

26-Apr-2018

# CTS Corp. (CTS)

Q1 2018 Earnings Call

## CORPORATE PARTICIPANTS

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone. Welcome to the CTS Corporation First Quarter 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Kieran O'Sullivan. Please go ahead.

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[00F983-E Kieran O'Sullivan]

Good morning. Thank you for joining us today and welcome to CTS' first quarter 2018 conference call. The following are some notable items for the quarter. First quarter sales were \$113.5 million, up 13.4% from the same period in 2017. Gross margins were 33.9% compared to 34.2% in the same period of last year. Adjusted earnings per share were \$0.34 compared to \$0.26 in the first quarter of 2017. Total book business increased to \$1.76 billion.

Operating cash flow was \$20.2 million in the quarter, up from \$9.8 million in the same period last year. The transition of manufacturing operations continues with the consolidation of the Bolingbrook site to our Lisle location expected in the third quarter and the end of production in Elkhart in the second half of 2018.

Ashish Agrawal is with me for today's call, and will take us through the Safe Harbor statement. Ashish?

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Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

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 relative to Regulation G, the required explanations and reconciliations are available in the Investors section of the CTS website.

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

[00F983-E Kieran O'Sullivan]

Thanks, Ashish. First quarter sales were \$113.5 million, up 13.4% compared to the same quarter last year. Our organic growth rate was 10.8%. We are pleased with the sales improvement, driven by our teams globally. Gross margins were 33.9%, which is below our expectation for the business.

As you're aware, we are transferring products from our oldest location, which has been in production since 1902. Given the resident institutional knowledge, we have implemented extra controls and incurring additional costs to ensure we protect our customers and train our teams for longer periods at the receiving site. This has impacted our margins and we expect to see improvements, as we complete the transfers. As always, we continue to focus on operational execution and quality, which are foundational for a manufacturing company.

We've been [Technical Difficulty] (00:03:08) sales growth. We shipped our filters to five new customers, with applications primarily in small cell wireless systems. Revenue for new filters is expected to be in the range of \$3 million to \$5 million this year. We added a new customer for our EMC product line, with an application in heavy transportation where we expect revenue of \$500,000 this year. In accelerator pedals, we added two new customers in China with future annual revenue of approximately \$1 million.

In the communications market, we secured design wins for frequency products in several applications including cellular base stations. We recently began shipments to a U.S. OEM of a new wireless cardiac stimulator using our single crystal material. The single crystal elements are the size of a needle tip and are incorporated in the cardiac implant. This piece of element receives ultrasonic energy from an external source and transforms that energy into electrical current, enabling the pacemaker to function.

The reduction of wires represents a significant step forward in simplifying the medical procedure. This medical pacemaker technology is currently approved for use in Europe. In March of 2018, our customer announced the start of clinical trial in Australia and in the U.S., with the goal of obtaining FDA approval. Initial revenue this year amounts to \$0.25 million. We're working to further advance the application of our single crystal technology, such as reducing the size and improving the performance of hearing aids.

We ended the quarter with a total booked business of \$1.76 billion, up from \$1.74 billion at the end of 2017. Our order backlog increase was primarily driven by five wins for accelerator pedals with two wins in North America, one win in Europe and two new customer wins in Asia. We have four platform wins for sensors in Asia and North America, primarily for passive safety application. One customer increased its forecast for actuators; and in electronic components, we've renewed a contract for a micro actuation application in industrial printing.

At the end of last year, we announced the signing of the long-term agreement to provide [indiscernible] (00:05:38) ceramic product for a device security application, with expected low sales in 2018. We now expect sales of

approximately \$1 million for 2018 and expect sales to increase in subsequent years. We will update you on our progress.

The development of our sensor for [indiscernible] (00:05:59) measurement and exhaust after treatment systems for heavy vehicles continues to advance, with sample shipments to customers. We see a heightened interest in the technology in terms of performance and onboard diagnostic enhancements, compared to today's delta pressure solution. The onboard diagnostic capability is enhanced by our RF sensors' accuracy through direct measurement and enables real-time performance measurement and early failure detection.

