BELDEN

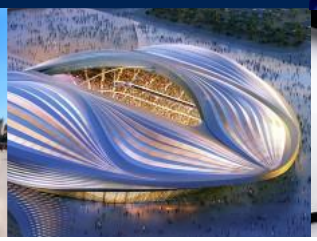
2ND QUARTER 2023

EARNINGS RESULTS

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CORPORATE PARTICIPANTS

Ashish Chand 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. Good morning everyone, and thank you for joining us for Belden's second quarter 2023 Earnings Conference Call. With me today are Belden's President and CEO Ashish Chand and Senior Vice President and CFO Jeremy Parks. Ashish 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 contains 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 Ashish Chand.

Ashish Chand, Belden Inc. – President & CEO

Thank you, Aaron and good morning everyone. Thank you for joining us today.

Let's turn to slide 4 for a summary of the major accomplishments we achieved in the second quarter of 2023. As a reminder, I'll be referring to adjusted results today.

First, once again our team delivered another outstanding quarter, with total revenues and EPS exceeding expectations for the 13th quarter in a row.

Our revenue grew, our margins expanded, and our organic growth came in at the high end of our previously issued guidance for the quarter.

During the second quarter, we achieved record quarterly revenue of $692 million dollars, record Earnings Per Share of $1.91, and we expanded our EBITDA margins by 120 basis points to 17.8% for the quarter. Very solid execution from the Belden team, well done.

Growth in the quarter was broad-based across our businesses and regions. As Belden continues to transform from a supplier of trusted products to a value-added solutions provider, we are seeing the results - improved and more resilient growth, increasing margins, and deeper customer partnerships.

Second, our segments continue to perform well considering the challenges and uncertainties around the world. End demand for our products and solutions is healthy, with both of our segments experiencing positive revenue growth with expanding margins for the quarter – tough to do in today's environment.

Sound execution across the business helped us achieve 5% organic growth company-wide, 8% organic growth in Industrial Automation Solutions, and 1% organic growth in Enterprise Solutions.

Finally, as our business continues to grow, and we invest our capital towards high-return opportunities, leverage at Belden remains low at 1.4 times, in line with levels a year ago. Our current balance sheet is strong with ample liquidity. Combined with low net leverage, we have significant flexibility to execute our strategic plans whilst staying below our target net leverage of 1.5 times.

Free Cash Flow for the quarter was up year over year and our trailing twelve-month free cash flow reached $280 million dollars, well on track to achieve the targets we previously articulated.

During the quarter we continued to deploy capital, and I am pleased to report that year-to-date we have invested $190 million dollars in M&A and share repurchases.

In summary, this was another excellent quarter for Belden and continues to highlight the change our business has undergone over the last few years to produce a growing, more sustainable, and higher margin business than the Belden of the past.

Now please turn to Slide 5.

Belden is still in the early innings of it's solutions transformation. Over the last few years, we have created a new and incremental go-to-market strategy. By focusing on customer KPIs and framing a business case around how we can address their unique challenges, we are purposefully building our position in the solutions marketplace.

Let me take a moment to better describe where we see opportunity and how we believe Belden is uniquely positioned.

Across our markets, customers continue to invest heavily to automate and modernize their systems and infrastructure to gather actionable data. Often these investments come in waves with disparate equipment and systems. As a result, many find themselves with islands of data across multiple systems that do not provide the promised functionality or outcomes.

This is where Belden has a unique competitive advantage, and our solution consultants are carving out a niche in the marketplace.

As we work to grow our solutions offerings, the foundation has been and always will be our highly reliable network and data products. Our comprehensive portfolio of products puts us in a leading position, as we excel in all the following offerings: data acquisition, data transmission, data orchestration, and data management.

Our solutions transformation began with Industrial Automation where we seized the opportunity to utilize our best-in-class products with a more solution-focused approach to directly solve customer problems. The result has been higher growth with improving margins.

This past June, we appointed a new leader to our Enterprise Solutions Segment to drive growth and change across the combined Broadband and Smart Buildings markets. We see a compelling opportunity ahead for Enterprise Solutions as we bring together our unique products to address the ever-expanding needs of hybrid networks in enterprise applications. Consider, for example, a large campus environment that requires both broadband access and connectivity solutions in addition to traditional enterprise products.

Across our markets, our ability to gather data and move it across a factory floor, a warehouse, or a hospital, gives us credibility as we design digitization solutions focused on core verticals and use cases. We bring islands of data together, utilizing hybrid solutions, and ultimately format the data into a common language for easy digestion by end operating systems.

Now please turn to Slide 6 for further discussion around Belden Horizon and our improving product functionality and capabilities.

As we have discussed before, Belden Horizon is a cloud-native platform that provides secure, OT-centric services for deploying, connecting, and managing devices and applications.

As we grow our solutions offerings, Belden Horizon is a key value-add as part of an overall Belden solution. It provides critical software for the onboarding, monitoring, and updating of edge computing devices and the management and orchestration of edge applications that are used by businesses to improve their efficiency, maximize uptime, and enable continuous process improvement.

