

CTS Corporation NYSE:CTS

FQ2 2025 Earnings Call Transcripts

Thursday, July 24, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.57	3.64	0.61	2.20	NA
Revenue (mm)	132.65	135.31	2.01	136.40	533.19	NA

Currency: USD
Consensus as of Jul-17-2025 12:51 PM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	0.54	0.63	16.67 %
FQ4 2024	0.54	0.53	(1.85 %)
FQ1 2025	0.49	0.44	(10.20 %)
FQ2 2025	0.55	0.57	3.64 %

Table of Contents

Call Participants		3
Presentation		4
Question and Answer		7

Call Participants

EXECUTIVES

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Kieran M. O'Sullivan
Chairman, President & CEO

ANALYSTS

Hendi Susanto
G.research, LLC

John Edward Franzreb
Sidoti & Company, LLC

Presentation

Operator

Good morning or good afternoon, and welcome to the CTS Corporation Second Quarter 2025 Earnings Call. My name is Adam, and I'll be your operator for today. [Operator Instructions] I will now hand the floor to Kieran O'Sullivan, Chairman, President and CEO, to begin. So Kieran, please go ahead when you're ready.

Kieran M. O'Sullivan
Chairman, President & CEO

Good morning and thank you for joining us today for our second quarter 2025 results. We delivered another quarter of double-digit growth in our diversified end markets. Diversified sales for the quarter were 55% of overall company revenue. In the quarter, our adjusted EBITDA expanded 250 basis points sequentially and 130 basis points compared to the second quarter of last year. Cash flow generation was also strong in the quarter. Our teams continue to execute on our diversification strategy to increase growth in diversified medical, industrial, aerospace and defense markets. In transportation, we launched the next-generation smart actuator for the commercial vehicle market. 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 will 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 second quarter with sales of \$135 million, up 4% from \$130 million in the second quarter of 2025. For the quarter, diversified end market sales, including sales to medical, aerospace and defense and industrial end markets were up 13%, driven by a mix of organic growth and the SyQwest acquisition. Transportation sales were down 6% from the same period last year. Diversified end market sales were 55% of overall company revenue in the quarter. Our book-to-bill ratio for the second quarter was 1, essentially flat in comparison to the second quarter of 2024. Bookings for our diversified end markets were down in medical due to larger bookings earlier this year.

Defense bookings were flat, while industrial bookings were up 22%. Second quarter adjusted diluted earnings were \$0.57 per share, up approximately 30% from the first quarter and up 7% from the prior year period. Ashish will add further color on our financial performance later in today's call. In the medical end market, second quarter sales were up 8% compared to the same period in 2024. 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. Our teams are engaged on next-generation development engineering to further enhance diagnostic capability with our customers. We are proud to highlight our product support solutions that help save lives.

During the second quarter, we had wins for medical ultrasound across all regions and an award for a pacemaker application. In addition, we added a new customer for an ultrasound application. Demand for therapeutic products were up approximately 60% year-over-year. Bookings in the quarter were down 10% compared to the prior year period due to softness in diagnostic bookings. Over time, we expect the volume increases in portable ultrasound diagnostics and therapeutics will continue to enhance our growth profile. Aerospace and Defense sales for the second quarter were up 34% from the second quarter of 2024. Excluding sales from the SyQwest acquisition, sales were up 6%. SyQwest revenues in the second quarter were \$4.5 million, and we expect stronger sales in the second half of this year. Bookings in the second quarter were flat 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 received multiple orders in the quarter for sonar transducers across North America and Europe, transducer refurbishments and outboard electronic applications. 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 with OEMs as well as with distribution customers. Sales in the second quarter were up 5% sequentially and up 6% compared to the prior year period, underscoring our expectation of a continued recovery. Bookings in the quarter were up 22% from the same period last year.

