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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Nortek fourth-quarter 2013 conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Nortek's Vice President of Strategy and Investor Relations, Michael Botelho. Mr. Botelho, you may begin.

Michael Botelho - *Nortek, Inc. - VP of Strategy and IR*

Thank you, operator. Good morning, everyone, and thank you for joining us. With me on our call today are President and CEO, Michael Clarke, and our Chief Financial Officer, Al Hall.

If you have not received a copy of the earnings press release we issued last evening, you can find it on the Investor Relations section of our website, Nortek Inc.com. We also filed our 10-K for 2013 last night, which is also available on our website.

During the prepared remarks today, we will be referring to a slide presentation, which you will find on our website by clicking on Investors and then Quarterly Results. We invite you to open the presentation and follow along with us, starting with slide 2.

Before I turn the call over to Michael, I would like to remind you that our comments today may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this conference call, words such as expects, anticipates, intends, estimates, or similar expressions are intended to identify these forward-looking statements. These statements are based on the Company's current plans and expectations and involve risks, uncertainties, and other factors over which we have no control, and which could cause future activities and operating results to materially be different from those set forth in the forward-looking statements.

For additional information on these factors, please refer to the earnings press release dated March 11, the risk factors in our Form 10-K, and our other filings with the SEC. Participants are cautioned not to place undue reliance on these forward-looking statements, which speak only to the date as of hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether a result of new information, future events, or otherwise.

I would also like to mention that during our call, in addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, we will discuss certain non-GAAP financial measures. Please see the reconciliation of these non-GAAP measures to the closest GAAP equivalents and the appendix to this morning's slide presentation, which, again, can be found within the quarterly results section under the investors tab within our website.

I would like to now turn the call over to our CEO, Michael Clarke.

Michael Clarke - *Nortek, Inc. - President & CEO*

Thank you, Mike, and hello, everybody. Thank you for listening in this morning. Please turn to slide 3, and I'll start with some comments on our business this quarter and a look back at the year. Al will, as always, review our financials, and then we'll open it up for your questions.

We concluded 2013 with a solid fourth quarter. Net sales were up from Q4 last year in all five segments. Overall, market conditions in our business have been improving, with the US residential construction and HVAC demand leading the way.

Although non-residential markets were generally weak in the quarter, we did see some pockets of strength in our CES segment. Growth in our CES segment reflects strong sales in all our key markets, including data center cooling, and healthcare.

Nortek's adjusted operating EBITDA margins were higher, as well, this quarter, driven by improved year-over-year performance in our CES and DMS segments. Adjusted operating earnings were up nearly 17%, compared with the fourth quarter of 2012. This was driven in part by top-line growth, and the benefits associated with our operational improvement initiatives, which are ongoing.

As you know, 2013 marked the beginning of a Company-wide transformation at Nortek, focused on sourcing and procurement, warehouse, logistics, manufacturing footprint rationalization. We added bench strength and put experienced leaders in place to implement lean principles across the entire organization.

The goal for these initiatives is to position Nortek as a world-class manufacturer with some of the strongest brands in its market. The new structure that we put in place enabled us to hit major milestones in each of these areas in 2013.

Slide 4 highlights some of the operating improvement milestones we've achieved. Due to a lot of hard work from our people across the Company, for those who are listening, I really want to thank you and your families. You've really supported us this year.

In sourcing and procurement, we've built strong teams during the year and negotiated and executed more than 50 strategic supply agreements. These agreements target key categories, including steel and other commodities, motors, electrical, hardware, fasteners, as well as our indirect spend. We reduced the number of suppliers that we deal with, and in many cases, transitioned our business over to new suppliers.

In the area of steel, for example, we reduced the number of service centers we deal with from 12 to 2; in hardware and fasteners, we consolidated from 150 suppliers down to 6; and in the area of indirect spend, we reduced a number of travel agencies, for example, we deal with from 6 down to 1. We started in 2013 with 14 health-benefit providers. We now work with only one, avoiding significant costs as a result.

