# 4th Quarter 2014 Earnings Conference Call Transcript



**Overview*:**

BDC reported 4Q14 consolidated revenues of $613.7M, income from continuing operations of $53.9M and diluted EPS from continuing operations of $1.24. Belden expects FY15 revenue to be $2.475 - 2.525B and adjusted diluted EPS from continuing operations to be $5.28 - 5.58. Belden expects 1Q15 revenue to be $565-585M and adjusted diluted EPS from continuing operations to be $0.94 - 1.04.

*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 fourth 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.

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 fourth quarter highlights.

At our Investor Day event in December, we shared with you new three-year financial goals, including total revenue growth, in constant currency, between 8% and 10%, and EBITDA margins between 18% and 20%. I'll share some thoughts on our progress to both our previous goals and these new goals, as we make our way through today's call.

Turning to the results…I'm pleased with our record performance including revenues, operating profit margins, and earnings per share. 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 well, with strong organic revenue growth in our Broadcast and Industrial platforms.

Revenues for the fourth quarter were $613.7 million, an increase of 19.0%. A stronger U.S. dollar and lower copper prices had an approximate $21 million unfavorable impact on revenues, and after adjusting for changes in currency and copper prices, revenues grew organically by 7.2%, a very solid outcome. Our Broadcast and Industrial platforms delivered strong organic growth of 13.2% and 9%, respectively, while Enterprise Connectivity, representing 18% of consolidated revenues saw a decline of 4.8%, as the team works diligently to improve profitability. All of these results are on a year-over year basis.

From a geographic perspective, we continue to benefit from a diversified global footprint. We experienced solid performance across most regions, with notable strength in Germany, up 5.1%, the US, up 7.7%; Mexico, up 10.2%, and China, up 14.8%.

Gross profit margins were 37.4% during the quarter, an increase of 220 basis points from the year-ago period, and continue to be best in class.

Operating profit margins in the fourth quarter were a record 14.5%, a year-over-year increase of 70 basis points, and as a result, we delivered a company record $88.8 million in operating profit dollars during the quarter. EBITDA margins were 16.3%, an increase of 50 basis points from the year-ago period.

We also generated record earnings per diluted share of $1.24 in the fourth quarter, an increase of 36% from the year-ago period.

And finally, we announced the acquisition of Tripwire, a leading provider of innovative cybersecurity software.

Please turn to slide four for a brief discussion of our full-year 2014 results.

Revenues for the year were $2.32 billion, an increase of 11.3% from the full-year 2013. After adjusting for changes in currency and copper prices, revenues grew organically by 1.5% from the previous year. When combining revenue from the Industrial and Broadcast platforms, which accounts for approximately 82% of consolidated sales during the year, revenues increased organically by approximately 4% over 2013.

Gross profit margins were 37.0% during the year, an increase of 180 basis points from the year-ago period, and continue to be best in class.

Earnings from continuing operations per diluted share were $4.23, also a company record, and an increase of 14.6% from the prior year.

We generated $188 million of free cash flow in the year, which exceeded net income for the 10th consecutive year… this level of consistency is a source of pride and the necessary ingredient to fuel our continued transformation.

And finally, we committed more than a billion dollars of capital during the year, to the acquisitions of Grass Valley, ProSoft, and Tripwire.

It was an extremely fulfilling year, and I appreciate all the hard work from our associates and continued loyalty of our customers and shareholders.

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

Broadcast revenue in the quarter was $253.2 million dollars as compared to $171.8 million in the year ago period, an increase of 47.4%, and a result of strong organic growth and the acquisition of Grass Valley. Organic revenue growth was 13.2% during the period and well in excess of the market. Operating profit margins were 15.5%, increasing 200 basis points sequentially, a result of the progress made with the Grass Valley integration and typical seasonal patterns.

Revenue within our Enterprise platform was $110.8 million, down from $120.2 million in the fourth quarter of 2013, a decrease of 4.8% on an organic basis. Operating profit margins were 10.2% during the quarter, an increase of 50 basis points from the year-ago period. The portfolio actions have generated a 140 basis point increase in operating profit margins for the full year 2014, and I expect the revenue growth headwinds will subside in the second half of 2015.

Industrial Connectivity had revenue for the quarter of $173.7 million, up $8.7 million from the year-ago period. On an organic basis, revenues increased 8.3% year-over-year. Operating profit margins were 13.4% for the fourth quarter, up 40 basis points.

