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CTS Corp. (CTS)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Lauren, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2022 Earnings Call. All lines have been placed on mute to prevent any background noise. A supplemental slide presentation to accompany the prepared remarks can be found on the company's website. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

At this time, I would like to turn over the call to Mr. Kieran O'Sullivan, CEO of CTS Corporation. Mr. O'Sullivan, you may begin your conference.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thank you, Lauren. Good morning and welcome everyone to our first quarter 2022 earnings call. We reported solid financial results that were strengthened by our ongoing diversification efforts. Sales in the first quarter were \$148 million, up 15% compared to the first quarter of 2021. First quarter adjusted gross margin was 37%, up 400 basis points from 33% in the first quarter of last year. Adjusted EBITDA margin of 23.5% was up 350 basis points from 20% in the same period last year. First quarter adjusted earnings per diluted share of \$0.67 were up 46%, from \$0.46 in the first quarter of 2021.

Operating cash flow was \$19 million compared to \$20 million in the first quarter of last year. During the quarter, we acquired TEWA Temperature Sensors, a temperature sensing company based in Lublin, Poland. We expect the TEWA acquisition to be accretive in 2022. In addition, we recently signed an agreement to acquire Ferroperm Piezoceramics, a developer of high performance piezoelectric ceramic components for medical, industrial and defense applications based in Denmark.

Completion of the acquisition is subject to obtaining regulatory approvals and the satisfaction of other customary closing conditions. Based on ordinary approval timetables and the nature of the closing conditions, we estimated closing to occur in the next few months. The Ferroperm acquisition is expected to be accretive in 2023. Ashish will take us to the Safe Harbor statement. Ashish?

Ashish Agrawal

Vice President & Chief Financial Officer, 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 under 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.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thank you, Ashish. We had another strong quarter with sales increasing 15% to \$148 million versus the first quarter of 2021. Demand remained solid across all end markets, especially in medical, industrial and defense. Our global team continues to execute well and is dedicated to operational excellence and achieving our long term goals. Our investments in business development and front end sales are enabling us to expand our customer base and to cross-sell our products.

Adjusted gross margin for the first quarter was 37%, up 400 basis points from 33% in the prior year, which was supported by the momentum we are gaining from diversifying our business. Operationally, we're seeing savings materialize from our restructuring activities. Ashish will provide more color on this in a moment.

As we move forward, we will continue to evaluate and refine our footprint to optimize our ability to serve our customers and to deliver improved operating leverage. We are also gaining traction with our CTS operating system with over 50 continuous improvement projects driving incremental value. Adjusted EBITDA margin was 23.5%, was up 350 basis points from 20% in the first quarter of 2021. Inflationary pressures and supply challenges negatively impacted our earnings in the first quarter.

While we continue to be impacted by rising commodity prices as well as increased freight costs, we've been working alongside our customers to offset or share these cost increases. We remain confident in our ability to navigate this dynamic environment with our diversified portfolio, even though we expect margin headwind pressure to persist.

New business awards in the quarter totaled \$117 million below our expectation due to the timing of certain awards from transportation customers. We remain confident in our robust pipeline of opportunities and see good momentum for awards in the coming quarters. Further, by continuing to focus on growth and diversification, we added four new customers in the quarter, two new industrial customers for temperature sensing, a new medical customer for ultrasound imaging and a defense customer for an anti-tank missile applications.

We remain well positioned in multiple end markets that offer attractive growth prospects. In the industrial market, we continue to see very good traction in inkjet printing products that are used for industrial applications such as

printing on textile, ceramic tiles and packaging material. Packaging material is currently an area that is providing particularly strong growth momentum for inkjet printing products. Robust demand for temperature products across pool and spa, refrigeration and heat pumps resulted in several new business awards. And we had multiple awards in various applications for electromagnetic ceramic products, RF filters, timing products, micro actuators and transducers with application to measure flow and temperature for predictive maintenance.