Moving forward, we plan to continue these efforts by targeting more categories, as well as focusing on design-to-value, or DTV. DTV involves a systematic look at how we build the products to how we price them, all with the eye on delivering the most value to our customers at the right price.

At the same time, we've been consolidating operations in a number of areas to achieve better economies of scale. Over the past two years, we've reduced the number of operations in the TECH segment by six. In the CES segment, we recently consolidated our four US legal entities into one, and aligned the management structure of that group. We are organizing this business more around brands and manufacturing, as opposed to just several individual stand-alone operating companies.

In warehouse and logistics, we opened new distribution centers in Memphis and in Riverside, California during the year, with our new 3PL partner. We transitioned the product fulfillment activities of our DMS and TECH segments, eliminated six locations from our network. Looking ahead, we plan to move more -- some of the RHC and RESV activities to the new distribution system this year.

In manufacturing, we focused in 2013 on building a new Nortek campus in Saltillo, Mexico. The rapid progress we have made is illustrated on slide 5. It was just a year ago tomorrow that I traveled with a team to Saltillo to select a site and a general contractor.

In August 2013, we began producing a variety of sub-components at our temporary facility adjacent to the Nortek campus. Since then, we've built two new buildings and produced our first units, well ahead of our initial timeline. Our focus now will be on transferring production to these facilities over the next 18 months, as planned.

In addition to making progress operationally, 2013 was a year of systematic, strategic investments in Nortek's future top-line growth. We hired sales and business development people to pursue opportunities within and across all five segments.

Our goal is to drive growth both organically and through acquisitions. Adding the 2GIG business in our TECH segment was one of the year's major milestones.

Turning to slide 6, the 2GIG acquisition closed on April the 1st of the last year. The integration of 2GIG into our existing security business went well. We realized both costs and sales synergies, while at the same time investing in this business for growth.

One point that I would like to make is that while we break out certain financial data for you in the filings regarding the impact of the acquisition, the business is fully integrated now. Its revenues and earnings results are truly reflective of a combined effort.

We're selling some of our existing linear products to 2GIG customers. In addition, the combined businesses have also added new customers. To give you a flavor of this, the combined organization was previously doing business with 2 of the top 10 security product dealers in the US, including some recent wins; today, we are doing business with 8 out of the top 10, just great progress.

Now, turning to new products and marketing initiatives, slide 7 illustrates just a few examples of products we've launched in the past year. Our goal is to roll out new products that can accelerate our growth by leveraging our brands and distribution channels.

In our DMS segment, we launched a new line of sit-stand workstations in 2013, including one designed for the Apple computer. In RESV segment, we recently had a great turnout at the International Builders Show. We showcased a number of new products, including our new line of range hoods with IQ motors. These hoods are targeted at the appliance channel and offer superior air-removal, energy efficiency, and sound levels.

In RHC, we continued to deliver some of the market's most efficient products, such as our recently introduced gas pack, which includes the first-ever 95% efficiency version to hit the market. In the TECH, our technologies and product lines pipeline aligns with future trends in the residential security markets, as it evolves towards becoming a combined security and web-based home automation space.

As just one example, we recently introduced a Z-Wave garage door controller that integrates your garage door opener in a variety of security and home-automation systems. The Z-Wave controller is being launched as a part of Lowe's Iris home-automation system.

Turning to slide 8, we implemented a number of new market initiatives over the past year. In RESV, we introduced six new product families into the China market focused on indoor air quality. We've won a large number of new construction projects in the region as a result.

In DMS, we have traditionally sold our sit-stand products through the IT channel. In the fourth quarter, we began selling these products through our first national distributor in the office furniture market.

In RHC, we continued to roll out Company-owned stores in selected markets. We opened three locations in the second half of 2013 and expect to continue this pace in 2014.

