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nVent Electric Plc (NVT)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the nVent Electric First 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 of Investor Relations. Please go ahead.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Thank you and welcome to nVent's First 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. They will provide details on our first quarter performance, and outlook for the second quarter, and an update to our full-year 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 will now turn the call over to Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Tony, and good morning, everyone. I'm pleased to be with you today to share our first quarter results. We had another great quarter. We continue to execute on our growth strategy, focused on high growth verticals, new products, global expansion, and acquisitions. We had impressive volume growth, margin expansion, and robust free cash flow. We continue to see AI accelerate demand for our Data Solutions offerings. We also recently published our 2023 Sustainability Report, which highlights significant progress on our ESG goals, including adding two new goals. Overall, we are pleased with the strong start to the year and are raising our full year adjusted EPS guidance.

Now on to slide 4 for a summary of our first quarter performance. First quarter sales were up 18%. On an organic basis, sales grew 5% on top of 8% growth a year ago with growth across all geographic regions. New products contributed over 3 points to our sales growth, and we launched 17 new products in the quarter. Orders in the quarter grew low single-digits and sell-out through our key distribution partners remained positive. We believe the distribution channel has largely completed their inventory adjustments.

From a segment standpoint, Enclosures had strong sales growth driven by Data Solutions. As expected, Electrical & Fastening Solutions was down due to a decline in infrastructure with customer and channel inventory normalization. Thermal Management continued to improve sequentially and we believe is positioned for growth the rest of the year.

Looking at our key verticals. Infrastructure led the way, up low-teens with Data Solutions growing strong double-digits. Industrial grew low single-digits with all segments up. Commercial/Resi also grew low single-digits. And finally, energy was down, impacted by our exit from Russia a year ago.

Turning to organic sales by geography. We continue to see broad-based growth, led by North America up mid-single-digits, Europe grew low single-digits, and Asia Pacific grew high single-digits with solid growth in China. Lastly, segment income grew 30% year-over-year with return on sales up an impressive 200 basis points. Adjusted EPS grew 15% on top of 34% a year ago, and free cash flow grew 41% year-over-year. Looking ahead, for full year guidance, we are maintaining our sales outlook and raising our adjusted EPS range, reflecting our strong start to the year. We expect electrification, sustainability, and digitalization to continue to drive demand. We're on track for another great year.

From a vertical perspective, we expect infrastructure to have the strongest growth, benefiting from the electrification and digitalization trends. We expect continued strong growth in Data Solutions, particularly our liquid cooling solutions given the acceleration of AI. In Commercial, we anticipate modest growth with Residential being soft. In energy, we expect growth driven by the energy transition, in particular LNG, clean fuels, carbon capture, and hydrogen. Overall, I'm proud of our nVent team and how we continue to perform and deliver impressive results.

I will now turn the call over to Sara for further detail on our first 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. Let's begin on slide 5 with our first quarter results. We are off to a great start to the year. Organic sales growth and adjusted EPS exceeded guidance and execution was strong. Sales of \$875 million were up 18% relative to last year or 5% organically. Volumes were up 4 points and price added 1 point to growth. Acquisitions added \$98 million to sales or 13 points to growth. Foreign exchange was roughly flat.

First quarter segment income was \$192 million, up 30%, with incrementals of 33%. Return on sales was 22%, up 200 basis points year-over-year. Price plus productivity more than offset investments and total inflation of roughly \$20 million. As expected, the ECM acquisition was accretive to return on sales. Q1 adjusted EPS was \$0.77, up 15% and above the high end of our guidance range. Acquisitions contributed a strong \$0.06 in the quarter. We generated robust free cash flow of \$74 million, up 41% compared to a year ago, reflecting our strong operational performance.

Now please turn to slide 6 for a discussion of our first quarter segment performance. Starting with Enclosures, the team delivered a fantastic quarter. Sales of \$440 million increased 13%. The TEXA acquisition added 2 points to sales. Organically, sales increased 11% on top of 11% growth a year ago. This included high single-digit volume growth and positive price. Infrastructure grew strong double-digits, led by Data Solutions. Industrial and Commercial/Resi each grew low single-digits. Geographically, North America-led up low-teens, followed by Europe up mid-single-digits. Enclosures first quarter segment income was \$95 million, up 15%. Return on sales of 21.6% increased 50 basis points year-over-year, driven by strong growth and execution, while we continued to make significant growth investments.

