



Spring-Summer 2008

CTS Corporation

905 West Boulevard North
Elkhart, IN 46514
(574) 293-7511
<http://www.ctscorp.com>

At the Company:

Mitch Walorski, Director of Investor Relations

Driving Quality Revenue, Cash Flow and Earnings in a Global Market

CTS Corporation (NYSE: CTS) designs and manufactures highly engineered components, operating within two reporting business segments: Components and Sensors and Electronics Manufacturing Services (EMS).

To serve a global customer base, CTS has sales personnel and manufacturing facilities worldwide, with a major presence in the United States, China, Mexico, Czech Republic, Canada, Scotland, Singapore, Japan, Taiwan and Thailand. The company, founded in 1896, employs more than 4,700 worldwide. Headquartered in Elkhart, Indiana, CTS has been listed on the NYSE since 1962.

Senior management, led by a new CEO and CFO, is focused on growing revenues by concentrating on emerging areas of the globe and fast-growing applications. The company is migrating sales toward higher margin applications, and has significantly reduced revenue from historical high-volume, low margin customers.

One of management's primary goals is to generate more free cash flow by maintaining streamlined operations and growing sales of products with the highest margins. The company has historically returned a portion of its earnings to shareholders as cash dividends.

Components and Sensors

These are generally products that perform specific electronic functions, often combining motion and electronics, which CTS sells into a wide range of industries. Markets for sensors and actuators include vehicles ranging from motor scooters to heavy earth moving equipment. The markets are large: the motion control market is \$9 billion; in China, 20 million motorcycles were manufactured in 2007.

Demand for innovative electronic components is being fueled by new developments in wireless infrastructure and other fields such as medical equipment, optical networking, WiMAX, satellite base stations, aerospace, defense and undersea energy exploration.

The company frequently receives industry and customer awards, which enhance its visibility and further its reputation

for quality. In February 2008, for example, CTS received the prestigious and coveted "Supplier of Excellence Award for Product Development" from Honda Motor Company for its accelerator pedal module. Worldwide recognition from customers supports sales and new business development.

Examples of Applications: Electronic fuel injectors; seat belt tension sensors; motorcycle throttle controls to meet emissions standards; "smart" turbochargers for diesels that increase engine performance and conserve fuel; vehicle exhaust gas recirculation; electrified vibrating ceramics for medical ultrasound; components in sonar devices for oil exploration; components for wireless infrastructure.

Industry trends and CTS advantages:

- Patent protection against competitors, with more than 350 patents worldwide.
- Critical "can't fail" applications favor CTS' reliability and proven performance.
- Design and manufacturing partnerships enhance customer loyalty and retention.
- Highly specialized products and applications.
- CTS is a long-recognized global leader in environmental controls for vehicles.

Electronics Manufacturing Services (EMS)

The EMS business is primarily higher level design, assembly and testing of electronic and mechanical components into finished subassemblies for OEMs. Most customers have traditionally been in the communications

and computers markets, but the company has reduced sales to these industries and built sales in higher margin applications for the medical, industrial, and defense and aerospace industries.

Examples of applications: Complex printed circuit board assemblies for wireless base stations; commercial security systems; medical equipment; radar control units; equipment used on commercial aircraft; industrial testing systems.

Industry Trends and CTS Advantages:

- CTS is targeting medium to large OEMs with special needs for performance and reliability.
- Growing number of applications where quality and reliability is more critical than price, which favors CTS's capabilities in precision manufacturing and assembly.
- High barriers to competitive entry due to certifications, customer-specific designs.
- CTS specializes in assemblies where advanced design capabilities are required.
- Increased miniaturization required in medical, aerospace industries favors CTS innovation.
- Reliability, a CTS strength, is increasingly important for critical "no-fail" applications, equipment.