In the quarter, we shipped samples to a new customer for a flow meter transducer application. We are expanding our applications in cold and hot temperature sensing and we added new customers and new applications from rapid cook ovens to commercial dishwashers. By combining our traditional direct sales model with tier with distribution strength, we anticipate sales growth synergies in the industrial end market. We experienced double digit growth in distribution sales where we see inventory levels up 20% from prior year period and getting to more normal levels. In medical, we are seeing increasing momentum and long term growth opportunities. Our targeted business development efforts continue to deliver, resulting in an expanding customer base. Some examples include a qualification order with a new customer for handheld medical ultrasound and a precision insulin pump dispensing application in clinical trials with another new customer.

We see strong mid to long-term growth driven by traditional ultrasound technologies with wins across all regions in the first quarter. We also secured a new award for a drug delivery application and an award for a hearing aid product. Further, we received multiple temperature sensing awards with existing customers, ranging from incubators to critical freezer monitoring, disposable applications and data loggers. Once we are able to complete the Ferroperm acquisition, we expect further growth momentum from its customer base for medical is the largest end market, as well as from our expanded technical capabilities and European footprint. In Aerospace and Defense, we are all reading about increasing defense budgets across the globe due to the current geopolitical environment and we are well-positioned to address the increased demand anticipated from this end market over the next several years.

We continue to see growth in undersea sonar products in North America. Additionally, we received a prototype order for a mine avoidance sonar product and recording new unmanned underwater autonomous applications. We had an aura filter program award for GPS anti-jamming application and temperature wins in aerospace. In Europe, we are seeing initial growth traction in sonar, and we successfully developed initial samples for a microwave band pass filter for military applications with a new customer. As we have discussed, we continue to advance our M&A strategy, which is focused on expanding our geographic reach, adding momentum to our end market profile, and increasing the richness of our customer base.

As already mentioned, during the quarter, we acquired TEWA Temperature Sensors. The addition of the TEWA acquisition strengthens our fast growing temperature sensing platform in industrial applications, while also expanding our reach into the European market. We're excited to welcome the TEWA team to CTS, on a challenging note, we are all deeply impacted by the destruction we see perpetrated on the people of Ukraine and on a recent acquisition, sorry, on my recent visit to the TEWA facility in Lublin, Poland, I was able to connect with one of our team members there. Our teammate is living this tragedy daily as our parents reside in Ukraine through our CTS cares initiative we were able to donate funds to provide medical and other support directly to our hometown.

Earlier this month, we announced our agreement to acquire Ferroperm Piezoceramics, subject to obtaining regulatory approvals and the satisfaction of other customary closing conditions. Ferroperm specializes in the design and manufacture of high performance Piezoceramic components for use in complex and demanding medical, industrial, aerospace and defense applications. The company is recognized for its high quality and innovative Piezoceramic technology. Based in Kvistgaard, Denmark, Ferroperm has established a strong

customer base across Europe and North America. And its presence in medical therapeutics is complementary to our existing focus on medical imaging and diagnostics.

We look forward to the Ferroperm team joining CTS and are excited about the growth prospects. As we have discussed before, our long term strategic plan is focused on diversifying our end market profile. We plan to achieve this by expanding our range of technologies, products, customers and geographic reach to accelerate the revenue growth of our non-transportation business while also strategically growing our transportation business. We believe this strategy is bearing fruit as we are seeing the diversification of our business, enhancing our quality of earnings despite the challenging macroeconomic factors we are facing. The TEWA acquisition and the anticipated Ferroperm transaction will further advance these efforts by supporting the growth of our non-transportation revenue, with the potential of expanding this portion of the business closer to 50% of total revenues in the year ahead. We remain focused on continue to strengthen our M&A pipeline in an environment where one might anticipate more reasonable valuations in the years ahead, given higher interest rates and the potential for a recession.

