28-Jan-2016

IDEX Corp. (IEX)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Fourth Quarter 2015 IDEX Corporation Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

With no further ado, I would like to turn the conference over to your host, Michael Yates, Chief Accounting Officer. Thank you, Mr. Yates. You may begin.

Michael J. Yates

Chief Accounting Officer & Vice President

Thank you, Tim. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Thank you for joining us for our discussion of the IDEX fourth quarter and full year financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three-month and 12-month periods ending December 31, 2015. The press release, along with the presentation slide to use during today's webcast, can be accessed on our company's website at www.idexcorp.com.

Joining me today is Andy Silvernail, our Chairman and CEO; and Heath Mitts, our Chief Financial Officer. The format for our call today is as follows. We will begin with Andy providing an overview of the fourth quarter and full year financial results and then he will provide an update on what we're seeing in the world and discuss our capital deployment. He'll then walk you through the operating performance within segments. And, finally we will wrap up with an outlook for the first quarter and full year 2016.

Following our prepared remarks, we'll then open the call for your questions. If you should need to exit the call for any reason, you may access a complete replay beginning approximately two hours after the call concludes by dialing the toll-free number 877-660-6853 and entering conference ID 13620002 or you may simply log on to the company's home page for a replay of the webcast.

As we begin, a brief reminder. This call may contain certain forward-looking statements that are subject to the Safe Harbor language in today's press release and in IDEX's filings with the Securities and Exchange Commission.

With that, I'll now turn the call over to our Chairman and CEO, Andy Silvernail.

Andrew K. Silvernail

Chairman, President & Chief Executive Officer

Thanks, Mike. Good morning to everybody. I appreciate you joining us here for the fourth quarter call.

A year ago, when we were on this call, we talked about there being a difficult macro environment and the headwinds that really lay ahead for 2015. And those conditions played out and, in fact, played out a little bit more difficult than we had even anticipated. The reasons for it, I think, everybody's aware of and they certainly didn't escape us.

We had the strong U.S. dollar, which hit us significantly in the year. The impact of energy prices that really rippled through much of the industrial economy. There were low crop prices that hit farm income and ultimately hit the ag market. And those factors really played out in two major markets: in the U.S. industrial and in the Chinese

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industrial markets. And I think the conditions that we're seeing here today that we saw in 2015 and the conditions that we expect to see in 2016 are really impacted by that.

That being said, the strength of our diversified and our balanced portfolio and the quality of our teams really demonstrated themselves here throughout the year. And I'm very proud of the execution of the teams through 2015 and our expectations of continuing to drive strong performance operationally in 2016.

We saw this play out in the numbers in a handful of ways. Year-over-year, our gross margin was up by 60 basis points and out op margin was up by 30 basis points. We had 80 basis point improvement in op margin in HST and an impressive 120 basis point improvement in op margin in Fire & Safety / Diversified.

We also generated $322 million of free cash flow. That was 114% conversion. And we got aggressive when restructuring in the back half of last year when we saw the softening happening. In the second quarter, we spent about $11 million in restructuring and we're going to save about $12 million in total, $10 million incrementally in 2016.

The other part of our strategy that really plays itself through and, I think, allows us to differentiate in this kind of environment is our value-centric approach, very thoughtful approach, to capital deployment. In this past year, we completed three acquisitions. We spent about $200 million. We retired an $81 million Euro Note. We also divested a small product line, our Ismatec business in Scientific Fluidics, and it had a pre-tax gain of about $18 million. And we bought back 2.8 million shares, spending just over $200 million to do so.

As I look at the year ahead, frankly, I think that 2016 is going to look a lot like 2015. The near-term environment is one of slow growth overall, negative growth potentially. But our business fundamentals remain outstanding. If you look at the critical nature of our products, the large installed base, and the high replacement costs, none of these things have changed.

The moats around our businesses and our capability of driving very high returns in these businesses remains the same. And we'll continue to focus on where we have strength in 2016, around operational improvement, around our positionings in the marketplace, and around productivity, and, of course, putting money to work intelligently for you, our shareholders.

Before I get into the results of the year and for the quarter, let me take a second and just tell you what we're seeing in our markets and in regions around the world. Now first on the markets side. If you look at energy and chemical, everyone's painfully aware of the difficulties in the energy market. We certainly have felt the impact of that in our energy business, BAND-IT and Sealing Solutions.

As you know, we don't have a lot of exposure upstream. We do have some, but the bigger impact now is really the rippling CapEx effects as it moves through the industrial economy. The chemicals side – we do expect it to be lower growth than it was in the year, but we still expect it to be a good news story in 2016.

Industrial is really around the U.S. and China. If you look at industrial distribution North America, it started softening in the second quarter of last year and that continued through the balance of the year. We don't think that that gets worse in 2016, but we do expect it to continue to be soft relative to history.

On the ag side, the ag markets have been hit hard. Overall, farm income is down and we certainly see that play out for the OEM orders in the marketplace. But our position is very nichey with our Banjo brand. We have outstanding positions. It's a terrific business. And we just continue to really make sure that we're in the right places when a rebound does happen.

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Scientific Fluidics and really the Life Sciences businesses in general continue to be a bright spot. They were in 2015 and we expect it again in 2016. And we really have terrific positioning in analytical instrumentation, Bio and IVD. As I look at the new products that are coming to market, we know what our positioning looks like there. And overall that's a good news story.

Municipal is also a bright spot. We had low single-digit growth in 2015. We expect that momentum to continue into 2016. And we're seeing nice opportunities there also in terms of our ability to penetrate markets. In terms of regionally, I've really touched on this already but just quickly. North America, the story is really around two different worlds. One is industrial which is very soft and the other is municipal and Life Sciences which is solid.

Europe, Western Europe is actually stable and in decent shape. And we think the conditions there will remain the same in 2016. And Asia, which is really driven by China, there's no doubt that China's in an industrial recession, has been here for some time. We've certainly felt the pinch there. But I think it's important to note that we really view the long-term opportunity in China with our business as being very good. And we've said this many times in the past. As things cycle downward, we often find ourselves being much more aggressive to be able to grow our business long-term and take advantage of when others are being hesitant.

The other part to our strategy and how we really differentiate is around capital deployment. And I already noted some of the things that we've done in 2015, but we're going to continue this four-pronged strategy that we laid out a number of years ago. So, number one, we're going to fully fund organic growth and continue to make growth investments in good times and in challenging times. We're going to pay a consistent and robust dividend. We're going to buy back shares when we believe they're below intrinsic value. And we're going to execute on M&A. And we have done all of these things for the last handful of years and we're going to continue to ride that strategy.

On the organic growth front, we have continued to focus in on markets and customers where we think we can significantly differentiate and we can grow highly profitable business. Some examples of that that we saw in 2015 now playing out in 2016 are the launch of our StrongArm in our Rescue business and certainly the terrific success of our fluidic systems in Life Sciences.