Moving to Electrical & Fastening. Sales of \$292 million increased 42%. The ECM acquisition contributed 44 points to sales growth. Organic sales were down 3%, reflecting positive price and lower volumes. Industrial and Commercial/Resi each grew in the quarter. This was more than offset by a decline in Infrastructure due to customer and channel inventory normalization and a strong prior year comparison. Geographically, organic sales declined in North America and Europe, while Asia Pacific was up. Electrical & Fastening segment income was \$85 million, up 39% year-over-year. Return on sales was 29.2%, down 60 basis points, mainly due to lower volumes and the impact of the ECM acquisition.

Turning to Thermal Management. Sales of \$143 million were down 1% organically. The Russia impact was approximately 4 points to growth. Volumes were down low-single digits with positive price. Notably, Commercial/Resi continued to improve sequentially, and Industrial MRO sales remained strong. In addition, backlog grew year-over-year, and energy transition represents over a third of the project backlog. Geographically, growth was led by Asia Pacific, while North America and Europe declined. Thermal Management segment income of \$32 million was up 3%. Return on sales of 22.3% was up 80 basis points year-over-year due to strong execution and favorable mix.

On slide 7 titled Balance Sheet and Cash Flow, we ended the quarter with \$211 million of cash on hand and \$600 million available on our revolver. We believe our healthy balance sheet provides us with ample capacity to invest in the business and execute on our growth strategy.

So turning to slide 8, where we outlined our capital allocation priorities. We continue to prioritize growth and execute a balanced and disciplined approach to capital allocation to deliver great returns. We had strong free cash flow in the quarter, growing 41% year-over-year. As a result, we exited Q1 with a net debt-to-adjusted EBITDA ratio of 1.9 times. As previously announced, our quarterly dividend increased 9%, returning \$32 million to shareholders. We believe we are well positioned for capital deployment in 2024.

Moving to slide 9 and our full year outlook. We continue to expect reported sales growth of 8% to 10%, with organic growth in the range of 3% to 5%. This includes positive price and strong volume growth for the year. And acquisitions are expected to contribute approximately 5 points to growth. We are raising our full year adjusted EPS range to \$3.22 to \$3.30, up 5% to 8% versus our original guidance of \$3.17 to \$3.27. We now expect segment income to grow 10% to 12% for the year versus 8% to 11% previously. This raised guidance reflects the strong start to the year. All other modeling assumptions for the full year remain unchanged.

Looking at our second quarter outlook on slide 10, we expect organic sales to be up 3% to 5%. For segment organic sales growth, we expect Enclosures to lead with high-single-digit growth, Electrical & Fastening to be similar to Q1, and Thermal Management to turn positive. We expect adjusted EPS to be between \$0.81 and \$0.83, which at the midpoint reflects 6% growth relative to last year. Wrapping up, I am pleased with our first quarter performance. We delivered strong growth, margin expansion, and robust cash flow and are well positioned for another great 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. I would like to provide an update on our Data Solutions business. The acceleration of AI, greater data consumption, rising heat densities, and growth in edge computing are all drivers of demand for our Data Solutions offerings. We have a broad and innovative portfolio that includes liquid cooling, smart power distribution, cable management, enclosures, racks and cabinets, and leak detection and sensing solutions. We believe we are well positioned to grow with the significant data center infrastructure investments, driven by the acceleration of AI.

Today, only 5% of data centers are liquid cooled. With the technology shift to the new AI chip, liquid cooling is an imperative. In addition, liquid cooling can provide up to 50% energy savings and reduced power consumption. We estimate liquid cooling will grow 3 times faster than conventional air cooling and represent roughly 25% of data center cooling by 2028.

We believe we are a leader in this space and are able to provide a broad range of solutions, be it liquid to air, air to liquid, or liquid to liquid for both greenfield and retrofit. We have offered liquid cooling solutions for over 15 years, starting in industrial applications. We have developed technical application expertise and manufacturing and supply chain capabilities. Today, we are partnering with major data center players. Our innovative solutions, along with our ability to manufacture at scale, positions us to win in this rapidly growing space.

