CTS Corporation 2nd Quarter 2023 Earnings Call

July 25, 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: 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; 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 (including the ultimate impact of the COVID-19 pandemic on CTS' business, results of operations or financial condition), 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.

Q2 2023 Highlights – Significant New Business Momentum Across End Markets

Q2 2023 Financials	Highlights
$145.2M Revenue +0.1% YoY	Won first eBrake™ award
35.0% Adjusted Gross Margin[1] (120) bps YoY	13 new EV platform wins
$0.59 Adj. Earnings Per Share[1] $(0.03) YoY	10 new non-Transportation customers

Notes:
All comparisons vs. same period in prior year unless otherwise noted.
[1] Adj. Gross Margin and Adj. Earnings per Share are non-GAAP financial measures. Refer to Appendix for reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

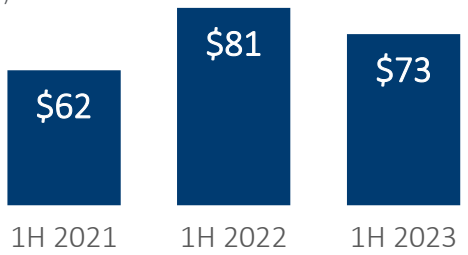
Advancing Strategic Priorities While Navigating Macroeconomic Conditions

Diversifying into Attractive Non-transportation End Markets

Industrial

Revenue

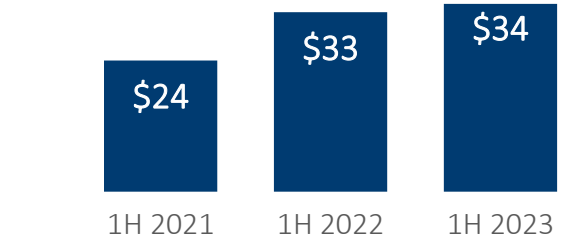
($ Millions)



Medical

Revenue

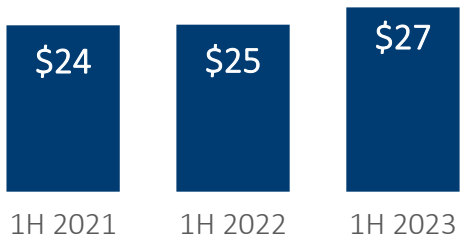
($ Millions)



Aerospace & Defense

Revenue

($ Millions)



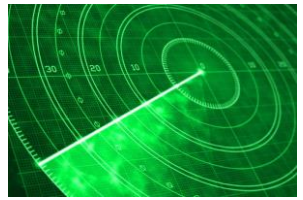
Key New Wins


HVAC


Preventive Maintenance

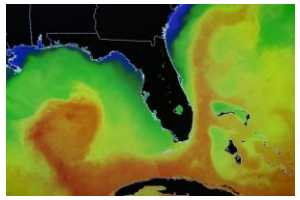

Medical Therapeutics


Medical Diagnostics


Sonar


Gyroscopes


Broadband Telecom


Oceanic Climate Temp. Monitoring


Minimally Invasive Surgery


Health Monitoring


Communications

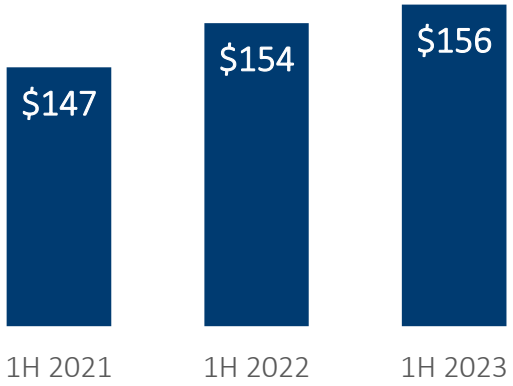

Mars Rover

Tailwinds from Megatrends Support Long-Term Outperformance

Continued Progress in Transportation – Won First eBrake™ Award

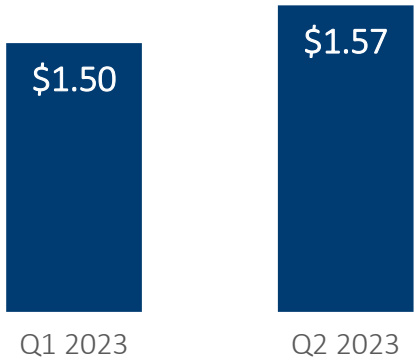
Revenue

($ Millions)



