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# Q4 2022
# EARNINGS RELEASE

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## CORPORATE PARTICIPANTS

**Roel Vestjens** Belden Inc. – President & CEO
**Jeremy Parks** Belden Inc. – CFO
**Aaron Reddington** Belden Inc. – VP Investor Relations

## PRESENTATION

**Aaron Reddington, Belden Inc. – VP Investor Relations**

Thank you, operator. Good morning everyone and thank you for joining us for Belden's fourth quarter 2022 Earnings Conference Call. With me today are Belden's President and CEO Roel Vestjens and Senior Vice President and CFO Jeremy Parks. Roel will provide a strategic overview of our business, and then Jeremy 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 Vestjens, Belden Inc. – President & CEO**

Thank you, Aaron, and welcome to the Belden team.

As a reminder, I'll be referring to adjusted results today.

Please turn to Slide 3 for a summary of the major accomplishments we achieved in 2022.

First, we delivered another outstanding quarter, with total revenues and EPS that exceeded expectations for the 11th straight quarter. For the full year 2022, we delivered record revenues of over $2.6 billion dollars and record EPS of $6.41. 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 with innovative solutions.

Revenues for the year increased by 16% organically, with double-digit organic growth in both segments.

On top of record revenues and EPS, we also expanded our EBITDA margins to 17.0%, up 90 basis points for the year, driven by strong leverage on our organic growth.

Our strength in 2022 was broad-based across our businesses as 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.

Second, our capital allocation strategy continues to be balanced and disciplined to drive long-term shareholder value. As we grew EBITDA and generated $220 million dollars of free cash flow in 2022, net leverage declined to 1.0 times at the end of the fourth quarter, down from 2.1 times at the end of the prior year. This level of net leverage provides us with significant flexibility to execute our strategic plans, while pursuing organic growth opportunities, M&A, and returning capital to shareholders, all while staying below our target of 1.5 times net leverage.

Third, we remain focused on deploying capital towards high return opportunities. Our top priorities include investments in new product innovation and our solution selling capabilities, strategic bolt on M&A opportunities, of which we completed three in 2022, and finally returning capital to shareholders through our share repurchase program, under which we repurchased 2.6 million shares for $150 million dollars in 2022.

Fourth and finally, at our 2022 Investor Day last June, we set forth a target of $8 EPS by 2025. I am happy to report that with our strong performance in 2022, we are ahead of our internal plan in reaching that goal.

In summary, this was another excellent quarter for Belden which concluded another record year.

Now please turn to Slide 4, and I will provide an example of our strategy in action with details around how product innovation in fiber is leading to exciting customer wins.

Over the years, in our Broadband & 5G business, we have strategically invested in fiber optic technology and solution building. Our solutions focus on reducing our customers' operating expenditures and deployment time.

Over the last 3 years, we have grown our fiber business within Broadband & 5G meaningfully. Our fiber specific revenues increased 59% organically in 2022 with a 3-year organic revenue CAGR of 29%. Further in 2019 fiber represented 16% of the total Broadband & 5G business, and as of 2022 fiber now accounts for 37% of the total. Such growth highlights the success of the investments we have made to ensure Belden is in the right markets with industry-leading solutions.

On that note, I am happy to report that we received a meaningful win in the fourth quarter for our fiber cabinet solutions from a large telecommunications company based in the Netherlands. The commitment of approximately 8,000 fiber cabinets will provide the business with a total of approximately $50 million over the next 4 years. Our fiber cabinets offer an easy to configure solution, reducing cost and deployment time, both critical decision points for our customers. This is the largest single fiber commitment for our business and highlights the growth we have made in the marketplace as well as the future opportunity ahead.

Looking forward we see multiple favorable trends benefiting our Broadband and 5G market. I outlined many of these in our recent Investor Day but let me spend a minute reviewing the key themes.

First, rural broadband has become a major focus with meaningful federal investments in recently passed legislation. We see combined broadband investment totaling $85 billion in the United States which will provide meaningful growth opportunities for Belden.

Second, to meet the increasing bandwidth demand, MSOs are reinvesting in the networks to preserve the current customer base amongst increased competition. Our portfolio of solutions positions us to support these multiyear upgrade cycles.

And third, major 5G rollouts will dominate wireless carrier spend over the next 5+ years. This will include macro cell upgrades and new small cell construction. As 5G cell sites need both fiber as well as power, this will allow Belden to participate in multiple ways.

