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nVent Electric Plc (NVT)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the nVent Electric Third Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I'll now 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 third quarter 2024 earnings call. On the call with me are Beth Wozniak, our Chair and Chief Executive Officer; and Sara Zawoyski, our Chief Financial Officer. They will provide details on our third quarter performance and outlook for the fourth quarter and an update to our full-year 2024 outlook.

Please take note, as a result of the previously announced agreement to sell the Thermal Management business, the company is reporting the results of this business as discontinued operations and has reclassified 2023 and 2024 results for all prior periods. In addition, guidance is now presented on a continuing operations basis. All results referenced throughout this presentation are in continued operations basis unless otherwise stated.

Before we begin, let me remind you that any statements made about the company's anticipated financial results are forward-looking statements subject to future risks and uncertainties such as the risks outlined in today's press

release and nVent's filing 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 will have time for questions after our prepared remarks. Please limit your questions to one and one follow-up.

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

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Tony. And good morning, everyone. It's great to be with you today to share our strong third quarter results. We continue to execute on our strategy for growth with a focus on high growth verticals, new products, and global expansion.

In the third quarter, we delivered record sales up 9%, both on a continuing operations and total basis. Total adjusted earnings and cash flows were strong, coming in better than expected. And we continued to make investments to expand our data solutions business. Our portfolio transformation is underway with the announced sale of the Thermal Management business, and we expect the sale of the business to close by early 2025.

Our most recent acquisition Trachte is off to a good start, growing sales strong double-digits and is a great new platform for nVent. We believe these portfolio moves will make nVent a more focused and higher growth electrical connection and protection leader and further positions nVent with the electrification, sustainability and digitalization trends.

Now onto slide 4 for a summary of our third quarter performance. Sales in the quarter were up 1% organically, led by infrastructure. Year-to-date, new products have contributed over 3 points to sales growth, and we've launched 77 new products. Adjusted operating income grew 4% year-over-year, with return on sales down 120 basis points due to investments and mix. Adjusted EPS was \$0.63. We generated an impressive \$143 million in free cash flow, up over 30%. We're on track for another strong year.

Looking at sales performance across our key verticals, infrastructure led the way up low-double digits organically, with data solutions growing double digits. Industrial was down low-single digits. Commercial/resi declined mid-single digits with continued end market softness.

Turning to organic sales by geography. North America was up low-single digits, and Asia Pacific had strong broad-based growth. Europe declined low-single digits. Lastly, organic orders in Q3 grew mid-single digits year-over-year.

Looking ahead to Q4 from a vertical perspective, we expect infrastructure to have the strongest growth, particularly data solutions and power utilities. Industrial is expected to be flat, commercial/resi to remain soft. In addition, macro uncertainty remains with the upcoming elections and interest rates, which has some distributors cautiously managing inventory.

Overall, I'm very proud of how our nVent team – overall, I'm very proud of our nVent team and how we continue to execute and deliver for our customers and shareholders while transforming the portfolio. We're on track for another strong year.

I will now turn the call over to Sara for further detail on our third quarter results and our updated outlook for 2024. Sara, please go ahead.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Thank you, Beth. We had a strong third quarter performance with both segments growing, better than expected earnings, and record cash flow. Let's turn to slide 5 to review our results, which as a reminder, are all on a continuing operations basis.

Sales of \$782 million were up 9% relative to last year or up 1% organically. Volumes contributed approximately 2 points to growth, and price was essentially flat. Acquisitions added \$59 million to sales or 8 points to growth, better than expected. Foreign exchange impact was neutral. Third quarter adjusted operating income was \$168 million, up 4%.

Return on sales was 21.5%, down 120 basis points year-over-year. This reflected tough prior year comps in corporate costs and Electrical & Fastening mix and higher investments this year. Inflation was roughly \$25 million in the quarter. Q3 adjusted EPS was \$0.63, down 3% due to higher interest and taxes as expected. We generated outstanding free cash flow in the quarter of \$143 million, up 33% or 18% of sales, reflecting strong working capital performance.

Now, please turn to slide 6 for a discussion of our third quarter segment performance. Starting with Enclosures, the team delivered another excellent quarter. Sales of \$477 million increased 16% and 1% organically. Acquisitions added 14 points to sales. The Trachte acquisition performed very well, with sales up strong double digits versus a year ago and a growing robust backlog. The integration is off to a great start.

From a vertical perspective, infrastructure led up double digits with strength in data solutions in both power and cooling. Industrial and commercial/resi each declined. Geographically, North America grew low-single digits and Asia Pacific grew mid-teens, while Europe was down. Enclosures third quarter segment income was an impressive \$104 million, up 17%. Return on sales up 21.9% increased 20 basis points year-over-year, driven by strong execution. Productivity and higher margins from new products more than offset inflation and helped fund investments.

Electrical & Fastening returned to sales growth in the quarter. Sales of \$305 million increased 1% organically. Growth was led by infrastructure, including power utilities up high-single digits. In addition, industrial grew mid-single digits. Commercial/resi remained soft. Geographically, organic sales in North America were flat and Asia Pacific grew double digits, while Europe was down. Electrical & Fastening segment income was \$93 million, down 5% year-over-year. Return on sales was a solid 30.4%, down 190 basis points, mainly due to tough comps from mix.

On slide 7, titled balance sheet and cash flow, we ended the quarter with \$137 million of cash on hand and \$600 million available on our revolver. Free cash flow was exceptionally strong in the quarter. Year-to-date, free cash flow of \$277 million was up nearly 50% versus a year ago. The fourth quarter is historically our highest cash flow quarter and we expect continued improvements in working capital.

Turning to slide 8, where we outline our capital allocation priorities. We will continue to take a balanced and disciplined approach to capital allocations to deliver strong returns. Growth remains our first priority, both organic and inorganic.

In the quarter, we expanded our footprint to increase our liquid cooling capabilities 4x and support our growing backlog. We completed the acquisition of Trachte, providing a new growth platform. And we have returned \$195 million year-to-date to shareholders, including \$100 million in share repurchases in the third quarter. Looking ahead, we expect to have a significant optionality for further capital deployment with the sale of the Thermal Management business and strong cash flow generation.

Moving to slide 9 and our full-year outlook on a continuing operations basis. We are updating our full-year guidance to reflect the Thermal Management business moving to discontinued operations and narrowing the range with one quarter to go.

For the full year, reported sales are expected to grow approximately 13%, organically up roughly 3%. Acquisitions are expected to contribute approximately 10 points to sales growth, and FX is expected to be neutral. Our outlook for full-year adjusted EPS is \$2.49 to \$2.51, which represents growth of 7% to 8%. This includes an \$0.08 or 3-percentage point negative impact to EPS related to changes in the global tax standard.

A few important items to note for the year. First, we expect adjusted operating income to grow 15% to 16%. This reflects price and productivity offsetting inflation. In addition, we are making investments in capacity, new products, and digital to accelerate growth and productivity. Second, we are well on track to generate over \$400 million of free cash flow with conversion in the range of 95% to 100%.

Third, corporate costs are now expected to be approximately \$110 million. This includes indirect costs of approximately \$15 million previously allocated to the Thermal Management business. Work is already underway to address these costs.

A few additional 2024 assumptions include a tax rate of approximately 23%, net interest expense of approximately \$105 million, shares of approximately \$168 million, and CapEx of approximately \$80 million. We expect full-year 2024 to be another year of strong sales, profit and cash flow.

Moving to slide 10 and our fourth quarter outlook. We expect reported sales to grow 11% to 13%, with acquisitions contributing approximately 9 points to sales. Organic sales are expected to be up 1% to 3%, with both segments growing. We expect adjusted EPS to be between \$0.58 and \$0.60, up 5% to 9% year-on-year.

Wrapping up, I am pleased with our third quarter performance and believe we are well-positioned heading into 2025. This concludes my remarks and I will turn the call back over to Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Sara. Turning to slide 11, let me give you an update on our data solutions business and liquid cooling in particular. As you know, we are a leader in liquid cooling for data centers and have been offering solutions for many years across the cooling continuum. Our differentiation is based on our deep application expertise and our innovative multi-generational design.

We continue to expand our product portfolio to serve data center customers across hyperscale, enterprise, multi-tenant, and our distribution partners. Our high-density liquid cooling portfolio includes rack and row coolant distribution units and various manifolds. Our advanced cooling solutions are specifically designed to manage the substantial heat output of cutting edge AI infrastructure, helping to drive optimal performance and longevity.

We are well-positioned to support the expansion of AI capabilities, driving innovation and efficiency in high performance computing environments. We are currently engaged with NVIDIA in the design of liquid cooling products, solutions and architectures that meet the needs for the GB200 NVL72 and its follow-on next generation platforms. We will be showcasing our NVIDIA reference design solutions at Super Compute in a few weeks.

We are also actively engaged with other chip manufacturers to understand future cooling requirements. In addition to investing in new products, we are expanding capacity in our facilities, building out our advanced lab and testing capabilities, and partnering with our suppliers to ensure they can rapidly scale with us. We continue to see high demand for our data solutions products in cooling, power and cable management, and now expect 2024 data solutions sales to exceed \$575 million. We believe we are well-positioned to win in this rapidly growing space.

Please turn to slide 12. Over the last few years, we have demonstrated our growth strategy is working with strong execution, delivering robust sales and adjusted operating income and earnings per share. Looking ahead to 2025, we are undergoing a portfolio transformation which we believe will make us a more focused, higher growth, electrical connection and protection company.

Over 70% of our portfolio is exposed to the secular trends of electrification, sustainability and digitalization. Infrastructure now represents approximately a third of our portfolio and is expected to grow the most next year. We are well-positioned in data solutions and power utilities with robust backlogs. Our outlook for industrial and commercial/resi is more positive. New products again are expected to be a key driver of our growth.

Finally, as part of our portfolio transformation, we have a very healthy M&A pipeline and project nearly \$2 billion in available capital to deploy from the Thermal Management sale and our robust free cash flow generation. In summary, we expect 2025 to be a strong growth year.

Wrapping up on slide 13, we had another strong quarter of operational performance, including record cash flow. Our portfolio transformation is underway. We are well-positioned to grow with the electrification, sustainability, and digitalization trends. 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: Yes, thank you. We will now begin the question-and-answer session. [Operator Instructions] And first question comes from Julian Mitchell with Barclays.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Hi, good morning.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

A

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Good morning.

A

Julian Mitchell

Analyst, Barclays Capital, Inc.

Good morning. Maybe just the first question around the margin outlook. So, it looks like I think margins may be down 100 bps or so operating wise sequentially in Q4. Just wanted to check that's roughly correct. And when we're thinking more broadly about margins into next year, you have this big investment spend headwind right now in the second half. Does that normalize into next year? And how quickly should that \$15 million of indirect unallocated cost get worked down, please?

Q

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Okay, Julian, I think that was a three-part question. Let me start with the first one. In terms of that seasonal downtick on margin from Q3 to Q4, it's just that more seasonal. If you look at historically, EFS tends to be strongest in Q2 and Q3 and lighter from a sales perspective in Q4 and Q1, and the ROS, right, is commensurate with that. So, you do have some seasonality from a Q3 and Q4 standpoint from a return on sales aspect of things.

A

I think your second question is in regard to investments. I mean, we've been very explicit kind of walking into this year that investments are important to fuel future growth, particularly around new products and data solutions. We have seen that accelerate here in the back half, bringing some of that liquid cooling capability online here in Q3 and Q4. And I think you can expect us to continue on that new products in some of those commercial data solution investments as we walk into 2025. But those ramped up costs should diminish over time related to just bringing that capacity up online.

And I think your third question was around indirect costs. So, essentially, as part of that Thermal Management now going into disc-ops, there are some indirect costs that essentially don't get allocated, if you will, to Thermal Management now that sits within that corporate cost bucket. That's roughly \$15 million.

And I would say two things. One, work is already underway in terms of reducing those costs. Really focused on driving more efficiencies, accelerating some of our business process transformation efforts that we already have

underway. And I would say the second piece of it is really some of that falling off, if you will, with that Thermal Management business being divested. But there's got to be targeted actions and we've got that work underway of renegotiating contracts, et cetera. And so, I would expect those indirect costs to reduce really throughout 2025.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's super helpful. Thank you. And then maybe as very simple or simpler second question would just be on the organic sales outlook. So, I think you're growing sort of 1% to 3% in the current quarter year-on-year. Beth, you sounded more enthused about the outlook for, say, industrial and commercial/res in 2025. So, is it reasonable to assume in 2025 based off your comments that you're not too far off perhaps as things look today that medium-term sort of growth place holder of 4% to 6% that you talked about last year?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

As we go into 2025, look, the portfolio looks different and we've been repositioning it around infrastructure, as I said in my comments, right? And so, we can look at our backlog and these higher growth verticals. And so, we think that is going to set us up as we go forward. The portfolio is now exposed to those trends.

And I think as we sit here today, there remains this macro uncertainty. We've got an election coming up, interest rates where they're at. And I think we've seen our distribution partners just be cautious on inventory. And recall, a lot of our portfolio is sold through that distribution channel. So, we expect, as we get into 2025, the outlook there is more positive and the end market outlook as well.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: Thank you. And the next question comes from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey. Thanks. Good morning, everyone.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Good morning.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey, good morning. Hey. Just on the NVIDIA collaboration that you mentioned here. Maybe I missed it, but did they press release this, name you by name, partner ecosystem or something? Yeah. Just wondering, maybe we're going to hear that at Super Compute. But any color there?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

More to come. How about I say that? And yes, we will be showcasing a lot of our products and collaboration efforts at Super Compute.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

In their booth or just in your booth?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

In our booth. And I will say we will have other cooling products in other booths as well. I don't want to give away too much there, Jeff, but you will see our nVent product showcase around the Super Compute show.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Okay. And what was the negative mix effect in EFS that you mentioned?

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Yeah. A lot of that, Jeff, was prior year and we called that out last year, particularly in Q2 and Q3. Their return on sales in those quarters was north of 32%. And just based on the mix of sales in those quarters, they were getting kind of an outsized impact from positive mix that we didn't expect to continue as we go forward.

So, again, on an absolute basis, their return on sales this quarter was north of 30%. It's just that year-over-year comp was a tough comp. We do think that that comp gets easier in Q4 based on what that mix looked like a year ago as well.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And how are you thinking about price going forward? Obviously, ticked a little negative and it trailed kind of inflation, productivity investments collectively. How do you think you can kind of manage that algorithm as we move into Q4 and 2025?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Jeff, I think we see the price – things are very stable is how we would characterize it. And in the past several years, we've seen more outsized price than volume. Now, we're seeing strong contributions of volume. But we do think that price will be positive as we go forward into 2025.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Great. Thank you.

Q

Operator: Thank you. And the next question comes from Nigel Coe with Wolfe Research.

Nigel Coe

Analyst, Wolfe Research LLC

Thanks. Good morning, everyone.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good Morning.

A

Nigel Coe

Analyst, Wolfe Research LLC

So, back – yeah. So, I think, Sara, this is for you I think. The – so, the 4Q 1% to 3% core sales, maybe just break that out between the two segments. I'm guessing, it's not that different between the two. But I do want to try and understand little bit better the lumpiness in data solutions and perhaps liquid cooling as well and how that's influencing sort of the kind of 3Q to 4Q because it does feel like the sales are a bit flatter 3Q to 4Q than perhaps normal seasonality.

Q

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Well, let me take that first one. Your guess is right, Nigel, in terms of both segments kind of being in that 1% to 3% range. If you look at it just from a vertical standpoint overall, we continue to expect good growth in infrastructure, industrial mix stronger in EFS, a bit softer in Enclosures, and continued commercial/resi softness overall.

A

And, again, I would just reiterate what Beth said in her prepared remarks is what's encouraging is that both segments saw good order growth in Q3 as well informing that. I think the one caution there is just at the end of the year and given some of these macro uncertainties, we would expect some distributors to manage those inventory levels there at year-end.

In terms of Q3 and Q4 seasonality from a sales perspective, look, I think that the biggest seasonality element there that we're seeing is really just EFS. And I think that's pretty consistent with historically – again, going back EFS is going to be stronger in Q2 and Q3. And that Q3 to Q4, you're going to see a little bit of that downtick, if you will, on the EFS sales front.

Nigel Coe

Analyst, Wolfe Research LLC

Anything on the phasing of shipments in data solutions?

Q

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Not necessarily. No, we talked about data solutions kind of this first half versus second half. We talked about that a little bit last quarter. And some of that is just based on timing of some of these more meaningful customer programs of where that comes into place. But we feel really good about our backlog, orders are strong, and again making great progress and building that capability. And Beth talked about what we're also on underway in terms of building out the testing and the lab capability.

So, really excited about the future of data solutions. And now I know you guys have been asking in terms of what that data solutions number looks like, but kind of characterizing that at \$575 million, we expect, for this year. So, meaningfully higher than what it was a year ago.

Nigel Coe*Analyst, Wolfe Research LLC*

Q

That's great. Thanks, Sara. And then just a quick one on the M&A sort of pipeline development. You've got a lot of cash to deploy, which is obviously good news. But do you expect this to be a series of acquisitions or do you think there could be one or two sort of launch opportunities? And are we sort of set on deploying the bulk of the surplus capital in 2025 on M&A? Or could there be some buybacks as well?

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

A

Well, as you know, we've always said our first priority with our capital allocation is to grow both organic and inorganic. And as we look at our pipeline, we think that it is very robust. I think we've demonstrated our ability to integrate larger deals. And so, as we look into 2025, and I always say this, you never can control the timing of deals. But I think it does give us an opportunity if we want to do a more sizable deal. But, again, we're disciplined in the multiples we pay. But I believe that we have good opportunity as we go into 2025 to execute on M&A.

Nigel Coe*Analyst, Wolfe Research LLC*

Q

Okay. Thanks, Beth.

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

A

Thank you.

Operator: Thank you. And the next question comes from Deane Dray with RBC Capital Markets.

Deane Dray*Analyst, RBC Capital Markets LLC*

Q

Thank you. Good morning, everyone.

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

A

Good morning.

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

A

Good morning.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

I appreciate the slide 11 with the portfolio snapshots as well as sizing data solutions. And I know you said up double digits, but can you be more specific on what data center did in the quarter in terms of growth?

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

We don't necessarily break that out more specifically, but I think if you look at just that \$575 million that we're expecting for the full year and look at where that was last year, that's in that in excess of 20% from a year-over-year growth perspective. And, again, I'll just go back to the order book has been strong there, with continuing backlog growth as well. So, we feel good about that heading into 2025.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Understood. So – and that kind of brings up the question about market share and growth rates and how you stack up versus peers in this space. And so, one of the challenges and we've talked about this with you before, but the idea here is you are in many platforms and partners where you don't see the nVent name. And so, it's a bit like in the early 1990s when Intel went to the Intel Inside, that's when people started to see and appreciate how pervasive and what kind of share Intel had.

So, how are you addressing this in the way of being able to profile your share? I know you're a leader, you've been in it the first in terms of liquid cooling. But what kind of challenges you have here in being able to talk about where and how you're in different platforms but not necessarily able to put your name on it?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, Deane, I think I would start by saying that in this hyperscale, high compute community, the nVent name and capability is well known and understood. So, those who are involved in the design and development. And I think we're continuing to expand our offerings and ensuring that we're marketing our capability more broadly, especially as you get perhaps into multi-tenant or more through the distribution channels, where the knowledge of what's going on in this high compute – in terms of just the liquid cooling capability, there's still many who are learning about it. So, we're working with our distribution partners there.

But our view is we're going to continue to invest in new products. We're ramping with many of those customers that we can't speak about. We're on the next generation of designs. We talked about our collaboration with NVIDIA and I said stay tuned. There's more that we will be sharing at Super Compute.

So, from my perspective, I think we just need to continue to go fast. The space is evolving rapidly and we're making investments from new products, to capacity, to our suppliers, to our lab capability, and expect this to continue to be rapid growth for us.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great. That's just – my follow-up question is exactly on that, the 4x capacity expansion. Can you give us a sense – I mean, if the market is growing in excess of 40%, how much is this capacity expansion? How far does that take you in the next couple of years? And just remind us how much is actually manufacturing capacity versus the

amount of test labs. Because that's really how you have proved to your partners that the liquid cooling delivers on the specs that they require.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Yeah. So, Deane, the manufacturing capacity when we refer that is about a 4x capacity, and we think that's going to get us through the next couple of years. At this point, that can change. And so, we're in the process of building that out. Our lab expansion is going to take us through into 2025, but that more than doubles our lab capability and capacity of what we have today.

And by the way, all of that isn't enough. And so, I wanted to make that point that we've been working with our supply base because you also have to ensure that they can rapidly scale as well. So, there's a lot of different areas that we're investing from an end-to-end perspective to make sure that we can continue on the growth rate that we're at and continue to offer solutions more broadly as we start to see some of these AI chips extend beyond just say the hyperscalers.

Deane Dray

Analyst, RBC Capital Markets LLC

That's great. I look forward to seeing the team in Atlanta. Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you.

Operator: Thank you. And the next question comes from Joe Ritchie with Goldman Sachs.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Good morning.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey. So, maybe following on that thread and I'm sure, again, we'll hear more in a few weeks. But I'm trying to understand like the productivity right now that you have in your data center business and liquid cooling specifically. Maybe just kind of comment, Last time we saw the offering, it just seemed like you guys were trying to run as fast as you could and there's probably – you're probably not fully efficient to that point. And so, I'm just curious to understand the margins, and just any comments we can make around the productivity you have around that business today?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, I'll start there and I'll let Sara jump in. We've always said that our liquid cooling margins or – sorry, our data solutions margins kind of reflected the products in that portfolio of our segment. So, what we do around cable management, it kind of reflects the margins that we have in EFS. What we do around liquid cooling and power and some of the other products reflect the margin in Enclosures.

Now, having said that, there's a lot of investment going in and there's a lot of startup cost to that. And so, we do think that over time there's opportunity to drive some more efficiencies. So, the margins are good today, but we know that over time they will get better as things scale more and more. And I'll let Sara add anything to that that she wants.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Yeah. Maybe the only thing else I would add is I think the Enclosures business has just delivered some underlying strong productivity and seeing some good operating leverage, as well as better mix on some of these new products, new programs. So, even with some of these bringing the capacity online and these investments, we still expanded return on sales in the quarter. So, there's some strong underlying productivity there as well.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay, good to be hear. And then I guess just circling back to the organic growth question and heading into next year. If I kind of pull out your acquisition contribution from this year and the comments that you've made around data solutions, it seems like the rest of the business isn't growing this year from an organic growth standpoint.

And so I'm curious, Beth, as you kind of think about 2025, are there areas that are kind of really depressed within your business where you could see an inflection that just spur organic growth? And then, just a follow on to that. Are there any capacity constraints that you have to be able to meet demand if it were to inflect outside of data solutions, of course?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Okay. Well, I think one of the things we've said this year is that commercial/resi has been soft. And so, we do expect that to improve in 2025. The second I would point out to is industrial. And so we've seen some strength in industrial in EFS, and we've seen some weakness in our Enclosures business. Some of that also has to do with CapEx investments, interest rates, but it also has to do with our distribution channel. Again, we think that improves going into next year.

I would talk about power utilities where, again, we've strengthened the portfolio with that Trachte acquisition. But earlier in the year, we certainly saw this level of inventory at end customers and the distribution channels. But our EFS business and Enclosures in Q3 saw nice growth in power utilities because we believe some of that inventory adjustments have taken place.

But looking at 2025, I think the – some of these macro uncertainties even tied to elections gets behind us and the portfolio we believe is strengthened with the things that we've done with acquisitions and new products. And so, our view is positive as we go into – and backlog support going into 2025 as a strong growth year.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay, great. Thank you.

Q

Operator: Thank you. And the next question comes from Vlad Bystricky with Citigroup.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Hey, good morning.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good morning.

A

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Good morning.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Thanks for taking my call. So, maybe just following up on the growth question in another way. I mean, if you think about the – you had mid-single digit orders growth in 3Q. But 1% organic revenue and you're guiding 1% to 3% organic in 4Q. So, I guess, can you talk about when we should see that higher level of orders growth more directly convert to revenue?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Well, I think – yes, you're correct. We're guiding 1% to 3%. And I think, you know, we have a mix. When we look at our orders of short cycle and some backlog we've spoken to that we see with, say, data solutions. But we believe as we get into 2025 – because, again, I think this quarter we see this macro uncertainty that has, again, distributors pausing, for example, or managing inventory. And I think as we get into 2025, we start to see improvements in terms how our growth layers in.

A

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

And maybe I would add just one point to 2024 here. I mean, if you look at just kind of where we're at year-to-date and some of the context that we've given on Q4, if you look at Enclosures, I mean, they're expected to be strong mid-single digit growth this year, right? And infrastructure has been a big part that and that's even with some of the underlying headwinds around industrial Europe, et cetera.

A

And then, EFS obviously not as much. But, again, in the start of the year, that's where we had some of the infrastructure, the utility, channel inventory dynamics that we were working through and commercial/resi headwinds. And, again, so as we flip next year, it's not far off, right, from Enclosures being strong mid-single digits, and then it's the end market dynamics that Beth talked about in terms of turning on the EFS side.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Got it. That's helpful. Appreciate it. And then maybe just moving to Trachte for a minute. I mean, you mentioned it's off to a good start as it's coming into the portfolio with double digit growth, which is a great to hear. Can you just talk more about sort of the visibility that you have within their backlog, how far out does their visibility extend?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

In some cases, we can see orders that we get like a year of visibility. Some are maybe shorter than that. But we do have a good backlog as we go into next year. And if you think about what we're doing there, these are control houses that are used to support upgrades for an aging electrical infrastructure, as well as with renewables and with data centers as well. So, we have some nicer visibility there and just see continued strong growth in our outlook.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Appreciate the color. Thanks.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you.

A

Operator: Thank you. The next question comes from Nicole DeBlase with Deutsche Bank.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Yeah, thanks. Good morning.

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Good Morning.

A

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

Good morning.

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Maybe just starting on orders and kind of dovetailing with the expectations for 2025 with respect to industrial and commercial and resi. Have you guys seen any sign of improvement in order activity? Or is it more about rates coming down and some of the macro dynamics that gives you conviction that those parts of the businesses can turn positive?

Q

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

I'd say things have been stable. How about I put it that way? But our view is that interest rates and there's macro uncertainty and also just how distributors are managing through this year that – first, the fact that it's stable is good. Utility certainly improved. I would make that comment, but our view is that does get better in 2025.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, that's helpful. Thank you. And then I guess maybe you could you talk a little bit about what you're seeing holistically from a channel inventory perspective? It seems like things are kind of going according to plan with less of those headwinds in the back half of the year. But, I guess, how would you characterize inventory now? Thank you.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, I think I would start by saying through the distribution channel, we've actually seen positive sell out. And so, the sell in is a little bit weaker. And so, this is why we believe that they – many of them have talked about managing their cash flow performance and interest rates. And so, we think that it's that inventory level. They're just being very cautious. And so, as we get into 2025, because they talk about end market demand still being good, so we expect that will – that situation will improve as we go into 2025.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. I'll pass it on.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: Thank you. And the next question comes from Jeff Hammond with KeyBanc Capital Markets.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Good morning, Jeff.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Just back to capital allocation. I'm just wondering, you get – you did \$100 million buyback in the quarter and I'm just wondering. I know the focus is organic, inorganic, but just how to think about any earmarked for buyback around the thermal sale?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

When we announced the sale, the intent for the sale, we did say our first priority always remains growth, both organic and inorganic. But there is the opportunity to do some buybacks, and so we did that in Q3. And I think as we go into next year, as I like to say, you never can control the timing of M&A. And certainly, if there was no M&A opportunity or the world changed, there's always opportunity to do some buybacks.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then utility, I think that had been kind of a drag and I think you called out high-single digit growth. Is that just a function of comps? Or are you actually seeing that business start to reaccelerate?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

In our EFS business, this was a challenge for us in the first half of the year and we talked about high comp – we had really high growth in 2023. We also had lead times that were extended and they've now come back in line. So, Q3 for us in our EFS business in that utility segment was very strong. And so, we believe that – and we also see the backlog that we have in our Enclosures interactive business. And so, as we look at 2025, we think utility, this is going to be a key driver of our infrastructure growth.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay, great. And then just last one. Orders, up mid-single digits, I think you haven't really been calling out orders. I'm assuming that's a reacceleration. And I'm just wondering, is that largely data solutions or is it more broad-based than that?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

It's actually more broad-based. And so, we've seen strong orders in Enclosures and it's a mix. But data solutions has been good. And we've seen mid-single digit orders in EFS as well.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. Thanks so much, Beth.

Operator: Thank you. The next question comes from Brian Drab with William Blair.

Brian Drab

Analyst, William Blair & Co. LLC

Good Morning. I was wondering if you could just – I don't know if you're willing to do this, give us a little more granularity on that \$575 million because in the past we've talked about the data solutions category, and then within that power and cooling, and then within that liquid cooling. And can you just comment on whether power

and cooling is now maybe more than half of that \$575 million? And then, I'm curious what power and cooling is growing at as well.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Yes, you're right. We've always said that cooling and power is about 50%. So, I would say it's a little more than 50%. But I also like to say some of our cable management business has been growing at that same rate because it's all part of the solution as we go forward. So – but certainly with the growth rates around liquid cooling, we expect that's going to continue to increase as a percentage of that overall data solutions portfolio.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. And then is there anyway you could give us an update on the expected timing of the Thermal deal? And it's going to be a massive amount of cash that you'll have at that point. And the interest rate that you expect, at least. I know you can't predict interest rates, but like the interest rate that you're getting on your cash.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

So, yes, when we announced the sale, we said that we expect the sale of the Thermal Management business to occur in early 2025 – by early 2025. And I'll let Sara comment on our cash.

Sara E. Zawoyski

Executive Vice President, Chief Financial Officer & Interim President-Enclosures, nVent Electric Plc

A

Yeah. I think if you think about it in the context of sort of a rate in that 4% to 5% range depending upon what sits on the balance sheet and earns interest from a deposit standpoint or even looking at some of our pre-payable term debt and what we're paying on that, which is 6%. So, if you look at kind of the blend of that, you can think about in that 4% to 5% range.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Right. Okay. Thank you very much.

Operator: Thank you. And the next question comes from David Silver with C.L. King.

David Silver

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

Q

Yeah. Hi. Good morning.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Good morning.

David Silver

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

Q

I just wanted to follow-up maybe on your comments on the Trachte business serving as a new platform. I think you mentioned that a couple of times in your prepared remarks. But, yeah, you mentioned the business is off to a good start. My sense is that it touches on some different end markets, different customer base.

When you did make the deal, I'm sure you had some longer term plans. I mean, do those plans – I mean, maybe if you could just add a little color on where the business might be heading in the next few years. But is this a business you want to scale up? Is this a business where the breadth – adding breadth is more important?

And then maybe since it is "a new platform", is this something that's best managed within the Enclosures – the larger Enclosures group? Or are there some differences that maybe make you think down the road it could form the basis for a new third segment? Anyway, just you're thinking about it, I know it's very early days. But strategically, what are some of your thoughts about the opportunities there?

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Well, as you know, and we publish this, we have this M&A framework. And we always think of great products in high growth verticals that we can invest in and scale. And so, for us, as we thought about our Enclosures segment and how could we have a stronger position in utilities, we saw this as an offering that was growing with the dynamics of aging infrastructure, data center build out.

And effectively and I'm being very simplistic here, it is a larger type enclosure than what we were doing today. And I also like to say that when you go in these control houses, you see more enclosures and you also see some of the other products that are in the nVent portfolio. And so, we saw this as an opportunity for us to extend what we do in Enclosures in a more scaled way that we felt that we could have synergies with the rest of the nVent portfolio and allow us to expand our position in utilities, renewables and add to what we do in data centers.

And I think there's a lot of synergies within the Enclosures portfolio because you can think of how we purchase materials, et cetera, that at this point we believe that it's a part of that segment and we're going to continue to, as per our framework, invest in it and scale it to grow.

David Silver

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

Q

Okay, great. Thank you very much. That's it from me. Appreciate it.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

A

Thank you.

Operator: Thank you. And that does conclude the question-and-answer session. I would like to turn the conference back over to Beth Wozniak for any closing comments.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you for joining us today. I'm very pleased with our performance in Q3. We will continue to focus on our customers, employees and shareholders by executing on our growth strategy and transforming our portfolio. I'm excited for our future. Thanks again for joining us. This concludes the call.

Operator: Thank you. As mentioned, the conference has concluded. Thank you for attending today's presentation. You may now disconnect.

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