Performance enhancements include: improved fuel consumption, reduced emission system cost and the reduction in warranty expenses, as a result of increased system robustness. The California Air Quality Board recently proposed a doubling of the warranty period for heavy vehicles, which is likely to drive a focus on managing warranty costs over time. We continue to target for the progress in our end market profile, in line with our strategy for profitable growth with technologies and products that sense, connect and move. We are also working on our M&A pipeline to meet our growth objectives, with a continued focus on international expansion.

We are closely monitoring the recent activity on tariffs in aluminum, steel and other components. Our current view is an impact of less than \$0.5 million and we expect to take offsetting actions to address these headwinds. Our end markets are stable, automotive volumes will remain steady and are expected to be in the range of 16.7 million to 17.2 million units for North America, 22 million to 23 million units for Europe, and 28 million to 28.5 million units for China. Even with this current high confidence, we expect some headwinds in North America volumes in the next 24 months.

Medical and defense markets remain robust, where we grew 36% in medical and 10% in defense. Our guidance for full year 2018 remains unchanged. We expect full year 2018 sales to be in the range of \$435 million to \$455 million. Adjusted earnings are expected to be in the range of \$1.32 to \$1.44.

I'll hand over to Ashish to take you through his results in more detail. Ashish?

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## Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

Thank you, Kieran. First quarter sales were \$113.5 million, up 13.4% versus the last year. Foreign currency rates impacted sales favorably by \$2.8 million. Organic sales growth was 10.8% year-over-year excluding sales from the Noliac acquisition. Sales to automotive customers increased by 11.9% and sales of electronic components increased by 16.2%.

Our gross margin for the first quarter was 33.9% compared to 34.2% in the first quarter of 2017. As Kieran mentioned, we are taking a cautious approach with our product transfers and incurring additional costs to protect our customers. We expect to see improvements in margin as we complete the transfers. SG&A expenses were \$17.4 million or 15.3% of sales in the first quarter of 2018, compared to 15.2% of sales in the first quarter last year. Included in SG&A expenses is the increase in cost from the Noliac acquisition and an unfavorable impact from non-cash pension expenses.

R&D expenses were \$6.5 million in the first quarter 2018 compared to \$6 million in the same period last year. Our effective income tax rate in the first quarter of 2018 was 24.5%. There were certain discrete items that reduced our tax rate in the first quarter. Our updated expectation for our tax rate for 2018 to be in the range of 24% to 27%, excluding discrete items. This is slightly better than our previous estimate. We continue to work on opportunities to improve our tax rate beyond 2018.

Our first quarter 2018 earnings were \$0.34 per diluted share. Included in this number is a \$0.03 charge for restructuring expenses, \$0.01 charge for costs incurred related to various tax projects, and a \$0.04 gain from foreign currency impact of that balance sheet translation. Excluding these items, adjusted earnings per diluted share remain \$0.34 in the first quarter of 2018, an increase of 31% compared to the first quarter of last year.

Now, I'll discuss the balance sheet and cash flow. Cash and cash equivalents were \$121.4 million on March 31, 2018, compared to \$113.6 million at the end of 2017. Our long-term debt balance was \$74 million, down from \$76.3 million at December 31, 2017. Our controllable working capital as a percentage of sales was 12.3% in the first quarter of 2018, down from 13% a year ago. Consistent with prior communication, included in our controllable working capital is the safety stock related to our manufacturing transfers. We expect to work our inventory levels down towards the end of 2018 as we complete the manufacturing transfers.

Cash flow from operations in the first quarter was \$20.2 million, up from \$9.8 million in 2017. Capital expenditures were \$6.9 million. As we have communicated in the past, we expect 2018 CapEx to be in the range of 7% to 9% of sales. The various projects are on track and we expect to return to more normal levels of CapEx beyond 2018.

Our debt-to-capitalization ratio was 17.2% compared to 18.2% at the end of 2017. The ERP implementation process is progressing. Our team is working hard to design and test the system. We expect to roll out the SAP system to our sites in phases, starting in the third quarter of 2018.

This concludes our prepared comments. We'd like to open the line for questions at this time.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] We'll have our first question from John Franzreb with Sidoti & Company.

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

Good morning, everybody. How are you doing?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Hi, John.

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Hi, John.