To summarize, we continue to see strong demand from network operators for our fiber connectivity products. We offer easy-to-use fiber solutions which allow customers to install fiber connections quickly and reliably. We see favorable long-term trends driven by the ever-increasing demand for high-speed broadband and the resulting investments required to upgrade networks.

I will now ask Jeremy to provide additional insight into our fourth quarter and full year financial performance.

**Jeremy Parks, Belden Inc. – CFO**

Thank you, Roel.

I will start my comments with results for the fourth quarter and full year, 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.

Now please turn to Slide 5 in our presentation for a review of our fourth quarter results.

We delivered meaningful growth and margin expansion again this quarter.

Fourth quarter revenue increased 8% year-over-year and 12% organically to $659 million dollars, exceeding our guidance range of $635 to $650 million.

We had another impressive quarter in Industrial Automation with revenues increasing 18% organically. 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 revenue increased 6% year-over-year on an organic basis, with solid mid-single digit growth in both Broadband and 5G and Smart Buildings.

As expected, we ended the year with over $800 million dollars in backlog which was up 20% year-over-year. As the supply chain continues to stabilize, we expect our backlog to decrease to a more normalized level. We ended the quarter with a book to bill of 0.91 which was down modestly from 0.95 in the prior quarter. From a full year perspective, we ended 2022 with a book to bill of 1.04, with similar performance in both segments.

Gross profit margins in the quarter were a robust 37.8%, increasing 280 basis points compared to 35.0% in the year-ago period. Gross profit margins benefited from better than normal product mix combined with leverage on higher volume levels and the impact of price increases enacted earlier in the year.

EBITDA in the fourth quarter increased 14% year-over-year to $115 million dollars. EBITDA margins expanded 90 basis points, from 16.5% in the year-ago period to 17.4%.

Net income in the quarter was $76 million dollars, up 28% from $60 million in the prior-year period.

EPS increased 35% year-over-year to $1.75, compared to $1.30 in the year-ago period and exceeded our guidance range of $1.60 to $1.70.

Now please turn to Slide 6 in our presentation for a review of the full year 2022 results.

Belden achieved both record revenues and record EPS in 2022. Both business segments grew double digits organically, and at the same time we expanded margins.

To quickly highlight our performance, revenues increased 13% versus the prior year and 16% organically to a record $2.6 billion dollars. Our revenue performance was strong in both segments with Industrial Automation Solutions growing 19% organically and Enterprise Solutions growing 13% organically.

EBITDA increased 19% to nearly $444 million dollars. EBITDA margins expanded 90 basis points, from 16.1% in the year-ago period to 17.0%.

Net interest expense was $44 million dollars for the year, down from $63 million in the prior year, 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 net interest expense to be flat at approximately $44 million dollars for the full year 2023.

Our effective tax rate was 19% in 2022. We expect an effective tax rate of approximately 20% for the full year 2023.

EPS increased 35% for the year to a record $6.41, compared to $4.75 in the year-ago period.

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 $1.4 billion dollars, increasing 15% from $1.2 billion in the prior year. As mentioned previously, Industrial Automation revenues increased 19% on an organic basis, with double-digit growth in each of our primary market verticals.

Industrial Automation segment EBITDA margins for the year were 19.7%, increasing 150 basis points compared to 18.2% in the prior year, 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 $1.2 billion dollars, increasing 12% from $1.1 billion in the prior year. As mentioned previously, segment revenues increased 13% organically.

Revenues in Broadband and 5G increased 15% on an organic basis due to solid execution and strong demand for our fiber connectivity products. As Roel mentioned, the trends for this business remain strong, and we are encouraged by the early impacts of government funding for network upgrades.

Revenues in the Smart Buildings market increased 10% on an organic basis. Our continued focus on growth verticals, particularly healthcare, government, and data centers, contributed to the solid revenue performance.

Finally, Enterprise Solutions segment EBITDA margins were 13.5% for the year, compared to 13.4% in the prior year. We saw the benefits of leverage on higher volumes and favorable pricing, offset by a temporary cost increase to expedite materials in the first quarter, and a one-time bad debt expense in the fourth quarter.

That being said, I am very encouraged with how the segment ended the year with fourth quarter EBITDA margins of 14.1%, up 60 basis points compared to 13.5% in the prior year period.

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

Our cash and cash equivalents balance at the end of the fourth quarter was $688 million dollars compared to $548 million in the third quarter and $642 million in the fourth quarter 2021.