Total Booked Business

($ Billions)



Significant Growth Opportunity from Electrification

95% of existing light vehicle portfolio transitions to EVs


Accelerator Modules


Chassis Height Sensor


Seat Belt Buckle Switch Sensor


Seat Track Position Sensor


Brake Position Sensor


Belt Tension Sensor

New products expand future content per vehicle


eBrake™

First Award Secured


Drive-Pad ™

In Dev


AC Motor Current Sensor

Secured Awards


AC Motor Position Sensor

In Dev

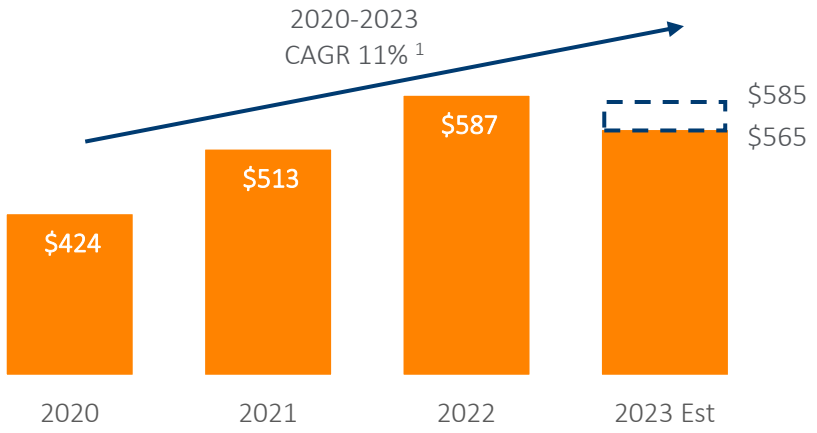
13 New EV Platform Wins in Q2 2023

Content Per Vehicle Grows to >2x With EV-Focused New Products

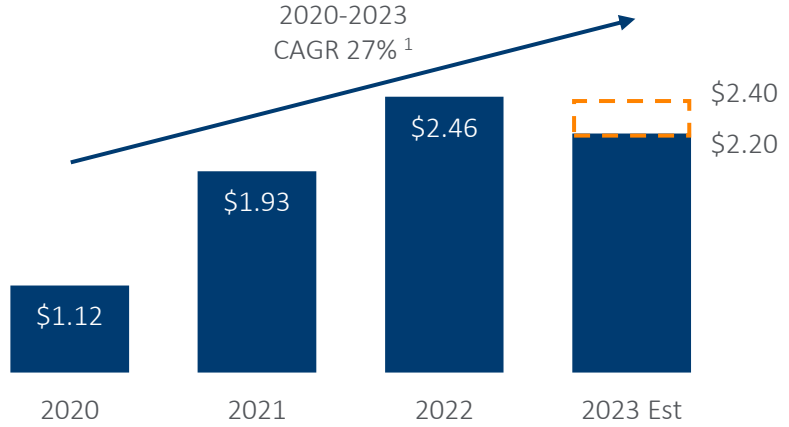
FY 2023 Guidance

Revenue

($ Millions)



Adjusted Diluted EPS[2]



Key Outlook Assumptions

- Stable demand from medical & aerospace/defense customers
- Softness in industrial end market and distribution channel expected to continue through end of 2023
- Light vehicle market forecasts - NA 15M, China 26M, Europe 16-17M units
- Tax rate in the range of 20-23% excluding discrete items

Notes:
[1] CAGR based on mid point of 2023 guidance
[2] Adjusted Diluted EPS is a non-GAAP financial measure. Refer to Appendix for reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

2nd Quarter Financial Results

Q2 2023 Financial Summary

Results

($ Millions, except EPS)



	Q2 2022	Q2 2023
Net Income	$12.6	$12.9
Diluted EPS	$0.39	$0.41
Adj. Diluted EPS[1]	$0.62	$0.59
Adj. Gross Margin[1]	36.1%	35.0%
Adj. EBITDA Margin[1]	22.4%	21.3%

