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nVent Electric Plc (NVT)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Tony Riter
Vice President-Investor Relations, nVent Electric Plc

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

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

OTHER PARTICIPANTS

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Julian Mitchell
Analyst, Barclays Capital, Inc.

Deane Dray
Analyst, RBC Capital Markets LLC

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Nigel Coe
Analyst, Wolfe Research LLC

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Brian Drab
Analyst, William Blair & Co. LLC

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Scott Graham
Analyst, Seaport Research Partners

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the nVent Electric Fourth 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 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 2024 earnings call. On the call with me are Beth Wozniak, Chair and Chief Executive Officer; and Sara Zawoyski, Chief Financial Officer. Today, we'll provide details on our fourth quarter and full-year performance and our outlook for 2025.

As a reminder, starting in Q3 2024, the company began reporting the results of Thermal Management business as discontinued operations. 2023 and 2024 results for all prior periods, along with guidance, are presented on a continuing operations basis. All results referenced throughout the presentation on our continuing 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 result line 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 will have time for questions after our prepared remarks.

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

Beth A. Wozniak

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 fourth quarter and full-year results. 2024 marked a pivotal year for nVent with our strong performance and portfolio transformation. Q4 had 9% reported sales growth, margin expansion and adjusted EPS growth of 7%. For the full year, we had 13% reported sales growth, continued margin expansion, strong earnings growth, and outstanding cash flow. I'm very proud of our nVent team and everything we have accomplished.

We have made great progress on transforming our portfolio. Last week, we closed on the sale of the Thermal Management business. We expect to have nearly $2 billion in capital available to deploy in 2025. I'm very excited with how we are repositioning the nVent portfolio to be more focused around the trends of electrification, sustainability and digitalization.

Our 2025 guidance at the midpoint reflects approximately 9% sales growth and 22% adjusted earnings per share growth. We are well-positioned for strong sales and earnings driven by our focus on high-growth verticals, new products and acquisitions.

Slide 4 summarizes our Q4 and full-year performance. Fourth quarter sales were up 9%. Organic sales were slightly down. Sales to our key distribution partners were down more than expected as they manage their inventory positions. Importantly, sellout remained positive. Segment income grew 12% year-over-year, with return on sales up 50 basis points. Adjusted EPS grew 7% and we generated $150 million of free cash flow.

Looking at sales performance across our key verticals, infrastructure led up low-single digits organically. Industrial was flat. Commercial/Resi declined mid-single digits with continued softness. Finally, Energy was up mid-teens.

Turning to organic sales by geography, North America declined low-single digits and Europe was up slightly. Asia-Pacific grew in the mid-teens with solid growth in China.

Lastly, organic orders were up low-teens in the quarter, including double-digit order growth in Data Solutions. For the full year, we had sales of $3 billion, an increase of 13% and 2% organically. Segment income grew 15%, with margins expanding 50 basis points. Adjusted EPS was up 7%. For the full year, we had strong free cash flow of $427 million, growing 20%.

Let me share a few more highlights. First, we launched approximately 90 new products in 2024, contributing more than 2 points to our sales growth. We have great momentum in our innovation pipeline.

Second, organic growth was led by the Infrastructure vertical. Within Infrastructure, Data Solutions now represents approximately $600 million in sales and grew approximately 30% in 2024. Overall, I'm proud of our nVent team and the strong results we delivered in 2024. We believe 2025 will be a year of strong growth and value creation.

Moving to slide 5. We have been on a journey to transform our portfolio and 2024 was a pivotal year. The divestiture of Thermal Management positioned nVent as a more focused, higher growth electrical connection and protection company. Approximately, 70% of our portfolio is exposed to secular trends and one-third of our sales are in the Infrastructure vertical, up from low-teens when we spun as a company nearly seven years ago.

We also have done seven acquisitions to-date, adding significantly to the offerings of our business segments. Now is the right time to rename our segments to better reflect what they do for our customers.

Beginning in Q1 2025, the Enclosures segment will be known as Systems Protection. This segment includes Enclosures, but is far beyond that, with power distribution units, cooling solutions, both liquid and air, and control buildings. We provide our customers with products and solutions that protect electronics systems and data. In addition, the Electrical & Fastening segment will be known as Electrical Connections, to represent the expansion of this portfolio to power connections, along with Electrical & Fastening Solutions. This segment offers products and solutions that make electrical systems safe, efficient and resilient.

Turning to slide 6 and our outlook for the verticals in 2025. Infrastructure is expected to grow the fastest, up low-double digits. Data center CapEx is expected to continue to increase. Also, electrical infrastructure is expected to continue to expand in power utilities, renewables and energy storage, given the increasing electrical demand. Industrial is expected to grow low to mid-single digits with improving CapEx investment in North America. Commercial/Resi is expected to be up low-single digits as Commercial improves, with electrification demand for both new construction and existing buildings.

