Zacks Small-Cap Research

October 28, 2016

Ian Gilson PhD;MBA;CFA
312-265-9496
igilson@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

# CTS Corp (CTS-NYSE)

**Third quarter margin improvement drives pretax earnings to above our expectations. Increasing estimates for 2017 and 2018.**

## OUTLOOK

After a successful restructuring CTS Corp. is consolidating its operations, improving gross margins, and is poised to resume growth. Recent orders are growing rapidly. It is finding new opportunities for its sensor portfolio, piezo ceramic technologies and ClearPlex technology for electronic filtering while it refreshes older product lines which should drive growth in 2016 and beyond. Long term, by 2017, 2014 automotive design wins are expected to kick in to accelerate growth from current levels. Our price target is $25 a share.

| | |
|---|---|
| Current Price (10/27/16) | $16.45 |
| **Valuation** | **$25** |

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$19.65** |
| **52-Week Low** | **$13.24** |
| **One-Year Return (%)** | **-8.6** |
| **Beta** | **1.2** |
| **Average Daily Volume (sh)** | **60,542** |
| **Shares Outstanding (mil)** | **33.2** |
| **Market Capitalization ($mil)** | **538.9** |
| **Short Interest Ratio (days)** | **8.8** |
| **Institutional Ownership (%)** | **79** |
| **Insider Ownership (%)** | **13** |
| **Annual Cash Dividend** | **$0.16** |
| **Dividend Yield (%)** | **1.0** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **-11.4** |
| **Earnings Per Share (%)** | **10.9** |
| **Dividend (%)** | **3.9** |
| **P/E using TTM EPS** | **18.2** |
| **P/E using 2016 Estimate** | **19.9** |
| **P/E using 2017 Estimate** | **15.6** |
| **P/S on N4Q Sales** | |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Below Avg.,** |
| **Type of Stock** | **Small-Blend** |
| **Industry** | **Elec-Misc** |
| **Zacks Rank in Industry** | **N/A** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| **2015** | **98.3 A** | **100.1 A** | **90.6 A** | **93.3 A** | **382.3 A** |
| **2016** | **96.7 A** | **98.7 A** | **99.7 A** | **105.0 E** | **400.1 E** |
| **2017** | **101.0 E** | **103.0 E** | **105.0 E** | **110.0 E** | **419.0 E** |
| **2018** | **105.0 E** | **107.1 E** | **109.2 E** | **114.4 E** | **435.8 E** |

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| **2015** | **$0.21A** | **$0.30A** | **$0.24A** | **$0.27A** | **$1.01A** |
| **2016** | **$0.24A** | **$0.23A** | **$0.17A** | **$0.20E** | **$0.83E** |
| **2017** | **$0.23E** | **$0.26E** | **$0.28E** | **$0.31E** | **$1.08E** |
| **2018** | **$0.27E** | **$0.30E** | **$0.31E** | **$0.34E** | **$1.22E** |

Zacks Projected EPS Growth Rate - Next 5 Years % **12**

**EPS excludes extra items but includes currency impacts.**

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## RECENT EVENTS

CTS Corp. announced its 3Q16 results and followed up with a conference call on October 28, 2016

Both sales and gross profits exceeded our expectations. Gross margins of 36.8% were the highest they had been in any quarter over the last five years. Operating expenses were close to our estimates so operating profits were $14.3 million as compared to the $10.2 million we had estimated.

The product mix improved as compared to prior quarters and foreign exchange conversions were positive, in part due to the decline in the Mexican Peso.

New orders were $013 million, of which 65% were auto related, including a new customer in China. Component orders were $27 million with solid growth in the medical sector.

Sales to the HDD industry declined 21%, somewhat better than the 30% plus declines of prior quarters. The HDD industry suffers from the problems all technology has when the impact of Moore's Law (performance doubles every 18 months with no increase in cost) drives hard drive sizes above that needed by the majority of users. We do not see any relief from declining volumes in this area.

There were two major onetime additional tax expenses totaling $3.6 million ($0.11 a share) that drove the tax rate to 68.3%. These were due to revaluations of US Federal and State deferred taxes. The tax rate should return to about 35% in 4Q16 as was accrued in the first two quarters of 2016.

The company reaffirmed its guidance for 2016. Our estimate of 4Q16 revenue of $105 million would be a 12.5% increase in Y/Y revenue and these gains should continue, with the usual seasonal adjustments, into 2017. We are adjusting our revenue estimates upward slightly in both 2017 and 2018.

On July 29, 2016 CTS Corp. announce its second quarter 2016 financial results. New awards increased to above our expectations but continued softness in the hard disk drive market, as evidenced by comments from Western Digital Corp. [WDC $47.27], had a negative impact on revenue. Some end of program sales in the heavy truck market also had a negative impact on revenue. This was offset by the inclusion of revenue from CTG Advanced Materials, $3.1 million in 2Q16.

New awards continue to increase from the low of the 3Q15, with the auto industry accounting for $109 million and five new customers. This included a new auto OEM in Europe and five new customers outside of the auto industry, one of which is a telephone company.

Exchange rate changes has a negative impact on revenue. The BREXIT vote on June 23, 2016, which caused significant declines in the UK Pound and the Euro, did impact the balance sheet but the full impact on revenue and expenses will be in the third quarter.

Gross margins held up well considering all of the problems, with both Y/Y and Q-Q gains. Operating margins before gains in sales of assets and restructuring charges also increased for both periods, which is a very positive sign.

The company reaffirmed its guidance for 2016, with some reservations about the top end of the revenue range of $390 to $410 million. Adjusted earnings, including property sales, are expected to be in the range of $0.95 to $1.06 per share.

