120 ANNIVERSARY

BELDEN

Let's build the future.



Q3 2022
EARNINGS RELEASE

Conference Call | November 2, 2022

CORPORATE PARTICIPANTS

Roel Vestjens Belden Inc. – President & CEO
Jeremy Parks Belden Inc. – CFO

PRESENTATION

Jeremy Parks, Belden Inc. – CFO

Thank you, operator. Good morning, everyone, and thank you for joining us today for Belden's third 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.

We delivered another outstanding quarter, with total revenues and EPS that exceeded the high end of our guidance ranges for the 10th straight quarter. Further, we delivered a company record $1.77 of EPS. I would like to thank our global teams for their strong execution in navigating a complex and challenging environment while supporting the needs of our customers.

Revenues in the quarter increased 15% organically, and the increase was broad-based across our businesses, demonstrating the continued strength of the secular trends behind our portfolio. We continue to transition from a supplier of trusted products to a value-added partner in the design and implementation of network infrastructure solutions. We are very excited about our progress, which is reflected in our strong financial performance.

Our capital allocation strategy continues to be balanced and to drive shareholder value. Accordingly, we have executed on $150 million in share repurchases year-to-date through October. And, as we increased EBITDA and generated $110 million of free cash flow, net leverage declined to 1.1 times at the end of the third quarter. We are comfortable with net leverage at this level, which is below our target of 1.5 times.

After another strong quarter, we are increasing our guidance for the year. The revised revenue guidance now represents consolidated organic growth of 15% to 16%, compared to our prior expectation of 12% to 13%. Additionally, we increased our EPS guidance by $0.27 at the high end, resulting in full year EPS growth of 32% - 34%.

Now please turn to Slide 4, and I will provide highlights of some recent strategic wins.

I am pleased with the progress our teams have made on our strategic initiatives, including investments in new product innovation and our solution selling capabilities, in order to capitalize on the secular tailwinds in our markets. I would like to highlight two recent examples of customer wins within Industrial Automation that demonstrate our progress in these areas. First, we received the initial Belden Horizon order. Belden Horizon is a cloud-hosted software platform that meets the fast-growing customer need for a simple, secure, and reliable way to connect operations systems at the Edge while maintaining security and communication with the cloud. Our customer recognized the benefits of using Horizon to provide remote support for their operations, allowing them to reduce project delivery time without compromising on security. We are excited about the many opportunities in our pipeline that include this important new Edge connectivity product as part of a complete network solution.

Second, we received a large order in the quarter for our next generation industrial gateways and related hardware from a large U.S. based semiconductor manufacturer. The customer is increasing capacity, and our solutions will be used in a brand-new facility for computer chips being built in the U.S. Our solutions will enable seamless communications between disparate machines on the factory floor and from the machines to the cloud. These examples give us confidence in the strength of the secular trends in Industrial Automation and our strategic investments.

Now please turn to Slide 5 in our presentation for a review of the third quarter highlights.

We delivered meaningful growth and margin expansion again this quarter.

Third quarter revenues increased 11% year over year and 15% organically to $670 million, exceeding our guidance range of $625 to $640 million. And, our revenue performance was strong in both the Industrial Automation Solutions and Enterprise Solutions segments.

We had another impressive quarter in Industrial Automation. Industrial Automation revenues increased 16% organically in the third quarter. 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 14% year-over-year on an organic basis in the third quarter, driven by continued strength in broadband markets and solid execution in meeting customer delivery requirements.

Within the segment, revenues in Broadband and 5G increased 23% organically. In addition to the strong end demand environment, revenues in the quarter benefited from our operational execution to meet accelerated customer delivery timelines for key products.

We continue to see strong demand from network operators for our fiber connectivity products. Some of those customers have begun to receive the early phases of RDOF funding, and they are now delivering on projects to provide fiber connections to under-served regions. We offer easy-to-use fiber solutions, such as our Mini-Flex product family, which allow customers to install fiber connections quickly and reliably, another example of our product innovation yielding results.

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.

Revenues in Smart Buildings increased 6% organically. I continue to be pleased with our commercial focus on growth verticals, such as data centers, government, and healthcare facilities, which are up over 15% organically on a year-to-date basis.

EBITDA in the second quarter increased 17% year over year to $118 million. EBITDA margins expanded 90 basis points, from 16.7% in the year-ago period to 17.6%.

EPS increased 33% year over year to a record $1.77, compared to $1.33 in the year-ago period and our guidance range of $1.50 to $1.60.

Additionally, we ended the quarter well-positioned with net leverage of 1.1 times, remaining below our target of 1.5 times. This level of net leverage provides us with significant flexibility to execute our strategic plans, while pursuing M&A and returning capital to shareholders.

In summary, this was another excellent quarter for Belden, and I am very proud of the achievements of our teams. I will now ask Jeremy to provide additional insight into our third quarter financial performance. Jeremy?

Jeremy Parks, Belden Inc. – CFO

Thank you, Roel. Please turn to Slide 6 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 $670 million dollars in the quarter, increasing $65 million, or 11%, from $605 million in the third quarter of 2021. Revenues increased 15% year over year on an organic basis.