In terms of dividends and share repurchase, we returned about 34% of net income last year. In terms of dividends, we grew that by 14% in 2015. And we also bought back 2.8 million shares for $210 million in 2015. You should expect to see the trends around those two things remain pretty much the same in 2016.

On M&A, as I mentioned before, we bought three companies last year for about $200 million: Novotema, Alfa Valvole and CiDRA Precision Services. And in 2016, we anticipate significantly exceeding this level. And so, we've got a great balance sheet. We have terrific cash flows. And we have a very nice overall pipeline. So this will be an important part of our strategy here going into this year.

With that, let's turn to the full year results. I'm on slide four. So, just as a reminder, these results exclude the impact of restructuring in both the full year and the fourth quarter and the gain of the sale of the Ismatec business that we had last year. In 2015, we had revenue of $2 billion. That was down 6%, down 4% organically. We also had orders of $2 billion which was down 5%, down 2% organically.

Orders and sales, they continued to be soft in 2015, really pressured by the impacts I mentioned before, the oil and gas and the ag markets, and really the slowing overall of North American industrial. Good news story here was op margin. It was 21%, up 30 basis points year-over-year. And, again, I'm very, very proud of the team's focus on driving productivity and margin expansion, even in a tough top line environment.

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Free cash flow was a robust $322 million or 114% of net income. GAAP EPS for the year was $3.62 and adjusted EPS was $3.55. The 7% positive gain was really due to the restructuring actions and the gain of the sale of Ismatec. For the quarter, orders and sales decreased 4% organically. Adjusted operating margin increased 40 basis points over the prior year to 21%. That was driven by strength in FMT and Diversified, which were up 40 basis points and 280 basis points, respectively.

Free cash flow was strong at $88 million or 130% of net income. And for the full year and for the quarter, please keep in mind that we had a $2.6 million benefit or about $0.03 a share income tax from the decrease in the Italian statutory rate in late December. So we ended up with $0.94 a share, which is up 6% from prior year.

Okay. Let's turn to the segments discussion. I'm on slide five. And, as always, we'll start with Fluid & Metering. FMT closed out the year with a 1% increase in organic orders in Q4 and a 1% decline in organic orders for the full year. Sales were down 5% for the quarter and 2% for the full year.

Op margin was up 40 basis points in the quarter, but down a modest 20 basis points to 24.6% for the year. And really very, very solid execution here for our energy business in driving productivity and continuing to keep very strong margins in this segment.

In Water Services, the North American and the European markets were decent, low single-digit growth. And we expect that to play out again in 2016. And this is a place where we continue to see really great innovation driving those marketplaces and nice opportunities in 2016 and beyond.

I've talked a lot about already in the industrial markets. They were a significant headwind for FMT in 2015. Very low CapEx spending on projects, really an impact of oil and gas spending rippling through that marketplace. The top line pressures, we expect them to continue but they are flattening out. They're not going to further deteriorate in 2016. And we will continue to drive productivity and margin expansion in the segment. I'm very pleased with the performance of our recent acquisition, Alfa Valvole. The integration has gone well and we anticipate solid performance in 2016.

In our Energy business, there was some top line softness, really the impact of upstream oil and gas, but it was offset by nice efficiency gains and great margin expansion. In 2016, there's similar headwinds and we also have a little bit of the truck business in terms of our mobile meters, will be a little bit softer, but should be offset nicely by our aviation business. And, finally, in Ag, I've talked about this enough already, but we do believe it's going to be soft in 2016, but certainly do expect to bottom in this year.

All right. Let me move to Health & Science. I'm on slide six. So the overall results in the quarter for Health & Science were really driven by a strength in life science markets, offset by weakness in the industrial and there was a little bit of a poor mix impact here. So that was the story for the fourth quarter but also for the year. So, strong Life Sciences and scientific and weaker on the industrial side.

In the fourth quarter, orders were down 6% and sales were down 2%. And for the year, HST had a 2% decline in orders and a 1% decline in sales. Margins decreased 60 basis points in the quarter, but they are up nicely 80 basis points for the year. Scientific Fluidics, the overall marketplace here is strong and we expect it to continue in 2016. End market demand, whether it's analytical instrumentation, Bio or IVD, all, remain nicely positive. And, again, we've got really nice positioning and innovation in this segment of our market.

Sealing Solutions, it's really a tale of two sides. One is the oil and gas business, which has been soft and the other, which is their penetration into the semiconductor market, which has been quite good. This certainly has been a negative mix where we're more profitable on the oil and gas side than we are in semi. So that's played itself out a

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bit. And really the trends here that we've talked about remain the same relative to our expectations in 2016: a tough industrial market, but an improving landscape on the scientific side.

Optics & Photonics were stable in the quarter. End markets in terms of industrial and laser optics were weaker, offset by strength in Life Sciences. Profitability has been a good news story there in 2015 and should be again in 2016. HST industrial looks a lot like FMT. The stories are very, very similar. We have great positioning here. We've driven nice productivity, but we certainly are feeling the headwinds of the overall industrial landscape.

Material Process, globally large capital projects were really put on hold in 2015. And we don't expect a big rebound in 2016, although we do have nice targeted projects that we're working on in our ability to make our own luck here in this business.

All right. I'm on our last segment, Diversified. I'm on slide seven. Now, remember, this segment has really had the biggest swings that we've seen from some large impacts of orders and sales here over the last year, really driven by our fire trailer sales, a large Rescue order, and then some softness on the BAND-IT side due to oil and gas.

Organic orders are down 6% for the full year and we had a 10% decline in organic sales. Operating margins improved nicely in the fourth quarter, up 280 basis points and for the year up 120 basis points. So, another impressive result, although admittedly coming off a soft comp here in the fourth quarter 2014.

Dispensing had excellent growth in 2015. The core markets in North America, Western Europe and India all had impressive growth in the year. And we expect that to continue in 2016. Sales of our X-Smart product have been terrific and are driving top line and bottom line improvement. And the overall new product pipeline in Dispensing is very robust.

In terms of Fire Suppression, the markets in North America and the UK have had solid performance. And we expect stability in 2016. The rest of the world remains pretty choppy. If you look at the emerging markets and the budget tightness across those emerging markets for Fire, that's going to be tight. And that also impacts Rescue. So, our Rescue business had a very strong North American sales from our eDRAULIC 2.0 and the launch of StrongArm, but this is our most global business and has really been impacted the most by the tight budgets in emerging markets.

And, finally, BAND-IT. BAND-IT has been a profit engine for this company, continues to be. The impact from oil and gas were tough for BAND-IT in the year, but they continue to have strength on the transportation business. And this is a business that we'll continue to invest in and grow aggressively over time.

All right. Two more slides here. We'll talk about overall 2016 guidance and then a few points on the quarte r. I'm on slide eight. So, for the year, we really expect organic growth to be down 1% to plus 1%. And that's fundamentally a macro call looking at the markets that we play in. We would expect to outgrow our markets but we do expect there to be relative softness throughout 2016.