In CES, we continue to pursue data-center customers. We have booked business with a who's who of the industry. The photo you see in slide 8 shows the module data center that we began building in the US, which incorporates cooling systems, server racks, and power wiring. In aggregate, the products and market initiatives illustrated in slides 7 and 8 represent significant investment in Nortek's future growth.

Now, to the outlook, as summarized on slide 9. We remain cautiously optimistic about the end-market conditions for the full-year 2014. Despite some mixed signals, mainly due to the weather, we believe the underlying environment in the US housing market remains strong. Although US housing starts are expected to be strong, new construction is a small part of our business. In both RESV and RHC, the main driver is remodel and replacement activity, which is also expected to be up in 2014, though at a slower pace than new home constructions.

In the TECH segment, security and home automation is now about two-thirds of our business. We are well positioned to capitalize on new opportunities, as the home security market continues to evolve and expand. We may see some shifts in orders, with some major security customers from the first quarter to the second, which may affect Q1 comparisons, but feel good about the security business for the first half of the year.

In our non-residential market, despite softer trends recently the macro level, we feel good about the prospects for our DMS and CES business. In DMS, we expect to continue strong demand for our tablet products, especially the education markets in our sit-stand workstations, as well as international growth. This growth should help offset any weakness in our display mount product sales due to soft demand for flat panel TVs and desktop PCs.

In residential heating and cooling market, we believe the fundamentals are in place to support another year of growth, the pace of which somewhat depends on the summer temperatures. In CES segment, we are well positioned as we start 2014. Overall, US non-residential construction activity should be up in the mid-single-digit range, and CES business is starting the year with a healthy backlog.

So all in all, I think 2014 will be a good year for Nortek. We expect our products and market initiatives to continue in gaining traction. Together with our operational initiatives, we believe that position Nortek to generate significant operating leverage as conditions in the end market continue to improve.

With that being said, I would like to turn the call over to Al. Al?

Al Hall - *Nortek, Inc. - SVP & CFO*

Thanks, Michael, and good morning, everyone. Please turn to slide 11, if you are watching.

Nortek's total net sales for the fourth quarter of 2013 increased by $43.5 million, as compared to the fourth quarter of 2012. The overall increase in net sales was primarily driven by organic growth in all our segments, as well as growth from the acquisition of 2GIG in our TECH segment.

Overall, adjusted operating earnings increased in the fourth quarter of 2013 by $4.2 million, or 16.9%. This increase was primarily driven by improved year-over-year performance in our CES and DMS segments, partially offset by lower adjusted operating earnings in our TECH and RESV segments.

I'll now take you through each of the segments, starting with RESV on Slide 12. For the fourth quarter of 2013, net sales in our residential ventilation segment increased by $3.7 million from the fourth quarter of 2012.

Excluding the effect of changes in foreign exchange rates, sales in the United States increased by $9.1 million, while sales in Europe and Canada decreased by $2.9 million and $1.2 million respectively. The increase in the sales in the United States was primarily due to strength in our wholesale appliance and retail channels. In Canada, lower sales were due in part to the continued weakness of the Canadian housing market, as Canadian housing starts declined 4% as compared to 2012.

For our European range-hood business, the decline reflects the challenging economic environment in our ongoing strategy of discontinuing low-margin business.

In the fourth quarter, adjusted operating earnings in the RESV segment were $19.1 million, a decline of $1.3 million from the same quarter of 2012. This decline reflects $4.7 million of higher product liability expense, compared to the same period last year, when we achieved higher levels of favorable claims settlements.

The fourth quarter of 2013 also reflects a $2 million increase in bad-debt expense related to a foreign customer that declared bankruptcy in 2013. Excluding these two items, adjusted operating earnings in this segment were up 26.5% in the fourth quarter.

