4th Quarter 2015 Earnings Conference Call Transcript



February 9, 2016

Overview*:

BDC reported 4Q15 consolidated revenues of $602.5M, income from continuing operations of $69.29M and EPS from of $1.63. Belden expects FY16 revenue to be $2.295 - $2.345B and EPS to be $5.10 – $5.40. Belden expects 1Q16 revenue to be $530 - $550M and EPS to be $0.90 - $1.00.

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

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 and full year, 2015 earnings conference call.

My name is Matt Tractenberg, I'm Belden's Vice President 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.

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.

Turn 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 3 in our presentation for a review of our fourth quarter highlights.

We are thrilled to report record results for the quarter and the full year. Despite a host of challenging macroeconomic factors, our attractive portfolio, robust business system, and dedicated global team was up to the challenge. This level of earnings growth and margin expansion, in this macroeconomic environment, is obviously quite special. I'm extremely pleased with our record fourth quarter performance including gross profit margins, EBITDA margins, and EPS. Free-cash flow was exceptional in the quarter, totaling almost $130 million. This allowed us to pay down $150 million of debt, bringing our net leverage to 3.6 times EBITDA at the end of the year, an improvement of 0.3 turns since the third quarter. Debt reduction will remain a priority this year, as we strive to achieve our goal of approximately 3.0 times EBITDA in 2016. I'd like to thank our associates for their hard work during the quarter and their commitment to aggressively executing our strategic plan.

Overall, the business performed well, with strong results from our Broadband Connectivity, Enterprise, and Network Security businesses. Revenues for the fourth quarter were $602.5 million. On a constant currency basis, revenues grew by 2.9%. A stronger U.S. dollar and lower copper prices had an approximate $41.5 million unfavorable impact on revenues. Our Enterprise and Network Security platforms delivered robust organic growth of 7.8% and 13.1%, respectively. In-line with both expectations and peer results, the softer macro environment impacted both of our industrial platforms, declining 10.3% organically on a combined basis. All of these results are on a year-over year basis.

Gross profit margins were 43.1% for the fourth quarter, an increase of 570 basis points from the year-ago period, and a company record. This improvement was a result of productivity initiatives and successful acquisition integration.

I'm especially pleased with our EBITDA margins in the fourth quarter, a record 19.0%, a year-over-year increase of 270 basis points. As a result, we delivered a company record $114.6 million of EBITDA dollars during the quarter, an increase of 14.9% from the prior-year period. This resulted in record earnings per diluted share of $1.63 in the fourth quarter, an increase of 31.5% from the year-ago period.

Please turn to slide 4 for a brief discussion of our full-year 2015 results.

It was a year of external challenges and internal successes. A rapidly strengthening US dollar, drastically falling energy prices, and emerging market volatility, required us to take swift action to protect margins. I believe we identified the right issues quickly, and took appropriate measures. But we also celebrate our successes, and market share capture during the year was exceptional. With all platforms contributing, it's clear that our market delivery system, investments in product innovation, and customer satisfaction programs are working.

Revenues for the year were a record $2.36 billion. A stronger U.S. dollar and lower copper prices had an approximate $173 million unfavorable impact on revenues during the year. On a constant currency basis, revenues grew by 7.4% from the full-year 2014.

Record gross profit margins were 41.6% for the year, an increase of 460 basis points from 2014, and continue to be best in class.

As we've done consistently for years, share capture, effective acquisition integration and productivity initiatives allowed us to drive EBITDA margins to their highest level in company history, 17% of revenues for the full year, an increase of 150 basis points from 2014. We remain focused on attaining the goal of EBITDA margins within 18-20% for a full-year period.

EPS was $4.98, also a company record, and an increase of 17.7% from the prior year.
Please turn to slide 5 for a review of our business segment results.

Broadcast revenue in the quarter was $239.5 million dollars as compared to $253.2 million in the year ago period. A stronger U.S. dollar and lower copper prices had an approximate $10.2 million unfavorable impact on revenues relative to last year. Demand varied by geography, with revenues in the U.S. up 7.4%. Revenues in EMEA declined 17% in the period, due in part to the strong U.S. dollar and low oil prices. EBITDA margins were 19.5%, increasing 200 basis points year over year, and benefitting from the weaker Canadian dollar. While demand outside the United States is challenging, the team looks forward to growth in 2016. In addition to the summer Olympics and U.S. Presidential election, we are excited by the progress made with our comprehensive I.P. solution. During the quarter, we booked seven new I.P. projects, and shipped four of them. Also, we enter 2016 with almost $15 million more backlog than one year ago.

Revenue within our Enterprise platform was $109.4 million. Changes in currency and copper prices had an approximate $10 million unfavorable impact on revenues relative to last year. On an organic basis, revenues increased by 7.8% year over year. EBITDA margins were 16.7% during the quarter, an increase of 360 basis points from the prior year period. Congratulations to the team on an outstanding year in both revenue growth and margin expansion!

Our Industrial platforms experienced the same market softness that many of our peers, customers and partners have recently reported. Changes in currency and copper prices had an unfavorable impact to combined revenues of $21.2 million relative to last year. Revenues declined organically by 10.3%, a result of reduced demand from our Oil and Gas customers, and U.S. machine builders impacted by the strong U.S. dollar.

Industrial Connectivity had revenue for the quarter of $141.8 million, down 10.5% organically from the year-ago period. Growth in Asia of 6.4% was driven by demand from discrete manufacturers. This was offset by weakness in the US and Canada, down 14.8% year over year, a result of the previously mentioned items. EBITDA margins were 16.8% for the fourth quarter,

up 160 basis points. I'm pleased with the platforms ability to expand profit margins in this challenging environment, a function of improved mix and lower input costs.

Industrial IT had revenue of $62.8 million, a decrease of 10% organically from the fourth quarter of 2014. This was somewhat offset by exceptional growth of 18% from our European customers, who are benefitting from the weaker Euro. The team also capitalized on some great opportunities in China during the quarter, winning 6 transportation projects worth several million dollars combined. As a result of this lower volume, EBITDA margins decreased 250 basis points from the year-ago period.

The productivity initiatives introduced last quarter for the Industrial platforms include manufacturing consolidation. Those programs are on track to deliver $6 million of saving in 2016, and $17 million in 2017.

And finally, our Network Security platform increased revenues by 13.1% organically to $48.9 million. Bookings during the quarter increased 19.2%, a solid finish to their first year with Belden. During the quarter, notable performance was seen in Asia and EMEA, with orders from new customers, doubling from the prior year. It was also another record quarter for large projects at Tripwire, highlighting the value they bring to large, global customers. EBITDA margins in the quarter were 30%. For the full year 2015, Tripwire slightly exceeded the targets we set for ourselves upon announcement, and added more than 250 new customers. I look forward to another successful year in 2016.

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 6 for a detailed consolidated review. Fourth quarter consolidated revenues were $602.5 million dollars. Compared to the fourth quarter 2014, revenues declined 1.8% from $613.7 million. Currency translation unfavorably impacted revenue by approximately $29 million compared to the year-ago period. After adjusting for this, revenues increased in the fourth quarter by 2.9% year-over-year. Copper had an unfavorable impact of $12.6 million and acquisitions contributed $50.8 million. On an organic basis, revenues declined 3.3% from the year-ago period.

Sequentially, revenues increased $12.4 million dollars from $590.1 million. On an organic basis revenues increased 3.4%, in line with typical seasonality.

Gross profit margins were a record 43.1%, increasing 570 basis points from the year-ago period. Inorganic activities contributed 390 basis points, with productivity driving the remainder. Sequentially, gross profit margins increased 230 basis points. This was a function of productivity and a richer mix from seasonality.

Operating expenses for the quarter were $156.7 million, or 26.0% of revenue. After adjusting for the impacts of currency and acquisitions, operating expenses declined $5.8 million year-over-year, attributable to productivity improvement programs. On a constant currency basis, operating expenses increased $2.5 million sequentially, this was driven by investments in new product development.

EBITDA margins for the quarter were a record 19.0%, up 270 basis points year-over-year, and 250 basis points sequentially.

Net interest expense for the quarter was $26.6 million dollars, an increase of $3.3 million from the year-ago period. We expect interest expense to be approximately $25.0 million dollars in the first quarter and $95.0 million dollars for the full year 2016.

The adjusted effective tax rate for the fourth quarter was 9.6%, which compares favorably to our guided 17%, a result of recent changes in U.S tax legislation. For financial modeling purposes, we recommend using a 20% effective tax rate for the first quarter and full year 2016. EPS increased 31.5% from the year-ago period and 43% sequentially to a record $1.63 per share in the fourth quarter 2015. For the full year 2015, EPS increased 17.7% to $4.98, a company record.

Please turn to slide 7. I will now discuss revenues and operating results by business segment. Broadcast Solutions generated revenues of $239.5 million dollars during the fourth quarter. Compared to the year ago period, revenues decreased $13.7 million from $253.2 million. After adjusting for changes in copper and currency, organic revenues decreased 1.4% year-over-year. Sequentially, revenues increased $11.4 million, in line with typical seasonality.

EBITDA margins of 19.5% reflect an increase of 200 basis points year-over-year, a function of effective execution on cost improvement programs announced earlier in the year. Sequentially, EBITDA margins increased 420 basis points, a result of continued productivity improvements and a favorable mix.

Our Enterprise Connectivity platform generated revenues of $109.4 million dollars during the fourth quarter, decreasing $1.4 million year-over-year from $110.8 million. This platform faced a $5.8 million headwind from currency translation and a $4.2 million unfavorable impact from lower copper prices. On an organic basis, growth in the quarter was 7.8% year-over-year, a result of solid demand for our products and strong execution by the team. Sequentially, revenues decreased $4.4 million, a decrease of 2.1% organically, better than typical seasonality.

EBITDA margins increased 360 basis points year-over-year and 70 basis points sequentially. For the full year 2015, EBITDA margins were 16.1%, expanding 160 basis points on a year-over-year basis, an outstanding performance.

The Industrial Connectivity platform generated revenues of $141.8 million dollars. This platform revenues were negatively impacted by $9.0 million from currency translation and $6.6 million from copper compared to the fourth quarter of 2014. Organic revenues declined 10.5% year-over-year and 2% sequentially. However, I am encouraged by the strong book-to-bill ratio of 1.06 for the quarter.

EBITDA margins of 16.8% increased 160 basis points year-over-year, due primarily to mix and lower input costs. Sequentially margins improved 110 basis points, a function of productivity improvements in the quarter.

The Industrial IT platform generated revenues of $62.8 million dollars, declining $13.2 million from the year-ago period. Currency negatively impacted revenues by $5.7 million compared to the year-ago period. On an organic basis, revenues declined 10.0% from the fourth quarter 2014. Sequentially revenues increased $3.6 million, an increase of 7.1% organically.

EBITDA margins of 18.4% declined 250 basis points year-over-year. Sequentially they improved 70 basis points, a result of leverage on volume.

Finally, our Network Security platform continues to perform well, generating revenues of $48.9 million dollars in the fourth quarter, up $7.5 million sequentially. EBITDA margins for the quarter were 30%, increasing 280 basis points sequentially.

If you will please turn to Slide 8, I will begin with our balance sheet highlights.

Our cash and cash equivalents balance at the end of the fourth quarter was $217 million dollars compared to $242 million in the prior quarter, and $741 million dollars in the prior year as we prepared to acquire Tripwire. During the fourth quarter we paid down $150 million of our outstanding debt, reducing our balance from $1.91 billion in the third quarter to $1.75 billion at the end of the fourth quarter.

Inventory turnover was 7.1 turns, an improvement of 0.2 turns year-over-year and 0.4 turns sequentially.

Days sales outstanding was 62 days in the fourth quarter, an increase of three days year-over-year and a decrease of one day sequentially.

PP&E turnover was 7.7 turns, an improvement of 0.3 turns sequentially and remained flat year-over-year.

As expected, net leverage was 3.6 times net debt to EBITDA at the end of the quarter. We continue to focus on achieving our target net leverage of approximately 3.0 times by the end of this year.

Please turn to Slide 9 for a few cash flow highlights.

Cash flows provided by operating activities for the fourth quarter were $144.4 million dollars. Net capital expenditures for the quarter were $15.5 million.

Free cash flow was $129.0 million in the fourth quarter 2015. As expected, free cash flow for the full year 2015 was $182 million dollars, or 85% of net income. This was a result of cash allocated to productivity programs in the year. Achieving free cash flow above net income remains a priority in 2016.

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 10 for our outlook regarding the first quarter and full year 2016 results.

While the world seems to be coming to grips with the reality of an industrial recession, Belden's portfolio and operating structure has the ability to perform well in a variety of business climates.

We anticipate first quarter 2016 revenues to be between $530 and $550 million, and adjusted income from continuing operations per diluted share is expected to be between $0.90 and $1.00.

For the full year, we continue to expect revenues between $2.295 and $2.345 billion. The expected range of adjusted income from continuing operations per diluted share is still $5.10 to $5.40.

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