The company has announced that it will phase out production at the Elkhart, Indiana manufacturing plant and use the location for a research and development center. CTS's corporate HQ is located in Elkhart, Indiana but its administrative offices are in a 37,300 sq.ft. leased facility in Lisle, Illinois. The Elkhart facilities include the 319,000 sq.ft. manufacturing facility and a 93,000 sq.ft. facility that is idle at this time. CTS owns both of these properties. In the SEC 8K documents filed yesterday he company stated that production will be phased out by mid-2018 and will cost close to $17 million. On completion of the restructuring plan annual savings are expected to save between $6 - $8 million a year. We do not know the exact timing of the charges or the rate at which the savings will accrue as income. So we have assumed the cost will be spread equally over the period from the 3Q16 to the 4Q18, at $1.6 million per quarter. We have added a profit of $1 million in 2Q18, $1.5 million in 3Q18 and $2 million in each subsequent quarter. We know this will not be an accurate number but at this time we have no other data available. Since there are probably labor negotiations involved the costs will vary from our timetable.

CTS Corp. announced its first quarter 2016 results early morning on May 03, 2016 followed by a conference call. Results were in line with our estimates, Revenue was $96.7, slightly above our estimate of $96 but well above street consensus. Earnings of $0.24 a share was also above consensus but the same as our published number of $0.26 a share.

Business was good, revenue grew sequentially again with auto related sales up but computer hard drive components were down, as expected. The recent acquisition of CTG was completed but did not have a significant impact on the first quarter. The growth rate of CTG exceeds 10% a year (revenue) and its gross margins are better that the other areas. Medical is an important area for CTG, where CTS had $11 million in revenue last year and this should have above average profitability for CTS.

Productivity, cost containment and favorable currency translations resulted in an improvement in gross margins from 4Q15 levels. When results are CTG are included we expect a further, modest, gain in gross margins. There may be other nonrecurring expenses from the acquisition in 2Q16 depending on decisions by the accountants. We have not included these in our current estimates.

CTS has moved more cash out of China that will be used to finance growth outside the US and repatriated cash from Canada and the UK into the USA. Most of the redirection of cash has been done. These moves should reduce earnings fluctuations due to currency exposure.

The tax rate in the 1Q16 was higher than normal at 34%. This rate should be the annual 2016 rate.

Overall, this was a good quarter and we have increased our estimates for 2016, 2017 and beyond.

On March 14, 2016 CTS announced that it had acquired CTG Advanced Materials, LLC from Blue Wolf Capital Fund II, LP for $73 million. CTG-AM is a leading designer and producer of single crystal piezoelectric materials and is the only company that is fully vertically integrated in its proprietary manufacturing process. With this acquisition CTS will also gain access to significant intellectual property.

Piezoelectric materials have the property of producing an electric current if pressure is applied to it, or, conversely it will deform if an electric current is applied. Such crystals are used in many medical applications like 3D ultrasound imaging, wireless pacemakers and hearing aids. Other uses of piezoelectric materials are in timing devices (watches) and cellular radio stations.

Continued declines in the Chinese and European currencies impacted the fourth quarter of 2015. CTS has decided to repatriate overseas cash by paying itself a dividend from China, the UK and Canada thereby incurring a tax liability of $8.8 million. Since some of the company's prior losses no longer have a NOL another $2.5 million was charged to taxes for a total of $13 million. Normalizing the tax rate and adding back the restructuring and impairment charges resulted in earnings of $0.27 a share as compared to our estimate of $0.26. This included a charge of $1.6 million for the decline in currencies.

Revenue declined from $100.4 million a year ago to $93.3 million in the 4Q. Auto related products were weak as product lines are transitioning from older to newer products. However, the company did add 7 new customers in the quarter and introduced new products into the auto and electronics markets. The company expect 2016 revenue to be in the range of $390 to $400 million and earnings between $0.95 and $1.05 a share before any adjustment for. currency fluctuations. Products from the acquisition of FST , mentioned below, are expected to be sampled to customers this year with production in 2017.

Cash flow increased from year ago levels and CTS bought back shares during the year. The average basic share count has declined from 33.5 million in the 1Q15 to 33.5 million in 4Q15 and we expect further declines in 2016. The positive cash flow also supports the dividends, which we expect to be maintained at $0.16 a year.

We expect a continuation of new product introductions in 2016 and accelerating into 2017. The major auto companies Ford Motor Co. (F $11.47) and General Motors Co. (GM $28.42) have reported very good year end numbers but have cautioned investors the 2016 growth will be lower

than 2015 and will be in the 2% to 3% range. The management of CTS concedes that this is within the range of their forecasts for 2016. We have adjusted our estimates for 2016 and future years to reflect the lower currencies and a slower economy.

On Nov. 09, 2015 the company announced that it had been awarded a new production program to supply accelerator pedal modules to a major OEM in the European and Asian markets. CTS already has programs with Renault and had announced earlier that there was a new program in Europe but had not disclosed who it was (see the customer chart on page 6).This is about $23 in total at this time, spread over 5 years with shipments starting in 2018.

CTS has acquired Filter Sensing Technology (FST), an eight year old company based in Cambridge , Massachusetts. The company has developed technology that measures the levels of soot and ash in the Diesel Particulate Filter (DPF), both on and off road diesel engines. The buildup of ash in the filter affects fuel consumption and the life of the filter. FST also has the technology to break up the ash that is plugging the filter, restoring the filter to an as-new condition and extending the life of the filter with reduced maintenance expense and lower replacement costs over the life of the vehicle.