If you look on both sides of this bracketing, down one to up one, it's about a $0.10 headwind to a $0.07 tailwind depending upon which side of the ledger we end up on. In terms of FX, we are primarily impacted by fluctuations in the euro, the Canadian dollar and the pound. But kind of put all that into the mix, the impact in 2016 is much more modest than the impact was in 2015. This year, we expect about a $17 million impact at today's rates, which is about a $0.03 headwind.

We do expect the acquisitions of Novotema, Alfa and CiDRA to add nicely to the business but remember that will be offset to some degree by the sale of the Ismatec business. The net of this – so the gross would have been up

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about $0.05, $0.055 in the year but offsetting Ismatec gets us to about $0.04 of positive impact and $21 million of sales for the year.

In terms of tax rate, we expect that to come in at about 28.5%. That will be up over this prior year because of the impact of the changes in the – with one-time changes in the Italian statutory rate that we got the benefits of. So this would be about a $0.03 headwind versus 2015. We'll continue our share buyback program. We expect to repurchase about 2% of our shares for the year. And so that will add about $0.07 in 2016. And the impact of our restructuring gets us to about $0.10 of benefit in 2016.

Our productivity will fully offset our wage and material inflations to about a $0.03 benefit. But, as I mentioned before, we're going to continue to invest. So even in difficult times, we need to make the call and continue to invest in growth opportunities. And we're going to do that again this year. And so that can be up to a $0.10 impact for the year.

All right. I'm on slide nine, our final slide. Let me talk about Q1 and a few more items around the full year guidance. For Q1, we're estimating $0.80 to $0.82 with operating margins of approximately 20%. The Q1 tax rate will be 29% and we estimate that to be about a 1% top line sales impact from FX.

All right. A couple more items for you for the full year. For the full year revenue growth, as I mentioned, we expect negative 1% to positive 1% organic growth and full year operating margin to exceed 21%. Top line FX impact is about 1%, as I mentioned before, $0.03 of pressure.

Full year CapEx will be about $50 million. Free cash flow will be another strong year at 127% of net income. And, once again, we expect to repurchase about 2% of our shares. As always, please remember that any of the guidance excludes the impact of M&A or the costs and charges associated with acquisitions.

So, with that, Tim, let me stop here and turn it over to questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Mike Halloran of Robert Baird, pardon me. Please proceed with your question.

Mike P. Halloran
Robert W. Baird & Co., Inc. (Broker)

Q

Good morning, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Good morning.

Mike P. Halloran
Robert W. Baird & Co., Inc. (Broker)

Q

So let's start with the guidance. Could you just talk a little bit about how you think the cadence runs through the year, Andy? It feels like it might be slightly back half loaded. Maybe you could just talk about what your underlying assumptions are for improvement in the environment as you work through the year versus comps versus what you see in your order pipeline and things like that?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Sure. Well, first of all, at your conference last year, we talked a lot about the realities of the first half of the year. And I think as I recall saying, we said we think the year is going to be negative 2% to plus 2%. And so as we look at it today, we think the year is now a negative 1% to plus 1%. So it's tightened a little bit. In terms of how it flows, we knew that the year the tougher comps were going to come into the first quarter. And also the first quarter just has more general expenses than you see in other parts of the year. And that's a pretty typical thing overall.

We're not calling for a big second half rebound, Mike. There's some modest rebound expected, but it's not huge. And so we're mindful that we could go through all of 2016 with it being a tough year. And that's our expectation. And you know what, we typically go into these things more cautious than not. As we've said many, many times in the past, we're a business that can respond very rapidly on the upside. We don't need a lot of direct labor to increase or to tackle an increasing order book. At the same time, our high [ph] variable (00:23:47) margins, we want to make sure that we don't have a cost structure that's too heavy going into more tough times. Heath, do you want to touch on that?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Sure. Mike, as normal, the Q1 earnings is typically lower than the rest of the year on comparable sales just because of some Q1-related expenses, mainly around stock compensation and otherwise. So that's not uncommon for us. There is some natural seasonality from Q1 to Q2. And then we just know where some projects line up in terms of certain elements of the business and the timing of those. So as we put together the forecast for the year and our budgets for the year that translate into this guidance, all of that was taken into consideration in terms of going out with a lower Q1 relative to where we were confident that the rest of the quarters will come into alignment.

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Mike P. Halloran
Robert W. Baird & Co., Inc. (Broker)

Q

And are you suggesting then that if you go to the negative 1% organic growth and compare that to the 1% at the high end that the low end doesn't really assume any real fundamental improvement as you work through the year and the high end assumes some modest improvement in some of those stressed markets?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

I think that's a fair – I mean, obviously, we touch a lot of different end markets with our diversified portfolio. But I think that's a fair assumption.

Mike P. Halloran
Robert W. Baird & Co., Inc. (Broker)

Q

All right. Thanks. And then on the acquisition side, obviously, some more bullish comments there than you've made in the last couple years. Maybe talk about what gives you the confidence. What kind of things are you seeing in the pipeline? Are these opportunities that have just been gestating over time here that just feels like they're coming to the finish line? Is it that the market has gotten a little bit more conducive? Maybe just talk about that confidence factor.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So, no real meaningful changes in the M&A market. I don't see anything that's materially different than it's been in the last 12 months or so. It really comes down to we've got pretty good visibility of what's in our pipeline. We've had a lot of irons in the fire and we feel good about where some things are moving. At the same time, right, things break. So we've been to the altar many times. But we feel pretty darn good about where we stand right now. And we think that this will be a good year for M&A for us.

Mike P. Halloran
Robert W. Baird & Co., Inc. (Broker)

Q

Appreciate the time, guys. Thanks.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Thanks.

Operator: Our next question comes from the line of Allison Poliniak of Wells Fargo. Please proceed with your question.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

Hi, guys. Good morning.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hey, Allison.

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Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

Just, Andy, curious. I know you've just touched on the acquisitions, but trying to understand that pipeline a little bit more. You said there was no changes to the market. I mean is there anything fundamentally that you've done differently over the past few years that maybe built that pipeline up with a little bit more quality type deals for you or anything internal?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. Allison, two years ago – I can't remember if it was this call two years ago, but right around two years ago, we talked about the fact that we're putting more resource across the company toward M&A and that certainly helped play out. And so if you just look at what came last year, $200 million, and I think we will certainly beat the $200 million this year in capital deployment. I think it really comes down to where we're putting our time and our effort. And we're talking about things that look like us, right. These are acquisitions that are squarely down, are right in the middle of our strike zone. And so I think it's time, it's focus, and it's some things just playing themselves through the pipeline. You guys know how this works. I wish it were a science, but it's a mix between art and science and it's playing out pretty well right now.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

That's great. And then just touching on energy. Obviously, at $30 here for crude, it sort of sounds like energy has at least stabilized, obviously not getting better for you and the industrial sort of rip ple effect. But if we stay at sort of this low level, would you expect another step down in terms of some of that spending and constraints there?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

I don't think so for us, just because knowing where we play in the different parts of the market. I think the thing that's been surprising to us and a lot of folks, I think, is the overall ripple effect that we mentioned and you mentioned here just a second ago. It's played out across the indu strial economy more than I think people had expected. But in terms of it being a further step down at the current rate, I don't think so. As we look at the projects that we work on, say, Toptech. Toptech has a pretty good view of kind of larger project vie ws. As we look at BAND-IT, which is the more upstream stuff, those things have been hit already. And you can kind of follow the activity that drives that.