Please turn to slide 13. In our technology solutions segment, net sales in the fourth quarter increased by $15.9 million, or 15.7%, as compared to the same period in 2012. This decrease was driven by incremental sales from acquisitions of approximately $16.7 million, and from $2.4 million of organic sales growth of security and access control products. These increases were partially offset by lower organic sales of audio/video distribution products, which declined by approximately $3.2 million in the fourth quarter.

Adjusted operating loss in the TECH segment was $1.3 million in the fourth quarter of 2013, compared to adjusted operating earnings of $6.9 million in last year's fourth quarter. The main drivers of the decrease were $2.5 million of higher product development costs; a $4.4 million increase in depreciation and amortization expense; unfavorable manufacturing variances in our China facility, which were due in part to lower production volume; and lower sales prices in certain AV products. These factors were partially offset by the contribution from overall increased sales levels.

Turning to slide 14, in our display mount solutions segment, net sales increased $3.1 million, or 4.3% from the fourth quarter of 2012. This increase reflects $6.6 million of higher sales of Ergotron-branded products, partially offset by $3.7 million of lower sales to OEM customers. As you may recall, we are intentionally withdrawing from certain low-margin OEM business in this segment.

DMS had another solid quarter, with adjusted operating earnings increasing 57% compared to the fourth quarter of 2012. Adjusted operating margin increased by 650 basis points to 19.3% from 12.8% in last year's fourth quarter. The margin expansion was driven by favorable impact of a shift in product and channel mix, as well as from our ongoing cost-reduction efforts.

Material costs as a percentage of net sales improved by 500 basis points in the fourth quarter of 2013, compared to the same period in 2012, reflecting the effects of the product shift and lower costs. Please turn to slide 15.

Net sales in our residential heating and cooling segment increased by $6.9 million, or 9.4%, compared with the fourth quarter of 2012. The increase in net sales was primarily due to stronger industry demand, as compared to the same quarter in 2012. Net sales to customers in North America were up $7.1 million in the quarter, while sales to customers in other regions fell by $0.2 million. Overall, RHC adjusted operating earnings were flat in the fourth quarter, compared to the same period in 2012.

Turning to Slide 16, net sales in our custom and engineered solutions segment for the fourth quarter were $120.1 million, up $13.9 million, or 13.1%, from the fourth quarter of 2012. The increase was driven by our strength in commercial office, data center, healthcare and manufacturing end markets.

The backlog at the end of the fourth quarter was approximately $241.4 million, compared to $213.4 million at the end of 2012. While there continue to be signs of some weakness in the overall non-residential construction markets, the increase in the CES backlogs since December 2012 is the result of an increase in incoming order rate, primarily related to clean-room products for a major customer. As you may know, the preponderance of our backlog in the CES segment is generally delivered over the next several quarters.

Adjusted operating earnings in the CES segment increased to $9.9 million, which represents an increase of $8.8 million compared to the fourth quarter of 2012. Bad debt expense in the fourth quarter of 2013 was $2 million lower than the same period in 2012, primarily due to a provision for bad debts that was recovered in the fourth quarter of 2012 related to a certain customer. Excluding the change in bad debt expense, adjusted operating earnings increased by $6.8 million in the fourth quarter.

Now, please turn to slide 17. Transitioning to liquidity and cash flow, we ended the year with approximately $81 million of cash on hand and no borrowings outstanding on our ABL facility. Nortek's net cash provided by operating activities was $39.2 million in the fourth quarter of 2013 and $135.2 million for the full year. For those of you following along the slides, you can see that we have presented a comparison of our performance in 2013 compared to 2011 in certain metrics.

We have generated strong cash flow, in part due to our ongoing focus on working capital management. The decrease in working capital of $31.7 million in the fourth quarter and $55.7 million for the year contributed to the cash provided from operating activities. We have used a portion of the funds generated from these efforts to make investments in our businesses, as well as to repay borrowings on our revolving credit facility.