The radio frequency (RF) sensors developed by the company can be used to measure the composition of gases and liquids within an engine and in many process control systems within, for example, a petroleum refinery.

Financial details were not available. We not think that the acquisition will have a meaningful impact on the revenue of CTS in the near future.

As expected the third quarter was impacted by currency fluctuations, with a weak Euro reducing revenue by $1.7 million. There will also be a negative impact in the fourth quarter.

Weak sales to the auto industry and an inventory adjustment by hard drive manufacturers also had a negative effect so revenue was below our estimate. Despite these problems operating income before other charges was ahead of expectations at $13.3 million versus our estimate of $12.5 million.  After adjustments for all non-reoccurring charges net EPS was $0.23  just a penny short of our estimate.

Gross margins improved on a sequential basis, helped by manufacturing operations but no sales in countries with weak currencies. The charges for closing the Canadian facilities include severance pay. These charges should decline in the 4Q15.

Sales to the automobile sector declined partly because some products are being phased out whilst their newer products are replacing them plus the seasonality of the auto industry. These newer products are, usually, more profitable than the older ones they replace. Although the auto industry in the USA has shown above average growth over the last few years, demand in Europe has been soft. Hopefully this will change for the better in 2016 and 2017.

In the HDD business there has been a small inventory adjustment at the customer level. The good news here is that CTS is launching new products which should have a positive impact in 2016.

A $14.5 million charge was taken in the third quarter for remediation of facilities operated by CTS over 10 years ago. Remediation work is expected to start next year. It is difficult to estimate the total cost but CTS has discussed all of the requirements with the EPA and it thinks the charge is sufficient to cover all expenses.

Management expects a sequential increase in revenue in the fourth quarter, followed by single digit growth in 2016 with an increasing growth rate in 2017. Although potential acquisition candidates do exist the prices are high at this point in time. We have not included any acquisitions in our current estimates.

Orders in the 3Q15 were $95 million, $71 million in the auto sector and $24 million in the other businesses. Cash on the balance sheet increased slightly from the 2Q15, to $150.8 million and the stock buy-back continued ($4.3 million in 3Q15).

**Second quarter results.**

Second quarter revenue exceeded corporate guidance and our estimates. This was an impressive performance, especially since currency fluctuations reduced revenue by $2.1 million. Second quarter orders increased by 90% Y/Y, from $89 million to $169 million. The orders do include products that will not be shipped this year and late next year.

The Euro continues to be below year ago levels but it seems to have weathered the Grecian turmoil and is trading in a narrow band versus the dollar. The Chinese Yuan is also trading in a fairly narrow band but is still well below its value of a year ago. We would expect some currency valuation impact in 3Q15 since the average currency valuations are still below year ago levels, with a significant decline in the Yuan in early August, 2015.

The unfortunate impact of the strong dollars was a reduction in income from the SE Asian operations, which dropped operating income to below our expectations. Despite this, gross margins increased from 32.8% to 33.4%. There is an offset to the currency impact on revenue in that CTS has operations in countries, like Mexico, where they have no sales. The weak Mexican peso had a positive impact on margins in the second quarter.

The company is amending its tax returns from 2006 to 2013 in which the treatment of foreign taxes will be changed from deductions to credits. This added $16 million to net income. In addition it increased its reserve against certain other foreign taxes which was an increase in taxes of $5 million. The company still expects the tax rate for 2015 and future years to be in the low 30s excluding any extraordinary items

The company reported a one-time charges of $2.1 million for continued restructuring, mainly in moving out of Canada. When adjusting EPS for one-time effects, EPS came in at $0.30 versus an adjusted $0.25 last year, up 18%.

CTS Corporation's cash balance was $147 million and the draw down on the long-term revolving credit facility was $89 million. In the quarter the company bought back 462,000 shares spending $8.5 million.

It is possible however that the company may be able to make an acquisition between now and year-end. It continues to look for opportunities in Europe and to expand its technology portfolio. In piezoelectronics, CTS would like to add the ability to manufacture using tape cast and single crystal that would broaden its product offering to meet different specifications. It is also interested in opportunities in piezoelectric components.

### Future Acquisitions Could Add Significantly to Revenues

The company is has $130 million in cash, albeit almost all overseas, and plans to use some of it to acquire companies that can:

- lessen its dependence on the light vehicle automotive market
- improve its manufacturing cost structure
- increase exposure to faster growth markets
- reduce taxes, because anywhere else in the world it could invest, would have a lower tax rate than the US.

If we assume that the company can make accretive acquisitions with its excess cash we estimate that it could use $100 million for acquisitions. Using comps of smaller companies the median value of EV/Revenue is 0.67. At that valuation the company could add about $150 million in revenue without any financial strain. However, in the space CTS is shopping, revenue multiples could be much higher. This has been the main reason the company has yet to buy as it finds prices historically high and believes that the auto cycle is at a peak, leading to extreme valuation at this point in time. Alternatively, this might make CTS itself a good acquisition target based on its relatively low revenue multiple.

As a comparison, Sensata Technologies acquired Schrader International, the leader in tire sensors, last year for $1 billion. Schrader was expected to generate $550 in revenue in 2014 giving it a valuation of 1.8 times enterprise value to sales. It also bought DeltaTech Controls for $190 million with the expectation of $125 million in revenues or a 1.5 times sales valuation.

## INVESTMENT THESIS

- By reducing its physical locations to 11 (once the Canadian move is complete) lower cost manufacturing facilities, the company is boosting operating margins and has reduced its tax rate.
- The company is now focused on higher margin products and reducing its dependence on the automotive market which could reduce fluctuations in results while increasing its total addressable market.

