Belden

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EARNINGS RESULTS

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CORPORATE PARTICIPANTS

Ashish Chand Belden Inc. – President & CEO
Jeremy Parks Belden Inc. – CFO
Aaron Reddington Belden Inc. – VP Investor Relations

PRESENTATION

Aaron Reddington, Belden Inc. – VP Investor Relations

Good morning everyone, and thank you for joining us for Belden's third quarter 2024 Earnings Conference Call. With me today are Belden's President and CEO Ashish Chand and Senior Vice President and CFO Jeremy Parks. Ashish will provide a strategic overview of our business, and then Jeremy will provide a detailed review of our financial and operating results, followed by Q&A.

We issued our earnings release earlier this morning, and have prepared a slide presentation that we will reference on this call. The press release, presentation, and transcript of these prepared remarks are currently available online at investor.belden.com.

Turning to slide 2 in the presentation. During this call, management will make certain forward-looking statements in reliance upon the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. For more information, please review today's press release and our most recent annual report on Form 10-K. Additionally, during today's call management will reference adjusted or non-GAAP financial information. In accordance with Regulation G, the appendix to our presentation and the investor relations section of our website contains a reconciliation of the most closely associated GAAP financial information to the non-GAAP financial information we communicate.

I will now turn the call over to our President and CEO Ashish Chand.

Ashish Chand, Belden Inc. – President & CEO

Thank you Aaron, and good morning everyone. We really appreciate you joining us today.

Let's turn to slide 4 for a summary of the major accomplishments we achieved in the third quarter and key messages I would like to highlight. As a reminder, I will be referring to adjusted results today.

First, let me congratulate our team on another solid quarter as we delivered results slightly ahead of expectations. Performance was stable for the quarter, while our customers remain cautious as inventory destocking is nearing an end.

For the third quarter, our revenue and Earnings Per Share both exceeded the high end of our guidance as our solutions transformation continues to push forward. Revenue totaled $655 million dollars, up 8 percent sequentially and Earnings Per Share came in at one dollar and 70 cents, up 13 percent sequentially.

Profitability aligned with our expectations and our Adjusted EBITDA margins increased sequentially by 70 basis points to 17.2 percent.

Second, I am pleased to report steady demand for the quarter. Orders in the third quarter were up 8 percent sequentially, marking the fourth consecutive quarter of order growth.

Compared to the prior period, orders were up 28 percent, with strength in both segments.

From a geographic perspective, we continue to see tempered results in EMEA and APAC, but I am encouraged to see organic revenue growth return to the Americas region, which constitutes over 60 percent of our overall business. Organic growth for the quarter was positive 1 percent year-over-year, marking the first quarter of organic growth since the second quarter of last year.

Our markets continue to experience diminishing headwinds and I am pleased to see steady execution resulting in performance exceeding our expectations.

Finally, our business continues to generate meaningful cash flow, and we are deploying capital consistent with our capital allocation priorities.

Trailing-twelve-month Free Cash Flow was strong at $211 million dollars, roughly in line with recent performance and expectations.

With our ample free cash flow, our team continues to invest in high-return opportunities beneficial to shareholders.

This quarter, we deployed $6 million dollars to acquire Voleatech, a small tuck-in software acquisition to support our active products portfolio and edge devices with firewall technology for industrial OT networks.

Further, we continue repurchasing shares, and as of earlier this week, our total repurchases for the year amount to 1.2 million shares using $115 million dollars of our free cash flow.

Our balance sheet remains strong and provides us with the ability to enhance shareholder returns in multiple ways. You can expect us to continue to look for acquisitions that support our solutions transformation and when appropriate buy back our stock at levels we find attractive.

Now please turn to slide 5.

During our Investor Day this past month, we outlined a disciplined approach to M&A; targeting products and technologies that enhance and expand our solutions offerings.

Consistent with our framework, I am pleased to announce the acquisition of Voleatech, which closed during the quarter for $6 million dollars.

Voleatech, based in Germany, is a leading provider of advanced cybersecurity firewall technology, designed to protect industrial networks with robust OT security solutions.

Voleatech is attractive to Belden as the technology enables and accelerates our active product portfolio. The software developed by Voleatech fits in nicely with our industrial products by upgrading our active offerings with key firewall technology utilized in OT networks.

Now please turn to slide 6 for a quick summary of notable wins for the quarter.

The examples this quarter come from our Mass Transit and Hospitality verticals.

Starting with the first win, Deutsche Bahn is a leading provider in the mobility and logistics sector, with services focused on the German market. I am pleased to announce that Belden has won a multi-year opportunity worth between 25 and 45 million euros to upgrade their high-speed ICE train systems over the next 8 years.

Our customer was facing a challenge with network infrastructure and was looking to upgrade their system. Instead of running parallel networks, Deutsche Bahn needed a solution that could support both operational and customer-facing IT systems with a dedicated safety network.

Our consultants worked with Deutsche Bahn to understand the need, engaged in multiple proofs-of-concept, and ultimately won the business to provide a solution around our ruggedized switches customized to simplify application integration. In addition, our team is engaged with Deutsche Bahn to provide training and support as the solution is broadly implemented.

Next, let me take a moment to highlight a win in the hospitality vertical with a major gaming and leisure operator.

Our customer was looking for a single provider to supply a network backbone to connect and run their entire operations including the gaming floor, guest rooms, security, access controls, and on-premise data centers.

The team secured a project worth $2 million dollars to provide a network backbone including Fiber, Copper, Connectivity, and other 5G connectivity elements. Our team from the CIC in Chicago went through the complete solutions process and ultimately put together an offering including products from across the organization including our traditional industrial, smart buildings, and broadband businesses.

This is a great example of our team combining products from our legacy business units to provide a truly unique solution.