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

Couple questions here. First, I don't know if I missed this number. But could you give the impact of what you're doing as far as facility rationalization on the gross margin, how much that was in the quarter? And maybe just talk a little bit about what you're doing that's actually weighing down the gross margin?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

John, what was the first part of your question on gross margin, I just want to make sure I heard it?

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

What was the absolute number that hurt it?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Yeah. I'll just give you the commentary, Ashish, you can follow-up the absolute number there. But John, we're transferring products and the site's been there since 1902. We've gone through a number of manufacturing transitions. And with the institutional knowledge and experience, we've had to put in some extra costs and control, and really make sure that we're doing the right thing to protect the customers and train the receiving site.

So, as I said in the prepared comments, this will be part of the transition and you'll see our margins improve as we go forward; and the absolute number was...

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

There was an impact of several hundred thousand dollars, John. We expect improvement as we go through the product transition, more in the fourth quarter and a little bit in the third quarter as well.

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

Okay. So you're going to incur another \$700 on or about Q2 that diminishes by Q3 and essentially gone by Q4, is that what we're thinking here?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

John, I said several hundred, I didn't say \$700, but I would expect depressed margins maybe in the second quarter to some extent, and then better recovery in third and fourth quarter.

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

Got it, Ashish. And in addition, it looks like the revenue profile in auto sequentially Q4 was roughly 12%, Q3 was roughly 7%. How much of that is increased volume or market penetration and how much of that is FX benefit?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Yeah, John. On the whole market side of it and most of the growth if you look at it, we break it into three buckets I would say. We've one customer which we had significant increase in demand. We also had the share gains, we've talked about for the last number of quarters and we have the market slightly flat to a little bit up at the FX impact.

John E. Franzreb  
*Analyst, Sidoti & Co. LLC*

Q

Yeah.

Kieran M. O'Sullivan  
*Chairman, President & Chief Executive Officer, CTS Corp.*

A

John, the FX impact that I talked about in my comments, most of that is related to the auto market. So, the total impact was \$2.8 million.

John E. Franzreb  
*Analyst, Sidoti & Co. LLC*

Q

Right. Right. Okay. So, that's all automotive. Got it. So, that also suggested that you had another really good quarter in the electronics business, 16% growth versus 3Q of 13%. Could you just talk – highlight what's the biggest driver in that growth?

Kieran M. O'Sullivan  
*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Yeah, it's two things, John. First of all, the organic growth rate was about 8.5%, when you back out the Noliac sales. And probably four things driving the growth there; the medical markets with single crystal, we see good growth there. Also we continue to make gains in defense. And industrial printing and RF filters continues to build momentum.

John E. Franzreb  
*Analyst, Sidoti & Co. LLC*

Q

Perfect. Got it. And you know what, [indiscernible] I'll take a break now a lot of people ask questions. Thanks, guys.

Kieran M. O'Sullivan  
*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Thank you.

**Operator:** And we'll have our next question from Hendi Susanto, Gabelli & Company.

Hendi Susanto  
*Analyst, Gabelli & Company, Inc.*

Q

Good morning, Kieran and Ashish.

Kieran M. O'Sullivan  
*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Good morning, Hendi.

Ashish Agrawal  
*Chief Financial Officer & Vice President, CTS Corp.*

A

Hi, Hendi.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

[indiscernible] (00:17:04) first questions. Is there any potential impact or some political discussions with regard to the China U.S. trade?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

What we highlighted there was the impact on tariffs and everything else. We've cited up in total at about less than \$0.5 million and DM. We have some offsetting actions as well, so we feel pretty good there.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay. And then secondly ...

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Hendi, let me just clarify. This is based on what is in place today. If there are further actions either from the U.S. or from China then we could have a bigger impact that we would need to assess when we get better clarity on what those changes are.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay.

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Yeah.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

And then looking at your manufacturing footprint, the best cost manufacturing location, I think the target is 80% plus the [indiscernible] (00:18:02) restructuring. I would like to revisit that whether it's still like 80% by mid-2018? I'm wondering whether it will be by the end of 2018 and where it is in 2019?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

So Hendi, we always said we would target 80%. We're on good track and hopefully do a little bit better, but we feel good about it.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay.

