S&P Global
Market Intelligence

CTS Corporation NYSE:CTS

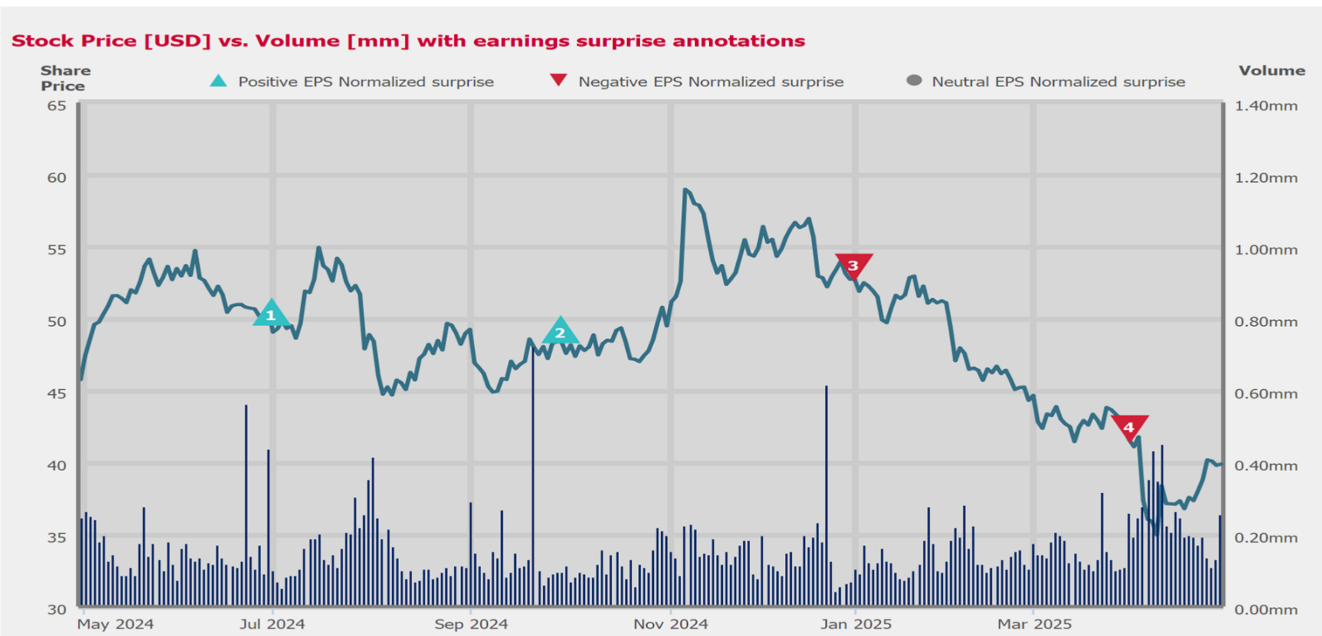
FQ1 2025 Earnings Call Transcripts

Wednesday, April 30, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.44	(10.20 %)	0.52	2.10	NA
Revenue (mm)	128.72	125.77	(2.29 %)	132.65	533.19	NA

Currency: USD
Consensus as of Apr-04-2025 1:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2024	0.52	0.54	1.89 %
FQ3 2024	0.54	0.63	16.67 %
FQ4 2024	0.54	0.53	(1.85 %)
FQ1 2025	0.49	0.44	(10.20 %)

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Call Participants

EXECUTIVES

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Kieran M. O'Sullivan
Chairman, President & CEO

ANALYSTS

Hendi Susanto
Gabelli Funds, LLC

John Edward Franzreb
Sidoti & Company, LLC

Presentation

Operator

Hello, everyone, and thank you for joining the CTS Corporation First Quarter 2025 Earnings Call. My name is Marie, and I will be coordinating your call today. [Operator Instructions].

I will now hand over to your host, Kieran O'Sullivan, Chairman, President and CEO, to begin. Please go ahead.

Kieran M. O'Sullivan
Chairman, President & CEO

Good morning, and thank you for joining us today for our first quarter 2025 results. We continue to execute on our diversification strategy to increase growth in our diversified medical, industrial, aerospace and defense markets while also progressing on electrification and transportation.