Nortek's leverage ratio, defined here as net debt divided by adjusted EBITDA, decreased from 5.7 times in 2011 to 4.2 times at the end of 2013. Another metric we focus on is return on invested capital, or ROIC, which increased from 8% in 2011 to 11.4% in 2013. In the appendix to the presentation, we have shown how we calculate this metric.

Please turn to slide 18. In his earlier remarks, Michael discussed some of the progress we are making in our transformation initiatives. During the fourth quarter of 2013, we recorded $10.5 million in restructuring and transformation charges, compared to $9.3 million in the fourth quarter of 2012. For the full year, we recorded $35.4 million in restructuring and transformation charges, compared to $16.2 million in 2012.

Although well under way, and as I mentioned last quarter, these are long-term initiatives, which we expect will be progressing well into 2015. While it's still relatively early in the lifecycle of these projects, preliminary indications are that annual savings compared to current cost levels and commodity markets will approximate between $45 million and $55 million when all of the projects have been completed.

While we are starting to see the benefits in supply chain and strategic sourcing and expect to realize a good portion of the savings throughout 2014, we do not anticipate the full run rate savings to be realized until all of the projects have been successfully concluded towards the end of 2015. These are very preliminary estimates of the savings that could be generated from our operational improvement initiatives, and there can be no assurance that the savings will be realized in the expected range.

Now, turn to slide 19, if you will. To summarize, we think 2014 will be a good year for us. Overall, our end markets are expected to be up this year, and we expect our operational improvement efforts to begin to materialize.

As you heard Michael mention earlier, we are working on many top-line-focused initiatives. Several of our current cross-segment projects are focused on these organic-growth opportunities. We are really pleased with the level of collaboration that is taking place across the Organization and our progress with the transformation.

In closing, we are pretty optimistic about the full-year 2014 operating results, although the first quarter is off to a slow start. Like many of our peers, we are feeling the impact of colder-than-normal temperatures.

In addition, orders for security products originally scheduled for delivery in the first quarter from a major customer are now expected to be delivered in the second quarter. This delay will also be a factor in our first-quarter performance.

Overall, though, we think the first half and full year will be in line with our original expectations. We look forward to reporting on future calls, progress on the various initiatives under way across Nortek.

And now, Michael, Mike, and I are available to take your questions. Operator, please proceed with the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from the line of Philip Volpicelli with Deutsche Bank. Please proceed with your question.

Philip Volpicelli - *Deutsche Bank - Analyst*

Good morning. Congratulations on a good fourth quarter and year.

My first question is regarding cost savings. I believe previously, you had said $45 million to $50 million, and now you're saying $45 million to $55 million. Is that true, did you upgrade the savings potential by the end of 2015?

Michael Botelho - *Nortek, Inc. - VP of Strategy and IR*

No, I don't think we changed it. I think it's -- that was the last.

Philip Volpicelli - *Deutsche Bank - Analyst*

Okay. And then, with regard to the security customer delay, can you give us the size and magnitude there that that's moving from the first quarter of 2014 into the second quarter of 2014?

Michael Botelho - *Nortek, Inc. - VP of Strategy and IR*

No, it's a little premature to know exactly what that is, because some of it hinges between March and April, that sort of thing. And it's still a bit early, but it's just something that's out there that may affect the year-over-year comparisons.

Al Hall - *Nortek, Inc. - SVP & CFO*

So as Michael had mentioned before, after the acquisition of 2GIG, we have started to add a lot more customers, and some of these are fairly large in size. So, movement of orders can have a significant effect at the top line, and that's what happens in our Chinese manufacturing plant. It causes inefficiencies.

Philip Volpicelli - *Deutsche Bank - Analyst*

Yes, okay. Great. And another one from me, rating agencies, clearly you guys have done a very good job of improving the balance sheet through the course of the year. Have you gone back and talked to the ratings agencies, especially Moody's, with regard to their ratings?