We were successful with multiple wins in the quarter for EMC, switches, industrial printing and temperature sensing applications, where we won a new business award for EV charging stations in Europe. We added a new customer in the quarter for a millimeter wave small cell frequency application. Demand across the industrial market is expected to continue improving in the second half of 2025. The megatrends of automation, connectivity and efficiency enhance our longer-term growth prospects. Transportation sales were \$61 million in the second quarter, down approximately 6% from the same period last year due to the impacts of China market dynamics and softness for commercial vehicle products.

In the second quarter, we had awards across various product groups, including accelerator module wins with customers in North America, Europe and Asia. Additionally, we received a chassis ride height sensing award from a North American OEM. More recently, on the innovation front, we advanced our [Corvus technology], which enables precise position sensing with high resolution for motor position sensing. 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. Interest in our e-brake product, offering weight and cost advantages continues across OEMs at a slower pace as certain OEMs recalibrate EV investments. Our team is proceeding with samples and design customizations for OEMs and Tier 1s. We remain confident in the longer-term growth 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 e-brake, other footwall products, existing and new 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 evolving trade tariffs and associated economic uncertainty, demand in the medical end market is expected to be mixed with strength in therapeutics and some softness in diagnostic ultrasound. In Aerospace and Defense, revenue is expected to grow given our backlog of orders and momentum from the SyQwest acquisition. Industrial and distribution sales are expected to improve. Longer term, we expect our material formulations supported by 3 leading technologies and their derivatives 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 tariff impact and the supply of rare earth for OEMs and Tier 1 suppliers. The North American light vehicle market is expected to be in the 15 million unit range. European production is forecasted in the 16 million unit range and showing some increased softness due to pressure from Chinese OEMs. China volumes are expected to be in the 30 million unit range. Electric vehicle penetration rates have softened in some regions, while hybrid adoption continues to improve. More recently, our next-generation commercial vehicle actuator commenced low-volume production during the quarter. Overall, we are monitoring the potential for headwinds in transportation revenue due to trade tariffs and the China market dynamics. We anticipate softness in commercial vehicle-related revenue for the remainder of the year.

As I mentioned in previous calls, 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. With the recent budget approval, we expect revenues for SyQwest will improve 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 while focusing 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. Sales in the second quarter were \$135 million, up 8% sequentially and up 4% from the last year. Sales to diversified end markets increased 13% year-over-year. SyQwest added \$4.5 million in revenue during the quarter. As Kieran has highlighted, we are seeing seasonality in sales from SyQwest due to government funding patterns and expect a stronger second half. Sales to transportation customers were down 6% from the second quarter of last year due to softness in sales related to commercial vehicle products and reduced volumes due to China market dynamics. Our adjusted gross margin was 38.7% in the second quarter, up 296 basis points compared to the second quarter of 2024 and up 174 basis points sequentially compared to the first quarter of 2025.

As we continue to work on diversification as a strategic priority, we are seeing a favorable mix impact on our profitability. In addition, our global teams continue to focus on operational execution to deliver margin improvements. We are working closely with customers

and suppliers on tariffs and had a minimal impact on profitability in the second quarter. Exchange rate changes had a favorable impact of \$1 million on gross margin. We achieved adjusted EBITDA of 23% in the quarter, an improvement of 250 basis points sequentially and 130 basis points compared to the second quarter of 2024. Earnings were \$0.62 per diluted share for the second quarter. Adjusted earnings were \$0.57 per diluted share compared to \$0.44 in the first quarter of 2025 and \$0.54 in the second quarter of 2024. Moving to cash generation and the balance sheet. We generated \$28 million in operating cash flow in the second quarter compared to \$20 million in the second quarter of 2024. Year-to-date, we have generated \$44 million in operating cash flow. Our balance sheet remains strong with a cash balance of \$99 million at the end of the quarter. Our long-term debt balance was \$88 million, leaving us good liquidity to support strategic acquisitions. During the quarter, we repurchased 412,000 shares of CTS stock for approximately \$17 million. In total, we returned \$26 million to shareholders through dividends and share buybacks so far in 2025. We have \$38 million remaining under our current share repurchase program. 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] And our first question today comes from John Franzreb from Sidoti.

