BELDEN

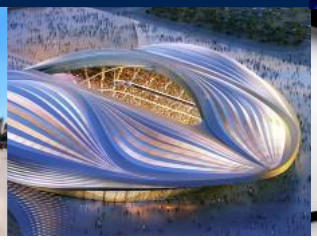
3RD QUARTER 2023

EARNINGS RESULTS

November 2023








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 third 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 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. We appreciate you joining us today.

As highlighted in our communication three weeks ago, third quarter results were below our expectations as demand unexpectedly weakened within our industrial and broadband markets adding to ongoing pressure from channel destocking.

Despite a softening in demand, our expanding solutions-driven mix drove gross margin outperformance, resulting in Belden achieving the lower end of our initial Adjusted EPS outlook.

Our proactive efforts towards becoming a premier solutions provider continue, even amid the current market weakness. We believe this approach will drive incremental growth and margin expansion over the long term.

In the meantime, we are evaluating opportunities to protect margin where appropriate and have already taken cost saving measures in response to the market weakness.

Furthermore, we remain confident in the resilience of our portfolio, which stands well-positioned to benefit from significant secular trends with lengthy investment cycles.

Now let's review the quarter.

Please turn to slide 4 for a summary of the third quarter of 2023. As a reminder, I'll be referring to adjusted results today.

Our team performed admirably considering the difficult operating backdrop.

Unfortunately, industry demand weakness came about unexpectedly and we experienced a marked change in orders in our Industrial and Broadband markets during the quarter. After growing orders 4 percent sequentially in the second quarter, total orders were down 19 percent sequentially in the third quarter.

As such, we achieved quarterly revenue of $627 million dollars, down 7 percent year over year.

Despite end demand softness, our shift to solution sales continues, which led to favorable margins during the period.

Gross margins were up 280 basis points to 39 percent and EBITDA margins were up 80 basis points to 18.4 percent.

Organic growth was down 4 percent in our Industrial Automation Segment with EBITDA margins up 230 basis points to 22.5 percent. In Enterprise Solutions, organic growth was down 14 percent with EBITDA margins down 110 basis points.

As we adjust to this temporary weakness, we expect to continue to follow our previously outlined capital allocation priorities with organic growth as our top priority, followed by M&A, and finally returning capital to shareholders.

Our balance sheet is strong with ample liquidity, and leverage at Belden remains low at 1.3 times, down from 1.4 times in the prior quarter.

We have significant financial flexibility to execute upon our strategic plans whilst staying around our targeted net leverage ratio of 1.5 times, even if the outlook becomes more challenging.

Free Cash Flow for the quarter was robust, and we continued to deploy capital to grow the business.

I am pleased to report that year-to-date we have invested nearly $110 million dollars in M&A, with our most recent acquisition of Cloud Rail – an edge software provider that helps connect and manage devices in industrial environments. Welcome to the team Cloud Rail.

Further, year-to-date we have returned over $150 million dollars to shareholders.

In summary, the unexpected shifts in market demand in Industrial and Broadband during the third quarter impacted orders. That being said, our team executed well, and we are proud to have sustained these healthy levels of profitability with such a strong balance sheet and cash flow position.

Please turn to slide 5 for a summary of our market performance in the third quarter and where we see things trending over the short term.

Taking a step back, during the third quarter orders changed considerably in our Industrial and Broadband markets. Smart Buildings performed as expected but was more than offset by the sequential change in orders in our other markets.

Starting with the Industrial Automation market - in the first half of the year, our business performed well, with orders roughly flat sequentially in the second quarter and point-of-sale data confirming our order trends.

As the third quarter progressed, industrial customers became increasingly cautious, and we saw a material change in our orders and point-of-sale data. On a sequential basis, our industrial orders for the third quarter were down 21 percent.

The softness in the industrial market has many contributing factors, but at a high level, the weakness in orders has two major drivers.

First, we experienced a pause in end customer demand due to broad weakness in discrete manufacturing.

Second, both OEMs and distributors took action to further reduce inventory levels during the quarter.

