CTS Corporation 4th Quarter and Full Year 2021 Earnings Call

February 8, 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; 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. 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 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

The information included in this presentation includes the non-GAAP financial measures of adjusted EBITDA, adjusted net earnings, adjusted diluted EPS, total debt to capitalization and free cash flow. A reconciliation of each non-GAAP financial measure to its most directly comparable GAAP financial measure is included in the Appendix to this presentation. From time to time, CTS may use non-GAAP financial measures, such as those included in this presentation, in discussing its business. CTS' management believes that the foregoing non-GAAP financial measures are commonly used by financial analysts and others in the industries in which it operates, and thus further provides useful information to investors. In addition, CTS' management uses these measures when assessing the performance of the business and for business planning purposes. These non-GAAP financial measures are intended to supplement, not replace, CTS' presentation of its financial results in accordance with U.S. GAAP. 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 2021 Highlights

Fourth Quarter

$133M	37%	$0.49
SALES	Gross Margin	Adj. diluted EPS
+8%	+200 bps	+14%

- Organic growth +6%
- Non-transportation revenues +25%
- Transportation revenues -3%
- New business wins $185M; added 9 new customers
- Strong execution despite supply chain challenges
- Generated +$26M operating cash flow

FY 2021

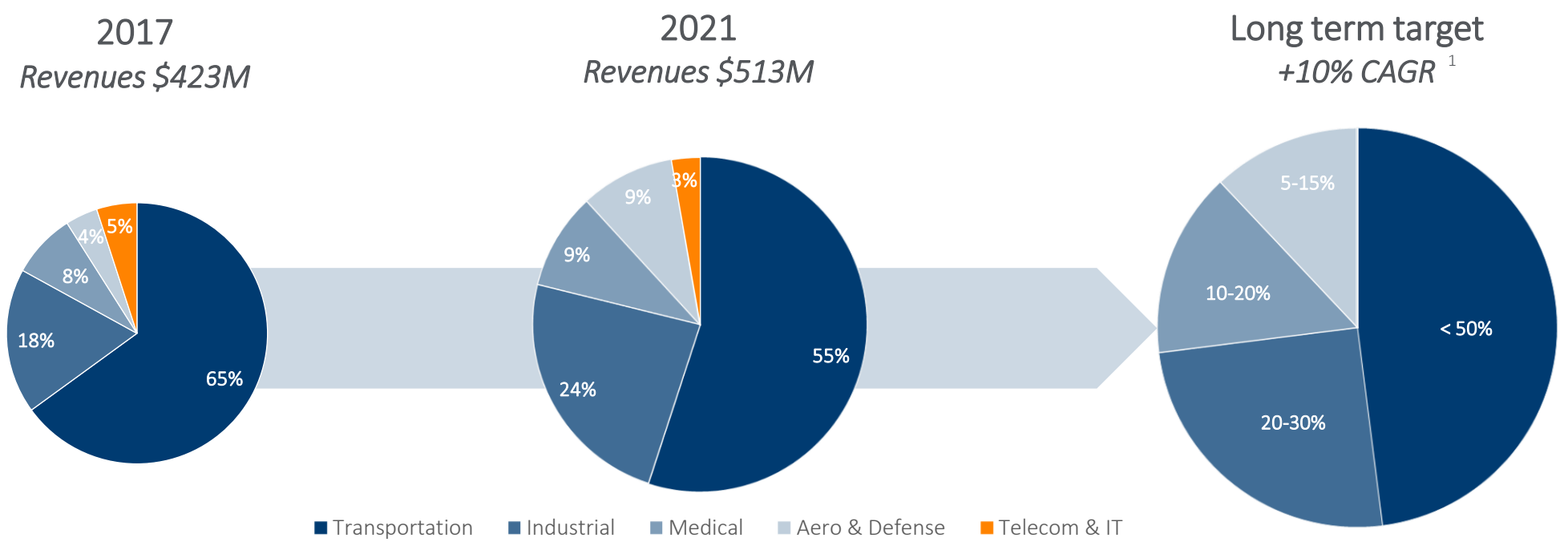
$513M	36%	$1.93
SALES	Gross Margin	Adj. diluted EPS
+21%	+320 bps	+72%

- Organic growth +19%
- Non-transportation revenues +25%
- Transportation revenues +18%
- New business wins $694M, a record
- Generated $86M operating cash flow

