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nVent Electric Plc (NVT)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

OTHER PARTICIPANTS

Julian Mitchell

Analyst, Barclays Capital, Inc.

Deane Dray

Analyst, RBC Capital Markets LLC

Nigel Coe

Analyst, Wolfe Research LLC

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Brian Drab

Analyst, William Blair & Co. LLC

Scott Graham

Analyst, Seaport Research Partners

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the nVent Second Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Tony Riter, Vice President, Investor Relations. Please go ahead.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Thank you and welcome to nVent second quarter 2024 earnings call. On the call with me are Beth Wozniak, our Chair and Chief Executive Officer; and Sara Zawoyski, our Chief Financial Officer. Today, we'll provide details on our second quarter performance and outlook for the third quarter and an update to our full year 2024 outlook.

Before we begin, let me remind you that any statements made about the company's anticipated financial results are forward-looking statements, subject to future risks and uncertainties such as the risks outlined in today's press release and nVent's filings with the Securities and Exchange Commission. Forward-looking statements are made as of today, and the company undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances. Actual results could differ materially from anticipated results.

Today's webcast is accompanied by a presentation, which you can find in the Investors section of nVent's website. References to non-GAAP financials are reconciled in the appendix of the presentation. We'll have time for questions after our prepared remarks.

With that, please turn to slide 3 and I'll now turn the call over to Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Tony. And good morning, everyone. It's great to be with you today to share our strong second quarter results. We continue to execute on our strategy for growth with a focus on high growth verticals, new products, geographic expansion and acquisitions. In the second quarter, we delivered record sales, up 10% and adjusted EPS up 6%. Our strong execution resulted in another quarter of margin expansion, double-digit adjusted operating income growth and robust free cash flow. Overall, we are pleased with our first half performance and are raising our full year sales guidance.

Last week, we announced an agreement to sell our Thermal Management business. We also closed on the Trachte acquisition in July, marking our seventh acquisition for nVent. These moves are part of our portfolio transformation, which is making nVent a more focused and higher growth electrical connection and protection leader. This further positions nVent with the electrification, sustainability and digitalization trends.

Now onto slide 4 for a summary of our second quarter performance. Sales in the quarter were up 4% organically, led by infrastructure and industrial. New products contributed over 3 points to sales growth and we launched over 50 new products in the first half. Adjusted operating income grew 12% year-over-year, with return on sales up 40 basis points on top of a 540 basis point improvement last year. Adjusted EPS grew 6% on top of 35% a year ago. We generated an impressive \$112 million of free cash flow, up over 80%. We are on track for another strong year.

In addition, I am very proud of the numerous awards and recognitions we continue to receive. We were certified as a great place to work for the third consecutive year. We recently earned the designation of Recognized Employer in the 2024 VETS Indexes Employer Awards for our work, supporting veterans and military families. And we're excited to share that nVent earned a top score on the Disability Equality Index. We were recognized by Disability:IN as a Best Place to Work for Disability Inclusion in the United States. These awards are a reflection of the great work of our nVent team members.

Looking at performance across our key verticals, infrastructure led the way, up high-single digits organically, with Data Solutions growing strong double digits. Industrial and energy each grew mid-single digits. Commercial resi declined low-single digits with continued end market softness. Turning to organic sales by geography. All key geographic regions grew, led by North America, up mid-single digits. Europe grew modestly, led by Thermal Management, and Asia Pacific had strong, broad-based growth.

Lastly, organic orders in Q2 declined year-over-year due to timing of Data Solutions orders. Adjusting for this, orders grew low-single digits. Importantly, in July, we saw significant orders in Data Solutions. Looking ahead, from a vertical perspective, we continue to expect infrastructure to have the strongest growth in 2024. We expect continued strength in data solutions in both power and cooling. Industrial, we also expect to be positive. Commercial remains soft, anticipating it to be flat with residential being down.

In energy, we expect growth driven by the energy transition. For guidance, we are raising our full year sales outlook, reflecting our first half performance and the addition of Trachte. We are maintaining our full year organic

sales range and the midpoint of our adjusted EPS range. Overall, I'm very proud of our nVent team and how we continue to execute and deliver for our customers and shareholders. We're on track for another strong year.