Now, onto slide 7. I would like to talk more about how we are growing in the Infrastructure vertical. Overall, we have expanded our product portfolio both organically and inorganically in Infrastructure. Data Solutions is approximately 20% of our sales with products in liquid cooling, power distribution units, enclosures, and cable management. We have seen strong growth across the portfolio and expect another year of double-digit growth in 2025, supported by a growing backlog.

We are investing in new products and expanding our offerings in liquid cooling, but also in cable management with innovation in our [ph] wire basketry (00:09:30), for example, and extending our power distribution offering. Also, in Infrastructure, power utilities now represent approximately 10% of our sales. The acquisition of Trachte last year more than doubled our exposure to power utilities and creates an entirely new growth platform of control buildings. The demand for control buildings is increasing with an aging electrical infrastructure that needs upgrading, a need to expand the overall grid, the move to more renewable energy, and the increase in data centers. We continue to see the backlog grow in this business supporting our forecast for double-digit growth in power utilities this year.

Moving to slide 8. New products and innovation are a core part of our strategy and a strong contributor to our sales growth. We are focused on six core technology platforms. These include: cable management, control buildings, equipment protection, liquid cooling, power connections, and power management. We are prioritizing innovation on these platforms to drive differentiation, modularity for flexibility and velocity, and are actively expanding our global certifications.

Last year, we opened a new technology center in Bangalore to allow us to build more R&D capability from design, modeling, simulation, et cetera, expanding our technical capabilities.

Looking at 2025, we expect to launch over 75 new products, helping to drive over 2 points of sales growth in the year. In addition, we expect new product vitality to be above 22%. At our core, nVent is a products and solutions company, so our strong focus on products and innovation are key to our growth strategy and our customer experience. This wraps up my remarks.

I will now turn the call over to Sara for details on our results, as well as our 2025 outlook. Sarah, please go ahead.

Sara E. Zawoyski

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

Thank you. Beth. I am pleased to share another quarter of solid sales and earnings growth, margin expansion and robust free cash flow. Let's begin on slide 9 with our fourth quarter results. Sales of $752 million were up 9% compared to last year. Organic sales were down 1% with price and volume each slightly down. Acquisitions added a meaningful $66 million to sales or 10 points to growth.

Fourth quarter adjusted operating income was $158 million, up 12%. Return on sales was 21%, up 50 basis points year-over-year. Our performance was driven by acquisitions and strong productivity, partially offset by higher investments and inflation of approximately $25 million. Q4 adjusted EPS was $0.59, up 7% and at the midpoint of our guidance range. And we generated robust free cash flow of $150 million.

Now, please turn to slide 10 for a discussion of our fourth quarter segment performance. Starting with Enclosures, now Systems Protection, sales of $466 million increased 16% and down 1% on an organic basis. The Trachte acquisition contributed 16 points to sales and continues to perform very well, up strong double digits versus a year ago and backlog continues to grow. From a vertical perspective, Infrastructure grew with continued strength in Data Solutions. Industrial and Commercial/Resi each declined. Geographically, organic sales in Europe grew low-single digits, and Asia-Pacific grew over 20%, while North America declined low to mid-single digits. Fourth quarter segment income was $100 million, up 18%. Return on sales of 21.5% increased 40 basis points year-over-year, driven by strong execution.

Moving to Electrical & Fastening, now Electrical Connections, sales of $287 million were flat organically. Industrial and Infrastructure each grew in the quarter. This was offset by decline in Commercial/Resi. Geographically, organic sales were flat in North America and Europe. Fourth quarter segment income was $84 million, down 1%. Return on sales was 29.4%, down 20 basis points, mainly due to mix.

I'll turn to slide 11 for a recap of our full year 2024 results. We ended the year with sales of $3 billion, up 13% or 2% organically. Acquisitions contributed 10 points to growth for the year. Adjusted operating income grew 15% to $652 million. Overall, return on sales expanded 50 basis points to 21.7%. Adjusted EPS for the full year was $2.49, up 7%. Free cash flow was $427 million, up 20% with 102% conversion of adjusted net income. This included higher CapEx investments for growth and capacity. In summary, 2024 was a year of strong performance and execution.

Now, turning to slide 12, titled balance sheet and cash flow, we exited the year with $190 million of cash on-hand and $600 million available on our revolver, putting us in a very strong liquidity position, even prior to the proceeds from the Thermal sale. Our debt stands at just under $2.2 billion and we paid down approximately $100 million in the fourth quarter. Our strong free cash flow was driven by improvements in working capital, particularly inventory. We believe our healthy balance sheet and strong cash position provides us with ample capacity to execute on our growth strategy and create shareholder value.

