

## **Amphenol Conference Call for 4<sup>th</sup> Quarter 2011 Earnings January 18, 2012 1:00 PM ET**

### **Operator**

Hello, and welcome to the Fourth Quarter Earnings Conference Call for Amphenol Corporation. [Operator Instructions] At the request of the company, today's conference is being recorded. [Operator Instructions] I would now like to introduce today's conference host, Ms. Diana Reardon. You may begin, ma'am.

### **Diana G. Reardon**

Thank you. Good afternoon. My name is Diana Reardon, and I'm Amphenol's CFO. I'm here together with Adam Norwitt, our CEO, and we'd like to welcome everyone to our fourth quarter conference call. Q4 results were released this morning. I will provide some financial commentary on the quarter, and Adam will give an overview of the business and current trends. We'll then have a question-and-answer session.

The company closed the fourth quarter, achieving sales of \$949 million and EPS, excluding onetime items, of \$0.73, beating the high end of the company's guidance. On an as-reported basis, EPS was \$0.69 and included an \$8.6 million or \$0.03 charge relating to the impact of the previously reported flood and a charge of \$2 million or \$0.01 relating to acquisition transaction expenses for the acquisition of FEP closed in the quarter.

Sales were flat in U.S. dollars and local currencies compared to Q4 of 2010. From an organic standpoint, excluding both acquisitions and foreign exchange, sales in Q4 2011 were down 3% from last year. Sequentially, sales were down 8% in both U.S. dollars and organically from Q3.

For the full year 2011, sales grew 11% over 2010. Breaking down sales into our 2 major components, our Cable business, which comprised 6% of our sales, was up 4% from last year and down 19% from last quarter. The Interconnect business, which comprised 94% of our sales, was flat with last year and down 7% sequentially. Adam will comment further on trends by market in a few minutes.

Operating income for the quarter, excluding onetime items, was \$175 million compared to \$191 million last year. Operating margin was 8.5%, a little better than our expectations, reflecting a negative conversion margin of approximately 28% from Q3 on an 8% sequential sales decline. The Q4 2011 ROS of 18.5% compared to a record Q4 2010 ROS of 20.1% and a Q3 2011 ROS of 19.3%. For the full year, ROS, excluding onetime items, is 19.2% compared to 19.7% for the full year 2010.

The year-over-year margin reduction in Q4 of 1.6% is mainly attributable to lower margins in the Interconnect business, which were 20.8% in the quarter compared to 22.4% last year and 21.5% last quarter. In addition, stock option expense was higher in the quarter on flat sales, reducing overall ROS by 10 basis points or 0.1%.

From an Interconnect margin standpoint, about 1/3 of the reduction from last year relates to higher depreciation expense in the 2011 quarter compared to the 2010 quarter. While depreciation expense as a percentage of sales for the full year 2011 is comparable to 2010, the sequential decline in sales in Q4 2011 resulted in higher relative expense levels in the current quarter.

The remaining reduction in margin reflects the impacts of increases in material input costs versus the prior year, particularly for precious metals and plastics and, to a lesser extent, cost in the quarter relating to workforce reductions of about 3%. These impacts were partially offset by the positive impacts of cost reduction actions and price increases. In the Cable business, margins improved to 13.1%, up from 12.3% last year. The margin improvement relates to higher volume of specialty cable products and lower relative material costs, primarily copper and aluminum. Overall, we're pleased with the company's operating margin performance of 18.5% in the fourth quarter and 19.2% for the full year 2011, excluding onetime items. The achievement of this profitably level in a year, where significant inflationary pressures on input costs coexisted with a volatile and less-than-supportive demand environment in many of our markets, is a hard-fought accomplishment by operating management. In response to that environment, from a headcount perspective for the year, we reduced headcount by about 4%, excluding the impact of acquisitions. We continue to believe that the company's entrepreneurial operating structure and culture of cost control will allow us to continue to react in a fast and flexible manner and achieve strong profitability.

In addition, as we look forward to 2012, there are some signs from an input cost perspective, that the new year may bring a somewhat more balanced operating environment. In that more normal environment, the management team remains fully committed to margin expansion, as business volumes expand. Accordingly, the company's guidance for 2012 reflects the return of sequential quarterly operating income conversion rates in line with the company's long-term target of 25%.

Interest expense for the quarter was \$11.1 million compared to \$10.2 million last year, reflecting higher average debt levels from the company's stock buyback program. Other income was \$2 million in the quarter, up from \$1.6 million last year, primarily as a result of higher interest income and higher levels of cash and short-term cash investments. In the fourth quarter, the company had an effective tax rate of 26.1% compared to a rate of 27.2% in last year's quarter. The 2011 quarter includes an aggregate tax benefit of approximately \$3.3 million or 31% of the \$10.6 million pretax onetime items described earlier. Excluding these effects, the effective tax rate in Q4 2011 was approximately 26.4%. For the full year 2011, excluding onetime items, the company's effective tax rate was 26.8%, and we currently expect the same tax rate in 2012.

Net income, excluding onetime items, was approximately 12.8% of sales in Q4 and 13.3% for the full year, a very strong performance. Diluted earnings per share in the fourth quarter was, on an as-reported basis, \$0.69 compared to \$0.74 last year. After adjustment for onetime items, diluted earnings per share was \$0.73 in 2011 Q4 compared to \$0.74 in the prior year quarter. For the full year, diluted earnings per share, excluding onetime items, grew 13% over 2010.

Orders for the quarter were 989 million, up 4% from last year, resulting in a positive book-to-bill ratio of approximately 1.04:1. As we announced last quarter, in early September, the company incurred damage at its Sidney, New York facility, as a result of a flood. In addition to the loss of approximately \$18 million of sales and related margin from the temporary shutdown of the facility in September and October, of which \$7 million related to October, the company incurred onetime charges relating to the write-off of damaged inventory and productive assets, in addition to cleanup costs net of insurance

recoveries of about \$12.8 million or \$0.05 a share in the third quarter and \$8.6 million or \$0.03 per share in the fourth quarter. The company is in the process, with approximately \$20 million of financial support from state and local authorities, of constructing a new facility in the local area outside of the flood zone to house the majority of the company's New York manufacturing activities. We expect this process to take about 18 to 24 months and require an investment by the company of approximately \$15 million to \$20 million over that same period. The company has full support of its customers for the move and does not anticipate any business disruption as a result.

