

**1st Quarter 2017
Earnings Conference
Call Transcript**

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CORPORATE PARTICIPANTS

John Stroup Belden, Inc. - President, CEO, and Chairman

Henk Derksen Belden, Inc. - CFO, SVP-Finance

Kevin Maczka Belden, Inc. – VP of Investor Relations

PRESENTATION

Kevin Maczka Belden, Inc. – VP of Investor Relations

Thank you, operator. Good morning, everyone, and thank you for joining us today for Belden's first quarter 2017 earnings conference call.

My name is Kevin Maczka, I'm Belden's Vice President of Investor Relations. With me this morning are John Stroup, President, CEO, and Chairman, and Henk Derksen, Belden's CFO. John will provide a strategic overview of our business, and then Henk will provide a detailed review of our financial and operating results, followed by Q&A.

We issued our earnings release earlier this morning, and we 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 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 Web site contain 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, CEO, and Chairman, John Stroup. John?

John Stroup Belden, Inc. – President, CEO, and Chairman

Thank you, Kevin, and good morning, everyone.

As a reminder, I'll be referring to adjusted results today.

Please turn to Slide 3 in our presentation for a review of our first quarter highlights.

We are pleased with our first quarter results, including organic revenue growth and EBITDA margin expansion. Overall, the business is performing in line with our expectations and is off to a solid start this year.

On an organic basis, we grew revenues by 40 basis points to \$551.4 million, driven by our Broadcast, Enterprise and Industrial platforms.

EBITDA grew 4.4% year-over-year, from \$89.1 million to \$93.0 million. EBITDA margins expanded 50 basis points from 16.4% in the prior year period to 16.9%.

EPS in the first quarter was \$0.92 compared to \$1.01 in the prior year period. Excluding the impact of the preferred equity issuance in July 2016, earnings per share grew 12%.

As a result of this solid start to the year, we are reiterating our full-year revenue and EPS guidance.

I'd like to thank our associates for their hard work during the quarter and their commitment to aggressively executing our strategic plan.

Please turn to slide 4 for a review of our business segment results.

Our formerly known segments of Industrial IT and Network Security will now be presented as the Network Solutions segment. This is consistent with our organization structure and how we evaluate business results.

As a result, we are now reporting four segments: Broadcast Solutions, Enterprise Solutions, Industrial Solutions, and Network Solutions. Segment information for the 2016 quarters has been revised to conform to this change and is included as an appendix to this release.

Turning now to the segments, Broadcast revenues in the quarter were \$168.6 million, compared to \$171.3 million in the year ago period. On an organic basis, revenues increased by 50 basis points. Grass Valley grew 3.1% organically.

Recall that 2017 represents year 1 of a new four-year broadcast cycle for Grass Valley, and year 1 is typically down compared to the prior year. Our first quarter performance supports our view that Grass Valley will outperform its historical year-1 trend. We are especially pleased that the first quarter included another significant multi-million dollar order with a major network for our open architecture IP infrastructure system.

Our Broadband business, however, had a softer quarter with an organic decline of 1.5%. We experienced a temporary pause isolated to two specific customers, and expect this business to return to mid-single-digit growth for the second quarter and full-year.

Segment EBITDA margins were 15.1%, increasing 150 basis points from the prior-year period.

Enterprise revenues increased 2.9% organically to \$145.7 million. End market demand for new non-residential construction and smart buildings remains healthy, as evidenced by the 12% growth in our innovative Category 6A cable products, which deliver data and power over Ethernet. Additionally, we experienced significant growth in our international markets.

EBITDA margins in the quarter were 16.5%, normalizing as expected from fourth quarter 2016 levels and increasing 270 basis points sequentially.

Revenues in our Industrial Solutions platform increased 40 basis points organically. Discrete manufacturing, our largest vertical, experienced robust organic growth, expanding 5% with solid demand from machine builders.

We are pleased with another quarter of growth in this market, driven by increasing investments in automation. Oil & gas continued to be weak, declining 31% year-over-year. Recall that first quarter 2016 benefitted from favorable project timing. We expect these headwinds to subside as we are seeing stabilization in this end market.