As expected, we began to modestly work down our record backlog during the quarter, a result of solid execution to meet customer delivery requirements, particularly in Broadband & 5G. Accordingly, our book to bill ratio this quarter was 0.95 times. On a year-to-date basis, our book to bill ratio remains very healthy, at 1.09. While we expect to continue working down the backlog in the fourth quarter, we expect to enter 2023 with nearly 20% more backlog than we had at the start of 2022.

Gross profit margins in the quarter were a robust 36.2%, increasing 190 basis points compared to 34.3% in the year-ago period and 180 basis points sequentially. Gross profit margins benefited from leverage on higher volume levels and the impact of price increases enacted earlier in the year.

EBITDA was $118 million dollars, increasing $17 million, or 17%, compared to $101 million in the prior-year period.

EBITDA margins were 17.6%, increasing 90 basis points compared to 16.7% in the year-ago period, driven by the strong gross profit margin performance.

Net interest expense declined $6 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 $10 million dollars in the fourth quarter and $45 million for the full year 2022, compared to $63 million in 2021.

Our effective tax rate was 18.9% in the third quarter. We expect an effective tax rate of approximately 20% for the fourth quarter of 2022, resulting in a full year effective tax rate of approximately 19.3%.

Net income in the quarter was $78 million dollars, up 28% from $61 million in the prior-year period.

Earnings per share was a record $1.77, increasing 33% compared to $1.33 in the third quarter 2021.

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

Turning now to slide 7 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 $351 million dollars in the quarter, increasing 10% from $319 million in the third quarter of 2021. Segment revenues increased 16% on an organic basis, with double-digit growth in each of our primary market verticals.

Industrial Automation segment EBITDA margins were 20.2% in the quarter, increasing 140 basis points compared to 18.8% 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 broadband and 5G and smart buildings.

The Enterprise Solutions segment generated revenues of $319 million dollars during the quarter, increasing 12% from $286 million in the third quarter of 2021. Segment revenues increased 14% organically.

Revenues in Broadband and 5G increased 23% year-over-year on an organic basis due to solid execution and strong demand for our fiber connectivity products. For the full year, we expect organic growth for fiber products of more than 50%. The secular trends for this business remain strong, and we are encouraged by the early impacts of government funding for fiber in rural areas.

Revenues in the Smart Buildings market increased 6% year-over-year and 5% sequentially on an organic basis. Our continued focus on growth verticals, particularly healthcare and enterprise data centers, contributed to the solid revenue performance.

Enterprise Solutions segment EBITDA margins were 14.4% in the quarter, compared to 14.1% in the prior year and 13.6% in the second quarter.

If you will please turn to Slide 8 for our balance sheet highlights.

Our cash and cash equivalents balance at the end of the third quarter was $547 million dollars compared to $528 million in the second quarter and $456 million in the third quarter 2021.

Days sales outstanding of 59 days were in line with 60 days in the prior-year and 59 days in the prior quarter.

Inventory turns were 4.9, compared to 4.5 in the prior quarter and 5.1 in the prior year.

Our financial leverage was 1.1 times net debt to EBITDA at the end of the third quarter, compared to 1.4 times in the second quarter and 2.9 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 third quarter, we repurchased approximately 1.2 million shares for $70 million. On a year-to-date basis through fiscal October, we repurchased approximately 2.6 million shares for $150 million. Following these repurchases, we have $65 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 9 for a few cash flow highlights.

Total cash flow from operations in the third quarter was $87 million dollars, up 16% compared to $75 million in the prior-year period.

Capital expenditures were $19 million for the quarter, down slightly from $25 million in the prior-year period.

During the quarter, we received $42 million of proceeds from the sale of a building in New Jersey. We sold the building after we consolidated distribution centers in the United States earlier this year, as part of our commitment to Lean enterprise.

Due to the higher cash flow from operations and the proceeds from the asset sale, free cash flow in the quarter was $110 million dollars, compared to $50 million in the prior-year period.

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 10 for our outlook.

Once again, we are increasing our revenue and EPS guidance for 2022. The market environment remains very dynamic with considerable challenges and uncertainties. However, we enter the fourth quarter of the year with significant levels of customer backlog, and we continue to gain momentum with our strategic growth initiatives.

We expect underlying demand in the fourth quarter to be in line with the third quarter. However, compared to third quarter revenues, fourth quarter revenues are expected to be lower due to a stronger U.S. dollar and typical seasonal patterns. Accordingly, we anticipate fourth quarter 2022 revenues of $635 million to $650 million, and EPS of $1.60 to $1.70.

For the full year, we now expect revenues of $2.583 billion to $2.598 billion, compared to prior guidance of $2.52 billion to $2.55 billion. Our revised guidance now represents consolidated organic growth of 15% to 16%, with solid growth in both segments, compared to our prior expectation of 12% to 13%.

We expect full year 2022 EPS to be $6.27 to $6.37, compared to prior guidance of $5.90 to $6.10. For the full year 2022, our new guidance represents EPS growth of 32% to 34%.

Please turn to slide 11.

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

Our commitment is to drive EPS to $8.00 or more by 2025. Achieving our new EPS guidance of $6.37 for 2022 will represent solid progress towards reaching our long-term goal. Belden is well positioned to benefit from the long-term favorable secular trends in industrial automation, broadband & 5G, and smart buildings. I am confident that our teams will continue to drive significant value for our shareholders.

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