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

Delivered solid growth and improved profitability

Diversification Strategy – Expanding range of technologies and products across end markets



Beginning in 2022, sales to Telecom & IT end-market are included in the Industrial end-market

Industrial

- Inkjet printing
- Transducer applications
- Temperature sensors

Transportation

- EV/Hybrid platforms
- Passive safety, E-Brake
- Two-wheeler applications

Medical

- Traditional and intra-vascular ultrasound
- Temperature sensors

Aerospace & Defense

- Undersea sonar applications
- European sonar expansion
- Textured and single crystal material

Non-Transportation Revenue Up from 35% to 45% … Goal >50%

Capital Allocation and M&A

Capital Allocation Priorities

- Invest in Organic Growth
- Strategic M&A
- Return cash to Shareholders

M&A Criteria



Strong Balance Sheet and Cash Flow, Balanced Capital Deployment

Our Sustainability Journey



- Established cross-functional ESG Steering Committee
- Oversight of sustainability initiatives by Nominating, Governance and Sustainability Committee
- Board diversity >40%
- Ethical business practices and compliance training for all employees

- Supporting sustainable products
  - Vehicle electrification
- Promoting health and safety
  - High-Definition Ultrasound
  - Intravenous Ultrasound
  - Industrial Automation



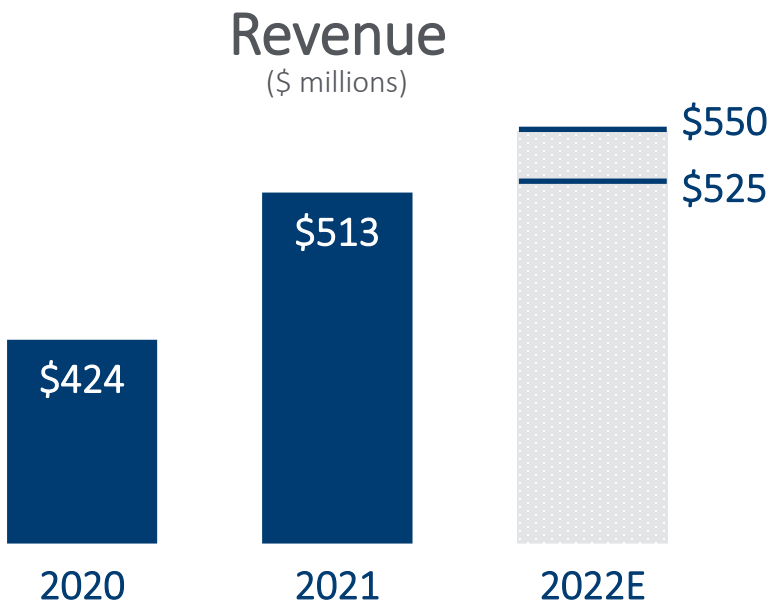


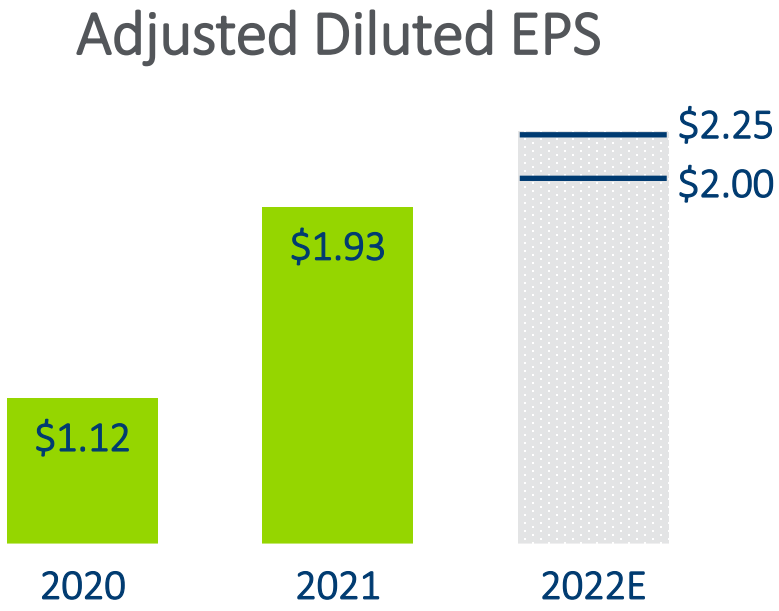
- Launched CTS CARES expanding our legacy of community involvement
- Strong engagement across business
  - >600 hours in 4th Quarter
  - 18 events
  - 14 locations