- With $147 million in cash on the balance sheet (albeit overseas), the company is in an excellent position to pursue growth through acquisition. We believe the company has enough excess cash to buy companies totally upwards of $100 million in incremental revenue.

- New products and the refresh of old products could add to revenues later this year although it could be dampened by currency translation.

- The company has already booked automotive design wins that will develop into meaningful revenues two years out. Based on current design wins, 2017 should show stronger growth.

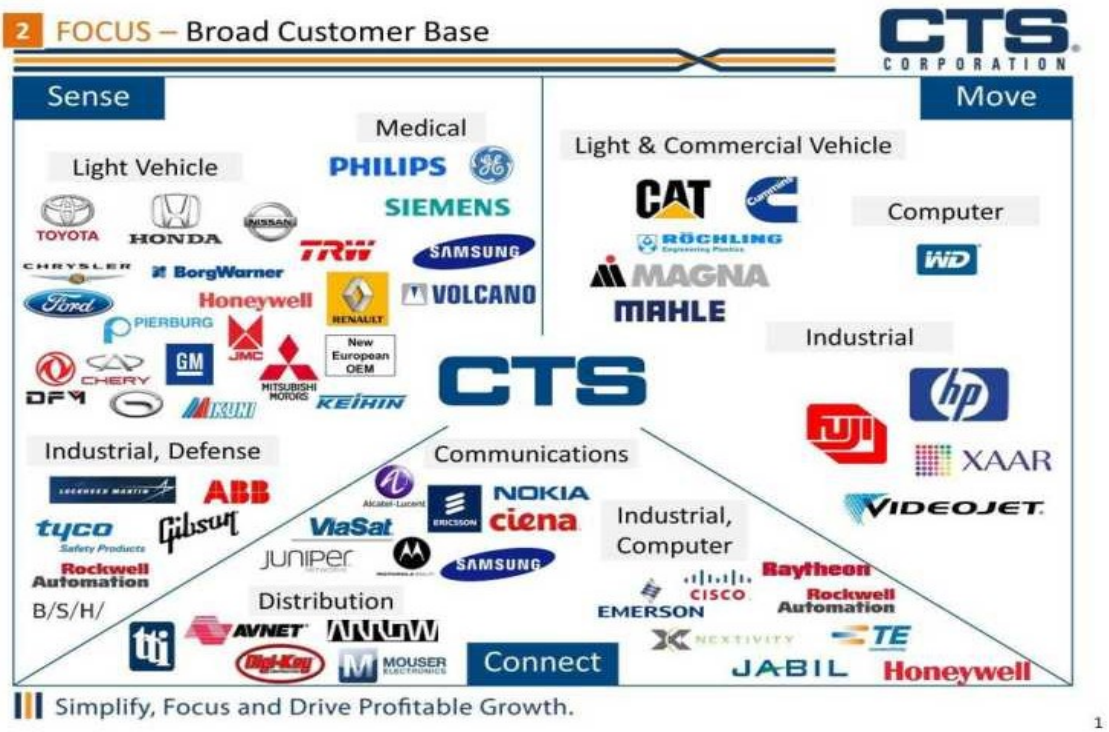
- Once the US Dollar stabilizes against the Euro and the Yuan the company will exhibit much greater sales and earnings growth.

## COMPANY BACKGROUND

CTS Corporation (CTS) designs, manufactures, assembles, and sells electronic components and sensors worldwide. Over 65% of revenues are sold to the light vehicle automotive market, but the company is working to reduce that percentage. It has found new customers and markets for existing products. It designs and manufactures an extensive line of vehicle sensors and actuators used in powertrain, safety, fuel and emissions control systems; ceramic and crystal-based engineered electronic components used primarily in wireless communications infrastructure equipment, and piezoelectric materials, heat management and resistive-based components used in medical, defense and aerospace, computer, consumer and industrial equipment applications. On October 3, 2013, its Electronics Manufacturing Solutions (EMS) business was sold for $75 million in cash. The company used the cash generated from the sale to pay down debt and as a war chest for potential acquisitions.

| CTS Corp. | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Fiscal Year Dec. 31. | | | | |
| Automotive | $179.66 | $270.27 | $270.70 | $256.14 |
| % change | | | | |
| Communications | $30.45 | $24.57 | $16.16 | $11.47 |
| Computer | $18.27 | $24.57 | $24.24 | $19.12 |
| Medical | $9.14 | $8.19 | $8.08 | $11.50 |
| Industrial | $39.59 | $53.24 | $56.56 | $53.52 |
| Defense & Aerospace | $15.23 | $16.38 | $16.16 | $19.10 |
| Other | $12.18 | $12.29 | $12.12 | $11.50 |
| All revenue | $304.50 | $409.50 | $404.02 | $382.35 |
| US sales | $121.80 | $204.75 | $242.42 | |
| Non US sales | $182.70 | $204.75 | $161.60 | $145.3 |
| Non US assets | $224.48 | $192.11 | $228.47 | |