Looking forward, we are extremely encouraged by the overall Industrial Solutions orders, which increased 11% year-over-year and drove a book-to-bill ratio of 1.06.

EBITDA margins increased 130 basis points from the year-ago period to 17.6% driven by productivity initiatives and favorable mix.

Revenues in our Network Solutions segment declined 3.5% organically from the prior year period to \$90.9 million, in line with our expectations. EBITDA margins declined 130 basis points year-over-year to 19.7%, largely related to unfavorable product mix and increased investments in new products.

Given the new segment presentation, we thought it would be helpful to comment on the performance of the legacy platforms. We were especially pleased with the formerly known Industrial IT platform, which increased 8% organically, including strong growth of 16% in discrete manufacturing. As expected, the headwinds persisted at Tripwire, which declined in the quarter. Importantly, we are encouraged by the progress made in addressing the business challenges, including significantly improved sales force retention, a pipeline of quality projects, and a number of new product launches. In addition, the comparisons are much more favorable beginning in the second quarter. For the segment, we expect second quarter sales to increase approximately 11-13% sequentially and 2-4% year-over-year.

I will now ask Henk to provide additional insight into our first quarter financial performance. Henk?

Henk Derksen Belden, Inc. - CFO, SVP-Finance

Thank you, John. I will start my comments with results for the quarter, followed by a review of our segment results, a discussion of the balance sheet, and close with our cash flow performance.

As a reminder, I will be referencing adjusted results today.

Please turn to Slide 5 for a detailed consolidated review.

Revenues in the quarter were \$551.4 million dollars, increasing 1.4% from \$543.8 million in the first quarter 2016. Higher copper prices favorably impacted revenues by \$9.3 million dollars and currency translation reduced revenues by \$3.8 million. After adjusting for these factors, revenues increased 40 basis points organically from the prior-year period.

Sequentially, revenues decreased \$56.8 million dollars from \$608.2 million, in-line with typical seasonality.

Gross profit margins for the quarter were 41.4%, decreasing 90 basis points from the prior-year period, mainly due to higher copper prices. As a reminder, when copper costs increase we raise selling prices, resulting in higher revenue with minimal impact to gross profit dollars. As a result, gross profit margins decrease.

Sequentially, gross margins decreased 200 basis points due to the seasonal pattern of our Grass Valley business and Network Solutions platform.

Operating expenses for the quarter were \$147.4 million dollars, or 26.7% of revenues, decreasing \$4.7 million from the prior-year period, driven by productivity initiatives. Sequentially, operating expenses decreased \$6.6 million dollars.

EBITDA was \$93.0 million dollars in the quarter. Compared to the prior-year period, EBITDA increased \$3.9 million dollars, or 4.4%.

EBITDA margins were 16.9% in the quarter, increasing 50 basis points from the year-ago period and decreasing 320 basis points sequentially.

Net interest expense of \$23.5 million dollars for the quarter decreased \$900,000 dollars from the prior year and increased \$400,000 sequentially, driven by the number of the days in the period. For the full-year 2017, we expect interest expense to be approximately \$94 million.

The effective tax rate for the first quarter was 18.2%, compared to 20.0% in the prior year and 19.9% in the prior-quarter.

For financial modelling purposes, we recommend using a 20% effective tax rate for the second quarter and full year 2017.

Net income in the quarter was \$47.8 million dollars, increasing \$5.2 million dollars, or 12.1%, from \$42.7 million in the prior-year period.

Earnings per share was \$0.92 in the quarter compared to \$1.01 in the prior-year period. The dilutive impact of the preferred equity issuance in July 2016 was \$0.20 in the quarter.

Please turn to slide 6. I will now discuss revenues and operating results by business segment.

Our Broadcast Solutions segment generated revenues of \$168.6 million dollars in the first quarter. Revenues decreased by 1.6% from \$171.3 million in the prior-year period. Currency translation had an unfavorable impact of \$1.5 million dollars. On an organic basis, revenues increased 50 basis points year-over-year.