Turning to slide 13, where we outline our capital allocation priorities. We continue to prioritize growth and execute a balanced, disciplined approach to capital allocation to deliver strong returns. We invested $74 million in CapEx in 2024, up 13%. This included expanding our footprint to increase our liquid cooling capacity 4x and support our growing backlog. We returned $227 million to shareholders in 2024, including share repurchases of $100 million. And we increased our quarterly dividend 5%. Looking ahead, we have significant optionality for further capital deployment. This year, we expect to have nearly $2 billion in available capital to deploy, including the net cash proceeds from the Thermal sale and our strong cash flow.

Moving to slide 14 and our 2025 outlook, we forecast another year of strong sales and earnings growth. Reported sales are expected to grow 8% to 10%, with organic growth in the range of 4% to 6%. Acquisitions are expected to contribute approximately 5 points to growth. Our outlook for full year adjusted EPS is $2.98 to $3.08, which represents growth of 20% to 24%. And we expect free cash flow conversion to be between 95% and 100%.

A few other important items to note for the year. First, we are assuming shares of 166 million, which includes share buybacks beyond dilution. And second, for modeling purposes, for now, we are assuming net interest expense of approximately $60 million. This assumes the net cash proceeds from the Thermal Management sale earned interest and we paid down a portion of the Trachte acquisition debt. As we have said, we intend to use these proceeds for acquisitions and share repurchases. And third, we expect our adjusted tax rate to now be approximately 22% versus 23% in 2024. And lastly, we continue to evaluate impacts of potential tariffs and have not yet reflected them in our guidance.

A couple of additional 2025 assumptions of note. Corporate costs are forecasted to be approximately $100 million. These costs include some indirect costs that didn't get allocated to the Thermal Management sale that we are actively working to reduce and expect to come down through the year. And finishing up, we expect CapEx of $75 million to $80 million.

Moving to slide 15 and our first quarter outlook. We expect organic sales growth in the range of flat to 2%. And for earnings per share, we expect adjusted EPS in the range of $0.65 to $0.67, up 7% to 10% year-over-year. Wrapping up, our team delivered a strong year and I believe we are well-positioned for a great 2025.

With that, please turn to slide 16 and I will now turn the call back to Beth.

Beth A. Wozniak

Chair & Chief Executive Officer, nVent Electric Plc

Thank you, Sara. Key to our success has been our people and our culture, and making nVent a great place to work. We are focused on delivering for our customers and having a positive impact on our communities. On this slide, you can see numerous awards and recognitions that we've received as we focus on our people and building a more sustainable and electrified world.

For the first time last year, we were recognized as one of the World's Most Ethical Companies by Ethisphere. We also earned a Silver Sustainability rating from EcoVadis. And we were certified as a Great Place to Work for the third consecutive year. These are just a few of the many awards and recognitions we have received. I'm extremely proud of our nVent team and everything we have accomplished, and there's always more that we can do.

Wrapping up on slide 17. 2024 was another year of strong performance for nVent while transforming the portfolio. We are well-positioned with the electrification of everything, sustainability and digitalization trends, and we expect 2025 to be another year of strong sales, earnings and cash flow. 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: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Joe Ritchie of Goldman Sachs. Go ahead, please.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. Good morning, everybody.

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.

Tony Riter
Vice President-Investor Relations, nVent Electric Plc
A

Good morning, Joe.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Hi. So, maybe why don't we just start off with just the organic growth expectations, so a little bit of a slower start to the year on that 0% to 2%, but then ultimately accelerating as the year progresses. I know the comps certainly get easier, but, Beth, maybe you can just kind of walk us through your expectations. And I'm particularly interested in looking at slide 6 on the Industrial and Commercial businesses, and what you're seeing in those businesses today that gives you confidence that you will see organic growth accelerate as the year progresses?

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

Okay. Thank you, Joe, for the question. So, you are correct. Last year, our strongest quarter was Q1. So, we're lapping some strong growth from a year ago. A couple of things when we think of our outlook is, first, we have growing backlogs in both our Data Solutions and power utilities verticals. And so, we see that backlog growing and it is ramping, which we believe will also progress through our sales over the course of the year.

The next thing I would point out is, certainly, we ended the year with less organic growth than we were expecting. As I commented, that is given the distribution effect of management of inventory through year-end. Now orders have continued to be positive, but we see things ramping as we go through the year. And I will say as we talk to our sales teams and our channel partners, one thing we are seeing is our funnels built, and particularly with small CapEx-type projects.