I will now turn the call over to Sara for further detail on our second quarter results and our updated outlook for 2024. Sara, please go ahead.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

Thank you, Beth. We had a strong second quarter with record sales, margin expansion and robust free cash flow. Let's turn to slide 5 to review our results. Record sales of \$888 million were up 10% relative to last year, or up 4% organically. Volumes contributed 4 points to growth, and price was essentially flat. Acquisitions added \$52 million to sales or 6 points to growth. Foreign exchange was a slight headwind. Second quarter adjusted operating income was \$202 million, up 12%, with incrementals of 27%.

Return on sales was 23%, up 40 basis points year-over-year. Inflation was roughly \$25 million in the quarter. Q2 adjusted EPS was \$0.82, up 6% and in line with our guidance. This included a \$0.02 contribution from the ECM acquisition. We generated impressive free cash flow in this quarter of \$112 million, up 81%, reflecting our strong operational performance.

Now please turn to slide 6 for a discussion of our second quarter segment performance. Starting with enclosures, the team delivered another outstanding quarter. Sales of \$441 million increased 10%. The TEXA acquisition added 2 points to sales. Organically, sales increased 9%. This included over 10% volume growth, with price slightly down. From a vertical perspective, infrastructure led up double-digits with strength in Data Solutions in both power and cooling. We also saw growth in commercial and industrial.

Geographically, North America led up low double digits. Enclosures second quarter segment income was \$104 million, up 15%. Return on sales of 23.5% increased 100 basis points year-over-year, driven by strong growth and execution. This was on top of a 630 basis point improvement a year ago.

Moving to Electrical & Fastening. Sales of \$299 million, increased 12%. The ECM acquisition contributed 17 points to sales growth and as of mid-May is in our organic results. Organic sales were down 5%, reflecting positive price and lower volumes. As expected, infrastructure declined due to customer and channel inventory normalization and a strong prior year comparison. Commercial resi was down due to softer commercial and ECM resi sales.

Geographically, organic sales declined in North America and Europe while Asia Pacific was up. Electrical & Fastening segment income was \$92 million, up 7% year-over-year. Return on sales was a solid 30.9%, down 150 basis points, mainly due to lower volumes and sales mix.

Turning to Thermal Management. Sales of \$141 million, were up 4% organically. Price and volume each contributed 2 points. Growth was led by industrial with continued strength in MRO. In addition, backlog grew year-over-year and sequentially. With energy transition now representing nearly half of the project backlog. Geographically, growth was led by Europe and Asia Pacific. Thermal Management segment income of \$28 million was down 2%. Return on sales of 19.9% was down 110 basis points year-over-year, impacted mainly by sales mix due to projects.

On slide 7 titled balance sheet and cash flow, we had a strong free cash flow in the quarter delivering \$187 million year-to-date. We ended the quarter with \$270 million of cash on hand and \$600 million available on our revolver. In mid-July, we drew on a new term loan and the revolver to fund the \$695 million Trachte acquisition.

Turning to slide 8, where we outlined our capital allocation priorities. Growth remains our first priority, both organic and inorganic, with a balanced and disciplined approach to capital allocation to deliver strong returns. We are increasing investments in new capacity in liquid cooling to support the growing backlog in 2025 and beyond. On inorganic, for Trachte, we expect full year sales of approximately \$250 million. Return on sales of roughly 20% and over \$5 million of run rate cost synergies.

Like our prior deals, we expect Trachte to exceed our weighted average cost of capital by year three. And lastly, we have returned \$64 million in dividends in the first half to shareholders. Our balance sheet is in good shape. Cash flow is strong and we expect to have nearly \$2 billion available for capital deployment in 2025 from cash generated and anticipated net proceeds from the Thermal Management sale.

