NYSE:CTS Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Hello everyone, thank you for joining us and welcome to CTS Corporation's second 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 1 to raise your hand. To withdraw your question, press star 1 again. I will now hand the conference over to Pratik Trivedi. Pratik, please go ahead.

Pratik Trivedi | CEO:

Good morning and thank you for joining us. As I begin my first earnings call as CEO, I want to thank Kieran O'Sullivan for his leadership and the strong foundation he built at CTS. The Evolution 2030 strategy and our focus on diversification remain central to our value creation. We delivered a strong second quarter with revenue growing 7% to 145 million. Our diversified end markets increased 15% year-over-year and represented 59% of total sales. Equally important, we converted that growth into record profitability, achieving gross margin of 41.5%, adjusted EBITDA margin of 25.4%, and adjusted diluted EPS of 74 cents. While the quarter benefited from certain unusual items that contributed approximately seven cents of favorable EPS impact, we still delivered record earnings per share. Robust growth across our diversified end markets drove strong financial results and improved the quality of our earnings despite modest declines in transportation. Combined with disciplined execution, This momentum gives us confidence in our ability to continue delivering profitable growth and long-term shareholder value. Ashish Agrawal, our CFO, will take us through the Safe Harbor Statement. Ashish?

Ashish Agrawal | CFO:

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 our investor section of the CTS website. I will now turn the discussion back over to Pratik.

Pratik Trivedi | CEO:

