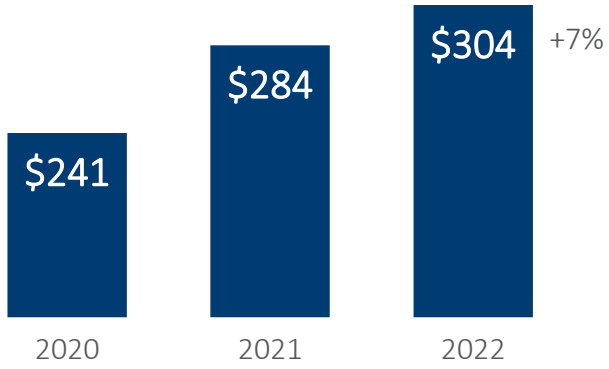
2019	2020	2022	Current
QTI SENSING SOLUTIONS	+ Sensor Scientific, Inc.	+ TEWA TEMPERATURE SENSORS	= CTS
Industrial Applications	Medical Applications	Industrial + Medical Europe Expansion	Growing Temperature Platform

48% of sales from Non-Transportation end markets … +360 bps vs. 2021

Continued progress in Transportation end market

Revenue

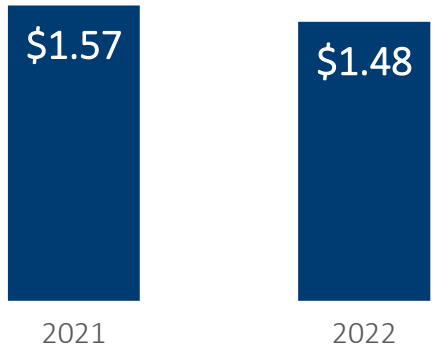
($ Millions)



- Strong execution while navigating supply challenges
- Q4 2022 smart actuator sales impacted unfavorably by the temporary IC supply challenge

Total Booked Business

($ Billions)



- 2022 new business wins impacted by timing of OEM sourcing
- Removed non-Transportation booked business, adjusted for light vehicle volume forecast

4 New EV Platform Wins

2 Platforms

RENAULT NISSAN MITSUBISHI

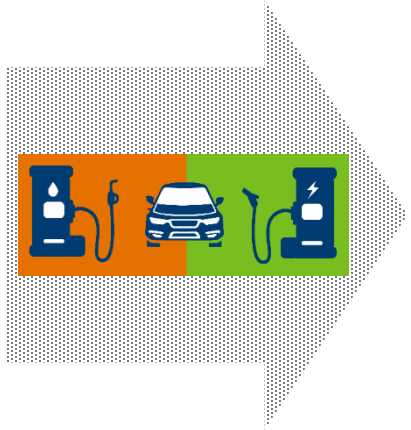
27 Platform Wins in 2022

Targeting 25% of light vehicle revenue from electrified platforms by 2025

Light Vehicle portfolio carries over to Electric Vehicles

CTS Portfolio







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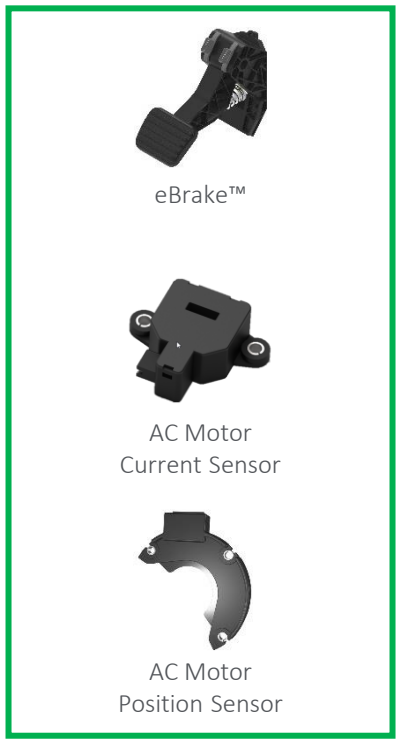


Available Market (SAM)

2022:
$2.4Bn
Traditional light vehicle key product portfolio

2030:
$2.7Bn
Light vehicle key products For BEV/HEV/PHEV and ICE

+

>2030:
$1Bn+
New products for Electrification

Completed maglab acquisition – strengthening Electrification portfolio

Capital Allocation Framework

Capital Allocation Priorities

- Maintain healthy Balance Sheet
- Disciplined organic investments
  - Growth resources and tools
  - IT systems – ERP, analytics capabilities
  - CTS OS – Operational improvements
- Strategic M&A – a growth priority
- Return capital to shareholders