We are also building out a portfolio of standard products to drive broader adoption and scale through distribution channels. We view cooling and power to be the fastest-growing areas, which now make up 50% of our Data Solutions business. In the first quarter, we completed the move of our distribution center in Minnesota to a new location, freeing up that space to expand our liquid cooling capacity. We expect this new space to come online in Q3 and give us the ability to expand capacity fourfold. Lastly, we continue to expect our Data Solutions business to be over \$500 million this year.

Please turn to slide 12, titled 2023 Sustainability Report. At nVent, we are building a more sustainable and electrified world. Our commitment to sustainability is integral to how we operate, and we took measurable steps to improve our impact in 2023. Last month, we published our latest sustainability report that highlights the significant progress we've made across our people, products, and planet pillars.

Our people pillar focuses on inclusion, diversity, employee engagement, safety and integrity. In 2023, we increased global representation of women in management by 4 percentage points, improving diversity of leadership. Safety of our employees is a key priority. And in 2023, we improved our total recordable incident rate by more than 20%. We believe our people and culture are a differentiator and our efforts are focused on making nVent a great place to work.

Our products pillar focuses on developing highly innovative solutions that deliver efficiency, safety, and reduced resource consumption, creating a more sustainable future. In 2023, 85% of products in our new product introduction funnel had a positive ESG impact, and we're on track to get to greater than 90% by 2025. We set a new goal to eliminate single-use plastics from our product packaging by 2030. Through our innovative products and solutions, we are helping our customers build a more sustainable and electrified world.

For example, our electrical connection solutions, which include grounding and power connection, add resiliency to critical electrical systems. Our solutions include flexible busbars with a bending radius much smaller than that of cable, which enables space and material savings. Alongside benefits of easier installation, these higher current density conductors allow renewable energy and utility customers to meet the demands of increasingly complex applications.

Our planet pillar focuses on responsible energy, waste and water management to help protect our natural resources. In 2023, we reduced total greenhouse gas emissions by 9%, increased renewable energy consumption to 15%, and increased energy efficient LED lighting in our facilities to 89%. These are measurable steps, and to further demonstrate our commitment to environmental stewardship, we set a new goal to reduce water consumption by 25% by 2030.

I'm very proud that we've been recognized for our efforts. We were awarded a gold sustainability rating from EcoVadis placing us in the top 3% of companies assessed in our industry and in the 93rd percentile of all companies assessed. We were also recognized as one of America's greenest companies by Newsweek. We were named for the first time to the Fortune Best Workplaces in Manufacturing and Production list. And most recently, nVent was recognized as one of the world's most ethical companies by Ethisphere. Our sustainability efforts are key to our strategy and how we operate. I'm very proud of everything we have accomplished and the journey we are on.

Wrapping up on slide 13. We are off to a strong start to the year with record Q1 sales and adjusted EPS. We have made significant progress on our ESG goals. And we believe we are well positioned with the electrification of everything, sustainability, and digitalization trends. I am proud of our team's performance. 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] Our first question comes from Deane Dray with RBC Capital. Please go ahead.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone. Nice start to the year.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning, Deane.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

A

Good morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, lots of new data points here on slide 11 regarding your liquid cooling positioning and capacity. So that's the first question is that 4x expansion in your capacity. I had been talking about and thinking it was 2x, so obviously much bigger here. So you identified you have a new plant but – so the run rate by the end of this year, this is the 4x capacity, and how much of this capacity is already spoken for in terms of your line of sight on visibility of demand? So maybe a sense of utilization.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, we expect some of this capacity to start to come online through the back half of the year. And I mean, that's going to continue to grow into 2025. So when we talk at 4x capacity, some of that is the space. We have to continue to build out our labs, for example, in some of those lines. So we believe that that capacity supports the growth that we see this year and enables us – and we have some visibility into 2025. And certainly, we're working on testing some configurations with various customers. And that test process takes some while but we're just anticipating that that gets us through 2025, 2026, and we'll see beyond that where it takes us to.