cts | Cares

Creating Long Term Sustainable Value for Stakeholders and Community

FY 2022 Guidance





Key Assumptions

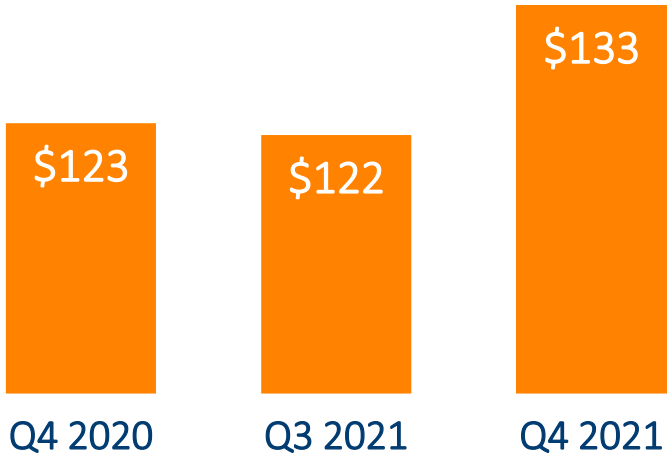
- Light vehicle market – US 14-15M, China ~24M, Europe 17-18M units
- Robust commercial vehicle market through 2022
- Supply chain challenges and inflationary pressures persist
- Non-transportation markets robust in 1H, less visibility on 2H
- Tax rate in the range of 21-23% excluding discrete items

Your Partner in Smart Solutions

4th Quarter and Full Year 2021 Financial Results

Q4 2021 Financial Summary

Revenue
($ millions)



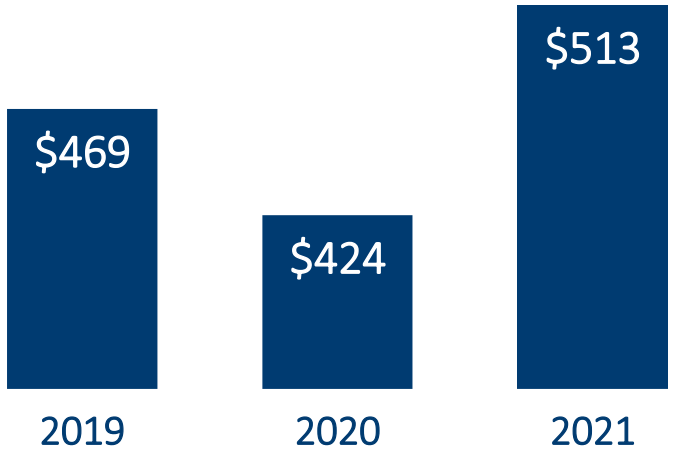
	Q4 2020	Q3 2021	Q4 2021
Gross Margin	34.7%	37.3%	36.7%
Net Income	$14.9	$(63.9)	$9.2
Diluted EPS	$0.46	$(1.97)	$0.28
Adj. Diluted EPS	$0.43	$0.46	$0.49
Adj. EBITDA	21.4%	21.7%	20.9%

Highlights

- Revenue up 8% vs. Q4 2020 and vs Q3 2021
- Transportation sales down 3% vs Q4 2020, up 19% sequentially
- Non-transportation sales up 25% vs Q4 2020, organic growth 21%
- Continued margin pressure from supply challenges and cost increases
- Strong execution helped mitigate margin pressure
- Robust operating cash flow $26M

Full Year 2021 Financial Summary

Revenue
($ millions)



	2019	2020	2021
Gross Margin	33.6%	32.8%	36.0%
Net Income	$36.1	$34.7	$(41.9)
Diluted EPS	$1.09	$1.06	$(1.30)
Adj. Diluted EPS	$1.45	$1.12	$1.93
Adj. EBITDA	19.1%	18.3%	21.0%

