

07-Feb-2023

nVent Electric Plc (NVT)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

OTHER PARTICIPANTS

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Julian Mitchell

Analyst, Barclays Capital, Inc.

Deane Dray

Analyst, RBC Capital Markets LLC

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Scott Graham

Analyst, Loop Capital Markets LLC

David C. Silver

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the nVent Electric Fourth Quarter 2022 Earnings Conference Call. All participants will be in the 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 fourth quarter 2022 earnings call. On the call with me are Beth Wozniak, our Chief Executive Officer; and Sara Zawoyski, our Chief Financial Officer. They will provide details on our fourth quarter and full year performance and outlook for the first quarter and full year 2023. Before we begin, I'd 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. I also want to add that we look forward to hosting our next Investor Day, the morning of Tuesday, March 7, in New York City.

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

Beth A. Wozniak

Chief Executive Officer & 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. 2022 was a record year for nVent, with the fourth quarter marking our seventh consecutive quarter of double-digit organic growth. Our nVent team delivered exceptional results by serving our customers, responding to strong demand and overcoming supply chain challenges. We successfully executed on our strategy, focusing on high-growth verticals, new products, global expansion and acquisitions. As a result, full-year sales grew an impressive 18% with adjusted EPS up 22%. This was another year of outstanding performance and value creation, and we're well positioned to do it again in 2023.

Slide 4 summarizes our Q4 and full year performance. Fourth quarter sales were up 15% organically, with broad-based growth across all segments and verticals. Segment income grew an impressive 31% year-over-year, with return on sales up 290 basis points. Adjusted EPS grew 32%, and we generated \$180 million of free cash flow, up 77%. Our fourth quarter results were terrific. Looking at our key verticals, all grew in the quarter. Industrial led the way up low double-digits with broad-based growth. Infrastructure had strong double-digit growth led by data solutions and power utilities. Energy performed well, up strong double-digits. And finally, commercial and residential grew mid single-digits driven by North America.

Turning to organic sales by geography, we continued to see broad-based growth in North America, up strong double-digits. Europe grew in all segments, up high single-digits. Developing regions declined primarily due to COVID-related impacts in China. Lastly, orders in Q4 were flat year-over-year. Recall, a year ago, we had 37% orders growth, a tough comparison. Also, as we discussed in our Q3 earnings call, we expected orders to moderate as distributors returned to seasonal destocking. Overall, our customer demand and distributor sell-through remained strong. Orders in January have since increased and we continue to have a robust backlog.

For the full year, we had record sales of \$2.9 billion, an increase of 20% organically, and segment income also grew 20%. Adjusted EPS was up 22% on top of 31% in 2021. For the full year, we generated over \$350 million of free cash flow. Let me share a few more highlights. First, we launched 59 new products, and our new product vitality is now 20%. New products contributed approximately 3 points to our sales growth. Second, with our focus on high growth verticals, infrastructure is now approaching 25% of our sales, up from low-teens at spin. Infrastructure includes data solutions, power utilities, renewables and e-mobility to name a few. All of these sub-verticals are growing rapidly, and we continue to expand our portfolio and solutions in these areas.

For example, data solutions now represents \$375 million in sales and grew over 35% in 2022. Lastly, we have added more than \$300 million in annual sales from acquisitions since spin. And in 2022, sales growth from acquisitions exceeded overall nVent growth. While we did not complete any new acquisitions in 2022, we remain disciplined in our approach and built a very healthy pipeline of opportunities. We've had success when we acquire companies that have differentiated products and solutions that extend our position in high-growth verticals. We've been able to rapidly scale them through our distribution channels, global reach and footprint. This approach has led to higher growth, and we believe fantastic returns for our shareholders. We're well-positioned with ample capacity to execute on M&A in 2023.

Looking at the macro trends, we expect electrification, sustainability and digitalization to continue to accelerate. We anticipate the investments from the Infrastructure Bill and Inflation Reduction Act will drive demand for our products and solutions. On verticals, we expect industrial to see continued growth with investments in automation

and supply chain resiliency. Infrastructure will benefit from investments with the electrification trends in power utilities, renewables and e-mobility. We expect continued strong growth with our portfolio in liquid cooling for data centers given the energy efficiency benefits. Overall, commercial is expected to slow. However, the need for more labor-saving solutions will drive demand for our products as well as growth in power and data infrastructure.