But, as you know, the vast majority of our business is midstream. And so the only kind of incremental negative that I see for us, and I think this is really unique to us is in our Liquid Controls business. We touch a lot of mobile applications that are on trucks and that truck build is going to come down, we think, in 2016. But offset, I think, reasonably by where we sit in aviation, which is where we have – we have good share but there's a lot of penetration to go. So net-net, Allison, I think, we're – at this level, I don't think it changes very much.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

Great. Thanks so much.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

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Yeah.

Operator: Our next question comes from the line of Steven Winoker of Bernstein. Please proceed with your question.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

Thanks. Good morning, all. Can we just put a finer point on 1Q? Is the calculation roughly about negative 1.5% organic? Is that what the implied – I mean that's where my math is sort of getting me, that range. What are you guys suggesting?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Steven, I would say, you're in the ballpark. We're looking at low single-digit organic, but not significantly different on an absolute sales basis from where Q4 came in.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

Okay. And then when you say you're not assuming a second half ramp, but clearly there must be some here. Is there anything in that assumption base about something getting distinctly better during the year? Or is this just comp-based when you're running the comps through that are getting you to that new range?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Let me clarify my comment earlier. We do have some seasonality in the business. And, certainly, the uptick from Q1 to Q2 is quite normal in our business. And then there is generally project activity that takes place, some of which is already booked in our backlog for the back half of the year over and above kind of what we see as a daily book-and-bill rate. So there is some sequential uptick, albeit no doubt on a year-over-year basis the comps get a lot easier after we anniversary the first quarter.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

That's right.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

Okay. And just so I'm clear in terms of the current exposure, if I kind of work across the whole portfolio and add up those things that are kind of being hit cyclically that you went through – and please I'm sure my numbers will be off here. I'd love to be corrected. But industrial, I've got at about 18% to 20% of the whole portfolio; energy, oil and gas like 11% to 15%; and ag another 2%. That that gets me to about a third of the portfolio that is being hit right now? Where am I wrong?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Well, I think, be more general. Let's generalize it a little bit here, right? So – and then I'll dive back in, Steve. So about 30% of the portfolio is Life Sciences and municipal, right? And about 70% is industrially-based. And if you

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start to segment the industrially-based pieces, certainly you've got it about right on the energy, which is 11% to 15%. That's a good number in there of the total portfolio. And the ag piece is bigger than that. The ag piece is kind of 4% or 5% of the overall business.

And then you start to slice it down by chemical, by general industrial, et cetera, et cetera. That's a pretty good picture. So I think the pieces that are being hit hard, right, that have been hit hard are exactly what you just talked about. But you also have the other pieces that are also kind of hitting the industrial landscape that are soft too, right. So that's why, as I kind of look at it, I say what really ends up happening this year is the strength, 2016 is Life Sciences and municipal offset some of the negative impact in the more industrial dip, the pieces you called out, getting us to that negative 1% to plus 1%.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

Okay. That's helpful. Thank you. And then maybe just sneaking in one on that M&A orientation. As you're looking at that pipeline right now, I mean is the category that these deals are in – first of all, are you able to go larger because of the dislocations in the market? And are you leaning towards any particular segments more so or any kind of characteristics in terms of cyclicality? Any kind of guidance on that front would be helpful.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet. So let me take the back half of that question first which is if you look at our funnel, it's actually pretty well spread across the three segments, which we're excited about. We've got stuff in all three segments that we're looking at. And we can certainly see things breaking this year across the three. In terms of cyclicality, non-cyclical, we don't have a huge ambition to increase cyclicality a lot. We've done a lot over the last decade to moderate that. And so that strategy will continue generally.

In terms of overall pricing and what you're seeing, certainly some of the industrial pricing is starting to come down. It's coming down a little bit. It's still not coming down a lot. Money is still cheap in a lot of plac es and there's still competition there. The scientific businesses certainly have more robust multiples than the industrial-based businesses. Did I capture everything for you, Steve?

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

Everything except willingness to go larger on the acquisitions themselves.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Oh. Okay. Our sweet spot has always been that $30 million, $50 million to $250 million. That's our sweet spot. And the reality is there just aren't that many things that are north of $0.5 billion that fit into our strategy. That being said, there are some. And we absolutely would be willing to, if we had a view of being able to create significant value. For us, we start and stop with the idea of are we going to create significant value for shareholders to take on incremental risk. We've got a great business here. And so we're not going to bring on foolish risk via M&A and dilute our portfolio. We'd much rather be more thoughtful and make those dead center acquisitions. But there are a few things that are bigger that we would do, Steve.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC

Q

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Right. Thanks and good luck.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

You bet.

Operator: Our next question comes from the line of Nathan Jones of Stifel. Please proceed with your question, Mr. Jones.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

Good morning, everyone.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Hey, Nathan.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

I'm going to beat the M&A horse a little bit more. If you think a little bit longer term than just how you're going to progress with M&A in 2016, you guys have done, obviously, a very good job over the last few years. FMT margins mid-20%s. FSD margins mid-20%s. Health & Science margins up into the low 20%s.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Yes.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

When do you start thinking about potentially adding another leg to the portfolio where you can use the same kind of techniques you have over the last several years to drive margins from something that might start at a lower base to create value?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Right. Well, I think, first of all, Nathan, we have a lot of room squarely within the businesses that we have today and near adjacencies. If I look at our businesses and say, could we double the size of IDEX organically plus acquisitions that are right in our dead center and near adjacent? Absolutely, we can do that. And so I'm not going to say we'd never add another leg, but it's not the first priority.

There certainly are a lot of things we've looked at over time. We've analyzed a lot of industries and a lot of sub-segments of industries. And there are some things that are very attractive that absolutely fit our business model and our operating capability. But I don't feel a need to go jump out at those. There are some things that if they became available at reasonable prices that we would do, but they're not priority one.

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Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Okay. That's fair. And obviously lower risk if you're sticking to near adjacencies.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yep.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

You did mention significantly higher plan on spending in M&A. I kind of did some back of the envelope math to get you to an upper end maybe of a leverage range after dividends and $100 million of share repurchases that you implied, and I'm getting like $500 million, $600 million of available capital in 2016. Is that somewhere in the ballpark of what you're thinking about, knowing that you can't predict timing?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

I think that's a fair number. I mean we could probably stretch it a little bit more than that in this environment, given where our balance sheet sits today. But you're talking about – with the $100 million plus that, you're talking about a $750 million total deployment. I think that's probably fair without getting too uncomfortable.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yes. Just to be clear, Nathan, that is our capacity.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Yeah.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Not necessarily our expectation.