Moving to slide 9 and our full year outlook. With our solid first half performance and the Trachte acquisition, we are raising full year reported sales growth guidance to 11% to 13% versus 8% to 10% previously. We continue to expect organic growth in the range of 3% to 5%, including positive price and strong volume for the year. And we now expect acquisitions to contribute approximately 8 points to growth. We are maintaining the midpoint of our adjusted EPS range by narrowing the range to \$3.23 to \$3.29, up 6% to 8% versus our prior guidance of \$3.22 to \$3.30.

A couple of updated modeling assumptions to note. First, adjusted operating income is expected to be up 13% to 15% versus 10% to 12% previously. Second, full year net interest is now expected to be approximately \$110 million versus \$90 million previously, both reflecting the impact of the Trachte acquisition. For clarity, we have less Thermal Management in our full year and Q3 outlook due to the recent signing of the sale agreement and timing of regulatory approvals.

We expect to move Thermal Management to discontinued operations when reporting our Q3 earnings results and plan to recast our historical financials and guidance at that time. For modeling purposes, we expect Thermal Management 2024 growth to be in line with overall nVent organic sales guide, margins to expand and tax rate of approximately 23%.

Turning to our third quarter outlook on slide 10, we expect reported sales to grow 8% to 10% with acquisitions contributing approximately 6 points to sales. Organic sales are expected to be up 2% to 4%. This reflects more modest growth in Enclosures and Electrical & Fastening turning positive. We expect adjusted EPS to be between \$0.80 and \$0.82, which includes increased investments in Data Solutions as we bring new capacity online and make investments in engineering and R&D, as we have previously discussed.

Wrapping up, I am pleased with our second quarter performance and believe we are well-positioned for another strong year. This concludes my remarks and I will now turn the call back over to Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Sara. Turning to slide 11, our strategy has remained consistent and we are executing on the core elements focused on high growth verticals, new products, global expansion and acquisitions. As part of our strategy, we are transforming to higher growth verticals, which includes the acquisition of Trachte. And we believe

the announced sale of the Thermal Management business will make us a more focused and higher growth company.

Moving to slide 12, I'd like to give more detail about the planned sale of the Thermal Management business. Last Thursday, we announced that we entered into a definitive agreement to sell Thermal Management for \$1.7 billion, subject to customary adjustments. This transaction is expected to close by early 2025, and we plan to deploy the net proceeds from the sale to acquisitions and share repurchases.

We believe this is a positive move for both Thermal Management and nVent. Thermal Management is a great business with a strong team and the sale will enable Thermal to further build on its leading positions and differentiated solutions to drive growth across its verticals and expand with the energy transition. For nVent, the sale represents a significant step consistent with our ongoing strategy to becoming a higher growth and more focused electrical connection and protection leader, well-positioned with the megatrends of electrification, sustainability and digitalization.

Turning to slide 13. We've recently closed on our acquisition of Trachte, a leading manufacturer of custom engineered control building solutions, designed to protect critical infrastructure assets. If you look at the pictures on the chart, these control buildings are essentially larger Enclosures and within them are even more Enclosures and other products that nVent provides. The demand for control houses is increasing with an aging electrical infrastructure that needs upgrading and need to expand the overall grid, the move to more renewable energy and the increase in data centers. The addition of Trachte further strengthens our solutions in high growth verticals with approximately 85% of its sales in power utilities, data centers and renewables.

The business has been growing strong double-digits with the robust backlog giving us visibility into 2025. This is a great strategic fit for nVent and provides us with a new platform that we can build on with significant growth potential. On slide 14, you'll see an overview of nVent's portfolio transformation since the company was formed in 2018. Our acquisition framework starts with finding companies that have great products aligned to high growth verticals with the ability to scale and invest for growth.

We've acquired seven companies to-date, adding more than \$850 million to sales. We have a strong acquisition track record.

With the Trachte and thermal portfolio moves, we're expecting our exposure to secular trends to be more than 70% compared to 60% two years ago. Infrastructure is expected to be about one-third of our sales. This transformation positions us for higher growth and long-term value creation. We are building a more sustainable and electrified world.

Wrapping up on slide 15, we had another strong quarter with record sales, margin expansion and robust cash flow. We continue to execute well on our strategy as we transform our portfolio to have a greater emphasis on infrastructure and secular trends. We are raising our full year sales guidance and adjusted operating income. We believe we're well-positioned with the electrification, sustainability and digitalization trends. Our future is bright.

