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IDEX Corp. (IEX)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Q1 2016 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.

I would now like to turn the conference over to your host, Mr. Michael Yates, Vice President and Chief Accounting Officer. Thank you. You may begin.

Michael J. Yates

Chief Accounting Officer & Vice President

Thank you, Rob. Good morning, everyone. This is Mike Yates, Vice President and CAO for IDEX Corporation. Thank you for joining us for a discussion of the IDEX first quarter financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three-month period ending March 31, 2016. The press release along with the presentation slides to be used 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 first quarter's financial results and then he will provide an update on our markets and what we are seeing in the world and discuss our capital deployment. He will then walk you through the operating performance within each of our segments. And finally, we will wrap up with an outlook for second 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 13620004 or you may simply log on to our company's home page for the webcast replay.

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, and good morning, everybody, and I appreciate you joining us here for the discussion of our first quarter results. As Mike said, I'm going to walk through some overview comments and also some conversation around capital deployment, and then we'll get into the financials and the segment results.

So from a big picture, as we sit here after the end of the first quarter, it looks an awful lot like as we talked about from the end of 2015. The overall economic picture is mixed. As I look at the landscape in the industrial markets, whether it's in the U.S. or Europe or Asia, are relatively weak. That's being offset in many regards by strength in our Health & Science businesses, municipal is also strong, and we've had very good execution.

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I'm going to take you through more detail when I walk through the markets and the segments, but I think it's suffice to say that the challenges that we talked about at the end of the year are still very much the same picture that we have after the first quarter. With that, I'm very pleased with how we started the year, given the markets, really because of the overall execution by our teams in the field.

The first quarter – when I look at the first quarter, I think about the benefits that our shareholders get by IDEX having diversity in end markets and businesses and allow us, in these questionable economic times, to still drive profitable growth. And we saw that with the strength in our Health & Science business that still saw growth, even though there are some challenges on the industrial parts of the markets.

And I'm very happy with our teams focusing on what they can control. Starting in the midpoint of last year, we put a lot more emphasis on overdriving productivity, making sure our cost structures are in place, while, at the same time, continuing to invest in the long-term growth that really differentiates IDEX over time.

And the teams did a good job. If you look at the first quarter, EPS was $0.89. That was up $0.05 or 6% from a year ago. Op margin came in at 20.4%, which was 10 basis points ahead of a year ago. And free cash flow is very strong at $62 million, up 45% versus a year ago.

We also completed the acquisition of Akron Brass. It fits very well into our fire and rescue platform. It really fits all the dynamics of what we refer to as an IDEX-like business. It fits our operating model, it addresses mission-critical solutions with highly engineered products, and it really faces a niche market that we have excellent positioning in. So, we're thrilled to have Akron as part of the IDEX family.

Additionally, as you look at the first quarter, our healthy balance sheet and strong cash flow has allowed us to continue to drive capital deployment decisions. We increased our dividend by 6%, and we bought back 628,000 shares for about $46 million, so a favorable price, sitting at just under $73 a share.

So, while we look at this lack of underlying economic demand and the challenges that it continues to create, we know that the growth is going to be hard to come by. But we have a philosophy and a discipline of how we run these businesses and that remains intact and very solid. And we continue to expect to win this year and continue to drive value for shareholders throughout 2016.

I want to take a minute here and just walk through what we're seeing in our core markets and geographies. In terms of markets, I'll start with energy and chemical. We've been touching on this for the last 18 months. The weakness that we've seen, specifically, around the energy businesses and the weakness in these markets have hit our energy platform BAND-IT and Sealing Solutions meaningfully as we've talked about in the past.

We're also seeing kind of the residual impacts of hit to Warren Rupp, Viking and Richter, all important businesses for IDEX, and they do touch, in one way or another, the implications from the energy slowdown.

Now, this is being mitigated to a large degree by where we sit in the energy food chain so to speak. We don't really touch the wellhead. We're not involved deeply in E&P. And so where we sit in midstream and downstream has had a significantly lighter impact overall, not nearly as deeply cyclical. And so we've held up better than a lot of folks who are much further upstream.

If you look at the industrial segment, where we sit, we've really seen a steadying sequentially. So, if you look at how we came in the third quarter, the fourth quarter and now first quarter, we have seen some consistency sequentially. Now, we did have tough comps here in the first quarter on the industrial side. So, that's driving some of the negatives that you're seeing. But we have seen this level off to some degree which is, I think, is a solid sign.

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Agricultural, everybody knows the story here. Overall commodity prices have been hit hard and they are expected to remain that way throughout the balance of the year. The hit to farmers' wallet has really slowed OEM demand, and we expect it to be that way for the balance of the year. It is somewhat offset by the strength in the aftermarket, but not enough at the magnitude that we're seeing OEM equipment sales come off.

The opposite of that is Scientific Fluidics and, really, the life sciences markets in general, which have been strong across the end markets, whether you're looking at Bio, Analytical Instrumentation or IVD. Those were all strong in the first quarter, and they will be for the balance of this year.

The same can be said to in municipal. We've had consistent low-single digit growth across North America and Europe. Municipalities are investing in areas that IDEX touches, and so that's been a solid story for us, and we expect it will be also for the balance of the year.

If you turn now to regions, and we look at North America, Europe and Asia, in North America, the story is largely industrial, meaning if you look at where the weakness is, it really comes from industrial distribution, the residual impacts of what's happened in the energy markets and the fact that we really are sitting at historic low inventory levels within our distribution channels.

In Europe, it's been quite stable. We feel very good about our positioning within Europe for today and in the balance of 2016. We have nice exposure across a number of businesses, specifically, in dispensing and water. They have really outpaced the market growth in Europe, and we expect them to do so here for the balance of the year.

In Asia, it's really two different stories. One is China that has been consistently weak; not a new story that we've been talking about. We've been talking about this now for well over a year, and we expect those headwinds to continue.

On the other hand, if you look at India, India has been a great story for us. We're seeing – we're really taking advantage of the infrastructure improvements and the expansion both within the country and our accelerated investments, and that's playing out in many regards in our fire, rescue, dispensing and also in our energy business. So India has been a good news story for us.

With that, let me touch on capital deployment for a minute. As we've talked about in the past, we really have a four-pronged strategy around capital deployment, and we've been very focused on continuing to invest in our strategy of long-term organic growth, number one, disciplined M&A, consistent dividends and opportunistic share repurchases. And what I want to do is just take a minute and I'll talk about each of these areas.