John Edward Franzreb
Sidoti & Company, LLC

Kieran, I'd like to start with the medical market. It seems like there's maybe 2 different product lines going 2 different directions. Therapeutics, you said was up 60%, I believe. But also, I think you issued a little bit of a warning about diagnostics. Can you talk a little bit about what's going on in the marketplace there for you?

Kieran M. O'Sullivan
Chairman, President & CEO

Yes, John. On the therapeutics side, on the last earnings call, we talked about a larger order, and that's obviously playing out here in the second quarter and for the balance of the year as well. We've seen some softness in diagnostics on the ultrasound side of it, mostly coming from capital spend in Asia and maybe tariff related as well. So we will see some softness there. But overall, on medical for the year, we will see growth.

John Edward Franzreb
Sidoti & Company, LLC

Good. That's good to hear. And you just touched on the tariff situation. What was the impact, if any, of tariffs on you in the quarter?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Well, it's pretty nominal, John. As we mentioned in the prepared remarks, we are working closely with customers as well as suppliers. Overall, the impact is very, very minimal in the quarter.

John Edward Franzreb
Sidoti & Company, LLC

Do you expect it to stay that way?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Generally, under the current conditions, I would say, yes, but there's a lot of changes happening, as you know. So we are continuing to monitor the situation. As we have talked about in the past, our bigger impact happens with any potential changes in the USMCA.

John Edward Franzreb
Sidoti & Company, LLC

Okay. Got it. And when you think about the transportation market, Kieran, you're also signaling continued weakness. Any thoughts about when that market might bottom out for you?

Kieran M. O'Sullivan
Chairman, President & CEO

John, obviously, yes, weakness this year. It's mixed across the regions. We've talked about softness in China being a factor for us in the commercial vehicle. We think it's bottomed out in China, but we're being a little bit just cautious on that. So we see the trend over a few quarters. On the light vehicle side, we did improve sequentially this quarter. And I would tell you, we've got a pipeline of booked business is really strong across multiple products that we're working. So it's a little bit mixed, John. I would just say the tariff situation is the one we're watching there. There was some prebuy in Q2 in April and May. It just -- it feels a little tenuous for the next few quarters.

John Edward Franzreb
Sidoti & Company, LLC

Makes sense. Makes sense. And just on the cost side of the equation, how is the integration of SyQwest going? Is that fully complete? And are there any other cost measures you're currently active on outside of that?

Kieran M. O'Sullivan
Chairman, President & CEO

John, the SyQwest acquisition is moving along well. A lot of the integration work has been done. There's still a little bit more to do. We're still running on different ERP systems. But the pipeline of opportunities is really strong. What I would tell you is the timing with the government and getting the budget approval has been something we've been watching carefully and glad to see that approved because we think that's going to be a momentum builder going forward.

John Edward Franzreb
Sidoti & Company, LLC

Okay. And any other internal cost-saving actions that you're currently executing?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

So on SyQwest, John, we are really not looking to drive cost saving type of actions. The business is working on a strong pipeline, and we are shoring up capabilities from a production standpoint to make sure that we can drive that growth and do the revenue growth part of it strongly in that part of the business.

John Edward Franzreb
Sidoti & Company, LLC

Understood. Ashish, I was actually referencing legacy CTS.

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Got it. Got it. So in terms of -- we are continuing to look at operational efficiency on an ongoing basis, like we always do, John. That was contributing to our gross margin expansion in the quarter that we talked about. But in terms of big things that we have in the works, there's not much that we have talked about publicly. As we continue working on things, if there are bigger changes we are making, I'm sure we'll highlight those.

Operator

The next question comes from Hendi Susanto from Gabelli Funds.

Hendi Susanto
G.research, LLC

Kieran, Ashish, I would like to ask like similar questions, but hopefully deeper. The mix dynamic in medical marketplace in diagnostic and then in therapeutic, any guidepost on, let's say, how much the large order would sustain or generate a nice revenue upside in the next coming quarters? And then on the other hand, the softness in diagnostic, like how much further should we expect?