Operating Cash Flow

15-17% of Sales

Capital Structure

Leverage 1.0 – 2.5x

Growth

Capex ~4% of Sales

Acquisitions 60-80% of FCF

Cash Returned to Shareholders

Dividend & Buybacks 20-40% of FCF

$142 million in cash returned to shareholders since 2013

Our Sustainability Journey



Continued progress in 2022 :

- Established DE&I Committee
- Expanded Compensation & Talent Committee with greater visibility to talent and diversity initiatives
- Board diversity >40%

Supporting sustainable products:

- **Vehicle electrification components** to comprise >25% of light vehicle sales by 2025[1]
- Continued development of **lead-free piezoceramics** to replace current lead-based systems





- Provided over 3,500 hours in employee training to further career development
- CTS CARES continues momentum across the globe
- FY 2022 activity
  - 4,414 hours
  - 156 events
  - 21 locations

cts | Cares

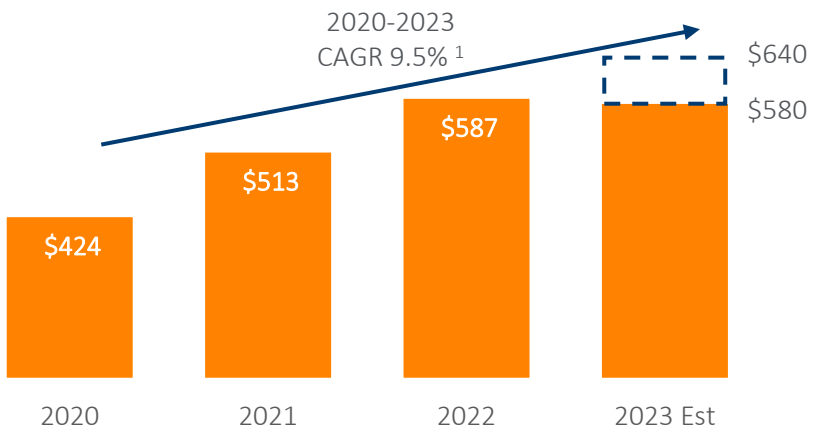
Notes:
[1]Used in Electrified platforms

Creating long-term sustainable value for stakeholders and communities

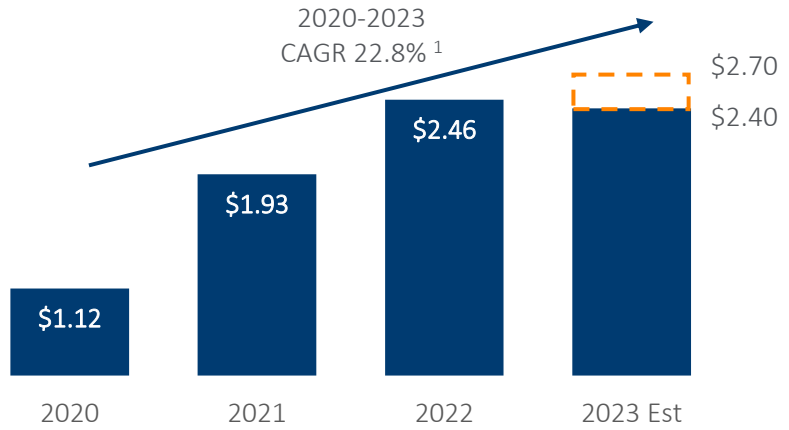
FY 2023 Guidance

Revenue

($ Millions)



Adj. Diluted EPS



Key Outlook Assumptions

- Stable demand from medical & aerospace/defense customers
- Softer outlook in industrial end market & distribution channel
- Commercial vehicle sales potentially impacted by semiconductor supply issues in Q1 2023
- Light vehicle market forecasts - US 14-15M, China 26-27M, Europe 16-17M units
- Monitoring risks from interest rates, supply challenges, inflation, COVID-19, FX fluctuations & geopolitical landscape
- Tax rate in the range of 21-23% excluding discrete items

Notes:
[1] CAGR based on mid point of 2023 guidance

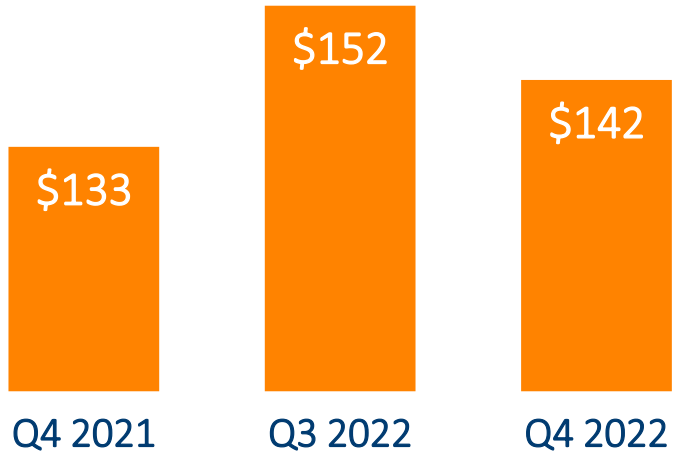
Your Partner in Smart Solutions

4th Quarter and Full-Year 2022 Financial Results

Q4 2022 Financial Summary

($ Millions, except EPS)

