NYSE:CTS Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Hello, everyone. Thank you for joining us and welcome to the CTS Corporation fourth quarter 2025 earnings call. After today's prepared remarks, we will host a question and answer session. If you'd like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star one again. I will now hand the call over to Kieran O'Sullivan. Please go ahead.

Kieran O'Sullivan | Chief Executive Officer:

Good morning and thank you for joining us today. I'm pleased to report another solid quarter for CTS. demonstrating the continued progress and strength of our diversification strategy and operational execution. For the fourth quarter, we delivered strong performance with revenue growth of 9% year over year, with our diversified end markets growing 16% versus the prior year period. I am particularly pleased with our diversification progress as these markets now represent almost 60% of overall company revenue. New business awards in transportation were strong, which will drive long-term growth in that end market. As we look to the year ahead, we see continued growth momentum across our diversified markets, increasing revenue and quality of earnings. In transportation, we continue to expand our portfolio of powertrain agnostic products. Prateek Trivedi, Chief Operating Officer, is also joining myself and Ashish Agarwal, our CFO for today's call.

Ashish Agarwal | Chief Financial Officer:

Ashish will now take us through the Safe Harbor Statement. Ashish. 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 the supplemental slide presentation, which can be found in the investor section of the CTS website. I will now turn the discussion over to our CEO, Kirno Sullivan.

Kieran O'Sullivan | Chief Executive Officer:

Thank you, Ashish. We finished the fourth quarter with sales of 137 million, representing a solid 9% increase compared to the fourth quarter of 2024. Our diversified end markets were up 16%. Transportation sales were essentially flat. For the full year, sales were 541 million, up 5% from $515 million in 2024. Diversified end market sales were 59% of overall company revenue in the fourth quarter and 57% for the full year 2025. Our book-to-bill ratio for the fourth quarter was one, up 3% compared to the fourth quarter of 2024. For the full year 2025, the book-to-bill ratio was 1.04 compared to 1.01 in 2024, indicating sustained customer demand across our diversified portfolio of products. Looking at bookings performance, medical bookings showed robust growth, driven by continued strength in therapeutic applications. Industrial bookings were strong, driven by stabilized OEM demand and the recovery in distribution. Defense bookings were down, though our pipeline remained strong with backlog levels supporting future growth. We added three new customers in defense and one in the industrial market. In transportation, we had strong new business awards in the

