3rd Quarter 2014 Earnings Conference Call Transcript



Overview*:

BDC reported 3Q14 consolidated revenues of $613.1M, income from continuing operations of $50.4M and diluted EPS from continuing operations of $1.15. Belden expects FY14 revenue to be $2.30-2.32B and adjusted diluted EPS from continuing operations to be $4.15-4.25. Belden expects 4Q14 revenue to be $590-610M and adjusted diluted EPS from continuing operations to be $1.15-1.25.

*Adjusted results. See appendix for reconciliation to comparable GAAP results

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CORPORATE PARTICIPANTS

John Stroup Belden, Inc. - President, CEO
Henk Derksen Belden, Inc. - CFO, SVP-Finance
Matt Tractenberg Belden, Inc. – VP, Investor Relations

PRESENTATION

Matt Tractenberg Belden, Inc. – VP, Investor Relations

Thank you, operator. Good morning, everyone, and thank you for joining us today for Belden's second quarter 2014 earnings conference call.

My name is Matt Tractenberg and I am Belden's Vice President of Investor Relations. With me here this morning are John Stroup, President and CEO, and Henk Derksen, Belden's CFO. John will provide a strategic overview of our business, and then Henk will provide a detailed review of our financial and operating results, followed by question and answer.

We issued our earnings release earlier this morning, and we have prepared a slide presentation that we will reference on this call. The press release and the presentation are available online at investor.belden.com.

I'd like to take just a minute and invite all of you to join us for Belden's 2014 Financial Analyst and Investor Day. This entirely virtual event will be broadcast on December 2nd at 11am Eastern time. The webcast can be accessed from our Investor relations website. Following an in-depth discussion of our performance and opportunities, we'll take live Q&A from our audience. If you have any questions, please reach out to us, we're happy to help.

Turning to slide two in the presentation. During this call management will make certain forward looking statements. I would like to remind you that any forward looking information we provide is given in reliance upon the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. The comments we will make today are management's best judgment based on information currently available. Actual results could differ materially from any forward looking statements that we make, and the Company disclaims any obligation to update this information to reflect future developments after this call. For a more complete discussion of factors that could have an impact on the company's actual results, please review today's press release and our annual report on Form 10-K.

Additionally, during today's call management will reference adjusted or non-GAAP financial information. In accordance with Regulation G, we have provided a reconciliation of the most closely associated GAAP financial information to the non-GAAP financial information we communicate. This reconciliation is in the appendix of the presentation and has been posted separately to the investor relations section of our Web site.

I will now turn the call over to our President and Chief Executive Officer, John Stroup.

John Stroup Belden, Inc. – President, CEO

Thank you, Matt, and good morning, everyone.

As a reminder, I'll be referring to adjusted results today.

Please turn to slide three in our presentation for a review of our third quarter highlights.

I'm pleased with our record results including revenues, earnings per share, and gross margins. I'd like to thank our associates for their hard work during the quarter and their continued focus on aggressively executing our strategic plan. Overall, the business performed as expected, with revenue growth in our Broadcast and Industrial platforms offsetting the portfolio initiatives within our Enterprise Connectivity business.

Revenues for the third quarter were $613.1 million, an increase of 16.7% from the third quarter 2013. A stronger U.S. dollar and lower copper prices had an approximate $5 million unfavorable impact on revenues sequentially. When totaling revenue from the Industrial and Broadcast platforms, which accounts for approximately 81% of consolidated sales, revenues increased organically by 3.4% year over year. If it had not been for our profitability improvement initiatives within the Enterprise platform, organic growth would have been near our goal of 4%-6%.

From a geographic perspective, we continue to benefit from a diversified global footprint. We experienced solid performance in the US, up 2.2%; Germany, up 4.2%, and Mexico, up 10.1%. This offset continued softness in Brazil, down 3.9%; and Europe, down 4.8%, all on a year over year basis.

Record gross profit margins were 37.6% during the quarter, an increase of 160 basis points from the year-ago period, and continue to be best in class.

Operating profit margins in the third quarter were 14.0%, a sequential increase of 100 basis points and back into the range of our long-term goal of 14% to 16%. This highlights the outstanding progress our broadcast team has made with the integration of Grass Valley, acquired in the second quarter. As a result, we delivered a company record $85.6 million in operating profit dollars during the quarter.

We also generated record earnings per diluted share of $1.15 in the third quarter, an increase of 21% from the year-ago period.

And finally, we bought back approximately 432 thousand shares of Belden common stock for $31 million dollars.