Revenue



	Q4 2021	Q3 2022	Q4 2022
Net Income	$9.2	$11.8	$14.9
Net Income % of Sales	6.9%	7.8%	10.5%
Diluted EPS	$0.28	$0.37	$0.47
Adj. Diluted EPS	$0.49	$0.62	$0.56
Adj. Gross Margin	36.7%	36.6%	36.3%
Adj. EBITDA Margin	20.9%	22.3%	22.9%

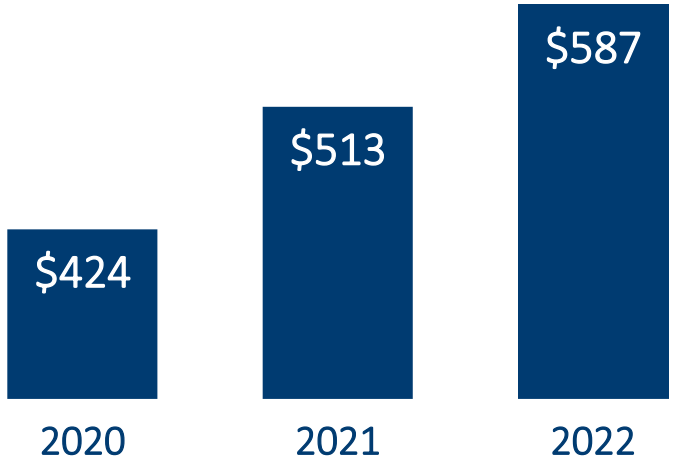
Highlights

- Revenue +7% vs. Q4 2021, (6)% vs. Q3 2022
- Non-transportation revenue +22% vs. Q4 2021, acquisitions added $9 million
- Transportation revenue impacted primarily by IC supply issue – down 4% vs. Q4 2021, down 9% vs. Q3 2022
- Foreign exchange impact on revenue unfavorable $4.3 million
- Margin pressure from supply challenges, cost increases; partially mitigated by pricing and continuous improvement projects
- Foreign exchange impact on gross margin unfavorable $1.7 million

Full Year 2022 Financial Summary

($ Millions, except EPS)

Revenue



	2020	2021	2022
Net Income	$34.7	$(41.9)	$59.6
Net Income % of Sales	8.2%	(8.2)%	10.2%
Diluted EPS	$1.06	$(1.30)	$1.85
Adj. Diluted EPS	$1.12	$1.93	$2.46
Adj. Gross Margin	32.8%	36.0%	36.5%
Adj. EBITDA Margin	18.3%	21.0%	22.8%

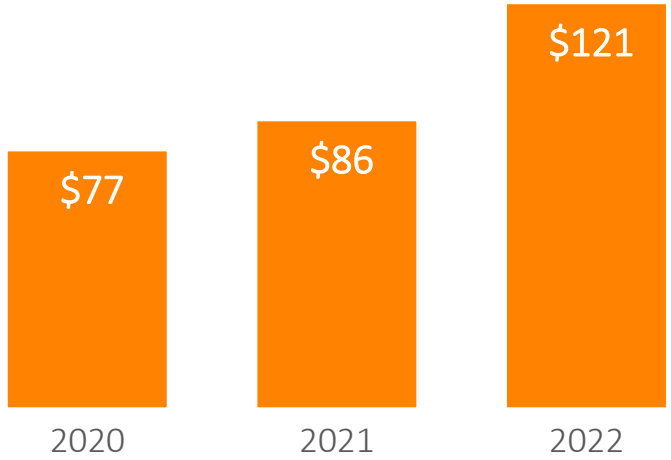
Highlights

- Revenue up 14% vs. 2021, organic +10%
- Transportation sales up 7% vs. 2021
- Non-transportation sales up 24%, organic growth +14%
- Foreign exchange impact on revenue unfavorable $11 million
- Adj. Gross Margin improved 50 bps despite challenging conditions
- Foreign exchange impact on gross margin unfavorable $4 million
- Operating cash flow $121
- Controllable working capital 17.6%
- 2021 results include $97 million non-cash charge for US pension plan termination