In late November, the company completed the acquisition of FEP, a German manufacturer of specialty molded interconnect products for the automotive market, with annual sales of about \$120 million and excellent profitability, commensurate with its high-technology product offering. In addition, in conjunction with the acquisition, the company incurred costs for professional fees and transfer taxes of about \$2 million or \$0.01 a share, that under current accounting rules, are expense. The costs have been reflected as a separate line item in the income statement above operating income.

The company continues to be an excellent generator of cash, and cash flow from operations is \$169 million in the quarter, about 147% of net income for the quarter and 107% for the full year 2011. The company continues to target cash flow from operations in excess of net income.

From a working capital standpoint, inventory increased about 2% over the September quarter and was up 18% from last year. Excluding acquisition impacts, inventory was about equal to the prior quarter. Inventory days, excluding acquisition impacts, increased to 89 days at the end of 2011, from 77 days at the end of 2010. About half of this increase on a year-over-year basis relates to higher raw material inventory, as the company continues to hold a higher level of raw material for certain commodities. In addition, in the fourth quarter, certain operations increased inventory levels in anticipation of an earlier Chinese New Year in 2012, in order to ensure appropriate levels of service to customers. From an inventory days perspective, the year-end inventory level is at the high end of the company's historic range, and we expect inventory days to decline in 2012.

Accounts receivable was \$767 million at the end of the year, down 4% from September and up 7% from the end of 2010. Days sales outstanding, excluding acquisition impact, increased to 71 days at the end of 2011, from 68 days at the end of 2010. Given the growth in the company's Asia business, we would expect the company's receivable days to remain approximately in this range in 2012.

Cash flow from operations of \$169 million, along with borrowings under the company's credit and receivables facilities of \$112 million and \$175 million of cash, were used primarily for \$27 million of capital expenditures, \$250 million relating to the acquisition of FEP, an increase of \$43 million in cash investments and \$138 million relating to the purchase of 3 million shares of company stock in the quarter. The company has approximately 6.6 million shares remaining under the 20 million share buyback program that expires in January of 2014.

As previously announced, in October, the company's board of directors approved an increase in the company's quarterly dividend to \$0.105, beginning with the April dividend payment, increasing the yield to just under 1% at the time of the announcement.

At the end of the year, our cash and short-term investments balance was \$649 million, the

majority of which is held outside of the U.S. Our debt stood at \$1,377,000,000, bringing net debt to \$728 million at the end of the year. We had availability under our revolving credit facilities of approximately \$300 million, and the company's leverage and interest coverage ratios remained very strong at 1.4x and 22x, respectively. EBITDA in the quarter for the company was \$223 million.

From a financial perspective, this was a strong quarter. Adam will now provide an overview of the business and current trends.

## **R. Adam Norwitt**

Well, thank you very much day, Diana, and I'd like to extend my personal welcome to all of you on the phone today and, as well, wish you all a happy New Year. I'm going to highlight first the fourth quarter and some of our achievements in the full year of 2011. Then I'd like to discuss the trends and progress in our various served markets. And then finally, I'll comment on our outlook for the first quarter and full year 2012, followed by a question-and-answer period.

We're very pleased to report in the fourth quarter revenues and earnings above our guidance, despite significant uncertainties in the global economic environment. Revenues in the quarter were essentially flat to prior year and were down as expected from our record third quarter results. I am very proud, however, that our management team was able to secure strong profitability in the quarter, achieving industry-leading operating margins of 18.5%. The achievement of this level of profitability despite the uncertain economic environment and our reduced sales levels is a reflection of the strength and discipline of our agile organization and, most importantly, of our entrepreneurial management team.

We're very encouraged that the company's financial strength has allowed us to continue our acquisition program in the fourth quarter. As Diana mentioned, we completed the acquisition of FEP, a German-based manufacturer of high technology interconnect products for the automotive market with annual sales of approximately \$120 million. The FEP acquisition builds upon our fast-growing automotive Interconnect business, positioning us to further capitalize on the expansion of electronic content in automobile platforms around the world. It's also very consistent with our ongoing successful strategy to acquire complementary companies with strong management, leading technology and excellent market presence. As we welcome this excellent new team to Amphenol, we remain very confident that our successful acquisition program will continue to create value for Amphenol into the future. In addition, our confidence in the continued financial strength of the company is reflected in our ongoing stock buyback program, as well as the recently announced increase in our quarterly dividend.

Now Diana mentioned the specifics relative to the Sidney flood. I'd just like to mention here that we are very proud of that team and their recovery efforts following the early September flood. The factory returned to full operational capacity early in the fourth quarter as a result of what are truly tremendous efforts of our entire Sidney organization, together with our vendors, as well as our distribution partners. And we look forward to a very strong future for this important business as we transition to our new facility in Sidney over the course of the next 18 to 24 months.

Now turning to the full year of 2011. Despite the many challenges in the global economy

this year, the company was able to achieve new records in sales and earnings per share in 2011. We produced sales of \$3,940,000,000 and earnings per share of \$3.05. And that, together with 19.2% operating margins and net income at 13.3% of sales, represented truly incredible achievements in that environment. We're especially pleased that we have continued to expand our market position, growing by nearly 11% in 2011, a level significantly above overall industry growth rates. The company's consistent focus on technology innovation and customer support through all phases of the economic cycle have resulted in Amphenol's strengthening our position across each of our end markets. In addition, our organization has accelerated the development of innovative interconnect technologies. These developments have allowed Amphenol to capitalize on exciting new areas of the ever-expanding electronics market, thereby broadening the opportunity for our future growth. Our drive to be the enabler of the electronics revolution has been very successful thus far and will be a great driver of our success going forward.