quarter. We added floor hinge accelerator technology to our portfolio and secured a first win. Our operational execution was evident. as we expanded our gross margin by 150 basis points in the fourth quarter and for the full year. We maintained strong cash flow generation, supporting our balanced capital allocation approach that includes strategic investments in growth and returning cash to shareholders. Fourth quarter adjusted diluted earnings were 62 cents per share, up from 50 cents in the fourth quarter of 2024 as we continue to focus on driving profitable growth. For the full year 2025, adjusted diluted earnings were $2.23 per share, up from $2.12 in 2024. Ashish will add further color on our financial performance later in today's call. Our medical end market delivered strong performance in the fourth quarter, with sales increasing 41% versus the prior year period, reflecting the strong growth momentum across our medical portfolio, particularly in therapeutic applications where we're seeing robust demand. For full year 2025, sales were 85 million compared to 70 million in 2024, up 21%. Bookings in the quarter were up 37% compared to the prior year period. The book to bill ratio for 2025 was 1.07, similar to 2024, reflecting continued momentum in this end market. We continue to see growth prospects in minimally invasive applications where our precision sensors and transducers are enhancing ultrasound imaging capabilities for medical professionals. These technologies are critical in helping clinicians detect artery restrictions with greater accuracy while enabling more effective delivery of treatment medications directly to targeted areas. This represents meaningful advancement in patient care and clinical outcomes. Our teams are engaged in next generation product development to further enhance diagnostic and therapeutic capabilities with our customers. We are working closely with leading medical device manufacturers to integrate our advanced sensing technologies into their platforms, creating solutions that can provide even more detailed imaging and diagnostic information to healthcare providers. I want to emphasize the life-saving nature of the solutions we provide to the medical industry. We are proud to highlight that our products support solutions that help save lives. This mission-critical role in healthcare drives our commitment to the highest quality standards and continuous innovation. Additionally, our products aid blood analysis and flow, cancer treatment, and are incorporated into pacemakers and cochlear implants. Our therapeutic products enhance skin aesthetics, and in combination with other medical procedures, help improve skin tightness. During the fourth quarter, We had multiple wins across all regions for medical ultrasound. We also had a large win for therapeutic products and a win for a pacemaker application. Demand remains strong for therapeutic products and we expect increased volumes in 2026. Over time, we expect volume increases in portable ultrasound diagnostics as healthcare systems increasingly move to point of care solutions. Therapeutic products should continue to enhance our overall growth profile, supported by an aging population and minimally invasive treatment options. Aerospace and defense sales for full year 2025 were 83 million, up 20% from 69 million in 2024. Sales for the fourth quarter were down 4% from the fourth quarter of 2024 due to timing of certain programs. SideQuest revenues in the fourth quarter were $6 million as we navigated government funding cycles, which we expect to improve in 2026. While bookings were down in the fourth quarter, full year bookings were up 15%. Our pipeline remains strong with backlog levels supporting future growth. We are making progress on our strategy, moving from a component supplier to a supplier of sensors, transducers, and subsystems and is further validated by the Naval Award in the third quarter of 2025. We received multiple orders in the quarter for naval sonar and hydrophones. In addition, we had wins for RF filters with application in anti-jamming and in drones. Finally, we secured new awards deploying our frequency, vibration, and temperature sensing capabilities. In the quarter, we added three new customers for underwater locator beacons, and for Sono Buoy Electronics. The SideQuest operation continues to drive a pipeline of opportunities as we move into 2026. And as mentioned earlier, we expect decision-making and funding to improve this year. The long-term nature of defense programs provides revenue visibility and supports our diversification objectives. Our industrial end market demonstrated solid momentum in the fourth quarter, continuing the gradual recovery trend we've been tracking throughout 2025. We are seeing signs of stabilization and growth both from our OEM customers and distribution partners as industrial activity rebounds from previous cyclical lows. Sales in the fourth quarter were up 16% compared to the prior year period. underscoring our expectation of continued market strength. Full year 2025 sales were $140 million compared to $125 million in 2024, up 12%. Bookings in the quarter were up 22% from the same period last year. The book-to-bill ratio for the full year 2025 was 1.11 compared to 1 in 2024. We were successful with multiple wins across a diverse range of industrial applications in the quarter, including distribution components, industrial printing, and EMC applications where our components help ensure electromagnetic

