

08-Feb-2022

nVent Electric Plc (NVT)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

OTHER PARTICIPANTS

Deane Dray

Analyst, RBC Capital Markets LLC

Nigel Coe

Analyst, Wolfe Research LLC

Julian Mitchell

Analyst, Barclays Capital, Inc.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

David Silver

Analyst, C.L. King & Associates, Inc.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the nVent Fourth Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Chief Financial Officer Sara E. Zawoyski. Thank you. Please go ahead.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Thank you, and welcome to nVent's fourth quarter earnings call. Here me today is Beth Wozniak, our Chief Executive Officer. And I would also like to introduce Tony Riter, our new Vice President of Investor Relations. I know many of you already know him from his time at 3M, and we are thrilled to have him join the nVent team.

With that, I will turn the call over to Tony.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Thank you, Sara, and good morning, everyone. I'm excited to be here at nVent and looking forward to working with all of you. Today we'll provide details on our fourth quarter and full year performance and the outlook for the

first quarter and full year 2022. Before we begin, I'll 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 can be found on the investor section of nVent's website. References to non-GAAP financials are reconciled in the appendix of the presentation. We'll have time for your 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

Chief Executive Officer and Director, nVent Electric Plc

Thank you, Tony, and good morning, everyone. It's great to be with you today to share our fourth quarter and full year results. 2021 was an outstanding year. We grew sales 23% and delivered 31% adjusted EPS growth. We exited the year with orders up 37% in the fourth quarter and record backlog. I could not be more proud of our nVent team and what we accomplished. We executed on our strategy, had record growth and navigated many challenges to deliver for our customers.

We made great progress with new products and our digital transformation. We completed two acquisitions to strengthen our portfolio and expand our offerings in high growth verticals. And we made significant progress on our ESG priorities. We had a goal to emerge stronger and our results demonstrate we have.

Slide 4 summarizes our Q4 and full year performance. Fourth quarter sales were up 28%, with broad-based growth across all segments and verticals. Adjusted EPS grew 16% year-over-year, and we generated \$101 million of free cash flow. Our fourth quarter results were solid. Looking at some of our key verticals in the quarter, industrial continued to lead the way with particular strength in automotive, food and beverage, and material handling. Infrastructure had strong growth in data networking solutions and power utilities. Commercial and residential continued its trend of double digit growth across all segments. And finally, in energy, we continue to see a nice recovery, particularly in MRO.

Looking at our geographical sales performance, North America was exceptionally strong, led by Enclosures. Europe was also up double digits with ongoing strength in Electrical & Fastening. And developing regions grew over 40%, led by China with particular strength in Thermal Management. For the full year, we have record \$2.5 billion, an increase of 23% or 18% organically. Adjusted EPS was up 31% and up 10% from 2019. For the full year, we generated \$334 million of free cash flow.

Let me share a few highlights for the year. We launched a record 58 new products, which generated a 1.5 of sales growth and increased our new product totality to 18%. Our digital efforts are supporting growth, improving the customer experience, and driving productivity in our operations. Acquisitions are strengthening our positions in high growth verticals, Vynckier and CIS Global expanded our offerings in solar and data networking solutions, the execution of our strategy to develop new products, invest in high growth verticals and make acquisitions is accelerating in best growth trajectory.

We recently announced a new strategy and business development role and are thrilled to have Nitin Jain join the nVent team. Nitin will be leading our efforts in strategy, M&A partnerships and alliances, and identifying new growth platforms and technologies to further enhance nVent's growth.

Looking at trends entering 2022, we anticipate ongoing supply chain and inflationary challenges, particularly in the first half of the year. We remain confident in our ability to manage these headwinds and deliver for our customers. We also expect strong demand for our products and solutions with the electrification of everything.

I am proud of our team and the results we delivered in 2021. We made strategic investments to drive future growth and executed well. We believe 2022 will be another year of strong growth and value creation.

