NYSE:CTS Q1 2026 Earnings Call Transcript

Generated on 11/25/2026

Operator | Conference Operator:

Hello, everyone. Thank you for joining us and welcome to the CTS Corporation first quarter 2026 earnings call. After today's prepared remarks, we will host a question and answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, please press star one again. I will now hand the conference over to Kieran O'Sullivan. Kieran, please go ahead.

Kieran O'Sullivan | Chief Executive Officer:

Good morning and thank you for joining us today. I'm pleased to report a solid first quarter of 2026 for CTS with diversified sales up double digits as we continue to execute our diversification strategy. We also saw strong bookings momentum in the industrial and medical markets. In transportation, we see stability in revenue with modest growth in the first quarter. Overall, with growth in key end markets and solid execution, We believe the company is well positioned to deliver on its strategic objectives. Ashish Agarwal, our CFO, will take us through the safe harbor statement and later through our financials. Prateek Trivedi, our COO, will provide an update on the progress in each of our end markets. Ashish.

Ashish Agarwal | Chief Financial Officer:

I would like to remind our listeners that this 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 back over to our CEO, Kiran O'Sullivan.

Kieran O'Sullivan | Chief Executive Officer:

Thank you, Ashish. We finished the first quarter with sales of 139 million, representing a solid 11% increase compared to the first quarter of 2025. Our diversified end markets were up 18%. Transportation sales grew 3%. Our book-to-bill ratio for the first quarter was 1.1, up 4% compared to the first quarter of 2025. Looking at bookings performance, industrial bookings were strong, driven by stabilized OEM demand and the recovery in distribution. Medical bookings showed robust growth driven by continued strength in diagnostics and therapeutic applications. In aerospace and defense, we continue to have a robust pipeline of opportunities, even as bookings were down compared to last year, as funding on various programs is expected to improve in the second half. We added two new customers in the defense market. In transportation, we secured several new business awards, including Current Sensing in Europe and a larger award for foot controls with a European OEM in early April. We also added a new customer in the transportation market. Our operational execution was evident as we expanded gross margin by 250 basis points in the first quarter. We maintained strong cash flow generation, supporting our balanced capital allocation approach that includes strategic investments in growth and returning cash to shareholders. First quarter adjusted diluted earnings were 62 cents per share, up from 44 cents in the first quarter of 2025, as we continue to focus on driving profitable growth. Ashish will add further color on our financial performance later in today's call. 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 and the normalization of government funding. Industrial OEM and distribution sales are expected to be solid. We continue to monitor the potential economic impact of the current geopolitical conflicts for the second half of the year. Longer term, we expect our material formulations supported by three 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 be down given the current geopolitical uncertainties and the potential impact on the economy. Global light vehicle volumes from IHS were recently forecasted to soften. The North American light vehicle market is expected to be in the 15 million unit range. European production is forecasted to be 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 the geopolitical situation, supply chain issues related to petroleum products, especially resin, and other components such as rare earth, metals, and semiconductors. We anticipate commercial vehicle demand to improve in the second half of the year. We are closely evaluating the Section 232 tariff changes and focusing on agility and adapting to cost and price adjustments in close collaboration with our customers and suppliers. 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 are narrowing our sales guidance in the range of 560 to 580 million and adjusted diluted EPS to be in the range of $2.35 to $2.45. Now, I'll turn it over to Prateek, who will walk us through the end market performance. Prateek.

Prateek Trivedi | Chief Operating Officer:

Thank you, Kiran. Our medical end market delivered strong performance in the first quarter with sales of 25 million, up 28% versus the prior year period, reflecting a sustained growth momentum across our medical portfolio, particularly in therapeutic applications where we see robust demand. Bookings in the quarter were up 18% compared to the prior year period. The book-to-bill ratio for the first quarter was 1.2, reflecting continued momentum in this market. We continue to see growth prospects in diagnostic imaging, aesthetics, and minimally invasive surgical systems where there is an increased demand for precision, reliability, and patient monitoring. Our precision sensors and transducers enable high-resolution imaging and precise energy delivery in applications such as ultrasound, and intravascular diagnostics, supporting early detection, better visualization, and more targeted patient treatments. In patient and medical equipment monitoring, our temperature and position sensors provide high accuracy and stability, supporting reliable vital sign measurement and device performance over extended life cycles. Our therapeutic products enhanced skin lifting and tightening through non-invasive aesthetic treatments that significantly improved patient experience over alternative procedures. During the first quarter, we had multiple wins across all regions for medical ultrasound and a large win for non-invasive aesthetics application. Demand remains robust for ultrasound imaging and strong for therapeutic products. Knowing that our products support technologies used to save lives is central to our purpose in the medical market. These mission-critical healthcare applications demand uncompromising quality and reliability, reinforcing our commitment to continuous innovation and operational excellence. With an aging population and innovations in healthcare supported by CTS products, the medical market will continue to enhance our growth profile. Aerospace and defense sales for the first quarter were 17 million, up 11% compared to previous year. Book-to-bill ratio was less than one. We expect the defense bookings to pick up during the rest of the year. Our pipeline of new opportunities remains strong, with backlog levels supporting future growth. Undersea warfare and surveillance are critical elements of modern defense strategy, requiring advanced sensing technologies to detect, track, and classify increasingly quiet and sophisticated underwater threats. CTS supports this domain through high-performance piezoelectric sensors, transducers, and subsystems that convert acoustic signals into actionable intelligence. Our RF and EMC filters are mission-critical components in defense electronics, ensuring signal integrity and electromagnetic

compatibility in secure communications, radar, missile control, and avionics systems. Our products also support unmanned systems and satellite platforms that rely on highly efficient, lightweight technologies to operate in extreme environments with limited power. During the quarter, we were awarded a significant underwater hull penetrator business win with a potential contract value of around $20 million over a five-year period. We also registered multiple wins in the quarter for naval sonar and filter applications with several customers. In the quarter, we added two new customers for RF filters specializing in providing secure communications SATCOM connectivity, and anti-jamming applications. We are deeply engaged across multiple customer platforms and expect the government funding cycles to start to normalize in the second half of 2026 and the funds to flow through with the enactment of the full-year appropriations bill in February. Industrial and market performance remained strong with first quarter sales of $37 million representing 14% year-over-year growth and supporting the broader recovery trend underway since 2025. Bookings in the quarter were up 28% from the same period last year, reflecting stable growth from our OEM customers as well as distribution partners. The book-to-bill ratio was 1.29 compared to 1.15 in the first quarter of 2025. We were successful with multiple wins across a diverse range of industrial applications in the quarter, including distribution components, industrial printing, and flow meter applications where our products help in accurately measuring the flow of liquids and gases in industrial systems. We also saw solid momentum in temperature sensing with wins in heat pumps, pool and spa systems, and commercial appliances. These applications underscore our role in enabling more energy efficient and optimized industrial systems. Industrial demand is expected to remain strong in 2026, supported by secular tailwinds, including automation, connectivity, and digitization. At the same time, the push for higher energy efficiency and continued manufacturing automation is expanding the addressable opportunity for our advanced sensing technologies. Transportation sales in the first quarter at 60 million represents a 3% growth over the same period last year and a 7% sequential growth quarter over quarter, which appears to demonstrate early signs of stability. Qualification of our next generation smart actuator across our customers' platforms is progressing. and we plan to implement further product enhancements later in 2026. Our new business wins in the quarter were a good mix of sensors and food control solutions across a diverse set of customers. We added accelerometer to our sensors product portfolio with an award from a North American OEM supporting safety, dynamics control, ride comfort, and advanced driver assistance systems. We gained a new customer with our current sensing solution where our products measure the flow of electrical current in vehicle systems to enable safe, efficient, and reliable operation. As vehicles become more electrified and software controlled, current sensing has become a core enabling technology across higher voltage platforms. In the quarter, we secured multiple wins across the foot controls portfolio with OEMs in China, Japan, Europe, and North America. Overall, we continue to strengthen our footwell presence while broadening our sensing portfolio with powertrain agnostic capabilities that support multiple vehicle architectures. Total book business was approximately $1.1 billion at the end of the quarter. Over the long term, electronic braking remains a compelling opportunity as ADAS, vehicle electrification, and autonomous capabilities continue to advance. Our products deliver meaningful cost and weight benefits, which are increasingly important for OEMs managing performance, efficiency, and affordability tradeoffs. We remain confident in the long-term growth outlook for our footwell products, along with our expanding sensor portfolio. Based on recent IHS forecast, global light vehicle market is expected to be slightly down for 2026. The commercial vehicle market is expected to grow based on rising freight rates, improving spot and contract pricing, and pre-buy related to emission regulation changes in 2027. Now, I'll turn it over to Ashish, who will walk us through the financials in details.