With that, I will now turn the call over to the operator to start Q&A.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Julian Mitchell from Barclays. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Maybe just the first question around that op profit bridge on slide 5. So, if we look at sort of net productivity and price combined, I suppose that minus \$5 million also year-on-year in Q2 and sort of gross price in revenue is flattish in the quarter. So just wondered sort of for the balance of the year, how should we think about the gross price effect in sales? And then also, what that sort of price net productivity number is likely to be in op profit?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Yeah. Thanks, Julian. I'll take that one. So, I would just start by saying, we came into the year, expecting a more modest price contribution and much more volume. We also said we expected more productivity in part with that volume coming in and seeing nice productivity on that volume. So, I would say largely we're seeing as we expected coming into the year. From a second half perspective, we do expect pricing to continue to be modest here in the back half, getting to overall price positive for the full year.

Within the quarter, I mean, that is going to vary a bit in terms of mix of product, mix of programs. And just as a quick reminder, pricing on new products doesn't show up in that pricing line. From a productivity standpoint, I mean, we're seeing strong productivity first half, roughly \$50 million. We expect productivity to be, again, strong in the back half. That relates to, again, some of the volume contribution that we're seeing, but also a lot of work done by the teams around costs as well as just ongoing process transformation.

I think the other thing I would call out is we did expect the investments to ramp through the course of the year. You're seeing that in the first half and R&D being higher as a percentage of sales. In particular, here in Q3, we do expect the Data Solutions investments that we've been talking about through the year to be increased in part because as we bring that capacity online here in Q3, there's some ramp-up costs associated with that.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's very helpful. Thank you. And then maybe just one follow-up. As you mentioned, Q3, Sara. I think normally the seasonality of nVent is that EPS is up sequentially in Q3 and then down in Q4 sequentially. But looking at your guide for this year, it looks like it's the other way around. So, you've got the EPS down sequentially in Q3 and then up sequentially Q4. I don't think that's the Trachte deal because that's EPS neutral. So, is it something to do with that phasing of the investment spend in the third quarter versus the fourth or something else moving around?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

No, I think it would be just the investment spend in terms of Q3 versus Q4. I think the other thing to call out is just timing of the Data Solutions, as that revenue drops in overall. We're seeing a little bit more of that in Q4 versus Q3.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: The next question comes from Deane Dray from RBC Capital Markets. Please go ahead.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Good morning.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

A

Good morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, I love seeing the divestiture of thermal. That's exactly the kind of simplification initiative that we were looking for. Can you – just some organizational implications here? What's the bias on the proceeds between M&A and buybacks? And for the Trachte acquisition, what are the implications of when you say it's a new platform? So, where might there be some whitespace adjacencies around that? Thanks.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Okay, Deane, I'll take that. So, on the thermal sale, we expect that sale to complete in early 2025. And as I stated in my prepared remarks, we said we expect the net proceeds to be used for acquisitions and share repurchases. And I think our capital allocation strategy has always been that we prioritize growth first, both organic and inorganic. And with acquisitions, you never quite control the timing. So, that's why we believe that we have some available cash that we will have some opportunity for share repurchases.

On the Trachte acquisition, when we talk about it being a new platform and I made the comment that it really is just a larger enclosure. This is not an area where we have played with Enclosures previously. And so, it is a new type of enclosure for us serving different end markets that we maybe not served fully before. We think we can build on this as a platform in several ways. One, we believe we have product pull through because, as I commented, there's more enclosures inside that enclosure and other products.

Two, we also see that opportunity to expand this type of enclosure offering into other verticals. So, we've talked previously about battery energy storage, and that's an area where we believe our liquid cooling solutions play. And now, having a larger enclosure for putting together a solution there, we think we can have an extension of that platform, as well as I believe there's other M&A opportunities there that we could add on in this area. So, we think it's a great acquisition, a great fit and more growth potential for us there.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's really helpful. And then second question regarding liquid cooling, and we appreciate the update on all the investments that you're making in order to increase capacity by 4x. And it begs the question – there's two questions. One is, how much were based upon existing demand, how far out does that capacity serve you? I know there's been some recalibration about growth rates, but just what's your sense of how far does that take you out?