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Correct.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Do you have an expectation?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Significantly above last year. Sorry.

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Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

I figured that's what I'd get. If I could just slip one in on China, you said China's no doubt in an industrial recession. Can you give us a little bit more color about what your people on the ground are seeing over there and what your expectations for the progression of that recession is in China?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Well, I mean upwards of two years ago, we started having this conversation with you guys about the softness of what we saw on the ground compared to what was being said everywhere. And the real issue is over-capacity, over-building, right. So if you look at almost any industrial sector in the Chinese economy, there is over-capacity in one way or another. And they're going to have to grow into that capacity. And so I think 2016 is going to look a lot like 2015 for China. But at the same time we're taking a longer view there. China is not an easy place to do business, but it is a place that we make a lot of money. And long-term it's a place that we want to be. So we're going to continue to invest. We and everybody else are going to have to work through the over-capacity issues over the next 12 months to 24 months.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Right. Thanks very much for the help.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Thanks, Nathan.

Operator: Our next question comes from the line of Matt McConnell of RBC Capital Markets. Please proceed with your question.

Matthew McConnell
RBC Capital Markets LLC

Q

Thank you. Good morning.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hey, Matt.

Matthew McConnell
RBC Capital Markets LLC

Q

Andy, just to follow-up on your answer to an earlier question. You said you had M&A opportunities in all three segments and I know Fire & Safety / Diversified you have such high share. It hasn't really been an M&A focus. Is this somewhere where you'd see opportunities in adjacencies or what would be the M&A focus there?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

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There's some really nice adjacencies in Diversified. And if I look at the Fire business, if I look at BAND-IT, we actually have put more resource around some of those areas in the last 12 months to 18 months and uncovered some really nice adjacencies that have the same kind of fundamental economics and leverage our strengths. And so we would stay very close to home. There's no doubt about it. But there are some things that are out there that are pretty nice.

Matthew McConnell
RBC Capital Markets LLC

Q

Okay. Okay. Great. And then on the growth priorities for 2016, you're investing $0.03 to $0.10. So what are you prioritizing there and maybe what have you got to scale back, just reflecting that we're in the second year of a pretty tough environment, down organic revenues this year? What are some of the priorities that you'd want to highlight? And maybe how do you get turned back a little bit?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

So, Matt, let me kind of answer that first from a high level perspective and then come down to more specifics. So, as you know, our business model really relies on very, very aggressive segmentation, right. So we're contin ually segmenting and re-segmenting around customers and products and markets where we think the profit pools exist. And so if you look over the last couple years and you actually look at what we've done, we've moved our revenue to higher margin profit pools. And we've taken out structural costs that are really unnecessary to continue to move that margin, drive the returns, and move growth in the places that we think are valuable. And then, frankly, we've taken out – probably in the last two years, we've probably walked away from, I don't know, $40 million, $50 million of revenue, Heath. Is that a fair number?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

I think, yeah, over the last two years, the numbers are around $50 million that we've walked away from.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. We're actively paring it where we don't think we have differentiation and we don't think we have a long-term strategic advantage. And we can move those resources. And so that's just part of what we do year-in, year-out. And we'll do it again this year. And this year, we'll probably pare back a 1% of revenue, if you look at what we'll actually take out of the business that we think is non-productive revenue and move those resources to other places.

So where are we moving it? We're really moving the resources all around our franchises. And if I look at the franchises that we have in IDEX, we have a positive displacement pump franchise around Viking and arou nd Warren Rupp that is outstanding, I mean really, really outstanding. Those two businesses are dang near 15% of total revenue, more than that if it's a percentage of total profits. We're going to continue to invest in there, even though their markets are a little bit rough right now. But if you look at the three or four new products that are going to get launched this year and next year out of those franchises, they're going to be a big deal and also certainly market development around both of those pieces of that franchise.

We also have a terrific franchise around Scientific Fluidics and the optical components that match that, so the optical fluidic engine that we've talked about for a long time. We're making some pretty good-sized long-term bets in that franchise that, frankly, we're not going to see anything from for two years or three years. But we see where

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the market's going and we see some big, big upside moves here where it's going to take market and product development. So we're certainly putting some resource there around that business.

Our energy franchise, if you look at Liquid Controls, that brand, in particular, that is an absolutely terrific brand. We continue to invest there, even in the face of the downturn because we see the data loop going in a major way. It's moving from hardware and basic software to a data loop. And we need to be able to close that data loop to continue to grow that business. We're investing there. And then we're making some pretty big bets in India and in China. So, in India, as we've built a number of new facilities since 2011, we've built two facilities since 2011. We've grown that business very aggressively. And we have a position where we are a local player in the market where we've built a terrific business and can grow it pretty fast.

And then in China, as we mentioned before, when things are difficult, this is when you can actually make some investments that are at a much bigger discount than you could have three years ago. And if I think 10 years from now, is the Chinese market going to be more important for IDEX or less important for IDEX? It's going to be more important. And so we need to make those investments there.

Matthew McConnell
RBC Capital Markets LLC

Q

Great. Thank you very much for that answer.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet.

Operator: Our next question comes from the line of Charlie Brady of SunTrust Robinson and Humphrey (sic) [Humphrey] (00:45:06). Please proceed with your question, Mr. Brady.

Charles D. Brady
SunTrust Robinson Humphrey

Q

Andy and Heath, how are you?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Good, Charlie. How are you?

Charles D. Brady
SunTrust Robinson Humphrey

Q

Pretty good. Thanks. Hey. Just on – can we focus on Dispensing for a second? Sounds like the growth was pretty solid there. Can you just get a little more granularity on the parts of that business where you're seeing that growth, I mean, beyond just the broad geographical statements?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Sure, you bet. It's actually there's strength in three specific things. And two are market-related, one is product-related. So, on the market side, as you know, over the last four years or five years, the competitive dynamic in the U.S. market has – we have really positioned ourselves extremely well. And as the overall business has come back

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over the last two years or three years, our share position has grown meaningfully. And not just big boxes, right? Everyone's kind of focus is on big boxes but there are a lot of other outlets that are very important to that marketplace. And through new product development and having things that are better overall, price positioning for that middle market, we've done well there and we've continued to take share in the big box arena.

Western Europe, I apologize, this is just more of a general statement. The market improvement in Western Europe, that we've taken advantage of that. And then, finally, X-Smart. X-Smart, as you know, we launched out of India. We developed and launched out of India. It has certainly exceeded our expectations over the last few years. And it's a product that's going to move its way into the advanced markets. There's no doubt about it. And we're going to launch here later this year. As you know, the X-Smart was kind of a lower price point, very high capability automatic dispenser that really created a market. The market was manual and now we have a product that has really brought the automatic capability into that manual market. And we're going to launch a mid-tier product here later this year that we think is going to be just as exciting.