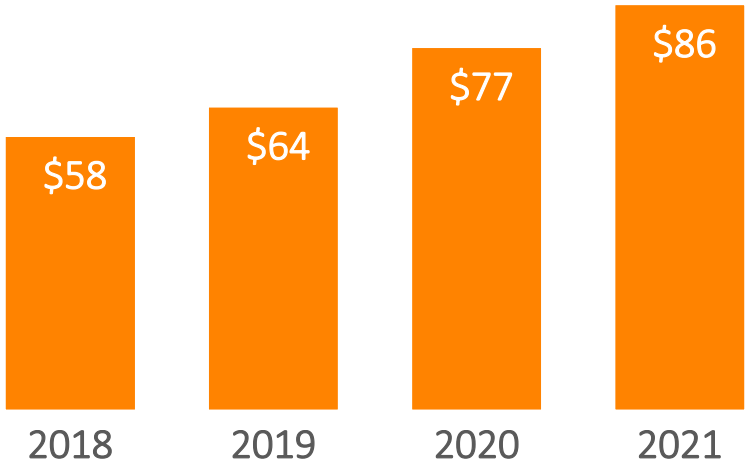
Highlights

- Revenue up 21% vs 2020, organic growth 19%
- Double-digit revenue growth in all end markets
- Transportation sales up 18% vs 2020
- Non-transportation sales up 25%, organic growth +21%
- Gross margin improved 320 bps
- Operating cash flow $86M
- Controllable working capital 14.4%
- SAP ERP implementation essentially complete

Strong and Consistent Cash Flow Generation

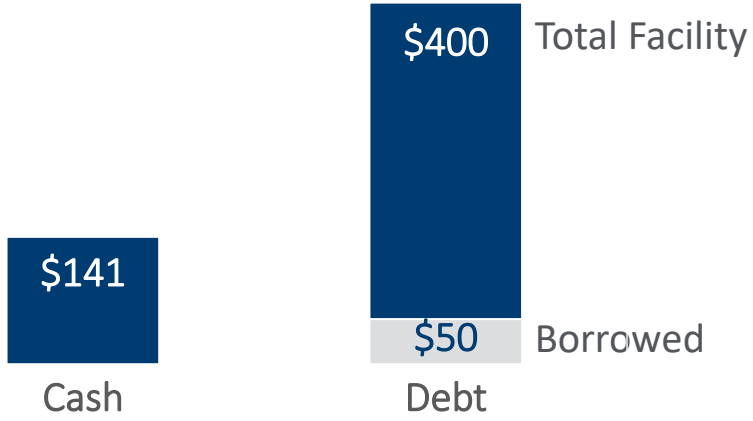
Operating Cash Flow

($ Millions)



Cash and Debt

($ Millions)



Note: Cash and Debt balance as of Dec 31, 2021

$71M
Free Cash Flow, 112% conversion rate

$14M
Returned to shareholders:
$9M buyback, $5M dividends

$16M
Capital Expenditures in 2021

Strong Balance Sheet
Solid Foundation for Strategic M&A

Note: FCF Conversion = FCF / Adjusted Net Earnings

Q & A

Appendix

Financial Summary

($ Millions, except percentages and Adjusted Diluted EPS)

	2021	2020	2019
Net Sales	$512.9	$424.1	$469.0
Gross Margin	$184.6	$139.1	$157.6
Gross Margin % of Sales	36.0%	32.8%	33.6%
Depreciation and Amortization	$26.9	$26.7	$24.6
Adjusted EBITDA	$107.8	$77.5	$89.5
Adjusted EBITDA % of Sales	21.0%	18.3%	19.1%
Adjusted Diluted EPS	$1.93	$1.12	$1.45
Operating Cash Flow	$86.1	$76.8	$64.4
Total Debt / Capitalization	9.7%	11.4%	19.7%

Regulation G Schedules

Adjusted Net Earnings

($ Millions, except percentages)