And I think, Dean, to comment on the 2x, recall we've done a couple of things. First, we expanded capacity because we moved some lines out of our facility in Minnesota to Mexico, so that was our first expansion in the footprint that we had. Then we moved this distribution center out so that we could expand even further because that was the fastest thing that we could do to get capacity up online.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's great visibility then so – and I appreciate how nimble your manufacturing capacity has ramped up. And then just a second question, there's another new data point here for us at least. The identifying liquid cooling

growing 3 times faster than legacy, so legacy air, in our view, has been growing roughly mid-teens. So that looks like a step up in the growth versus the greater than 30% you had been saying. Is that a fair assessment?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

We think that it has increased from what we've seen previously. And so recall, we had a very strong quarter with Data Solutions.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Operator: Our next question comes from Julian Mitchell with Barclays. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Good morning. Maybe just wanted to start with the sort of price cost and gross margin dynamics. So I think you said inflation was a \$20 million headwind in Q1. So price cost was negative, maybe \$14 million or so in the first quarter. Just a couple of things on that. One is, is that why the gross margin declined year-on-year despite the volume growth? And then secondly, how should we think about that price cost dynamic playing out in your kind of segment income bridge for the balance of the year? Thank you.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Yeah. I'll start with – coming into this year, we said it's going to be a combination, and this is consistent with how we've run the business for years of price plus productivity, offsetting that total inflation, which includes material, labor, and everything else, as well as helping to fund those investments. And so we think Q1 played out exactly how we would have expected it to, and how we expect the year to play out as well.

And then secondly, I would say from a price perspective, we said, look, we want positive price this year. And, again, we saw that play out across all three segments in Q1. And importantly, productivity was going to play a more meaningful role in offsetting inflation and, again, helping us fund those investments. And we had also said, and we saw this play out really nicely here in Q1, and we would expect that to continue in the course of the year that, while we were getting some productivity in material and logistics last year, we weren't really getting that core four-wall productivity. And we began to see that here in Q1.

So as you think about price for the full year, we continue to expect that to be positive price. And when we think about that dynamic of price inflation productivity, there's nothing really to call out specifically through the course of

Q2 in the back half. The one thing that I will call out and that is impacting margins in Q2 here in the back half is just the increased investments. Part of that is going to be on the R&D side. You saw that in Q1. It was up 9% from where we're at in Q4, but also these investments around capacity, which we believe has great ROI to it as well.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

And, Sara, just on that point, the \$20 million number you mentioned earlier in the call, is that investment plus inflation or just inflation?

Sara E. Zawoyski*Executive Vice President & Chief Financial Officer, nVent Electric Plc*

A

That's just inflation. So that means that productivity was meaningful to help offset that inflation as well as help to fund some of those investments like the higher R&D.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

Absolutely. And my follow-up would just be on the EFS division. Just maybe help us understand kind of within infrastructure, that destocking, is it around utilities or some other vertical and how we should think about the sort of margins playing out at EFS over the balance of the year, please.

Beth A. Wozniak*Chair & Chief Executive Officer, nVent Electric Plc*

A

So when you look at EFS, where we saw that infrastructure weakness was utility and telecom. And just part of this is, last year, we had very high comps. I think we were up 40% in utility. And so, as lead times normalize and inventory not only at distributors but at the channel, that's what we saw. And telecom, I think, is just a softer market condition. So those were the two key drivers.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

Thanks very much.

Beth A. Wozniak*Chair & Chief Executive Officer, nVent Electric Plc*

A

And for margin, I'll let Sara just comment on that.

Sara E. Zawoyski*Executive Vice President & Chief Financial Officer, nVent Electric Plc*

A

Yeah. So from an overall margin standpoint, just remember that while ECM is accretive to overall nVent, it's dilutive to EFS more specifically. I think the other thing I would call out, just as you think about where we're guiding to in Q2, we do expect some margin contraction there in EFS, because of that ECM dilution, at least half a quarter, but also they begin to lap some pretty amazing return on sales of a year ago at 32% here in Q2 and Q3. And remember, we had called out that they had some mix benefits there that was benefiting those return on sales, but still on an absolute basis, good, healthy return on sales.

Julian Mitchell*Analyst, Barclays Capital, Inc.*

Q

Thanks so much.