I'm also pleased with the results from our LEAN enterprise initiatives. At the end of the third quarter, our Property Plant and Equipment turnover increased 0.7 turns to 7.6, and Working Capital turnover increased a full turn to 8.0, both on a year over year basis.

Please turn to slide four for a review of our business segment results.

Broadcast revenue in the quarter was $256.6 million dollars as compared to $179.2 million in the year ago period, an increase of 43.2% and a result of solid organic growth and the acquisition of Grass Valley. Organic revenue growth was 4.6% during the period and in excess of the market. Operating profit margins were 13.5%, increasing 290 basis points sequentially. Given the complexity and scale of this acquisition integration, I think these results are impressive.

Revenue within our Enterprise platform was $115.3 million, down from $123.4 million in the third quarter of 2013, a decrease of 5.2% on an organic basis. Operating profit margins were 12.7% during the quarter, an increase of 120 basis points from the year-ago period. The portfolio actions are clearly yielding results, and I look forward to a return to revenue growth in 2015.

Industrial Connectivity had revenue for the quarter of $171.1 million, up $4.1 million from the year-ago period. On an organic basis, revenues increased 3.5% year-over-year. Operating profit margins were 13.6% for the third quarter, down slightly year-over-year driven by unfavorable product mix that is well within the natural variation of the business.

Industrial IT revenue of $70.1 million increased by $14.1 million from $56.0 million in the third quarter of 2013, a result of the recent acquisition. The integration of ProSoft is progressing as planned and the performance is in-line with expectations. Operating profit margins of the platform were 18.6%, an increase of 60 basis points from the year-ago period.

I will now ask Henk to provide additional insight into our third quarter financial performance. Henk?

Henk Derksen Belden, Inc. - CFO, SVP-Finance

Thank you, John. I will start my comments with results for the quarter, followed by a review of our operations and segment results, a discussion of the balance sheet, and close with our cash flow performance. As a reminder, I will be referencing adjusted results today.

Please turn to slide five for a detailed consolidated review. Third quarter consolidated revenues were $613.1 million dollars. Compared to the third quarter 2013, revenues increased $87.5 million, or 16.7%, from $525.6 million. Acquisitions contributed $83.2 million of revenues compared to the year-ago period. After adjusting for changes in copper and currency, revenues increased by 140 basis points year-over-year.

Sequentially, revenues increased $8.0 million dollars from $605.1 million. Acquisitions contributed $11.7 million of additional revenues and were partially offset by unfavorable currency and commodity prices with an impact of $4.8 million.

Gross profit margins were 37.6%, increasing 160 basis points year-over-year, and 60 basis points sequentially, both due largely to acquisitions made this year.

Third quarter SG&A expenses were $116.5 million dollars, or 19% of revenue. Excluding the impact of acquisitions, SG&A expenses decreased $3.8 million year-over-year and $1.8 million sequentially, highlighting the impact of our productivity improvement program. We remain committed to achieving SG&A costs of approximately $111 million as we exit the year.

R&D expenses for the quarter were $29.2 million dollars, or 4.8% of revenue, increasing $8.4 million year-over-year, as we continue to make the investments necessary to achieve our organic growth goal.

Operating profit margins were 14.0%, although down slightly from the year-ago period, an improvement of 100 basis points sequentially.

Net interest expense for the quarter was $21.5 million dollars, an increase of $2.4 million year-over-year due to the additional senior subordinated notes issued in June. We expect fourth quarter interest expense to be approximately $22.0 million dollars.

The effective tax rate for the third quarter was 21.3% compared to 23.3% in the year-ago period. For modeling purposes, we recommend using a 20% effective tax rate for the fourth quarter 2014.

Income from continuing operations per diluted share increased 21% from the year-ago period and 10% sequentially to a record $1.15 in the third quarter 2014.

Please turn to slide six. I will now discuss revenues and operating results by business segment.

Broadcast Solutions generated revenues of $256.6 million dollars during the third quarter. Compared to the year-ago period, revenues increased 43.2%, or $77.4 million, from $179.2 million. After adjusting for changes in copper and currency, revenue increased 4.6% year-over-year and 2.3% sequentially.

Operating profit margins within the Broadcast segment were 13.5% for the quarter, an improvement of 290 basis points sequentially, In addition to the favorable sequential impact from Grass Valley, this segment benefitted from leverage on volume as well as favorable product mix.