Highlights

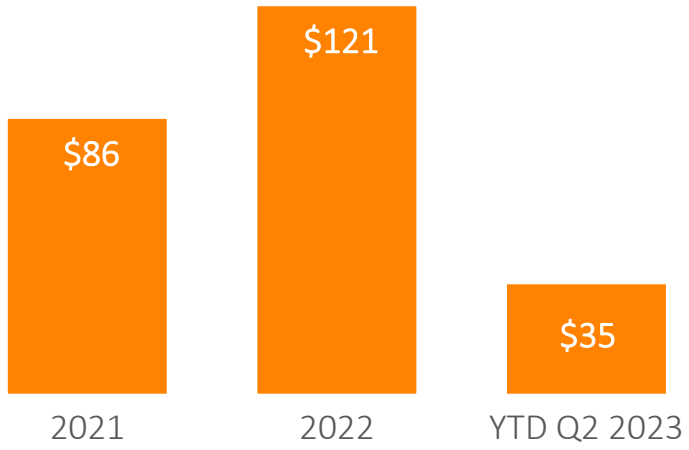
- Revenue flat with Q2 2022
  - Acquisitions added $6.5 million
  - FX unfavorable impact $1.1 million
- Transportation revenue up 10%
  - Recovery from supply chain related issues
- Non-transportation revenue down 10%
  - Continued softness in distribution, industrial end-market
- Adjusted Gross Margin down 120 bps
  - Unfavorable end-market mix
  - FX unfavorable impact $1.7 million

Notes:
All comparisons vs. same period in prior year unless otherwise noted.
[1] Adj. Diluted EPS, Adj. Gross Margin and Adj. EBITDA Margin are non-GAAP financial measures. Refer to Appendix for reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

Prioritizing strong cash flow generation

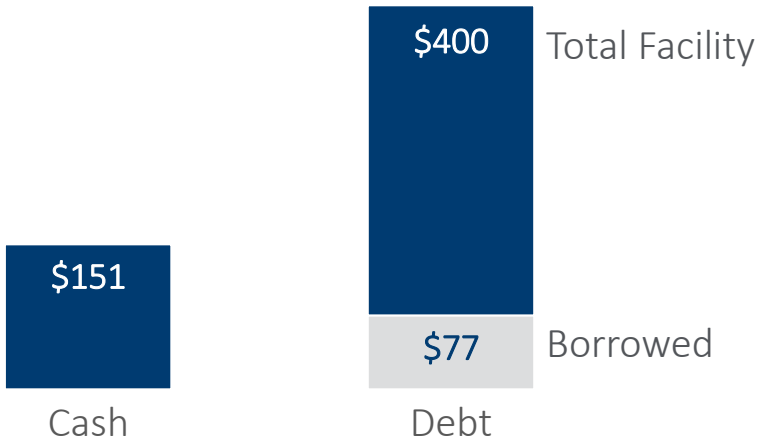
Operating Cash Flow[1]

($ Millions)



Cash and Debt[2]

($ Millions)



$26M
YTD Q2 2023 Free Cash Flow[3]

$20M
Returned to Shareholders YTD Q2 2023

$8M
YTD Q2 2023 Capital Expenditures

Strong Balance Sheet
Solid Foundation for Strategic M&A

Notes:
[1] 2022 results include $27m from US pension plan termination
[2] Cash and Debt balance as of June 30, 2023
[3] Free Cash Flow is a non-GAAP financial measure. Refer to Appendix for reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

Q & A

Appendix

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 believes that the non-GAAP financial measures presented 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. Non-GAAP measures should not be used by investors or third parties as the sole basis for formulating investment decisions, as they may exclude a number of important cash and non-cash recurring items.

CTS has presented these non-GAAP financial measures as it believes that the presentation of its financial results that exclude (1) restructuring charges; (2) environmental charges; (3) acquisition-related costs; (4) inventory fair value step-up costs; (5) foreign exchange (gains) losses; (6) non-cash pension expenses (income); and (7) certain discrete tax items are useful and assist in comparing CTS' current operating results with past periods and with the operational performance of other companies in its industry. Included below is a description of the expenses that CTS has determined are not normal, recurring cash operating expenses necessary to operate its business and the rationale for why providing financial measures for its business with such expenses excluded or adjusted is useful to investors as a supplement to the U.S. GAAP measures.