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

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Wanted to dig back into the price. [ph] I thought when we (28:29) look at the 2% price in 2024, so maybe I got that wrong, but maybe just clarify that. And so, is 1% a good number to use through the year? But really, on orders, could you maybe just talk about orders by segment that's [indiscernible] (28:48) order growth, how that looked across the three segments? And then how did April look? I know it's – you just wrapped up April, but how did all this look for April?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

So I'll maybe start off on the price side. So, in our February call, we talked a lot about price and volume and saying that we would expect positive price, but volume would be a much more significant contribution to that overall top line, which is exactly the way Q1 played out. And we also said that that price plus productivity was going to help offset that total inflation, as well as help and fund those investments, which is how Q1 played out.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

And when we look at the order trends, orders were up mid-single digits in Electrical & Fastening and low-single digits in Thermal and Enclosures. And I think April looks like Q1.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. That's really helpful. And then on the capacity expansion and liquid cooling, which Deane covered quite well, how does the margin profile for liquid cooling look as you ramp that up? I mean, I'm guessing there's going to be a lot of staff costs and whatnot. So does that start to drag in a meaningful way or measurable way within the segment?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Yeah. So the Data Solutions business, which mostly largely sits in Enclosures, we said it's just roughly on par from a gross margin standpoint. But what we are investing in is that capacity. And as you might expect, as we bring that capacity online and make some pretty big shifts within one of our largest factories here in Q2 and Q3 to make room for that liquid cooling capacity, we are expecting some ramp-up costs to impact that here in Q2 and Q3, but that's reflected in our overall guidance here in Q2.

Nigel Coe

Analyst, Wolfe Research LLC

Q

So does that mean – sorry, I don't want to take too much time here, but when you think about that price productivity, inflation in investment buckets together, with the ramp-up costs here, do we see some potential for negativity in that balance or do you still think neutral is the right way?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

No, the combination of price plus productivity, we expect to offset that inflation in investments. But if you just look at that kind of net productivity bar, that's where some of those investments are going to flow in, in Q2 and in Q3. Yeah.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. That's it for me. Right. Thanks, Sara.

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

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning, everyone.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Can we just talk about the first quarter growth performance? Organically turned out to be a little bit better than we expected, which is great to see. I guess, how much of that was driven by this Data Solutions business just continuing to be on fire versus the rest of your business? And then really kind of the reason I'm asking is as you kind of think about the second quarter, and now that you've lost some destocking, you've got no [ph] Russia (31:55) tough comp in 2Q, why wouldn't it step up in 2Q?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, let me – I'll start with Q1 and I'll let Sara refer back to guidance again. But we had very strong growth in Data Solutions in the quarter, and some of that is just a result of some of those, how those customer programs are layered in. But that's certainly what gave us some of that significant volume growth is coming from Data Solutions.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

And then as we think about that, Joe, from a Q2 perspective, again, we expect Data Solutions to grow very nicely here in Q2 just not quite at the levels of Q1. And so that's why, as Enclosures printed out a fantastic 11% organic growth in Q1, we expect that to look more like high single-digits here in Q2. The other thing I would point to is just we are expecting to see a bit more softer Europe. Europe was up for us in Q1, and we do expect we're taking a bit more of a cautious view on Europe here in Q2.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Yeah. That makes sense. And that's super helpful. Thank you for that. I guess my follow-on question, it was great see the offerings at Data Center World. And as I – obviously, it seems like folks are just running as fast as they possibly can in that end market. As I think about your own offering, there are certain things that you guys do in-house. There are certain things that you guys outsource. Is there any thought around potentially using some of the M&A dollars to get a little bit bigger either in the CDU itself or in other areas that sell into the data center.

Beth A. Wozniak*Chair & Chief Executive Officer, nVent Electric Plc*

A

Well, as we think about our overall strategy on M&A, we always say we look at high growth verticals first. And I think, Joe, I mean, I can point to a couple of acquisitions we've done, we've done six and you know two of them from WBT, Wire Basket Tray, contributed to our cable management offering, and the CIS Global acquisition contributed to our smart power distribution. So I think as we continue to look at M&A, we look at great products in great verticals. And certainly, I think there's always opportunities there for us to strengthen the portfolio and data solutions as it is in other infrastructure areas.

Joe Ritchie*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. Thank you.

Operator: Our next question comes from Jeff Hammond with KeyBanc Capital Markets. Please go ahead.

Tony Riter*Vice President-Investor Relations, nVent Electric Plc*

A

Hey, Jeff. Are you there?

Jeffrey D. Hammond*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. Can you hear me?

Tony Riter*Vice President-Investor Relations, nVent Electric Plc*

A

Yeah. Yeah, we can hear you now.

Jeffrey D. Hammond*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Great. Just a clarification on the capacity expansion of the 4x. Does that contemplate a new plant as well or is that just simply the moves you've made creating space?