This marked change in demand for Industrial Automation products and solutions is a temporary reaction coming into the back half of 2023 amid overall macro uncertainties.

Looking forward, we expect to see reduced demand for a few quarters as end users adjust to challenges in the marketplace. However, we expect them to emerge with continued investments in automation.

Longer-term our secular trends remain in-tact led by reshoring, labor shortages, and investments in industrial automation. I am confident that we are well positioned to grow market share once we get past this temporary slowdown.

In the Smart Buildings market, we saw revenue and orders more or less in line with our guidance.

Within Smart Buildings, we experienced weakness in Commercial Real Estate, with more stability in our targeted verticals such as Hospitality and Government.

The Smart Buildings market continues to face challenges with higher interest rates creating uncertainty, and distributors continuing to destock as they adjust to lower demand and work to improve cash flow.

Similar to our industrial market, point-of-sales data declined in the third quarter which points to further weakness into the fourth quarter and 2024.

Longer-term, we expect to see demand growth from increasing digitization and expanding connectivity needs. Our customers have increasingly complex challenges, including hybrid networks that combine disparate data and network protocols onto a single backbone. Belden is well-positioned to address these challenges with our product breadth and technical expertise.

Finally, in the Broadband Solutions market, we had a good first half of the year, with meaningful order growth in the second quarter. However, in the third quarter we experienced a sharp reversal with orders down 28 percent sequentially.

This change in the third quarter is the result of MSOs adjusting their procurement processes to reduce inventory and rely on shorter lead times to meet demand.

Planned network upgrades remain in-tact, however we anticipate a soft fourth quarter as customers further adjust inventory into year-end. We expect a pickup in orders as we move through the first half of 2024 with further momentum as government funding increases throughout next year.

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

Jeremy Parks, Belden Inc. – CFO

Thank you, Ashish.

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

Now, please turn to Slide 6 in our presentation for a review of our third quarter results.

Third quarter revenue decreased 7 percent year-over-year and was down 9 percent organically to $627 million dollars, exceeding our preliminary view of $625 million.

We experienced softness in Industrial Automation with revenues decreasing 4 percent organically. Longer-term we continue to see compelling secular demand drivers for automation solutions as industrial customers respond to labor shortages, capacity requirements, and the reshoring of production.

Enterprise Solutions revenue decreased 14 percent organically, with increased weakness in our broadband solutions market.

As Ashish mentioned earlier, orders for the third quarter were down 19 percent sequentially, with weakness in both segments. We ended the quarter with a book-to-bill of 0.81.

Gross profit margins were a robust 39.0 percent, expanding 280 basis points compared to the prior year. The quarter benefited from a better-than-typical product mix driven by our solutions business.

EBITDA was down 2 percent year-over-year to $115 million dollars while EBITDA margins expanded 80 basis points to 18.4 percent. Margins for the quarter benefited by approximately 100 basis points due to an adjustment to lower year-to-date incentive compensation.

Net income in the quarter was $76 million dollars, down 3 percent from $78 million dollars in the prior-year period.

EPS increased 1 percent year-over-year to $1.78, compared to $1.77 in the year-ago period, which was slightly above our updated guidance range of $1.75 to $1.77.

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, 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 represented 55 percent of our sales in the quarter, with revenue totaling $343 million dollars. For the quarter, revenue decreased 2 percent year-over-year and decreased 4 percent organically. On a sequential basis, revenue declined 10 percent.

During the quarter, we experienced broad declines in discrete manufacturing partially offset by stability in process automation.

Industrial Automation segment EBITDA margins were 22.5 percent for the quarter, compared to 20.2 percent in the prior year with margins expanding by 230 basis points.

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 smart buildings and broadband solutions.

The Enterprise Solutions segment represented 45 percent of our sales in the quarter, with revenue totaling $284 million dollars. For the quarter, revenue decreased 11 percent year-over-year and declined 14 percent organically. On a sequential basis, revenue decreased 9 percent. Enterprise Solutions segment EBITDA margins were 13.3 percent for the quarter, compared to 14.4 percent in the prior year.