Ashish Agarwal | Chief Financial Officer:

Thank you, Prateek. First quarter sales were $139 million, up 11% compared to the first quarter of 2025, and up 1% sequentially from the fourth quarter of 2025. Sales to diversified end markets increased 18% year over year, and the sales to transportation customers were up 3%. Foreign currency changes impacted sales favorably by $3 million in the first quarter. Our adjusted gross margin was 39.5%, up 250 basis points compared to the first quarter of 2025, and up 40 basis points compared to the fourth quarter of 2025. The year-over-year improvement in gross margin was driven by operational improvements and the favorable

impact of end market mix. Gross margin was also favorably impacted by $700,000 due to foreign currency changes. We are monitoring the impact of Section 232 tariff changes on steel and aluminum, inflation in precious metals, and cost increases due to the higher oil prices. Our teams are already working to mitigate these impacts and are partnering with customers and suppliers towards the goal of keeping the effect on our margins cost neutral. Our tax rate for the quarter was 20.7%, slightly better than expected due to the mix of earnings and certain discrete items. For the full year, we expect our tax rate to be in the range of 21 to 23%. Earnings per diluted share for the first quarter were 59 cents compared to 44 cents for the same period last year. Adjusted earnings for the first quarter were $0.62 per diluted share compared to $0.44 per diluted share for the same period last year. Moving to cash generation and the balance sheet, we generated $17 million in operating cash flow for the first quarter of 2026. Our cash balance was $91 million and borrowings were $63 million from our credit facility at the end of Q1 2026. During the quarter, We purchased 177,000 shares of CTS stock, totaling approximately $9 million. In total, we returned $10 million to shareholders through dividends and share buybacks in the first quarter of 2026. We have another $82 million remaining under our current share repurchase program. we remain focused on strong cash generation and appropriate capital allocation. With a strong balance sheet, 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.

Operator | Conference Operator:

We will now begin the question and answer session. If you would like to ask a question, please press star 1 to raise your hand. To withdraw your question, please press star 1 again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. Your first question comes from the line of John Franz Reb with Sudodienko. Your line is open. Please go ahead.

John Franzreb | Analyst, Sudodienko & Co.:

Good morning, everyone, and congratulations on another great quarter. I'd like to start with actually the quarter itself that we just completed. A couple of really quick questions here. The revenue was better than I expected. I was curious if any jobs revenue got pulled forward into the first quarter from the second. Did anything like that happen in the period?

Unknown | Company Representative:

No, John. It was a really good quarter. Nothing pulled forward.

John Franzreb | Analyst, Sudodienko & Co.:

Got it. Got it. Well, then looking back at maybe some of these numbers, I'm curious if the gross margin profile differential between some of the diversified end markets, and I guess we can include the transportation end market. Is it significant that we should really be something cognizant of if medical is sizeably better versus A&D? And how should we think about the puts and takes by end market?

Ashish Agarwal | Chief Financial Officer:

Yeah, John, in previous discussions, we have talked about our margin profile. In the diversified end markets, Um, we have much better margin profile compared to transportation. Um, and we, you know, as we've talked about, um, we have a pretty good margins on the transportation side as well, but the diversified markets are

better, uh, within the diversified markets. Um, it's more, I would say less evenly. It's not as widely spread. Medical is definitely the strongest end market in terms of margin profile, but we do good in pretty much all the diversified end markets.

Joe | Analyst:

Okay, so industrial is relatively close to medical, is what you're saying, Ajit?

Ashish Agarwal | Chief Financial Officer:

There's not a big variation in the margin profile among the diversified end markets. Medical is definitely the strongest one, yes.

John Franzreb | Analyst, Sudodienko & Co.:

Okay, and the reason I'm kind of getting to all these questions here is I looked at the incremental operating contribution in the quarter, and it came to roughly 44% if I did the back of the envelope math right. And I thought that was rather astonishing. And looking at the revenue profile, to me, it kind of lent itself that medical was the primary driver. And I just wanted to make sure if I was thinking about this properly, And I'm thinking about the incremental margin profile properly. I'm wondering any thoughts about my conclusions here.