In 2011, we have also continued our acquisition program, adding 2 new family members to Amphenol and creating excellent platforms for future expansion. As we closed the year, we find it very rewarding that the Amphenol organization has again built a new platform of strength, creating optimism for our future performance.

Now I'd like to turn to the trends and the progress in our various served markets. And as expected in the fourth quarter, customers in many of our end markets reduced their levels of procurement in light of increased uncertainties in the global economy. Our sales to customers in the military and aerospace market represented 20% of total Amphenol in the quarter. Sales decreased 11% from prior year, on reductions in procurement by defense contractors related to budgetary uncertainties, as well as from the continued impacts from the Sidney flood. However, we are very pleased that sales did increase slightly from the third quarter.

Sales into the commercial air market were very strong, increasing 15% from prior year and 6% sequentially on higher airplane production volumes, as well as the early phases of next generation jet liner production. We are optimistic that our sales into the commercial air market will strengthen further in 2012, as volumes continued to increase and as the ramp-ups of these new platforms accelerate. There no doubt remains uncertainty in the defense budgets of many developed economies, which may indeed moderate the growth opportunities in the military market to some degree in 2012. Nevertheless, we are confident that the increasing electronic content in military equipment, together with our broad program participation and our strong positions in high-growth emerging markets, will drive good growth into the future. We expect demand in both the military and commercial aerospace markets to strengthen in the first quarter, and we look forward to a strong long-term outlook for these important segments.

The industrial market represented 13% of our sales into the quarter. Sales to customers in that market increased 3% from prior year and were at similar levels to the third quarter.

We continue to make excellent progress in broadening our technology offering and increasing our penetration of the many exciting growth segments of the industrial market, including in particular, alternative energy, oil and gas, heavy equipment, as well as factory automation. While we experienced some expected slowing of demand, in particular in the European industrial market in the fourth quarter, we expect the overall industrial market to grow moderately in the first quarter, and we look forward to strong momentum for

growth in 2012, as our new interconnect technologies continue to proliferate across a very diverse range of industrial applications.

The automotive market represented 10% of total Amphenol in the quarter and sales increased a very strong 45% from prior year and 12% sequentially, as we benefited from an increase in both overall vehicle volumes, as well as new electronics applications and from the contributions of both the CEMM-THOME and FEP acquisitions, both completed this year. We're very excited by the significant expansion of our high-technology product offering, resulting from these acquisitions. In addition, we continue to invest in broadening our organic technology developments, leading to a growing presence on a diverse range of new automobile electronics. We expect demand in the automotive market to increase strongly in the first quarter to approximately 12% of total company sales, with the contribution of FEP, as well as our continued progress in new interconnect products for on-board electronics, as well as hybrid vehicles.

Our sales into the broadband communication market represented 7% of total Amphenol this quarter. Sales moderated slightly from prior year and declined sequentially by 16% on more pronounced-than-expected seasonality. While recent pauses in raw material price depreciation have allowed us to achieve margins in the Cable business of 13.1%, pricing dynamics in the broadband market remained difficult. Nevertheless, we are encouraged by our increasing position with new Cable and Interconnect products, as well as by our strong position in international markets. We expect demand to improve seasonally in the first quarter, and we look forward to continuing to realize the further benefits of our diversification efforts.

Our sales into the information technology and data communication market represented 20% of total this quarter. Sales in this market increased 3% from prior year with strength especially in storage and server applications and declined by 7% sequentially on an expected pause in procurement activity by customers in the IT market. Despite inventory corrections throughout the supply chain impacting our sales in the IT market in the fourth quarter, the pace of design activity with our strategic customers has actually accelerated. Our customers are pushing their data center equipment to new levels of performance in order to handle the rapid expansion of data, driven in particular by new mobile devices and the continuing spread of video on the Internet. While we expect demand to remain at these levels or slightly above in the first quarter, we are excited by our ongoing new program wins with these new advanced technologies, which creates strong potential for 2012 and beyond, as customers begin to release their next-generation platforms into the market.

The mobile networks market represented 10% of total in the quarter, and sales in that market decreased 20% from prior year and 23% sequentially, as operators around the world slowed their build-outs and equipment makers reacted by sharply reducing their inventories and build rates. We expect demand to increase moderately in the first quarter, as production rates increase somewhat from these low levels and as operators begin to expand their network build-outs in order to relieve the pent-up demand for increased coverage and capacity, which exists on many networks. We look forward to further long-term strength driven by our broad design-in positions on new base station platforms, as well as our strong presence with the diverse range of global wireless operators.

Sales to the mobile devices market represented 20% of total in the quarter and increased 5% from prior year, while decreasing 17% sequentially. As we had expected, some

portion of our strong performance in the third quarter was related to a pull-ahead of demand by certain customers from the fourth quarter to the third quarter, thus, resulting in an unseasonable reduction in sales in the recent quarter. We anticipate some seasonal moderation of demand in the first quarter, and we expect overall growth in 2012 to moderate from these strong 2011 levels. Nevertheless, we are excited by our strengthening position in the rapidly expanding range of new, smart mobile devices, in particular, tablet computers and the potential that these create in 2012 and beyond. Our comprehensive portfolio of products for mobile devices, as well as our preferred supplier relationships with all major device makers, continue to position us strongly in this important end market.

I am extremely proud of the Amphenol organization in 2011, as we have executed well in what can only be termed a very, very difficult market environment. Our successful navigation through the many challenges of the fourth quarter and, indeed, of the entire year of 2011, confirms once again the resiliency and strength of the Amphenol organization. The company's superior performance is a direct reflection of our distinct competitive advantages, our leading technology, our increasing position with customers and diverse markets, our worldwide presence, our lean and flexible cost structure and, most importantly, an agile and entrepreneurial management team.