Kieran M. O'Sullivan
Chairman, President & CEO

Hendi, the softness in diagnostics maybe for a quarter or 2, we still feel very confident in the growth of that business in the mid-to long term. On the therapeutic side, confident in the growth throughout the balance of this year, and then we would expect new purchase orders as we go ahead. So overall, as I mentioned earlier, we'll see growth in medical this year, and we're expecting growth as we go into the years ahead, too.

Hendi Susanto
G.research, LLC

Okay. Got it. And then, Ashish, may I ask how much revenue SyQwest generated in the same quarter a year ago so that we know on a year-over-year comparison, what the numbers look like?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

Yes, Hendi, we closed on the acquisition towards the end of July last year. So the second quarter of 2025 was purely additive.

Hendi Susanto
G.research, LLC

Yes. But can we know prior to acquisitions, like how much the quarterly revenue in the second quarter of 2024?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

We haven't talked about that, Hendi, in terms of pre-acquisition revenues. So that's something that we haven't talked about publicly.

Hendi Susanto
G.research, LLC

Yes. And then I think I asked a similar question in the past within transportation, how much is China?

Ashish Agrawal
VP, CFO & Principal Accounting Officer

China transportation as a percent of our overall revenue will be similar to what we have for the overall transportation as a percent of total CTS, that will give you -- get you close enough in terms of how much revenue we have in China. When you look at overall China, we -- our last year's data that was published as part of the 10-K, we had revenues of about \$80-plus million in total.

Hendi Susanto
G.research, LLC

Okay. Got it. And then Kieran, you talked about a strong pipeline of opportunities -- sorry, I think you said that in transportation, there are some solid like positive pipelines across products that you are working on. Would you be able to mention which products can...

Kieran M. O'Sullivan
Chairman, President & CEO

Yes, Hendi, we would be working with customers on accelerator modules, passive safety sensors, new combination sensors, motor position sensing, just to give you a few examples in transportation. And we also have a strong pipeline in the diversified end markets as well.

Hendi Susanto
G.research, LLC

And then within the transportation, those pipelines, are they more skewed toward North America and Europe?

Kieran M. O'Sullivan
Chairman, President & CEO

Hendi, I would certainly -- we've been winning business in all regions. I would say the larger pipeline is in the North America region for sure, but some of these OEMs are operating globally, too.

Operator

[Operator Instructions] We return to the line from John from Sidoti.

John Edward Franzreb
Sidoti & Company, LLC

Yes. Just a follow-up question. Can you talk a little bit about the acquisition market, what you're seeing out there, maybe the size of the opportunities that you're most focused on?

Kieran M. O'Sullivan
Chairman, President & CEO

John, we're most focused on advancing our diversified end markets, that be aerospace and defense, industrial and medical. There's -- we're always working on a pipeline of opportunities. There's nothing to report at this point in time, but we certainly see some uptick in activity out there.

John Edward Franzreb
Sidoti & Company, LLC

That's great. Something maybe within the next 12 months? Or am I thinking too far ahead?

Kieran M. O'Sullivan
Chairman, President & CEO

Well, John, if you look at how we talk about our growth, 5% organic, 5% through acquisitions, we would definitely like to do something in the next 12 months.

Operator

[Operator Instructions] We have no further questions. So I'll hand the call back to Kieran for some closing comments.

Kieran M. O'Sullivan
Chairman, President & CEO

Thanks, Adam, and thank you all for your time today. Despite the challenges of tariffs, geopolitical and economic pressures, diversification remains a strategic priority. We launched our Evolution 2030 strategic initiative to enhance our emphasis on sales growth, operational rigor and employee engagement while also giving back to the communities where we operate. We look forward to updating you on our third quarter 2025 performance in October. This concludes our call. Thank you.

Operator

This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

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