Our track record of thoughtfully expanding ceramic technology to support diversification, while, at the same time leveraging our ceramic expertise to build and scale a temperature sensing platform demonstrates the execution of our strategic plan. Adding technology that will enhance our EV offering also remains a priority. We continue to focus on acquisitions in the range of up to \$50 million a year in sales, but we remain open to the right larger opportunities that will advance our long-term strategy. Deploying capital in line with our allocation framework is important. In the quarter, we repurchased approximately \$4 million of CTS stock. In transportation, we continue to outperform the market. We've seen robust demand in commercial vehicles, which we expect to extend into 2023.

On the light vehicle side while the sales softness remains given the supply side challenges across the industry, our positioning from a product and geographic standpoint has propelled us forward. We continue to focus on strengthening our light vehicle sensor portfolio, especially around EV platforms. Today, electric vehicle revenue ranges in the high single-digit percentage of our total light vehicle revenue. Our goal is to have greater than 25% of our light vehicle revenue coming from EV platforms by 2025. This goal is supported by our ability to transfer our legacy accelerator module and sensor products to electric and hybrid electric vehicle applications.

We are also developing new products to integrate into existing and future EV architectures such as our eBrake product, which has been prototyped and represents a tremendous future growth opportunity, similar in magnitude to the existing accelerator module market. In addition, we are getting traction with our current sensing products and are working on potential position sensing products for EV motor applications. Our value proposition transportation is built on packaging, position sensing for safety, critical and harsh environments. For Chassis ride height sensing, during the first quarter, we obtained awards from North American and Japanese OEMs. For passive safety sensors we wins with several Tier 1 customers. On current sensing product, which is in development for one of our customers, it's also gaining traction as we secured another current sensing award earlier this month. In the accelerator module product lines, we had wins with customers in North America, Europe and Asia.

For commercial vehicle applications, we increased business with an existing customer. As you can see, we are also winning new EV platform business with our legacy portfolio. So far, we have won new business awards for 26 EV platforms, 5 of which we secured this past quarter. Looking ahead, the supply chain shortages are expected to reduce vehicle bills by 2 million to 3 million units this year. For the US light vehicle transportation market, we expect approximately a 13.5 million to 14 million unit range this year. On hand, days of supply are now closer to 26 days. European production has been revised down by almost 10% since the start of the Ukraine war

and is now forecasted in the 15 million to 15.5 million unit range this year. The Chinese market is expected to be flat this year in the 24 million to 25 million unit range with COVID related impacts creating further uncertainties.

Commercial vehicle demand remains solid and is likely to remain robust throughout 2022. As I mentioned earlier, we continue to see solid growth in industrial and defense markets, as well as improved – improvements in the medical market and expect further benefit from the integration of our newest acquisitions. Overall, demand remains robust across all end markets, and we feel confident in the long-term prospects for the business. While the supply chain showed some improvement this past quarter, recent events in Ukraine, as well as the COVID lockdowns in China impacted the industry. More recently, we have experienced challenges at the Mexico border impacting supply. Our teams are creatively navigating the current environment to ensure supply for our customers and fortunately, we were able to maintain full operations this past quarter while ensuring a safe work environment for our employees during the lockdowns.

All our plants remain fully operational. These supply disruptions when combined with significant inflation and the end of governments' stimulus have the potential to reduce demand. We are not seeing a reduction play out at this point other than the return to more normal inventory levels in distribution, which represents less than 10% of our sales. In fact, some industrial and automotive customers have confirmed demand through 2022 and into 2023. As always, we are monitoring the macro environment very closely.

I'm proud to say in this very challenging supply chain backdrop, our teams are working and adapting with speed and agility to support our customers. In terms of guidance for the full year 2022, we are updating our guidance to include the TEWA acquisition. Subject to my earlier comments on timing and conditions, we estimate the closing of the Ferroperm acquisition to occur in the next few months and therefore are not reflecting it in our current guidance. Our updated guidance is for sales to be in the range of \$550 million to \$580 million, up from \$525 million to \$550 million. Adjusted earnings per share are now expected to be in the range of \$2.20 to \$2.45 compared to the previous range of \$2 to \$2.25.