This past June, with the launch of Belden Horizon Data Operations and Belden Horizon Data Manager, the Belden Horizon suite added key functionality to further empower organizations. Key upgrades included:

One - adding hundreds of OT protocols with easy integration.

Two – the addition of digital twins and analytics tooling empower users to collect, contextualize and analyze data at the edge.

And three – Scalable functionality to support large or remote deployments and manage many instances.

With recent upgrades, Belden Horizon stands out in the industry due to its dedicated focus on industrial networking and cybersecurity challenges. By combining network management, cybersecurity, and analytics into a single vendor-agnostic platform, Belden aims to simplify the management, security, and optimization of networks.

As we consider the evolution of Belden, it is important to reiterate that our intention is not to transition into a software provider. At our core, we produce highly reliable data and network products that enable our customer's digitization journeys. Software like Belden Horizon brings our products together in one comprehensive solution and enhances our offerings by differentiating us from competitors and ultimately deepening our relationship with customers.

Now please turn to Slide 7 for an exciting new win for Belden that further validates our solution transformation. Material handling is what we consider a converged opportunity, where products from both Industrial and Enterprise can be utilized to further lean into our product competitive advantage as we develop solutions for customers.

In this example, our customer had a problem, their previous wireless network was challenged to provide ample access across a warehouse floor and their equipment was disconnecting causing major delays.

As a leader in the automated warehouse market, it's critical that their equipment is always connected, no matter where it is on the warehouse floor.

When equipment disconnects it causes delays, system reboots, and even robot collisions. These challenges make it impossible to hit targeted processing rates and at times even requires manual retrieval of disabled robots.

Enter Belden and our solution consultants. We took the time to understand the core problem and ultimately the KPI our customer wished to impact. We designed, tested, and helped implement a wireless network solution (as part of a larger hybrid solution), to ensure network availability.

As a result of our solution, we estimate a 99% reduction in disconnections and time-outs which will ultimately result in an 11% increase in package process rates.

We are proud of our team and the solution we developed. The award is our largest solution win to date, will span over 3 years, and highlights how our teams are finding opportunities in the marketplace and driving incremental demand for our products and solutions.

We view this award as further proof that customers are seeking experts in networks and digitization solutions, and that Belden is uniquely qualified to provide world-class products and solutions to improve outcomes.

I will now request Jeremy to provide additional insight into our second-quarter financial performance.

Jeremy Parks, Belden Inc. – CFO

Thank you, Ashish.

I will start my comments with results for the second 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.

Now please turn to Slide 8 in our presentation for a review of our second quarter results.

We delivered meaningful growth and margin expansion again this quarter.

Second quarter revenue increased 4% year-over-year and 5% organically to a record $692 million dollars, exceeding our guidance range of $675 million to $690 million.

We had another impressive quarter in Industrial Automation with revenues increasing 8% organically. We continue to see compelling longer-term demand drivers for automation solutions as industrial customers respond to labor shortages, capacity requirements, and the reshoring of production.

Enterprise Solutions revenue increased 1% year-over-year on an organic basis, with mid-single-digit growth in Broadband Solutions and a low-single-digit decline in Smart Buildings, which we will discuss later.

Orders for the quarter were up 4% sequentially, we ended the quarter with a book-to-bill of 0.90. We expect orders in the second half to increase from the first half with our book-to-bill remaining below 1.0.

Gross profit margins were a robust 38.1%, up 370 basis points compared to the prior year. The quarter benefited from a better-than-typical product mix as we continue to sell more solutions and generate favorable productivity. Given the strong start to the year in both Q1 and Q2, we are increasing our expectations for full-year gross margins to be up approximately 200 basis points compared to 2022. This would imply slightly lower sequential gross margins in the second half, given the strong outperformance in the first half.

EBITDA increased 11% year-over-year to $123 million dollars. EBITDA margins expanded 120 basis points to 17.8%.

Net income in the quarter was $82 million dollars, up 15% from $71 million in the prior-year period.

EPS increased 19% year-over-year to a record $1.91, compared to $1.60 in the year-ago period and exceeded our guidance range of $1.70 to $1.80.

Turning now to slide 9 in the presentation for a review of our business segment results.

I will begin with our Industrial Automation Solutions segment, which helps customers transmit and secure audio, video, and data in harsh industrial environments. Key markets include discrete manufacturing, process facilities, energy, and mass transit.

The Industrial Automation Solutions segment generated revenues of $380 million dollars, increasing 6% year-over-year and 8% organically. We achieved broad-based strength in each of our primary market verticals.

Industrial Automation segment EBITDA margins were 20.7% for the quarter, compared to 19.0% in the prior year. Margins increased 170 basis points due to solid operating leverage on volume growth and favorable mix.

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

The Enterprise Solutions segment generated revenues of $313 million dollars, increasing 2% year-over-year and 1% organically.

Revenues in Broadband Solutions increased by 4% organically for the quarter. We continue to expect long-term growth in our fiber and outside copper products because of ever-increasing data demands combined with government funding for network upgrades.