compatibility in industrial equipment. Temperature sensing applications represented another area with wins for heat pumps, pool and spa, and for commercial appliances. These applications leverage our expertise in precision sensing to help industrial customers optimize their operations and improve energy efficiency. We added a new customer in the quarter for a frequency application. Demand across the industrial end market is expected to remain healthy in 2026. We expect our industrial performance to benefit from the long-term megatrends of automation and connectivity that should enhance our growth prospects. the increasing digitization of industrial processes, push for greater energy efficiency, and the ongoing automation of manufacturing create expanding opportunities for our advanced sensing technologies. Transportation sales faced headwinds with sales of 234 million for 2025, compared with 250 million in 2024, down 7%, driven by the previously discussed market dynamics in China and in the commercial vehicle market. Fourth quarter sales were 56 million, essentially flat versus the same period last year. Despite sluggish market conditions, we secured new business awards of approximately 100 million in the fourth quarter. We gained significant awards across various product groups, including accelerator module wins with oems in china japan europe and north america as mentioned earlier we added floor hinge technology to our portfolio of products and secured a first win with revenue expected in 2028 floor hinge designs are expected to expand in ev applications especially in international markets in the quarter we secured a smaller award for a commercial vehicle actuator application. Across our sensor portfolio, we had wins for passive safety, braking, and transmission position sensing. We also secured an advanced development contract for our drive pad technology with a large Japanese OEM, adapting to future software-defined vehicle architectures. Overall, we continue to strengthen our footwell presence while adding powertrain agnostic sensing capabilities. Total book 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 continue to recalibrate EV investments and launch dates. The electronic brake market represents a growth opportunity as the industry moves toward more advanced driver assistance systems, and autonomous capabilities. Overall, our solutions deliver meaningful cost and weight benefits to OEMs, which become increasingly important as they balance performance, efficiency, and affordability requirements. We remain confident in the long-term growth prospects for our ebrake and other footwell products. These, along with existing and new sensor applications, will increase our ability to grow content. Turning to the outlook for 2026. For our diversified end markets, demand is expected to be solid. In the medical market, we see continued momentum in therapeutics where we have expanded capacity. In aerospace and defense, revenue is expected to grow given our backlog, side quest capabilities, and the normalization of government funding. Industrial and distribution sales are expected to be solid. Longer term, we expect our material formulations supported by three leading technologies and their derivatives to continue to drive growth in key high quality end markets in line with our diversification strategy. Across transportation markets, production volumes are expected to be flat to marginally down given the tariff impact, consumer demand, and in line with global light vehicle volume forecasts from IHS. The North American light vehicle market is expected to be in the 15 to 16 million unit range. European production is forecasted in the 16 to 17 million unit range. China volumes are expected to be in the 32 million unit range. We continue to monitor potential impact from supply chain issues related to rare earth metals and semiconductors, although we are not seeing any significant immediate impact. We anticipate general softness in commercial vehicle demand in the first half of 2026, with the potential for improvement in the second half of the year. Qualification of our next generation smart actuator across our customers' platforms is progressing, and we plan to implement further product enhancements later in 2026. We continue to closely monitor and evaluate the tariff and geopolitical environment while focusing on agility and adapting to cost and price adjustments in close collaboration with our customers and suppliers as we navigate supply chain pressures. Our strong balance sheet, healthy cash generation, and experienced teams provide us with the tools necessary to manage these headwinds while continuing to invest in growth opportunities and also advancing innovation. Our increasingly diversified business model continues to enhance our growth and quality of earnings. Assuming the continuation of current market conditions for full year 2026, we expect sales in the range of 550 to 580 million and adjusted diluted EPS to be in the range of $2.30 to $2.45. Now I'll turn it over to Ashish who will walk us through our financial results in more detail. Ashish.

Ashish Agarwal | Chief Financial Officer:

Thank you, Kiran. Fourth quarter sales were $137 million, up 9% compared to the fourth quarter of 2024 and down 4% sequentially from the third quarter of 2025. Sales to diversified end markets increased 16% year over year. Sales to transportation customers were down 1% from the fourth quarter of last year. foreign currency changes impacted sales favorably by $2 million in the fourth quarter. Our adjusted gross margin was 39.1%, up 150 basis points compared to the fourth quarter of 2024, and up 20 basis points compared to the third quarter of 2025. The year-over-year improvement in gross margin was driven by operational improvements and the favorable impact of end market mix. Earnings were 67 cents per diluted share in the fourth quarter compared to 38 cents for the same period last year. Adjusted earnings for the fourth quarter were 62 cents per diluted share compared to 50 cents per diluted share for the same period last year. For the full year, revenue was $541 million, an increase of 5% compared to 2024. Diversified end markets were up 16% year-over-year. SyQuest added $22 million in revenue in 2025, which was lower than expected, mainly due to the timing of government contract awards. Excluding SyQuest, sales to diversified end markets grew 14%. Sales to the transportation end market were down 7%, mainly due to the lower sales of commercial vehicle products. Foreign currency impacted sales favorably by 3 million in 2025. Our adjusted gross margin was 38.5% in 2025, up 150 basis points compared to 2024. Primary drivers of the improved gross margin include the favorable impact of end market mix and operational improvements. Foreign currency rates also had a favorable impact of approximately $2 million in 2025. We remain focused on strengthening our gross margin profile by growing our diversified end markets, as well as continued operational improvements. Our adjusted EBITDA margin for the year was 22.8%, an improvement of 40 basis points from 2024. For the full year 2025, our earnings were $2.19 per diluted share. Adjusted earnings were $2.23 per diluted share compared to $2.12 per diluted share for 2024. The US tax legislation changes had an adverse impact of approximately 3 cents on adjusted earnings per diluted share for 2025. Moving to cash generation and the balance sheet, our cash flow was strong and we generated $29 million in operating cash flow for the fourth quarter of 2025 and $102 million for the full year. Our balance sheet remains strong with a cash balance of $82 million and borrowings of $58 million from our credit facility at the end of 2025. During the quarter, we repurchased 398,000 shares of CTS stock, totaling approximately $17 million. For the full year, we repurchased approximately 1.4 million shares, totaling $57 million. In total, we returned $62 million to shareholders through dividends and share buybacks in 2025. We have another $90 million remaining under our current share repurchase program. We remain focused on strong cash generation and appropriate capital allocation and continue to support organic growth, strategic acquisitions, and returning cash to shareholders. This concludes our prepared comments, and we would like to open the line for questions at this time.

Operator | Conference Operator:

We will now begin the question and answer session. Please limit yourself to one question and one follow-up. If you'd like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star one again. Please pick up your handset when asking a question. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. If you'd like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star one again. Your first question comes from the line of Hendy Sustento from Gabelli Funds. Your line is open. Please go ahead.

Hendy Sustento | Analyst, Gabelli Funds:

Good morning, Kieran and Aziz. Congratulations on finishing strong in 2025.

Kieran O'Sullivan | Chief Executive Officer:

Thanks, Hendy. Good morning, Hendy.

Hendy Sustento | Analyst, Gabelli Funds:

Kiran, I would like to ask your assumption within your 2026 guidance with regard to the smart actuator. Do you have more updates and insights into customer preference in terms of their dual sourcing approach?

Kieran O'Sullivan | Chief Executive Officer:

Yeah, Hendy, we're actually continuing on both the legacy platform and on the new platform, which we launched last year. And the new platform is getting launched across different engine platforms. And I think I mentioned in the prepared remarks that we're also enhancing the cost reduction efforts in that area in the second half of this year as well. So we feel pretty good about where we're going on that side of it.

Hendy Sustento | Analyst, Gabelli Funds:

Okay. And then... Any insight into new product in transportation or in other diversified end market that you have positive expectation for year 2026?

Kieran O'Sullivan | Chief Executive Officer:

Hendy, on the transportation side, you probably saw that we secured approximately 100 million in new business awards across all regions with accelerator modules. but also brought in some new products into the portfolio with brake applied sensing, floor hinge, which will add revenue in 2028 because of the longer development lifecycle. And we're advancing on current sensing. We've got an advanced development award, which we're very excited about with our dry pad, which links up to the software-defined vehicle architecture for the future. So we feel a lot of good things going there. On the medical side, a lot of momentum. We're making good progress on therapeutics. We're also making progress on diagnostics. You saw some other wins mentioned there as well. Prateek, do you want to elaborate on diagnostics, maybe, or therapeutics?

Prateek Trivedi | Chief Operating Officer:

We continue to see strong momentum in both the therapeutics as well as the aesthetics application. We have strong collaboration with some of our key customers at this point working jointly with their product development to launch products that has a strong potential in the future. At the same time, we also are launching products in the connectivity component space, especially in the aerospace and defense that has a strong potential in the future as well.