And then another question we're getting related to liquid cooling is some announcements by other players looking to enter in some way liquid cooling. Could you give us a sense of what the barriers to entry are? And specifically, when we see an announcement from a big equipment manufacturer saying they're developing a proprietary, liquid cooling. What we don't know is behind the scenes you all may very well be partnering with them and you're certainly not going to name names of customers. But just give us that perspective about when we see announcements of other players looking to get into liquid cooling? I know there's a lot to unpack there, but thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Okay, so starting with capacity, some of that capacity is coming online. And as you know, we had already expanded some space in our Minnesota facility and moving out of distribution center. So, we're working on that through this year and into next year. And I think that capacity, our view right now is that takes us through 2026, maybe into 2027, and who knows? We'll see. It's very dynamic, but we think that that will serve us for the next couple of years well, and we'll continually look at efficiencies and where else we need to expand. And we have done some other expansion in some of our other existing footprint, I might add as well.

When we think about the overall cooling landscape, I think, you see lots of different players from start-ups to those that are already in that space entering into the cooling area. And I think that should be as expected because the demand is there. We know that these new GPU chips require cooling. So, I think you're going to see various entrants and partnerships. And we've done that ourselves over the last couple of years. I think what really matters is the ability to have scale and proven solutions. And I think our portfolio we've been working at this pre-spend that we continue to develop new products and new offerings and continue to push ourselves on that and are making investments in R&D.

So, I think overall that space is just going to grow and we're going to see many different entrants and we feel very confident in our solution and our ability to grow at the rates that we've been growing at.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thanks, Deane.

A

Operator: The next question comes from Nigel Coe with Wolfe Research. Please go ahead.

Nigel Coe

Analyst, Wolfe Research LLC

Thanks. Good morning, everyone. Thanks for the question. Going back to...

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

A

Nigel Coe

Analyst, Wolfe Research LLC

...the – good morning. Going back to the sort of the four key seasonality. I think Sara, you called out the Data Solutions sort of dynamics in the back half of the year. Is there an unusually large kind of quarter lined up for 4Q or is it more 3Q shipments pushing the 4Q? Just want to understand that ship between 3Q and 4Q? And then maybe I think you mentioned EFS back to growth in third quarter. I just want to make sure that's correct.

Q

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

Yes, couple of things there. So EFS back to growth in Q3. Yes, that's our expectation. They'll largely have some of those infrastructure headwinds behind them that that's articulated. We also see some of those ECM sales synergies that we've been talking about beginning to kind of build as we exit the year more in Q4 and into 2025. In terms of the Q3 to Q4 dynamic. Again, I think the biggest thing there is just the level of investments that we expect to see here in Q4 and that should taper – I'm sorry, here in Q3 and that should taper a bit into Q4.

A

And then the other thing is just in terms of timing of the Data Solutions customer programs. We saw great growth and contribution there in the first half. We continue to expect good growth here in 2024, overall, on track to exceed that greater than \$500 million in Data Solutions for the full year. It's just there's some timing elements here that pushes more of that into Q4 versus Q3. So, those are the two things mainly that are impacting that Q3 to Q4 dynamic.

Nigel Coe

Analyst, Wolfe Research LLC

Great. That's great color. Thanks. And then just on the – I think the negative 1% price in Enclosures. How do you see that developing in the back half of the year? I think you mentioned flat pricing for the full year. Just curious, if we hone in on Enclosures back half of the year, are we seeing deepening price deflation pressures in the back half? And how do we think about the Data Solutions portion? Would that be deflationary as well? Or would this more sort of the core enclosures pricing?

Q

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

So, just to clarify, for overall nVent, we still expect positive price for the year. And again, coming into the year, we said we expect more modest price and much more volume and that's how we're seeing it play out here in the first half. And that's how we would again expect it to play out for the back half. From a pricing dynamic and specifically across the segments, two out of the three, right, had positive price here in Q2 and specifically for Enclosures, what's going to impact any given price across the segments is going to be the mix of products and this mix of projects.