Charles D. Brady
SunTrust Robinson Humphrey

Q

Great. Thanks for that color. I appreciate it.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet, Charlie. Thanks.

Operator: Our next question comes from the line of Bhupender Bohra of Jefferies. Please proceed with your question.

Bhupender Bohra
Jefferies LLC

Q

Just a question on – I believe you spoke about the first quarter being weak on the core sales. How should we think about margins? I believe you gave guidance of – I believe it's 21% plus. How should we think about in terms of looking at the productivity, pricing over the quarters, is it like first half or the second half heavy kind of thing?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Bhupender, our pricing continues to be very IDEX-like in nature in terms of getting roughly on a gross basis about a point a price. Most of our price increases across the businesses go out in the late fall or early Q1. So we get a pretty good sense of what's going to stick on that by the time that we provide this guidance. And that's consistent with where we sit today. So there's no doubt that that benefits us.

In terms of the productivity, as you probably noted on the bridge, that's been a good story. The team's done an excellent job of being able to offset inflationary concerns. Most of our inflation comes via the labor inflation across the board. We have been able to hold off on a lot of material input inflationary pressures. And the productivity initiatives that will run through the P&L are both a combination of carryover activities that we get the full year benefit from in 2016, as well as new initiatives that are continuously underway. So we feel pretty good about our ability to, even in a flat organic growth environment with the current construct of the portfolio, to be able to hold and expand overall operating margins.

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Bhupender Bohra
Jefferies LLC

Q

Okay. Thanks a lot. And the other question I had on the orders, if you can just give us some color like how are you seeing orders like in the first January basically and how did you exit December?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Well, December is always a full year push with the holidays and everything else, no different than any other year. So we ended the year in, I'd say, fine fashion. It's never as good as you quite want it to be. And January's off to a reasonable start. But there's no doubt that just as the color that Andy's provided throughout this call, there's certain end markets that are more pressured than others. And the areas that we think are going to be a little bit more robust around municipal and some of the things around Life Sciences, those areas have continued to be aligned with our guidance and continue to be a little bit stronger.

So this is going to be – this is – when you're sitting at flat organic revenue growth, it's a bit of a slugfest throughout the year. And we continue to operate in that mode, knowing that we've got to get more aggressive with the productivity and in other areas where we can control our own destiny, knowing that the market support is going to be fairly volatile throughout the year.

Bhupender Bohra
Jefferies LLC

Q

Okay. Thanks a lot, guys.

Operator: Our next question comes from the line of Joe Radigan of KeyBanc. Please proceed with your question, Joe.

Joe K. Radigan
KeyBanc Capital Markets, Inc.

Q

Thank you. Good morning, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hey, Joe.

Joe K. Radigan
KeyBanc Capital Markets, Inc.

Q

Couple questions on HST. It sounds like Scientific Fluidics is okay. How are channel inventories there? Because in the past that's caused one quarter or two-quarter pauses in growth every once in a while. And then is it reasonable to assume sort of mid-single-digit industry growth there based on the content you've won? Or is this – I mean I know you said you're making investments. Is that growth more long-term, two years, three years out?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

So specific to channel inventories, don't necessarily see anything today that has me particularly concerned. There are a bunch of product launches that happen in the first part of this year – I mean our customers are launching, right. So we'll keep a pretty close eye on that. In terms of the investment cycle that I mentioned before, we opt to

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be coming out of our strategic planning cycle this year to go longer on a particular product innovation. It's going to take two years or three years to develop. And it's a longer bet than we have historically made in some areas.

But if I look back at some of the bigger bets and the bigger successes, that's where they have to – that's how they pay off and that's how they have to go about them. So what we're looking at for 2016 and 2017 is much more around kind of our bread and butter product development and market development. And as you get into 2018 and 2019, we expect to see some of these bigger things come into play.

Joe K. Radigan
KeyBanc Capital Markets, Inc.

Q

Okay. And then do you expect any favorable impact from the budget agreements? Specifically the NIH budget, I think, increased the largest, at least on a percentage terms, in 10 years or 12 years. The medical device tax, I think, was – at least there's a moratorium on it. Does that benefit you or is that not really that correlated to your business?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

The medical device tax we're not going to see any impact, I don't think, from there. On the NIH side, just as we said when the NIH budget got crimped here a few years ago, the dollars themselves and how those dollars are spent are really actually not that big. But what they do is they really ripple through the industry and they start to drive innovation through the industry. So I mean you're talking about an NIH budget that's, what was it, $35 billion, $36 billion, somewhere in that range. So relative to the size of the life science industry that's pretty small, but it does certainly drive innovation. And there is a ripple effect. But none of it is – it certainly is good news, but we don't get impacted by it really directly. It's more indirect and it'll take a little bit of time.

Joe K. Radigan
KeyBanc Capital Markets, Inc.

Q

Okay. And then, lastly, Andy, can you just elaborate a little bit more on what you're seeing at BAND-IT outside of energy in terms of daily order rates? Have they weakened through the end of year, early this year, or just what you're seeing there?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

It's pretty flat. It's pretty flat generally. I would say that the transportation side continues to be good. As you know, we've got on a whole series of product launches here a few years ago and that's playing itself out nicely. And we have some nice opportunities too to get on some new business. But what I'll call the general industrial stuff, the stuff that we look at as the canary in the coal mine, pretty flat.

Joe K. Radigan
KeyBanc Capital Markets, Inc.

Q

Okay. Great. Thanks for the time.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet.

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Operator: Our next question comes from the line of Brian Konigsberg of Vertical Research Partners. Please proceed with your question, Brian.

Brian Konigsberg
Vertical Research Partners LLC

Q

Great. Thank you. Good morning.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hi, Brian.

Brian Konigsberg
Vertical Research Partners LLC

Q

Just coming back to the commentary on price and costs. I guess maybe I just don't quite understand the bridge that you're coming to with the $0.03. So I mean if you're saying you get a point of price, materials are – I mean input prices should be coming down. You're saying kind of flattish. Productivity is offsetting bureaucratic inflation. Why wouldn't price fall through at a much more meaningful rate? I mean just one point of price, that's kind of like almost $0.20, not $0.03.

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Let me just clarify. On our bridge, price is part of what we look at in terms of organic volume as well. So when we're looking at the productivity side of things, we go into any given year with somewhere between $20 million to $25 million of inflationary pressures, two-thirds of which is labor costs, labor inflation. So when we're looking at productivity initiatives, we're really looking at how do we offset those inflationary pressures and then price, to your point, with inflow fall through. But that's embedded as part of our organic calculation.

Brian Konigsberg
Vertical Research Partners LLC

Q

But, you're saying productivity should effectively offset that $20 million to $25 million of inflation?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Correct.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Of wage and material.

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Wage, material and burden inflation.

Brian Konigsberg
Vertical Research Partners LLC

Q

Right. So what's left is just price then, I mean just in the bridge?