Now I'll turn it over to Ashish to walk us through our first quarter financial results.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

Thank you, Kieran. First quarter sales were \$147.7 million, up 15% compared to the first quarter of 2021 and up 11% sequentially from the fourth quarter of 2021. Sales to non-transportation end markets increased 30% year-over-year as the industrial and medical end markets exhibited double-digit growth. Excluding sales from our recent acquisition TEWA Temperature Sensors, sales to non-transportation end markets were up 28%. Sales to transportation end markets increased 4% compared to the first quarter of 2021. We had strong momentum in our smart actuator products, which primarily go into commercial vehicle applications, excluding sales of smart actuators, sales to the transportation end market were up 40 basis points. Sales through the transportation end market increased 6% sequentially.

We had strong momentum in our smart actuator products, which primarily go into commercial vehicle applications. Excluding sales of smart actuators, sales to the transportation end market were up 40 basis points. Sales through the transportation end market increased 6% sequentially.

The sequential increase was driven by a continued robustness in orders from our customers and some improvement in supply environment. Our adjusted gross margin was 37.2% in the first quarter, up 400 basis points compared to the first quarter of 2021 and up 50 basis points compared to the fourth quarter of 2021. Strong

execution by our global team during the quarter helped mitigate margin pressure from inflationary factors and supply challenges. We continue to actively work with our customers to share the burden of cost inflation.

During the quarter, we also had approximately \$1.5 million or \$0.04 of EPS of unusual items, which had a favorable impact on gross margin. For the restructuring plan announced in 2020, we have achieved \$0.19 of EPS improvement so far. As previously communicated, we are on target to achieve the lower end of the \$0.22 to \$0.26 of savings by the end of 2022. Some projects will continue into 2023 as we balance growth and project completion.

In the first quarter, we implemented SAP in the Philippines. This location and team came to the acquisition of Sensor Scientific in December 2020. We continue working on developing enhanced data capabilities to optimize operations and increase efficiency. As part of our Focus 2025 initiative, we are working on implementing the CTS operating system focused on enhancing our continuous improvement capabilities. As Kieran mentioned, we are getting good traction with numerous continuous improvement projects underway across the company.

The tax rate for the first quarter was 21%, and we expect the full year 2022 tax rate to be in the range of 21% to 23%, excluding discrete items. In the first quarter 2022, we reported earnings of \$0.63 per diluted share. Adjusted earnings for the first quarter were \$0.67 per diluted share, compared to \$0.46 per diluted share for the same period last year and \$0.49 last quarter.

Moving on to the balance sheet, we generated \$19.3 million in operating cash flow for the first quarter of 2022. Incentive payout impacted the first quarter operating cash flow unfavorably compared to the first quarter of 2021. Our cash position remained strong with the balance of \$126 million as of March 31, 2022, up from \$103 million on March 31, 2021. Long-term debt balance was \$50 million. Our debt to capitalization ratio was at 9.4% at the end of the first quarter, compared to 10.3% at the end of the prior year period.

Working capital efficiency remains a key focus area, and we ended the quarter with 14.8% in controllable working capital. We repurchased 116,000 shares of CTS stock during the first quarter and in total we returned approximately \$5 million to shareholders through dividends and buybacks. Continued strong cash generation and a healthy balance sheet enable our focus on organic growth and strategic acquisitions. We expect to pay approximately \$77 million for the Ferroperm acquisition, roughly half using cash balances we hold outside the US and the other half through borrowings from our existing credit facility.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Justin Long from Stephens, Inc. Justin, please go ahead.

Justin Long

Analyst, Stephens, Inc.

Thanks. Good morning and congrats on the quarter.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thanks, Justin.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

Thank you, Justin.

Justin Long

Analyst, Stephens, Inc.