Revenue from our diversified markets grew 14% in the quarter. We also achieved strong bookings with a book-to-bill ratio of 1.28 for the diversified end markets. In April, we added a win for a new product line in transportation, expanding our presence in the vehicle footwell. Current bookings for the second quarter indicate an improving trend, while we are cautious on second half demand given current levels of uncertainty due to tariffs and the geopolitical environment.

Ashish will take us through the safe harbor statement. Ashish?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

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 supplemental slide presentation, which can be found in the Investors section of the CTS website.

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

Kieran M. O'Sullivan
Chairman, President & CEO

Thank you, Ashish. We finished the first quarter with sales of $126 million, essentially flat from the first quarter of 2024. For the quarter, diversified end market sales including sales to medical, aerospace and defense and industrial end markets were up 14%, while transportation sales were down 12% from the same period last year. Diversified end market sales were 53% of overall company revenue in the quarter.

Our book-to-bill ratio for the first quarter was 1.17 compared to 1.07 in the first quarter of 2024. Bookings for our diversified end markets were strong with a book-to-bill ratio of 1.28. First quarter adjusted diluted earnings were $0.44 per share. Ashish will add further color on our financial performance later in today's call.

In the medical end market, first quarter sales were up 13% compared to the same period in 2024. The book-to-bill ratio in the first quarter was 1.3 compared to 1.0 in the first quarter of 2024. This significant increase in the book-to-bill ratio represents new orders beyond the next quarter. We are excited about the prospects for growth in minimally invasive applications, where our products help deliver enhanced ultrasound images, making it easier for medical professionals to detect artery restrictions and deliver treatment medications. We are proud to highlight that our products support solutions that help save lives.

During the first quarter, we had wins for medical ultrasound across all regions and secured purchase orders for increased volumes in medical therapeutics. Additionally, we had wins for programs with application in kidney stone treatment and for intelligent imaging. We added one new customer in the quarter for an AI-driven ultrasound application. Over time, we expect the volume increases in portable ultrasound diagnostics and therapeutics will enhance our growth profile. As I mentioned earlier, we are already seeing strengthening in demand for therapeutic products.

Aerospace and defense sales for the first quarter were up 39% from the first quarter of 2024. Excluding sales from the SyQwest acquisition, sales were up 8%. The SyQwest revenue reflects the seasonality expected in the business. Bookings in the first quarter were up 32% from the prior year period as we maintain a healthy backlog. Our strategy is focused on moving from a component supplier to a supplier of sensors, transducers and subsystems.

We also expect to expand our product range and market opportunity after a period of integration. We received multiple orders in the quarter for sonar, nondestructive testing, temperature sensing and a larger order for an RF anti-jamming application. The integration of the SyQwest business is progressing and the business continued to drive a strong pipeline of opportunities.

In the industrial market, we continue to see a gradual recovery in distribution as well as with OEMs. Sales in the first quarter were up 3% sequentially and up 4% compared to the prior year period, underscoring our expectation of a gradual recovery. Bookings in the quarter were up 19% from the same period last year. Inventory levels remain more normalized. We were successful with multiple wins in the quarter for EMC filters, industrial printing, switches and controls, distribution products and temperature sensing applications.

We added two new customers in the quarter, one for a flow meter application and the other for temperature sensing. Demand across the industrial market is expected to rebound in 2025. However, we are also carefully monitoring for potential demand softening due to uncertainty related to tariffs. The megatrends of automation, connectivity and efficiency enhance our longer-term growth prospects.

Transportation sales were $58 million in the first quarter, down approximately 12% from the same period last year due to the impact of China market dynamics and competition for commercial vehicle products. In the first quarter, we had awards across various product groups, including accelerator module wins with customers in North America, Europe and Asia. We also added a new customer in electrification for a passive safety application. In addition, in April, we added a new product line win for vehicle footwell integration with a North American OEM.