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Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

No, no. I think you're missing what Heath is saying. So if you go to the organic calc, right, which is that first line item of negative 10% to plus 7%, price is going to be in that side of the organic calc.

Heath A. Mitts
Chief Financial Officer & Senior Vice President
A

Correct.

Brian Konigsberg
Vertical Research Partners LLC
Q

Okay. Understood. And then just on restructuring, so the $10 million, can you just talk about how that flows through by segment? And to the extent that you see incremental weakness in 2016, is there obvious places to address if the downside scenario does take place?

Heath A. Mitts
Chief Financial Officer & Senior Vice President
A

Certainly. I mean we attack – we got fairly aggressive in the back half of 2015 to the numbers that we've noted here, and about the $12 million, that is the 2016 impact obviously, we received a little bit of bene fit towards the later half of 2015 as well. But the $12 million, which is about $0.10 a share, is the 2016 impact from those completed actions. I would say we are ready if the market ticks down. There are also – some of that's just going to be volume-based cuts that would be made along those lines. We are also at any given time in good times or bad have a handful of smaller facility consolidation type activities that generally can take anywhere from six months to 18 months to complete depending upon how complicated it is. And we would be doing those anyway and you can expect in 2016 that that's happening.

Brian Konigsberg
Vertical Research Partners LLC
Q

Got it. Thank you very much.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Thank you.

Operator: Our next question comes from the line of Jim Giannakouros of Oppenheimer. Please proceed with your question.

Jim Giannakouros
Oppenheimer & Co., Inc. (Broker)
Q

Good morning, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Hi, Jim.

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Jim Giannakouros
Oppenheimer & Co., Inc. (Broker)

Q

Sorry if I didn't get this, but outside of M&A, which kind of the conversation's been exhausted, which timing and magnitude of spend often comes to you or is determined by outside forces a bit, how should we be thinking about your view of flexing up or down that internal growth spend that you guided to $0.03 to $0.10 headwind in EPS? Meaning, are there some projects that are in the maybe column and not necessarily in your r 2016 plans? Or it's all a go and that variability between the $0.03 and $0.10 really has to do with top line implications and the related leverage?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yes. So, Jim, some of this is spent and running. And then some of it, if we saw the world deteriorate we could hold back on, right. And those are things that are head count related that haven't been committed yet. So we do have some flexibility on that, but generally if the markets hold up, we absolutely want to make those. And we don't want to delay that spend. But we have some flexibility.

Jim Giannakouros
Oppenheimer & Co., Inc. (Broker)

Q

Okay. Got it. Thanks. And, again, if M&A doesn't map as you think it will in 2016, what's the priority ranking between the other uses of cash? I mean internal investments is up there. Like you said, you'd maybe get it more aggressive when others recede or should we be thinking that you'd get more aggressive on share buybacks would be the number two?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

So I think from an organic growth and a dividend perspective, those are pretty dialed-in, right. So I don't see anything right now that would say to me, go take a large chunk of the rest of the free cash flow and balance sheet capacity to go do that. I think we're very dialed-in there. It really would be around looking at where we trade relative to intrinsic value. And as we've talked about in the past, we've got a pretty robust proce ss of how we think about share repurchase, right. So we've put the work into estimating what we think the company is worth. And when the company is trading at a kind of increasing discount to that, we will increase our share repurchase. But that being said, strategic M&A is absolutely the first thing we want to do with the excess cash, right. That improves our positioning. It allows us to compound capital over time and grow the business. But in the absence of that, if we're at a discount to intrinsic value, you should expect to see us ramp up share repurchases.

Jim Giannakouros
Oppenheimer & Co., Inc. (Broker)

Q

Understood. Thank you. That's all I had.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet. Thanks.

Operator: Our next question comes from the line of Walter Liptak of Seaport Global. Please proceed with your question.

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Walter Scott Liptak
Seaport Global Securities LLC

Q

Hi. Good morning. Thanks, guys, for taking my call.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hey, Walt.

Walter Scott Liptak
Seaport Global Securities LLC

Q

I wanted to ask about your midstream business, which is really more like downstream because you're taking – it's pumps and meters, I guess, that are going from refineries to retailers, if I'm not mistaken. But I wondered about your comments on low project CapEx. And is this the case of kind of like the majors or the oil companies throwing out the baby with the bathwater and cutting those downstream CapEx projects?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. I think, Walt, what you're seeing, right, is that ripple effect of what would have been monstrousorus CapEx cut upstream and how that's filtered itself through the rest of the value streams. And so you are seeing it play itself out, right. That being said, with the decrease in price and if we see an increase in demand at all, then that will drive that cycle the other way, right. It'll drive the infrastructure cycle around distribution the other way. But, right now, we're certainly seeing in the short-term the negative ripple effects of people being very careful with capital.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay. Got it. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet, Walt. Thanks.

Operator: Our next question comes from the line of Matt Summerville of Alembic Global Advisors. Please proceed with your question.

Matt J. Summerville
Alembic Global Advisors LLC

Q

Hey. Thanks. Just a couple quick ones.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Sure.

Matt J. Summerville
Alembic Global Advisors LLC

Q

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With respect to FSD, orders down 10%, you look at revenue coming in at $98 million, orders $97 million. Those are sort of the lowest numbers since sometime in like 2011 as I recollect. And I know there's been comps and lumpiness along the way.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah.

Matt J. Summerville
Alembic Global Advisors LLC

Q

But if sort the dispensing piece, which is maybe 25%, 30% of the segment, is doing good, as you talked about -

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah.

Matt J. Summerville
Alembic Global Advisors LLC

Q

Just how bad are the other pieces?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Well, BAND-IT and Rescue have both been hit by the forces that we've talked about. And we had the very large trailer order of Fire. So the base business of Fire is actually up kind of single-digits, low to mid-single-digits. But we have that really large bulk business over an 18-month period of time of trailers that is much smaller now. I can't remember exactly how large it was. But I want to say it was a $20 million chunk of business at one point.

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

At one point. It's normalized for sure.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So it's really Rescue and BAND-IT if I look at their base business that have been hit by this, with Dispensing doing well and then the trailer business that's gone; but the base business of Fire – not gone but smaller, but the base business of Fire is doing well.

Matt J. Summerville
Alembic Global Advisors LLC

Q

And then with respect to just the orders in HST, if you can parse the Life Sciences pieces of the businesses and then what we can just call the general industrial pieces of the business. How would you characterize incoming order rates in those two groups versus the minus 6% that you reported?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

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Yeah. So the industrial-facing side has been more challenged. The Sealing side that has oil and gas exposure has gotten whacked. MPT, just in terms of the project business, has been soft. Those are – and then I'd say the Micropump gas which is the other parts of – that I put in industrial look a lot like FMT with strength in life science.