I guess to start on the 2022 EPS guidance revision, if you look at what it implies for the rest of the year, it's around \$0.55 in EPS per quarter versus the \$0.67 you just posted in the first quarter. So can you help us think through what you're expecting to drive this sequential pressure and how we should think about the quarterly cadence of earnings the rest of the year because when I just take a step back and think about the demand commentary, it all sounds pretty strong.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Yeah, Justin, I'll make a few comments and I'll hand it over to Ashish because he talked about some one-time items as well. I think Justin, when we talked back in January on the last earnings call, we said we're cautious about softness in the second half of the year. We still have that caution. And it's not, as you said, because of demand. Demand is there. But we've got these lockdowns that are going on in China at the moment and the port situation over there is not very good. We've got the situation in Europe with the Ukraine and it's got some impact for the transportation side of the business going forward. So you see this and you look at the demand environment and inflation, there's a lot of uncertainty out there. And we will do everything we can to execute and do better than what we've guided there. But it's -- there's things to be managed here and it's not that easy. Ashish?

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

Yeah. Justin, in the first quarter, we had some unusual items related to sales of high margin products and some recovery of bad debt, which helped us, that was roughly \$1.5 million. So that's obviously something that gives us a little bit of a competitive headwind and then going back to the comments Kieran mentioned, we continue to see pressure from inflationary factors on raw material, freight, that combined with the logistics uncertainty that we are

seeing coming out of the shutdowns or lockdowns in China and the demand uncertainty, but all of those factors are baked into how we are looking at the outlook for the rest of the year.

Justin Long

Analyst, Stephens, Inc.

Q

Okay. Got it. And maybe just to circle back on the quarterly cadence part of the question, so it sounds like there's caution mainly around the back half of the year. So is the right way to think about the second quarter that it should look pretty similar to the first quarter absent the unusual items you called out?

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

A

I would be a little cautious, Justin, when I look at the situation in China. We could see some impact from that more in the short-term but generally your comment would be reasonable to say that we are more concerned about the back half, although we do see some pressure in the second quarter from the China COVID related lockdowns.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

And just to add on to that, Justin, from a demand perspective, demand is there.

Justin Long

Analyst, Stephens, Inc.

Q

Okay. Helpful. And I guess the last one for me is on the diversification efforts. I know that's a key area of focus and we're seeing some nice progress. To get closer to that 50-50 split, which it sounds like that's the target for this year, you started the year in the first quarter with non-transport being in that kind of 46% to 47% range. So it [ph] assumes a pretty big hiccup (00:28:56). I know you've got the acquisitions you're layering in to totally get that but could you maybe talk about what the top line guidance implies for revenue growth in non-transportation and what it implies for growth in transportation? Are you still expecting transportation revenue to grow meaningfully this year?

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

Yeah. I think what we're going to see in transportation, Justin, is mid-single digits, just roughly from where we can see everything at the moment. And when we go to our non-transportation market, we've been seeing double-digit demand in growth. So that's how we feel about it.

Justin Long

Analyst, Stephens, Inc.

Q

Very helpful. I appreciate the time.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

A

Yeah. Thank you, Justin. The movement closer to the 50% split will be mostly from the acquisitions, helping us get there faster.

Justin Long

Analyst, Stephens, Inc.

Q

Okay. Got it. Thanks, Ashish.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

Sure.

Operator: Our next question comes from the line of Lannie Trieu from Cowen. Lannie, please go ahead.

Lannie Trieu

Analyst, Cowen Securities LLC

Hello. This is Lannie, on for Josh Buchalter. Thanks for your time today and congratulations on the results and the announced acquisitions.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thank you, Lannie.

Lannie Trieu

Analyst, Cowen Securities LLC

A few questions, if I may. First, regarding your acquisitions, could you provide any details on the revenue or margin profiles for TEWA and Ferroperm as we try to model the pro forma business? I know you had mentioned TEWA is accretive this year and Ferroperm next year, but any additional details?