THE CTS INVESTMENT OPPORTUNITY: GROWTH AND FINANCIAL DRIVERS

Sales, Revenue Drivers

- Management anticipates continuing double digit sales growth to Asian Pacific OEMs – 28 new OEM platforms added in 2007, almost all with Asian light duty vehicle manufacturers.
- Diminishing dependence on US automakers: only 20% of new business awards in 2007 came from Big Three U.S. automakers. Management expects sales to the Big Three as a percentage of total auto sales will drop below 40% (down from more than 50% in 2003).
- Explosive demand exists for diesels, light trucks, construction equipment and motorcycles in Asian countries, particularly China.
- Asian and European nations toughening emissions, environmental and fuel economy standards, creating burgeoning demand for highly effective sensors and controls.
- While US-based light vehicle manufacturers' (the Big Three) market share has declined, the United States remains the global center for heavy equipment manufacturing, which is booming. CTS leverages its strong presence as a US based company to serve these manufacturing markets.
- CTS is diversifying sales to a wider range of applications and industries to reduce exposure to markets and large key customers.

Margins and Free Cash Flow

- Projected revenue growth of 5% to 8% in 2008 is modest, but an increasing percentage of total revenue comes from higher-margin products. Management anticipates this trend will drive accelerated free cash flow, which has averaged \$30 million in each of the past three years.
- In the past several quarters, the company has demonstrated gross margin improvement related to operating efficiencies and improved product mix, particularly in its EMS segment.
- Management is focused on improving the quality of its revenues by aggressively reducing the amount of lower-margin EMS assembly work, leading to a decrease in revenue as a percentage of total sales from computer manufactures. EMS has benefited from higher margin business in defense and aerospace, medical and industrial markets.
- Revenues from the Components and Sensors business segment, which typically generate the company's highest gross and operating margins, are expected by management to increase from 41% to 44% of total sales in 2008.

- Because of the extensive engineering capabilities required and the exceptional reliability required by customers in both EMS and Components and Sensors, there are high barriers to competitive entry in the engineered components business. Management believes this will help protect CTS' sales and margins.
- Most of the company's "tuck-in" acquisitions target new regions and/or new high margin products and expanding its customer and technology base in these higher margin areas. Three such acquisitions closed since December 2007.

Allocating and Reinvesting Capital

- Fast-growing, high-potential sensor and actuator business (26% of total 2007 CTS sales) will receive 3-5 cents per share to fund engineering, R&D and growth initiatives in 2008.
- The company continually seeks opportunistic "tuck-in" acquisitions to add new capabilities and customers. This is a particularly important and cost-effective strategy for expanding presence in rapidly growing Asian and European and potential Indian markets, or taking advantage of unique regional U.S. opportunities.
- Total CTS controllable working cap is 12.7% of annualized sales. Management notes CTS strongly controls capital reinvestment requirements.
- Automotive customers may participate in financing specialized manufacturing equipment, tooling and processes related to their products, reducing CTS's capital expenditure requirements.
- Most of the company's products result from customized technical sales and solutions. The company makes a significant investment to reward and retain skilled individuals. Most of the company's sales are made by full-time degreed engineers, complemented by independent representatives in appropriate situations. Approximately 95% of the company's new sales have designs unique to individual customers.
- When making capital allocation decisions, management analyzes return on invested capital down to the individual plant level and also product-by-product.
- The company is a skilled acquirer, handling virtually all of its acquisition due diligence and analytics in-house. Its experience analyzing and integrating companies accelerates the timetable of when acquisitions begin generating maximum value.

Capacity, Utilization, Capital Turns

- CTS can add up to \$300 million in revenue without significant additional capital investment.
- Days Sales Outstanding have been reduced but CTS will see increasing business from global customers, who pay slower.
- Most of the company's operating facilities are leased. CTS does not typically buy plants and maintains the shortest lease lengths possible to preserve flexibility.
- CTS's global footprint helps ensure it already has facilities and operations where customers want them.
- CTS' Components and Sensors businesses and EMS manufacturing can coexist under one roof, enabling the company to maximize utilization of facilities and benefit from lean operations administration. EMS and Components and Sensors in specific locations share administration, purchasing, human resources and other manufacturing support functions.
- Most customers want OEM manufacturing facilities close to their own production facilities. CTS has the ability to operate near most potential customers, giving the company considerable flexibility in assigning manufacturing to particular plants while remaining efficient.
- Management is migrating the EMS business from high volumes with low margins to medium volumes with higher margins. However, the company has implemented process efficiencies and utilization throughout its global network, enabling it to handle the remaining high volume work more cost-effectively.