Consistent strong cash flow generation

Operating Cash Flow

($ Millions)



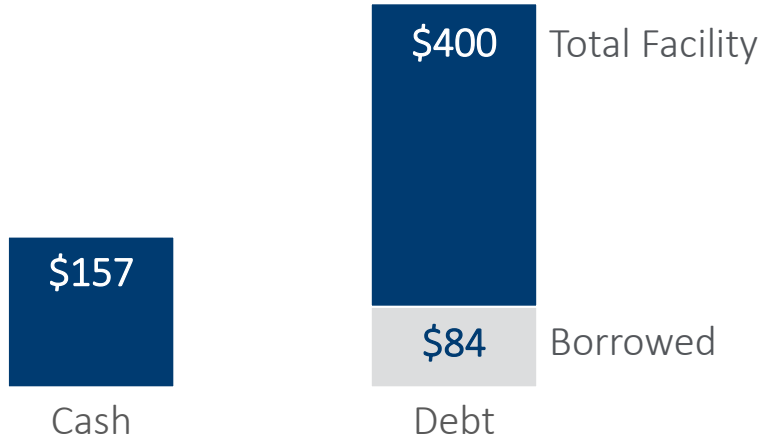
Note: 2022 results include $27m from US pension plan termination

Q4 2022 – $20M
FY 2022 – $107M
Free Cash Flow

Q4 2022 – $5M
FY 2022 – $14M
Capital Expenditures

Cash and Debt

($ Millions)



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

Q4 2022 – $9M
FY 2022 – $27M
Returned to Shareholders

Strong Balance Sheet
Net Cash Position
Solid Foundation for Strategic M&A

Q & A

Appendix

Regulation G Schedules

Adjusted Diluted EPS

	Q4		Q3	Full Year		
	2022	2021	2022	2022	2021	2020
Diluted earnings (loss) per share	**$ 0.47**	**$ 0.28**	**$ 0.37**	**$ 1.85**	**$ (1.30)**	**$ 1.06**
Tax affected adjustments to reported diluted earnings (loss) per share:						
Restructuring charges	0.01	0.04	0.01	0.05	0.06	0.04
Foreign currency loss (gain)	0.03	0.06	0.01	0.15	0.10	(0.16)
Non-cash pension expense	-	0.03	0.16	0.16	3.13	0.06
Environmental charges	0.02	0.03	0.01	0.07	0.05	0.07
Acquisition-related costs	-	-	-	0.07	-	0.01
Inventory fair value step-up	0.02	-	0.06	0.10	-	-
Legal settlement	-	-	-	-	-	-
Discrete tax items	0.01	0.05	-	0.01	(0.11)	0.04
Adjusted diluted earnings per share	**$ 0.56**	**$ 0.49**	**$ 0.62**	**$ 2.46**	**$ 1.93**	**$ 1.12**

Regulation G Schedules

Adjusted EBITDA Margin

($ Millions)

	Q4		Q3	Full Year		
	2022	2021	2022	2022	2021	2020
Net earnings (loss)	$ 14.9	$ 9.2	$ 11.8	$ 59.6	$ (41.9)	$ 34.7
Depreciation and amortization expense	8.0	6.7	8.0	29.8	26.9	26.7
Interest expense	0.7	0.5	0.3	2.2	2.1	3.3
Tax expense (benefit)	5.8	5.6	5.5	21.2	(19.0)	10.8
EBITDA	**29.5**	**22.0**	**25.6**	**112.7**	**(31.8)**	**75.4**
Adjustments to EBITDA:						
Restructuring charges	0.5	1.1	0.5	1.9	1.7	1.8
Environmental charges	1.0	1.4	0.3	2.8	2.3	2.8
Legal settlement	-	-	-	-	-	-
Acquisition-related costs	-	-	-	2.5	-	0.3
Inventory fair value step-up	0.7	-	2.2	4.0	-	-
Costs of tax improvement initiatives	-	-	-	-	-	-
Non-cash pension expense	-	1.3	4.7	4.8	132.4	2.5
Foreign currency loss (gain)	0.9	1.9	0.5	4.9	3.3	(5.3)
Total adjustments to EBITDA	3.1	5.7	8.2	20.9	139.7	2.1
Adjusted EBITDA	**$ 32.6**	**$ 27.7**	**$ 33.8**	**$ 133.6**	**$ 107.8**	**$ 77.5**
Net sales	$ 142.3	$ 132.5	$ 151.9	$ 586.9	$ 512.9	$ 424.1
Adjusted EBITDA margin	22.9%	20.9%	22.3%	22.8%	21.0%	18.3%