Matt J. Summerville
Alembic Global Advisors LLC

Q

Great. And then just, I guess, one more follow-up. As you look at the general industrial pieces of your business, whether it'd be FMT, whether it'd be in HST or some of the things that BAND-IT touches, do you get the sense that your customers in distribution are done adjusting their inventory levels? Did that get quote cleaned up in the latter part of 2015? Or are you seeing that continue into early 2016, thus adding to – it's just somewhat of, I'll call it, a little bit of a cautious view overall?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So I said in the last couple calls this question about destocking has come up. And what I've said I still hold to which is we don't have as much exposure to what I'll call commodity distributors, right. We're much more playing with value-added distributors who carry much less overall safety stock. So for us, anyway, the issue has been end market demand. And it plays itself pretty rapidly through distribution. That being said, we've seen this many times. In these types of environments, everyone does get tighter around inventory. And if you see an uptick, you'll see both a demand uptick and for us anyway, I'll call a modest restocking uptick. But it's not big for us like it is for a lot of the folks who sell into the more commodity-like industrial distribution.

Matt J. Summerville
Alembic Global Advisors LLC

Q

Great. Thanks, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yep.

Operator: Our next question comes from the line of Joe Giordano of Cowen & Company. Please proceed with your question.

Joseph Giordano
Cowen & Co. LLC

Q

Hey, guys. Thanks for running a little long here to get everyone on. Appreciate it.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yes, Joe. No problem.

Joseph Giordano
Cowen & Co. LLC

Q

I guess more of a conceptual question. When I think about your China business and the talk about being in an industrial recession there, how do you think about your business over the next decade there? And then trying to

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maybe – do you try to adapt your exposures to that market as they try to adapt their markets to be more consumer-oriented?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Well, I think, for us, what you'll see in China – the strength that we've had in China in the last decade has really been driven by industrial development in the mega city centers, right. Yeah. And so as all kinds of things have been built and all the infrastructure that goes around with that, our FMT products – some of our Diversified Products, that's kind of where that follows.

As you get to more modernization – and I want to put modernization into two categories. One is going to be the continued build out of cities that aren't these mega city centers, but where population is going to continue to move. It's going to continue to urbanize. You're going to see a similar type wave there that I think we'll benefit from. So what that really means is we've got to make sure that we're moving our sales and applications, engineering resources to those parts of the country that are going to see the kind of growth where people are going to be, right. So, that's kind of one.

The second one is as you see the rest of the country modernized, that's where parts of our HST portfolio and our Diversified portfolio start to have strength. So think about as medicine becomes more and more important, certainly and testing is more readily available, you're going to see our life science business do well there. You're going to see our Material Process business do well there. You're going to see our Optics business do well in that world. And you're also going to see parts of our Rescue business do well. So think about Fire, think about Rescue as you start to see other parts of the country modernize and industrialize. So it's a nice life cycle to our portfolio and over the next decade I think it's going to be an important thing for IDEX.

Joseph Giordano
Cowen & Co. LLC
Q

Yeah. I think HST was really well at getting at it.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Yeah.

Joseph Giordano
Cowen & Co. LLC
Q

What would you say like the contribution is from that – in HST? What's China in HST right now?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

It's small.

Joseph Giordano
Cowen & Co. LLC
Q

I'm assuming on the life science part of HST it's pretty small. Yeah.

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Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

It's small, and it's principally serviced out of the U.S. and Europe with the sales offices in Asia.

Joseph Giordano
Cowen & Co. LLC
Q

Sure.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

We're pretty carefully around IP. And so we've been careful around there. But I do see that growing as a proportion meaningfully over the next decade.

Joseph Giordano
Cowen & Co. LLC
Q

Great. Thanks, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Thank you.

Operator: Our next question comes from the line of Jim Foung of Gabelli & Company. Please proceed with your question.

James V. Foung
Gabelli & Company, Inc.
Q

Hi, Andy and Heath.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Hey, Jim.

James V. Foung
Gabelli & Company, Inc.
Q

Thanks for staying late here.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

You bet.

James V. Foung
Gabelli & Company, Inc.
Q

So let me just ask one question. If oil prices starts to rebound from these levels and they start pumping again, how quickly would you benefit from that?

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Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

I would say it would look a lot like the negative impact that we had in terms of timing and the upside. Again, we don't have a ton of exposure downhole. And so you've got that kind of 3% or so of our business that really does have that that would get impacted pretty quickly. So when CapEx spending started getting whacked here last year, that 3% went to 2% pretty quickly, right. And so I think you'd see that come back relatively quickly. But as it played itself through the rest of our business, it'd be more of a slow roll just like it has been a relatively slow roll on the negative side.

James V. Foung
Gabelli & Company, Inc.
Q

So you would see like maybe six months' kind of a timeframe when you start feeling some impact?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

I think that's fair, Jim, but you've got to realize that just getting – the fracking rigs would come on quickly, right, because you have the capacity to do that.

James V. Foung
Gabelli & Company, Inc.
Q

Right.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

But remember, a lot of the capacity is that the fracking stuff came offline really quickly. The stuff that's coming offline now is more the offshore stuff that is a heck of a lot harder to get up and going. So that timeframe – so six months is maybe a little too short.

James V. Foung
Gabelli & Company, Inc.
Q

Right.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Maybe it's six months to a year.

James V. Foung
Gabelli & Company, Inc.
Q

Right. Oh, okay. Great. Okay. Thanks so much.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

You bet, Jim. Thank you.

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Operator: Our next question comes from the line of Nathan Jones of Stifel. Please proceed with your question, Mr. Jones.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

Hey, guys. Just a very high level question. You've guided to flat organic growth for the year. Can you break that down between what you think the markets are going to grow and what you think you are going to outgrow the markets?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

What level of specificity are you looking for here, Nathan? I'm not sure I understand.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

As specific as you can get. I mean the overall guidance for the company is flat organic growth, right, minus 1% to plus 1%. When you built up that forecast, what was market growth? Was it like minus 2% to 0% and you're going to outgrow by a point or -

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

Yeah. I got you. That's exactly right. So I think our growth rate relative to the market is we'll beat it by a point, right. So if you look at the overall market growth, we're building our – our models are somewhere between one and two points. So if we're at plus 1%, the markets are at negative 1%. If we're at negative 1%, the markets are probably down 3%.

Nathan Jones
Stifel, Nicolaus & Co., Inc.
Q

Perfect. That's helpful. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer
A

You bet.

Operator: There are no further questions in the audio portion of the conference. I would now like to turn the conference back over to Andy Silvernail for closing remarks.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

Well, thank you all very much for joining us. I appreciate it. We're all dealing with the realities of a tough industrial world. At the same time, when I look at IDEX and I look at the strength of IDEX and how we hold up in this marketplace, I think, we've done a very, very nice job. And I want to congratulate our teams for operationally delivering, from a capital deployment perspective doing the right things, and really investing in the long-term of IDEX. So look forward to talking to you all again here in 90 days. I appreciate your time. Take care.

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Operator: This concludes today's teleconference. Thank you for your participation. And you may disconnect your lines at this time.

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