So on organic growth, we keep investing for the long term. We've got the capacity to make these investments that drive profitable growth for many years to come. And we all see businesses that, when they face challenging times, start to cut the things that are easy. And oftentimes, the things that are easy to cut are the things that you really need for long-term investment. We're fortunate that we've got the cash flow, the balance sheet that we can continue to really invest in the long term, and this is going to pay off for IDEX and differentiate us over time.

If we look at dividends, you saw on April 6 that our Board of Directors approved an increase of 6% in our dividend, and we're now paying $0.34 a share per quarter. In share repurchases, I mentioned a moment ago, we repurchased 628,000 shares in the quarter for $46 million at just under $73 a share. And going forward, we're going to continue to be opportunistic. We've talked about this a lot in the past. We have a very disciplined and thoughtful process of when and how aggressively we buy back stock, and we'll continue to have that discipline as we go forward.

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On the M&A front, as I've mentioned, we bought Akron Brass. We spent $224 million for Akron. They had, in 2015, about $120 million of revenue. It's really an excellent strategic fit. We are in the integration process now, and over the first 30 days, it's gone very well. So we're pleased with asset that we have in Akron and the team there. We're thrilled to have them as part of the IDEX family.

If you look into the future of M&A, the market, the dynamics remain pretty similar to what we talked about at the end of 2015. We're going to continue to be a player in the marketplace. We've got a good funnel, and we've got the cash flows and the balance sheet that will really allow us to continue to deploy capital for M&A.

All right. With that, let me switch over here and let's start talking about the quarterly results. I'm on slide four. So, in the first quarter, we had revenues that were $503 million. That was flat in total, down 3% organically. We had orders of $526 million that were also flat and down 3% organically.

But, very importantly, we built $23 million of backlog in the quarter, and that puts us in an excellent position as we think about going into the second quarter, giving us visibility into the second quarter. And also, as we think about the step-up from Q1 to Q2 and then really how the rest of the year flows through, having that $23 million of backlog is a good place to start from.

In terms of organic orders and sales, they were, continued to be pressured, as I've said, by energy and ag markets. We don't expect that to get meaningfully better as we look at the balance of the year. And also, there was one other part there that's a little bit of an interesting comparison and does put some noise into the numbers.

And that's that last piece of the trailer business that we had in 2015, in the first quarter of 2015 that shipped, that we comped against. So, when you look at the FSD segment and you see some of the puts and takes in that segment and, specifically, around organic orders, that really explains the overall situation there – excuse me – organic sales, that explains the situation. Organic orders were quite good in FSD.

Overall, for the company, we had a 20.4% op margin. That was up 10 basis points year-over-year. There are a lot of moving parts in that, and I'm going to go into that on the next slide here in a second. Overall, I'm very happy with how we've executed and how we're driving profitability and ultimately cash flow in the business.

To that end, as I said, cash flow was $62 million in the quarter, up 45% from last year. We had GAAP earnings of $0.89, up $0.05 or 6% for the year. And with that, what I'd like to do is go to the next page, turn to slide five, and I want to just take a moment to bridge you from our reported $0.89 against the midpoint of our guidance as we were going into the quarter, which was $0.81.

So if you'll flip to slide five, I'll just walk you through that bridge. So the midpoint of our Q1 guidance, as you'll recall, that we gave just a couple of months ago, was $0.81 and we delivered $0.89 for the quarter. And so let me walk through the puts and takes here.

So on an operating – in terms of operating results, we added $0.03 over our $0.81 guidance and that was really driven by very solid execution. If you look at the purchase of Akron Brass, the net of that for the quarter was actually negative $0.01. So, we owned Akron for just two weeks in March. So we got some operating benefits for owning them for the two weeks of March, but that was offset by $2.2 million of fair value inventory step-up. And so, the net of that was a negative $0.01.

Also, we had a $0.03 reversal for contingent consideration for an acquisition from 2015 that really turned in $0.03 of benefit. I'd ask you to note though that this is handled in the corporate books. So it's not reflected in the

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segment results. And that will be important as we think about segment margins on an apples to apples basis, because of how some of these pieces are flowing and we'll make sure that we can bridge you guys, if you have any questions, to make sure that as you go forward your models are accurate.

Finally, we chose to adopt early the accounting standard for share-based compensation. That gave us $0.03. I think you're all aware, every U.S. company is going to have adopt that by the end of the first quarter of next year. We simply elected to adopt that early.

So, all in all, when I look at it, it's a very strong start for us. Operationally, I think we had a solid first quarter. And certainly when we get to Q&A, if you've got questions on these puts and takes, we're happy to spend some time on it.

All right. Let's turn to the segment discussions. I'm on slide six and let's start with Fluid & Metering. So, in the first quarter, FMT orders and sales decreased by 6% and 5%, respectively, and operating margins were down 130 basis points. That was really driven by the lower volume in the energy and the ag businesses.

We've talked a lot about what we've seen in industrial, energy and ag, which have been more challenged. The real good news story here is around water. We had another solid quarter, similar to what we saw in the fourth quarter. Municipal markets are solid in North America and Europe with single-digit growth.

The mild winter also helped us some. When you think about the work that has to be done – specifically, when you think about the UK and the U.S., when you get a mild winter, you get projects that get pulled forward that would initially be scheduled for the spring or for the summer. So we did see a little bit of business come forward. But, more importantly, we've had terrific new product development and productivity out of that group that's driven the incremental benefits.

As I've mentioned before on industrial, order rates in Viking and Warren Rupp, they do remain under pressure, although, sequentially, have stabilized. And that's really all about the demand levels in industrial distribution. I would not call it destocking. I just think it's the – what we've seen in industrial distribution is demand has been weak, they have appropriately taken down their inventory levels, and I think they're managing that well.

We have talked about the drivers of this and it really is around the impacts of oil and gas. But I'll give our teams a lot of credit here. They've done a very, very nice job of getting their businesses right-sized, continuing to be highly profitable. These are businesses with very strong incremental margins on the upside and the downside, and they've done a nice job of getting in front of that.

In our energy business, we did see a soft start to the mobile market. That's really driven by builds in Class 6 and Class 8 trucks, which has started to slow. It was offset a bit by aviation, which has been stronger and gotten the positive side of lower fuel prices and strong demand. And these guys are going to work through this. Again, much like I said in the industrial side, they've done a nice job of getting their cost structures in place and making sure they've got the appropriate business scope and size for the market.