Al Hall - *Nortek, Inc. - SVP & CFO*

Usually, we, we meet with the rating agencies twice a year, but certainly annually, we go down and give them an update and talk about, in depth, about our future and our prospects and where we've been. And generally, that is either end of March or early April.

Philip Volpicelli - *Deutsche Bank - Analyst*

Okay. Then last one for me, on the last call, I think you guys appeared to be more interested or at least willing to look at acquisitions. Is there anything that is on the near-term horizon? Are you still focused on acquisitions, or have you moved away from that?

Al Hall - *Nortek, Inc. - SVP & CFO*

So we're constantly looking at acquisitions, and so we really can't comment on anything other than that.

Philip Volpicelli - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

Thank you. The next question is coming from the line of Phil Ng with Jefferies. Please proceed with your question.

Phil Ng - *Jefferies & Co. - Analyst*

Hello, guys. The turnaround seems to be underway. Can you help us quantify what the impact was during Q4, now that you have a little more visibility? How should we be thinking about the flow-through in 2014?

Al Hall - *Nortek, Inc. - SVP & CFO*

Well, the -- in the fourth quarter, I think the major shift was the converting to the 3PL and the warehouse and the leasing. And so that, that's a transition, and we will start to see maybe more of those savings beginning in 2014. In 2014, I think we are signaling that it's probably like $15 million to $20 million of improved savings and synergies.

The strategic sourcing, as you've heard, we've had a number of contracts, and that's in place. And so we began to see some of that in 2013, and we think that between the savings on material sourcing and indirect spend, including some SG&A categories, it's -- for the full year, it's like between $7 million and $9 million, and there was probably a couple of million or so of just material cost reductions in the fourth quarter. That's a seasonal low for us.

Michael Clarke - *Nortek, Inc. - President & CEO*

We have to caution it with mix and stuff like that as we go further forward, but we definitely are seeing the savings. We definitely see the savings coming through.

Phil Ng - *Jefferies & Co. - Analyst*

Got you. Then timing, on the CES business, I understand it's a lumpy business. The commentary on the call, sub-mix (inaudible) meaning non-res, seems like the trend is slowing, but it sounds like you have a little more confidence in your backlog going forward. Can you talk about that business a little bit more?

Michael Clarke - *Nortek, Inc. - President & CEO*

Yes. We feel pretty good about that business. As you say, we've got one of the highest backlogs that we have basically ever had going into that. We've done some restructuring. I said before that we've got about seven or eight different businesses are all run independently.

We've now sort of changed that structure now, where we're getting economies of scale from the market, from our marketing people, from our salespeople. We've changed some management over. So we feel, we feel pretty comfortable.

When you -- when you actually, if you go visit our website, when you look at the products that we've got now, we've got a full gambit of products that can nearly fulfill nearly all the needs of that marketplace. I think probably one of the largest, the most capable companies in [Nortek], but we've had difficulty getting that to the market.

I think where there's new structuring out there, I think it's pretty good. If you think about it, we're functioning in sort of a flat market, and we are doing quite well. So, we get a little tailwind from the market and the restructuring efforts that we've done, and I think we'll be in a good position there.

Al Hall - *Nortek, Inc. - SVP & CFO*

I think that some of the investments we've made in 2013 in people have allowed us to penetrate some markets we were in and some we really weren't in, and we are starting to see a pipeline in other places.

Michael Clarke - *Nortek, Inc. - President & CEO*

I said in the thing about the who's who. I didn't say it, but a year or so ago, some of these who's who, and you all know who they are, in the data-center market, had never heard of us. And we've probably contracted -- how the process works, as you know, is that you got to introduce your products, your capability. They've got to decide whether they want it, then you've got to get a contract with them. And we've booked these contracts with them and then you start going through an RFQ process.

So, we're connected with nearly 90% of the who's who in the business now, and we're actively working. We've already booked some really major players in it. But that business, as well, as most people on the call will know is that it's not like -- RESV is seven-day turnover, seven-day turnaround from bookings from business. That one can take two or three quarters before you actually see it.