And so, we're seeing that pervasive across many different Industrial applications and verticals. So, it's those areas that we look at Infrastructure continuing to be the strongest for us and backlogs that have been growing, Industrial improving, a funnel supporting that megaprojects, as we've always talked about, we're a little later in the cycle, but we believe those we start to see momentum there, and we expect Commercial/Resi to improve over the course of the year.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Thanks. But that's helpful. I should have clarified also, just in terms of pricing for the year as well, what's embedded in your assumption?

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

Yeah. So, Joe, I would say like last year, we continue to expect that organic growth of 4% to 6% to be more heavily weighted towards volume. But price does play an important factor in that overall equation of managing price plus productivity offsetting inflation. So, we would expect that price to be positive in 2025.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Okay, okay. Great. And then just one last one. Slide 8, I love the breakout of the core technology platforms. Also great that you're in a position now to be very front-footed with capital deployment. So, just as you're thinking about M&A, is it logical to think that these are kind of like the areas that you would – you potentially invest in? Or are you looking at potentially other platforms, other ways to maybe just increase the breadth of your portfolio? Thank you.

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

Yeah. So, the slide 8 was meant to be a look at how we're investing organically in our new product areas to drive differentiation. But as we think about M&A, we always say we look at high-growth verticals and great products. So, we could add to this product portfolio, we're very focused on growing in that Infrastructure vertical. And so, as you know, we have a flywheel that has great products that we can scale and invest into grow pointed in that high-growth verticals. And so, we're going to continue to be applying and disciplined within that framework.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

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

Thank you.

Operator: The next question comes from Julian Mitchell of Barclays. Go ahead, please.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning.

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

A

Good morning.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Good morning. Maybe just to start with the operating margin guidance. So, it looks maybe as if operating margins are down in the first quarter and then sort of flattish for the year as a whole. Wanted to check if that was roughly correct? And any main divergences between the margin performance year-on-year of the two segments that we should be aware of?

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

A

Yeah. So, let me start maybe with Q1. So, overall, from a Q1 perspective, you're right, embedded in that overall Q1 guide, we do see return on sales down modestly. And a couple of things I would point out, Julian, one would just be our corporate costs do tend to be at our highest, if you will, in Q1. And as we talked about in our prepared remarks, we do have some indirect costs that didn't go with that Thermal sales, so that's just going to take us a little bit of time to work that down through the course of the year.

I think the second thing I would say, we are and continue to invest in our Infrastructure vertical, particularly Data Solutions and Power Utilities. And as Beth said, our backlog that is there and continues to build is giving us that confidence in that second half growth. And so, we continue to invest here in Q1 in anticipation of that growth there in the second half. And I think the only other thing I would say in Q1 here is price cost, we do expect that to ramp in Q2 and more the back half. So, we're seeing a bit of impact there overall.

But I would end by just saying overall, we expect Q1 earnings per share at that midpoint to grow roughly 8%. For the full year, our guidance really implies in that kind of flat to up modestly. And maybe one other thing to point out beyond just the investment profile would just be Trachte. We do expect with beginning to lap that and kind of mid-July, is contributing nicely to the top and the bottom line. But from a return on sales perspective, yeah, that does have an impact on that overall return on sales. But embedded in the guidance is a good solid drop-through on that overall volume growth and top line growth expected for the year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And then, maybe just one follow up on the revenue side. You've given a lot of very good color on revenue. But just to understand what's embedded for the non-Infrastructure pieces. I can see slide 6, the sort of full year laid out there. Just wanted that improvement, because it looks as if the non-Infrastructure pieces are down year-on-year in Q1, partly comps, and then they're expected to move higher through the year. Just wondered when you're thinking about that, how much of that improvement is comps year-on-year in normal seasonality versus some fundamental improvement? And tied to that, I guess, is whether any of that orders strength in Q4 was in non-Infrastructure verticals.

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

A

Yeah. So, as we did see our orders improve in Q4, we did see positive orders in non-Infrastructure. And so, as I mentioned, like take Industrial, for example, we're seeing smaller projects, CapEx across many different verticals in our funnel, which we believe over the – will pick up momentum over the course of the year, and translate to orders and sales. When it comes to – some of the other areas, we certainly do expect commercial to improve as a vertical over the course of the year. But as we've looked at this, we just think it's a – things start to progress, some of it's a comp in Q1. But given backlogs and Infrastructure and given momentum and projects that we're working on, we generally see things improving over the course of the year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

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

A

Thank you.

Operator: The next question comes from Deane Dray of RBC Capital Markets. Go ahead, please.

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, Deane.

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

A

Good morning, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

I have a question broadly about potential implications from DeepSeek and just any feedback you've heard from your customers and partners. And really specifically, what might be the impact on liquid cooling if they can use older-generation AI chips to the thermal loads and thermal load assumptions change? Or is it binary that once you're using AI chips, you just have to use liquid cooling and the differences in thermal loads don't really matter. But there's a lot to unpack there, but any color there would be helpful?

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

A

Okay. Deane, thank you for the question. I think maybe the first thing I'll start with is, recall we've been doing liquid cooling in data centers before all these GPU chips were even launched. And so, therefore, we were finding applications in some of these other chips early on, because depending on the hyperscaler and their system design and their heat load, they were finding it more efficient to be using liquid cooling. So, now as we go forward, there's going to be different ways and more efficient ways around AI. But our view is liquid cooling is still very important. It also drives energy efficiency. And what we've heard from our customers is that the commitment to CapEx investments is there and not slowing down.

So, we feel that there is going to continue to be demand for liquid cooling solutions. As you know, the demand for power with these data centers is significant and liquid cooling is one way to offer energy efficiency. So, we believe there's continued strength and opportunity here as we go forward. And if anything, the innovation that we see with AI, I think will drive further adoption and scale, which again will imply that that Infrastructure is still important to be built out and liquid cooling plays a really key role.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's great to hear. That's exactly what I was looking for, especially the feedback from your customers and partners. And just a related follow up question. So, you've gone through this process to quadruple capacity in liquid cooling last year, finishing that. Do you still need to add test capacity, because there were some question that you hadn't quadruple that there? And can you give us any sense directionally what your utilization rates entering 2025 are on your liquid cooling capacity?

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

A

So, Deane, I would say that we're continuing that expansion because, remember, when we 4x the capacity, some of that will be space that we needed and we're continuing to invest in the lines and building that out. Our lab and testing capability was progressing after that and we're in that phase right now building that out. So, we're continuing to make investments in that capacity expansion and we're continuing to make investments in innovation. And this is going to be a very strong year of new product launches in that Data Solutions area. So, a lot of investment going in here. And we just see the opportunity and the growth in front of us. So, we're very excited about it.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you for all that color.

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

A

Thank you.

Operator: The next question comes from Nicole DeBlase of Deutsche Bank. Go ahead, please.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks. 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.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc. Q

Maybe just starting with a little bit more color around what you saw with respect to channel inventory, Beth. You mentioned that that was a factor in 4Q relative to your initial expectations. How do you feel current channel inventory stands today relative to what's needed for next year?

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

Well, I think as we progressed through Q4, we certainly saw the order patterns drop off in that third month of the quarter. And in a way that that was really the adjustments in inventory as everyone was managing working capital, et cetera. But our orders have picked up through January. And I think that we'll start to see things because our sellout has been positive. I think we'll start to see improvements as we go through this year.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc. Q

Okay. Got it. Thank you. And then with respect to tariffs, I know a lot up in the air right now, but could you help us a little bit by maybe sizing your exposure from a COGS perspective to Mexico, Canada and China? Thank you.

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

Well, let's first start with China. We have very little that we import from China. And so, in our view, with the announced tariffs, it's really minimal impact and we have it covered. We have a plan when it comes to looking at Mexico and Canada. Certainly, we've got a good track record in how we managed tariffs previously through supply chain management and through pricing actions. And I think all of those things are actions that we're currently working. And I'd like to say really with Canada, that's minimal. And for Mexico, that's in the low-teens when we look at our COGS structure.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc. Q

Thank you very much. I'll pass it on.

Operator: Our next question comes from Jeff Sprague of Vertical Research. Go ahead, please.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC Q

Good morning, everyone. Thank you.

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

Good morning. I was wondering if we could dig a little bit more into the order commentary, up low-teens, I think in Q4. It's nothing to sneeze at, and then, Beth, you said that this continued into January. I think the comps were relatively easy. But can you sort of unpack that a little bit, what the comp was and anything in particular in terms of the sub-verticals that stand out driving that growth?

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

A

Well, certainly, as we looked at Q4, we saw some good Infrastructure orders, but we also saw orders across the board, right. So, it wasn't just all Infrastructure, it was across the board. And I think as we get into Q1, again, we're seeing some good, broad-based orders across the portfolio.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And then, just thinking about maybe a little bit follow up to Nicole's question, is there a way to kind of quantify the top line headwind in Q4 by sizing the magnitude of the difference in the sell-in versus the sellout?

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

A

No. We don't normally comment on that. But I would say this, what we saw in terms of the inventory reductions or just adjustments, I want to say, in our distribution channel was more than what we expected, because as you know, we expected to see some positive growth and we're just slightly negative to flat. And so, that really was the impact that we saw in the quarter.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Okay. And then just maybe one last one from me on price. So, a little bit negative again here in Q4, but you're expecting it to go positive. Just wondering if the Q4 weakness – or I don't know if you call it weakness, but slightly negative, is still kind of in Enclosures. And what drives it positive in 2025? Is it just sort of blanket beginning of the year sort of price increases or how are you managing price in the current environment?

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

A

Yeah. So, I would say, in terms of Q4, we continue to see pricing slightly negative in Enclosures and slightly positive in overall EFS standpoint and that's for the year. But I would say that, to point out, even as we saw modest price declines in Enclosures, we saw good ROS expansion. So, the team has done a really nice job managing some of our product simplification, programs and efforts and productivity to continue to show that nice ROS expansion overall. Clearly, as we walk into 2025, we do expect 2025 to be another inflationary year. Labor continues to be a big portion of that. But as Beth mentioned, we also are working through the China tariffs. It's minimal for us, but nonetheless it's something that we've got to work to help offset here.

And so, with some of that inflation as a backdrop as we would customarily do, we continue to look for pricing actions to help to offset that. I probably end by saying, look, we continue to look at the price plus productivity to offset that inflation. And I think we've got a nice productivity funnel as we entered into the year that's broad based, covers factories, DCs, transportation. We're putting an extra focus on indirect spend as well. And again, some of our continued simplification efforts around business transformation. So, we're going to work the combination of that price plus productivity, offset that inflation as we have historically.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

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

Operator: The next question comes from Nigel Coe of Wolfe Research. Go ahead, please.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Oh, 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.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Good morning. I just want to go back to maybe a question that was asked earlier on, and really just try and delineate between infrastructure and the rest of the portfolio because it feels like Infrastructure is driving all the growth. And just want to make sure that when we look at the Industrial, Residential and Commercial verticals, it feels like your plan is flat to maybe low single-digit growth. I just want to make sure that's how to think about it.

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

A

Well, as you look at our Q4 performance, certainly Infrastructure was a big driver of our growth. So that – if you look at the breakout by what we said on slide 10, right. However, we did see Industrial grow in the quarter for our Electrical & Fastening Solutions business. Now, some of this is also what we're seeing that impact of orders coming through distribution. But as we go forward and we look at our outlook, we expect low-double digit growth in infrastructure. So, yes, infrastructure is certainly the strongest growth driver for us going forward. However, we do expect both Industrial to grow low-single digits to mid-single digits as the vertical outlook and commercial is low-single digits. And so, infrastructure for us and where our backlogs are will certainly contribute more strongly to growth than the other areas.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. And I'm guessing Residential, which is obviously very small for you guys, will be down probably mid-single digits. Okay. That's really helpful. And then maybe just double click into Trachte because it feels like – well, certainly the contribution to 4Q from acquisitions is a bit better. So, I'm just wondering – I know Trachte isn't organic until the second half of the year, but maybe just double click into what you're seeing in Trachte in terms of growth for 2025 and perhaps just talk about some of the verticals where you're seeing that growth.

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

All right. So, as we often like to say, Trachte is a new growth platform for us with control buildings. And we've seen nice continued backlog growth and certainly the strength of sales there. And much like we've thought about Enclosures and you think about our ability to provide Enclosures for various applications and specifications, this is how we think about control buildings that it plays in utilities, it plays in data centers, it supports backup power. There's – it supports energy storage. There's various opportunities for us to expand the control buildings platform. So, we're seeing – we see good momentum in this platform and think it will be a strong contributor and driver to us in that broader Infrastructure vertical.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay. Great. Thank you.

Operator: The next question comes from Jeff Hammond of KeyBanc. Go ahead, please.

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.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.
Q

Just on the liquid cooling business, a lot of dynamic movement there, and a lot of new entrants. I'm just wondering, as you look near term, what are you seeing in terms of win rates, pricing in the backlog and any kind of early traction from this NVIDIA collaboration you announced?

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

Well, maybe I would just speak more broadly to what we're seeing in liquid cooling. So, we continue to build out our portfolio of solutions, including where we have offerings that we're working with NVIDIA. That has – certainly for some customers, they want to have that NVIDIA – an NVIDIA partnership. And so, that's a positive to us. And I would just say that we're continuing to see the existing customer content grow, as well as adding new customers. And a big focus for us in 2025 is a launch of several new product offerings, which I think we expand our solutions and applications [ph] there (00:45:10). So, not just hyperscalers, but enterprise and colos and looking at some integrator-type customers as well through distribution. So, we're continuing to see the backlog build and think we have very strong momentum going into 2025.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's helpful, Beth. Just maybe back to capital allocation, just talk about actionability of the pipeline. And I don't know, what do you have baked in for buybacks? And what's kind of the thought of flexing that if deals don't come through? Thanks.