I will now turn the call over to Sara for some detail on our results, as well as our 2022 outlook. Sara, please go ahead.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Thank you, Beth. Let's begin on slide 5 with our fourth quarter results. Sales of \$669 million were up 28% relative to last year and grew an impressive 24% organically. Strong volume and price each added 12 points to the top line, while acquisitions added another 5 points of growth. Fourth quarter segment income was \$110 million, up 14%, while return on sales of 16.5% was down 210 basis points. As you may recall, our Q4 guidance reflected a margin decline year-over-year, including growth investments and the lapping of onetime temporary cost reductions.

With the stronger than anticipated sales, we saw increased cost pressures related to a very tight supply chain and higher inflation. Still, price more than offset the stepped up inflation of \$58 million in the quarter. As a reminder, we talk about these costs as total inflation, including materials, wages and freight logistics. Q4 adjusted EPS was \$0.50, up 16% and above the high end of our guidance range. Free cash flow performance was also strong, with conversion of 120%.

Now, please turn to slide 6 for a discussion of our fourth quarter segment performance. Starting with Enclosures, sales of \$332 million increased 44% and 35% organically. Growth was broad based across all verticals and geographies, and acquisitions continued to perform very well, adding 11 points to growth. Enclosures fourth quarter income was \$43 million, up 22%. Return on sales was 13%, down 240 basis points. As a result of this very strong growth, we saw higher than anticipated costs and overall inflation. We also made investments in capacity. These impacts were partially offset by solid price realization of 11 points. Sequentially, we expect return on sales to improve with better price costs and productivity.

Electrical & Fastening sales of \$171 million increased 17% organically, with growth across all verticals and strong double-digit growth in North America and Europe. Electrical & Fastening segment income was \$45 million, up 9%. Return on sales was a solid 26.3%, down 170 basis points as we lapped the onetime temporary cost actions of a year ago. Overall, return on sales was better than expected and price offset inflation in the quarter. It's worth noting that Electrical & Fastening expanded return on sales of 120 basis points for the full year on top of solid margin expansion in 2020.

Thermal Management grew 16% organically with sales of \$166 million, driven by continued strength in industrial, and commercial and residential. High margin industrial MRO growth was strong for the third consecutive quarter, up 34%. Backlog grew sequentially and year-over-year, reflecting an improving trend in longer cycle projects. Thermal Management segment income was up 30%. Return on sales expanded 290 basis points to 26.4% driven by volume and positive mixed contribution from industrial MRO.

Now turning to slide 7, this gives us a recap of our full year 2021 results. We ended the year with sales of \$2.5 billion, up 23% and 18% organically. Strong volume contributed 11 points to sales growth, while price added 7 points, nearly offsetting total inflation. Notably, we finished 12% above 2019 pre-pandemic level.

For the full year, segment income of \$436 million was up 25%. We expanded return on sales by 30 basis points to 17.7%. Adjusted EPS for the full year was \$1.96, up 31%. And I'm particularly pleased with our free cash flow performance of \$334 million, up 9% versus prior year and 100% conversion of adjusted net income. In summary, our 2021 performance puts us on a great trajectory to deliver on the long-term targets we set out in our Investor Day last March.

On slide 8, titled Balance Sheet and Cash Flow, you'll find we exited the year with \$50 million of cash on hand and \$493 million available on our revolver. Our recent debt refinancing, coupled with our strong cash generation, provide ample capacity heading into 2022.

Slide 9 gives us an update on our capital allocation priorities. We exited the year with a net debt to adjusted EBITDA ratio of 2 times at the low end of our target range of 2 times to 2.5 times. Our robust balance sheet and cash generation puts us in a great position to invest in growth and execute on our M&A strategy. We continue to make investments in new products and digital, and plan to launch another 50 new products in 2022.

We added over \$100 million in annualized sales from two acquisitions, and these acquisitions are on track to generate great returns like Eldon and WBT, both of which we delivered greater than 10% returns in year two. We returned approximately \$230 million to shareholders in 2021, including a competitive dividend and share repurchases of \$112 million. We will continue to deploy capital to drive growth and attractive returns for shareholders.