- Restructuring charges - costs primarily relating to workforce reduction costs, building and equipment relocation costs, asset impairment charges and other facility closure costs in connection with our continued optimization of our organization.
- Environmental charges - costs associated with our non-operating facilities that are unrelated to ongoing operations.
- Acquisition-related costs - diligence and transaction costs related to acquisitions.
- Inventory fair value step-up costs - purchase accounting-related inventory costs from acquisitions.
- Foreign exchange (gains) losses - remeasurement income and expenses for non-U.S. subsidiaries with the U.S. dollar as its functional currency.
- Non-cash pension expenses (income) - pension income and expenses relating to the non-operating U.S. pension and post-retirement life insurance plans, including historical plan settlement activities.
- Discrete tax items - non-recurring, infrequent, or unusual tax adjustments (e.g., valuation allowances, uncertain tax position changes, unremitted assertion changes and discrete impacts associated with pre-tax non-GAAP items, etc.).

At times, the reconciliations below have been intentionally rounded to the nearest thousand, or $0.01 for EPS figures, and, therefore, may not sum.

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.

Regulation G Schedules

Adjusted Diluted EPS

	Q2		Year-to-Date		Full Year		
	2023	2022	2023	2022	2022	2021	2020
Diluted earnings (loss) per share	**$ 0.41**	**$ 0.39**	**$ 0.98**	**$ 1.02**	**$ 1.85**	**$ (1.30)**	**$1.06**
Tax affected adjustments to reported diluted earnings (loss) per share:							
Restructuring charges	0.05	0.02	0.07	0.03	0.05	0.06	0.04
Foreign currency (gain) loss	0.08	0.12	0.08	0.11	0.15	0.10	(0.16)
Non-cash pension expense	-	-	-	-	0.16	3.13	0.06
Environmental charges	0.05	0.02	0.07	0.03	0.07	0.05	0.07
Acquisition-related costs	-	0.05	-	0.07	0.07	-	0.01
Inventory fair value step-up	-	0.02	-	0.03	0.10	-	-
Discrete tax items	-	-	-	-	0.01	(0.11)	0.04
Adjusted diluted earnings per share	**$ 0.59**	**$ 0.62**	**$ 1.20**	**$ 1.29**	**$ 2.46**	**$ 1.93**	**$1.12**

Regulation G Schedules

Adjusted EBITDA Margin

($ Millions)

	Q2		Year-to-Date		Full Year		
	2023	2022	2023	2022	2022	2021	2020
Net earnings (loss)	$ 12.9	$ 12.6	$ 31.2	$ 32.8	$ 59.6	$ (41.9)	$ 34.7
Net sales	$ 145.2	$ 145.0	$ 291.2	$ 292.7	$ 586.9	$ 512.9	$ 424.1
Net earnings (loss) margin	**8.9%**	**8.7%**	**10.7%**	**11.2%**	**10.2%**	**-8.2%**	**8.2%**
Depreciation and amortization expense	7.3	7.0	14.2	13.8	29.8	26.9	26.7
Interest expense	0.8	0.6	1.5	1.1	2.2	2.1	3.3
Tax expense (benefit)	3.2	4.3	7.5	9.8	21.2	(19.0)	10.8
EBITDA	**24.2**	**24.5**	**54.5**	**57.6**	**112.7**	**(31.8)**	**75.4**
Adjustments to EBITDA:							
Restructuring charges	1.9	0.6	2.8	0.9	1.9	1.7	1.8
Environmental charges	2.2	0.9	2.7	1.5	2.8	2.3	2.8
Acquisition-related costs	-	2.0	0.2	2.5	2.5	-	0.3
Inventory fair value step-up	-	0.5	-	1.1	4.0	-	-
Non-cash pension and related (income) expense	-	-	-	-	4.8	132.4	2.5
Foreign currency (gain) loss	2.8	3.8	2.7	3.5	4.9	3.3	(5.3)
Total adjustments to EBITDA	6.8	7.9	8.4	9.6	20.9	139.7	2.1
Adjusted EBITDA	$ 31.0	$ 32.5	$ 62.9	$ 67.2	$ 133.6	$ 107.9	$ 77.5
Adjusted EBITDA margin	**21.3%**	**22.4%**	**21.6%**	**23.0%**	**22.8%**	**21.0%**	**18.3%**

Regulation G Schedules

Adjusted Gross Margin

($ Millions)