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

We should be over 80% when our car transition is completed.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Okay. And then, Kieran, I think you mentioned that you are expecting some headwind in automotive in North America at some point in the future. May I clarify that?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

Yeah. I mean, we saw last year was over \$70 million. We've seen some numbers above and below \$70 million this year. We're late in the auto cycle, and obviously there's some momentum out there from the tax cuts and other things. But the number of cars coming off leases is something we've concerned about as well. So we don't think something is going to fall off at a dramatic rate. But we think there will be some headwinds, Hendi, and we've taken that into account in our planning in and not just this year but in out-years as well.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

And then when you look at that head count, would you be able to partially offset that with increase in contents and share gains, is that reasonable?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

Yeah. We've always said, even in a flat market, we would be gaining share. And so, we continue to focus on platforms and expanding and expanding the customers and working on new products. So we're not overly concerned. We just want to be cautious. And also if there's ever softness, you want to be ready to handle that with the appropriate action. So we stay healthy.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Okay. And then for Noliac acquisitions, do you see revenue to be stable or do you see revenue to grow this year?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

Hendi, what was the start of that sentence?

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

So from Noliac acquisitions, do you expect sales to be steady versus last year or do you expect sales to grow meaningfully in 2018?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

No, we expect sales to grow. We're working hard on leveraging that capability because we now have foundries both in Europe and North America, we got the expert technology, we got new customers and we're leveraging that into new products as well. So yeah, absolutely expect it to grow.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay. And then any other growth drivers that we may not be aware of for 2018 Q1?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

No, we take some of the big things in terms of the sensor platforms, the accelerators and certainly on the electronic components. We've got some good momentum going and adding new customers, and we continue to add new customers. I think our guidance range is probably a good measure of our growth.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay, got it. Thank you.

**Operator:** [Operator Instructions] We'll go next to Ian Gilson, Zacks Investment Research.

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Good morning, Ian.

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Hi, Ian.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

The net gain in cash, was that primarily in China?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Ian, we don't disclose cash by currency, but the cash is – the bulk of our cash is outside the U.S. as you know, but it's a little bit more – it's little less restricted at this point in time. And if you go back to our earnings call from February, we did talk about roughly \$50 million at that point in time in terms of the cash that could be brought back to the U.S. if we decided to do that.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Great. So under the new tax laws, the penalty for bringing cash into the U.S. is less than it was under the older laws?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

That is correct.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Okay. You talked about the auto market. However, one of the major gross companies that you've been involved in is Cummins. Could you talk a little bit about that relationship, and how the heavy-duty market is likely to change?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Ian, we've obviously got a good relationship with our customer. We've worked very closely on current and the next-generation products. And we're seeing good progress into the end markets and we don't see any warning signs at this point in time. We're actually more in discussions about how we can expand our product offering.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Okay. So, the continued growth I've been hearing, that is primarily in the United States as opposed to the Far East?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Ian, I'm not going to get into their – breakdown in their end markets, but they're a global company. So, we're supporting products in all regions.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Okay. So when you talk about the tax rate, you were saying, hey, discrete items may impact that. Are they going to be relatively random or are we going to be biased upward or downward?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Ian, the discrete items that – we had some favorable impact in the first quarter. I'm not aware of anything that would be significantly positive or negative, but that's the nature of sometimes the tax items that – but at this point in time, I feel reasonably good about the 24% to 27% range that I mentioned on the call earlier.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Okay. And finally, your acquisitions are profitable at this point in time or are they looking for growth in profit [indiscernible] (00:23:56)

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

Ian, yeah, the last couple of acquisitions we have done, they are performing to our expectation from the acquisition models that we set at the time when we made those acquisitions. We've talked actively about double-digit growth we're getting in the single crystal space and the profit expectations from those businesses are being met, and we are making good progress on the Noliac acquisition as well. We're seeing the top line improvements and profit improvements that we're expecting from that business as well.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Okay. Great. Thank you very much.

Q

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

Thanks, Ian.