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Yeah. Go ahead. So first of all, on the TEWA side, we would see on an annual basis the revenue being in the \$12 million to \$15 million range for that business. And we really like it. It really extends our path into Europe. It gives us extra strength in industrial markets and when it comes to the distribution side, we're more of a -- have been more of a direct to OEM and this brings distribution strength as well. So there's a lot of things here to like about this acquisition and we're off to a very good start with the team and integration is moving along very nicely.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

So Lannie, just to clarify, we generally don't want to talk about gross margins and all for competitive reasons, but we would be looking at as Kieran mentioned, roughly \$15 million a year in sales. So for 2022 we'll be in the \$12 million to \$13 million range. And if you look at our earnings call slides, we are talking about expecting \$0.04 of accretion in 2022. So it's a good acquisition. It's had a good start in the month of March. And the Ferroperm acquisition, once we closed based on approvals from the regulators, we'll talk a little bit more about the financials of that business. But in terms of size, it's fairly similar to the QTI acquisition we did back in 2019, so it'll be in the low to mid \$20 million type of sales range.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

And Lannie, just to add on to that, what we like about the Ferroperm acquisition is it's really complementary to our business. And when you look at it, strong in medical, defense applications and some others in industrial, we're

strong in diagnostic and medical imaging, they're strong in medical therapeutics, whether it's in two different types of products with a nice customer mix. That should be very complementary for us after the acquisition closes.

Lannie Trieu

Analyst, Cowen Securities LLC

Q

Great. Thank you. Kind of a question on automotive. I know you've pared down your vehicle estimates, given the supply disruption and the chatter of inflation and auto destruction, [indiscernible] (00:33:13) your visibility changed over the past quarter and what do you see going forward? Do you think that there will be further adjustments to there?

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

Yeah. I think, Lannie, when you look at -- you see the comment we made on each of the regions. So we've trimmed a little bit in North America. There is I think I mentioned close to a 10% correction in Europe and China flat. That's how we see it and that's the view we have at the moment. Obviously we're watching that very carefully. The China situation is pretty important, what's going on in Europe, we've seen a few customers in Europe that ship into the Russian market. Obviously, we got other countries that ship into as well. And when you look at Europe for us in a transportation business or geographic sales, it's the smallest portions, but maybe 13% or so. But no, the revised numbers are probably the best guide that we can give you at the moment.

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

A

And Lannie, the way we build our range of guidance is if there's a little bit more softness that'll be pushing us towards the lower end of our guidance range, and if it's a bit stronger than what we're looking at and that's what they [ph] push to the higher ups (00:34:23).

Lannie Trieu

Analyst, Cowen Securities LLC

Q

Got it. Okay. Just one last question for me. So your non-transportation market, any additional color or granularity that you can provide in terms of second half growth and visibility that you can give us? Are you seeing any improve or is it still pretty [indiscernible] (00:34:46) due to the new supply chain issues and COVID-19 lockdowns around the world? Thank you.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

Lannie, we would have said coming into the year that we're expecting good demand in all markets. We were concerned about the second half of the year. And probably at that point in time, back in January, we would have said a bit more bullish on transportation, a bit more concerned on inventory levels in the second half in the non-transportation side of it. As we sit here today, demand is still robust. And so I said I think earlier, double-digit growth. We still see that, but we're still keeping a very close watch. And as I mentioned, distribution, while it's up double-digit, the inventory levels are back to more normal levels, but that's less than 10% of our sales. So strong demand still, but we're still cautiously watching that macroeconomic environment.

Operator: [Operator Instructions] Our next question comes from the line of Hendi Susanto from Gabelli Funds. Hendi, please go ahead.

Hendi Susanto

Analyst, Gabelli Funds LLC

Good morning, Kieran and Ashish and then a strong Q1 revenue. Congratulations.

Q

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thank you, Hendi.

A

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

Thank you, Hendi.

A

Hendi Susanto

Analyst, Gabelli Funds LLC

And then, Ashish, would you be able to share how much revenue run rate and then what operating margin looks like for the Ferroperm Piezoceramics business?