Now looking forward into 2012 and based on constant exchange rates, as well as normal seasonal patterns, we now expect in the first quarter and the full year for 2012 the following results. We expect sales in the range of \$960 million to \$975 million for the first quarter and \$4,050,000,000 to \$4,150,000,000, respectively, in the full year. We expect EPS in the range of \$0.73 to \$0.76 for the first quarter and \$3.23 to \$3.34 for the full year. For the full year, this guidance represents sales and earnings per share growth of 3% to 5% and 6% to 10%, respectively.

We're very encouraged by the strong outlook in sales and earnings, especially given the many ongoing uncertainties in the global economy. And I remain extremely confident in the ability of our outstanding management team to build upon our new record levels of revenues and EPS established in 2011 and to capitalize on the many opportunities to grow our market position and to expand our profitability into 2012 and beyond.

Thank you very much. And at this time, operator, we'd be very happy to take any questions that may be there.

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions] Our first question today comes from Sherri Scribner with Deutsche Bank.

### **Sherri Scribner - Deutsche Bank AG, Research Division**

I just wanted to ask a little bit about the long-term guidance for fiscal '12. If I look at the revenue guidance, it's a couple of points, maybe 3% or 4% growth. But if we strip out the FEP acquisition, it actually looks flat. So I just wanted to get a sense, you talked about a number of big opportunities in some of your different segments. Why would your expectations be for relatively flat revenue growth? Is that based on forecast from

customers? Or just a little detail there.

**R. Adam Norwitt**

I mean, if you look at the guidance, in fact, at the high end of guidance, we would be growing organically, I think, somewhere around 3%. And in the current environment, we actually think that is a very strong and prudent guidance at the same time. I mean, we continue to see opportunities across all of our markets, but there continues, as well, to be just tremendous uncertainty in the world economy. As we sit here on January 18, 2012, and give guidance forward for the next 12 months, we think it's important to be prudent in that and recognizing that there have been, over the last 12 months, many political, economic and other uncertainties, and I wouldn't say that we're at the end of the rope on all of those things. But given that environment, given as well the -- where we are coming from in the fourth quarter, this is really extremely strong guidance.

**Sherri Scribner - Deutsche Bank AG, Research Division**

Okay. So a little bit of conservatism baked in there, it sounds like. And then just looking at the SG&A. The SG&A number came down in the fourth quarter a little bit. Diana, what type of SG&A should we expect as we move through fiscal '12 and, specifically for the first quarter, after you've done all this headcount reduction? Should it be down from where we are in the fourth quarter? Or is it going to be relatively flat?

**Diana G. Reardon**

Yes. Sure. I mean, I wouldn't expect it to come down. I think that we certainly have a very disciplined approach to SG&A spending and are able to flex it some with demand. But, I think, looking into 2012, an assumption that says that SG&A would probably grow about half the rate of sales would probably be the right assumption.

**Operator**

Our next question today comes from Jim Suva with Citi.

**Jim Suva - Citigroup Inc, Research Division**

I have 2 questions. First of all, the company you acquired, can you help us kind of gauge - does it need a lot of restructuring? Are the operating margins on par with Amphenol? A lot of movement you have to do around that, or is it kind of you acquiring it and just integrating it and it's already fully rolled out? Then the second question is regarding your M&A strategy. It looks like the last few M&As have been on the auto side. Does that now fill your portfolio gap on auto, or given the content growth, is that an area that you're still a lot more optimistic for, where we could expect to see some more integration there?

**R. Adam Norwitt**

First, relative to FEP. I mean, this is not a company that requires any restructuring. So we are not at all doing that. We have acquired a management team that has just tremendous, tremendous experience and capability and vision for the future, and we're very, very proud to welcome that management team to Amphenol. And we are not -- we have not deposited any Amphenol employees in the building. They are running that company so successfully, the day after closing like they were the day before. Relative to the profitability of the company, I think, Diana mentioned, I mean, this is a very, very strong, profitable company, well above their peers in the industry that they participate in and would compare very favorably across any of the markets that we participate in. So we're

very, very pleased with that. It is a real confirmation that there is money to be made in every market when you have technology to offer to your customers. And that has been something that we have always talked about, that, if you can create value for your customers, by embedding that value in the interconnect products that you sell, which allow your customer to, in the end, have greater value to sell to their customers, there's money to be made and you can achieve superior margins and profitability in such an environment. We're very happy that FEP has that same mindset, as we have always had. And that's why the marriage with them will be, I believe, very, very successful. Now, you are correct. We have made some acquisitions over the course of the last year, year and half in the automotive market. And I think that is just an indication that, that is a market where there has been a real acceleration in terms of the proliferation of new electronics application, that now, we believe, have value and where Amphenol should participate. If I can just remind you, from where we have come in terms of our automotive business, going all the way back to when we were making, really, safety devices and on-board telematics, RF-type products that go into the car, we have really broadened that offering today, as the electronics have broadened across the car. So I would not tell you that we would not do anymore acquisitions in automotive, but we will certainly do acquisitions in all of the markets as they become available and as we work them through our pipeline. But we're very excited. I mentioned that automotive will be about 12% of sales in the first quarter. It's been a very strong growing market for us this year, and we expect good things from that market going forward.

### **Operator**

Our next question today comes from Craig Hettenbach with Goldman Sachs.

### **Craig Hettenbach - Goldman Sachs Group Inc., Research Division**

Adam, just a follow-up on the comments on the mobile device market. The comment of moderation in growth for 2012, do you view that as specific to the market or are you being more selective in that end market?

### **R. Adam Norwitt**

Yes. I mean, first, let's just recognize that, that is a market where we grew this year more than 30% year-over-year. And we have had just fabulous growth in that market. So we would not certainly expect to grow anywhere near those levels this year. I mean, that is just outstanding growth. We are participating in that market on a broad basis. But I should also say that the smart devices, the tablet computers, these kinds of devices, this is where the content and the opportunity for value is. And we continue to drive our engineering resources towards attacking those areas of the smart mobile device market and the overall mobile device market, where we can create value for our customers. What will the overall market grow in this year? You would know as well as I what the forecast would be. But we clearly would not expect to have that kind of big uptick that we had, part of which was due to the sort of new advent of tablet computers, where we had never participated before, laptops, and the things that those tablets have been replacing. But we look forward to that market, and we look forward to being a very strong participant in that market going forward.

