
BELDEN
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Earnings Transcript
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CORPORATE PARTICIPANTS

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PRESENTATION

Jeremy Parks, Belden Inc. – CFO

Thank you, operator. Good morning, everyone, and thank you for joining us today for Belden's second quarter 2022 earnings conference call.

This is Jeremy Parks, Belden's Chief Financial Officer. With me this morning is Belden's President and CEO Roel Vestjens. Roel will provide a strategic overview of our business, and then I 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.

Turning to slide 2 in the presentation. During this call management will make certain forward-looking statements. For more information, please review today's press release and our most recent 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, the appendix to our presentation and the investor relations section of our website contain a reconciliation of the most closely associated GAAP financial information to the non-GAAP financial information we communicate.

I will now turn the call over to our President and CEO Roel Vestjens. Roel?

Roel Vestjens, Belden Inc. – President & CEO

Thank you, Jeremy, and good morning, everyone. As a reminder, I'll be referring to adjusted results today. Please turn to Slide 3 for a summary of today's presentation.

Before we begin the discussion of our second quarter results, I would like to revisit some of the key themes from the Investor Day event that we hosted at the New York Stock Exchange on June 15th.

As we highlighted during Investor Day, Belden is a transformed company. Our portfolio of businesses and our financial performance are significantly improved. We delivered mid-single digit revenue growth and double-digit EBITDA and EPS growth over the last 3 years, a period that included a pandemic-driven recession, extreme inflationary pressures, and lasting supply chain disruptions.

As I discussed, the pandemic and ensuing aftermath accelerated virtually all of the longer-term secular trends in our markets. Labor shortages, inflation, and supply chain bottlenecks are driving the need for more automation and reshoring. Remote work and changing workspaces are driving the need for additional bandwidth and for buildings to become "smarter."

We are executing a number of specific initiatives to ensure that Belden benefits from each of these important secular trends. To that end, we have enhanced our commercial processes and are now providing complete end-to-end solutions, focused on customer business outcomes, rather than individual products. We have dramatically revitalized our product portfolio with new integrated hardware and software solutions. And our recent acquisitions have provided innovative new capabilities to further augment our product roadmap. We did all of this to better serve our customers and fulfill a much broader corporate purpose, to build the foundation for a digital world.

We expect this to result in robust and sustainable organic growth and margin expansion, driving EPS to $8.00 or more by 2025. As we execute our plans, we would expect this to translate into very compelling returns for our shareholders.

Turning to the financial results, I am very pleased we delivered another strong quarter, our 9th straight quarter exceeding expectations.

Our capital allocation strategy continues to be balanced and to drive shareholder value. Accordingly, we executed another $50 million in share repurchases through July, bringing the year-to-date total to $100 million.

After a strong first half of 2022, we are increasing our guidance for the year. The revised revenue guidance now represents consolidated organic growth of 12% to 13%, compared to our prior expectation of 7% to 9%. Additionally, we increased our EPS guidance by $0.25 at the high end, resulting in full year EPS growth of 24% - 28%.

Now please turn to Slide 4 in our presentation for a review of the second quarter highlights.

We delivered meaningful growth and margin expansion again this quarter.

Second quarter revenues increased 16% year over year to $667 million, exceeding our guidance range of $625 to $640 million. I am pleased with the revenue performance, which was up 18% organically year over year.

Our strong performance was broad based across both the Industrial Automation Solutions and Enterprise Solutions segments. Orders were healthy, and we built backlog again in both segments.

We had another great quarter in industrial. Industrial Automation revenues increased 20% organically in the second quarter. Market conditions remain healthy, and we continue to see compelling longer-term demand drivers for automation solutions as industrial customers respond to labor shortages, capacity requirements, and reshoring of production.

Enterprise Solutions revenues increased 15% year-over-year on an organic basis in the second quarter, driven by strong end markets and share capture.

Within the segment, revenues in Smart Buildings increased 14% organically. I continue to be pleased with the strong execution by our teams, as we benefit from our commercial focus on growth verticals, such as data centers, government, and healthcare facilities.

Revenues in Broadband and 5G increased 16% organically, driven by strong demand for our fiber connectivity products. We see long-term secular trends in this market, driven by the ever-increasing demand for high-speed broadband and the resulting investments required to upgrade networks.

We continue to invest in our business to drive growth and support our strategic plans. One great example is the recent grand opening of our new manufacturing and R&D facility in Kochi, India, which serves as a key hub for global product development in Broadband & 5G. In addition to expanding our fiber manufacturing capacity, the facility also features an R&D testing laboratory for cutting-edge fiber technologies that has been certified to meet the strict quality standards of our key customers. This new facility exemplifies our continued commitment to growth.

EBITDA in the second quarter increased 19% year over year to $111 million. EBITDA margins expanded 50 basis points, from 16.1% in the year-ago period to 16.6%.

EPS increased 31% year over year to $1.60, compared to $1.22 in the year-ago period and our guidance range of $1.35 to $1.45.

Additionally, we ended the quarter well-positioned with net leverage of 1.4 times, now below our target of 1.5 times.

In summary, this was another excellent quarter for Belden, and I am very proud of the achievements of our teams. We continue to transition Belden from a supplier of trusted products to a value-added partner in the design and implementation of networking infrastructure solutions. We are making great progress, which is reflected in our strong financial performance.

I will now ask Jeremy to provide additional insight into our second quarter financial performance. Jeremy?

Jeremy Parks, Belden Inc. - CFO

Thank you, Roel.

Please turn to Slide 5 for a detailed consolidated review.

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

Revenues were $667 million dollars in the quarter, increasing $90 million, or 16%, from $577 million in the second quarter of 2021. Revenues increased 18% year over year on an organic basis.

Incoming order rates remained healthy and were over $700 million for the third quarter in a row. Our book to bill ratio was 1.06 times, including 1.04 in Enterprise and 1.08 in Industrial Automation.

Gross profit margins in the quarter were 34.4%, increasing 60 basis points compared to 33.8% in the year-ago period. We continue to proactively address inflationary pressures through price recovery and productivity measures to support gross profit margins.

EBITDA was $111 million dollars, increasing $18 million, or 19%, compared to $93 million in the prior-year period.

EBITDA margins were 16.6%, increasing 50 basis points compared to 16.1% in the year-ago period, demonstrating solid operating leverage on higher volumes.

Net interest expense declined $4 million from the year-ago period, benefiting from the early debt repayment that we completed in the first quarter as well as favorable foreign exchange rates.

At current foreign exchange rates, we expect interest expense to be approximately $48 million dollars in 2022, compared to $63 million in 2021.

Our effective tax rate was 19.0% in the second quarter. We expect an effective tax rate of approximately 20% for the second half of 2022, resulting in a full year effective tax rate of approximately 19.6%.

Net income in the quarter was $72 million dollars, compared to $55 million in the prior-year period.

Earnings per share was $1.60, increasing 31% compared to $1.22 in the second quarter 2021.

We were very pleased to deliver such robust growth and margin expansion again this quarter.

Turning now to slide 6 in the presentation for a review of our business segment results.

I will begin with our Industrial Automation Solutions segment.

As a reminder, our Industrial solutions allow customers to transmit and secure audio, video, and data in harsh industrial environments. Our key markets include discrete manufacturing, process facilities, energy, and mass transit.

The Industrial Automation Solutions segment generated revenues of $359 million dollars in the quarter, increasing 16% from $309 million in the second quarter of 2021. Segment revenues increased 20% on an organic basis, with double-digit growth in each of our primary market verticals.

Industrial Automation segment EBITDA margins were 19.0% in the quarter, increasing 110 basis points compared to 17.9% in the year-ago period, due to solid operating leverage on volume growth and favorable pricing.

Turning now to our Enterprise segment. Our Enterprise solutions allow customers to transmit and secure audio, video, and data across complex enterprise networks. Our key markets include smart buildings, and broadband and 5G.

The Enterprise Solutions segment generated revenues of $307 million dollars during the quarter, increasing 15% from $268 million in the second quarter of 2021. Segment revenues increased 15% organically, with similar growth in both Smart Buildings and Broadband and 5G.

Revenues in the Smart Buildings market increased 14% year-over-year on an organic basis. Our continued focus on growth verticals, including data centers, healthcare, and government, contributed to the strong revenue performance.

Revenues in Broadband and 5G increased 16% year-over-year on an organic basis due to solid share capture and especially strong demand for our fiber connectivity products. In the quarter, revenues for our fiber products represented approximately 45% of the Broadband & 5G business. For the full year, we expect fiber products to represent approximately 35% of Broadband & 5G, up from approximately 15% only 3 years ago.

Enterprise Solutions segment EBITDA margins were 13.6% in the quarter, compared to 13.5% in the prior year period and 11.5% in the first quarter. As expected, sequential EBITDA margins improved significantly, after facing temporary cost pressures in the first quarter.

If you will please turn to Slide 7 for our balance sheet highlights.

Our cash and cash equivalents balance at the end of the second quarter was $528 million dollars compared to $560 million in the first quarter and $421 million in the second quarter 2021.

Days sales outstanding of 59 days were in line with 58 days in the prior-year period and 57 days in the prior quarter.

Inventory turns were 4.5, compared to 4.1 in the prior quarter and 5.0 in the prior-year period. I am pleased with the sequential improvement in inventory turns, after we strategically increased our inventory levels during the first quarter to support the robust growth expected throughout 2022.

Our financial leverage of 1.4 times net debt to EBITDA is now below our target level of 1.5 times. This compares to 1.6 times in the first quarter and 3.5 times a year ago. As we communicated in our recent Investor Day, we intend to maintain net leverage of approximately 1.5 times going forward.

During the second quarter and through fiscal July, we repurchased approximately 920,000 shares for $50 million for an average price of $54.34. This brings our total year-to-date share repurchases to $100 million. Following these repurchases, we have $115 million remaining on our existing authorization.

Going forward, we intend to maintain a disciplined financial policy. Our capital allocation priorities will be balanced, emphasizing organic growth initiatives while also considering strategic M&A and additional share repurchases.

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

Total cash flow from operations in the second quarter was $49 million dollars, compared to $68 million in the prior-year period.

Net capital expenditures were $19 million for the quarter, up slightly from $16m in the prior-year period.

Free cash flow in the quarter was $31 million dollars, compared to $52 million in the prior-year period.

Free cash flow was impacted by investments in working capital. Accounts receivable increased by $50 million compared to first quarter levels, due to the strong growth in revenues sequentially. We expect working capital levels in the second half of the year to improve, following typical seasonal patterns. As such, for the full year 2022, we continue to expect free cash flow to exceed $200 million.

That concludes my prepared remarks. I would now like to turn the call back to our President and CEO, Roel Vestjens, for the outlook. Roel?

Roel Vestjens, Belden Inc. – President & CEO

Thank you, Jeremy. Please turn to Slide 9 for our outlook.

We are increasing our revenue and EPS guidance for 2022. While the market environment is very dynamic with considerable challenges and uncertainties, we enter the second half of the year with record backlog and stable end markets.

We expect underlying volume in the third and fourth quarters to be essentially in line with the second quarter. However, compared to second quarter revenues, third quarter revenues are expected to be lower by approximately $25 million due to a stronger U.S. dollar and lower copper pass-through pricing, with minimal impact to EPS. Accordingly, we anticipate third quarter 2022 revenues of $625 million to $640 million, and EPS of $1.50 to $1.60.

For the full year, we now expect revenues of $2.52 billion to $2.55 billion, compared to prior guidance of $2.48 billion to $2.53 billion. Our revised guidance now represents consolidated organic growth of 12% to 13%, with solid growth in both segments, compared to our prior expectation of 7% to 9%.

We expect full year 2022 EPS to be $5.90 to $6.10, compared to prior guidance of $5.55 to $5.85. For the full year 2022, our new guidance represents EPS growth of 24% to 28%.

Please turn to slide 10.

Before we conclude, I would like to reiterate our value creation framework.

The commitment is to drive EPS to $8.00 or more by 2025. The $8.00 of EPS is built on a financial framework consisting of: revenue growth greater than GDP over the cycle; healthy incremental EBITDA margins; significant free cash flow generation; and a disciplined capital allocation strategy targeting net leverage at 1.5 times.

In summary, we delivered another exceptional quarter. Our strategic growth initiatives continue to gain traction, and I am encouraged by the execution of our teams across the Company.

Belden is well positioned to benefit from the favorable secular trends in industrial automation, broadband & 5G, and smart buildings. I am confident that our teams will continue to deliver robust organic growth and margin expansion, driving significant value for our shareholders.

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