Industrial IT revenue of $76.0 million increased by $17.1 million from $58.9 million in the fourth quarter of 2013, a result of both strong execution, as evidenced by 11% organic growth, and the addition of ProSoft. Operating profit margins of the platform were 20.1%, an increase of 60 basis points from the year-ago period.

I will now ask Henk to provide additional insight into our fourth 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 six for a detailed consolidated review….Fourth quarter consolidated revenues were $613.7 million dollars. Compared to the fourth quarter 2013, revenues grew 19.0% from $515.9 million with acquisitions contributing $81.5 million. After adjusting for changes in copper and currency, revenues increased organically in the fourth quarter by 7.2% year-over-year.

Sequentially, revenues increased $600 thousand dollars from $613.1 million. After adjusting for changes in copper and currency, organic revenues increased 2.1%, largely due to improved commercial execution as well as a slight build in inventories with our channel partners and customers.

Gross profit margins were 37.4%, increasing 220 basis points from the year-ago period, primarily due to the accretive acquisitions made in 2014. Sequentially, gross profit margins declined 20 basis points, within the range of normal variation.

Fourth quarter SG&A expenses were $111.0 million dollars, or 18% of revenue, and in-line with the commitment made earlier this year. SG&A expenses declined $5.5 million sequentially, due in part due to the favorable effect of foreign currency, and to a greater extent the impact of improvements in productivity.

R&D expenses for the quarter were $30.4 million dollars, or 5% of revenue. This represents an increase of 100 basis points year-over-year as a percentage of revenues and highlights the investment being made in the long-term health of the company.

EBITDA margins were 16.3%, up 50 basis points year-over-year and 60 basis points sequentially. Operating profit margins were 14.5%, up 70 basis points year-over-year and 50 basis points sequentially, both largely due to leverage on volume as well as productivity improvements.

Net interest expense for the quarter was $23.3 million dollars, an increase of $3.9 million year-over-year due to the additional senior subordinated notes issued in June and November of 2014. We expect interest expense to be approximately $26 million dollars per quarter going forward.

The adjusted effective tax rate for the fourth quarter was 17.7% and reflects the retroactive extension of the United States R&D tax credit for calendar year 2014. For financial modeling purposes, we recommend using a 20% effective tax rate for the first quarter 2015 and full year.

Income from continuing operations per diluted share increased 36% from the year-ago period and 8% sequentially to a record $1.24 per share in the fourth quarter 2014.

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

Broadcast Solutions generated revenues of $253.2 million dollars during the fourth quarter. Compared to the year ago period, revenues increased $81.4 million, or 47.4%, from $171.8 million. After adjusting for changes in copper and currency, organic revenues increased 13.2% year-over-year and 70 basis points sequentially. I am very pleased with the execution of our Broadcast team, delivering full year organic growth of 7.3% in 2014, exceeding the range set forth in our corporate goal.

Operating profit margins within the Broadcast segment increased 130 basis points year-over-year to 15.5%, primarily due to leverage on volume. Sequentially, operating profit margins increased 200 basis points. In addition to experiencing favorable product mix with an impact of 70 basis points, we benefitted from cost synergies achieved as a result of the successful integration of Grass Valley and Miranda with an impact of 100 basis points..

Our Enterprise Connectivity Segment generated revenues of $110.8 million dollars during the fourth quarter, decreasing $9.4 million year-over-year and $4.5 million sequentially. After adjusting for changes in copper and currency, revenues decreased 4.8% year-over-year and 2.2% sequentially. The year-over-year performance is largely a function of the portfolio actions taken earlier this year and is partially offset by lower than expected depletion of inventory levels by our channel partners.

Operating profit margins increased 50 basis points year-over-year, a direct result of productivity improvements and the enriched portfolio. Sequentially, operating profit margins declined 250 basis points due to leverage on seasonally lower volume as well as higher than anticipated rebates that were attained by specific channel partners for their full-year partnership. Overall, the full year 2014 performance reflects operating profit margin expansion of 140 basis points and operating profit growth of $2.6 million dollars.

Our Industrial Connectivity Segment generated revenues of $173.7 million dollars during the fourth quarter. Revenues increased $8.7 million from $165.0 million in the fourth quarter 2013.

After adjusting for changes in copper and currency, revenues increased 8.3% year-over-year and 2.9% sequentially. We attribute the growth to improved commercial execution and slightly higher channel inventory levels to support next year's growth expectations.

Operating profit margins of 13.4% increased 40 basis points year-over-year, largely a result of leverage on volume offset slightly by unfavorable product mix. Sequentially, operating profit margins decreased 20 basis points, a result of winning some larger projects that initially come at lower margins, but allow for future MRO business at more attractive margins.

The Industrial IT segment generated revenues of $76.0 million dollars during the fourth quarter. Revenues increased $17.1 million year-over-year and $5.9 million sequentially. After adjusting for changes in currency, revenues increased organically by 11.0% compared to the year-ago period and 12.6% sequentially. Industrial IT experienced revenue growth of 9.5% for the full year 2014, a solid performance.

Operating profit margins of 20.1% increased 60 basis points year-over-year and 150 basis points sequentially, both a result of leverage on volume.

In summary, I am pleased with our fourth quarter and full year 2014 performance, with revenue growth of 19.0% and 11.3%, respectively, both above the high end of our new corporate goal. EBITDA margins are already at 15.5% for the full year 2014, and I look forward to achieving our goal of 18 to 20% over the next three years.

If you will please turn to slide eight, I will begin with our balance sheet highlights.

Our cash and cash equivalents balance at the end of the fourth quarter was largely a function of the significant free cash flow and liquidity from additional debt this year, both dollar and euro-denominated. We took advantage of attractive interest and exchange rates and ended the year with approximately $740 million dollars of cash, of which greater than 80% was held here in the United States and available for immediate deployment in support of our strategic plan.

Inventory turnover was 6.9 turns, an improvement of 0.5 turns year-over-year.

Days sales outstanding was 59 days in the fourth quarter, an increase of three days year-over-year and a decrease of three days sequentially.

Working capital turnover was 12.0 turns, an improvement of 2.9 turns year-over-year and 4.0 turns sequentially. The improvement was in part a function of the timing of payables due to the investments in productivity and capital expenditures made toward the end of the year.

PP&E turnover was 7.7 turns, an improvement of 0.9 turns year-over-year. We continue to enjoy significant improvement in fixed asset efficiency, highlighting the success of our LEAN enterprise system and a less asset intensive portfolio.

Our debt balance increased $401 million dollars year-over-year due to the additional senior subordinated notes issued in June and November mentioned earlier. This provides for a well-designed operational and capital structure and positions the company to partially mitigate the effects of foreign currency fluctuations.

As expected, net leverage was 2.7 times net debt to EBITDA at the end of the fourth quarter. The balance sheet metrics displayed on Slide 8 do not reflect the recent acquisition of Tripwire which occurred in early January. We anticipate net leverage to be approximately 4.0 at the end of the first quarter but with a goal to decrease this to a level of approximately 3.0 by the end of the year.

Please turn to slide nine for a few cash flow highlights.

Cash flows provided by operating activities for the fourth quarter were $145.2 million dollars compared to $113.8 million in the year ago period. Net capital expenditures for the quarter were $14.3 million, increasing $5.5 million compared to last year, primarily due to the capital investments made to produce Grass Valley products in our current facilities.

Free cash flow was $130.9 million in the fourth quarter 2014. On a year-to-date basis, free cash flow exceeded net income for the 10th consecutive year. We returned greater than 50% of that free cash flow to our shareholders as we repurchased 1.3 million shares for $92 million dollars at an average price of $73.06. On a combined program-to-date basis, we repurchased 6.7 million shares, or 14% of the company, at an average price of $46.54.

In addition, we deployed approximately $348 million dollars and committed another $710 million to acquisitions during the year. I am pleased with our ability to continually identify attractive capital deployment opportunities.

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

**John Stroup** Belden, Inc. – President, CEO

Thank you, Henk.

Please turn to slide ten for our outlook regarding the first quarter and full year 2015 results.

Since we provided you with full-year guidance in December, the macro environment has changed slightly and includes a stronger US dollar and lower commodity costs. These changes will impact our full-year revenues and to a lesser extent, our earnings, relative to the expectations shared with you a short time ago. We've included a bridge that will walk you from our previous guidance to the newly revised range.

We expect first quarter 2015 revenues to be between $565 and $585 million, and adjusted income from continuing operations per diluted share is expected to be between $0.94 and $1.04.

For the full year, we now expect revenues between $2.475 and $2.525 billion. The expected range of adjusted income from continuing operations per diluted share is now $5.28 to $5.58 which represents earnings growth between 25% and 32%.

On slide 11, you'll see a bridge that we've prepared for you. Our guidance now incorporates the Euro spot rate at $1.13 and a copper price of $2.45 per pound. It also now includes the contribution of a small, yet attractive, acquisition within the Industrial Connectivity platform that closed late in the 4th quarter. The contribution from this acquisition was not included in any previous guidance.

That concludes our prepared remarks, Operator please open the call to questions.