### **Craig Hettenbach - Goldman Sachs Group Inc., Research Division**

Great. And if I could follow up with Diana. Any other comments on the commodity costs in terms of potential impact and in the quarter just completed and as you go through the year, what the impact could be?

**Diana G. Reardon**

Yes. I mean, I think as you know, we don't call out specific impact of individual commodities. But I think, as I said in the prepared remarks, we're talking about margin, what our expectations are in 2012. I think, we have seen some indication that there seems to be a stabilization in some commodities and better trends in others. And I think that, being combined with what we call a more normal demand environment as we look into Q1 and then into 2012, I think will provide a more normal balance between pricing opportunity in the market, volume growth and also the input cost side, that we feel will allow us to return to our historical norm of being able to achieve these 25% conversion margins. And I think, as I mentioned, from a sequential standpoint in 2012, our guidance does reflect that. So I would say that, if the environment stays as it is today, we'd certainly feel more optimistic about sequential margin expansion.

**Operator**

Our next question today comes from Steven Fox with Cross Research.

**Steven B. Fox - Cross Research LLC**

Two questions, Adam. First of all, your comment about design activity accelerating in the IT and datacom space. Was that -- can you just expand on that? Was that mainly a market comment? Or is there more Amphenol-specific stuff going on that you could elaborate on? And then secondly, with regard to the FEP acquisition. Looking at the molding technologies that you're acquiring, is this more complementary to what you're doing? Like, how does it integrate or get you more print position in automobile?

**R. Adam Norwitt**

Yes. These are fine questions. Relative to my comment on IT datacom, I don't know whether that is a market or an Amphenol, but what I can tell you is that our engineers are extraordinarily busy over the whole year, but that seems to even accelerate going into the end of the year, whereby, we see our equipment maker customers focusing on creating core equipment that can manage the data traffic that people are really struggling with today. And I think this has been kind of a slow-motion tidal wave here, this data. I mean, people know it is coming. They see it coming, but it takes some time to spool up that equipment to these next-generation levels. And we see that, really, on a worldwide basis, when we're working with IT customers, in all geographies, new entrants to the market, the existing leaders to the market. There is a real race to get to these high speeds. And as you go down that path towards high speed, the challenges, the implications for the interconnect products are so much more significant and challenging to deal with. And so our engineers have just a much, much more intensive interaction with these customers, to help them solve all of the sort of inherent issues that are around those new high-speed systems. And I think, as we look forward, that's obviously going to result in new platforms, where we will participate, and which can create new bases of growth for the future. There's no doubt about it, the IT infrastructure at companies, at universities, in the financial services, wherever that is, there is going to have to be a constant upgrade to deal

with that flood of data that is there. Now, relative to FEP, it's very astute to see that this is a company that, in particular, has an outstanding strength in molding technology. No doubt about it. This is a very complementary acquisition to Amphenol. We have already a growing product line of value-add and component level products that go into the automotive market, and we look forward to the team at FEP, both from a customer innovator standpoint, but also from a technology innovation standpoint, to be just tremendous participants, as we seek to continue that high growth that we've achieved so far in the automotive market.

### **Operator**

Our next question today comes from Matt Sheerin with Stifel, Nicolaus.

### **Matthew Sheerin - Stifel, Nicolaus & Co., Inc., Research Division**

First question, just regarding the distribution channel. I know you've seen an inventory correction like other suppliers, and I know that's not a big percentage of your revenue, and I also know that distribution plays a big role in your Military business. So can you talk about order trends there? And have you seen any inventory replenishment from distribution as a result of the Sidney plant and the fact that distribution basically chipped in to help fill those orders?

### **R. Adam Norwitt**

Yes. No. I mean, as you correctly pointed out, distribution is not as significant for us. It represents something around 14% of our total sales. For Military, it is more significant. We have not seen any meaningful kind of replenishment as you would put it. And the channel was very, very supportive during the flood, and that was one of the reasons why we were able to satisfy, essentially, every customer during that time period, which is not something that is easy to do, let me tell you. Because the customers, they still got to build their end systems, and there was, certainly, some damage to parts and to machines. And so the strength of the channel has helped. We have not seen the replenishment in any significant fashion. Would we expect to see that going forward? I think it really depends on the macro environment. Because I believe that the distribution channel, more than most, is very responsive to that macro environment. If they don't feel good about it, then they're not going to replenish it. If they start to feel incrementally better, maybe they will start to put some more parts on the shelf. We have not seen so far, though, any significant or meaningful distribution comeback.

### **Matthew Sheerin - Stifel, Nicolaus & Co., Inc., Research Division**

Got you. And then on the telecom infrastructure, where you talked about incremental weakness in the quarter. It sounds like it may be a little bit better. But was that broad-based or specific to any region? And are you getting a sense or do you have a sense that it could ramp through the end of the year based on pent-up demand?

### **R. Adam Norwitt**

No. I think we see it from 2 sides. We see it first from the operator side, where we work directly with many significant operators around the world with our installation products, our antennas. And there is one where, I would tell you that, that has been a very difficult finish of the year, the spending was very much clamped down upon for whatever reason. I mean, there is all these other mergers and whatnot that have happened in various regions.

But I think we have started to see a little bit of a pickup, at least a bottoming, I would say, in terms of the operator activity. Relative to the equipment makers, it's a little bit more difficult to read because they all had their customers reducing demand. They had a certain expectation going into the fourth quarter in terms of where they -- what inventory levels and how they had ramped up their supply chains, whether they have indeed worked through all of that inventory that they had built up in anticipation of the fourth quarter. That, I have a hard time to say. We don't have peer visibility into the contract manufacturers and the OEMs and their respective warehouses. That being said, as I mentioned, we do expect in the first quarter for Amphenol in that market to sequentially perform stronger than we had off of these low levels. And I certainly would hope and would expect to some extent that over the course of the year, that there would be more of a return to normalcy. No doubt that the capacity, the coverage that exists in the wireless market gets worse and worse every single day. And so the customers, the end customers, you and me, and all the rest on the phone here, we are at one point going to get up and revolt here if they don't have better coverage. And I think the operators understand that. They have to really ramp up their build-outs, and that's true around the world, in all the geographies. And we look forward to participating, and we're well positioned to participate as the build-outs happen.