Broadcast EBITDA margins were 15.1% in the quarter, increasing 150 basis points due to productivity improvements.

Our Enterprise solutions segment generated revenues of \$145.7 million dollars during the quarter, growing 7.2% compared to the first quarter 2016. Higher copper prices increased revenues by \$4.5 million dollars, while currency translation reduced revenues by \$700,000 dollars. On an organic basis, revenues increased 2.9% from the prior-year period.

EBITDA margins were 16.5% in the quarter, decreasing 100 basis points from the prior-year and increasing 270 basis points sequentially as expected.

The Industrial solutions segment generated revenues of \$146.2 million dollars in the quarter, an increase of 3.6% from \$141.1 million in the prior-year period. Copper had a favorable impact of \$4.8 million, while currency translation reduced revenues by \$300,000 dollars. On an organic basis, segment revenues grew 40 basis points in the quarter. We are pleased with this result, and encouraged by robust order growth of 11% in the quarter.

EBITDA margins of 17.6% increased 130 basis points year-over-year, driven by productivity initiatives and mix.

Our Network solutions segment generated revenues of \$90.9 million dollars, down 4.8% from \$95.5 million in the prior-year period. Currency translation had an unfavorable impact of \$1.3 million dollars in the quarter. On an organic basis, revenues declined 3.5% year-over-year.

EBITDA margins of 19.7% decreased 130 basis points from prior-year period, driven by product mix.

If you will please turn to Slide 7, I will begin with our balance sheet highlights.

Our cash and cash equivalents balance at the end of the first quarter was \$816 million dollars compared to \$848 million in the prior quarter and \$146 million in the prior year. The year-over-

year increase reflects the improvements made to our balance sheet and robust free cash flow generation.

Working capital turns were 8.1 turns, improving 0.6 turns year-over-year.

Days sales outstanding was 64 days in the first quarter, an increase of 7 days sequentially and 4 days year-over-year. As a reminder, fourth quarter 2016 days sales outstanding benefitted from the timing of customer pre-payments.

PP&E turnover was 7.1 turns, improving 0.3 turns year-over-year.

Our total debt principal at the end of the quarter was \$1.66 billion, compared to \$1.64 billion in the fourth quarter and \$1.72 billion in the first quarter 2016. The year-over-year decrease reflects both the debt reduction in 2016 and currency translation on our Euro-denominated debt.

Net leverage was 1.9 times net debt to EBITDA at the end of the first quarter, compared to 1.8 times in the prior quarter and a significant improvement from 3.7 times in the prior-year period.

Please turn to Slide 8 for a few cash flow highlights.

Cash flow from operations in the first quarter was negative \$12.3 million dollars compared to positive \$12.6 million in the prior year, reflecting the timing of customer payments.

Net capital expenditures were \$10.4 million for the quarter, down \$3.0 million year-over-year.

As a result, free cash flow was a use of \$22.7 million in the first quarter 2017 compared to a use of \$800,000 in the prior year period.

For the full-year 2017, we expect to achieve free cash flow in the range of \$260 - \$270 million dollars.

That completes my prepared remarks. I would now like to turn this call back to our President, CEO, and Chairman, John Stroup, for the outlook. John?

John Stroup Belden, Inc. – President, CEO, and Chairman

Thank you, Henk.

Please turn to Slide 9 for our outlook regarding the second quarter and full-year 2017 results.

We delivered solid first quarter results that were in line with our expectations. As a result, we are reiterating our full-year 2017 revenue and EPS guidance. Our Industrial, Enterprise, and

Broadcast platforms will continue to perform well and capture share. We expect our Network Solutions platform to return to growth, as we benefit from the corrective actions taken approximately six months ago.

Consistent with our commitment to continuous improvement, we expect further EBITDA margin expansion across the organization in 2017. Further, we are well positioned with a number of attractive inorganic opportunities.

We anticipate second quarter 2017 revenues to be between \$595 and \$615 million, and EPS of \$1.15 to \$1.25.

For the full year, we continue to expect revenues between \$2.355 and \$2.405 billion, and we continue to expect EPS of \$4.95 to \$5.20.

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