3rd Quarter 2015 Earnings Conference Call Transcript



October 28, 2015

Overview*:

BDC reported 3Q15 consolidated revenues of $590.1M, income from continuing operations of $48.9M and diluted EPS from continuing operations of $1.14. Belden expects FY15 revenue to be $2.353 - $2.373B and adjusted diluted EPS from continuing operations to be $4.80 – $4.90. Belden expects 4Q15 revenue to be $595 - $615M and adjusted diluted EPS from continuing operations to be $1.45 - $1.55.

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

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. SENDING ALL THE RIGHT SIGNALS

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 third quarter, 2015 earnings conference call.

My name is Matt Tractenberg, I'm Belden's VP of Investor Relations. With me 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 Q&A.

Before we begin, I'd like to let our audience know that Belden's 2015 Financial Analyst and Investor event will be held on December 7th, and will once again be virtual. This live webcast will provide a review of the year, a discussion of the strategy and business drivers, and present 2016 guidance, followed by Q&A. You can find more details on our IR website in the coming weeks.

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, presentation, and transcript of these prepared remarks are currently available online at investor.belden.com.

Turning to slide 2 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 CEO, John Stroup. John?

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.

Given a challenging demand environment, I'm pleased with our performance during the quarter. Expected weakness within our Industrial platforms was offset by solid demand for our Enterprise, Broadband Connectivity, and Network Security solutions.

Revenue in the third quarter was $590.1 million, an increase of 2.2% on a constant currency basis. After adjusting for copper, currency, and acquisitions, revenue declined 3.1% from the year-ago period.

Gross profit margins were 40.8% for the quarter, an increase of 320 basis points from the year-ago period. EBITDA margins were 16.5%, an increase of 80 basis points from the year-ago period. Our ability to expand margins, regardless of the economic environment, continues to be a strength.

We also repurchased almost 698,000 shares of Belden common stock for 39 million dollars.

Free-cash flow was a robust $75.1 million, an increase of 20.2 million or 37% from the year ago period.

And finally, we are increasing the expected range of full year adjusted income from continuing operations per diluted share to $4.80 to $4.90.

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

Broadcast revenue in the quarter was $228.1 million as compared to $256.6 million in the year ago period. Sequentially, revenues increased organically by 4.7% from $219.4 million in the 2nd quarter, which is slightly better than typical seasonality.

As discussed last quarter, Broadcast customers continue to be impacted by a strong U.S. dollar and weak oil prices. This is evidenced by the decline in International revenues of 23%, versus strong growth in the U.S. of 7.9% from the prior year period. Furthermore, demand for our broadband connectivity products was robust, with organic revenue growth of 8.3% in the quarter.

Within Grass Valley, revenues increased by 5.8% sequentially. In addition, the book-to-bill ratio was above 1, leading to a product backlog position that is 37% larger than one year ago.

EBITDA margins for the platform were 15.3%, increasing 30 basis points year-over-year, and we are on target to achieve our productivity initiatives announced last quarter.

Moving on to the Enterprise platform, where revenues grew organically by 8.8% year over year. The business is benefitting from the U.S non-residential recovery and consistent execution. Congratulations to the team on another strong performance. EBITDA margins were 16%, an increase of 60 basis points from the year-ago period.

Revenues within our Industrial platforms, on a combined basis, declined by 5.4% organically during the period. As mentioned last quarter, the strengthening U.S. dollar and sustained low oil prices are negatively impacting the demand environment. We anticipate these issues to persist for the remainder of the year and into next.

Project revenues from customers within oil & gas markets declined by approximately 30% from the prior year period. MRO revenues, which represent approximately 20% of sales for the combined platforms, were unchanged from the year-ago period. Sales to machine builders declined slightly from the 3rd quarter 2014.

On a combined basis, EBITDA margins of 16.3% declined slightly from last year. We are aggressively evaluating opportunities to drive productivity in these businesses, given our view that demand will be weak at least through next year.

And finally, the Network Security platform had a solid quarter with revenues of $41.4 million, an organic increase of 12.4% from the year-ago period and EBITDA margins of 27.2%. I'm particularly pleased with growth within the utility sector, where revenues are expected to nearly double this year. We're very excited about the opportunity within both industrial and broadcast applications as we enter 2016.

I will now ask Henk to provide additional insight into our second 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 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 revie**w.** Third quarter revenues were $590.1 million dollars, a decrease of $23.0 million or 3.8% from $613.1 million in the third quarter 2014. Currency translation had the effect of decreasing revenue by approximately $37 million in the third quarter of 2015 compared to the year-ago period. When adjusting for this, revenues

increased 2.2% year-over year. Acquisitions contributed $45.8 million in the quarter. On an organic basis, revenues declined 3.1% from the year-ago period.

Sequentially, revenues decreased $8.4 million dollars, $6 million of which was a result of lower copper prices, with the remainder driven by currency translation. On an organic basis, revenues were up slightly, in line with typical seasonality.

Gross profit margins for the period were 40.8%, increasing 320 basis points from the year-ago period, due to successful execution of our M&A strategy. Sequentially, gross profit margins decreased 90 basis points due to the timing of input costs.

Third quarter SG&A expenses were $118.8 million dollars, or 20% of revenue. After adjusting for the impacts of currency and acquisitions, SG&A expenses declined by $5 million year-over-year and $6 million sequentially, a result of successful implementation of productivity initiatives.

R&D expenses for the quarter were $36.5 million dollars, or 6% of revenue. We continue to appropriately invest in the development of innovative solutions within all our platforms.

EBITDA margins were 16.5%, up 80 basis points year-over-year and a result of the accretive acquisitions closed in the last 12 months. Sequentially, EBITDA margins declined slightly.

Net interest expense for the quarter was $25.4 million dollars, an increase of $3.9 million year-over-year, a result of the additional senior subordinated notes issued in November of 2014. Given current exchange rates, we expect interest expense of approximately $27.0 million dollars in the fourth quarter.

The adjusted effective tax rate for the third quarter was 18.9% compared to 21.3% in the prior year. For financial modeling purposes, we recommend using a 17% effective tax rate for the fourth quarter, resulting in an 18% tax rate for the full year 2015. We will provide you with a suggested 2016 tax rate during our Investor Day webcast on December 7th.

Income from continuing operations per diluted share was $1.14 compared to $1.15 in the year-ago period.

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

Broadcast Solutions generated revenues of $228.1 million dollars during the third quarter. Compared to the year-ago period, revenues decreased $28.5 million, $10.5 million of which is attributed to currency translation. On a year-over-year basis, organic revenues declined 6.3%. Sequentially, revenues increased $8.7 million, or 4.7% on an organic basis.

In the face of these market headwinds, I am pleased with our ability to improve EBITDA margins within the Broadcast segment by 30 basis points year-over-year and 90 basis points

sequentially. Our $30 million dollar investment in cost savings at Grass Valley is progressing as planned, and will result in annualized cost savings of $30 million.

Our Enterprise Connectivity Segment generated revenues of $113.8 million dollars during the third quarter, a decrease of $1.5 million year-over-year from $115.3 million. This platform faced a $7 million headwind resulting from currency translation and a $5 million unfavorable impact from lower copper prices. On an organic basis, growth in the quarter was 8.8% year-over-year, a result of solid demand for our products and strong execution by the team.

The Enterprise segment generated EBITDA margins of 16.0%, in line with expectations. EBITDA margins increased 60 basis points from the year ago period and decreased 200 basis points sequentially. As mentioned on our previous earnings call, 2nd quarter margins benefited from the timing of input costs. This platform is on-track to achieve 16% EBITDA margins for the full year, in-line with expectations shared with you last December.

Revenues within our industrial platforms declined 5.4% organically from the year-ago period while holding EBITDA margins relatively flat on a combined basis. The impact of lower copper prices and currency translation was approximately $26 million year-over-year.

The Industrial Connectivity Segment generated revenues of $147.7 million dollars. Organic revenues declined 5.3% year-over-year, largely due to sustained low oil prices.

EBITDA margins of 15.7% increased 20 basis points year-over-year, reflecting our ability to manage costs in a soft environment. Margins declined 210 basis points sequentially attributable to the timing of input costs. We expect EBITDA margins to return back to a level of approximately 17% in the fourth quarter.

The Industrial IT segment generated revenues of $59.2 million dollars. Revenues declined $10.9 million year-over-year mainly due to currency headwinds. On an organic basis, revenues declined 5.4%.

EBITDA margins of 17.7% declined 170 basis points year-over-year, a result of lower volume. Sequentially, EBITDA margins increased 110 basis points, driven by an improved cost structure.

Finally, our Network Security platform continues to perform well, generating revenues of $41.4 million dollars, up 12.4% on an organic basis year-over-year.

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

Our cash and cash equivalents balance at the end of the third quarter was $242 million dollars compared to $208 million in the prior quarter, and $449 million in the prior year.

Inventory turnover was 6.7 turns, up 0.7 turns sequentially, and down 0.3 turns on a year-over-year basis.

Days sales outstanding was 63 days in the third quarter, a decrease of 1 day sequentially and increase of 1 day year-over-year.

PP&E turnover was 7.4 turns, an improvement of 0.1 turn sequentially and down 0.2 turns year-over-year.

Net leverage was 4.0 times net debt to EBITDA at the end of the quarter. I'd like to remind you that our balance sheet remains in excellent shape. Our debt is fixed at an attractive rate, maturing between 7 and 10 years from now and brings with it few, if any, restrictive covenants.

We anticipate net-leverage of 3.6 times by year-end, with continued improvement in 2016.

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

Cash flows from operations were a robust $86.9 million dollars compared to $63.2 million in the prior year period. Net capital expenditures for the quarter were $11.8 million, increasing $3.5 million compared to last year.

Free cash flow continues to be strong at $75.1 million in the quarter, an increase of 37% from the year-ago period. We continue to expect Free Cash Flow for fiscal 2015 to be approximately $180 million dollars, including the $30 million investment at Grass Valley.

For the quarter, we purchased approximately 698 thousand shares of Belden common stock for $39 million dollars. On a combined program-to-date basis, we have repurchased a total of 7.4 million shares, or greater than 15% of the company, at an average price of $47.43 per share.

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 nine for our outlook regarding the fourth quarter and full year 2015 results.

Despite a challenging environment, our business is benefitting from a number of favorable secular trends that we expect will continue the remainder of this year and next. Moreover, our ability to capture share and drive productivity provides us with the confidence to guide full-year earnings growth in the range of 13% to 16%.

We expect fourth quarter 2015 revenues to be between $595 and $615 million, and adjusted income from continuing operations per diluted share is expected to be between $1.45 and $1.55.

For the full year, we now expect revenues between $2.353 and $2.373 billion. The expected range of adjusted income from continuing operations per diluted share is now at $4.80 to $4.90.

Please join us online on December 7th for our 2015 Investor and Financial Analyst event, during which we'll provide you with a review of the year, and 2016 guidance. Details can be found on our IR homepage.

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