Beth A. Wozniak*Chair & Chief Executive Officer, nVent Electric Plc*

A

Yeah, that is not a new plant. But what we did is we moved out a distribution center that was attached to our main manufacturing facility. We moved that to a new location and then expanded or are expanding within that area, the liquid cooling capacity. So that's – remember, we expanded in Mexico. That was the first step. That created space. Then we moved distribution to a new location and now expanding within that footprint.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Great. And then EFS, I think you said thermal is going to return to growth the rest of the year, but how should we think about EFS into 2Q? I know the orders were better. And then just on those orders, is that kind of clear line of sight that destocking is kind of behind us from here?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Let me start by just saying, one of the comments I made is, when we look at our distribution channel, we see that we had – there was positive sell-through. So that's good. And we think largely the distribution channels have normalized and stabilized. However, there are some areas, and we called out for EFS areas like utility, for example, where we know that there's inventory at the end customer and at the channel. And recall, we had a very big comp of 40% growth in utilities last year. So some of that, we think, plays into Q2, but very specific areas. But overall, I'd say, it's largely stabilized.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks so much.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

Yeah. And, Jeff, I would just comment on EFS. So, EFS, we still expect EFS to grow for the full year. But for Q2, we expect that Q2 year-over-year performance to look a lot like Q1 because we do expect those infrastructure dynamics that Beth talked about to continue into the quarter. And as we think about the back half, a couple of things there to keep in mind.

One would just be comps do get easier. Two would be we do expect that inventory normalization to begin to kind of ease, if you will, in the back half also Q4. And I think the last thing I would just point out is the sales synergies for ECM as well as EFS from the combination thereof. We think that'll begin to layer on in the back half of the year.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Jeff Sprague with Vertical Research Partners. Please go ahead.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners 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.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Morning. Just coming back to the capacity addition. I know you're not going to tell us exactly what your liquid cooling sales are, but I just kind of want to understand what 4x means. I mean, does it literally mean if you had \$50 million of revenue in liquid cooling in 2023, you believe you have \$200 million in 2025? Is it directly correlated to kind of a revenue run rate?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, no, not precisely. I would say this, when we look at the footprint space, this is what we're referring to. And so it will take us some time to build out some of the lines as well as we're expanding our lab capability. Because one of the things with these solutions is that goes under extensive testing within our labs as well as our customers in situ. So we will have the footprint and eventually that will expand our capacity from a volume, a unit volume.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Understood. And then just back to the Thermal, clearly with the Russia headwind behind us, we would expect it to return to growth. But can you be a little bit more specific on what you're seeing there kind of in the served end markets in Thermal that would underpin kind of the return to growth and how you see that playing out maybe even kind of into next year, given that I'm sure there's some project activity going on there?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Yeah. So as we, in our prepared remarks, we talked about we're seeing our backlog up. We're seeing new wins on energy transition. That's an area that we've really focused on and we see investment flowing there. We certainly had some strong growth in Asia Pacific as we see industrial and chemical opportunities.

And we continue to sequentially see Commercial/Resi improve in that Thermal business. So as we – this is a – Q2 is the last quarter that we lapped the Russia exit. We see an increased backlog. We see increased orders and generally a lot of quote activity. So we feel confident that the thermal business is poised for growth the remainder of the year.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thank you. I'll leave it there.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

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

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks. 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.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Maybe we could continue with Thermal. From a margin perspective, pretty impressive performance, up year-on-year with down sales in the quarter. I guess, how should we think through the rest of the year? Is that sustainable? And then I know you guys have put work into doing some restructuring in that business as sales have been weak. What can incrementals look like once organic growth does turn positive?

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

I'll maybe start with just the overall incremental question. So we were pleased with the incrementals in Q1 at 33%. And overall, we continue to believe that our business with the strong growth profile, value proposition, and margins that, in a more normal environment, those incrementals will look like plus 30%.

And then I think your question was on Thermal Management in terms from our return on sales perspective. I would just start by saying, I think the team's done an excellent job of managing that cost structure, managing the price-cost equation, and really pleased with that overall Q1 return on sales performance. We wouldn't expect that same level of year-over-year ROS expansion here in Q2 in the back half, in part because of the projects that Beth talked about.