And then finally, just on ag, I've talked about that enough already, but that's going to look like it has for the balance of this year, and we're going to make sure that we're in fighting shape to compete.

If you go to slide seven, on Health & Science, that's a much more positive tone across the business. Really, the life sciences and the scientific markets remain strong. The industrial businesses have stabilized quarter-over-quarter, which is good.

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We saw organic orders were down about 4%, but, as you know, in this market, and very specifically, in this segment, you can get some more puts and takes here quarter-to-quarter. Organic sales were up and op margin increased by 90 basis points. And that was really driven by overall volume leverage and nice productivity across the segment.

As you get down into some details, Scientific Fluidics, orders and sales have continued to be strong. The markets are in a good spot. We are really well-positioned across Analytical Instrumentation, Bio and IVD, and we expect this to be a very solid marketplace for us through the balance of this year.

Sealing Solutions is a mixed bag. The parts of that business that touch scientific markets, mostly semiconductor, have done very well. The parts that touch oil and gas and heavy equipment have taken a pounding. So, net-net, it's been a challenging year for Sealing Solutions Certainly, a good news piece of this is our Novotema business that we bought last year. It's integrated well. And they've been able to get on board and be part of IDEX and build a product portfolio and the operating practices that really help them be part of the IDEX core business.

Optics & Photonics were stable in the quarter. Profitability improvement, once again, was very good. And these productivity improvements, over the past few years, they really take hold as you get any uptick in volume at all. And so, we're very pleased with the profitability levels and what they're demonstrating there. On the industrial side of HST, looks a lot more like FMT. So, they're still weak year-over-year, but we're seeing stability sequentially. And again, I think that's at least a solid story for us.

Material process technology, this is the lumpiest of all of our businesses. Capital projects, really, on a global basis, have been challenged. Our team's done a nice job of focusing in places where we really have differentiated technology and capability, and we've had some nice wins in Asia around food and overall in the pharma markets. We do expect that we're going to see some weakness in North America. But, overall, we think Asia should balance that out. And we think MPT has the shot of having a pretty solid year throughout 2016.

Okay. I'm on our final segment. I'm on Diversified on slide eight. So, as I mentioned to you before, there are some puts and takes, specifically, on the sale side because of comping up the last piece of that trailer order, but the net of it is organic orders were up 4% in the quarter, while organic sales were down 6%. Operating margins decreased to 120 basis points.

But, overall, if you look at what happened with the step-up charge from Akron, if you exclude that, FSD operating margins actually increased 80 basis points. So, on the core operations, really nice performance. So, Akron, obviously, as it gets brought into the fold, it's a little bit muddled in terms of how things flow through the P&L and balance sheet, and we'll make sure that we're real clear with you again on an apples to apples basis.

In terms of dispensing, really nice job; they continue to deliver for the company. They're winning across North America, Asia and Europe. X-Smart continues to be a very good story for us, and it's really turned into a high profit business that has terrific positioning for the global markets. So we think 2016 is going to continue to be strong for dispensing.

Fire Suppression, we talked about the impact of trailers. But if you kind of neutralize for that, the core markets are stable in the U.S. and in the UK and had a nice solid first quarter. And again, having Akron as part of that team is going to be terrific. That positions us very, very well across the spectrum of those markets.

Rescue; rescue has been soft, as we've talked about. It's continued to be that way. But we are expecting an uptick later in 2016. There are a number of large projects in Europe and Australia that have either been announced or they're in preparation, and we think we're well-positioned against those chunks of business. And those are some of

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the first larger chunks of business outside of the U.S. that we've seen here in sometime. And so we feel good about going after that business.

And then really, finally on rescue, eDRAULIC 2.0 and our StrongArm, two products that we've talked about in the past, both are doing well in terms of growing in our core markets, really, specifically in North America, getting off to a nice start. But that market softness in other parts of the world is muting that.

Finally, BAND-IT, BAND-IT has really been hit hard by the impacts of oil and gas and the industrial markets. But they've done a nice job in transportation. So, they've had to deal with the headwinds. They've dealt with it well. This is a great business for us, and it will continue to do so, and a great profit generator and one that will continue to – will return to growth here in the future.

Okay. I'm on our final slide, and I want to take some time and just walk you through our second quarter and full year guidance. I'm on slide nine. All right, so let's talk about 2Q. In the second quarter, we're expecting EPS of $0.91 to $0.93. Importantly, this includes the remaining $5.4 million pre-tax inventory step-up charge for Akron or about $0.05. So, the way to think of it operationally is it would be $0.05 better than what we have on the sheet here. But we are going to run through the last of our inventory step-up for Akron here in the second quarter.

Because of all that, you will have a lower operating margin for the quarter. So, again, that $5.4 million is about 1 point of operating margin, so its $0.20 reported, 21% apples to apples. Organic revenue, we think will be flat in the quarter. And tax rate will be about 27.5%.

If you look at the fiscal year, we are increasing our guidance. We were at $3.60 to $3.70. We're now at $3.70 to $3.75. And this is principally driven by the benefits associated with the new accounting rules for the share-based compensation that I talked about earlier. It's important to note that we're going to neutralize this year for the impact of Akron. So, the way to think of it is the first half charges that we're going to take relative to inventory step-up will be offset by the operating benefits you'll get in the second half of the year. But, for the full year, you really neutralize the EPS impact of Akron in total.

Full year revenue, as we said in the last quarter, we expect to be flat with operating margins – organically expect to be flat with operating margins in the 20.5% to 21%. Again, we guided at about 21% earlier. The difference between what we're talking about now and the 21% earlier is 100% associated with Akron and bringing that in as part of the family.

CapEx will be about $50 million. Free cash flow at 120% of net income. We'd ask you to model about a 2% net decrease in shares. Obviously, we had a great start to the year in that when the share price was depressed, and so we're asking you to model at approximately 2%. As always, any future guidance does not include the impact of acquisitions, either costs or the benefits.

So, Rob, with that, I'm going to pause here, and why don't we turn it over for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Matt McConnell with RBC Capital Markets. Please proceed with your question.

Matthew McConnell
RBC Capital Markets LLC

Q

Thank you. Good morning, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Good morning, Matt.