Now, moving to slide 10 and our 2022 outlook. We expect organic sales growth in the range of 6% to 9%. This assumes higher volumes along with price realization in that four- to five-point range. Growth is expected to be stronger in the first half, given comparisons. And from a segment perspective, we expect strong growth in Enclosures and Electrical & Fastening, with more modest growth in Thermal Management. Our outlook for full-year adjusted EPS is between \$2.10 and \$2.20, which represents growth of 7% to 12%.

A couple of important items to note. First, our outlook assumes supply chain challenges inflation persist, particularly in the first half. We anticipate margin performance to improve, as we move through the year. Second, we expect price plus productivity to more than offset inflation for the full year. Third, we will continue to invest in new products, digital and our supply chain. And lastly, we expect another year of strong free cash flow performance with conversion of approximately 100%, as we execute on our working capital initiatives.

Some 2022 below the line item assumptions we'd like to call out include: net interest expense of \$30 million to \$35 million; a tax rate in the 17% to 18% range; and shares of approximately 170 million. Additionally, we anticipate corporate costs of \$75 million to \$80 million, and CapEx of \$50 million to \$55 million.

Now moving to our first quarter outlook on slide 11, we expect organic sales growth in the range of 10% to 12% and adjusted EPS in the range of \$0.42 to \$0.44. Several items to note for Q1. First, margin performance year-over-year is expected to be similar to that in Q4, reflecting higher costs related to supply chain challenges. Second, we expect price to largely offset inflation in the quarter. Keep in mind, last year we had very favorable material [ph] logs (00:15:11) as we began the year.

Lastly, while we anticipate corporate cost to be similar to each of the last three quarters, they are expected to impact margins by 120 basis points due to the prior year comparisons. We see margin performance improving sequentially through the year using price cost pressures and better productivity.

In closing, our team delivered outstanding results in 2021, and I'm very pleased with our cash flow performance. I believe we are well positioned for another strong year.

With that, I will turn the call back over to Beth.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Thank you, Sara. On slide 12, I'd like to provide our assumptions for our key verticals in 2022. Looking at the industrial vertical, we believe the trends in digital and automation will continue to drive investments and strong demand for our products across all sub verticals. In commercial, we anticipate another year of solid growth. The US non-residential recovery is forecasted to be up mid-single digits, and in Europe, the construction PMI remains expansionary.

The infrastructure vertical is expected to benefit from continued strength in the 5G rollout, data center spending power utilities and renewables. In energy, CapEx is anticipated to increase, particularly in North America. In summary, all of the verticals where we play are expected to grow.

Turning to slide 13, we have executed well on our strategy with a laser focus on growth and serving our customers. We made progress in all areas and continue to see significant runway for growth and value creation. Let me share a couple of examples of where we are well positioned and winning with the electrification of everything.

With our Eldon acquisition and our global IEC Enclosures portfolio, we recently won a multi-million dollar deal for protection solutions in the food and beverage industry. We were able to provide the same solution in Europe and the US, selling globally and serving locally. With infrastructure investments in universal broadband and fiber-to-home, we won a key project with one of the largest world Internet providers in the US, providing outdoor protection systems.

With increased data demands and reliability in data centers, we won a multi-million dollar project providing a highly resilient connection solution. With the move to renewables, we've won dozens of biofuel upgrade projects with our Thermal Management heat trace offerings.

Now turning to slide 14, data and networking solutions is a great example of how multiple growth elements first strategy come together. At spin, we decided to focus on this high growth vertical and established a new commercial team. We developed new innovative products, in particular liquid cooling solutions, and expanded our offerings with acquisitions. We built strategic alliances with technology companies to expand our capabilities.

Today, we provide some of the most innovative and energy efficient solutions in the industry and are winning new customers. Recently, we were awarded a large multi-million dollar project for one of the world's largest software companies with our advanced liquid cooling solutions. Since then, we have more than doubled these sales to over \$200 million annually and expect to continue to grow high double digits.