I mean, we pointed out in Q1, they were benefiting from some favorable mix on the product side. But as that top line returns to growth, and some of that's going to be projects, but still comes at good margins, but not quite as good as the product side, that's going to impact that year-over-year return on sales perspective.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Very clear. And then maybe on Europe, you guys spoke about how you're kind of anticipating maybe some Europe weakness coming through in the second quarter. Is that something that you guys actually saw in your order trends or are you just being a little bit cautious based on what you're hearing? Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Yeah, we did see that in our order trend through Q1 that Europe was definitely softer than North America and Asia Pacific.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Thank you. I'll pass it on.

Q

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

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Hey. Good morning. Thanks for taking my call.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

So I just wanted to follow up on that last question and comment from the call about Europe. Can you just give us more color on what's contemplated in guidance for the rest of the year in terms of potential for incremental weakening in Europe going forward?

Q

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

Well, here's what I would say is that we were pleased with the Q1 performance, where we actually grew Europe overall in Q1. And so what we're suggesting here is in that Q2 guide, we're not expecting growth here in Europe. And I think it really reflects some of the order trends that Beth alluded to.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Okay. That's helpful. Thanks. And then can you just give us an update on what you're seeing in terms of underlying growth at ECM and how you're progressing on synergy capture there versus your expectations?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Yeah. When we look at ECM, that business had several different channels. And I would say, ECM has performed very similar to what we've seen our EFS business. I would say they have a stronger retail channel. And so Retail/Resi, that's been a little softer and that was our comments about we expect that to continue to be soft.

A

But I think as we've been working on a lot of our sales synergies and, as Sara commented on, we expect to see that start to layer in in the back half of the year. And so that is everything from bringing some of that product through our rep and distribution network, as well as into taking some of those products and bringing them – making sure that they're certified so we can bring them into Europe. So all of that activity is underway.

And I will say this. One of the things when we acquired that business, they certainly had supply chain challenges and availability challenges, and we've worked very hard to improve that situation. And what's been encouraging is that we've seen and heard from our customers, we see some of those orders pick up where we've improved the

delivery situation. But overall, ECM is a great acquisition for us and we think it just extends our portfolio in power connection solutions. And so we see great potential for the synergies to play out over the next several years.

Sara E. Zawoyski

Executive Vice President & Chief Financial Officer, nVent Electric Plc

A

And maybe just a quick add on the cost synergies side. So I would just say we're well on track. As we acquired ECM, we were really excited about it from the growth side, but we also did see some cost synergies there in that \$10 million to \$15 million mark by year three, and I would say that we're well on track to deliver that.

We're seeing material, procurement synergies, logistics, indirect. I think, too, on the cash tax synergies, we now expect closer to \$10 million per year versus the \$6 million to \$8 million previously that we had discussed. And then lastly, we talked about in 2024 with that acquisitions being accretive to EPS and that's \$0.07 to \$0.08 and so we saw a strong \$0.06 contribution here in Q1. So it's contributing overall very nicely.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Great. That's really helpful. Thanks. I'll get back in queue.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: Our last question comes from Brian Drab with William Blair. Please go ahead.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Hi. Just a couple small clarifications at this point. But I think you said that the sell into the channel was up low single-digits, the sell-through is positive. Can you just put a finer point on that? What does positive mean exactly? Does that mean sell-through is up slightly year over year?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, our comment was more around all of nVent, right, that we just saw positive sell-through, so low single-digits.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. All right. So positive means low single-digits?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Yes.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Got it. Okay. And then in the commercial business, you mentioned that things are looking better, or sorry, in the thermal business, that you mentioned things are looking better, Commercial and Resi. Is that back to growth in the first quarter or was it just improving sequentially? And then also, I was curious, you said the energy end market was the only one that was a trouble point in the first quarter. Does that mean the energy was the only end market that you saw decline year-over-year in the first quarter within thermal? Thanks.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

So I'm just going to – just for clarification. So overall for nVent, Commercial/Resi was positive. And overall for nVent, energy was down and that was primarily due to the Russia impact. For thermal specifically, we've seen Commercial/Resi improving, so not quite yet back to growth, but it's improved for the last several quarters. And certainly, thermal has been impacted by energy the most because of the Russia impact. And we have one more quarter that will lap here in Q2 with Russia, the Russia exit.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. That helps. Thank you very much.

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

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you for joining us today. I'm very proud of the performance we delivered in the first quarter. We will continue to focus on delivering for our customers, employees, and shareholders by executing on our growth strategy. 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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