The near-term growth rates for ICE versus EVs and hybrids are less of a concern for us given our light vehicle products are mostly agnostic to the drivetrain technology. Total booked business was approximately $1 billion at the end of the quarter. OEMs continue to delay sourcing decisions as tariffs and business uncertainty evolve. Going forward, we expect hybrid sales to increase.

Interest in our eBrake product offering weight and cost advantages continues across OEMs, and our team is proceeding with samples and design customization. Our first eBrake customer has moved out the timing of the product launch and the timing of revenues is currently not clear. We remain confident in the long-term prospects for this product line given the cost and weight benefits for our customers as well as the sentiment in the market from OEMs and Tier 1 chassis system suppliers. We expect our eBrake, other footwell products and sensor applications will increase our ability to grow content.

For our diversified end markets, in line with our strategy, we aim to expand the customer base and range of applications. Subject to the evolving trade tariffs and associated economic uncertainty, demand in the medical end market is expected to remain solid driven primarily by medical ultrasound and therapeutic volume growth. In aerospace and defense, revenue is expected to remain strong given our backlog of orders and momentum from the SyQwest acquisition with stronger sales in the second half of 2025.

Industrial and distribution sales are expected to improve gradually, though we continue to monitor the potential impact of tariffs. Longer term, we expect our material formulations, supported by three leading technologies, to continue to drive our growth in key high-quality end markets in line with our diversification strategy.

Across transportation markets, production volumes are expected to decrease in 2025 given the recent tariff announcements. The North American light vehicle market was expected to be in the 15 million to 16 million unit range. If vehicle tariffs of 25% remain in place, end market demand could be impacted. European production is now forecasted in the 16 million unit range and showing some increased softness due to overcapacity pressure from Chinese OEMs. China volumes are expected to be in the 29 million unit range.

Electric vehicle penetration rates have softened in some regions, while hybrid adoption continues to improve. Overall, we are monitoring the potential for headwinds in our transportation revenue due to trade tariffs, the China market dynamics and other regional factors. We expect our next-generation commercial vehicle actuator to go into production later in the second quarter. We anticipate softness in commercial vehicle revenue throughout 2025.

As I mentioned previously, revenue from the SyQwest acquisition will introduce some seasonality where the timing of revenue may be influenced by the approval of funding by the U.S. government. We expect the revenues for the SyQwest acquisition will strengthen in the next quarter and be stronger in the second half of 2025.

The impact of tariffs and the geopolitical environment are creating uncertainty. We continue to closely monitor and evaluate the situation and are focused on agility and adapting to cost and price adjustments in close collaboration with our customers and suppliers. Assuming the continuation of current market conditions, we are maintaining our guidance of sales in the range of $520 million to $550 million and adjusted diluted EPS to be in the range of $2.20 to $2.35.

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

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Thank you, Kieran. First quarter sales were $126 million, similar to the first and fourth quarter of 2024. Sales to diversified end markets increased 14% year-over-year. SyQwest added $3 million in revenue during the quarter. Organic revenue growth for diversified end markets was 8%. Sales to transportation customers were down 12% from the first quarter of last year due to the softness in sales related to commercial vehicle products and reduced volumes due to China market dynamics.

Our adjusted gross margin was 37% in the first quarter, up 77 basis points compared to the first quarter of 2024 and down 63 basis points compared to the fourth quarter of 2024. Exchange rate changes had a favorable impact of $1.1 million on gross margin.

During the first quarter, we saw a very small impact from tariffs in early March and have focused on collaborating with our customers to pass on the additional cost burden. As a result, there was minimal impact on our gross margin from tariffs in the quarter. We are closely monitoring as the situation evolves and are in constant communication with our customers and suppliers. We are working with customers to ensure that we can keep the impact of tariffs on our business cost neutral.

As Kieran indicated, we had strong bookings in our diversified end markets in the first quarter. However, we are continuing to carefully monitor the potential impact of tariffs on the overall demand situation in the rest of 2025.

Earnings were $0.44 per diluted share for the first quarter. Adjusted earnings for the first quarter were $0.44 per diluted share compared to $0.47 per diluted share for the same period last year. Our net interest cost increased by more than $0.03 in the first quarter compared to the first quarter of 2024 due to the acquisition of SyQwest. We expect solid growth from this acquisition and are working on a robust pipeline of potential contracts.