Kieran O'Sullivan | Chief Executive Officer:

No, John, I think the way to look at it, and Ashish gave you the color on medical, the way to look at it is with our strategy, we've always said as we grow diversified markets, the quality of the earnings will improve, and that's what you're seeing here.

John Franzreb | Analyst, Sudodienko & Co.:

Right, right. Okay. Another quick question. It looks like debt. picked up in the quarter. Why was that the case?

Ashish Agarwal | Chief Financial Officer:

So, John, in the first quarter, we typically have lower operating cash flow as we do incentive comp payments and those types of things. We also continued our buybacks in the first quarter. So, the combination of those two things and a slightly higher capex than we were normally Those were the key drivers. The debt was up by about $5 million, but compared to where we are overall, we are continuing to make good progress. We have almost fully paid down the borrowings from the CyQuest acquisition at this point.

John Franzreb | Analyst, Sudodienko & Co.:

Right, right. Okay. I think I've monopolized the call enough. I'm going to back it to Kiel. Thank you, guys.

Ashish Agarwal | Chief Financial Officer:

Thanks, Joe.

Operator | Conference Operator:

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

Hendy Sosanto | Analyst, Gabelli Funds:

Good morning, Kiran, Asis, and Pratik. Good morning, Hendy. Yeah, congrats on good results. My first question is you mentioned capacity expansion in medical. And I would like to get more color in terms of, uh, how much more, and if there's any, uh, statistics like, um, up to, um, how much like cells you can take, that would be, I think that would be helpful.

Prateek Trivedi | Chief Operating Officer:

Sure. Um, thank you handy for the question. So the, the capacity in our medical end market primarily refers to what aesthetics application. and we've got strong partnership with some of the customers here where they give us a long-term forecast, and we are able to install capacity ahead of the demand here. We continue to see strong momentum in this end market, and we are expecting a double-digit growth year over year.

Hendy Sosanto | Analyst, Gabelli Funds:

Double-digit growth in capacity or in sales?

Prateek Trivedi | Chief Operating Officer:

In the sales. Yes. which means that we would need to have that capacity installed ahead of it.

Ashish Agarwal | Chief Financial Officer:

Yeah, and if you're not seeing any concerns in our capability to meet the demand profile that we're seeing in that space.

Hendy Sosanto | Analyst, Gabelli Funds:

I see and then I see I have a question on the gross margin. So there's some mixed benefit and the non the. Non transportation or the diversified air market is a favorable tailwind. On the other hand, there's also the challenge of high oil prices, component costs. How sustainable is the strong gross margin that we are seeing in Q1? Should we expect some headwinds because of those challenges, or do you anticipate that a Q1 gross margin can serve as a baseline that is sustainable?

Ashish Agarwal | Chief Financial Officer:

That's a good question. You know, that's something that we look at very, very carefully. In addition to the topics that you mentioned, we also had a slight impact from favorable currency changes, which was about $700,000. So, you know, the currency can go in multiple different directions. So we'll just continue watching the markets for that. We are experiencing cost pressures related to precious metals. That has been going on since late last year and we have been working closely with our customers to manage through the impact of that with pricing changes, with material substitutions, those types of things. More recently, we are also seeing inflation related to oil derived products like resin, epoxy, transportation costs, those types of things, that we are expecting to see more margin or, sorry, cost pressures to, you know, late Q1 going into Q2. And our teams are already working with customers to manage through that and as well as suppliers to manage through that. So we will see some headwinds, but at the same time, we are very, very focused on making sure that um we can make the impact cost neutral on our margins now there can be some timing differences which could impact margins in the short term but we expect to be able to work through it as we have in the past several years okay yeah um and then may i ask more um insight into the aerospace and defense expectations of funding

Hendy Sosanto | Analyst, Gabelli Funds:

of various programs will improve in the second half. Booking will pick up. And then considering that the government fiscal calendar of, let's say like end of September, how should we expect, let's say like new bookings, new funding to materialize in sales? I assume there would be some lack. I don't know whether Q4 starting point is somewhat a reasonable expectation.

