BELDEN

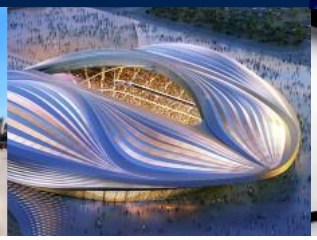
4TH QUARTER AND FULL YEAR 2023

EARNINGS RESULTS

February 2024








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

Good morning everyone, and thank you for joining us for Belden's fourth 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 in reliance upon the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 really appreciate you joining us today.

As we host this earnings call, I am days away from my first anniversary as President and CEO of Belden. Much has been accomplished this past year, and I am excited about the opportunity we have going forward to transform Belden and increase shareholder value.

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

First, let me take a moment and thank the Belden team for their excellent performance wrapping up a successful quarter and year. For the fourth quarter, our revenue and EPS both exceeded the high end of our guidance as our solutions transformation continues to drive incremental demand and margin expansion. Revenue for the quarter totaled 551 million dollars, and EPS came in at $1.46 cents.

For the fourth quarter, orders increased sequentially by 4 percent, indicating stability in our end markets. Importantly, we experienced single-digit sequential order growth in both segments, Industrial Automation Solutions and Enterprise Solutions.

Entering the quarter, our markets were experiencing many headwinds. I am encouraged to see relative stability in the fourth quarter that produced results exceeding our expectations.

Second, as we wrapped up another transformational year, our business performed well and we were able to achieve record full year Earnings Per Share of $6.83 cents, up 7 percent year-over-year. I would like to point out, that after achieving record Earnings Per Share in 2023, this marks two consecutive years of record EPS performance.

Despite demand and destocking challenges in the second half of 2023, our revenue was only down 4 percent for the full year, and through successful execution, we were able to expand our margins.

Gross margins were a robust 38.5 percent, up 270 basis points and EBITDA margins ended at 17.4 percent, up 40 basis points year-over-year.

Third, our business is generating meaningful cash flow, and we are deploying capital consistent with our capital allocation priorities.

Free Cash Flow for the year was strong at $217 million dollars, roughly flat with our prior year total.

With our ample free cash flow, our team took steps to reinvest in high-return opportunities.

For the year, we invested nearly $110 million dollars in strategic M&A designed to strengthen our solutions and enhance growth.

Further, we returned over $200 million dollars to shareholders mostly through share repurchases.

Over the last year, we purchased 2.3 million shares, or approximately 5 percent of the total shares outstanding.

Since 2022, our share repurchase program has returned approximately $350 million dollars to shareholders resulting in the purchase of 4.9 million shares, reducing total shares outstanding by more than 10%.

After deploying over $300 million dollars in 2023 in M&A and share repurchases, our leverage remains low at 1.4 times This leaves us with significant financial flexibility to execute upon our strategic plans whilst staying around our targeted net leverage ratio of 1.5 times.

Now please turn to slide 5.

Before we dig deeper into our results for the quarter and year, I wanted to pause momentarily and reflect on the progress Belden has made during our solutions transformation.

For those new to Belden, we began a transformation in early 2020 in our industrial business. Our main objectives were to bring together disparate Belden products, focus on data needs, and ultimately engage with customers in a different way to solve problems.

Since then, we have been working feverishly behind the scenes to break down barriers, add new solutions skills internally, and invest heavily in our customer innovation centers, or CIC's, of which we just opened the 5th in India recently. Our focus has been centered around key verticals with complex challenges. With our enhanced solution strategy, we work to simplify otherwise complex solutions and deepen our relationship with customers.

Over the past few years, we have grown our solutions business meaningfully and see a runway for much more growth and opportunity.

By focusing on customer problems, and working to provide high-quality products and solutions, we are winning in the marketplace.

Over the past market cycle, our business has performed admirably with a 6 percent revenue CAGR, meaningful improvements in gross margins, which led to a 140 basis point expansion in our EBITDA margins.

Improved growth combined with margin expansion has led to impressive improvements in our Earnings Per Share, which resulted in a 15 percent CAGR since starting our transformation.

We have reconfigured our business to improve organic growth and prioritize higher value-added products and solutions, and the results have been meaningful and impressive.

If you look at Belden today compared to where we were 4 years ago, you will see massive changes underway and I am pleased to see these changes impact our financials so vividly.

We ended 2023 with a new record for EPS and expect our business to perform similarly over the next cycle with increased revenue and record earnings.

Finally, please turn to slide 6 for a review of our capital allocation priorities in action during the past cycle.

From a capital allocation perspective, much has been accomplished during our transition.

First, we divested from two businesses that were underperforming and no longer aligned with our solutions strategy.