### **Operator**

Our next question today comes from Mike Wood with Macquarie.

### **Mike Wood - Macquarie Research**

My question is another way to look at your outlook. If you look at your growth in various submarkets compared to your order trends, do you think that you're currently seeing the content growth that you've talked about in aerospace, military, auto, smart mobile devices? And is that included in your outlook? Or do you think there might be a pause in that content growth?

### **R. Adam Norwitt**

No. I would say that we certainly continue to see that content growth. I mean, if you look in the fourth quarter, take 2 of the markets that you mentioned here, mil aero, as well as commercial air, we were sequentially, essentially, on or slightly above the third quarter in that kind of macro environment, that is clearly not sequentially flat. So I believe that is representative very much of content growth. We see that, in particular, in commercial aero, but we also see that in the defense markets. Relative to the mobile phone market, we grew year-over-year in sort of mid-single digits. We had a year-to-date -- full year performance in that market, growing more than 30%. I don't think that whole market grew 30%. So the content growth that we have seen there has clearly been strong. Do we accelerate that content growth? Do we continue to enjoy the platforms that we've designed in going forward? Clearly, we will continue to enjoy that. We have achieved a lot so far this year, and we'll continue to bear the fruits from that. I think, as we look forward into the first quarter, and we talked about in our guidance that the mil aero market, we expect to go up sequentially. Again, I think that is indicative of expansion of our content across a market that is not necessarily growing at that pace.

**Operator**

Our next question today comes from Steve O'Brien with JPMorgan.

**Steven J O'Brien - JP Morgan Chase & Co, Research Division**

Adam, can you touch on some of the regional differences in demand, perhaps, and any concerns you're baking in regarding Europe in terms of the full year guidance? I mean, is there assumption that sort of with low-single digit organic growth that some regions will be stronger and others weaker?

**R. Adam Norwitt**

Yes. I mean, just relative to the results that we have just reported, I can tell you, not surprisingly, in the fourth quarter, with our automotive business being as strong as it was and with our mobile business being as strong as it was, Europe was a strong performer, and Asia was a strong performer on a year-over-year basis. I mean, European sales grew very strongly with the automotive progress that we've made. Sequentially, the whole company was down, and I'd say all the markets were down. Maybe Europe was down less than the others, again, because of that automotive strength. As we look forward, I mentioned that the industrial market in particular was one where we had seen some weakening in the European industrial market, and we would not expect that necessarily to get much worse, but I wouldn't say that we have necessarily very high expectations for growth in that part of the market. Overall, we are not factoring in some macroeconomic cataclysm. I mean, neither Diana nor I are macroeconomists here. We listen to what our customers say. We do a bottoms-up forecasting based on what we interact with our customers and what we hear, and that's really how -- what results in the guidance. We're not, sort of, reading the tea leaves relative to whether some country or other will default on their debt. If that happens, we'll deal with it. I mean, clearly, the fourth quarter was a quarter that was impacted by macro events around the world. As we mentioned at our last call, if you had asked me at the beginning of the third quarter, what would the fourth quarter be, I certainly would not have told you, it will be down 8% sequentially. And there were a lot of sort of governmental macro, political, economic issues that came about. I don't know that those have necessarily fully resolved themselves. But clearly, it seems that we're in a somewhat more stable environment today.

**Steven J O'Brien - JP Morgan Chase & Co, Research Division**

Got you. And then, if I could, on the mobile devices side. I mean, looking at the guidance for the first quarter, year-over-year basis, if I have my numbers right, it certainly won't be growing. I would think that even the most pessimist assumptions for smartphones, tablets, ultrabooks, et cetera, still look pretty strong for 2012. I mean, do you expect a potential for accelerating growth, noting that Q2 and Q3 were very strong last year, but maybe as we exit 2012, Amphenol will kind of normalize to the pace of growth in those markets?

**R. Adam Norwitt**

Yes. Look, I mean, whether we normalize to the pace of growth in the markets, I think, our goal in all of our markets has always been to outperform the markets that we participate in, and I think we've done a pretty good job of achieving that in this market in particular, as well as in the other markets. Relative to what will happen in the first quarter, we work with lots of customers across that market. And there are programs that go up. There are programs that go down. And that is part of the reason why we have been

successful in many ways. We have expanded our position, for example, on tablet computers, in particular, in 2011. Going into the first quarter, I wouldn't tell you that there's any individual thing that is happening different. We're just folding up the forecast that we have from our customers, which are reflective of what would normally be a seasonality into that quarter. Relative to the year-over-year performance, again, there are platforms that come and go. We are putting tremendous focus on putting our products where there is value for Amphenol. And there may be, occasionally, some products where we say, we don't want to even participate in that. We want to be in the products where we can generate the returns for the company that we have become accustomed to and that we really demand when we participate in a market, and we feel that, that will be the most successful thing for us to run that business.

### **Operator**

Our next question today comes from Amitabh Passi with UBS.

### **Amitabh Passi - UBS Investment Bank, Research Division**

Adam, my first question for you was just around bookings. You had a very strong book-to-bill in the quarter, 1.04. I apologize if you covered this. I was just curious if you can give us some insight in terms of where you think the relative strength came from. And also just linearity in terms of orders, was there any sort of an acceleration in order trends towards the back end of the quarter?