But I said this in many calls, I feel really good about that business. I think really good.

Phil Ng - *Jefferies & Co. - Analyst*

OK. One last question for me, I know most companies that are exposed to housing have said that Q1 being a little softer due to the bad weather, but what's your outlook looking for on spring selling season, particularly in Q2? I know you guys do have a big, new product pipeline on the RESV side. Can you give some color on what your customers are saying in terms of backlog or leads on that front?

Michael Clarke - *Nortek, Inc. - President & CEO*

Both RESV and RHC, I think we've got great backlogs in these businesses. We've got really good backlogs. And I think, I believe that they are really well positioned as they go further forward, and what our customers are saying is the same thing. So we feel pretty happy about that. The people just got to start building.

Michael Botelho - *Nortek, Inc. - VP of Strategy and IR*

So we see a lot of it more as a timing thing, people deferring some projects for a month or two, and hopefully we'll see the demand pick up in the second quarter.

Phil Ng - *Jefferies & Co. - Analyst*

Okay. All right. Thanks, guys. Good luck on the quarter.

Michael Clarke - *Nortek, Inc. - President & CEO*

Great, thank you.

Operator

Thank you.

(Operator Instructions)

Our next question is coming from the line of Howard Weinberg with UBS. Please proceed with your question.

Howard Weinberg - *UBS - Analyst*

Thanks. Hi, guys. I was hoping you could talk a little bit about tech, and specifically, you've been increasing your security component to that business. Trying to understand what normalized margins would be after you guys, say, 2015 and beyond, after you realize all your savings. What should we think about tech on a go-forward basis, maybe on a gross margin basis, just to help us think about that strategic shift that you guys have taken in that business over the last few years?

Al Hall - *Nortek, Inc. - SVP & CFO*

Well, as you know, we've made an acquisition in there, and so the security component has become a much larger piece of the business. And so, if you look at the full-year gross margin in tech, unadjusted, gross profit was like 33.6%. And this business tends to be choppy and at the same time, a little bit seasonal. But it was 35% in the third quarter and in the second quarter, it was 33%. So that's probably a normalized range for gross margin for this segment now, because that reflects the acquisition in each of those periods.

Howard Weinberg - *UBS - Analyst*

Great. Thank you. And then on DMS, we saw our first growth -- year-on-year growth rate on that business, since you decided to cull some of the lower-margin OEM business. Should we be seeing this as a more -- is that largely behind us, and the new growth will be driven by some of the distribution channel gains that you talked about earlier?

Michael Clarke - *Nortek, Inc. - President & CEO*

Yes. Yes, I think so. I think most of those are behind us. We'll actually book in some new replacement accounts there. So we feel pretty good that is. There's still, obviously, the mount, the TV mount, as I said in the script, that's still flat and spotty, but I think the growth rates in the other parts of the business will compensate for that.

Al Hall - *Nortek, Inc. - SVP & CFO*

And they have been there for the last several quarters.

Michael Clarke - *Nortek, Inc. - President & CEO*

Yes.

Al Hall - *Nortek, Inc. - SVP & CFO*

Growth rates in those products. What we've just seen in the fourth quarter is that some of these other products we're getting out of were in the low margin business, it tended to stabilize, mitigate it.

Michael Clarke - *Nortek, Inc. - President & CEO*

Yes, we sort of prepared for that. That was the strategy a year and a half ago, so I think, we did tell you that it would take about a couple years to get out of that. So I think we're out of it, and we should be start seeing the growth rates.

Al Hall - *Nortek, Inc. - SVP & CFO*

Yes, we still have some product categories in there. It helps with the manufacturing absorption, but over the next year or so, you could see some declines on our part.