A

**Operator:** And we'll return to John Franzreb with Sidoti.

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Yeah, guys. I apologize if I missed this, but the book business number of \$1.762 billion, that's up really 15% year-over-year and last quarter was up 14%. So you've had some really good growth there of late. I guess, there's two questions. One, is there one end market that is driving disproportionate amount of that growth? And two, what are your thoughts about how that book business grows or plays out for the balance of the year; it's because the sequential numbers have kind of flat lined a little bit?

Q

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

So John, we're pretty comfortable in terms of how we're performing on securing business – booking business. We see a good mix across each of the product lines, whether it's auto, electronic components; and there is good momentum there. We're not seeing anything that's causing us any concern.

A

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

John, we have also talked about lumpiness in our orders, that's just the nature of the business. So, you will see certain quarters are bigger than others. And given the nature of how we are booking business, a fairly large portion of the total backlog will be – or total book business will be representative of our long-term supply agreements we have on the automotive side with the automotive customers, and then some of our non-automotive customers we also have supply agreements, but most of that business is going to be deal-based business.

A

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Okay. And I guess, just on the recent news about Ford, does that change in their mix away from sedans towards SUVs? Does that impact you at all?

Q

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

John, not a major concern for us or not a major impact for us. In the product line, we ship some passive and safety sensing. We don't see any significant impact coming from that at all. Not a concern, and we see it – you'd also have noticed that GM added another shift and that's a product platform that we're on as well. So, only some changing dynamics out there.

A

John E. Franzreb

*Analyst, Sidoti & Co. LLC*

Q

Certainly is. Okay. Thank you very much, Kieran.

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

You're welcome, John.

**Operator:** And we'll go next to Hendi Susanto, Gabelli & Company.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

May I know how much the non-cash pension expense in SG&A line was in Q1?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

So the total change year-over-year, Hendi, which is I think the underlying question you have, was about \$500,000. So last year, we were booking a non-cash income approximately \$2 million for the full year. And this year we will be recording an expense of approximately \$0.5 million for the full year.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

\$0.5 million for the full year versus \$2 million for [indiscernible] (00:27:50)

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

That is correct.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay. Yeah. And then second question, with regard to SAP [indiscernible] (00:27:55) should we expect it to drive operating margin expansion to a certain degree?

Kieran M. O'Sullivan

*Chairman, President & Chief Executive Officer, CTS Corp.*

A

We haven't guided to that, Hendi, but I would not expect any improvements from that at least till 2020.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Okay. Thank you, Ashish and Kieran.

**Operator:** And we'll go next to Ian Gilson, Zacks Investment.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Just one little question. In the first quarter, you recorded other income net of \$2 million, which is higher than the other income that you reported prior quarter. Is there any extraordinary item in there? What is included in that number?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Almost all of that in is related to foreign currency gains when we do our balance sheet translations, and we do carve it out for adjusted earnings purposes.

Ian T. Gilson

*Analyst, Zacks Investment Research, Inc.*

Q

Okay. That's fine. Thank you very much.

**Operator:** [Operator Instructions] We'll go next to Hendi Susanto, Gabelli.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Ashish and Kieran, one more question. So with regard to the FX positive impact on sales in Q1, should we anticipate FX positive impact to continue in Q2 and the remainder of the year, if FX have the current today's rate?

Ashish Agrawal

*Chief Financial Officer & Vice President, CTS Corp.*

A

Hendi, the impact is obviously year-over-year and you would see that we've started seeing some strengthening towards the latter half of 2017. So, in fact year-over-year we'll probably change, but if the rates remain where they are then I would expect us to continuing seeing some favorability, but the extent of the favorability will continue coming down.

Hendi Susanto

*Analyst, Gabelli & Company, Inc.*

Q

Got it. Thank you, Ashish.

**Operator:** [Operator Instructions] And we have no further questions in the queue. We'll turn the conference back over to Mr. O'Sullivan, for any additional or closing remarks.

[00F983-E Kieran O'Sullivan]

Thank you, Sean. I just want to thank everybody for joining the call. Again, we feel good about our strategy and gaining momentum on sales and we're optimistic we can make operational improvements going forward. So we look forward to updating you at the end of Q2. Thank you very much.

**Operator:** That does conclude today's conference. Thank you for your participation. You may now disconnect.

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