Now turning to slide 15, I'm very pleased with the progress we are making on ESG goals, which are an integrated part of our nVent strategy. As a reminder, we focus on three pillars: people, products, and planet. And in that, we

believe our culture and our people are a differentiator. Attracting and retaining talent in today's environment is critical. We have increased the representation of women in management globally and racially diverse professional employees across our US workforce. We are honored to be named to the 2022 Bloomberg Gender-Equality Index, making us one of only 418 companies across 11 sectors and 45 countries to be included.

Around products, we integrated ESG into our new product introduction process and developed baseline metrics and long-term goals. And we have great results on our planet pillar, increasing our renewable energy usage and reducing our CO2 emissions. We received a silver medal for social responsibility from EcoVadis in 2021, ranking nVent in the top 13% of companies reviewed in our industry. We look forward to publishing our 2021 ESG report this summer and are committed to driving further progress of our goals in 2022 and beyond.

Turning to slide 16, I will leave you with some key points. 2021 was a year of outstanding performance, and we entered this year with great momentum. The macro trends with the electrification of everything are expected to drive demand for our products and solutions. We believe nVent is one of the best positioned companies to grow with these secular trends. We are executing well on our strategy and are changing the growth trajectory of nVent. We are a stronger company today and 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: [Operator Instructions] Your first question is from the line of Deane Dray.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone, and special welcome to Tony, a great addition to the nVent team.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Good morning, Deane.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Good morning, Deane, and thank you.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, the first question is – I had to do a double take on how significantly above our expectations organic revenue growth was in the quarter, very pleasant surprise. Can you talk about the cadence in the quarter organically top line, how did it play out and versus your expectations?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

I think coming out of Q3, where we talked about the strength in our orders, we just saw that growth consistent across all three months of the quarter, so backed up by that strong orders. And I think we were very pleased just

– with as the orders came in, just that it was broad based across all of our segments and all of our verticals, which reinforce the work that we're doing around our strategy in these high growth verticals. So just – on every level, we just saw strong growth across the business.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Got it. Great to hear. And the second question relates to price. 2021 was really strong for you in terms of price realization. Expectations for 2022, how many price increases do you think you'll need? And then on the flip side, on the input costs, maybe give us some insight on to the second derivative, just real time what's happening, steel, nickel, freight just is – have they plateaued, are you seeing any relief there? Thank you.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Well, I think, this was a – 2021 was a year unprecedented with inflation. And so we were having price increases in different parts of our – different segments or different regions continually throughout the course of 2021. And when we exited 2021, we had announced some price increases already for 2022. So, I think, we will look at how inflation plays out over the course of this year and we'll take whatever action we need to in terms of ensuring that we get out in front here.

And I'll let Sara add some more – cover on the inflation side of things.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah, maybe a couple of things to point out here is just, we talked about this a little bit in our prepared remarks, but we do expect strong carryover pricing in that four- to five-point range. I think the second piece in terms of inflation, a couple of things to note here. Total inflation was significant for us in 2021, no doubt; it was in total roughly \$145 million. As we look into 2022, we do see another year of significant inflation. I would say a bit more broad-based. We're seeing it across broader input cost components, freight, logistics, wages.

So, we're going to continue to stay in front of it. I think as we've been very vigilant doing through the course of 2021 in terms of managing that price, plus productivity more than offsetting inflation for the year. I think the other thing I would point out is just kind of this first half, second half dynamics. We do expect first half inflation higher and then that easing in the second half.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's really helpful. Thank you.