Prateek Trivedi | Chief Operating Officer:

Yeah, handy. I mean, if you look at for the aerospace and defense and market, and just looking at the broader macro trend, right, overall, the defense spendings will continue to remain elevated due to the current geopolitical unrest, as well as investments in the infrastructure, primarily around the naval side of defense. What we are seeing right now is we are actively engaged in multiple platform discussions with a wide range of customers. However, what we've experienced in the first quarter is a delay in the government funding. But towards the end of the quarter, with the passage of the appropriations bill, we expect that funding pace to pick up in the second half of this year. The other point to note here is that we usually also have a bit of a lumpiness in terms of how we get the orders on the defense side. So you could potentially have a quarter where our book to build might be less than one. However, then it makes it up in the remainder of the year.

Hendy Sosanto | Analyst, Gabelli Funds:

Yeah. And then last question for me, any update on the smart actuator and then potential change in allocation by the customer?

Prateek Trivedi | Chief Operating Officer:

Hendi, we continue to be on track with launching the the revised version of the actuator with our customer. And we expect, you know, normalized modest growth in that particular product line for this year.

Hendy Sosanto | Analyst, Gabelli Funds:

Okay. Got it.

Kieran O'Sullivan | Chief Executive Officer:

Thank you. Great. Thanks, Andy. Thanks, Andy.

Operator | Conference Operator:

Your next question comes from the line of John Franzrab with Sidoti & Co. Your line is open. Please go ahead.

John Franzreb | Analyst, Sudodienko & Co.:

Yeah, I'm actually curious about the growth that you saw in the transportation market in the first quarter. I guess, firstly, were you surprised by that?

Kieran O'Sullivan | Chief Executive Officer:

John, I would say we were pleased with how we performed in the light vehicle demand and saw a little bit more positiveness in the commercial vehicle. And we think, as Prateek said, that's going to extend into the second half of the year.

John Franzreb | Analyst, Sudodienko & Co.:

As I'm sure you've seen, the commercial truck market has seen a strong bookings profile over the last few months. A lot of people are suggesting that the benefits from those order profiles are a second half event. I'm curious if that's how you see it playing out, or does it affect you in any different way?

Prateek Trivedi | Chief Operating Officer:

No, we do see it playing out the same way, John. As you can, you know, in the market right now, we are seeing cautious optimism here, primarily related to the rising freight rates, you know, just improved pricing. And then we've got in the second half of the year, the pre-buy event due to EPA 2027. So we expect it to play out in a very similar manner.

John Franzreb | Analyst, Sudodienko & Co.:

Okay, so second half, gotcha. So then the expectation for the transportation to be down for the full year, I'm gathering that suggests you expect the global vehicle market to be continually to weaken for the balance of the year. Is that also a fair assessment?

Kieran O'Sullivan | Chief Executive Officer:

John, what we would say on the light vehicle market, it's performing well so far, but in our prepared remarks, we said IHS had forecasted some softness in the second half of the year. And with the geopolitical situation, that's how we're thinking about it at the moment, that some softness in the light vehicle, but strength on the commercial vehicle side, so balancing it out a little bit.

John Franzreb | Analyst, Sudodienko & Co.:

Got it. Got it. Okay. One last question about capital allocation. You're buying back stock. As Ashish pointed out, you are paying down debt, albeit there was working capital needs in the first quarter. What is the outlook right now on the M&A side of the business? Are you in a period of consolidation and working on organic growth, or are you still looking at acquisitions? Can you kind of discuss maybe the size of the markets that you're looking at?

Kieran O'Sullivan | Chief Executive Officer:

Yeah, John, just the key points for us from a capital allocation, first of all, is the supporting the organic growth investments, which we have some nice opportunities, which Prateek touched on as well in medical. We're still pursuing strategic acquisitions to advance our diversification and quality of earnings. And while we have nothing to report today, we're very active in that area. And then returning cash to shareholders is how we're approaching it.

John Franzreb | Analyst, Sudodienko & Co.:

Okay, Karen, that's all I got. Thanks for taking the questions.

Kieran O'Sullivan | Chief Executive Officer:

Thank you, John.

Operator | Conference Operator:

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:

Thank you all for your time today. Diversification remains a strategic priority to drive growth and margin expansion. In addition, we are 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 second quarter 2026 results in July. This concludes our call.

Operator | Conference Operator:

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