Currency Risk Management and Financial-Related Issues

- CTS is a global company with strong financial teams in every country in which it operates, notes management. Facilities employ appropriate GAAP accounting practices, manage and attempt to balance the inflow and outflow of local currencies, and provide frequent and regular accounting updates to headquarters.
- The company employs methods to minimize foreign exchange issues by balancing same-currency receipts and payables whenever possible.
- CTS's global manufacturing coincides with customer locations. Because most customers prefer to source manufacturing near their own plants, CTS is often able to operate in the same-currency environment.
- "We are structured to have the financial management and reporting capabilities of a much larger company," notes Donna Belusar, senior vice president and CFO. "Strong financial controls are a necessity for a company to compete in a global, multi-currency environment."
- CTS has a sizeable tax loss carryforward resulting primarily from losses in 2001-2002 from certain component operations, which management says will have a positive impact on cash flow for up to 6 years.
- Although CTS uses raw materials that frequently experience price volatility (platinum, gold, silver, copper, plastic resins), the company locks in contracts for at least a year to help smooth pricing and improve forecasting. It hedges against raw materials price fluctuations when appropriate.
- A \$60 million convertible debt instrument with a coupon of 2 1/8% impacts fully diluted earnings per share by assuming conversion. Thus, four million shares are included in the fully diluted EPS calculation, and CTS adds back the \$1.3 million in related annual interest expense. The strike price is \$18 per share, due in 2024, but which become fully redeemable by CTS after May 1, 2009.

Dynamic, Experienced Management Team

The company is retaining and hiring what it believes is a world-class team of senior experts in global manufacturing, distribution, operations and finance.

Vinod M. Khilnani, named the company's President and CEO in July 2007, brings to the company a unique combination of manufacturing management experience and financial expertise. Hired in 2001 as CFO to help the company through very difficult market and financial challenges, Khilnani proved his expertise not only helping the company turn around its performance, but to transform its business. He helped establish numerous growth initiatives and re-orient its business model toward higher-margin products and new international markets. Before CTS, Khilnani was vice president and corporate controller of a \$2.5 billion global automotive components company and worked over two decades at Cummins Engine Company in both the United States and overseas.

Donna Belusar, Senior Vice President and CFO, enjoyed a successful career at IBM before joining CTS in January 2008. She handled a variety of increasing financial management responsibilities during her tenure at IBM, including internal audit, SEC reporting, cost engineering and operational and strategic planning. Before joining CTS, she was IBM's executive CFO, Global Financial

Americas Division of IBM Credit, a \$2 billion business.

Mohan Mahadevan joined CTS as Vice President, Strategic Planning and Business Process in January 2008. With 20 years of experience, most recently at EMC Corporation, Mahadevan will lead CTS's development of growth initiatives, quality manufacturing and Lean Six Sigma process improvement initiatives, and more.

Bret Robertson, Vice President and General Manager of CTS's Electronic Components SBU since 2002, was named a Corporate Vice President in 2008. He has more than two decades of industry experience.

Don Schroeder, President of EMS since 2005, is a veteran of CTS since the 1970s. He previously served as business development manager, vice president sales and market for CTS, and chief technology office for the company, giving him a rounded perspective in many facets of the company's operations.

Tyler Buchanan, Senior Vice President, CTS Corporation, joined the company in 1977 and has served in his current position since 2001. Key responsibilities include leading the company's growth initiatives in supplying products for commercial vehicles.