The Enterprise Connectivity Segment generated revenues of $115.3 million dollars during the third quarter, decreasing $8.1 million compared to the year-ago period and $6.0 million sequentially. After adjusting for copper, currency, and changes in inventory at our channel partners and customers, revenues decreased by 4.9% year-over-year and were flat sequentially. As mentioned on the prior call, we are emphasizing higher value solutions rather than lower margin cable products.

The year-over-year improvement in operating profit margins of 120 basis points and increased operating profit dollars is a direct result of the improved portfolio. The sequential decline of 40 basis points is due to seasonally lower volume.

Our Industrial Connectivity Segment generated revenues of $171.1 million dollars during the third quarter. Revenues increased $4.1 million from $167.0 million in the third quarter 2013. After adjusting for changes in copper and currency, revenues increased 3.5% compared to the year-ago period.

Sequentially, revenues decreased by $7.1 million from $178.2 million due to typical seasonality as well as an unfavorable impact of foreign currency.

Operating profit margins were 13.6%, decreasing 40 basis points from the year ago period and 160 basis points sequentially. Both the year-over-year and sequential declines are primarily a result of unfavorable product mix.

The Industrial IT segment generated revenues of $70.1 million dollars during the third quarter. Compared to the year-ago period, revenues increased 25.2%, or $14.1 million, from $56.0 million. After adjusting for the addition of Prosoft and changes in currency, revenues decreased by 1.0%. Sequentially, revenues increased by $16.8 million, or 12.1% on an organic basis, in line with expectations.

Operating profit margins of 18.6% increased 310 basis points sequentially, primarily due to leverage on volume.

If you will please turn to slide seven, I will discuss our balance sheet highlights.

Our cash and cash equivalents balance was $449.1 million dollars at the end of the third quarter, a decrease of $54.7 million year-over-year and an increase of $4.1 million sequentially.

Inventory turnover was 7.0 turns, an improvement of 0.6 turns year-over-year and 0.1 turns sequentially.

Days sales outstanding was 62 days in the third quarter, an increase of 5 days year-over-year and a decrease of 1 day sequentially.

Working capital turnover improved to 8.0, an improvement of 1.0 turn year over year and 0.1 turns sequentially.

PP&E turnover was 7.6 turns, an improvement of 0.7 turns year-over-year and 0.3 turns sequentially. I am pleased with our improved asset efficiency as seen on Slide 7.

Finally, the stronger U.S. dollar did reduce our total debt principal amount from $1.56 billion in Q2 to $1.54 billion in Q3.

Net leverage decreased from 3.0 times net debt to EBITDA in the second quarter 2014 to 2.9 in the current quarter. We expect to exit the year at a level of 2.7.

Please turn to Slide 8 for a few cash flow highlights.

Cash flows provided by operating activities for the third quarter were $63.2 million dollars compared to $67.3 million in the year-ago period. Net capital expenditures for the quarter totaled $8.3 million

dollars compared to $11.1 million last year. Free cash flow, after capital expenditures, was $54.9 million dollars. We remain committed to delivering our goal of free cash flow in excess of net income for the full year.

For the quarter, we purchased approximately 432 thousand shares of Belden common stock for $31.0 million dollars. On a combined program-to-date basis, we have repurchased a total of 6.3 million shares, or greater than 13% of the company, at an average price of $44.77 per share. We now have $69 million dollars remaining available under the current program. Dry powder at the close of Q3 was greater than $700 million dollars.

That completes my prepared remarks. I would now like to turn the call back to our CEO, John Stroup, for the outlook. John?

John Stroup Belden, Inc. – President, CEO

Thank you, Henk.

Please turn to slide nine for our outlook regarding the fourth quarter and full year 2014 results.

Despite a strengthening US dollar and uncertainty in Europe, I'm pleased to provide a full year earnings forecast consistent with the prior quarter and in excess of the guidance communicated last December. For the full year, we have narrowed the range for adjusted income from continuing operations per diluted share to $4.15 - $4.25 and expect revenues of $2.297 - $2.317 billion. Therefore, we expect our fourth quarter 2014 revenues to be between $590 and $610 million, and adjusted income from continuing operations per diluted share is expected to be $1.15 - $1.25.

Our assumption of a continued reduction of inventory at our channel partners and customers is unchanged from earlier this year. This guidance also incorporates a $15 million dollar unfavorable impact on revenues from a stronger US dollar and lower commodity prices relative to our assumptions at the time of our 2nd quarter's earnings call.

I look forward to sharing full year 2015 guidance during our Financial Analyst and Investor Day held on December 2nd.

Operator, please open the call to questions.