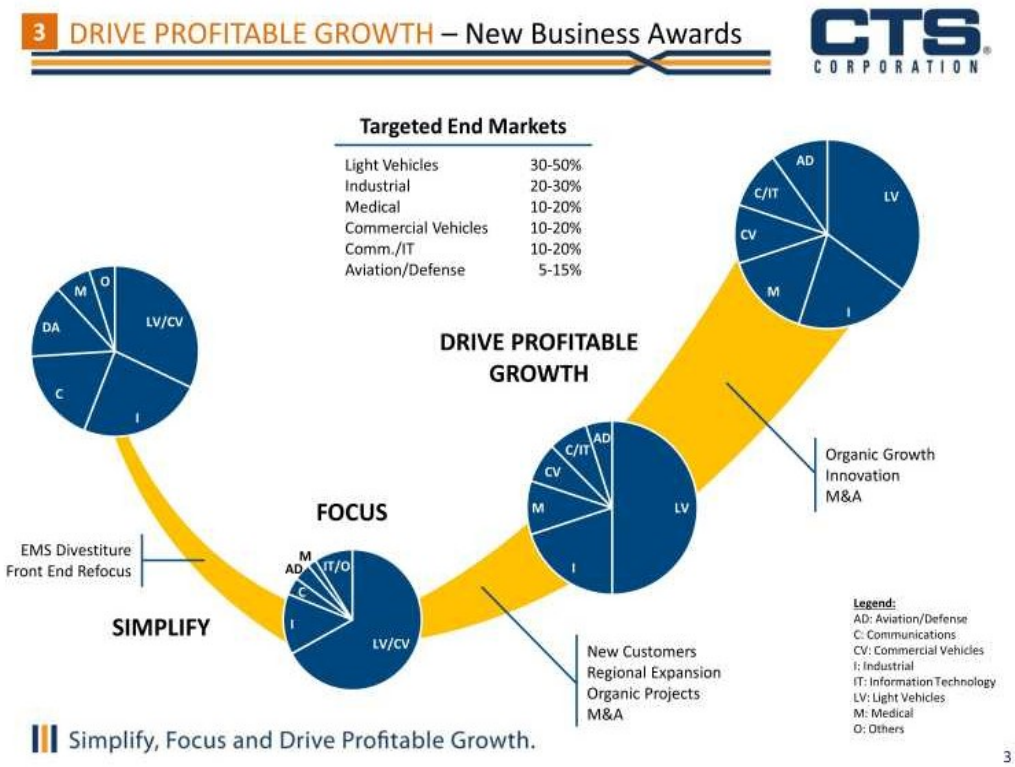
## A diverse customer base:



**with an accelerating order flow:**




**Will propel revenue and profits to higher levels.**



## VALUATION

Compared to other companies in its industry, CTS appears slightly undervalued. However, the increasing order flow and resulting growth in earning does not appear to be reflected in its valuation parameters. The stock is selling at a discount to the median EV/EBITDA for the groups and should be valued closer to the median values.

Sensata Technologies is a specialist in sensors and enjoys a much higher profit margin than the others, as well as a higher growth rate fueled by both internal growth and acquisitions. CTS's move towards a higher margin higher growth business given its focus in sensors and similar products it may be valued more like Sensata Technologies (ST) .

As supplier to the automobile industry CTS customers may be subject to civil and regulatory law suits. In the case of Toyota CTS Corp. has been indemnified by Toyota against any claims. We do not think that this lawsuit should have any impact on the price of the company's stock.

| COMPARISON TABLE | Ticker | Price | Mkt | ROE | P/E | P/E | P/B | P/S | EV/Rev. | EV/EBITDA | PEG | Inst. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 10/28/16 | Cap | (%) | L4Q | N4Q | LQ | L4Q | L4Q | L4Q | | Ownership % |
| | | | (in million) | | | | | | | | | |
| **CTS Corp.** | **CTS** | **$16.45** | **$539** | **9.79** | **18.2** | **17.4** | **1.76** | **1.39** | **1.34** | **8.07** | **1.52** | **79.0** |
| | | | | | | | | | | | | |
| **Over $1 billion Market Cap.** | | | | | | | | | | | | |
| BorgWarner Inc. | BWA | $35.44 | $7,590 | 17.26 | 12.82 | 10.01 | 2.06 | 0.85 | 1.16 | 6.92 | 1.03 | 96.6 |
| Cooper-Standard Holdings Inc. | CPS | $90.35 | $1,560 | 20.58 | 13.33 | 8.28 | 2.37 | 0.44 | 0.59 | 5.25 | 1.42 | 100+ |
| Delphi Automotive plc. | DLPH | $64.45 | $17,580 | 41.24 | 14.06 | 9.71 | 7.38 | 1.11 | 1.34 | 8.02 | 0.87 | 96.6 |
| Methode Electronics Inc. | MEI | $30.70 | $1,130 | 17.22 | 14.16 | 11.54 | 2.33 | 1.42 | 1.22 | 7.47 | 0.93 | 88.4 |
| OSI Systems Inc | OSIS | $66.34 | $1,260 | 4.66 | 51.03 | 19.23 | 2.32 | 1.52 | 1.56 | 12.28 | 1.44 | 94.5 |
| Sensata Tech. Holdings NV | ST | $37.03 | $6,330 | 24.91 | 15.89 | 11.76 | 3.54 | 2.06 | 3.21 | 12.90 | 0.83 | 100 plus |
| Synaptics Inc. | SYNA | $67.70 | $2,360 | 9.64 | 35.45 | 12.02 | 3.38 | 1.41 | 1.33 | 11.43 | 0.97 | 100 pus |
| TE Connectivity Ltd. | TEL | $62.14 | $22,090 | 18.85 | 9.07 | 1435.00 | 2.68 | 1.86 | 2.16 | 10.38 | 1.26 | 93.6 |
| | | | | | | | | | | | | |
| **Mean** | | | | 18.24 | 20.45 | 170.55 | 3.09 | 1.34 | 1.55 | 9.19 | 1.14 | |
| **Median** | | | | 17.26 | 14.16 | 11.76 | 2.37 | 1.41 | 1.34 | 8.07 | 1.03 | |
| | | | | | | | | | | | | |
| **Under $1 billion Market Cap** | | | | | | | | | | | | ` |
| | | | | | | | | | | | | |
| Accuride Corp. | ACW | $2.45 | $118 | N/A | N/A | N/A | 2.17 | 0.18 | 0.63 | 5.95 | 1.15 | 65.7 |
| Altra Industrial Motion Corp. | AIMC | $29.20 | $756 | 11.86 | 25.41 | 17.18 | 2.99 | 1.07 | 1.30 | 9.74 | 1.33 | 100+ |
| AMA Group Ltd | AMA.AX | $1.05 | $497 | 7.62 | 70.00 | 17.50 | 3.39 | 1.88 | 1.90 | 20.32 | N/A | N/A |
| LGL Group Inc. | LGL | $4.15 | $11 | N/A | N/A | N/A | 0.81 | 0.56 | 0.27 | 13.22 | N/A | 7.4 |
| Interlink Electronics | LINK | $9.60 | $70 | 33.37 | 30.38 | N/A | 8.75 | 6.24 | 5.77 | 25.49 | N/A | N/A |
| Mercury Systems, Inc | MRCY | $27.28 | $1,100 | 4.80 | 48.71 | 21.48 | 2.23 | 4.08 | 4.47 | 25.92 | 3.20 | 91.4 |
| Standard Motor Oroducts Inc. | SMP | $46.98 | $1,070 | 14.25 | 19.67 | 14.32 | 2.54 | 1.06 | 1.17 | 9.11 | 2.34 | 82.9 |
| Stoneridge Inc. | SRI | $14.28 | $398 | 6.33 | 12.45 | 9.46 | 3.32 | 0.60 | 0.86 | 8.98 | 47.54 | 89.1 |
| Westport Innovations Inc | WPRT | $1.58 | $173 | N/A | N/A | N/A | 1.08 | 1.49 | 1.69 | N/M | N/A | 53.5 |
| Exco Technology Ltd. | XTC.TO | 11.53 $ | 491 $ | 18.89 | 10.38 | 10.68 | 1.83 | 0.88 | 1.00 | 6.22 | N/A | N/A |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **Mean** | | | | 13.87 | 31.00 | 15.10 | 2.91 | 1.80 | 1.91 | 13.88 | 11.11 | |
| **Median** | | | | 11.86 | 25.41 | 15.75 | 2.39 | 1.07 | 1.24 | 9.74 | 2.34 | |
| Source: Zacks scr and Yahoo finance | | | | | | | | | | | | |

## PROJECTED INCOME STATEMENT

| CTS Corp. | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Statements of Operations | | | | | | | | | | | | | | | |
| (Dollars in millions except per share data) | | | | | | | | | | | | | | | |
| Fiscal Year Dec. 31. | 2012A | 2013A | 2014A | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 2015A | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 | 2017 | 2018 |
| | | | | | | | | | Act. | Act. | | | Est. | Est. | Est. |
| **Net sales** | **$304.48** | **$409.46** | **$404.02** | **$98.31** | **$100.07** | **$90.65** | **$93.28** | **$382.31** | **$96.71** | **$98.69** | **$99.70** | **$105.00** | **$400.10** | **$419.00** | **$435.76** |
| % Change | | | | | | | | | (1.63) | (1.38) | 9.98 | 12.56 | 4.65 | 4.73 | 4.00 |
| Cost of Goods Sold | 212.97 | 288.11 | 274.06 | 66.18 | 66.70 | 59.20 | 63.13 | 255.20 | 63.24 | 64.24 | 63.06 | 70.35 | 260.88 | 268.62 | 283.24 |
| S. G. & A. | 63.07 | 69.99 | 59.14 | 15.71 | 15.22 | 12.69 | 13.81 | 57.43 | 14.87 | 15.76 | 16.05 | 16.00 | 62.68 | 62.85 | 65.36 |
| R&D | 20.92 | 23.22 | 22.56 | 5.20 | 5.49 | 5.69 | 6.08 | 22.46 | 6.16 | 5.97 | 6.28 | 6.20 | 24.61 | 24.80 | 23.10 |
| Op Income GAAP | 7.52 | 28.14 | 48.26 | 11.23 | 12.66 | 13.06 | 10.27 | 47.22 | 12.43 | 12.73 | 14.31 | 12.45 | 51.92 | 62.73 | 64.06 |
| Interest Expenses | 2.57 | 3.26 | 2.33 | 0.59 | 0.65 | 0.71 | 0.67 | 2.63 | 0.82 | 1.01 | 0.92 | 1.00 | 3.75 | 4.00 | 4.90 |
| Interest Income | 1.72 | 1.90 | 2.79 | 0.79 | 0.85 | 0.71 | 0.72 | 3.07 | 0.55 | 0.33 | 0.20 | 0.30 | 1.38 | 1.20 | 1.20 |
| Non Op Income | 6.90 | (10.46) | (9.38) | (1.68) | 0.12 | (3.07) | (9.34) | (13.98) | 0.00 | 11.58 | (1.82) | (1.60) | 8.16 | (5.10) | (6.40) |
| Other | 0.88 | 1.74 | 0.00 | (0.74) | (2.12) | (16.91) | (1.66) | (21.43) | (0.20) | (1.45) | (0.05) | (0.40) | (2.09) | (1.60) | 4.50 |
| Calc.Pretax | 14.44 | 18.06 | 39.35 | 9.00 | 10.86 | (6.92) | (0.68) | 12.26 | 11.97 | 22.18 | 11.73 | 9.75 | 55.62 | 53.23 | 58.46 |
| Taxes | 0.95 | 16.07 | 12.83 | 2.72 | (8.22) | (2.16) | 12.97 | 5.31 | 4.10 | 7.69 | 8.01 | 3.41 | 23.22 | 18.10 | 18.71 |
| Tax Rate | 6.59 | 88.95 | 32.60 | 30.18 | (75.71) | 31.24 | (1910.75) | 43.28 | 34.28 | 34.68 | 68.29 | 35.00 | 41.74 | 34.00 | 32.00 |
| Other Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pro-forma adj. inc. EIDO | (6.90) | 17.43 | 4.81 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Income | 13.49 | 2.00 | 26.52 | 6.29 | 19.08 | (4.76) | (13.65) | 6.95 | 7.86 | 14.49 | 3.72 | 6.34 | 32.41 | 35.13 | 39.75 |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Net For Common | 20.33 | (3.93) | 26.52 | 7.03 | 19.08 | 7.74 | 8.68 | 42.53 | 7.86 | 7.51 | 5.69 | 6.34 | 27.40 | 35.13 | 39.75 |
| | | | | | | | | | | | | | | | |
| Shares Used, millions | 34.52 | 33.60 | 34.13 | 33.94 | 33.94 | 32.77 | 32.61 | 32.96 | 33.01 | 33.23 | 33.25 | 32.50 | 33.00 | 32.50 | 32.50 |
| | | | | | | | | | | | | | | | |
| Earnings Per Share | | | | | | | | | | | | | | | |
| **EPS** | **$0.59** | **$0.06** | **$0.78** | **$0.19** | **$0.56** | **($0.15)** | **($0.42)** | **$0.21** | **$0.24** | **$0.44** | **$0.11** | **$0.20** | **$0.98** | **$1.08** | **$1.22** |
| **Pro Forma EPS** | **$0.39** | **$0.75** | **$0.97** | **$0.21** | **$0.30** | **$0.24** | **$0.27** | **$1.01** | **$0.24** | **$0.23** | **$0.17** | **$0.20** | **$0.83** | **$1.08** | **$1.22** |
| **DPS** | **$0.14** | **$0.15** | **$0.16** | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| **Backlog, as of January** | **$49.80** | **$55.82** | **$61.78** | | | | | | | | | | | | |
| **New business awards** | | **$299.00** | **$484.00** | **$192.00** | **$169.00** | **$95.00** | **105 E** | **$561.00** | **$118.00** | **$135.00** | | | | | |
| **EIDO Extra Items & discontinued operations** | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| **The account presentation have been changed by Zacks scr and may not be the same as presented by the company.** | | | | | | | | | | | | | | | |
| **EIDO : Extra Items and Discontinued Operations** | | | | | | | | | | | | | | | |

## BALANCE SHEET

| CTS Corp. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Balance Sheet (in $ millions) | | | | | | | | | | |
| Fiscal Year Dec. 31. | | | | | | | | | | |
| | **2012A** | **2013A** | **2014A** | **1Q15** | **2Q15** | **3Q15** | **4Q15** | **1Q16** | **2Q16** | **3Q16** |
| **ASSETS** | | | | | | | | | | |
| Cash & Equiv. | 109.57 | 124.37 | 134.51 | 138.33 | 146.79 | 150.76 | 156.93 | 130.96 | 119.91 | 114.43 |
| A/R | 89.34 | 62.67 | 56.89 | 67.06 | 63.05 | 59.21 | 54.56 | 64.79 | 62.13 | 62.38 |
| Inventories | 81.75 | 32.23 | 27.89 | 28.58 | 30.42 | 26.97 | 24.60 | 26.06 | 25.98 | 29.18 |
| Other | 28.63 | 17.01 | 21.11 | 20.74 | 21.40 | 20.77 | 15.89 | 13.84 | 12.46 | 10.85 |
| Total current assets | 309.30 | 236.27 | 240.40 | 254.71 | 261.66 | 257.71 | 251.98 | 235.65 | 220.47 | 216.84 |
| Gross Plant | 334.42 | 74.87 | 71.41 | 70.46 | 70.17 | 68.93 | 69.87 | 77.46 | 76.97 | 79.33 |
| Acc. Deprn | 240.69 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Investments & Prepaid pensions | 0.00 | 56.40 | 32.10 | 34.30 | 36.56 | 38.77 | 33.78 | 35.75 | 37.71 | 39.68 |
| Intangibles | 83.53 | 72.83 | 68.64 | 67.67 | 66.68 | 65.70 | 68.62 | 130.64 | 129.31 | 127.67 |
| Deferred taxes & Other | 74.64 | 39.90 | 44.37 | 44.06 | 54.20 | 57.63 | 59.88 | 60.85 | 55.37 | 50.05 |
| **All Assets** | 561.19 | 480.27 | 456.93 | 471.20 | 489.27 | 488.74 | 484.13 | 540.34 | 519.83 | 513.57 |
| | | | | | | | | | | |
| **LIABILITIES AND NET WORTH** | | | | | | | | | | |
| Debt Due 1 Yr | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Notes Payable | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| A/P | 67.97 | 47.05 | 43.34 | 44.17 | 45.72 | 39.48 | 40.30 | 44.03 | 41.68 | 43.29 |
| Taxes/Payroll | 16.57 | 20.82 | 11.28 | 9.21 | 10.36 | 9.09 | 7.15 | 7.65 | 8.50 | 11.88 |
| Other | 30.49 | 27.25 | 25.36 | 29.47 | 27.40 | 43.03 | 53.91 | 48.85 | 46.92 | 45.97 |
| Total current liabilities | 115.04 | 95.12 | 79.98 | 82.85 | 83.48 | 91.60 | 101.35 | 100.53 | 97.10 | 101.14 |
| Conv. Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| L.T.Debt | 153.50 | 75.00 | 75.00 | 83.20 | 88.70 | 90.50 | 90.70 | 141.30 | 110.80 | 96.00 |
| Other LT | 24.89 | 7.94 | 3.05 | 2.96 | 2.91 | 2.73 | 2.70 | 3.07 | 2.20 | 3.10 |
| Def. Taxes & ITC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.00 | 5.48 | 9.11 | 9.05 | 8.65 | 8.31 | 7.73 | 7.19 | 7.11 | 7.07 |
| All Liabilities | 293.43 | 183.54 | 167.14 | 178.06 | 183.74 | 193.14 | 202.48 | 252.09 | 217.20 | 207.30 |
| Pref.Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Common Stock | 291.51 | 297.16 | 299.89 | 300.71 | 300.87 | 300.90 | 300.91 | 302.14 | 302.15 | 302.16 |
| Surplus | 40.01 | 39.63 | 39.15 | 39.55 | 40.24 | 40.48 | 41.17 | 39.19 | 39.82 | 40.57 |
| Retained Earnings | 367.80 | 359.00 | 380.15 | 385.10 | 402.86 | 396.80 | 381.84 | 388.39 | 401.57 | 403.98 |
| Other | (120.60) | (81.90) | (104.23) | (104.17) | (101.90) | (101.79) | (99.01) | (98.21) | (97.65) | (97.18) |
| Treasury Stock | 310.96 | 317.17 | 325.17 | 328.06 | 336.54 | 340.79 | 343.26 | 343.26 | 343.26 | 343.26 |
| Net Worth | 267.76 | 296.73 | 289.79 | 293.13 | 305.53 | 295.60 | 281.65 | 288.25 | 302.63 | 306.27 |
| **Total liabilities & stockholders' equity** | 561.19 | 480.27 | 456.93 | 471.20 | 489.27 | 488.74 | 484.13 | 540.34 | 519.83 | 513.57 |
| | | | | | | | | | | |
| Shares outstanding in millions | 33.922 | 33.601 | 33.618 | 33.411 | 33.08 | 32.683 | 32.5 | 32.63 | 32.759 | 32.759 |
| Backlog on Jan. 15 of each year. | | 49.80 | 55.82 | 61.78 | | | | | | |
| Orders for each period | | | | 192.00 | 169.00 | 95.00 | 105.00 | 118.00 | 135.00 | 103.00 |

## SOURCE & USE OF FUNDS

| | | | | | |
|---|---|---|---|---|---|
| **CTS Corp.** | | | | | |
| Condensed Consolidated Statements of Cash Flows | | | | | |
| Fiscal Year Dec. 31. | | | | | |
| | **2012A** | **2013A** | **2014A** | **2015A** | **2016A** |
| Cash flow from operations: | | | | | 9 months |
| Net (Loss) Income | 20.33 | (3.93) | 26.52 | 6.95 | 26.07 |
| Depreciation & amortization | 19.62 | 21.17 | 16.97 | 16.25 | 14.01 |
| Amortization of goodwill | | | | | |
| | | | | | |
| Stock issued for services | | | | | |
| Stock based compensation | 4.10 | 4.22 | 2.66 | 3.20 | 1.76 |
| Impairment of machinery | 2.54 | 3.77 | 0.43 | | |
| Prepaid pension asset | (7.43) | (5.74) | (8.43) | (8.28) | |
| Other | 2.49 | 18.09 | (5.74) | 20.50 | (9.96) |
| **Net cash provided by (used in) operating activites** | **41.65** | **37.57** | **32.42** | **38.63** | **31.88** |
| | | | | | |
| Cash flow from investments: | | | | | |
| Purchase of PP&E | (91.65) | (13.98) | (12.95) | (9.72) | (14.47) |
| Proceeds from disposal of PP&E | 0.50 | 76.77 | 4.95 | 1.88 | 12.25 |
| Other | 17.06 | | | (1.29) | (73.06) |
| **Net cash provided by (used in) investing activities** | **(74.09)** | **62.79** | **(8.00)** | **(9.13)** | **(75.28)** |
| | | | | | |
| Cash flow from financing activities: | | | | | |
| Proceeds from issuance of common stock | | | | | |
| Proceeds (payment) on lines of credit, net | (2.27) | (2.22) | (0.81) | | |
| Purchase of treasury stock | (4.76) | (4.87) | (5.37) | (0.02) | |
| Proceeds fromo debt | 5.54 | 3.79 | 1,030.20 | 1.36 | (1.17) |
| Dividends paid | (4.76) | (4.87) | (5.37) | (5.29) | (3.92) |
| Payment on debt | (5.46) | (3.87) | (1,030.20) | (1.34) | 2.05 |
| Other | 77.51 | (74.52) | (3.45) | (2.01) | 3.22 |
| **Net cash provided by (used in) financing activities** | **65.60** | **(85.56)** | **(14.29)** | **(7.31)** | **0.90** |
| | | | | | |
| Increase (decrease) in cash and equivalents | 33.16 | 14.81 | 10.13 | 22.19 | (42.50) |
| Cash & equivalents at beginning of period | 76.41 | 109.57 | 124.37 | 134.51 | 156.70 |
| Cash & equivalents at end of period | 109.57 | 124.37 | 134.51 | 156.70 | 114.20 |
| | | | | | |

## HISTORICAL STOCK PRICE




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