As a result of those sales, combined with our impressive Free Cash Flow, we generated approximately 1.3 billion dollars of capital.

On the right-hand side of the page, you can see where those funds were invested.

First, over the last 5 years, we returned approximately 500 million dollars to shareholders through share repurchases and dividends. Our buybacks have accelerated these past 2 years as we purchased approximately $350 million dollars in stock and reduced our shares outstanding by over 10 percent.

Second, our M&A activity has been steady with a total of 10 acquisitions, deploying approximately $400 million in capital.

And finally, the Belden of the past had too much leverage. As part of our new strategy, we sought to reduce our leverage to a more reasonable 1.5 times target, which we achieved these past 2 years.

Our lower leverage provides us with more flexibility during times like these to continue to invest in our business, seek out attractive acquisition targets, and return capital to shareholders.

This slide is a perfect illustration of our capital allocation priorities in action, and how you can expect to see us operate in the future.

Now please turn to slide 7 for a quick summary of a few noteworthy customer wins during the quarter.

These wins help highlight how our go-to-market strategy is evolving and showcase real-world examples of our solutions in the marketplace.

First, on the Industrial Automation side, our teams succeeded in winning a project with one of the largest public transportation networks in Germany. Our customer was having issues with passenger experience, real-time position tracking of assets, and predictive maintenance. Working with Belden, we helped develop a comprehensive solution to improve their network and solve critical pain points in passenger experience.

Next, I am pleased to report that we won a $6 million dollar agreement with a major healthcare customer as an end-to-end solutions provider. This specific customer was looking to solve key data and network issues and brought their team to our CIC in Chicago for a demo. They were very impressed with our consultants and solutions, and ultimately awarded Belden the contract on top of eliminating multiple previous product suppliers and awarding us that business as well. This win highlights the power of our CICs and how the strategy not only showcases our solutions but also helps us gain share in the marketplace.

Finally, as we have discussed previously, we are working hard to streamline our Enterprise Solutions segment and move it down the solutions path in the same way we did for Industrial Automation a few years prior. I am proud to share that our team is gaining traction in the marketplace by selling enterprise and broadband products across key distribution partners. In the past Belden operated with walls between markets and products that limited our opportunity. By breaking down these walls and silos operationally, we can bring our products to market in a more comprehensive way which lays the foundation for true solution sales. This work is important as we continue down our solutions path, and these wins are examples of how things are changing.

I will now request Jeremy Parks to provide additional insight into our fourth quarter and full year 2023 financial performance.

Jeremy Parks, Belden Inc. – CFO

Thank you, Ashish.

I will start my comments with results for the fourth quarter and full year 2023, 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 8 in our presentation for a review of our fourth quarter results.

Fourth quarter revenue decreased 16 percent year-over-year and was down 18 percent organically to $551 million dollars, exceeding the high end of our guidance of $530 million dollars.

As expected, we experienced softness in Industrial Automation with revenues decreasing 17 percent organically and Enterprise Solutions revenue decreasing 19 percent organically.

Orders for the fourth quarter were up 4 percent sequentially, with slight upticks in both segments. We ended the quarter with a book-to-bill of 0.96 reflecting a more stable order environment.

Gross profit margins were 38.2 percent, expanding 40 basis points compared to the prior year.

EBITDA came in at $88 million dollars with EBITDA margins down 140 basis points to 16.0 percent.

Decremental margins for the second half performed as expected, down 20 percent, in line with our targets.

Net income in the quarter was $61 million dollars, from $76 million dollars in the prior-year period.

EPS was $1.46, above the high end of our guidance range of $1.20.

Please note that relative to prior guidance, we experienced a favorable tax rate that resulted in a $0.15 benefit for the quarter. The benefit was the result of our continual tax planning efforts and certain discrete tax items.

Now, please turn to Slide 9 in our presentation for a review of our full year 2023 results.

Full year revenue decreased 4 percent year-over-year and was down 4 percent organically to $2.5 billion dollars.

By segment, Industrial Automation experienced a 1 percent decline in revenue organically and Enterprise Solutions experienced an 8 percent decline in revenue organically.

Gross profit margins were 38.5 percent, expanding 270 basis points compared to the prior year.

Our business is benefiting from favorable product mix, as we continue to deliver solutions that typically consist of more higher-margin active components.

EBITDA was down 1 percent year-over-year to $438 million dollars with EBITDA margins up 40 basis points to 17.4 percent.

Net income for the year was $293 million dollars, up 3 percent from $285 million dollars in the prior year.

And finally, EPS increased 7 percent to a record $6.83, up from $6.41 in the prior year.