Matthew McConnell
RBC Capital Markets LLC

Q

Could you discuss the visibility that you have to the flat organic growth this quarter? Because orders are still down and I know there's a comp issue with the trailers and, especially in FMT, your orders' down 50% on an organic basis this quarter. Can you just discuss how you bridge to flat sales next quarter?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So, if you kind of think about where we're ending the quarter in terms of backlog and what we usually go into a quarter with, typically, we have a total backlog that's about half the quarter, and we're kind of plus or minus that. We go into it thinking about what the first quarter versus second quarter with the amount of backlog that we have today and the fact that we built $23 million incrementally of backlog. And it gives us a lot of confidence that we'll get to that second quarter number, plus or minus.

And so, I feel pretty good going in to the second quarter about where the top line will land. Because we are such a short-cycled business, you never know, as you know full well, Matt. But where we stand today with what I'll call stability on the industrial side and visibility relative to our current backlog and building backlog, it feels pretty good.

Matthew McConnell
RBC Capital Markets LLC

Q

Okay. Great. And then, when you discuss the improvements in businesses like water and Scientific Fluidics, some of the parts that are doing better, is there a way that you can differentiate how your markets are doing versus – I know some of these are the pieces that you've been investing in through a fairly soft demand environment. Is there a way to split out how IDEX is doing versus the market in some of these areas that are going to grow in the back half?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

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Yeah. I think, not as discretely as I'm sure you'd like, but we can obviously cut it by what we believe to be overall market growth and then the impact of our initiative, whether they'd be market penetration or new products. That's a lot easier to do when you're truly entering a brand new market, which we don't do very often.

The new products is really the place where you can really put your finger on and you can see the acceleration. So, if you look at the water businesses, we got a series of new products that we've launched. You can look at those discretely. If you look at dispense, you look at StrongArm, or you look at the platforms that we know we're on in HST, you can get your arms around each of those in a pretty discrete way.

The way I would say across the board is we are modestly taking share. I don't think its huge share, but if you look at our relative organic growth rates market by market, segment by segment against our competitors, we feel pretty good that we're holding up relative to how the markets are and modestly taking some share.

Matthew McConnell
RBC Capital Markets LLC

Q

Okay. Great. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Thanks, Matt.

Operator: Our next question is from Nathan Jones with Stifel. Please proceed with your question.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Hi, Nathan.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

If we could just start on the reversal of the accrual for the earn-out. I think it looks like it was on the CIDRA acquisition. And I know you would've preferred to pay that money out, because it would mean that business was performing better. Can you talk about what caused it to miss those expectations for the earn-out?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So, that was an acquisition that we did that's a very important acquisition; small but important for HST, specifically, Scientific Fluidics. And we went into the acquisition with a very specific point of view of what we though the performance would be of that business. And our partners who are still engaged and excited about being part of IDEX and are doing a terrific job had a more aggressive point of view.

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And so, we agreed that we put a construct in place, and if they delivered over and above, meaningfully, over and above the base case that they would receive more consideration. And as always, when you do that, you put that on the balance sheet and, each quarter, you have to make an estimate.

And so, as we sit here today, a part of that, we don't think they're going to get that, I'll call that accelerated growth on top of what we thought was already a nice chunk of growth in a good piece of business. And so, the accounting rules really dictate that. Yes, I would have loved – it would be terrific if they had hit their very aggressive case. But the base business is still doing quite well and very much in line with the model that we've put together.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Okay. So, it's not out of line with where you thought it would be?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

No. No. And that – sometimes it happens, right? When you've got a buyer and a seller and you have points of view that are different. And this is a way to figure that out and it gives both real skin in the game around it and everybody knows what they're getting into, and that's just how it works out sometimes.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Understood. So you did about minus 3% percent organic growth in the first quarter. You're forecasting flat the second quarter, which means to get to the midpoint of the full year guidance that was minus 1% to plus 1%, you need about 1.5% in the back half. Is there any assumption of improving markets in the back half? Because it doesn't really look like your revenue comps get that much easier as we go through the year.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

They do get a little bit easier. And Matt, when we're talking about 1.5 points, you're really talking about $10 million.

Nathan Jones
Stifel, Nicolaus & Co., Inc.

Q

Rounding errors.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. These are real rounding errors. And so, there are some easier comps when you go to the third and the fourth quarter particularly. So, if you remember that the weakening last year really started the midway through the second quarter. And so, we still had a pretty decent second quarter overall last year, but we saw that weakening happening in kind of June.

And so, the third and the fourth quarters were comparatively weaker. As I look kind of forward, the really important ramp for us was going to be where we're going to ramp from a weaker first quarter to a stronger second quarter. And that, for us, was really the telling sign. And given the backlog that we built and given some of the visibility that we have, unless you start to see something deteriorate meaningfully that we don't see today, we feel pretty good about where the top line should end up here for the balance of the year.

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

Okay. And then just one more, I guess, more philosophically on the M&A front. You guys have done a great job over the last several years. Earned a premium multiple out there in the market. Are there properties out there that would interest you that would require the issuance of equity? Is that somewhere that you would be prepared to go? Would seem that there's an arbitrage there on your valuation at some point here? Can you just talk about how you think about using equity? Any such properties even out there that would big enough to require that for you?

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

So, I think the answer to the first part of your question is yes, we would, but it would be very selectively. Even though we do have a premium valuation arbitrage, that equity is extremely valuable, and being able to use cash or debt tends to be a much better mechanism for us generally. And so, we'd really prefer to do that. But if the right thing were there and that was the requirement, yes, we would consider it.

The reality is, and we talked about this a lot in the past, there just are very few things of the scope and size that would require us to do that. And there are some things out there. As we've said in the past, there are some larger businesses that we think would be a great fit with IDEX and we believe could drive a huge amount of value, but there aren't very many. But if that rare circumstance were to happen, as one of our board members called it, the purple squirrel, if that was to happen, we don't find them very often, but would we do it? Sure, we'd do it.

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

All right. Thanks very much.

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

Thank you, Nathan.

Operator: Our next question is from Mike Halloran with Robert W. Baird. Please proceed with your question.

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

Hey. Morning, guys.

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

Hey, Mike.

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

So, first, just talking about the signs of stabilization you're seeing out there on the industrial side, is that on the order book? Is that in the customer conversations? Is it in what you're seeing just maybe more normal sequential starting to play out? Maybe just some color on what the contextual things you're seeing specifically that point to the stabilization side.