	Q2		Year-to-Date		Full Year		
	2023	2022	2023	2022	2022	2021	2020
Gross margin	**$ 50.7**	**$ 51.8**	**$ 102.4**	**$ 106.2**	**$ 210.5**	**$ 184.6**	**$ 139.1**
Net sales	$ 145.2	$ 145.0	$ 291.2	$ 292.7	$ 586.9	$ 512.9	$ 424.1
Gross margin as a % of net sales	35.0%	35.8%	35.2%	36.3%	35.9%	36.0%	32.8%
Adjustment to reported gross margin:							
Inventory fair value step-up	-	0.5	-	1.1	4.0	-	-
Adjusted gross margin	$ 50.7	$ 52.4	$ 102.4	$ 107.3	$ 214.5	$ 184.6	$ 139.1
Adjusted gross margin as a % of net sales	**35.0%**	**36.1%**	**35.2%**	**36.7%**	**36.5%**	**36.0%**	**32.8%**

Regulation G Schedules

Adjusted Net Earnings

($ Millions)

	Q2		Year-to-Date		Full Year		
	2023	2022	2023	2022	2022	2021	2020
Net earnings (loss) (A)	**$ 12.9**	**$ 12.6**	**$ 31.2**	**$ 32.8**	**$ 59.6**	**$ (41.9)**	**$ 34.7**
Net sales	$ 145.2	$ 145.0	$ 291.2	$ 292.7	$ 586.9	$ 512.9	$ 424.1
Net earnings (loss) as a % of net sales	**8.9%**	**8.7%**	**10.7%**	**11.2%**	**10.2%**	**-8.2%**	**8.2%**
Adjustments to reported net earnings (loss):							
Restructuring charges	1.9	0.6	2.8	0.9	1.9	1.7	1.8
Environmental charges	2.2	0.9	2.7	1.5	2.8	2.3	2.8
Acquisition-related costs	-	2.0	0.2	2.5	2.5	-	0.3
Inventory fair value step-up	-	0.5	-	1.1	4.0	-	-
Non-cash pension and related (income) expense	-	-	-	-	4.8	132.4	2.5
Foreign currency loss (gain)	2.8	3.8	2.7	3.5	4.9	3.3	(5.3)
Total adjustments to reported net earnings (loss)	$ 6.8	$ 21.2	$ 8.4	$ 9.5	$ 20.9	$ 139.7	$ 2.1
Total adjustments, tax affected **(B)**	$ 5.9	$ 7.3	$ 7.2	$ 8.7	$ 19.3	$ 108.6	$ 0.4
Tax adjustments:							
Increase in valuation allowances	-	-	-	-	-	0.9	0.2
Other discrete tax items	-	-	-	-	0.2	(4.7)	1.2
Total tax adjustments **(C)**	$ -	$ -	$ -	$ -	$ 0.2	$ (3.8)	$ 1.4
Adjusted net earnings (A+B+C)	**$ 18.8**	**$ 19.9**	**$ 38.5**	**$ 41.5**	**$ 79.1**	**$ 63.0**	**$ 36.5**
Adjusted net earnings as a % of net sales	13.0%	13.7%	13.2%	14.2%	13.5%	12.3%	8.6%

Regulation G Schedules

Free Cash Flow

($ Millions)

	Q2		Year-to-Date		Full Year		
	2023	2022	2023	2022	2022	2021	2020
Net cash provided by operating activities	**$ 23.4**	**$ 16.1**	**$ 34.6**	**$ 35.4**	**$ 121.2**	**$ 86.1**	**$ 76.8**
Capital expenditures	(3.9)	(3.6)	(8.5)	(7.0)	(14.3)	(15.6)	(14.9)
Free cash flow	**$ 19.5**	**$ 12.5**	**$ 26.1**	**$ 28.4**	**$ 106.9**	**$ 70.5**	**$ 61.9**

Controllable Working Capital

($ Millions)

	Q2		Full Year		
	2023	2022	2022	2021	2020
Net accounts receivable	$ 97.5	$ 98.9	$ 90.9	$ 82.2	$ 81.0
Net inventory	$ 62.6	$ 64.2	$ 62.3	$ 49.5	$ 45.9
Accounts payable	$ (53.1)	$ (60.7)	$ (53.2)	$ (55.5)	$ (50.5)
Controllable working capital	$ 107.0	$ 102.4	$ 100.0	$ 76.2	$ 76.4
Quarter sales	$ 145.2	$ 145.0	$ 142.3	$ 132.5	$ 123.0
Multiplied by 4	4	4	4	4	4
Annualized sales	$ 580.7	$ 579.9	$ 569.1	$ 530.0	$ 492.1
Controllable working capital as a % of annualized sales	**18.4%**	**17.7%**	**17.6%**	**14.4%**	**15.5%**