Operator: Your next question is from the line of Julian Mitchell.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi, good morning.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Good morning.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Maybe just wanted to circle back on that sort of price/volume aspect, because you're sort of relatively rare multi-industry company and that you're guiding for higher growth in Q1 than you are for the year, which is a sort of welcome linearity. But if we think about sort of the price versus volume within that number, is there anything to sort of call out as you go through 2022 or it's a similar development, whereby price and volume both start the year stronger than in the second half?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Yeah. Well, I mean maybe a couple of things to point out there. I think, one, that organic growth rate of 10% to 12% Q1 outlook really reflects the strong momentum that we're seeing. So I'd point that out first. Number two, it does include both price and volume, more skewed towards the price. I mean, simply the math is, as we exit the year at 11% and that carries over into Q1 of next year, we would expect a lot of that price carryover to benefit mostly in that Q1 timeframe.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Got it. But if we look at, say, the volume piece of the guide, is that expected to be kind of steady year-on-year, say, first half and second half?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Well, the volume is going to be stronger in the first half than the second half simply because of our comparisons, right? So if you look at our growth rate in – as we proceeded through the year – I mean, obviously Q2 of this year, because that was the lowest quarter a year before. But if you look at Q3 and Q4, we had really strong growth. So, some of that is just the comparisons that we have in the back half.

Julian Mitchell

Analyst, Barclays Capital, Inc.

That makes sense. Thank you. And then just a quick follow-up around the sort of margin progression for 2022. I think you'd mentioned on the revenues that Thermal's growth rate would lag the other two divisions. Just wondered if there was any sort of margin color year-on-year for 2022 as a whole across the three segments.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Yeah. So from a full year perspective, we do expect again another year of margin expansion despite that inflationary pressures and some of the supply chain challenges that we're seeing in the first half. We would expect margin expansion across all three segments, albeit a bit higher in Enclosures. Thermal, we expect to continue to benefit from that recovery as well as that industrial MRO strength continuing.

And I think Electrical & Fastening is where we're seeing – expecting to see maybe a bit more of a muted margin performance there kind of year-over-year, but keep in mind that business has expanded for us 180 basis points

over the last two years. So, good growth on the top and bottom line there in Electrical & Fastening, just more modest on the margin side.

Julian Mitchell

Analyst, Barclays Capital, Inc.

That's great. Thank you.

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Thank you.

A

Operator: Your next question is from the line of Joe Ritchie.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning, everyone; and welcome, Tony.

Q

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Good morning, Joe.

A

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Good morning.

A

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Good morning.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So, I wanted to pick up on that last point you just made around EFS, because I've historically kind of thought about the EFS segment as still being where the opportunity exists from a margin perspective longer term. So, maybe just expand on that. Is that changing at all? Where you kind of see kind of longer-term entitlements across the different businesses just based on the trends that you've seen in the last few quarters?

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Yeah. I would say nothing has changed in terms of us continuing to see margin compression – margin expansion in the longer term in Electrical & Fastening. We've talked about that in terms of bringing more lean enterprise within Electrical & Fastening, bringing more automation as well as digital factory and some of the investments we're making on the factory automation side of things.

A

So, nothing's changed there. I think it's simply two things. One, reflective of this 180-basis point expansion since 2019, but I think the other piece is just price cost. We're not that back yet to what I would say more normalized

historical incrementals are in that 30% plus range. Electrical & Fastening is definitely part of that given their more strong margins. And so, I think we're just seeing that in the context of another year of significant inflation. Even as we offset that with price and productivity, that is having an impact on incrementals as well as just absolute ROS.

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

Q

Got it. That makes a lot of sense, and maybe – I'm sorry if I missed this earlier. But the pricing this quarter was tremendous. I'm just thinking through kind of the environment that we're in right now with some steel cost curves are coming down. I'm just curious, like if we get into some of your raw materials actually deflating as the year goes on, how does that impact the price, cost equation for you guys? Do you have to get that price in certain businesses, like how do you think that will kind of play out for you guys?

Beth A. Wozniak*Chief Executive Officer and Director, nVent Electric Plc*

A

One of the things as we think about pricing and we continue to drive differentiation and value in our solutions and offerings, so we like to be able to hold that price. And I also would say that we're seeing a very highly inflationary environment. So even if we see raw materials going down, we still expect there to be inflation in electronics. There's still going to be inflation in wages and freight and energy costs, and there's multiple dynamics here. So, I believe as we go through the year, we're going to continue to manage to hold that price. And I'll let Sara just comment a little bit more on the margin side.