Revenues in the Smart Buildings market decreased by 1% organically for the quarter, flat for the first half of 2023, and in line with our prior expectations.

In our Smart Buildings market, we are seeing an increased impact of channel destocking, which has a temporary impact on orders from our channel partners. We experienced some impact in Q2 as anticipated, but now we expect to feel a larger adjustment during the third and fourth quarters.

For Smart Buildings, which has a temporary channel headwind, we expect organic growth to be down low to mid-single digits for the full year. That said, we continue to see meaningful opportunities in the Smart Buildings market driven by our target verticals utilizing converged products and solutions.

Finally, Enterprise Solutions segment EBITDA margins were 14.1% for the quarter, compared to 13.6% in the prior year.

If you will please turn to Slide 10 for our balance sheet and cash flow highlights.

Our cash and cash equivalents balance at the end of the second quarter was $515 million dollars compared to $688 million in the fourth quarter and $528 million dollars in the second quarter of 2022.

Our financial leverage was 1.4 times net debt to EBITDA at the end of the second quarter, compared to 1.0 times in the fourth quarter of 2022 and 1.4 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 second quarter, we realized free cash flow of $68 million dollars, an improvement of $37 million year-over-year, from free cash flow of $31 million in the prior year.

As of the second quarter, our trailing twelve-month free cash flow was $280 million dollars, which puts us ahead of our full-year free cash flow targets. Recall that in the third quarter of 2022, we received $42 million dollars from the sale of a building. As that quarter rolls off our trailing twelve-month calculation, we expect this figure to decrease from current levels.

We expect to generate more than $200 million dollars of free cash flow in the second half of 2023, providing ample room to deploy capital towards high return opportunities.

Finally, as Ashish mentioned earlier, during the quarter we continued to deploy capital. In 2023, we deployed approximately $100 million dollars toward M&A and $90 million dollars toward share repurchases. Year-to-date we have purchased approximately 1 million shares at an average share price of around $87.

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

Ashish Chand, Belden Inc. – President & CEO

Thank you, Jeremy.

Please turn to Slide 11 for our updated outlook.

Let me start by saying I am very pleased with our second quarter performance. As discussed earlier, we met or exceeded expectations for revenue, EPS, and organic growth.

Looking forward to the second half of the year, we expect 2023 to be a year of continued macro uncertainty where we gain incremental clarity as the year progresses.

As it relates to revenue expectations, after the first half of the year, I am happy to report that we expect continued growth in our Industrial Automation and Broadband markets consistent with our past guidance. We see Industrial Automation growing organically in the mid to high-single digits and Broadband growing organically in the mid-single digits.

As Jeremy mentioned previously, for Smart Buildings, which has a temporary channel headwind, we expect organic growth to be down low to mid-single digits for the full year.

Despite temporary channel adjustments, let me reiterate my confidence in the Smart Buildings market. With our full suite of Belden products including fiber, combined with solutions, I see a much greater opportunity ahead for Belden over the long term.

The impact on our business will be solely on revenue, which is why we are adjusting our full year 2023 revenue and organic growth estimates accordingly.

For the full year 2023, we now expect revenues of between $2.695 billion to $2.725 billion dollars with organic growth of 3% to 4%.

Next onto Earnings Per Share.

I am happy to report that our business continues to execute with higher productivity and increased solution sales. Considering our strong first half and continued margin expansion, we are raising our full-year EPS targets.

We now expect full-year 2023 EPS to be between $7.15 and $7.35, representing EPS growth of approximately 12% to 15% for the year. This is a rather impressive figure given the uncertainties companies are facing in 2023.

For the third quarter, we expect revenues of between $675 million to $690 million dollars, with organic growth between negative 1% and positive 1%. We expect third-quarter EPS to be between $1.75 and $1.85.

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. Investments in automation, reshoring, increased connectivity, increasing bandwidth usage, and network upgrades all bode well for Belden to produce sustainable earnings growth.

Please turn to slide 12 for closing remarks.

As we always do, 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. Belden continues to execute and is making excellent progress toward achieving these goals.

End demand for our products and solutions remains healthy. While Smart Buildings is currently impacted by incremental channel destocking, the remaining three-quarters of our business has not felt the same impact. Growth at Belden continues during a challenging year, all whilst our margins are expanding, and our business is generating cash which we are reinvesting in high ROI opportunities. With EPS growth of 12 to 15%, our business is delivering for shareholders and proving more robust than the Belden of the past.

The longer I am in the role as CEO, the more convinced I am of the opportunity ahead of us at Belden. Our solutions go-to-market strategy is driving incremental demand for high-margin Belden products that help offset current challenges and uncertainties around the world. Industrial Automation is advancing meaningfully in the marketplace and with the changes we are making in Enterprise Solutions, I see a great opportunity to combine our products and services to address hybrid network needs.

Finally, I would like to take a moment and recognize the efforts of our associates this past quarter and thank them for their support as we continue to transform Belden and drive incremental growth. Our results speak for themselves. Thank you for your hard work!

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