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

A

Well, let me first start on our acquisition pipeline. I've said this on previous calls, I think we have a very robust pipeline and opportunities. And I also have said you never can control the timing of deals. But I do believe that our goal is always to do a couple of deals, if we can, over the course of the year. And I believe our pipeline is strong and healthy and we have a very disciplined approach to what we go after. And we also look at our ability to execute that well. So, we believe as a priority for capital allocation, [ph] the (00:46:31) growth, including acquisitions, are a key priority for us. And we'd like to think we're able to execute on that over the course of the year. And I'll turn it over to Sara to talk about buybacks.

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

A

Yeah. I would just say our outlook that we provided this morning really as a baseline reflects two things. One, an expectation of share buybacks, roughly $200 million, which aligns to that guidance of 166 million shares versus our 168 million shares in 2024. And then just for modeling purposes, the guidance reflects that lower interest related to the interest earned on the proceeds, as well as the paydown of Trachte acquisition debt in part. So, I think the important thing to point out is that if you just fold in the net proceeds, about $1.4 billion with our 2024 EBITDA and our net debt, we are sitting at less than 1 times in terms of our net debt to EBITDA leverage. So, it just emphasize the point that we have ample capacity to go deploy capital in 2025 and create that shareholder return and that value creation.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

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

A

Thank you.

Operator: The next question comes from Brian Drab of William Blair. Go ahead, please.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Hi. Thanks for taking my questions. I think that you said for Power Solutions the expectation is for double-digit growth in 2025. I wonder if you could be any more specific on that and remind us what was the growth for Power Solutions for the full-year 2024?

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

A

Yeah. On our – I think on our chart, where we talked about growing in Infrastructure and just saying that now power utilities is about 10% of our overall sales, double-digit growth is being driven by – and certainly the Trachte acquisition is a very strong contributor to that as we go forward. So, we're looking at not only that acquisition, but then some of our core products that are in that utility segment growing as well supported by our [ph] backlog (00:48:42).

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. I'm sorry. I guess for Data – I guess, I should call it Data Solutions that 20% of sales was up how much in 2024? And I'm just wondering can you say that double-digit or I assume you're not thinking like 10% or 11% there, like how will that proceed?

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

A

Okay. So, we did say that for Data Solutions that we grew 30% last year, and we're expecting...

Brian Drab
Analyst, William Blair & Co. LLC

Q

Yeah.

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

A

...double-digit growth again in 2025.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. Okay. I'm trying to get a sense if we're going to continue better than 20% or not. But I won't press you further, I guess, on that. And on Trachte, just to put a finer point on the contribution from growth and potential contribution, I mean, this is probably what about $300 million revenue business now that's growing very strong double-digits. It seems like this is a business that could contribute even, I don't know, 150 basis points or 2 points to the organic revenue growth in the second half of the year. Am I on the right track thinking of it that way?

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

A

Well, maybe just to frame it, we had said coming into 2024 there that it's roughly a $250 million business. So, you can imply that when we say strong double-digits, it's contributing nicely to the top line and really exceeded our guidance even in Q4. We expected it to contribute 9 points, but it contributed 10 points to growth. So, we do expect that power utilities, data centers as part of that Trachte business to continue to be part of that Infrastructure vertical that Beth outlined and contribute nicely to that back half.

Maybe one other point. If I just kind of zoom out for a moment and think about the Data Solutions and the power utilities piece. Our backlog will exit 2024 with a backlog of $750 million, which is up meaningfully from the prior year. Now, some of that is the Trachte backlog folding in, but it's also that year-over-year Trachte backlog building, as well as that Data Solutions building as well. So, again, we have good visibility in that backlog as we look at that back half, coupled with the demand that we're seeing increasing as well that's giving us confidence in that back half growth.

Brian Drab
Analyst, William Blair & Co. LLC
Q

Yeah. Thanks. This seems like a great – I mean, obviously, it's a great acquisition that you made. And if it's 10% of revenue and growing even 15%, it's 150 bps of growth in the second half of the year. And it seems like it could be even more than that, if that business is growing that quickly. So, as people are just trying to reconcile the acceleration to organic revenue growth, feels material. So, I'll follow up more later, though.

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

Yeah. It's a great growth platform for us and we're very excited about the broad applications and opportunities that we have there. So, off to a great start.

Brian Drab
Analyst, William Blair & Co. LLC
Q

Absolutely. Okay. Thank you.

Operator: The next question comes from Vlad Bystricky of Citigroup. Go ahead, please.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.
Q

Morning, team. Thanks for taking my call.

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

Good morning, Vlad.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.
Q

So, maybe just a couple of quick questions from me. One on the capital deployment front. I think the slide you shared, slide 8, on the core technology platforms is helpful and very interesting. I guess, as I think about incremental capital deployment versus those six core technology platforms, are there particular areas that stand out where you see more potential for M&A or more actionability to layer on to those core platforms through M&A?

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

Well, I think the answer to that is yes. And I think – but it's a combination for us to look at these technologies and products, as well as the high-growth vertical overlay, because we want to ensure our flywheel is that we acquire companies with a great differentiated product portfolio in a high-growth vertical, where we can invest and scale to grow. So, we look at these platforms and we also look at infrastructure verticals. And when we can find the two overlay together, we think that there's a lot of momentum that we can get from that flywheel.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.
Q

Got it. That's helpful, Beth. And then I guess just, obviously a lot of focus on liquid cooling and what you're seeing there. Can you just talk about your visibility to the timing of deliveries and whether you're seeing any material movements from customers in terms of when they want liquid cooling product, as they continue to refine their designs and approaches to Thermal Management?

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

A

[ph] No (00:54:04). I think what we have seen is that the awareness and interest in liquid cooling in general has increased. And so, with some of our customers that we've had for a long time, we continue to talk about adding capacity, increasing programs, scaling what we do. Then we attract new customers who are, in some cases, testing out new solutions, trying to understand their system architectures. In general, it's a lot of activity that we're seeing both with existing and new, and expanding from hyperscalers to enterprise and other types of customers. So, it's very busy and active, I guess, I would say. And our backlog supports that and the continued growth that we're seeing here.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Got it. That's helpful. Thanks for that. I'll get back in queue.

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

A

Thank you.

Operator: Our next question comes from Scott Graham of Seaport. Go ahead, please.

Scott Graham
Analyst, Seaport Research Partners

Q

Hey. Good morning. Thanks for taking my question. I wanted to...

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

A

Good morning.

Scott Graham
Analyst, Seaport Research Partners

Q

...maybe understand sort of your calculation of the EPS impact from Trachte in the first quarter and maybe what's embedded in the 2025 guide.

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

A

So, we haven't gotten that specific, Scott, but I think we gave some guardrails, right, initially as we acquired Trachte, right. We said, it's roughly a $250 million business and in that kind of 20%-plus/minus return on sales. So, I think you can do the math that suggests we've got a bit of carryover here in the first half. And importantly, as we look at just the overall back-half contribution from an organic standpoint and the drop-through on that, it plays a meaningful part in our overall growth and earnings contribution.

Scott Graham
Analyst, Seaport Research Partners

Q

Okay. Well, thank you for that, Sara. The second question I had for you was on inflation. Is the fourth quarter inflation number that you provided a decent run rate for 2025 quarters?

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

A

I think it's a good baseline starting point, right, to take that Q4 and extend it. Another way you can look at it, too, is just look at that full-year inflation. But I think it's a good starting point. Again, similar to 2024, we expect it to be an inflationary environment with really labor being the biggest driver of that overall.

Scott Graham
Analyst, Seaport Research Partners

Q

Thank you. Appreciate that. Last question. So, you talked about the orders maybe starting to spread out vertical-wise in January. And I know that your – what your organic projections, your ramp [ph] in organic (00:56:58) is based on, you went through that, thank you. What I was wondering was how much of that ramp includes some of these projects that you referred to and whether you think there might be some timing risk around those projects.

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

A

So, I think if you're referring to timing projects in Data Solutions or Trachte, I mean, we have a good sense of how those projects execute over the course of the year and we think that's fairly stable. And I think what we're just seeing is other things ramp from Q1 to Q2, but it – we've said it's just a slower start to the year, one, because of that comp that we had in Q1 and just as how we see these orders lay in.

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

A

And maybe just to make a point on the comp, too, Scott, and I know you guys see this, but it was meaningful, right, in Q1. I mean, our comp [ph] has overall been in (00:57:56) that level organic growth of 6% and we're lapping Systems Protection growth of 11% in the quarter. So, some of it's just timing and comp.

Scott Graham
Analyst, Seaport Research Partners

Q

Yes. Thank you for the details around the ramp. That was all very helpful.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Beth Wozniak, CEO and Chair of the Board, for any closing remarks.

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

Thank you for joining us this morning. We are proud of our strong 2024 performance and believe the electrification of everything, sustainability and digitalization trends are driving demand for our products and solutions. We are excited for 2025 with our portfolio transformation. 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.