Moving to cash generation and the balance sheet. We generated $16 million in operating cash flow for the first quarter of 2025 compared to $18 million in the first quarter of 2024. Our balance sheet remains strong with a cash balance of $90 million at the end of the quarter. Our long-term debt balance was $87 million, leaving us good liquidity to support strategic acquisitions.

During the quarter, we repurchased 144,000 shares of CTS stock for approximately $7 million. In total, we returned $8 million to shareholders through dividends and share buybacks in the first quarter of 2025. We have another $55 million remaining under our current share repurchase program, and our focus remains on strong cash generation and appropriate capital allocation. And we 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.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of John Franzreb of Sidoti.

John Edward Franzreb
Sidoti & Company, LLC

I had a couple here. I guess the booking profile was surprisingly strong, especially in the nontransportation side of the business. I'm curious about two things. One, in your prepared remarks, it sounds like that trend continued into April. If that's the case, I'm just curious, is there any prebuying or preordering that you're hearing in the customer base as they want to maybe get ahead of tariff costs?

Kieran M. O'Sullivan
Chairman, President & CEO

So John, the improvement in bookings in the diversified medical, industrial aerospace and defense, that really was in the first quarter. The comment on the second quarter was just the win we had, the new product line in transportation. So to give you a little color around that, I would say the medical area was the strongest. We've seen quite a growth in medical therapeutics. The volume looks strong. And that's why I also highlighted that the bookings there, typically for a quarter out, but they're for a larger part of the year. So we're seeing a very solid increase in there.

On the defense side, we feel really good about the bookings, especially with sonar and other applications. And the SyQwest acquisition obviously brings in some seasonality into the business, which is -- we're indicating in terms of improved sales in the second quarter. And on the industrial side, we've seen a nice gradual rebound. And obviously, we're monitoring all of this with the tariff situation. But we haven't seen prebuy in that area.

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Yes. John, there may be some very small instances of where customers are accelerating purchases, but it's not broad-based.

John Edward Franzreb
Sidoti & Company, LLC

Okay. Well, which I guess brings me to the transportation side of the business. Has there been any change in your internal assumptions in the transportation market today versus the beginning of the year?

Kieran M. O'Sullivan
Chairman, President & CEO

John, we continue to monitor this. We think there is some prebuy going on in the transportation side of the market. But in relation to our guide, we haven't factored in any demand drop. That's why we said assuming current conditions. And you'll see also that we have added a new product line going forward as well with the vehicle footwell integration, which is nice for us to step into.

John Edward Franzreb
Sidoti & Company, LLC

Okay. So then regarding the guidance, Kieran, what does the cadence of the profit profile look like for the balance of the year? You just reported the first quarter, which is actually down on a year-over-year basis. But your guidance suggests still an up year. Can you kind of walk us through how the quarters lay out in order to achieve that scenario?

Kieran M. O'Sullivan
Chairman, President & CEO

Yes. John, not surprised with that question. A few things I'd point out. Number one, obviously, our revenue profile is increasing throughout the year. Hence, we give a few -- we don't add color on the next quarter, but we give some indications on that. And then also, that's helped by the SyQwest seasonality that we talked about in the last earnings call. So that will get increased revenue in the second quarter and increased in the second half.

The other thing I'd point out, John, is the mix change. With the mix change in the diversified markets and SyQwest, you'll see an improvement in profitability as well. So there are some of the things. Obviously, John, the big watch for us is really the second half of the year with the whole tariff environment. So we're still monitoring that. And if something changes there, that would cause us to adjust.

Operator

[Operator Instructions] We have a question from Hendi Susanto of Gabelli Funds.

Hendi Susanto
Gabelli Funds, LLC

My first question, Kieran and Ashish, would you remind us how we should see your manufacturing footprint and then sales shipment with regard to how CTS has positioned itself against potential tariffs?