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Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Sure, Mike. We started to see this third quarter into fourth quarter, right? So, as you saw third quarter, fourth quarter developing last year, you are still – if you went back, as I answered Nathan's question, if you went from kind of middle of the second quarter last year, through a good part of the fourth quarter last year, you were seeing sequential downticks, right?

And you were seeing all of the behaviors that go along with that, right? And what we've seen now is that sequential stability, call it, for the last four months or five months, and also that – maybe I'll call it that sense of anxiety or panic that a lot of people have when you're seeing sequential downticks, you start to see that level off. So, yes, it's happening in conversations. It's happening in how people are setting their inventory Kanbans. And we're really principally talking about industrial distribution. And so I'm going to call it stability.

Now, part of it is we don't have that big exposure, direct exposure to oil and gas. So places that do still have that you're still seeing lots of volatility. Even with oil creeping up here over the last few months, there's still a lot of volatility around that marketplace. And as you know, we're still in the midst of rig reductions. So we're not experts. We're certainly not experts in that part of the world, but the places that we do touch it, that still has a lot of volatility. But the base industrial business, both in terms of the numbers and how people are responding subjectively, feels like it's leveled off to a degree.

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

Q

Okay. That helps. And then kind of a modeling question. When you think about the on-boarding of Akron here, how does that change the seasonality on that FSD segment?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Hey, Mike. It's Heath. Not a ton. Akron's activity doesn't have a tremendous amount of seasonality to it. Once we fully layer in the Akron numbers to our diversified segment, inclusive of all the ongoing intangible amortization and so forth, it will have an impact on operating margins down as we begin the journey to build up Akron's profitability closer to IDEX-like levels. But, in general, the order book for Akron doesn't have a tremendous amount of seasonality.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

So, what that will do, though, Mike, is because you do have some volatility across that segment, just more than others, and you have some more seasonality because of dispensing, that will probably, to some degree, not huge, but to some degree, mute that a little bit, the whole segment. It will be a little bit more muted in terms of volatility, but not big numbers.

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

Q

That makes sense. And then on the HST side, anything new coming from a new product introduction side? Things you're working on with the core customers there that are going to be significant in the near term here?

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

Nothing that's going to blow the doors off. But the stuff that we're going to launch here this year, next year, this is stuff we've been working on. If you were to go back and look two years ago, we'd have told you that you're going to start to see some stuff coming out in late-2016, 2017 that are really attached to new products that our customers are going to launch.

And we're in design cycles with them and we follow them, and so success now for those is really based on do they hit their unit volume expectations. And they're pretty good at nailing that down generally. And so, nothing that's a barnburner, but really consistent growth around that strategy we've had for a long time which is more high value content per platform.

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

Great. Hey, appreciate the time.

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

Mike, just to follow on with that, as we think about the second quarter, as I know you're doing your modeling, we do have a little bit of lumpiness on a year-over-year basis in Q2 for HST specifically. And that's not so much related to the instrumentation customers. It's more related to our MPT, the material process technologies, where we had some – a couple of – Q2 will have a couple of more difficult comps that we're coming up against in the second quarter that don't repeat later in the year. So, I'd just guide that to help you calibrate.

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

Thanks, Heath.

Operator: Our next question is from Steven Winoker with Bernstein Global Wealth Management. Please proceed with your question.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Good morning, guys.

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

Hey, Steve.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Hey. Just a quick question, do you have other earn-outs – acquisition earn-out agreements in place across the portfolio?

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

We don't.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Okay. And was pricing your typical 1% this quarter positive or something different?

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

Steve, this is Heath. It was a little bit lower in the quarter mainly driven by HST, and that's generally because as we've gotten further along with some of the bigger OEM contracts, and that's become a bigger piece of the pie. Specifically, for HST, we don't generally reopen those contracts for pricing-related things. But it was a little bit lower than the 1%. But, for the year, I think, modeling probably just inside of 1% is a good number in total for IDEX.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Okay. And I'm just trying to get my head around the FSDP organic growth again. Outside that trailer project, last year, organic was down 15%, because I think of the dispensing comps. So, how should I think about or how are you thinking about what real kind of underlying organic was in that unit?

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

Yeah. I think if you kind of puts and takes everything it's basically flattish. We did see year-over-year order rates that were up a little bit. But if you kind of look at the base overall business, it's kind of flattish with strength in dispensing, decent performance in fire, offset by weakness in rescue and in BAND-IT.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Okay. All right. That's helpful. And then just one more quickly. I suppose with Akron Brass now, are you guys thinking that your kind of cash availability and debt availability, capacity for M&A this year is on the $0.5 billion range or something – or you think – okay.

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

That's exactly right. Yeah. You hit it on the head. We got about $0.5 billion that we could tap into from our balance sheet. So, think of it over the next three years as being $1 billion-ish. That's another way to think about it.

Steven Eric Winoker
Sanford C. Bernstein & Co. LLC
Q

Okay. I'll pass it off. Thanks, guys.

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

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Thank you.

Operator: Our next question is from Allison Poliniak with 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

Good morning.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

On water, Andy, you talked about some projects getting pulled forward because of the weather. Is that going to impact, I guess, the seasonality or lack thereof this year that we should be thinking about?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

No, it's not a huge number, Allison. So, for IDEX, it's not a huge number for water itself. It's a few million dollars here or there, so I don't think it impacts us looking forward enough to consider it.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

Okay. Perfect. And then just bigger picture, a lot of talk on the stabilization on industrial side, the panic behind it. Trying to be positive here, is there any thoughts or views that maybe we could see an incremental lift as we move in the back half of the year?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

I feel really similar to how I felt when we talked after the fourth quarter and my commentary is the same. I still think, overall, there's more downside risks than upside. I know it feels better for a lot of people and I know equities in our space have run here in the last month or so. But when you just look at the underlying conditions and take away the emotion of it and just kind of look at the data, the data does not suggest that there is a really strong upside case.

I'd love to be wrong, but, as you know, we've always said this pretty consistently, we are much better at managing for a tighter scenario, and we can move on the upside very quickly. But, given the impact of incremental margins, we don't want to be caught on that downside. So, while I certainly don't feel like the risk has gotten higher in the last quarter, I still think that there's, overall, more downside than upside.