Q

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

So, Hendi, getting a little bit more detail into the financials, I'd want to wait till we've actually closed that acquisition. But as I mentioned earlier, the revenue expectation would be in the low-to-mid \$20 million type of range.

A

Hendi Susanto

Analyst, Gabelli Funds LLC

Yeah. And Kieran, in a typical acquisitions like Ferroperm or TEWA, how much do you usually give [indiscernible] (00:36:54) CTS time in order to reach like meaningful revenue synergies?

Q

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Typically, Hendi, we've got pretty standard playbook [indiscernible] (00:37:06). I would tell you in the case of the TEWA acquisition, the team's already working on it, but we probably are prudent enough to say, hey, it's going to take 6 to 12 months to get reasonable traction in some of that. So -- but I would tell you, we don't lose time in getting our teams together to look at the opportunities and make sure we're aligned and we've got good plans in the place.

A

Hendi Susanto

Analyst, Gabelli Funds LLC

Okay. Yeah. And then Ashish, I would like to understand better the upward revisions on the revenue guidance. So you increased the revenue by \$25 million and then \$15 million would come from TEWA acquisitions. So the rest \$10 million, is it reasonable to assume that given the current out of automotive market, like this the incremental revenue guidance comes from industrial healthcare and aerospace and defense?

Q

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

A

Hendi, the revenue expectation from TEWA for the rest of the year will be closer to \$10 million to \$11 million. We had them for March where we got about a little over \$1 million. So the rest of the increase is based on the outperformance in the first quarter. We are being cautious for the rest of the year to make sure that we continue seeing the evolution of the supply chain challenges that we continue experiencing and it's impacting automotive, it's also impacting industrial and the medical markets as well. So the impact and the uncertainty is actually there in pretty much all the end markets. We haven't seen any major impact of the supply chain challenges from China yet, but that's something we keep watching very carefully to see how it's impacting our operations.

Hendi Susanto

Analyst, Gabelli Funds LLC

Q

And then one last question for me. Kieran, can you share some -- like what you see in terms of customer behaviors that customers may want to build more inventory of your components for like stronger supply chain management practice, and then safety [ph] stocks (00:39:26), but on the other hand you may see like some customers who push out orders because there are constraints on either components as well. Can you share some insights on customer behaviors?

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

Yeah, Hendi, I would say on the transportation side, it's a mix. Demand is there. In some cases, you get schedule changes on the light vehicle side. On the commercial vehicle side, it's as robust as I've seen in quite some time and expect it to stay robust, it's getting parts. It's all about just getting parts. In the non-transportation side, we're seeing good demand. We've been very judicious about trying to find out if there's a buildup in inventory. We haven't seen that in any of our end markets except for distribution where we've seen a little bit of an increase from last year getting back to more normal levels. But that's the view at the moment.

Hendi Susanto

Analyst, Gabelli Funds LLC

Q

Okay. Thank you, Kieran. Thank you, Ashish.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

A

Thanks, Hendi

Ashish Agrawal

Vice President & Chief Financial Officer, CTS Corp.

A

Thanks, Hendi.

Operator: We currently have no further questions registered. So I'll now hand you back over to Mr. Kieran O'Sullivan for closing remarks.

Kieran M. O'Sullivan

President, Chief Executive Officer & Chairman, CTS Corp.

Thanks, Lauren, and thank you again for joining us today. I want to thank our global teams for their dedicated efforts in driving strong execution and operational efficiency with our business. At CTS, our top priority is to advance our business, while simultaneously working to improve and enhance the communities in which we operate. I'm confident that our diversification strategy, bolstered by recent M&A activities and the breadth of our

geographic footprint will position us for profitable growth while mitigating supply chain and inflationary challenges confronting industries globally. In conclusion, CTS is well-positioned for the future. We have a strong team aligned around our common goals that continues to advance the business for long-term value creation for our shareholders. Thank you. This concludes our call.

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

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