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

A

Yeah. I think your question was more around the steel, and maybe I'd offer up a couple of things. One is material costs in total are roughly 30% of sales, and metals account for more than 40% of this. But what that means is there are other input costs, right, in relation to the overall COGS, as Beth just commented upon.

I think the other piece I would say is clearly if cost go down, that will help, but that's not something that we're counting on. And again, we're going to stay very vigilant on managing that price plus productivity offsetting inflation for the year.

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

Q

Got it. That's super helpful. Maybe if I could just sneak one more in. Just on the Thermal margins this quarter, can you maybe just kind of parse out really, really good margin this quarter? Is that margin kind of sustainable going forward? Like any color around – parsing out what drove that really strong margin in 4Q.

Beth A. Wozniak*Chief Executive Officer and Director, nVent Electric Plc*

A

Well, maybe I would say a couple things. The biggest drivers of that margin performance in the quarter was, first, the tremendous growth rate that Thermal Management had. I mean, they're still working back in terms of recovery to those 2019 levels. So that was helping. I think the other piece is just the strength on the industrial MRO. That sort of had an outsized impact on ROS performance last year. And we're seeing that come back strongly this year.

And I think the other piece I would call out is just that team continues to do a really nice job with price cost. They don't necessarily see the magnitude of the material inflation as the other two businesses, but they've been very good on managing that price cost equation. We see that improving as we go into this year.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Great. Thank you.

Q

Operator: Your next question is from the line of Jeff Sprague.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Thank you. Good morning, everyone.

Q

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Good morning.

A

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Good morning, Jeff.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Okay. A couple of questions, and I'm sorry I got on late. How much price is embedded in the 6% to 9% organic growth guidance for 2022?

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Yeah. So, we talked about that carryover price being in that four to five-point range.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

So, what's interesting, and maybe you could address this, right, although your price I think surprised all of us here in the quarter when I actually look at it, this "only 200 basis points or 300 basis points" above what I forecast, what's sort of jumping out actually is the volumes, right? Everybody is dealing with inflation, but in a lot of these calls we're hearing inflation and supply constraints and therefore we can't deliver and sales are – came in light, etcetera, from a volume standpoint. You actually didn't experience any meaningful – from my vantage point anyhow – volume constraint. I'm sure there were some. But the question really is, are you now at some kind of capacity constraints that it's going to be difficult to drive volumes much higher than here? I mean, if there's literally four or five points of price in 2022, I would think you've got the prospect of some decent volume upside this year from what's embedded in that guide.

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

So from a volume standpoint, one of the things we're very pleased with is just how our supply chain has performed. And as you look at Q4, there was a cost to that because certainly in our Enclosures business having over 30% organic growth with constraints of labor and just even having to go get materials on the stock market, etcetera, all of that we were – you're inefficient. But I think as we go forward, what we've been doing and we've started even throughout the year is investing in capacity. We do think labor is still going to be a constraint. We think there's still some constraints around electronics. We think we're managing through the commodity materials and getting access there.

So, it's not – so, there's inefficiencies there And I would say as we started this year with Omicron, I mean, that created some labor issues for us, but we feel good about the orders. And so, we exited the year with 37% orders growth. And so when I talk about the momentum going into 2022, we would expect that we're going to have some nice volume growth.

Now, as we look at the back half of the year, remember, with some of these strong organic growth rates, the comparisons get a lot harder, right? This quarter being over 20% organic growth, it gets harder to get some of that volume on that. But we do feel very good where we're positioned and we believe our strategy and what we're seeing with the focus on high growth verticals and all the other things we're doing is positioning us well.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. And I just wonder if I could sneak one more in. If we think about the segment income bridges that you gave us for Q4 and for 2021, I just wonder if you could give us a little more color on kind of the – I mean you spoke to inflation, but kind of the productivity and investment buckets that underpin what the headwinds might be in 2022 relative to the price and volume coming in on the other side?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Yeah. Maybe I'll give in a couple points here. I mean, we talked about kind of that price carryover, that four to five points on that net productivity bucket, I mean, obviously it was a net negative this year of \$155 million for the full year. \$145 million of that being inflation and \$10 million net had went on productivity investments. We would expect that productivity to turn positive really as supply chain challenges ease in the back half and importantly, as we also drive that underlying productivity. I mean, we're doing a lot around automation, bringing digital in the factories and optimizing on the logistics side. So, we would expect that productivity bar to turn positive.