And again, the new products would not be included in that year-over-year price. Data Solutions, to the extent, is a new product, it wouldn't necessarily show up in that pricing line, to extent, it's a program that's continuing on, that would be something that would show up in that overall price line. So, again, in the back half, we expect overall modest price, consistent with generally the first half of what we what we saw.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Modest price for total nVent.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

For total nVent.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay, great. I'll pick it up offline. Thanks.

Operator: The next question comes from Joe Ritchie with Goldman Sachs. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, everybody.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Morning.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Morning.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey, can you guys maybe touch on the diverging trends that you're seeing in the infrastructure end market across both EFS and Enclosures and whether trends like change dramatically as the quarter progressed?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Sure. I think one of the things that we've stated both in our last earnings call and also saw through Q2 is just some of the in the utility and telecom areas where lead times have come in. And there had been some inventory adjustments in the channels. So, that largely played out in our EFS business from Q1 to Q2. So, that's what we've seen there. On the other hand, I would say Data Solutions continued to be very strong for both Enclosures and EFS. So we saw a very strong Q2 as we did for Q1. So those would be the two major things that I would say both positive and on the other side where it was softer.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

And Beth, maybe on those inventory adjustments in EFS like do you think we're through those adjustments at this point? What's your expectation then for volumes picking up into the back half of the year?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, as Sara already noted, we do expect EFS to grow in Q3. So, we expect that some of that is those adjustments working their way out as well as some other strength and some other opportunities that we see in infrastructure.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay, fair enough. And then lastly – look, congratulations on the portfolio changes that you're making. I recognize that you're expecting to deploy capital both M&A and buyback. I guess, as you're thinking about the potential dilution from the thermal business. Is that going to kind of sway your capital deployment priorities, given what you know about your M&A pipeline today?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

No, I would say it doesn't change our priorities because these are long-term priorities. And so, certainly as we get to 2025, when the sale concludes, we'll see where we're at in terms of acquisitions and other opportunities. But I think our long-term capital allocation priorities and strategy does remain the same. Growth first, and followed by other areas and dividend and share repurchases.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay, great. Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: The next question comes from Jeff Hammond with KeyBanc. Please go ahead.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

A

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

Good morning.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

So just want to come back to, I guess, two end markets, commercial, construction and utility. I know you had talked about destocking in utility. But it does seem like there's some incremental weakening and just kind of a finer point on what you're seeing in those two end markets?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Yeah, I think what we've seen in utility has really been the – long-term trends are good, but there are certainly because of lead times on different components, including some of the things that we have like ground rods, we just saw lead times have improved significantly year-over-year. And so, last year there was a period of a lot of channel acquiring inventory and having longer lead times. And so, that's just working its way out. But I'd say the overall prospects for the utility renewable, all of those end markets remain very positive.

A

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Commercial construction.

A

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

And commercial construction...

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Yes.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

In our commercial construction, I would say we've seen that soft. And so, as we've gone through particularly we see that in EFS. So, we have seen that market tend to be a little soft at this point.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then good to hear you're building backlog into 2025 in the data center business. Can you just speak to is that around lead times starting to build out or is that just pacing of long-term projects? And just on liquid cooling, I think your focus maybe near term has been with the hyperscalers, but just any new progress on getting product more standardized and through the distribution channel?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

So, when it comes to our backlog for 2025, this is how some of those programs are just laying out and customer preferences and they're also bringing their capacity online. And recall, we're also ramping in terms of just having more capacity. So, it's all of those things and as new programs go into 2025. When it comes to our overall portfolio, we have been developing more standardized offerings. And so, when we look at some of our CDUs, even some of our manifold capability that we're creating some more standardized products that can be used for various different solutions. So, that's an important part of our strategy, is to have solutions that can also be sold through to enterprise or through system integrators and through our distribution channel partners. And so, that's in progression as well.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you, Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: The next question comes from Nicole DeBlase from Deutsche Bank. Please go ahead.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, thanks. Good morning, guys.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Good morning.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