Allison A. Poliniak-Cusic
Wells Fargo Securities LLC

Q

Great. Thanks. That's very helpful.

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

Yeah.

Operator: Our next question is from Charley Brady with SunTrust Robinson Humphrey. Please proceed with your question.

Charley Brady
SunTrust Robinson Humphrey
Q

Hi. Thanks. Good morning, guys.

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

Hey, Charley.

Charley Brady
SunTrust Robinson Humphrey
Q

Hey. Just going back on – you touched on a little bit earlier kind of beginning of the year things looked like a disaster. We had a pretty good snap back on the industrial space. But, [ph] I'm wondering, (43:50) from your standpoint in terms of order intake, did you see a really sharp dip in the beginning of the year and you've come back to stabilization or plus, and so it's averaging out to kind of stable or – I'm trying to get a sense, I guess, of the cadence on really the orders through the quarter, first three months of the year.

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

Well, Charley, let me clarify first. I think that the overall, just kind of generally, the commentary that I have today versus the commentary that I had after the end of the year, it really is the same. The difference is you got three more months of stabilization, right?

You got a quarter more of stabilization.

We started seeing some of the elements of it as we ended the year. But that being said, yeah, as we ramped from our first month through our third month, things did get sequentially stronger, but they also tend to get sequentially stronger, right?

So if you look at how a normal quarter flows, it's not that different than the normal – maybe a little bit better. I guess, people are – everyone is looking here for a sign of strength. I really don't think it has materially strengthened. I think what you have is another quarter of stability, and the emotional pieces of it that were kind of really pounding in the early months of the year and the late months of last year. That real fear is starting to fall off. The data itself is not dramatically different.

Charley Brady
SunTrust Robinson Humphrey
Q

Okay. That's helpful. Thanks. And I guess, just kind of bigger picture, on the energy exposure that you guys have had, what do you think, in your mind, that your customers are going to have to see? Is it a function of oil goes back to $50 plus a barrel? Obviously, you're not really much in the upstream, so that's a less of an impact on you guys.

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But I'm just trying to get a sense, from your point of view, when you're looking down the road, 12, 18 months, what happens in energy to kind of get things kind of back on track and maybe get some growth there?

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

Well, I think the radical swing in capital spending and in MRO, so if I were to go back in time and say what do I think that most of us got wrong to a degree, I think we got two things wrong that have been more amplified – that have amplified this downturn more than any of us expected.

The first thing we got wrong was, I think, people didn't fully appreciate how much the energy capital spending over the last several years was pulling along the things that we define as general industrial, right? And so, the reverberation of that, as things got weaker, it hurt the general industrial, I think, more than people expected it was going to. So I think we got that one thing wrong.

The second thing that we got wrong and we're really seeing playing itself out now, specifically, in that area is, historically, on the MRO side, as the big capital spending has slowed down, the MRO side has stabilized or picked up. And one of the things that we're not seeing in this time is you're – we're seeing differently than necessarily maybe in the past is the amount of pirating that's happening for parts off of things that are being taken offline is pretty dramatic.

So why does that matter? It matters because I think that the overall deficit that we've experienced, us less so than people who have a lot more exposure, this deficit has been a lot bigger. So what changes? Now, let me address your question really specifically. What changes is that runs its course and the capital spending even picks up modestly, and then you have an MRO deficit now that's got to be filled.

Now, when that happens, if I knew that, I'd be in a different line of work. But it feels like the amount of capacity that's coming out, the supply/demand imbalance, at some point, if that turns over, you could see the excess capacity or the need for capacity snap back pretty aggressively. When that happens, if that happens, that's for all the smart people and they'll have to figure out.

Charley Brady
SunTrust Robinson Humphrey
Q

Thanks. That's helpful. Appreciate it.

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

Thanks, Charley.

Operator: Our next question comes from Kevin Maczka with BB&T. Please proceed with your question.

Kevin Richard Maczka
BB&T Capital Markets
Q

Thanks. Good morning.

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

Hey, Kevin.

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Kevin Richard Maczka
BB&T Capital Markets

Q

A couple of follow-up kind of modeling questions on Akron. So, you've got it neutral to earnings this year. The contributions offset by the step-up costs and the interest expense. Can you just talk about where you think margins will be on that business and what's the associated interest expense here this year?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Kevin, let's see. Let's tackle the easy one first. The interest expense is going to be $0.02 per share. The incremental is what we're anticipating for the year. And that includes, potentially, what we may or may not do in terms of terming out some of the balance sheet as we think through the second half of the year. So it's $0.02.

The other piece to think about is there's certainly going to be a timing element of that. Andy addressed some of that earlier. We are going to work our way through the total purchase price accounting, step-up cost for the inventory in the first and second quarters. So, that'll have a bigger impact in the negative in the first and second quarters. And then, obviously, in the third and fourth quarter, we won't have those same costs. So you'll also get the full-on Akron Brass operating contribution. So, in terms of modeling, there's a little bit of differences, neutral for the year, but it does have a difference between the first and the second half.

Kevin Richard Maczka
BB&T Capital Markets

Q

Right. And then thinking about next year in terms of accretion, so there should be more for two reasons: that $7.6 million of step-up costs goes away that you just mentioned, but, also, you're expecting to grow and improve the margins on this acquired business. Can you talk a little bit about the improving of the margins and where they are now and kind of what you think your potential is here now that you own it?

Heath A. Mitts
Chief Financial Officer & Senior Vice President

A

Sure. Absent purchase price accounting and absent any intangible amortization, so let's just stick with EBITDA, because I think that's the best apples to apples comparison. It runs about 500 basis points lower than our existing Fire Suppression business. And our existing Fire Suppression business is plus or minus in line with the rest of IDEX, maybe just a tad lower.

So, there's 500 basis points that as a stand-alone Akron Brass business that we're going to tackle out of the gate. I would suggest the timing of that's going to take a couple of years to get it up to speed. There's some operating decisions, some footprint discussions underway as we bring the two businesses together, our existing Fire Suppression business with the Akron Brass business. But, as those things happen and we integrate the commercial teams and go through all of that, I think we'll start to realize the synergies in the next two years.

Kevin Richard Maczka
BB&T Capital Markets

Q

Okay. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Thanks, Kevin.

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Operator: Our next question is from Scott Graham with BMO Capital Markets. Please proceed with your question.

R. Scott Graham
BMO Capital Markets (United States)

Q

Hey. Good morning, guys. How are you?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Good.