	Q4		Full Year		
	2021	2020	2021	2020	2019
Net Earnings (loss) (A)	**$ 9.2**	**$ 14.9**	**$ (41.9)**	**$ 34.7**	**$ 36.1**
Adjustments to reported net earnings (loss):					
Restructuring charges	1.1	0.4	1.7	1.8	7.4
Environmental charges	1.4	1.5	2.3	2.8	2.3
Legal settlement	-	-	-	-	(0.5)
Transaction costs	-	0.3	-	0.3	0.7
Costs of tax improvement initiatives	-	-	-	-	0.1
Non-cash pension expense	1.3	0.6	132.4	2.5	0.8
Foreign currency (loss) gain	1.9	(3.4)	3.3	(5.3)	1.8
Total adjustments to reported net earnings (loss)	$ 5.7	$ (0.5)	$ 139.7	$ 2.1	$ 12.6
Total adjustments, tax affected **(B)**	$ 5.1	$ (1.2)	$ 108.6	$ 0.4	$ 10.2
Tax adjustments:					
Increase (decrease) in valuation allowances	0.9	(0.6)	0.9	0.2	-
Other discrete tax items	0.7	0.9	(4.7)	1.2	1.8
Total tax adjustments **(C)**	$ 1.6	$ 0.3	$ (3.8)	$ 1.4	$ 1.8
Adjusted net earnings (A+B+C)	**$ 15.9**	**$ 14.1**	**$ 63.0**	**$ 36.5**	**$ 48.1**
Net sales	$ 132.5	$ 123.0	$ 512.9	$ 424.1	$ 469.0
Adjusted net earnings as a % of net sales	12.0%	11.5%	12.3%	8.6%	10.3%

Regulation G Schedules

Adjusted Diluted EPS

	Q4		Full Year		
	2021	2020	2021	2020	2019
Diluted earnings (loss) per share	**$ 0.28**	**$ 0.46**	**$ (1.30)**	**$ 1.06**	**$ 1.09**
Tax affected adjustments to reported diluted earnings (loss) per share:					
Restructuring charges	0.04	0.01	0.06	0.04	0.18
Environmental charges	0.03	0.03	0.05	0.07	0.05
Legal settlement	-	-	-	-	(0.01)
Transaction costs	-	0.01	-	0.01	0.02
Non-cash pension expense	0.03	0.01	3.13	0.06	0.02
Foreign currency (gain) loss	0.06	(0.10)	0.10	(0.16)	0.05
Other discrete tax items	0.05	0.01	(0.11)	0.04	0.05
Adjusted diluted earnings per share	**$ 0.49**	**$ 0.43**	**$ 1.93**	**$ 1.12**	**$ 1.45**

Total Debt to Capitalization

($ Millions, except percentages)

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

Regulation G Schedules

Adjusted EBITDA

($ Millions, except percentages)

	Q4		Full Year		
	2021	2020	2021	2020	2019
Net earnings (loss)	$ 9.2	$ 14.9	$ (41.9)	$ 34.7	$ 36.1
Depreciation and amortization expense	6.7	6.9	26.9	26.7	24.6
Interest expense	0.5	0.7	2.1	3.3	2.6
Tax expense (benefit)	5.6	4.4	(19.0)	10.8	14.1
EBITDA	**22.0**	**26.9**	**(31.8)**	**75.4**	**77.5**
Adjustments to EBITDA:					
Restructuring charges	1.1	0.4	1.7	1.8	6.9
Environmental charges	1.4	1.5	2.3	2.8	2.3
Legal settlement	-	-	-	-	(0.5)
Transaction costs	-	0.3	-	0.3	0.7
Costs of tax improvement initiatives	-	-	-	-	0.1
Non-cash pension expense	1.3	0.6	132.4	2.5	0.8
Foreign currency loss (gain)	1.9	(3.4)	3.3	(5.3)	1.8
Total adjustments to EBITDA	5.7	(0.5)	139.7	2.1	12.0
Adjusted EBITDA	**$ 27.7**	**$ 26.4**	**$ 107.8**	**$ 77.5**	**$ 89.5**
Net sales	$ 132.5	$ 123.0	$ 512.9	$ 424.1	$ 469.0
Adjusted EBITDA as a % of net sales	20.9%	21.4%	21.0%	18.3%	19.1%

Regulation G Schedules

Free Cash Flow

($ Millions)

	Q4		Full Year		
	2021	2020	2021	2020	2019
Net cash provided by operating activities	**$ 26.0**	**$ 26.4**	**$ 86.1**	**$ 76.8**	**$ 64.4**
Capital expenditures	(7.5)	(4.4)	(15.6)	(14.9)	(21.7)
Free cash flow	**$ 18.5**	**$ 22.0**	**$ 70.5**	**$ 61.9**	**$ 42.7**