To conclude, we believe that our solutions are superior in the marketplace, and over time wins like these will ultimately lead to more sales and a deeper and stickier relationship with key customers.

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

Jeremy Parks, Belden Inc. – CFO

Thank you, Ashish.

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

Now, please turn to Slide 7.

Revenue for the quarter was $655 million dollars, up 8 percent sequentially, and exceeding the high end of our guidance of $650 million dollars. Excluding the Precision acquisition, revenue in the third quarter was up 3 percent sequentially.

Compared to the prior year, third quarter revenue increased by 4 percent. Organic revenue was down 2 percent year-over-year with Automation Solutions down 3 percent, and Smart Infrastructure Solutions down 1 percent.

We are encouraged to see our organic growth rates continue to improve and expect positive year-over-year growth in the fourth quarter.

Orders for the quarter were up 8 percent sequentially and up 28 percent year-over-year with both segments exhibiting strong year-over-year growth.

Gross profit margins came in as expected at 37.8 percent, decreasing 40 basis points sequentially.

EBITDA was $113 million dollars with EBITDA margins up 70 basis points sequentially to 17.2 percent.

Net income was $71 million dollars, up from $62 million dollars in the prior quarter.

EPS was $1.70, above the high end of our guidance range of $1.65.

Turning now to slide 8 for a review of our business segment results.

Despite continued slowness in our markets, performance aligned with our expectations.

For the third quarter, Revenue in our Automation Solutions segment was down 2 percent compared to the prior year. EBITDA margins were 21.4 percent in the quarter, down from 22.5 percent in the prior year.

Orders in Automation Solutions were down 1 percent sequentially, and up 25 percent compared to the prior year.

While we have not yet seen a recovery in our discrete markets, other verticals including process and energy did show strength for the quarter. As mentioned previously, Automation Solutions revenue declined by 3 percent organically on a year-over-year basis. However excluding the discrete vertical, organic revenue growth was positive for the segment.

Revenue in our Smart Infrastructure Solutions segment grew 13 percent compared to the prior year. EBITDA margins were 12.7 percent in the quarter, down from 13.3 percent in the prior year.

Orders in Smart Infrastructure were up 18 percent sequentially and up 31 percent compared to the prior year. Excluding the impact of Precision, orders were up 7 percent sequentially and up 19 percent compared to the prior year.

We saw improvements in both end markets, with continued recovery in broadband and slight outperformance in our growth verticals within Smart Buildings.

We continue to see destocking in our markets, however the pace of destocking continues to moderate.

Next please turn to Slide 9 for our balance sheet and cash flow highlights.

Our cash and cash equivalents balance at the end of the third quarter was $323 million dollars compared to $597 million in the fourth quarter of 2023.

Please note that the cash consideration for the Precision Optical acquisition was paid during the third quarter, resulting in a use of cash.

Our financial leverage was 2.1 times net debt to EBITDA at the end of the third quarter, consistent with our expectations.

We intend to maintain net leverage of approximately 1.5 times over the long term. As a reminder, we generate the majority of our free cash flow in the second half of the year, particularly in the fourth quarter, which provides us the opportunity to reduce leverage and further deploy capital.

Through the third quarter, our trailing-twelve-month free cash flow came in as expected at $211 million dollars roughly in line with previous periods.

Consistent with our capital allocation priorities, year-to-date we have deployed approximately $417 million dollars towards M&A, share repurchases, and dividends. We currently have $358 million dollars remaining on our repurchase authorization.

As a reminder, our next debt maturity is not until 2027, and all of our debt is fixed with rates averaging 3.5 percent.

Please turn to Slide 10 for our updated outlook.

For the fourth quarter, we anticipate order patterns to remain steady across our markets as customers navigate this dynamic environment.

Revenues are expected to be in the range of $645 million dollars to $660 million dollars, representing a 17 percent to 20 percent increase over the prior-year quarter.

Adjusted EPS is expected to be in the range of $1.62 to $1.72, representing an 11 percent to 18 percent increase over the prior-year quarter.

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

Ashish Chand, Belden Inc. – President & CEO

Thank you, Jeremy.

To close, let me reiterate that the third quarter for Belden was again steady with our orders increasing modestly on a sequential basis, and up meaningfully compared to our low point in the prior year.

Our customers continue to operate cautiously; however, I am pleased to see our solid execution once again drive outperformance.

As we outlined during our investor day last month, our business is well-positioned to succeed as the next investment cycle ramps up. We are successfully executing our transformation and focusing our efforts on key verticals with solid secular growth trends and high data needs.

Internally, we are aligning our processes and operations around solutions to realize the full potential of our product portfolio. The wins I mentioned earlier highlight the opportunity ahead of us as we continue refining our go-to-market strategy across the organization.

Our strong financial position allows us to accelerate growth with tuck-in acquisitions and provides excess capital to opportunistically repurchase shares when it makes sense.

I am confident in our team's ability to transform our business, leverage our superior technology, and capitalize on growth opportunities in all market conditions as we generate sustainable, long-term shareholder value.

Looking forward to the fourth quarter, we see continued stability across our businesses as customers remain watchful on the eve of the US elections.

Economic indicators such as inflation are encouraging, and manufacturing PMI figures have improved, however, they are not consistently back into expansion territory as yet.

As a short-cycle business, our forward view is limited beyond the most current quarter, so it's difficult for us to estimate when these trends will dissipate.

What I can say is that our business is well-positioned for strong outperformance once things pick up. We will continue to execute in a measured fashion, working to advance solutions and gain share.

I would like to take a moment to recognize the contributions of our associates this past quarter. I appreciate your efforts and would like to thank you for your support as we continue to transform Belden through a challenging environment.

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