R. Scott Graham
BMO Capital Markets (United States)

Q

Question I have is about the energy and chemical impacts that you guys are – that you laid out at the top, Andy. You named the businesses. We know them all well. Could you tell us, first of all, the percent of sales from chemical and energy right now?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Well, you've got – so let's kind of break it into its pieces. So, energy in total, is somewhere north of kind of 10% of the company, right? So, somewhere – 10%, 12% of the company. The upstream piece of it, that's kind of gotten pounded, is about 2%. It was 3% last year. That's just the reality of that.

So the stuff that's midstream and downstream makes up the vast majority of what you're looking at what we call energy. And when you think about the chemical piece, the overall chemical piece is a bigger piece, but we're mostly talking about playing in specialty chemicals, right? And so it's not kind of the broad base stuff – it's not the commodity chemical world. We don't tend to play in that. If you call it chemical and industrial that you put it together, we call that's about 25% to 30% of the total business. Pure chemical out of that is half to two -thirds of that total.

R. Scott Graham
BMO Capital Markets (United States)

Q

Got you. Now, on that, you have a business that obviously – the mobile business, could you give us a carve-out of that as well? You went out of your way in the slides here to talk about truck builds and, honestly, I've never heard you talk about that before.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. Well, the reason we do is, again, when you talk about energy, people tend to think of energy in a very specific way. And the biggest piece of what's in our energy business is LC, Liquid Controls, right? And so, Liquid Controls, a good chunk of that overall business is going into these mobile applications. So, mobile applications mean meters on trucks, right? That's the way to think of it.

And you split meters on trucks into two things, kind of road applications and that serving aviation. And so, now, the reality is that if we don't follow the Class 8 to Class 6 truck build that you would think about for kind of heavy

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industry or whatever, people who are experts in that, we don't necessarily follow that trend. But the reality is that the truck builders and how these guys think about building, in some ways, does connect to that.

So, we're not selling into the average Class 6 or Class 8 truck. We're selling into very specifically mobile energy applications. But there is some correlation between the truck builders that are producing kind of the general Class 6 or Class 8 and the folks who are selling into these mobile markets. So, there is some connection to that. We don't follow the broad trend.

R. Scott Graham
BMO Capital Markets (United States)
Q

That's very interesting, the way you look at that. Okay. Thank you. That's all I had. Very nice quarter, guys.

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

Thanks, Scott.

Operator: Our next question is from Jim Foung with Gabelli & Company. Please proceed with your question.

James V. Foung
Gabelli & Company
Q

Hi. Good morning, Andy, Heath.

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

Hi, Jim.

James V. Foung
Gabelli & Company
Q

Yeah. I just have one question. I was wondering if you could just size kind of the amount of business you may have potentially lost due to oil prices. As we look out to next 12 months with oil firming up and the business coming back, I'm just trying to figure out how much you can recover as we kind of see the reverse of this?

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

So, let's talk about the easy piece of that, Jim, which is the piece that's close to the wellhead. As I've mentioned, we probably had a total of 1% negative on that. So if that was 3% of our business a year ago, it's now 2% of our business. So it really truly is, in and of itself, a 1% headwind on IDEX, right? And then you probably have another 1% to 2% if you kind of scope across the rest of IDEX. Call it $10 million to $20 million more of incremental revenue that's probably been – that you can kind of put your finger on directly.

So, call it 2 points of organic growth headwind, up to 2 points of organic growth headwind that's just kind of directly tied to that. Now, it gets a lot more muddled and a lot less clear as you think about these ripple effects that have impacted everybody. The story that I tell often is a few years ago, we looked at this business in North Dakota. It had nothing to do with the energy world, but we looked at this business in North Dakota and you couldn't drive into the – you couldn't get a parking spot at the parking at the Walmart, you couldn't get a hotel room, anything, right?

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And you go there today and the parking lot at the Walmart is empty and you can get any hotel room you want at half the cost. And so, what I guess the reason I tell that story is, I think we all, again, underestimated the rippling effect in certain areas of that energy cycle. And so, as it comes back, I don't think it's going to be as dramatic. I wish I could pick a timeframe, but that's for you guys to do. But I do think that not only do you get the direct impacts of what's happened to the energy industry, I think you will get some positive residual impact to the general industrial.

James V. Foung
Gabelli & Company

Q

Do you think that number would match that 2% of direct headwind that you see?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Again, I think the upside and the downside were pretty dramatic. So, what you got pre-2015 was pretty dramatic on the upside, and what we lived with last year was pretty dramatic on the downside and through the first quarter. Do I think it's going to snap back one for one? I think that would be optimistic.

James V. Foung
Gabelli & Company

Q

All right. But it's something like – it's somewhere between $50 million to $100 million of revenues, potential revenues...

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

No. No, that's too heavy. Somewhere between $20 million and $40 million.

James V. Foung
Gabelli & Company

Q

$20 million to $40 million?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. Yeah.

James V. Foung
Gabelli & Company

Q

All right. Great. Thanks so much.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah.

Operator: Our next question is from Bhupender Bohra with Jefferies. Please proceed with your question.

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Bhupender Bohra
Jefferies LLC

Q

Hey. Good morning, guys.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Good morning.

Bhupender Bohra
Jefferies LLC

Q

So, my question revolves around HST. You've done a good job improving margins here. If I look back historically, this segment underwent some restructuring. Where do you think margins would actually progress in the second half of FY 2016? And, holistically, where – Health & Science in terms of new products, especially with exposure to MPT, some of the long-cycle businesses here, where do you think – as you progress into 2017, can you give some color on that?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

So, Bhupender, I apologize. You broke up a little bit in your question. So, I think, if I heard you right, you were asking what do we think the back half HST margin looks like. I heard that clearly. I didn't hear the second part of your question clearly.

Bhupender Bohra
Jefferies LLC

Q

Yeah. Second part of the question, kind of holistically, if you look at HST, you've done a good job improving margins here. How do we think – like, what is actually driving the core sales for the business in terms of when you have – when you look at the exposure from MPT and Sealing Solution businesses?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Okay. So, let me – I'll try to tackle that, and if I don't get your question, if I don't answer it just right, please reframe it. So, yeah, we've done a nice job of getting this business up to speed. The way I break it down is kind of on the revenue side and then let's talk margins. And obviously, they're interconnected, but there's a couple of different stories in here.