Kieran M. O'Sullivan
Chairman, President & CEO

Yes. Hendi, I'll start, and then I'll hand over to Ashish. So first of all, when you look at our regional footprint, if you look at Asia, China, most of what we do there is for those markets. There are some small amounts that come back to other markets. Europe is primarily for Europe. And then when it comes to North America, obviously, we've got manufacturing in Mexico. So that's the footprint.

And to put a tariff overlay on that, because I know that's where you're going with the question as well, is we've got a small amount of imports from Asia, some impact on imports from China. And then the larger watch for us is Mexico because under the current conditions, the USMCA exemption helps us. If that changed at any point in time, that would be a headwind for us.

And then maybe to give you some final color on it as well in terms of pricing. In our diversified markets, we feel good about adapting the cost and the pricing with our customers in close collaboration. And then the second part of it is when you look at the transportation side, we're working that as well as you saw in the quarter. But there are always tougher discussions. That's something we'll be working as well. Ashish?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

So Hendi, just to add to that, the couple of days that the tariffs were in place between Mexico and the U.S. in early March, we had a very small impact on tariffs, and that was sort of a test bed in terms of how we navigate through that with our customer base. Positive indications from those discussions, but the numbers were relatively small. So as Kieran mentioned, we are actively discussing with our customer base to make sure that everybody understands how we are looking at it. And so far, so good. But I'm sure the discussions will get tough as the numbers get bigger, if they get bigger.

Kieran M. O'Sullivan
Chairman, President & CEO

And Hendi, just to add a little bit more color because I know this is on everybody's mind at the moment. What are the mitigation levers we have? Obviously, pricing is one of the first things. We're also evaluating the logistics options with our customers in terms of what we're doing. We've got defense exemptions. And once things stabilize here, hopefully things stabilize over time here, then we'll see if we need to reevaluate anything. But no quick decisions here.

Hendi Susanto
Gabelli Funds, LLC

Yes. And Kieran, one hypothetical situation. If you need to change manufacturing location, let's say, which one would need requalification with customers across different end markets?

Kieran M. O'Sullivan
Chairman, President & CEO

I think, Hendi, when you move any location, you're going to get qualification with all of our customers. There's always some level of qualification. Obviously, it's different in the different end markets.

Ashish Agrawal

VP, CFO & Principal Accounting Officer

Yes. Hendi, if you look at our production -- sorry, our product portfolio, largest portion of it is engineered solutions. So whenever you have that situation, any change in manufacturing location, the customers will be looking to requalify.

Hendi Susanto
Gabelli Funds, LLC

Okay. Yes. And Ashish, would you remind me, when you ship, I think the transfer of ownership takes place before the shipment. Is that right?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

That depends. In some cases, we have Ex Works shipping terms. In some cases, it could be different. So it depends on our specific customer-by-customer contract. So yes, that will be different. When you're looking at USMCA-relevant products, we are the importer of record in those situations. That's the whole concept of USMCA.

Hendi Susanto
Gabelli Funds, LLC

Okay, I see. Yes. And then Kieran, when you talk about solid pipeline in defense and SyQwest, how should we think about the timing of the ones in the pipeline? Is it for the second half of 2025, beyond 2025, or it's somewhat split?

Kieran M. O'Sullivan
Chairman, President & CEO

Hendi, when we look at it, there's some in the pipeline that would impact this year and most of it is in subsequent years.

Ashish Agrawal
VP, CFO & Principal Accounting Officer

So Hendi, we are looking at the business from a long-term perspective. And as Kieran mentioned, there are several things in the work that will start in 2025 and continue. There are other programs that we expect to start materializing in late '25, early '26 that will give us revenue over the following years.

Hendi Susanto
Gabelli Funds, LLC

Okay. I see. And then, Kieran, I think you mentioned, is it -- what is the current situation in the commercial vehicles? And then I'm wondering whether there will be some newer version of products in that area that may hopefully help during the market recovery.

Kieran M. O'Sullivan
Chairman, President & CEO

Yes, Hendi. We -- I think I mentioned in my prepared remarks that we will launch our next-generation product this quarter, and we'll see that ramp. And then over time, given the competition in the space, we'll see how the shares split out. But definitely, yes, launching and ramping the new product this year.

Operator

We have a follow-up question from John Franzreb of Sidoti.