In the Smart Buildings market revenues were down 14 percent organically.

In the Broadband Solutions market had revenues down 15 percent organically.

Fiber revenue was up slightly year-over-year due to the benefit of recent acquisitions.

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

Our cash and cash equivalents balance at the end of the third quarter was $531 million dollars compared to $688 million in the fourth quarter of 2022 and $547 million dollars in the third quarter of 2022.

Our financial leverage was 1.3 times net debt to EBITDA at the end of the third quarter, down from 1.4 times last quarter. As we communicated before, we intend to maintain net leverage of approximately 1.5 times going forward.

We have a reasonable level of debt, much lower than in the past, with no maturities until 2027. In addition, all our debt is fixed with an average interest rate of approximately 3.5 percent.

Looking ahead, we expect to generate meaningful free cash flow in the fourth quarter and achieve full-year free cash flow slightly lower than 2022 levels.

We expect to have ample liquidity to deploy towards high-return opportunities even as we manage through a dynamic environment.

Year-to-date, we invested nearly $110 million dollars in new and complementary businesses and $150 million dollars toward share repurchases.

So far in 2023, we have repurchased 1.7 million shares, which is 4 percent of shares outstanding.

Please turn to Slide 9 for our updated outlook.

Looking forward to the fourth quarter, we expect weakness to continue in line with levels experienced in the second half of the third quarter. This weakness is in contrast to our performance in the first half of the year.

For the fourth quarter, assuming the current market environment does not deteriorate further, we expect sales in the range of $510 million to $530 million dollars and adjusted EPS in the range of $1.05 to $1.20. This outlook implies full-year revenue will decrease between 4 and 5 percent and full-year EPS will be flat to up 3 percent.

Further, this outlook would imply that full-year 2023 organic growth will be down mid-single digits overall, with Enterprise down high-single digits and Industrial Automation down low-single digits.

That concludes my prepared remarks. I would like to turn the call back to Ashish.

Ashish Chand, Belden Inc. – President & CEO

Thank you, Jeremy.

While it is hard to estimate the continued impact of the challenges and uncertainties facing our customers, as we see it, the fourth quarter is likely to be the most challenging.

However, we believe that demand will start to return as the longer term secular drivers of our business prevail over the coming year.

Regarding our investment philosophy over the next few quarters, I assure you we will act accordingly to balance two key priorities.

First, we will further adjust our cost structure as necessary to help offset the overall impact on our bottom line, and we will strive to achieve decremental EBITDA margins between 20 and 30 percent for the cycle.

Second, I want to emphasize, that the current uncertainty provides our solutions business with an opportunity to further differentiate ourselves from competitors.

My goal is to come out of this cycle with increased solution sales, market share gains, and higher margins.

I would like to take a step back and highlight the progress we have made over the last few years growing and transforming Belden.

A key objective of our pivot to solutions was to build differentiated capabilities whilst the business environment was positive so that we would enter inevitable periods of increased uncertainty as a stronger company. We proactively invested in go-to-market and technical capabilities that have driven higher margins and will provide us significant leverage as we get past this temporary downturn and return to growth based on secular trends.

We have developed a unique approach of offering network and data backbone solutions customized by market verticals that help our customers tackle multiple use cases and justify investments in smart infrastructure and digitization – much needed as companies strive to increase capital productivity and improve customer experience.

Through the combination of organic growth, targeted M&A, and share repurchases, we have a clear and reasonable path forward toward future revenue and EPS growth beyond prior run rates.

Our portfolio is well-positioned, and our balance sheet is strong. We will continue to execute operationally through these challenges, look to deploy capital towards tuck-in acquisitions that make sense, and finally we will continue to return capital to shareholders.

To close, I would like to take a moment and recognize the contributions of our associates, including our newest CloudRail team members. I appreciate your efforts this past quarter and would like to thank you for your support as we continue to transform Belden through a challenging environment. Thank you for your hard work.

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