### **R. Adam Norwitt**

Yes. Just relative to the linearity, actually, it was pretty linear throughout the quarter in terms of orders. So I wouldn't tell you that there was any kind of spike that came at the end or at the beginning. I mean, normally, you would have, in the fourth quarter, a pretty strong October. I would tell you that in this quarter it was actually pretty linear in terms of both sales and orders across the quarter. We feel very good about those bookings that we had, and not all bookings can be shipped within 30, 60, 90 days. But it is a clear reflection across all the markets that we serve in that we believe our customers are growing in confidence enough to give us the bookings that can then support the strong guidance that we've given for the full year. So we feel very good about the bookings and look forward, hopefully, to booking more here in the first quarter.

### **Amitabh Passi - UBS Investment Bank, Research Division**

Was the booking strength, I guess, what I was trying to ask, was it sort of broad-based across all your end markets, was it specific end markets that...

### **R. Adam Norwitt**

No. It was broad-based. I think I alluded to that. I mean, there are some of our markets that have a very quick turn, where the bookings are more in line with the revenues, things like mobile devices, where you're not booking on long lead times. But of the other markets, which have more normal booking schedules, this was quite broad-based.

### **Amitabh Passi - UBS Investment Bank, Research Division**

And then just as a follow-up, philosophically, with respect to M&A, is your preference to gravitate towards deals like FEP, companies that are very technologically robust and easily integrated in your large organization, or would you also be open to doing larger deals that might require some heavy restructuring and heavy lifting, as long as you can get them at

attractive prices?

**R. Adam Norwitt**

Well, look, we have a very clear philosophy about acquisitions. Number one, we look for a company that has good people; number 2, a company that has great technology; and number 3, that has a complementary market position. In general, that has led us towards companies that have some of those 3 characteristics, and FEP has really all of them in spades. Does that mean that we confine ourselves in our acquisition strategy towards only very focused companies of a certain size? Absolutely not. To the extent that we find companies that satisfy those criteria and maybe even operate at a level of profitability below where we are today, we would certainly pursue those. And that is, really, regardless of size. What we're not going to do though is just buy something because it's cheap and it's big. So, I mean, we're going to continue to have an acquisition strategy that focuses on paying fair value for companies that have tremendous potential value to Amphenol in the future.

**Operator**

Our next question today comes from Will Stein with Crédit Suisse.

**William Stein - Crédit Suisse AG, Research Division**

A few quick ones. I don't think, historically, you've disclosed bookings. So maybe you can frame for us a little bit how the 1.04 book-to-bill compares on a seasonal basis to a typical Q4. Is this a particularly strong bookings quarter from your perspective?

**Diana G. Reardon**

For a Q4, this would be a stronger-than-normal quarter. I think, on average, if we would go back in time, I would think that a Q4 would more -- normally, would be kind of a 1:1 book-to-bill ratio.

**William Stein - Crédit Suisse AG, Research Division**

Very helpful. Second, ultrabooks. I assume that you're active in design wins in that product. It looks like it's going to be kind of one of the more popular products this year in terms of development and eventual sales. First, can you confirm that, that's a category that you're interested in? And then also maybe talk or remind us, which end market you would tend to disclose this in.

**R. Adam Norwitt**

Yes. In fact, ultrabooks, what those end up being and what our participation will be, will really depend on the nature of the product. I mean, we have not participated so broadly in laptops in the past, only because the interconnect solutions that are embedded in those products have been relatively off the shelf, non-real high-value products. And so we have really steered away from those over the years. Whether ultrabooks, to some extent, have more kind of value embedded in them relative to the interconnect, I think that remains to be seen. I mean, we participate with some of them to some extent, but I wouldn't say necessarily, unless there is a real shift in the total architecture of those ultrabooks that, that would necessarily be a huge thing. Take a tablet, is a very different thing. You're compressing in a tablet a tremendous amount of functionality, tremendous amount of data, wireless connectivity, very, very compact interconnect solutions. That suite of opportunities for Amphenol has created great opportunities for us to make a product for

our customer that allows enough value to be made where it's interesting for us to participate. I think the jury is still out on whether that will be so much in ultrabooks. Where we are disclosing that in a market segment, I don't even know that, that's such a significant segment for us, to that extent. If it is more like a tablet, we disclose that in mobile devices. If it looked more like a computer, that would probably be in IT.

**William Stein - Crédit Suisse AG, Research Division**

Okay, great. That's helpful. And one other quick one if I can. On FEP, historically, you've had earn-out provisions in your transactions. Is it fair to think of this as similar to your prior methodology for structuring deals?

**Diana G. Reardon**

In this particular deal, we don't -- there's no earn-out structure.

**Operator**

Our next question today comes from Amit Daryanani with RBC Capital Markets.

**Amit Daryanani - RBC Capital Markets, LLC, Research Division**

A couple of questions. One, maybe just on the industrial side. I think you guys talked about flat trends in December, some growth in the first half. It's better than the concern I think people had. I'm just curious, is your sense of the inventory correction in that space is behind us? Or is the positive commentary more a reflection of some new wins you've had? Any help there would be useful.

**R. Adam Norwitt**

Yes. I mean, relative to industrial, I think, we have had a very, very strong year in industrial, Amit. I mean, we grew, essentially, for the full year by 17% in the industrial market. I think we have made just tremendous, tremendous progress in broadening our portfolio of technologies across that market. Going into all these new subsegments of the market and so, from that perspective, I would probably say that our performance is a little bit more that we have broadened our position rather than just the tide going up and down in industrial. I mean, we are really hitched to some of the very high growth opportunities in the industrial market, things like oil and gas, things like solar, high-speed rail, markets in China and India, places like that, where there is a lot of industrial activity ongoing. I did mention before that we have seen in Europe, in particular, some moderation of the growth there and, hopefully, even some bottoming out of that performance in Europe. Looking forward, relative to inventories, I wouldn't really credit our performance in the quarter to a rebuilding of inventories. And how those inventories will proceed going forward, that is actually less of a concern to us than are we getting the positions with these new customers and these new applications with the new products that we're developing.