Michael Botelho - *Nortek, Inc. - VP of Strategy and IR*

But some of the declines are due to the PC market, because some of our ODM products go to some of the big PC manufacturers. So what Michael was referring to is that on that side of the business, we were actually booking some OEM business in adjacent markets like medical, which will help offset what's going on in that PC market, but the retail TV mounts will probably still be a little bit weak for us. But we feel good.

Howard Weinberg - *UBS - Analyst*

Great. And then when I was at the builder show a couple months ago now, I noticed that your -- you had some of your exhaust fans integrating some of the stereo equipment that your tech business had. I'm trying to understand, a lot of your savings to date and initiatives on page 4 have really been driven on back-office efficiencies and streamlining that. Can you talk a little bit about top-line opportunities and cross-selling between businesses, sharing technology, and growing the businesses through existing relationships that the business already has?

Michael Clarke - *Nortek, Inc. - President & CEO*

Yes, I'm really glad you asked that question. We spend a lot of time talking about operational savings for you folks, but if you looked at the script, we tried this time to show you some of the initiatives we are doing to grow the top line. There's massive cross-selling opportunities that we've got within the organization. If you look at some of the products we've got in all our businesses, we sell through the same channels, and we don't really benefit from that cross-selling opportunity. And now we're starting to do that.

We've hired people that look at the wholesale and the resale, and the wholesale and the retail channels to establish where we can get these savings. We've also just hired a guy to run Latin America that will be in charge of all Nortek's products that go to Latin America. So we think there's a lot of opportunity going there.

And one of those is that you saw there was pretty good. Another one is linking home automation to intercom systems. Obviously, you know Nutone is a big name in intercom systems, so that will be another new product that we're probably going to be bringing to market pretty soon.

So we're starting to do that. Before, there wasn't a lot of synergy between the businesses, as we've told you many times, as the businesses were run very independently. They are not run independently now. But the one proviso to that, bringing new products to market does take a little longer than the normal, cost-reduction projects that we are doing. We feel pretty excited about that.

Howard Weinberg - *UBS - Analyst*

Okay, and then last question is for Al. Can you talk a little bit about the capital structure? So, you have a little over $80 million of cash on hand. I know first quarter is typically a working capital need. You talked about a commitment to continue to delever. You have around a $90 million outstanding on your term loan.

Is this the debt, because it's a pre-payable debt that you would seek to reduce? Or is your commitment to driving down leverage really driven by an earnings growth story and really preserving your liquidity for potential acquisitions? Or maybe if you could just share some of your thoughts.

Al Hall - *Nortek, Inc. - SVP & CFO*

Yes, I think what we said in the past is that long term, we are looking to delever in different ways. And I've also said that from time to time, you may see us doing an acquisition which may include borrowing, and as you pointed out, our seasonal low is that December to January period. So, we end up December with a lot of cash on the balance sheet, and then as business starts to build into the second quarter and third quarter, which are stronger quarters for us, cash goes out to the business units. And as will happen this year, we'll be borrowing under our ABL to fund some of that growth. And then it comes back in the third and the fourth quarters.

But, so, long-term, there are -- there's a need to have our capitalization change, and we need a better balance between equity and debt. And we have some opportunities maybe coming up in the end of the year. I can't tell you whether we're going to do anything or not, but we do have a 10%, $250 million note that first becomes callable in December.

Michael Clarke - *Nortek, Inc. - President & CEO*

Whatever we do, we're going to do what is right for the business.

Al Hall - *Nortek, Inc. - SVP & CFO*

Yes.

Howard Weinberg - *UBS - Analyst*

Great. Thank you, and good luck.

Michael Clarke - *Nortek, Inc. - President & CEO*

Thank you, thank you. Good questions.

Operator

Thank you. It looks like we have no further questions at this time. I would now like to turn the floor back over to Mr. Clarke for any concluding comments.

Michael Clarke - *Nortek, Inc. - President & CEO*

Thank you, operator. Thank you, everybody, for attending. I think it was a good year, and I look forward to talking to you next quarter. That concludes the call. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference.