

Annual **Report**

2020

cts Your Partner in
Smart Solutions

www.ctscorp.com



Our Vision

“We aim to be a leading provider of **sensing** and **motion** devices as well as **connectivity** components, enabling an intelligent and seamless world.”

Our Values



Play to Win

Be ambitious for customers and ourselves.
Seize opportunities to create outcomes that benefit everyone.
Be prepared to challenge in order to get the best results.
Act with humility, intelligence and integrity at all times.



Responsiveness

Be nimble and act fast, but never at the expense of quality.
Take the time to understand our customers' needs.
Respect the views and needs of others.
Work with a sense of urgency that helps us exceed our customers' expectations.



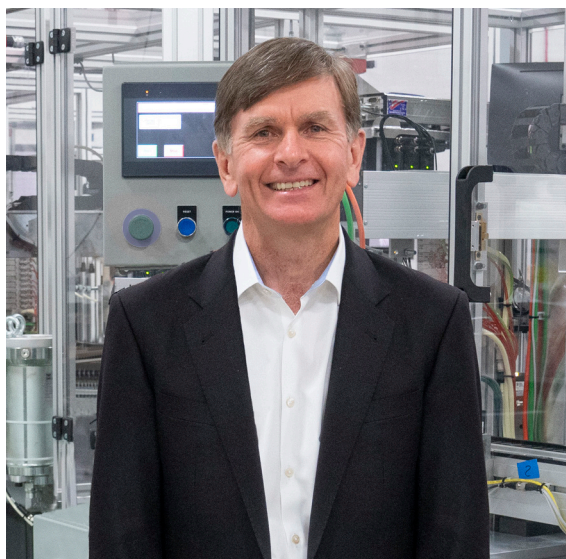
Simplicity

Be straightforward and easy to deal with.
Reduce bureaucracy and complexity to keep things simple.
Use language our customers understand.
Focus on delivering solutions efficiently and effectively, time after time.



Solution Oriented

Stay curious and resourceful.
Embrace the challenge of solving our customers' problems.
Put yourself in the customers' shoes to understand their challenges.
Find new and better ways of working together to deliver greater value.



Kieran M. O'Sullivan
Chairman, President and Chief Executive Officer

Dear Shareholders,

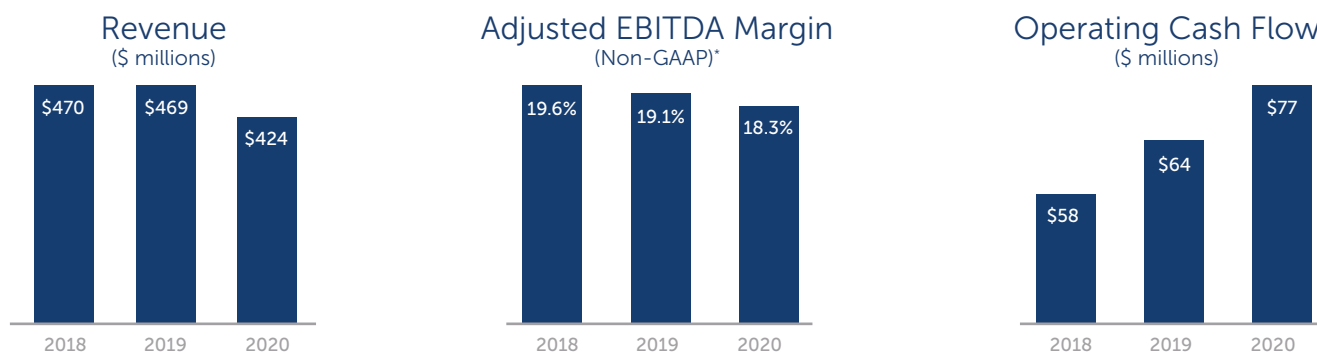
2020 was a challenging year – our resilience as individuals and as a business was tested thoroughly. Operating a global business through these turbulent times taught us many lessons. We learned from the experience! I am confident these learnings have made us a stronger team as we move forward. I want to thank our employees for their tremendous leadership and efforts to support our customers, partners, suppliers, and company throughout the year. As we continue to navigate through this COVID-19 pandemic, the need to continue to be prepared to adapt and change remains vitally important. As always, our focus on safety is our number one priority. We appreciate the leadership and prioritization of safety at all our global sites to ensure our employees' well-being as we strive to serve our customers. I want to wish each of you a healthy year ahead.

Results

CTS delivered adjusted EBITDA margin of 18.3%* and improved operating cash flow to \$77M, up 19% from 2019. Full-year sales were \$424M, down 10% driven primarily by the impact of the pandemic. Transportation sales declined 19% but rebounded strongly in the fourth quarter. Electronic Component sales were up 7%, driven by double-digit growth in industrial and defense markets. Medical and telecom experienced more muted demand. At the end of the year, we strengthened our temperature sensing platform with the acquisition of Sensor Scientific, Inc. This acquisition expands our capabilities in the medical market. As a company, we continue to adhere to our strategy to drive profitable growth around products that Sense, Connect and Move by expanding our technologies, product portfolio and geographic reach.

Simplification

Simplification and competitiveness are core to the transformation of our company and end-market profile. We are making progress on a restructuring plan that is expected to deliver \$0.22 to \$0.26 of annualized earnings per share improvement by the second half of 2022.** As part of this plan, we recently consolidated our Manesar, India manufacturing location into our Zhongshan, China facility. We continued the deployment of our SAP S/4Hana system and expect to be substantially complete by the end of 2021. Through this implementation, we anticipate better supply chain performance, analytical capabilities, and improved operating margins.



Creating Long-Term Value for our Shareholders

CTS' results-driven culture has enabled us to substantially improve our financial performance and strengthen our balance sheet over the last decade. The combination of a strong balance sheet with a net cash position, and access to over \$240M through our credit facility, gives us the flexibility to deploy capital towards our strategic objectives. We are working to deliver next-level performance by deploying Focus 2025, our five-year strategic plan focused on four key initiatives.

Profitable Growth

Our strategy to drive profitable growth is built on the following global megatrends: safety, sustainability, electrification, connectivity, industrial IOT, 5G communications, miniaturization, and greater efficiency in components. Our goal is to deliver 10% annualized growth by executing our strategic plan while actively managing our existing portfolio.** Our targeted 10% growth is also supported by our capability to effectively deploy capital for strategic acquisitions. We plan to continue to expand our customer base, grow regionally, diversify our end-market profile, which will enable us to improve the quality of our earnings and provide financial stability for our employees. We continue to focus on highly engineered solutions that help our customers solve their most difficult challenges. The diversification of our end-market profile also enables us to better navigate end-market cycles.

10%

Our goal is to deliver 10% annualized growth by executing our strategic plan while actively managing our existing portfolio.**

Customer Focus

We are confident we remain well-positioned to meet the changing needs of our customers. Our leading technologies, global footprint, and talented employees position us well for continued long-term growth. However, we are keenly aware of the need to nurture and improve important relationships with our existing customers while expanding to new accounts and applications. The collaboration between our sales, product management, and engineering teams is vital to developing innovative products and technologies to solve complex problems and deliver solutions for our customers. Impactful technology developments that meet our



customers' needs will advance our reputation and brand awareness. Business longevity relies on satisfied customers, while satisfied customers strengthen our company culture through improved sentiment and employee motivation to win.

CTS Operating System

An important part of our culture is supporting a continuous improvement mindset that delivers year-over-year improvement in the cost of goods sold and enhances all aspects of our enterprise. With this in mind, we are implementing an operating system company-wide to train our employees, provide the required tools, and encourage our workforce to be more empowered in solving problems. Collaborating globally to continually raise the level of performance in support of our customers builds a stronger and more sustainable improvement mindset.



Leadership, Talent & Culture

We derive purpose and satisfaction from knowing our innovations and products impact people's lives around the world. CTS has more than 3,700 employees globally, many of whom give back to the communities in which we operate. We value our people and want to enable them to constantly develop, learn and grow in a safe and rewarding environment. We believe in fostering a culture of empowerment and personal accountability to positively impact our customers, partners, and colleagues while deriving satisfaction from a job well done. We are devoting more time and resources towards building and developing our organization through our talent initiatives and feedback surveys. An inclusive environment where employees are empowered, valued for their contributions, and have a shared sense of purpose is our goal. Investing in our employees is critical to the long-term success of our company.

**CTS has more than
3,700 employees
globally.**



Sustainability

Our company's transformation continues, and our Focus 2025 initiative outlined in this letter serves as our guideline as we advance into the decade.

Environmentally, many of our products enable a greener and safer world. We continue to be focused on reducing our overall impact on the environment by reducing our water consumption, recycling, and ensuring that we operate our facilities in an environmentally compliant manner. Furthermore, protecting our employees' well-being is paramount. We continue to demonstrate our commitment to our employees' safety and well-being through our safety initiatives, measurement of incidents, and incorporating measures to protect against the spread of COVID-19. Our teams are playing their part in our communities as we give back to those less fortunate in our world.



We are committed to maintaining good governance with our diverse and talented Board. I am pleased to have two new members join our Board of Directors over the past year: Ye Jane Li, former Chief Operating Officer of Huawei Enterprise USA, Inc., and Donna Costello, former CFO of C&D Technologies, Inc.

With the full commitment and care of the leadership team and every CTS employee around the globe, we will continue to drive our company forward to deliver superior performance for our customers, shareholders, and employees. I want to thank our valued customers, employees, shareholders, business partners, and Board of Directors for their support this past year. I look forward to reporting on our continued progress next year.

Kieran O'Sullivan
Chairman, President and Chief Executive Officer

*The information included in this letter to shareholders includes the non-GAAP financial measure of adjusted EBITDA margin. From time to time, the company may use non-GAAP financial measures in discussing its business. These measures are intended to supplement, not replace, the company's presentation of its financial results in accordance with U.S. GAAP. The company's management believes that non-GAAP financial measures can be useful to investors in analyzing its financial performance and results of operations over time. Adjusted EBITDA margin is calculated as adjusted EBITDA divided by net sales for the applicable period. A reconciliation of the non-GAAP financial measure of adjusted EBITDA for fiscal years 2018-2020 to the most directly comparable financial measure for those fiscal years calculated and presented in accordance with US GAAP is as follows:

	2020	2019	2018
Net earnings	\$ 34.7	\$ 36.1	\$ 46.5
Depreciation and amortization expense	26.7	24.6	22.5
Interest expense	3.3	2.6	2.1
Tax expense	10.8	14.1	11.6
EBITDA	75.4	77.5	82.7
Adjustments to EBITDA:			
Restructuring charges	1.8	6.9	4.6
Environmental charges	2.8	2.3	1.0
Legal settlement	-	(0.5)	-
Transaction costs	0.3	0.7	-
Costs of tax improvement initiatives	-	0.1	1.2
Non-cash pension expense	2.5	0.8	-
Foreign currency (gain)	(5.3)	1.8	2.6
Total adjustments to EBITDA	2.1	12.0	9.4
Adjusted EBITDA	\$ 77.5	\$ 89.5	\$ 92.1
Net sales	\$ 424.1	\$ 469.0	\$ 470.5
Adjusted EBITDA as a % of net sales	18.3%	19.1%	19.6%

**This letter to shareholders contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events, and any other statements that are not based solely on historical fact. Forward-looking statements are based on management's expectations, certain assumptions and currently available information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from those presented in the forward-looking statements. Examples of factors that may affect future operating results and financial conditions include, but are not limited to: changes in the economy generally and in respect to the business in which our company operates; unanticipated issues in integrating acquisitions; the results of actions to reposition our business; rapid technological change; general market conditions in the transportation, telecommunications, and information technology industries, as well as conditions in the industrial, aerospace and defense, and medical markets; reliance on key customers; unanticipated public health crises, natural disasters or other events; environmental compliance and remediation expenses; the ability to protect our intellectual property; pricing pressures and demand for our products; and risks associated with our international operations, including trade and tariff barriers, exchange rates and political and geopolitical risks. Many of these, and other risks and uncertainties, are discussed in further detail in Item 1A. of our Annual Report on Form 10-K. We undertake no obligation to publicly update our forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.