On the revenue side, we've seen real strength consistently out of those things that are scientific in nature, right? So life sciences, semiconductor, some of the electronics world that we touch marginally, those have been good and, by the way, have good profitability associated with them. And we've also had strength in improving margin to parts of the portfolio that were weaker.

So if you look at MPT or if you look at Optics, over the last couple of years, we've done a nice job of moving profitability up. So you've seen the op margin move, but the bottom – but the top line is a little bit deceptive. And the reason for that is you've got a good chunk of that overall HST that still really is industrial, right? So you've got a big chunk of – you've got the Gast and the Micropump businesses. You've got a good chunk of even the Optics business that's more industrial-related. And then you got a big piece of the sealing business that is touching oil and gas.

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So we've had some really – some nice strength on the scientific side offset by some weakness on the industrial side, but in total, overall margins that have had nice improvement. So, I think I may have missed your back question about MPT. So, if you'd repeat that, I'd appreciate it.

Bhupender Bohra
Jefferies LLC

Q

No. I think you answered the question on MPT. My thinking on MPT was MPT was kind of a long-cycle business within HST. And when you talked about the capital spending within the industrial business, overall, broadly weak right now, how should we think about that in the second half, especially, you're thinking is like there's much more – still more risk to the economy in terms of spending?

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

I think so. And I think to be clear about some things, because there's a few things here depending upon how you take it, it could be some mixed messages. The first one is our overall view is you're getting some industrial stability. As that moves to the back half, you end up with some easier comps. And whether or not that's industrial, within FMT or some of the industrial parts of HST, you get moderately easier comps as you get to the back half of the year because of the real weakness that we saw last year.

So, to me, that's a good news story, but not because the business is materially improving sequentially, so I don't want anyone to walk out of here saying, God, I'm confused. Andy is saying there's more risk to the downside, but we're going to be better in the second half. These are really consistent statements, right?

We've seen stability. You've got a little bit easier comps in the back of the year. But, in total, as I look at the global economy and I look at the puts and the takes and whether there's more upside or more downside, given the underlying fundamentals, we believe that still there remains more downside than upside.

Bhupender Bohra
Jefferies LLC

Q

Got it. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Thank you.

Operator: Our next question is from Jim Giannakouros with Oppenheimer. Please proceed with your question.

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

Q

Hi. Good morning, guys. Thanks for sneaking me in here.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet, Jim.

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

Q

Yeah. So my question is on your organic growth investment dollars and where you're funneling those. I understand it may be early in the year for you to be shifting those, but can you talk about where you're focusing, specifically, your organic growth investment currently? What businesses the focus is squarely on improving returns? And where growth investment won't be dedicated anytime soon? And if you've shifted your thoughts just given any surprises over the last six months, whether that's market based or just the efficacy of execution of internal strategies from specific business lines? Thanks.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

Yeah. So, Jim, when you look at our investments like this, they tend not to have radical swings in the short term. And the reason I say that is because from the time you decide that you're going to aggressively going to go after an idea until the time it's launched and then, I call it, full absorption into the marketplace, those cycles are really long. And that really works to our benefit around when you win market share or you win new applications, the stickiness of those is really the fundamental driver to the economics of IDEX, right? That stickiness is a big deal.

That being said, it takes a long time for that to happen, right? Our customers are highly risk adverse and they test and they poke for an awful long time before making any kind of radical decision. The reason I say that is that requires sustained long-term investment. And so, we tend not to jump around a lot in that. So, just kind of behaviorally, I think that's important to understand. To kind of directly answering your question, which is where we focus, a way to think about that is if you look at our portfolio and our businesses, and this is all public stuff we talked about before at investor meetings.

We've got about two-thirds of our company in revenue and about three quarters of our company in profit that I would squarely put into the growth category, right? These are franchise businesses with clear number one or really strong number two positions. I'm talking about franchise brands like IDEX Health & Science, the Scientific Fluidics business. I'm talking about Viking, Warren Rupp, right? Gast. Even though our Rescue business is struggling, if you look at the brands within rescue, they're outstanding. If you look at our BAND-IT brand, even though it's got headwinds from oil and gas, they are a franchise business. I can go kind of down through that list.

And so, they've got great positioning, terrific fundamental economics, we're going to – we are investing for growth, we incent for growth around those businesses pretty aggressively. And by the way, we differentiate how we think about resource allocation with those businesses.

On the flip side – and by the way, I would say that it's much more biased today around new product and new channel than it is anything else. The other part of it is, we've got about a quarter of our business, a little bit less than a quarter, that I'm going to put into the category of fix, meaning they don't have IDEX-like profitability.

Now, to be clear, I think a lot of people would kill for the profitability of what we call fix. You're talking about EBITDA margins that are solidly in the mid-to-upper teens, but they're not in the mid-teens or mid-20%s rather EBITDA margins like all of IDEX. So there's a series of businesses in there that we still can – we think can move and can fix. They look like our fire business that's had a 1,000-basis point improvement over the last several years.

And so there are some businesses squarely in there, that, boy, we think we can move the margins very substantially. And by the way, a bunch of the performance that you see in here, we've had great performance in those fixed businesses through the first quarter. And then you got a small portion of the business that's kind of –

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we define it as outperform, meaning, we want you to win in your markets. We expect you to keep up with the competition, but you're kind of not in either one of those categories today.

So, that's how we differentiate. And we really think about resource allocation and we think about the mission that each one of those businesses have really clearly upon where they fit to the definitions. And they understand their missions.

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

Q

That's helpful. Thank you.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

A

You bet.

Operator: There are no further questions. At this time, I'd like to turn the call back over to Andrew Silvernail for closing remark.

Andrew K. Silvernail
Chairman, President & Chief Executive Officer

Thank you, Rob. I appreciate that. So, everyone, first of all, I appreciate you taking the time to spend with us to talk about the first quarter. Our comments, hopefully, everyone's walking away with the clarity of our message, which is, we think we're executing quite well in a continued challenging market. There has been some stability in the markets, which is good, but we still think there's still lots of challenges here ahead, but we're very, very well-positioned, and I'm thrilled with how our teams have performed.

Our folks throughout IDEX have really performed well to make sure that we're delivering value for our customers, for the people who work at IDEX and, very importantly, for you, our shareholders. So, I appreciate your time, and we look forward to talking to you in the future. Take care.

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

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