And I think the other piece is on the growth side. I mean, clearly that growth bar was a solid green forest as we lapped the year of COVID there in 2020, and we would expect it to be green again here in 2021 just not to that magnitude. But I think I would end by just saying we expect another strong growth on top of the 18% organic growth that we saw here in 2021 along with the margin expansion driving to that EPS growth.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

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

Operator: Your next question is from the line of Nigel Coe.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Oh, thanks. Good morning and congrats to Tony on the new role. I think this is the first time I've talked to one person on two companies in the quarter, so that's some kind of record. I wouldn't normally start off with corporate expenses, but it is quite a bit above my number and has been trending higher. So just wondering, is that just comp or is there something else driving corporate expenses higher? And are we at a good run rate here going forward?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Yes. I would say two things in Q4 there, one, and we talked about this even going into the year is we are going to make some digital investments, including migration to the cloud. And so that's been included in those corporate costs. I think the other piece I would just call in Q4 in terms of that sequential bump, that it did include some comp accruals. And so, as we look at that in the context of 2021 in that \$75-million to \$80-million range, that really just simply reflects kind of that underlying run rate in that Q2 to Q4 range of the prior year.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. And then maybe a follow-on to that would be, the R&D, obviously a big theme at your IR Day this year was investing in products, etcetera, R&D increases. So, I was just curious where R&D finished this year and what's baked in for 2022.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Well, with R&D, I would say that one of the things we continue to increase our investment there as we go forward, but one thing I want to say I'm very pleased with is just the effectiveness of our R&D. So, we look at our investments between digital and R&D, and sometimes they go hand in hand. But when I step back and look at we're launching more new products, our cycle times are going down and we're having more of an impact. And some of that is just our approach with agile and just better marketing and understanding customer needs.

So the output that we're getting on the R&D side is better than the goals that we set for ourselves. So, we still have runway to continue to invest there. We somewhat prioritize a little bit more on the digital investment side than we have R&D.

Nigel Coe

Analyst, Wolfe Research LLC

Q

And a quick follow-on if I can. You told us Omicron as a factor behind the productivity headwinds. Are we now moving beyond that impact on the labor side, either from your perspective or from your supply chain?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Well, I think January was very tough. You just need to look at caseloads and look at the news around the world. So, January was tough with absences. And I'd like to think that we're getting better, but who knows, right? We've always said there's no playbook for a pandemic.

But I think with the volumes that we've seen, labor is going to be – it's inflationary and I think it's going to continue to be a challenge for a while. Now, having said that, we've done everything that we can to serve our customers. It's been a big theme of ours and you've seen that in our volume growth. But I think we're just going to see some inflationary pressures there as we go forward.

Nigel Coe

Analyst, Wolfe Research LLC

Great. Thank you very much.

Q

Operator: Your next question is from the line of Jeff Hammond.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey, good morning. Thanks for putting me in here.

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Good morning.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

We covered a lot on price cost, et cetera. Just a clarification on price. Is that four to five carryover? Or does that include kind of your January 1 pricing as well?

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

That carryover basically includes these pricing actions that we had in the context of Q4.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay, okay. Great. And then just on – you made the comment that you kind of outgrew 1.5 on the new products. Just want to understand better, one, how you're measuring that. And two, maybe differentiating the new product outgrowth versus just your outgrowth from maybe being able to supply better than some of your comps in this environment.