John Edward Franzreb
Sidoti & Company, LLC

Ashish, the SG&A number went up somewhat noticeably in the March quarter. What was driving that?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

So a couple of things, John. If you look at year-over-year, we reset our incentive and equity-based compensation plans. So that is a part of it, but that's a smaller part of it. It's more related to the SyQwest acquisition. We've added the SG&A related to that, including the amortization of intangibles. So that's where you'll see the biggest jump.

John Edward Franzreb
Sidoti & Company, LLC

So this $23 million and change run rate, is it a sustainable number for the balance of the year?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Yes. I mean, one of the things that we are doing as the tariff situation evolves, we are looking at all discretionary spending, open positions, those types of things. So we'll continue to manage spending that is controllable as prudently as we can. We do want to continue funding the growth activities. That is extremely important and critical to us for the long-term success of the business. But everything else is on the table for us to evaluate and allocate resources carefully.

John Edward Franzreb
Sidoti & Company, LLC

Would that suggest -- on the guidance side, Kieran, you talked about the gross margin profile improving. It's got to improve, I guess, somewhat sizably for the balance of the year against that higher SG&A level. Is that a fair assessment?

Kieran M. O'Sullivan
Chairman, President & CEO

Yes. It will ramp during the year, John. But that's a fair assessment.

John Edward Franzreb
Sidoti & Company, LLC

Okay. And is there any reason to expect normal seasonality would not play out in 2025? And by that, I mean that the fourth quarter will be the weakest.

Ashish Agrawal
VP, CFO & Principal Accounting Officer

John, here, I would just ask you to consider the seasonality with SyQwest. As Kieran mentioned, the early part of the year is a little bit softer and then we expect, based on government funding, more strength in the second half of the year.

John Edward Franzreb
Sidoti & Company, LLC

Okay, okay. And just any thoughts on, you talked about funding of programs, what the CapEx budget looks like for 2025?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Yes. So CapEx, John, we expect it to be in our normal range, which we have said is approximately 4% of sales. Obviously, some years we are slightly higher, some years we are slightly lower. But that's a reasonable range for you to consider.

John Edward Franzreb
Sidoti & Company, LLC

Okay. I think I was actually using closer to 5% for this year. So that's a good adjustment. Okay. And just on the tax rate, just while I got you with some numbers, any change in tax rate thoughts for the year? I've been sitting there at 20%. Is that still doable?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Yes. That's about at the midpoint of what we have on the slide deck, John. We have 19% to 21%, so you're right in the middle of it.

Operator

We have a follow-up from Hendi Susanto of Gabelli Funds.

Hendi Susanto
Gabelli Funds, LLC

Ashish, I would like to revisit John's questions about the margin improvement gradually throughout the year. What would be the main drivers of, let's say, improvement in operating profitability? Is it mainly the strength of your medical, aerospace, defense and then SyQwest that will drive higher operating profitability?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

That's a reasonable assumption, Hendi. Just overall, we expect continued improvement in the diversification ratio of the business. So that's the key driver. And then we always have the other pieces that we continue working on, operational efficiency improvements. And then currency can move positively or negatively, impacting our gross margin favorably or unfavorably. So those are the big factors. But the biggest one that we expect in terms of margin enhancement is the growth in the diversified markets faster than the transportation market.

Hendi Susanto
Gabelli Funds, LLC

Yes. And then one last question for me. Would you be able to share how much sales go to automotive in China, roughly?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Hendi, I don't think we have broken that out in our public documents. But let me look at it and come back to you. If it's public information, I can provide you more specifics later on today.

Operator

We currently have no further questions so I will hand back to Kieran O'Sullivan for closing remarks.

Kieran M. O'Sullivan
Chairman, President & CEO

Thanks, Marie, and thank you all for your time today. Despite the near-term tariffs and economic pressures, diversification remains a strategic priority for us. We are focused on further growing our revenues and quality of earnings organically and through strategic acquisitions.

We look forward to updating you on our second quarter 2025 performance in July. Thank you. This concludes our call.

Operator
This concludes today's call. Thank you all for joining. You may now disconnect your lines.