**Amit Daryanani - RBC Capital Markets, LLC, Research Division**

Got it. That's helpful. And then 2 quick follow-ups maybe. One on the full year guide of 3% to 5% growth, if I just look at the FX at this point, it looks like it will be 150 basis headwind for you guys in 2012. Is that roughly what you're encapsulating in your guidance as well?

**Diana G. Reardon**

Yes. I think the organic is about -- is 3% at the high end, Amit. So there's about a 2% net between the acquisition impact and the foreign exchange impact.

**Amit Daryanani - RBC Capital Markets, LLC, Research Division**

Got it. And then just finally, the \$257 million, I think, that cash paid for acquisitions, is that also the FEP transaction? Or were there some past payouts in that number as well?

**Diana G. Reardon**

No. This was for the FEP acquisition.

**Operator**

Our next question today comes from Shawn Harrison with Longbow Research.

**Shawn M. Harrison - Longbow Research LLC**

First question has to deal with the Broadband Cable business, 13.1% EBIT margin this quarter. Would you expect that to be the peak as we move into 2012? Or do you think you can see some upside in profitability as volumes ramp, given the commentary regarding the pricing environment?

**Diana G. Reardon**

Yes. We would hope, I mean, that we could see some further upside as volumes ramp, depending on what commodities do from here. But I think, in general, we've seen a positive impact on cost in the fourth quarter. We would expect to see some further positive impact in Q1. And if we get some volume along with that, I think we should be able to see some movement in margins up above that 13.1% we achieved in the fourth quarter.

**Shawn M. Harrison - Longbow Research LLC**

Okay. And then my follow-up has to deal with the military defense market, growing nicely in aerospace. But looking at the 2012 guidance, what type of, I guess, sales decline would you expect out of the military market, given the trends you experienced in the back half of the year?

**R. Adam Norwitt**

Yes. I mean, actually, I wouldn't tell you that we would necessarily anticipate a sales decline for the full year of 2012. I think we expect that market to be moderate in the context. But certainly, we would not anticipate a sales decline. I mean, clearly, we had this year some lost sales from the flood. We hope to make up a good portion of that throughout the course of the year. And those efforts that we have had ongoing to offset the budgetary issues with the expansion of electronic content and, really, a repositioning of resources towards the areas where money is still being spent in the military. And there are clearly still areas being spent in the military. I mean, even with the recent -- the President going to the Pentagon and talking about all the things that are going on, without much specificity, I should say, there are still tremendous opportunities that our teams see. And our teams are not working at the kind of Washington level. They are working in the labs. They are working with the program managers, where there are continually programs that are being developed, new programs, existing programs, foreign military sales, which is becoming an increasing priority with many of our customers today. And so we see still the opportunity for growth in that market. And relative to commercial air, that is the market where we see, obviously, stronger growth potential going into this year, as those new platforms, really, "take off," so to speak. And I think that there's going to be great opportunities, really, in that market and long term for both of those markets.

**Operator**

Our next question today comes from Tony Kure with KeyBanc.

**Anthony C. Kure - KeyBanc Capital Markets Inc., Research Division**

Most of my questions have been answered. Just had a quick question regarding the acquisition. Would it be fair to read into the fact that the acquisition, this most recent one, the German company, is maybe a result of the uncertain macro environment there, where potential acquisition targets maybe in the region are more open to discussions with you, given the uncertainty of their own environment?

**R. Adam Norwitt**

Yes. I wouldn't necessarily read that into it. I mean, every acquisition has a certain ownership, which has a certain time frame to sell. I think, in this case, the ownership of the company had made a decision long before Greece and all of these things, that they had a certain schedule, and that was the schedule they were going to live to. So I would not at all read anything into that. They're selling when the sky is falling.

**Anthony C. Kure - KeyBanc Capital Markets Inc., Research Division**

Okay. And then just a little clarification on the \$18 million or so of lost sales. First, was that all military? And then second, do you expect to get that more weighted in the first half or the second half of 2012?

**Diana G. Reardon**

It's primarily in the defense market, a small amount in the commercial air market. And we would expect to recover that during the year, whether it's in one specific quarter or the first half or second half of the year, I couldn't really say. But I think by the end of the year, we expect to have those sales fully recovered.

**Operator**

Our next question today comes from Wamsi Mohan with Bank of America Merrill Lynch.

**Wamsi Mohan - BofA Merrill Lynch, Research Division**

Adam, on the FEP acquisition, can you share geographically where the revenue exposure is for FEP? It sounds like it's largely Europe. And given the high tech content, is it overexposed to any particular segments of the auto market? And I have a follow-up for Diana.

**R. Adam Norwitt**

Sure. No, it's a nice question. Obviously, they are based in Europe, and they have a predominance of their business in Europe. But they have also a growing business in Asia, in part, with European OEMs. Relative to the technology and the platforms that they participate on, they are a very broad supplier into a broad range of platforms, ranging from low-end, high-volume cars, all the way to the highest luxury vehicles.

**Wamsi Mohan - BofA Merrill Lynch, Research Division**

Okay. And, Diana, I know you don't roll off raw material costs, but it sounded from your prepared commentary that there's an implicit assumption that raw material costs don't necessarily move, maybe they move in tandem with demand to get to that 25% incremental margins, which has been your historical performance. Is that the right way to think about it? Or are the headcount reductions been such that you can absorb more volatility around raw materials at this point and still get to those conversion margins?

**Diana G. Reardon**

No. I think your first statement is exactly the right way to think about it. I mean, we've seen some improvement in most of the commodities, but we've also seen -- we see as we go into 2012, I think, also some improvement in the demand environment. And it's really that balance -- well, it was out of balance in 2011 that caused most of the difficulty from a margin perspective. And so we do feel that based on those 2 facts, we see more of a balanced environment in 2012, and we do believe that we should be able to, therefore, expand margins.

**Operator**

At this time, I have no additional questions in the queue.

**R. Adam Norwitt**

Well, thank you all very much. And, again, we appreciate your time and your interest in the company, and once again, wish you a happy New Year and a successful beginning to 2012. Goodbye.

**Operator**

Thank you for attending today's conference, and have a nice day.