Q

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

When we look at – I gave the number of 18% new product vitality. So, that says products we've released, what's the revenue of these new products over the last five years? And so, then we look at those new products and we look at what percentage of our revenue was generated in the course of a year, and that's where we came up 1.5. And I think that – I mean, new products are fundamental. As we look at how we're driving growth, where we're going with liquid cooling solutions, for example.

A

When we're looking at some of these trends around the electrification of everything and are we driving more resilient labor saving connection systems, that's positioning as well for some of these new growth verticals. So, we have a really good way of measuring the value that we're creating. And any time we launch new products, we look at margins; and if they're differentiated, they should launch with higher margins. So, I think we have a really robust process there and it's very important to our growth as we go forward.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

And do you see that 1.5 as kind of a stable number that you can kind of continue to improve? Or is that something that you think can move up over time?

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Well, we target to get over a point of growth. And I think in a strong year like we saw this year, 1.5 certainly if we had – this year is another good year. So I think, we expect to get above a point again. So that's kind of our general target.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks so much.

Operator: Your final question is from the line of David Silver.

David Silver

Analyst, C.L. King & Associates, Inc.

Q

Yeah. Hi, thank you.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Good morning.

David Silver

Analyst, C.L. King & Associates, Inc.

Q

Hi, good morning. So my question, I think, would be on the financing activity that was undertaken this quarter. And I was kind of looking at your debt structure with a – and I noticed that this quarter you paid, I think, a \$15-million prepayment issue. There was maybe \$3 million of costs. And I was just kind of scratching my head, but this kind of has the feel of reworking your debt structure and service of a broader corporate strategy.

But could you discuss – maybe you're thinking about why you chose to do a significant refinancing here and what that – I'll just say, \$18 million, but the prepayment and the issuance costs. Like, what does that buy you either in terms of lower interest expense or covenant relief? I mean, what – maybe if you could provide some background on that decision, that would be great? Thank you.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Yeah. So I mean, I would start off by saying we feel really good about the refinancing we did in the context of 2021, both on the revolver as well as that \$300-million bond tranche. And it really was in advance of the maturities that were slated for April of 2023, so kind of right within that window.

It really did two things for us. One, it gave us an opportunity given sort of the favorable backdrop and market conditions to take advantage of some of those lower rates. And I think the other thing too is it really set us up well

from a balance sheet maturity perspective. So, it took that \$300-million bond tranche and put it out 10 years. So as you look at our maturity ladder, we feel really good about where that stands.

From a cash perspective, we had an in and an out there. Clearly, we had the \$50 million kind of take out premium, if you will, on those bonds, but we also had roughly a \$10-million benefit on that treasury rate lock. So net, it was closer to that \$3-million mark. But importantly, we feel really good about that refinancing, and we believe it just puts us in a great position on the maturity ladders as we look forward and taking advantage of some of the favorable interest rate conditions here in 2022 – or here in 2021.

David Silver

Analyst, C.L. King & Associates, Inc.

Q

Yeah. And I think – and just to follow-up, but I mean, I think that particular notes issue that was taken out dates back to when your company was first set up independently. So I'm just wondering if there's any meaningful covenant relief or any kind of flexibility that you think is – that was gained that you think is noteworthy. Thank you.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

A

Yeah. I would say nothing really to note, I mean, we launched and spun as a company with, I think, some very good elements around both the revolver as well as on the bond issuance side, and those we see continuing with our debt refinancing.

David Silver

Analyst, C.L. King & Associates, Inc.

Q

Okay, great. Thank you very much.

Operator: There are no further questions. I will turn the call back over for any closing remarks.

Beth A. Wozniak

Chief Executive Officer and Director, nVent Electric Plc

Well, thank you and thank you for joining us this morning. We are incredibly proud of our strong fourth quarter and full year 2021 performance and believe we are well positioned for continued growth and success going into 2022. I'm grateful for the outstanding work our global employees put forth during the year to help us continue to meet customer demand and execute on our growth strategy. Thanks again for joining us. This concludes the call.

Operator: This concludes the nVent fourth quarter earnings conference call. Thank you for your participation. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.