Kieran O'Sullivan | Chief Executive Officer:

Good. So, Hendi, hopefully that gives you some color about what we're doing.

Hendy Sustento | Analyst, Gabelli Funds:

Thank you. Thank you, Kiran and Narcisse. Let's get back to the queue.

Ashish Agarwal | Chief Financial Officer:

Thank you, Hendi.

Operator | Conference Operator:

As a reminder, if you'd like to ask a question, please press star 1 on your telephone keypad. To withdraw your question, please press star 1 again. Please pick up your handset when asking a question. If you are muted locally, please remember to unmute your device. Your next question comes from the line of John Franzrab with Sidoti & Co. John, your line is open. Please go ahead.

John Franzrab | Analyst, Sidoti & Co:

Good morning, everyone, and thanks for taking the questions. I'm curious about what you said about cyclists, Kieran. You said that there was maybe some deferrals in some of the jobs. Did you have actually revenue move from Q4 into Q1, or is it longer tail than that?

Kieran O'Sullivan | Chief Executive Officer:

No, John. I think what we're making reference to Just the timing of government funding in 2025, it was a little lighter than we expected. And we expect that to normalize here in 2026. And so revenue wasn't as robust as we would have liked it to have been. But you know us, we don't give up. And for 2026, we already have some good contracts coming through in the pipeline with some momentum. So still more work to do, but key for us going forward as well.

John Franzrab | Analyst, Sidoti & Co:

Got it. Got it. When we think about the revenue guidance for the year ahead, what is the maybe the net new product introduction relative to the offset of maybe some of the programs are going end of life? Do you have a sense of how much incremental revenue represents new products coming online in this year?

Ashish Agarwal | Chief Financial Officer:

John, I don't have a number to give you, John, but as you look at the different things that Kiran and Prateek both talked about, we get more revenue recognition quicker on the diversified side. On the transportation side, as we've talked about in the past, it takes two to three years. So the floor hinge that we had in Q4, we'll expect revenues from that in 2028. So as you see momentum on the diversified, a good portion of that is either coming from new products or new customers or new products with existing customers. And there's good momentum on growth activity as it relates to that. And Prateek also mentioned some of the traction that we are getting on the diagnostic side with portable ultrasound where we don't have meaningful revenues at this point, but we see that as a growth market.

John Franzrab | Analyst, Sidoti & Co:

Got it. Got it. And it also seems to me that you're becoming a little bit more confident in some of the industrial opportunities. Am I misreading that or is visibility improving versus say three months ago?

Kieran O'Sullivan | Chief Executive Officer:

John, we think it's improving. It's been a constant improvement quarter over quarter throughout 2025. And if you even look at the book-to-bill ratio of 1.11, And bookings were up 22%. So we feel like we're on a good, steady path of improving trend here.

John Franzrab | Analyst, Sidoti & Co:

Good. And regarding the outlook in the transportation sector, dare I say it, you're only down 1% in the fourth quarter. Do you feel like we're bottoming? Or what's your assessment of what you see in the transportation market? And really could kind of divvy up the two main parts for commercial versus the ground vehicle.

Kieran O'Sullivan | Chief Executive Officer:

Yeah, John, I think, you know, we're a little bit conservative. We haven't called it bottom. We'd like to get a quarter of data or two behind us, but you can tell we're definitely trending in that direction. And we've seen some improvement, small improvement in commercial legal in the fourth quarter. We think for 2026, the first half is going to be a little bit lighter than the second half, a little bit richer. There could be some pre-buy with the new emission standards coming out in 2027. and on the light vehicle side if you look at the market it's um just what people are saying out there it's a very mixed bag you got some people saying up two or three percent some people saying flat some people saying down a point or two we think somewhere between flat and slightly down is where the light vehicle market is going this year yeah i agree with you it seems like the um the numbers moving every other week almost um

John Franzrab | Analyst, Sidoti & Co:

can you talk a little bit about what you're seeing in the M&A market? I know that's a core part of the growth strategy. Maybe talk about what you're seeing as far as the opportunity pipeline.