Days sales outstanding of 60 days, compared to 56 days in the prior year and 59 days in the prior quarter.

Inventory turns were 4.8 times, compared to 4.7 in the prior year and 4.9 in the prior quarter.

Our financial leverage was 1.0 times net debt to EBITDA at the end of the fourth quarter, compared to 1.1 times in the third quarter and 2.1 times a year ago. As we communicated in our 2022 Investor Day, we intend to maintain net leverage of approximately 1.5 times going forward.

For the full year, we repurchased 2.6 million shares for $150 million dollars, at an average price of approximately $58 per share.

Going forward 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 for the fourth quarter was $202 million dollars, up 19% compared to the prior year.

Capital expenditures were $55 million for the quarter, up from $35 million from the prior year.

For the fourth quarter, we achieved free cash flow of $148 million, down from $162 million in the prior year.

As a reminder, in the fourth quarter of 2021, our Free Cash Flow realized a combined $54 million dollar benefit from the sale of a note receivable related to the Grass Valley divestiture as well as a sale leaseback transaction for a facility in Germany.

For the full year, we achieved free cash flow of $220 million, up from $211 million in the prior year.

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 Vestjens, Belden Inc. – President & CEO**

Thank you, Jeremy.

Please turn to Slide 10 for our outlook.

While macro conditions remain uncertain as we enter 2023, our portfolio is designed to deliver organic growth in excess of GDP. We are confident in our ability to execute our strategy and generate sustainable, long-term shareholder value. Our transformed portfolio aligns Belden with key long-term secular trends that have lengthy investment cycles. Investments in automation, reshoring, increased connectivity, increasing bandwidth usage, and network upgrades all bode well for Belden to produce sustainable earnings growth.

For the full year 2023, we expect revenues of $2.67 billion to $2.72 billion. This represents consolidated organic growth of 3% to 5%. When we drill deeper, we see Industrial Automation growing organically in the mid to high-single digits, and Broadband and 5G growing organically in the mid-single digits.

In Smart Buildings, we anticipate slightly lower growth in 2023 compared to our long-term expectations. We see Smart Buildings being more impacted by recent macro uncertainty and are currently expecting a flat year of organic growth. That being said, our long-term view of the Smart Buildings market remains unchanged.

We expect full year 2023 EPS to be $6.60 to $7.00, representing EPS growth of approximately 3% to 9%.

For the first quarter, we expect revenues of $615 million to $630 million, with organic growth between 3% to 6%. We expect first quarter EPS to be $1.50 to $1.60.

Please turn to slide 11 to review our value creation framework and a quick reflection on the progress we have made in 2022 and over the last 3 years.

First, I would like to reiterate our value creation framework. Our commitment is to drive EPS to $8 or more by 2025 through organic growth in excess of GDP, healthy margins, robust cash flow, and disciplined capital allocation.

When we set the $8 goal at our Investor Day last June, we were targeting 2022 EPS of $5.70. As discussed previously, we substantially beat our initial goal with actual EPS of $6.41. Looking forward, with our new EPS guidance range for 2023 at $6.60 to $7.00 we are well ahead of internal plans to achieve our 2025 target.

Next, I would like to take a moment and recognize the significant progress our team has made at transforming Belden over the last 3 years.

If you recall I was appointed CEO of Belden in May of 2020, a very interesting time for sure. Reflecting on what we have accomplished since, I am incredibly proud of the team and the efforts we took to reshape Belden's future.

First, we made the decision to divest slow growing businesses that required excessive amounts of capital.

Second, we refocused our investments towards core businesses with attractive growth dynamics.

And third, we reshaped the balance sheet to significantly reduce our leverage and increase our financial flexibility.

The outcomes of our efforts have been impressive. On a pro-forma basis we have grown considerably, with an organic revenue CAGR of 7%, an EPS CAGR of 17%, and we achieved a Return on Invested Capital of 18.5% in 2022 compared to 9.2% in 2020, up 930 basis points. Finally, we also reshaped the balance sheet and decreased our net leverage considerably to 1.0 times at the end of 2022.

Our streamlined business with a focus on product innovation and solution-based sales provides the framework to capitalize on key growth trends. We see meaningful long-term opportunity in our markets and will continue to invest accordingly.

To conclude, I would like to recognize the hard work from our global teams as the business encountered significant challenges these past few years. From supply chain disruptions to inflationary pressures, we have successfully navigated the operating environment and delivered record results.

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