Turning now to slide 10 in the presentation for a review of our business segment results for the quarter.

For the quarter, performance by segment was aligned with our expectations.

Orders were soft, as our markets experienced continued slowness combined with the lingering impact of destocking.

For the fourth quarter, Revenue in our Industrial Automation Solutions segment was down 16 percent compared to the prior year, and EBITDA was down 18 percent.

Orders in Industrial Solutions were up 7 percent sequentially, and down 19 percent year-over-year.

For the quarter, we experienced particular weakness in our discrete end markets which continue to exhibit customer destocking.

For the fourth quarter, Revenue in our Enterprise Solutions segment was down 17 percent compared to the prior year, and EBITDA was down 29 percent.

Orders in Enterprise Solutions were up 1 percent sequentially, and down 2 percent year-over-year.

As expected, we continue to see customer destocking in both the smart buildings and broadband markets. Longer-term we anticipate meaningful growth in broadband as the investment cycle ramps up.

Now onto slide 11 for a review of segment results for the full year.

For the full year 2023, in the Industrial Automation Solutions segment revenue decreased by 1 percent year-over-year.

For the full year revenue was off in Discrete Manufacturing, partially offset by growth in other markets including Process, Mass Transit, and Energy.

Industrial Automation segment EBITDA increased year over year to $287 million dollars and EBITDA margins were 20.7 percent for the year, with margins expanding by 100 basis points.

Turning now to our Enterprise segment.

For the full year 2023, in the Enterprise Solutions segment revenue decreased by 6 percent year-over-year.

We saw a moderate decrease in most of our end markets, as customers continued to work through inventory.

Enterprise Solutions segment EBITDA margins were 13.3 percent for the year, compared to 13.5 percent in the prior year, down 20 basis points due to lower volume leverage.

Next please turn to Slide 12 for our balance sheet and cash flow highlights.

Our cash and cash equivalents balance at the end of the fourth quarter was $597 million dollars compared to $688 million in the fourth quarter of 2022.

Our financial leverage was 1.4 times net debt to EBITDA at the end of the fourth 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.

Through the fourth quarter, our trailing twelve-month free cash flow was $217 million dollars, just slightly below prior year levels.

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

In 2023, we invested nearly $110 million dollars in new and complementary businesses and returned over $200 million dollars to shareholders.

Please turn to Slide 13 for our updated outlook.

First, we have decided to provide guidance one quarter at a time, aligned with the short-cycle nature of our business. During these challenging times, our focus will remain on execution.

For the first quarter, we anticipate challenges from the prior year to continue, including customer destocking and other temporary headwinds. Relative to the fourth quarter, we expect end demand to be stable with revenue down slightly, in line with normal seasonal patterns.

If you recall, the first quarter is typically our weakest quarter seasonally, and we would expect that trend to continue for 2024.

For the first quarter, assuming current market conditions do not deteriorate further, we expect sales in the range of $505 million to $520 million dollars and adjusted EPS in the range of $1.00 to $1.10.

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

Ashish Chand, Belden Inc. – President & CEO

Thank you, Jeremy.

Stepping back, the fourth quarter was challenging with many uncertainties to navigate. We view the current softness as temporary with demand reacting to the economic environment and customers continuing to destock.

Over the short term, we see stability in our business and are hopeful that we will see an uptick in the back half of the year.

The long-term secular drivers and investment cycles remain, and after we get on the other side of this weakness, we expect to see higher revenue and EPS through the next cycle.

Over the next few quarters, what can you expect from us?

First, you can expect us to continue to focus on execution and managing our margins to enhance shareholder value. We will have a balanced focus on continuing to invest in our solutions transformation, whilst at the same time working to achieve incremental and decremental margins as we have in the past.

Second, you can expect us to continue to drive solutions sales, with an enhanced focus on breaking down the barriers in our Enterprise Solutions segment and leveraging our world-class products across a broader customer base. Our CICs are now in full swing, and we expect to gain leverage on our investments in the quarters and years to come.

And finally, you can expect us to continue with our capital allocation framework and invest our healthy free cash flow into high-return opportunities. That means first and foremost investing in organic growth. Over the past cycle, we delivered a 6 percent revenue CAGR with 4 percent of that from organic growth. This will continue to be our primary focus.

After that, we will continue to seek out bolt-on acquisitions that enhance our solutions offering.

And finally, we will look to return capital to shareholders, primarily through share repurchases.

Looking forward, our portfolio is well-positioned and our balance sheet is strong. We will continue to execute operationally through these challenges and look for opportunities to seize the moment and gain share where possible.

To close, I would like to take a moment and recognize the contributions of our associates this past quarter and year. I appreciate your efforts 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.