Regulation G Schedules

Adjusted Gross Margin

($ Millions)

	Q4		Q3	Full Year		
	2022	2021	2022	2022	2021	2020
Gross margin	**$ 51.0**	**$ 48.7**	**$ 53.3**	**$ 210.5**	**$ 184.6**	**$ 139.1**
Adjustment to reported gross margin:						
Inventory fair value step-up	0.7	-	2.2	4.0	-	-
Adjusted gross margin	**$ 51.7**	**$ 48.7**	**$ 55.6**	**$ 214.5**	**$ 184.6**	**$ 139.1**
Net sales	$ 142.3	$ 132.5	$ 151.9	$ 586.9	$ 512.9	$ 424.1
Adjusted gross margin as a % of net sales	36.3%	36.7%	36.6%	36.5%	36.0%	32.8%

Regulation G Schedules

Adjusted Net Earnings

($ Millions)

	Q4		Q3	Full Year		
	2022	2021	2022	2022	2021	2020
Net earnings (loss) (A)	**$ 14.9**	**$ 9.2**	**$ 11.8**	**$ 59.6**	**$ (41.9)**	**$ 34.7**
Net earnings as a % of net sales	10.5%	6.9%	7.8%	10.2%	-8.2%	8.2%
Adjustments to reported net earnings (loss):						
Restructuring charges	0.5	1.1	0.5	1.9	1.7	1.8
Environmental charges	1.0	1.4	0.3	2.8	2.3	2.8
Legal settlement	-	-	-	-	-	-
Acquisition-related costs	-	-	-	2.5	-	0.3
Inventory fair value step-up	0.7	-	2.2	4.0	-	-
Non-cash pension expense	-	1.3	4.7	4.8	132.4	2.5
Foreign currency loss (gain)	0.9	1.9	0.5	4.9	3.3	(5.3)
Total adjustments to reported net earnings (loss)	$ 3.1	$ 5.7	$ 8.2	$ 20.9	$ 139.7	$ 2.1
Total adjustments, tax affected **(B)**	$ 2.6	$ 5.1	$ 8.0	$ 19.3	$ 108.6	$ 0.4
Tax adjustments:						
Tax impact of cash repatriation				-	-	-
Tax impact of U.K. deferred tax asset write-off				-	-	-
Increase in reserve on uncertain tax benefits			-	-	-	-
Increase in valuation allowances	-	0.9	-	-	0.9	0.2
Other discrete tax items	0.2	0.7	-	0.2	(4.7)	1.2
Tax impact of U.S. tax reform	-	-	-			-
Total tax adjustments **(C)**	$ 0.2	1.6	$ -	$ 0.2	$ (3.8)	$ 1.4
Adjusted net earnings (A+B+C)	**$ 17.8**	**15.9**	**$ 19.8**	**$ 79.1**	**$ 63.0**	**$ 36.5**
Net sales	$ 142.3	$ 132.5	$ 151.9	$ 586.9	$ 512.9	$ 424.1
Adjusted net earnings as a % of net sales	12.5%	12.0%	13.0%	13.5%	12.3%	8.6%

Regulation G Schedules

Free Cash Flow

($ Millions)

	Q4	Full Year
	2022	2022
Net cash provided by operating activities	**$ 25.5**	**$ 121.2**
Capital expenditures	(5.1)	(14.3)
Free cash flow	**$ 20.4**	**$ 106.9**
Free Cash Flow as % of Adjusted Net Earnings	115%	135%

Regulation G Schedules

Debt to Capitalization

($ Millions)

	As of December 31		
	2022	2021	2020
Total debt **(A)**	$ 83.7	$ 50.0	$ 54.6
Total shareholders' equity **(B)**	$ 506.2	$ 463.6	$ 423.7
Total capitalization **(A+B)**	$ 589.9	$ 513.6	$ 478.3
Total debt to capitalization	**14.2%**	**9.7%**	**11.4%**

Regulation G Schedules

Controllable Working Capital

($ Millions)

	Full Year		
	2022	2021	2020
Net accounts receivable	$ 90.9	$ 82.2	$ 81.0
Net inventory	$ 62.3	$ 49.5	$ 45.9
Accounts payable	$ (53.2)	$ (55.5)	$ (50.5)
Controllable working capital	$ 100.0	$ 76.2	$ 76.4
Quarter sales	$ 142.3	$ 132.5	$ 123.0
Multiplied by 4	4	4	4
Annualized sales	$ 569.1	$ 530.2	$ 492.1
Controllable working capital as a % of annualized sales	**17.6%**	**14.4%**	**15.5%**