Kieran O'Sullivan | Chief Executive Officer:

Yeah, John, we're actively working the pipeline, nothing to report today, but obviously the biggest focus is on diversification and expanding that diversification rate and some niche technologies for transportation. But, you know, Valuations are still high. We're looking for the right assets, and we're working it hard.

John Franzrab | Analyst, Sidoti & Co:

Okay, fair enough. And just one last question. You talked a little bit about China. Can you maybe give us an overall assessment of what you're seeing in the, you know, your other markets by geography, X transportation, if you will?

Kieran O'Sullivan | Chief Executive Officer:

Thank you.

Ashish Agarwal | Chief Financial Officer:

Yeah, when you look at the diversified markets, that was your question, John, right? Yes, yes, sir. We are expecting good momentum across the board in different parts. Activity is good. We are not seeing any concerns in any parts of the world from the diversified end markets. On the defense side, we are focused primarily in North America with some exposure in Europe that we are continuing to build. On the medical side, we are seeing good momentum across the world, as well as in industrial, we are seeing good momentum in all different parts.

John Franzrab | Analyst, Sidoti & Co:

Okay. That's good to hear. Thanks for taking my questions. I appreciate it.

Kieran O'Sullivan | Chief Executive Officer:

Thanks, John. Thank you.

Operator | Conference Operator:

Your next question comes from the line of Hendy Sosanto with Gabelli Funds. Your line is open. Please go ahead.

Hendy Sustento | Analyst, Gabelli Funds:

Hi, Kiran and Aziz. I have two more follow-up questions. In industrial and distributor, how do you characterize among your sales matching the end demand and then sales toward inventory rebuild at your customers?

Kieran O'Sullivan | Chief Executive Officer:

Hendy, what I would say through distribution, What we've seen is solid demand, good increases year over year, quarter over quarter. And we also see our customers actively managing their inventory. So some of them have their inventory levels down, some more optimized. But we feel good about demand there going forward.

Hendy Sustento | Analyst, Gabelli Funds:

And then, Kiran, what is your latest market assessment of China transportation markets? We know that transportation design cycle may take two to three years, but in China it's faster. So any strategic direction for 2026 in terms of your transportation business in China?

Kieran O'Sullivan | Chief Executive Officer:

Yes, Hendi, we would say we believe it's reached the new normal over there. We are with the transplant OEMs out of Japan and selectively with some local Chinese customers. The other thing when you talk about the speed over there, we have our local team for the Chinese market in China, and they're actively engaged with new products and development over there. So we feel good about the work we're doing there and obviously working that pretty hard because it's a tough market.

Hendy Sustento | Analyst, Gabelli Funds:

Thank you, Ashish. Thank you, Kiran.

Ashish Agarwal | Chief Financial Officer:

Thanks, Andy. Thank you, Andy.

Operator | Conference Operator:

As a reminder, if you'd like to ask a question, please press star 1 on your telephone keypad. To withdraw your question, please press star 1 again. Please pick up your handset when asking a question, and if you're muted locally, please remember to unmute your device. There are no further questions at this time. I will now turn the call back to Karen O'Sullivan for closing remarks.

Kieran O'Sullivan | Chief Executive Officer:

Thanks, Elizabeth, and thank you all for your time today. Diversification remains a strategic priority to drive growth and margin expansion. In addition, we're expanding in vehicle powertrain agnostic solutions. We are guided by our Evolution 2030 strategic initiative to enhance our emphasis on growth, operational rigor, employee engagement, while also giving back to the communities where we operate. We look forward to updating you on our first quarter of 2026 results in April. Thank you. This concludes our call.

Operator | Conference Operator:

This concludes today's call. Thank you for attending. You may now disconnect.