Thank you, Ashish. We finished the second quarter with sales of 145 million representing a 7% increase compared to the second quarter of 2025 and up 4% sequentially from the first quarter. Our diversified end markets were up 15% year-over-year, while transportation sales were down 2%. Diversified end market sales were 59% of overall company revenue in the quarter, up from 55% in the prior year period. For the first half of 2026, diversified sales were up 16%, and transportation sales remained flat over the same period last year. Our book-to-bill ratio for the second quarter was 1.1, reflecting sustained customer demand across our portfolio. Diversified bookings were particularly strong with a book-to-bill of 1.17. We added two new customers in the industrial end market and one new customer in the aerospace and defense end market. In transportation, we secured several new business awards, adding up to $163 million. The wins include a large sensor award with a North American OEM and a new EV customer for our sensors portfolio. The strength of our operational execution was evident as we expanded adjusted gross margin to a record 41.5% up 270 basis points compared to the second quarter of 2025. Adjusted EBITDA margin reached 25.4% and improvement of approximately 240 basis points year over year. We maintained strong cash generation supporting our balanced capital allocation approach that includes strategic investments in growth and returning cash to shareholders. Second quarter adjusted diluted earnings were a record 74 cents per share up from 57 cents in the second quarter of 2025. Ashish will add further color on our financial performance later in today's call. The medical end market continued to be a significant growth driver in the second quarter, generating revenue of $28 million, an increase of 45% year-over-year and 14% sequentially. Performance was fueled by broad-based demand across our sensing and actuation technologies, particularly in applications supporting advanced diagnostics and therapeutic treatments. New business wins remained robust throughout the quarter resulting in a book to bill ratio of 1.21 and reinforcing confidence in the sustainability of current demand trends. We remain actively engaged in multiple next generation product development programs with leading global medical equipment OEMs positioning CTS to participate in future platform launches across a range of attractive healthcare innovations. Our technologies continue to enable critical capabilities in diagnostic imaging, therapeutics, and minimally invasive procedures where precision, reliability, and performance are essential. We believe that the medical market remains well positioned for sustained growth supported by powerful secular tailwinds including demographic shifts, increasing healthcare spending, and ongoing advancements in medical technology. Aerospace and defense sales were 18 million in the second quarter, down 15% year over year, but up 4% sequentially, primarily reflecting the timing of program funding and government contract awards. While funding deployments have been gradual, we are beginning to see government funding flow into several key programs supporting increased customer activity and a strengthening outlook. Demand fundamentals remain healthy as evidenced by a 1.23 book-to-bill ratio and a growing backlog that supports future growth. We added one new customer in the aerospace and defense end market during the quarter that focuses on defense satellite communication solutions. We continue to execute our strategy of expanding from a component supplier to a provider of high value sensors, transducers, and integrated subsystems for naval sonar, undersea warfare, and secure communications applications. In addition, we are actively engaged with several customers on next generation defense programs, including autonomous drone systems, electronic warfare, and anti-jamming technologies where our sensing and RF expertise can provide differentiated performance. As government funding continues to be deployed and program awards progress, we expect a stronger second half of the year supported by robust bookings and expanding opportunity pipeline and increasing participation in both traditional and modern warfare platforms. Our industrial end market continued its strong momentum in the second quarter, with sales of 40 million increasing 16% year-over-year and 6% sequentially, further extending the recovery trend that began in 2025. Growth was broad-based across OEM customers and distribution partners, and bookings remained healthy with a book-to-bill ratio of 1.11. During the quarter, we secured multiple design wins across a diverse set of applications, including distribution components, industrial printing, and EMI filters for communications infrastructure and industrial automation. We also had wins in temperature sensing solutions for heat pumps, refrigeration systems, and pool and spa systems. We added two new customers during the quarter expanding our presence in process instrumentation and next generation cryogenic nano positioning applications. Looking ahead, we expect industrial demand to remain healthy through 2026, supported by favorable secular trends, including automation, connectivity, digitalization, and the increasing focus on energy efficiency. These trends continue to expand the addressable market for our industrial portfolio, positioning us well for sustained growth. Transportation sales in the second quarter were 59 million, down 2% versus the prior year, and down 2% sequentially. Our new business awards were exceptional, with wins of approximately 163 million in the quarter, driven by strong awards across our sensor portfolio and food controls with OEMs in North America, Japan, China and Europe. A key highlight was a win with a major North American OEM for approximately 100 million which is a record for our sensors portfolio utilizing our products in an integrated wheel speed accelerometer sensing application. We gained a new EV customer in North America for a seat track position sensor enhancing the safety system in the vehicle. We are delighted by the scale of our census portfolio wins this quarter, underscoring the strategic importance of our technologies across powertrain agnostic platforms. Total booked business was approximately $1.2 billion at the end of the quarter, up approximately $100 million from the first quarter. Turning to the outlook for 2026, for our diversified end markets, demand is expected to remain solid, In medical, we see continued momentum in therapeutics and diagnostics where we have expanded capacity. In aerospace and defense, revenue is expected to strengthen in the second half given our strong bookings, backlog, and the improved flow of government funding. In industrial, OEM and distribution demand is expected to remain healthy. Across transportation markets, global light vehicle production volumes are forecasted to be flat to modestly down given ongoing tariff, geopolitical, and consumer demand uncertainties. We expect the commercial vehicle market to have modest growth supported by improving freight fundamentals and pre-buy activity ahead of upcoming emissions regulations. We continue to closely monitor and evaluate the tariff and geopolitical environment including the new tariff announcements last week. We are not anticipating any material impact from the recent tariff announcements and will monitor further developments. Our focus remains on agility in adapting to cost and price adjustments in close collaboration with our customers and suppliers. Assuming the continuation of current market conditions for full year 2026, we are raising our guidance with sales now expected in the range of $565 million to $585 million and adjusted diluted EPS in the range of $2.55 to $2.70. Now, I'll turn it over to Ashish, who will walk us through the financial results in more detail.

Ashish Agrawal | CFO:

Thank you, Pratik. Second quarter sales were $144.8 million, up 7%, compared to the second quarter of 2025 and up 4% sequentially from the first quarter of 2026. Sales to diversified end markets increased 15% year over year, while sales to transportation customers were down 2%. Foreign currency changes impacted sales favorably by approximately $1.4 million in the quarter. Our adjusted gross margin was a record 41.5%, up 270 basis points compared to the second quarter of 2025, and up approximately 200 basis points sequentially. The year-over-year improvement was driven by operational execution, a favorable impact of end market mix, and a favorable impact of approximately $1 million from foreign currency changes. We continue to monitor the impact of Section 232 tariff changes, precious metal inflation, and input cost pressures. And our teams are partnering with customers and suppliers to keep the effect on our margins broadly cost neutral. We are also watching developments related to last week's tariff announcements and the USMCA negotiations. adjusted EBITDA margin was 25.4% and improvement of approximately 240 basis points versus the prior year period. Our effective tax rate for the quarter was 21.8% excluding discrete items. For the full year, we continue to expect our tax rate to be in the range of 21 to 23% excluding discrete items. Adjusted earnings for the second quarter were a record $0.74 per diluted share, up approximately 30% compared to $0.57 per diluted share for the same period last year. As Pratik mentioned earlier, our results this quarter included foreign currency favorability as well as a larger customer reimbursement. These items add up to approximately $0.07 of favorable EPS impact. Moving to cash generation and the balance sheet, we generated strong operating cash flow of $33 million in the second quarter. Capital expenditures were $4.6 million in the quarter and free cash flow was approximately $29 million. Our balance sheet strengthened further with a cash balance of $108 million and borrowings of $55 million at the end of the quarter. During the quarter, we repurchased approximately 64,000 shares of CTS stock for $3.5 million. We have $78 million remaining under our current share repurchase program. We remain focused on strong cash generation and disciplined capital allocation and will 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, press star 1 again. We ask that you pick up your handset while 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 our Q&A roster. Your first question comes from the line of John Franz Reb. with Sidoti & Co. Please go ahead.

John Franz Reb | Analyst, Sidoti & Co.:

Good morning, everyone, and thanks for taking the questions. Pratik, congratulations, a great start out of the gate. I'm wondering if you'd talk a little bit about your observations since you joined CTS and maybe a little thoughts about how you might differ from your predecessor on an ongoing basis.

Pratik Trivedi | CEO:

Thank you, John. I've been with CTS now for a little over two years, John, and I had the opportunity to lead our diversified end market business. And what I learned during the two years was the exceptional growth opportunity that we have to grow that side of the business. And as we think about over the last two years, I had the opportunity to also develop the overall strategy for that business and work towards the execution as well. So that is what has been pretty remarkable for me in terms of trying to understand what opportunities do we have for the diversified end markets. And given that I have been with the business now for over two years and had the opportunity to shape the broader strategy, what we are trying to work towards is an acceleration of our growth strategy. across the diversified end markets at the same time stabilizing our transportation business. Our results in the quarter demonstrated that our strategy has been working. And the strategy overall is also guided by our principles in Evolution 2030 and our CTS business system that we intend to accelerate going forward.

John Franz Reb | Analyst, Sidoti & Co.:

Got it, got it. Well, good luck with that. reverting back to the results in the quarter. A couple of questions there. First and foremost, you called out the one-time items in FX and it looks like reimbursement in the R&D line. As far as on a go-forward basis, should we be thinking about that R&D number reverting back to call it normal quarterly run rates? Or is there other reimbursements that are planned for the second half of the year we should cognizant of?

Ashish Agrawal | CFO:

So John, this is Ashish. We continuously keep working with customers on different product development initiatives and the timing of customer reimbursements can fluctuate from time to time, as you know. So we do expect the R&D expenses to normalize going forward, but that doesn't mean we don't have any more customer reimbursements. We continue working towards as programs reach a certain level of activity, there can be further reimbursements. Overall, I would say, though, that we would expect R&D expenses to get closer to normal levels.

John Franz Reb | Analyst, Sidoti & Co.:

Got it. The medical side of the business had a sizable increase year over year and sequentially. Is it fair to assume that that business generates a higher gross margin than the other

Ashish Agrawal | CFO:

John, I think you may have asked a similar question in one of the prior earnings calls. Generally, what we talk about is the overall diversified end markets are more profitable in terms of the gross margin. Medical would definitely be stronger of all the diversified and markets, but we have pretty healthy margins in industrial and aerospace and defense as well.

John Franz Reb | Analyst, Sidoti & Co.:

Got it. You kind of addressed this in your prepared remarks that the second half is looking better for aerospace and defense. It sounds like you've completed your expansion in medical. Did I read those comments properly?

Ashish Agrawal | CFO:

Let me make sure I get your question. Could you repeat the part where you talked about medical? What did you hear?

John Franz Reb | Analyst, Sidoti & Co.:

Last quarter, you said you were doing an expansion in the medical side. It sounded like that expansion was completed in the second quarter. Or is there still more to come?

Pratik Trivedi | CEO:

I think, John, you're probably hinting at the expansion in our capacity that we are putting in place ahead of the demand. So, yeah, that has already been in place. We continue to see a ramp up in the second quarter. We saw those ramp up. And we do expect, especially in that therapeutics application, volume start to get more normalized in the second half of the year.

John Franz Reb | Analyst, Sidoti & Co.:

Okay. You know what? With that, I'll let somebody else ask a question. But thank you, Pratik. Thank you, Ashish. I'll get back into queue.

Ashish Agrawal | CFO:

Thank you, John. Thanks, John.

Operator | Conference Operator:

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

Hendy Susanto | Analyst, Gabelli Funds:

Good morning, Pratik and Ashish. Congratulations and good results and upward revision on the four-year guidance.

Ashish Agrawal | CFO:

Thank you, Hendy. Thank you, Hendy.

Hendy Susanto | Analyst, Gabelli Funds:

Pratik and Ashish, may I check in with regard to the latest update and outlook for the remainder of the year on the frequently asked topics like potential price increases, inflationary costs, and then negotiation with customers. Are there major updates on those?

Ashish Agrawal | CFO:

So, Hendi, we are continuing to work through those items. If you look at the range on the guidance, it's a sizable range for half a year, and that's kind of what's built into the range of EPS estimates for the second half. On the higher end, we would be looking to have some positive outcome from those discussions. On the lower end, we may be seeing more cost pressures. So that's kind of how we are trying to look at the current situation and how it might impact our earnings in the second half. But our teams are actively discussing pricing in terms of tariffs, precious metals. It's a regular ongoing discussion with the customer community as well as the supplier base.

Hendy Susanto | Analyst, Gabelli Funds:

So, Ashish, with regard to the timing, will it be mostly in the second half, meaning that we haven't seen much of those in the first half, and then we will see more, and then perhaps my impression is more on the favorable sides of setting some, let's say, like cost pressure on the lower end one?

Ashish Agrawal | CFO:

So, Hindi, if you go back to the second half of 2025, we had already started seeing Thank you very much. The second half, we will see definitely some recovery. It's going to have a range of outcomes. That is what we are trying to build into our EPS estimate.

Hendy Susanto | Analyst, Gabelli Funds:

I see. And then the upward revision on the revenue, is it primarily on the medical or it's a combination of different end markets in the diversified sectors?

Pratik Trivedi | CEO:

Yeah, Hendi, so just looking back, I mean, particularly pleased with our second quarter results and even the first half results. And as we start to focus our outlook towards the second half of the year, we expect our diversified end markets to continue its growth trajectory across all three of the end markets, which are industrial, aerospace, and defense, and medical. Now, in the transportation business, the global light vehicle production volumes, they are forecasted to be flat to slightly down. driven by the current geopolitical environment, the tariffs, including the most recent announcement last week, and also the inflation and availability of critical components. So we believe that our guidance right now strikes the right balance between resilience and growth of our diversified end markets and a cautious stance on the light vehicle production trends.

Hendy Susanto | Analyst, Gabelli Funds:

Got it. Thank you, Ashish. Thank you, Pratik. And Pratik, all the best for your new chapter of leadership at CTS.

Ashish Agrawal | CFO:

Thank you, Andy. Thank you, Andy.

Operator | Conference Operator:

Your next question comes from the line of John Franz Reb with Sidoti & Co. Please go ahead.

John Franz Reb | Analyst, Sidoti & Co.:

Hi, guys. I'm back again. I want to talk a little bit about the transportation segment. I guess one thing, I haven't done the math yet because I just got the numbers, but based on the book-to-bills you provided on the diversified end markets, does that suggest the book-to-bill in transportation was below 1.0 in the quarter?

Ashish Agrawal | CFO:

It's close to one, John, and that's normally the case because the transportation orders are very short cycle. So the book-to-bill is not a good representation on the transportation side. But generally, you know, you could look at the data every quarter. It's very, very close to one. It may be 0.99. It could be 1.01 or 1.02. Got it. Got it.

John Franz Reb | Analyst, Sidoti & Co.:

Thanks for that clarity. And can you remind me how much of revenue the commercial vehicle market was in 2025 as a percentage of total sales?

Ashish Agrawal | CFO:

We've generally not called that out, John, but if you look at our public filings in the Qs and Ks, we do disclose if the sales to Cummins exceeds 10%, then that's disclosed. And that's a reasonably good approximation of our sales to commercial vehicle and market.

John Franz Reb | Analyst, Sidoti & Co.:

Okay. Is it also fair to assume, I mean, the The Class A truck market through the first six months of the year, the order book is up 125%. I guess there's two questions here. One, are you seeing a similar type of booking number that suggests the second half is looking good for you? I don't know what comes specifically. And maybe some of the timing of that, and is that built into your revenue numbers? I guess there's multiple questions there. And I'll just start with that question.

Pratik Trivedi | CEO:

Understood, John. So if you look at our commercial vehicle market outlook right now, we are expecting a modest growth in the second half of the year. That is based on the rising freight rates, improving spot and contract pricing, and then there is also a potential pre-buy that is related to the EPA 2027 emissions change. So that's how we've modeled the commercial vehicle volumes in our forecast.

Ashish Agrawal | CFO:

Yeah, John, keep in mind that is definitely... The story for the second half and we are also working through the second source that was launched by Cummins a year plus ago in terms of their supply base. So that transition is still ongoing. We expect to have a lot more clarity on the ongoing market share that we should have versus our competitor. As we have talked about that, we expect to have that visibility towards the end of the year.

John Franz Reb | Analyst, Sidoti & Co.:

Okay. And I guess just one point of clarification. It's also fair to assume that despite the volumes returning, that would be a little bit of a dampener on the gross margin line as that business comes back. Is that a fair assumption?

Ashish Agrawal | CFO:

What happens generally in the transportation volumes, John, whenever you're launching a new program, the gross margin could be a little bit under pressure, but then you work on productivity improvements as you go along the life of that particular platform. So you could see that impact in the initial stages, but generally we'd be working towards getting margin improvements as we work our way through the lifecycle.

John Franz Reb | Analyst, Sidoti & Co.:

Got it, got it. Thank you Ashish, thanks for taking my follow-ups. Sure.

Operator | Conference Operator:

There are no further questions at this time. I will now turn the call back to Pratik Trivedi for closing remarks.

Pratik Trivedi | CEO:

Thank you all for your time today. I'm proud of what our teams delivered this quarter, and I'm confident in the path ahead. Diversification remains a strategic priority to drive growth and margin expansion, and we continue to expand our powertrain agnostic solutions in transportation. We remain guided by our Evolution 2030 strategic initiative with an emphasis on profitable growth, operational rigor, Employee Engagement and Giving Back to the Communities where we operate. We look forward to updating you on our third quarter 2026 results in October. This concludes our call.

Operator | Conference Operator:

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