Residential is expected to be soft, but represents less than 5% of our portfolio. In energy, we expect to see continued growth with MRO and project supported by decarbonization with LNG, clean fuels and carbon capture. While supply chains remain challenging, we do expect them to gradually improve. We also expect an inflationary environment. We have shown we are able to manage price cost positive. We are confident we can continue to perform. Overall, I am proud of our nVent team and the record results we delivered in 2022. We continue to change the growth profile of the company, focusing on higher growth verticals tied to longer term secular trends. We believe 2023 will be another year of strong growth and value creation.

I will now turn the call over to Sara for some details on our results as well as our 2023 outlook. Sara, please go ahead.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Thank you, Beth. I am pleased to share another quarter of great execution with double-digit sales growth, strong return on sales expansion, double-digit EPS growth and robust free cash flow. Let's begin on slide 5 with our fourth quarter results. Sales of \$742 million were up 11% compared to last year or 15% organically. Overall, sales grew across all segments and verticals. Volumes were up modestly compared to last year and price added 15 points to growth. Foreign exchange was a 4-point headwind. Fourth quarter segment income was \$144 million, up 31% with strong incrementals of 47%.

Return on sales was 19.4%, up 290 basis points year-over-year. Better price cost and sequential productivity improvements drove the strong outperformance versus our expectations. Price contributions more than offset the impact from inflation of roughly \$40 million, and continued supply chain inefficiencies. In addition, we continue to make investments in R&D, digital and sales and marketing for growth and productivity. Q4 adjusted EPS was \$0.66, up 32% and above the high end of our guidance range. On cash, we delivered significant working capital improvements in the quarter, resulting in \$180 million of free cash flow, up 77% year-over-year.

Now, please turn to slide 6 for a discussion of our fourth quarter segment performance where you will see continued sales strength across all three businesses. Starting with Enclosures, sales of \$376 million increased 17% organically, with both price and volume contributing. Sales growth was broad-based across all verticals, led by industrial. Infrastructure also grew nicely with data solutions up approximately 30%. Geographically, North America led followed by Europe. Enclosures' fourth quarter segment income was \$72 million, up 67%. Return on sales of 19.2% increased an impressive 620 basis points year-over-year, driven by strong execution and catching up on price costs. For the full year, ROS expanded 80 basis points to 17%.

Moving to Electrical & Fastening, sales of \$194 million increased 16% organically with strong price contribution, while volume was down slightly. Sales growth was led by infrastructure, with power utilities up over 50%. Geographically, all regions grew, led by North America. Electrical & Fastening segment income was \$53 million, up 18%. Return on sales was 27.5%, up 120 basis points compared to last year on solid execution and price cost. This marks the fourth consecutive year of ROS expansion for Electrical & Fastening.

Turning to Thermal Management, sales of \$172 million grew 9% organically, with both volume and price contributing. All verticals grew led by industrial, with particular strength in chemicals. Geographically, North

America led with MRO and large projects, while Europe grew modestly impacted by Russia and commercial resi headwinds. Thermal Management segment income of \$44 million was up 1%. Return on sales of 25.7% was down 70 basis points year-over-year. This decline was due to higher project sales mix and R&D investments.

Now turn to slide 7 for a recap of our full year 2022 results. We ended the year with record sales of \$2.9 billion, up 18% or 20% organically, segment income grew 20% to \$524 million, and return on sales expanded 30 basis points to 18%. Adjusted EPS for the full year was \$2.40, up 22%, and free cash flow was \$351 million, up 5%, with 87% conversion of adjusted net income. A few call-outs for the year. First, volume contributed 6 points to sales growth. Second, all segments grew organic sales double-digits and expanded margins. Third, we have consistently demonstrated our ability to manage price cost. This is a testament to the strength of our portfolio and the solutions we provide to our customers. And lastly, acquisitions added 2 points to sales. In summary, 2022 was an outstanding year.

On slide 8 titled Balance Sheet and Cash Flow, you will see we exited the year with \$298 million of cash on hand and \$600 million available on our revolver. Our balance sheet and financial position have never been stronger. Turning to slide 9, we continue to prioritize growth and execute a balanced, disciplined approach to capital allocation. In 2022, we returned \$183 million to shareholders, including a competitive dividend and share repurchases of \$66 million. We exited with a net debt to adjusted EBITDA ratio of 1.4 times. We believe we have ample capacity and strong cash flows to execute on our growth strategy, including M&A, and deliver attractive shareholder returns.

Moving to slide 10, our 2023 outlook. We expect organic sales growth in the range of 4% to 6%. This assumes low single-digit volume growth and roughly 3 points of price. While we expect sales growth and positive price each quarter, growth is expected to be stronger in the first half given our robust backlog and pricing carryover. This also reflects macroeconomic uncertainties. Our outlook for full-year adjusted EPS is \$2.51 to \$2.61, which represents growth of 5% to 9%. A few important items to note. First, we expect price plus productivity to more than offset persistent inflation. Second, we anticipate stronger year-over-year margin performance in the first half given comparisons and favorable price cost. And third, we will continue to invest in new products, digital and capacity for growth.

Lastly, we expect free cash flow conversion of approximately 95%. This reflects higher CapEx investments in constrained areas. We continue to expect strong underlying working capital improvements. A few 2023 below the line item assumptions we'd like to call out include, higher net interest expense of approximately \$40 million due to higher rates on our variable rate debt, a tax rate range of 18% to 18.5%, and shares of approximately \$168 million. Additionally, we anticipate corporate costs of approximately \$95 million and CapEx of \$55 million to \$60 million. Moving to slide 11 and our first quarter outlook. We expect organic sales growth in the range of 5% to 7%. We anticipate another quarter of strong margin performance. For earnings per share, we expect adjusted EPS in the range of \$0.56 to \$0.58, up 12% to 16% year-over-year. In closing, our team delivered another year of outstanding results in 2022, and I believe we are well positioned for another strong year.

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

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Thank you, Sara. Turning to slide 12, I want to spend a few moments recognizing the great work of our nVent team. Over the course of the year, our ability to respond to strong demand and overcome supply chain challenges was appreciated by our customers. While we still have a few challenging areas, our distributor partners placed us in the top-performing suppliers when it came to delivery and quality. As you can see on this slide, we're

highlighting a few of the many recognitions we received for our commitment and partnership to our customers' success. These recognitions weren't just about product delivery, these extended to innovation and safety and performance measures we value in nVent. Another area of recognition is our ESG performance. ESG is at the center of our strategy as we build a more electrified and sustainable world.

We've made significant progress in our sustainability commitments. For the second consecutive year, we were again awarded a silver sustainability rating from EcoVadis. Our overall score improved, placing us in the top 9% of companies assessed in our industry, and the 85th percentile of all companies assessed. Key to our success is our focus on our people and culture, which we believe to be a differentiator. We have made inclusion and diversity a priority for us to create a great workplace. I'm very proud that our board of directors is 70% diverse and we were recognized by 50/50 Women on Boards. Also, we are certified as a Best Place to Work. Our people are our priority and strength, and we are committed to building a culture of inclusion that allows every employee to thrive and contribute to our success.

Turning to slide 13, I look forward to our upcoming Investor Day next month and sharing how nVent is building a more sustainable and electrified world. Wrapping up on slide 14, 2022 was another year of outstanding performance for nVent, delivering differentiated value for our customers and shareholders. We are well-positioned with the electrification of everything, sustainability and digitalization trends. And we expect 2023 to be another strong year of financial 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: Thank you. [Operator Instructions] And the first question will be from Jeff Sprague from Vertical Research. Please go ahead.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Good morning. Thank you.

Q

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Good morning.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Hey, just a couple. Good morning. The price numbers obviously just continuing to jump off the page. I'm just thinking about the bridge. So I think, in 2022, you said price offsets all inflation, and I think for 2023, you said price plus productivity offsets inflation. I just wonder if you could put a finer point on that. Do you actually need to dip into productivity to fight inflation in 2023? It seems like in 2022 you actually were able to drop that productivity to the bottom line through some nice margin enhancement.

Q

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Yeah. I think, let me start with 2022. In 2022, price needed to offset inflation as well as some of the negative productivity we saw just due to the supply chain inefficiencies. So in essence, it cost us more to service our customers with the robust demand we were seeing and a strong volume growth. And so as we walk into 2023, we would expect price to offset cost, and we would expect productivity to turn to a positive. Now, that's going to be more gradual in the context of throughout the year, and really what's going to help meter that is just that supply chain improvements. But we've talked about this in our last call. We're really focusing on those supply chain investments to help remove some of those areas that we've constrained in, as well as focus on productivity in the factories that provides that productivity improvement over the course of 2023.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And maybe just a little bit of color on what you're seeing in the channel. There was certainly some concern exiting Q3, that maybe we'd have some drawdown or distributors rebalancing and the like. It doesn't look like that happened to a material degree. But maybe address that and kind of the health of the channel as you look into the beginning of the year here.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Yeah. As we had discussed in our Q3 call, we expected to see some return to normal seasonal destocking. And I would say, we did see that. As we progressed through the quarter, we certainly saw a drop off in orders. However, what we did see was strong demand and sell-through from our distribution partners. So they were resetting some of their inventory levels. Now, as we turn to this year and January, we've seen those orders increase. And so I think there was some management of that inventory level, if you like. But they still are sharing with us that they've got good backlogs, good demand. And so we believe we're going to see that pick up here as we go through 2023.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thanks for the color.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Thank you.

Operator: And the next question will be from Nigel Coe from Wolfe. Please go ahead.

Q

Hi. This is [ph] Bastien (24:05) filling in for Nigel. So obviously, the 2023 – so in 2022, price contribution was about 14%. And then my question is, for 2023 price contribution expectation, do you expect any pockets of price givebacks? And then maybe if you could touch on what you see on [ph] pressurization (24:30) on orders.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Well, let me just start by talking about price. Our view is, it's still an inflationary environment. There's still supply chain challenges. There's inflated labor, energy costs, et cetera. And so as we started an inflationary

environment, so our aim is to hold our price. However, it's not at the same level as we were last year, as Sara shared with you our assumption, as we go forward.

Q

Thank you.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. So I think, maybe just one point to add to that in terms of kind of that stickiness. I do think it is reflecting our ability to deliver and our ability to innovate for our customers. And then, maybe I'll just expand a moment on the inflationary environment to give a bit of a color on that piece of it. Something to keep in mind is, if you look at our total cost structure, that's roughly \$2.3 billion, that's COGS as well as all of our operating expenses. And so metals specifically are less than 20% of that overall cost structure. So while we are seeing some easing on the inflationary side as it relates to metals, we're seeing inflation and everything else. So as Beth alluded to, you've got components, you've got electrical, electronics, labor, logistics, energy, professional services. That is where we're seeing that inflationary pressure. And so like we've consistently demonstrated in 2021, in 2022, we're going to consistently keep front-footed and manage that price cost equation going into 2023.

Q

Great. Thank you. And then, my follow-up question will be, how should we think about the sustainability of Enclosures margin since 4Q was typically a weak margin quarter for Enclosures. Would you expect the full year to be above the 19%, 20% range?

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

No. So one of the things we commented on is, if you look at the quarters how we progressed with Enclosures, that was our segment that had the most challenges in terms of demand and supply chain inefficiencies, and so it was very – whether it was labor shortages, whether it was freight, et cetera. So to some extent, we had some inefficiencies. We improved that towards the back end of the year, and some catchup on price cost. We would expect to return to the more normal margin profile that we've shown over the last several years. And so we don't expect that margin to be at that level going into Q1.

Q

Right. Thank you.

Operator: Thank you. And the next question is from Joe Ritchie with Goldman Sachs. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone and congrats on the year.

Beth A. Wozniak

Chief Executive Officer & 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'll ask hopefully the last pricing question, and I'm just going to take a little bit of a different angle here. So you did over \$300 million in pricing in 2022. There's got to be some good carryover pricing that comes into 2023. And it also kind of sounds like, because you believe the backdrop is going to be inflationary, there is some likelihood that you'll put additional pricing increases through. So can you maybe just comment on the carryover pricing, and whether you plan to put additional pricing through 2023?

Q

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Yeah. As we said in our prepared remarks there, Joe, I mean, that 3 points of price, that's part of that 4% to 6% organic growth. Much of that is really carryover as well as things that are already announced, and that's reflective of the inflationary environment that we see today. But as the year progresses, we're going to continue to manage that price cost equation as we've done in years past.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay. Great. That's super helpful. And then just thinking through the volumes, your demand backdrop still sounds like it's very good. Most of our companies have yet to see very much money from the Infrastructure Bill, and yet you're calling for volumes to be maybe up low single-digits. So help me square that. And then if you could provide any color on whether you're starting to see any benefit from the Infrastructure Bill, that would be helpful.

Q

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

I think there still remains a lot of macro uncertainty, and so that's reflected in how we put our guide together. When it comes to both the Infrastructure Bill and the Inflation Reduction Act, more so the Infrastructure Bill, some of that funding, it's moving through the states and it's allocated for roads and bridges and transportation and water and broadband and ports and airports as you know. And we look at all that and say, okay, here's where our Enclosures or EFS business where we're positioned, where we could expect to see some growth. But I think that, in particular, is going to be more towards the back half, and it'll be multi-year as we see those investments flow. Maybe could be a point for EFS and Enclosures as we start to see those funds flow. When it comes to the Inflation Reduction Act, some of that is going to start to drive demand in areas where we have like renewables and solar and some areas where we're working on, e-mobility. But I think that's more to come and towards the back half of this year as we currently see it.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you.

Q

Operator: And the next question is from Julian Mitchell from Barclays. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Hi. Good morning.

Q

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Good morning.

A

Julian Mitchell

Analyst, Barclays Capital, Inc.

Good morning. Just wanted to look at the operating margins a little bit more. So I think you've guided those maybe up about sort of 50, 60 bps for the year. Just wanted to check that that's roughly the right range. And then trying to understand sort of on a segment basis, how we thinking about that, just after the fourth quarter you had very different, sort of, year-on-year margins by segment. Are we seeing a bigger increase maybe in Thermal and then Enclosures is more flattish? Any color around that, please.

Q

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

Yeah. I would start by saying, kind of that ballpark margin, if you kind of just back into that from a segment income perspective, it's in the ballpark, Julian. And then from a color perspective by segment, I would say, couple of things; first, we're confident in the year that next year is going to be, or this year, 2033, is going to be another year of margin expansion. That's going to come from the contribution from volume, but also positive price cost productivity. We also expect margin year-over-year performance to be stronger in the first half versus the second half, and that's really two-fold. It's one, just given our comparisons of a year ago. We're lapping here in the [indiscernible] (32:03) half, some of that negative productivity and just high cost to serve from a supply chain perspective. But also we're carrying forward, as you saw in Q4, some stronger price cost.

A

So if you look at that from a segment perspective, we continue to expect really the largest expansion from Enclosures, building off of that 17% ROS that they exited the year with in 2022. So again, expecting that price cost to benefit Enclosures here in Q1 in the first half, and continue to expect to see gradual improvement from a productivity standpoint. I would also say that we expect to see margin expansion both in Enclosures and Thermal Management just less so. I mean, EFS has had tremendous margin expansion over the last four years we said, and then with our Thermal Management, still expect margin expansion just a bit more modest given some of the mix pressures as projects really come back on board here and grow strongly.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thanks very much, Sara. And just trying to, looking at, say, slide 7, so you've got that very helpful segment income bridge on the lower left. And just to focus on the sort of price and net productivity buckets for a second when we're thinking about 2023, you've got a sort of a \$40 million-odd spread between price versus net productivity in 2022. Just trying to understand sort of how do we think about that in 2023 in light of your comments around kind of productivity becoming a tailwind, but maybe the price cost spread narrows as we go through the year and investments, I don't think you called out yet.

Q

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. So I think you colored it in rather well, Julian. I mean, I think in terms of a price cost perspective, we do expect price to offset inflation, but to a narrower degree that what we saw in 2022, and some of that again will catch-up in terms of quarters passed. And then productivity, while productivity embedded in that \$290 million headwind, if you will, that was negative \$65 million with a balance of that being inflation. So we do expect that productivity to improve sequentially through the year. So not right out of the gates here in Q1, but we continue to see good gradual improvement for supply chain even from Q3 to Q4. We expect that to continue into Q1 and continue through the course of the year. So we see that a little bit more weighted towards productivity than price cost, but both contributing positively to that bar in 2023.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

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

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Good morning.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, Sara, I was hoping you'd just take us through some of the dynamics in free cash flow, really strong finish to the year. How much was working capital at play? Did you take down buffer inventory? I know you referenced some of that for the 2023 free cash flow guide. But just take us through that, the working capital improvements, what happens to buffer inventory from here.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. So we were really pleased with our free cash flow and working capital performance in Q4. And if you look at Q2 to Q3, that inventory was flat, even while sales grew. And then from Q3 to Q4, we did take down some of that inventory, and it really was reflective of some of the supply chain improvements we were seeing. So as we saw some of the lead times come down, we were able to tighten up our own inventory. But still, I would say, it's very surgical, but as there are still some areas that were not where we want to be in our service levels, and know that we've got to make some of those investments. So we're pleased with the progress we made there in Q4. We know that there's continued progress we can make as that supply chain improves. But we're going to continue to

take a very surgical approach to it to make sure that we're also investing in those areas that we need to, that are constrained or that have more challenging lead times.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's helpful. And then for Beth, can we get some more color on the data center solutions business? You're significantly outgrowing the market there. Can you give us a sense of how much of that is being driven by Enclosures versus liquid cooling?

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

When we look at that growth, I would say, in data solutions, it's two areas; one, it's our liquid cooling solutions, and when we do sell those off, and we're selling those with racks and enclosures and fastening solutions, but we've talked about this before where liquid cooling is a more efficient way, energy-efficient way of cooling data centers. And with data centers and chips getting hotter, it's really the direction that we're seeing across all data center applications. So significant growth from liquid cooling. The other area I would comment on where we saw growth is from our power distribution units. So as we think about how our growth outlook here, it really is all of what we do, but led predominantly by liquid cooling and our power distribution units. And that pulls through the rest of our enclosures and fastening solutions.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's great. Thank you.

Operator: And the next question is from Jeff Hammond from KeyBanc. Please go ahead.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, everyone.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Good morning.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

I just want to go back to the Enclosures margins, so very good in the quarter. And I think, Beth, you said that you would not expect that to repeat. So I'm just wondering, if there were any aberrations or why that steps back. I know maybe there are some seasonality dynamics, et cetera, but just wondering on the sustainability there.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. This is Sara. So maybe I'll build upon what Beth said. I mean, in the quarter, from a Q4 perspective, some of that price was really catching up from the early part of the year, so Q1 and Q2 where cost exceeded price. And so when we looked at Q4 standalone, excellent, impressive return on sales. As you well know, usually we have sort of a seasonal downtick in ROS, but that was very strong sort of quarter-to-quarter sequentially. So as we look at – maybe I'll put it in the context of the full year, we exited the year at 17% return on sales for Enclosures, and we expect that from a full year perspective, and so we would expect to build upon that and see the strongest margin expansion heading into 2023, and we would expect that first half sort of year-on-year margin expansion to be the strongest in comparison to the full year based on that price cost carryover. So we do expect some nice margin performance here in quarter one year-over-year from a margin perspective.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. So it's really, you had a big price cost catchup, and maybe that gap is a little bit smaller going forward.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. Because comparing that to kind of where things stood in Q1 of a year ago as well.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just back on data solutions, I appreciate the outgrowth and color there. Just maybe give us your view on outlook there for 2023. It seems like there's a lot in the backlog, but some kind of emerging concerns, just around data center and particularly some of the hyperscale guys kind of cutting people and cutting back a little bit. I'm just wondering if that's showing up at all in the demand trends or order rates. Thanks.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

So the way we look at that is, our backlog is strong there, and because we're seeing this technology conversion to liquid cooling, which actually reduces operating expenses, we're seeing demand for these types of solutions increase and despite of that backdrop of everything else going on. So it's a more efficient way. It's a technology shift. And so that conversion we think is going to continue to extend across multiple data center applications, both new and retrofit. So that's why we're seeing such strong demand and expect that to continue.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just on that front, would you say your data solutions business is kind of running above that 3 points outgrowth, or would you say that's more broad-based?

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

I'm not sure we're tracking with the 3 points of growth. Can you maybe just explain that?

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

I think you said that the new products contributed 3 points to outgrowth. So I'm just wondering, how much is that leaned towards data solutions, or is it more broad-based?

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Well, I would say that the 3 points of outgrowth is broad-based across EFS and Thermal. But for Enclosures, significantly, it's both on the power distribution side and the data center cooling that we're seeing that higher than 3 points of growth from those new products.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks so much.

Operator: And the next question is from Scott Graham from Loop. Please go ahead.

Scott Graham

Analyst, Loop Capital Markets LLC

Q

Hey, good morning, all. Terrific quarter, really.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Good morning. Thank you.

Scott Graham

Analyst, Loop Capital Markets LLC

Q

Great execution. I have a couple of questions myself, and I was just wondering, one of the things we've been hearing this earning season is, with the supply chain getting little bit better, deliveries, outbound deliveries that that time shrinking, that there's sort of this natural tendency for the customer to not necessarily order that much because their order is kind of already in your backlog. So could you talk about maybe, with the orders being flat in the fourth quarter, kind of how you parse that out between sort of improvement in on-time delivery from both you and supply chain with, say, versus some destocking versus the whole comp versus demand dynamic?

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Well, Scott, I would say it's both of those things. So what we saw occur in Q4 was that some of our distributors were looking at their inventory levels and doing some destocking, and so hence that reduced our order rates. And I made the comment that our sell-through was still very strong. And now, as we've progressed in 2023, order rates have picked up again in January. But I do think, remember, we were seeing crazy order rates. In Q4 of just 2021, we had 37% orders growth. So at that point, we were definitely seeing our customers and our partners placing more orders on us to give us visibility to demand so we could respond. So I think we're seeing that, that as supply chains improve, they're not placing those orders six months out to give us visibility, and so we're seeing it more balanced. But having said that, sell-through is good, orders have picked up. And so I think that's just part of the gradual supply chain improvements that we're seeing.

Scott Graham

Analyst, Loop Capital Markets LLC

Q

Yeah. Thank you for that. On the new product, that was a really big number. And I'm just wondering, what the 3% looks like in 2023, if you could hazard a guess there. And I assume – well, I don't want to assume anything. How do you sort of handicap pricing as a contributor within new products, or is that just a volume number?

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Yeah. We don't really – the way we think about new products, when we launch new products, we're always looking to see that they're providing outsized value. So they're reducing labor or they're driving energy efficiency or better operational performance. So therefore, we launch new products with a higher margin expectation because of the value that we're creating. So that's how we think about it versus pricing. So there's a whole way that we look at value. And I would say, as we go into or as we're in 2023, we always look to launch at least 50 new products. We look to launch them with faster cycle time, improved margin. We always want to get at least 1 point of growth. But I think, we're going to continue to strive to have great differentiated products, like this year, if we can drive higher volume and growth from them, we will.

Scott Graham

Analyst, Loop Capital Markets LLC

Q

Very good. Thank you for your time and taking my questions.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Thank you.

Tony Riter

Vice President-Investor Relations, nVent Electric Plc

A

Thanks, Scott.

Operator: [Operator Instructions] The next question is from David Silver from C.L. King. Please go ahead.

David C. Silver

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

Q

Yeah. Hi. Good morning. Thank you.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Good morning.

David C. Silver

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

Q

Yeah. My question would be about your R&D spend and maybe the thinking about that going forward. So this was a record year for your R&D spend, up towards 25% or so. And I thought it was interesting that each quarter, the four quarters of 2022, had the highest, four highest quarterly spends on R&D. So I don't know, to me it seems like, I am wondering if maybe there's been an evolution in your thinking in some direction about the goals or the priorities within your R&D spend. And wondering if maybe there's an increasing – or if you could highlight the collaborative nature of your R&D spend currently, in other words, how many projects are done, let's say, directly with particular customers in mind or in collaboration with those customers. Thank you.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

All right. Well, we've always stated that, our intent was to always increase our R&D spend, because we thought as a percent of sales when we spot, it was on the low end. And we have made those increases, but our top line has grown so well, and we've also had such impact, which has been terrific. So I think the major changes for us in how we've driven R&D to realize such great results is that, it's a very collaborative approach. It starts with us understanding the market needs. In some cases, it may be a specific customer, but we try to think of as developing platform products that can serve multiple customers in a particular application.

And then between our marketing and technology folks and our supply chain folks, we work through the development process. And we've really done a great job to reduce our cycle times every year by 20% to 30%. That's velocity, it's productivity. And then we've also improved the launch process, so that when we launch a new product, we have a way of getting it positioned more quickly through our distribution partners, we've got inventory, we've got digital collateral. You just can't launch a product without having the digital product information available. And it's all of those things that I believe have allowed us to have such a greater impact. And we'll continue to invest there as we see great returns.

David C. Silver

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

Q

Okay. Thank you for that. Next question I had was, maybe just about your projected capital spending for 2023. There is a little bit of a bump there, but I recall, Sara add at least a couple of points calling out constraints that needed to be addressed. And I'm just wondering, if you wouldn't mind, qualitatively, maybe just calling out the top couple of areas where discretionary capital will be spent in 2023 to maybe alleviate some of those constraints or alternatively to exploit some opportunities that you see. What's the highest priorities for the discretionary portion of your capital spending? Thanks.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Maybe I'll start by saying, we've talked about how our data center solutions and our liquid cooling is growing so significantly. So we need to make further investments to expand our manufacturing capability for that particular product line. And that also involves us having some expansion within Mexico where we need to add an additional plant to our campus or extended campus, to be able to have the capacity for some of these high growth areas and high growth verticals.

Sara E. Zawoyski

Chief Financial Officer & Executive Vice President, nVent Electric Plc

A

Yeah. So maybe just a couple of things to add to that. I mean, our CapEx really is focused on new products, digital transformation, high growth verticals. So that's consistent going into 2023 here. I think that uptick is really those things that Beth just alluded to. We believe our supply chain has been a position of strength for us here in

2022 in terms of enabling us to deliver for our customers and do it very, very well. But we are capacity constrained in some areas. And so some of this reflects building out existing capacity, but building that out in Mexico, particularly in our Enclosures addressing some of these bottlenecks that we're seeing. It's also increasing our investments in automation, as well as modernizing some of what we have in our factory to really allow for better output, and frankly more efficient output as well as we go forward.

David C. Silver

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

Q

Okay. Thank you for that. And then just last question about the new products. You started out a couple of years ago, Beth, I think, with a target of 50 new products. And I noticed the number in this year was 59. So I can't resist asking, going forward, will 60 be the new 50 as far as the hurdle rate for new product introductions? Thank you.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Yeah. Well, just to answer that, we always want to have 50, and it depends on the types of products, whether they're brand new product platforms, whether in our fastening business we tend to have more types of fasteners which are faster, smaller projects. So it really just depends. But I think what we're striving for is at least 50 new products a year, reducing that cycle time, higher margins, and then having at least driving a point of growth, if not more.

David C. Silver

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

Q

Terrific. Thank you very much.

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

A

Thank you.

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

Beth A. Wozniak

Chief Executive Officer & Director, nVent Electric Plc

Thank you for joining us this morning. We're proud of our strong finish to a terrific year. I believe we are changing the growth profile of nVent. I'm grateful for the outstanding work of our team to support our customers and execute on our growth strategy. 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.

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 2023 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.