A

Good morning, Nicole.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Can we just go through the outlook for EFS margins in the second half? I think there was still a bit of an impact from M&A dilution in the quarter, and I think that that rolls off. So, is it possible that we could see EFS margins turn positive with revenue?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

So, I think we still expect EFS margins to be muted here in Q3. And I would just say in Q2 and Q3 of last year, we saw really strong sort of, I would say elevated return on sales north of 32%. And at that point in time, just based on what we were seeing by way of a sales mix, we said, look, there's a sales mix dynamic that is helping these return on sales, but we wouldn't expect that to proceed going forward as that sales mix kind of normalizes. And some of that is sort of some of these puts and takes that Beth talked about in terms of what was going on in infrastructure, etcetera.

So, overall, we do expect EFS margins to be muted for the full year and it's really no different than what we said as we entered into the year. And it's really in large part due to the lapping of the sales mix contributions from a year ago in Q2 and Q3 here specifically.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Okay. That's clear. And then I know thermal not going to be around for much longer, but just curious if we could talk about the margin outlook for thermal in the back half two as well as what drove the year-on-year decline in margins in the second quarter? I think you guys might have expected a little bit of growth. Thanks.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

The biggest factor for that Q2 return on sales performance was the project sales mix dynamics. And as we look in the back half, Beth alluded to this in her prepared remarks, the order book is good, the backlog is good. We do expect good growth to continue from the trajectory here in Q2 into the back half. And with that, we do expect return on sales expansion here in the back half.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. I'll pass it on.

Operator: The next question comes from Vlad Bystricky with Citi. Please go ahead.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning. Thanks for taking my call.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Good morning, Vlad.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

So, maybe just on NPIs, which I know has been a focus for you. I think you highlighted over 3 points of tailwind from NPIs in 2Q. Any color on sort of how you're thinking about new products contributing to growth for the full year?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Well, our view on new products is we've always said we wanted to get 2 points of growth and so we're already at 3. So, we're very pleased with that. And, we're going to continue to ensure that we have a robust new product vitality. And it's a really key element of our overall growth strategy.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Okay, great. That's helpful color. And then just wanted to follow up on the Trachte acquisition. Obviously, it's very early days as it's come into the portfolio. But can you just talk about what you see as your key priorities for the business in the first few months and quarters here and any potential quick wins you see in terms of synergies?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Well, always our – when we acquire a company is we want to ensure that we are positioning it for growth. And so, certainly, as I mentioned, Trachte has a very strong backlog. So, we want to ensure that we can execute on that backlog. At the same time, we're trying to identify the synergies, particularly in the early days, looking at cost synergies, whether that's through sourcing, etcetera or indirect spend. So, we work on those things as well as integrate into our overall company processes and making people feel very welcome and to be part of nVent.

A

So, I think, too early to say early wins because it's just been several weeks. But for us, it's just ensuring we start to identify the growth synergies, right. So, whether there's product pull through, whether there's opportunity for us to expand through different customer segments or end markets, and those usually take longer. But we work really hard in the early months of the integration to identify those opportunities and work on them.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

That's really helpful. Appreciate it. And then just last one for me. Any comments or color on potential stranded costs that we should think about with the thermal divestiture?

Q

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Well, I would just say, overall, that's something that we'll have to look at. From an overall cost perspective, we're going to continue to use those net proceeds, as Beth alluded to, to bring things into the portfolio from an M&A perspective along with the share repurchases.

But the other thing I would say is that this has been an ongoing focus of ours overall in terms of driving process improvements via business transformation and whether that's how we go to market. From a marketing standpoint, how we show up from a one nVent digital standpoint. These are things that as we think about this going forward with the two segments, Electrical & Fastening and with Enclosures, we also believe we can go a lot faster on some of these initiatives to drive underlying productivity, but also better customer experiences, better supplier experiences as well as employee experiences.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Great.

Operator: The next question comes from Brian Drab with William Blair. Please go ahead.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking my questions. The first one is about a week ago, there were some concerns that surfaced in the market about a potential generative AI over investment exposure down big. I'm just wondering how your expectation for growth in the Data Solutions business in 2024 has evolved throughout the year? You're seeing the real demand. I mean, you've got the boots on the ground, so to speak, and seeing really what's going on in that market. I just wonder if you could talk a little bit more about what you're hearing from your major data center customers and how the intensity and pace of their projects has developed throughout the year?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

I think the comment I would have there is that everyone is moving forward on their strategy with respect to AI and building that capacity and capability. Certainly one of the things that we understood is when one of the chip manufacturers announced their new chips had higher heat loads, that had some customers relooking at their system architectures and whether they had the right cooling and power infrastructure. And so, as a result, these are always dynamic things that we see. And sometimes that creates different projects being moved or accelerated or changed as a result of different heat loads, which I think is a natural progression.

So, it's very dynamic in that standpoint. But I think the long-term perspective here is there's investment going in. We've seen very strong growth through the first half of the year and we do expect to see that continue. And we've talked about building our backlog as we go forward into 2025. So, I think it's like any new technology, there's a lot of excitement around it. And it's going to scale and we'll see it continue to grow for the next several years.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Thank you. And then just following up on that, I think earlier in the Q&A, you reaffirmed the expectation for \$500 million or more in the Data Solutions business in terms of revenue for 2024. But I'm just curious if you could put a finer point on what the growth expectation is for Data Solutions and maybe specifically power cooling – power and cooling in 2024?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, we've always said that power and cooling were going to grow faster, although sometimes we often see our cable management growing at that same rate. But I think Sara might have commented, we expected to be over \$500 million of revenue and we've seen very strong double-digit growth through the first half. And expect full year that will remain very robust.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

Operator: [Operator Instructions] The next question comes from Scott Graham with Seaport Research. Please go ahead.

Scott Graham

Analyst, Seaport Research Partners

Q

Yeah. Hi. Good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Good morning.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

A

Good morning, Scott.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Good morning, guys. I have a couple of questions for you. First on the – you've got some things going in and out of debt obviously in the next six months. Could you give us an idea what pro forma net leverage looks like post thermal?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Well, here's what I would say Scott, I think layering in Trachte, I think is the first step here. So, as you layer in Trachte kind of at the end of this year, we would expect it to still be within our range, right, of 2 to 2.5 times, net leverage. So, I think that just gives you a view of our ability to do these acquisitions, generate strong cash and manage well within that leverage ratio.

The \$2 billion that I referenced in my prepared remarks is really suggesting that, look, if you take, just the free cash flow that we generate, plus the net proceeds that we talked about that roughly \$1.4 billion that gives us \$2

billion of cash, to go deploy and create great returns and shareholder long-term value there. So, I think that's the way we kind of frame it up and look at it just in terms of that capital deployment to go deploy.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Appreciate that, Sara. Thank you. On the orders, could you just kind of walk us through that a little bit? The organic and then the organic minus, the thermal and what we get back maybe in thermal in the third and fourth quarter. Could you help us on that a little bit more?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, let me just talk to orders, as we said through Q2 that orders were positive for our Thermal Management business, right. And we're building backlog. So, nice order growth there. We expect that to continue with the energy transition. For EFS, we had positive orders. For Enclosures, we had a little bit of this dynamic of some data – some significant Data Solution orders year-over-year. But as we look through July, we had some – that also was very positive. And I would just say overall for nVent, orders across all three segments through July have been good.

So, you know, I'm not sure, you know, the comment specific to thermal other than we think thermal is on a really good trajectory right now and has a really nice backlog and some momentum behind it.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Yeah, I didn't think – if I said thermal, I didn't mean to. I was talking about company overall, but you just answered it. I'm good. Thanks a lot.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Okay. Very good.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Beth Wozniak for any closing remarks.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you and thank you for joining us today. I'm very proud of our performance in Q2. We will continue to focus on delivering for our customers, employees and shareholders by executing on our growth strategy and transforming our portfolio. We believe nVent is a top tier, high performance electrical company, well-positioned for the electrification of everything, sustainability and digitalization trends. Thanks again for joining us. This concludes the call.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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