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IDEX Corp. (IEX)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation's First Quarter 2017 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to Mike Yates, Vice President and Chief Accounting Officer. Thank you. Please go ahead.

Michael J. Yates
Chief Accounting Officer & Vice President, IDEX Corp.

Great. Thank you, Brenda. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer 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, 2017. 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 Bill Grogan, our Chief Financial Officer. The format for our call today is as follows. We'll begin with Andy providing an overview of the first quarter financial results and an update on what we've seen in the world. He will then walk you through the operating performance at each of our segments. And finally, we'll wrap up with an outlook for the second quarter and full year 2017. Following the prepared remarks, we'll open the call for your questions.

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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 turn the call over to our Chairman and CEO, Andy Silvernail.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Mike. Good morning, everybody. I appreciate you joining us here for our first quarter conference call. Obviously, I'm really pleased with the results here for the quarter. It's the first time and – in literally two years that we've had this kind of strong organic revenue growth, and we did see improvement overall throughout our businesses and the team is executing extremely well.

As you know, we've been talking here for some time about the difficult market conditions, specifically in our industrial and in our energy market. And I've been very pleased how our teams have tackled this over the last couple years in this industrial recession. They've faced these pressures, they've delivered good results in the face of the challenges and we are starting to see some recovery.

In the first quarter, we saw evidence of this. Really started in the third quarter of last year, we started to see a little bit of rebound in the late part of the third quarter, particularly in the North American industrial market. And the improvement that we saw here in the first quarter was broad-based across most of our markets. This, in the industrial side, has been coupled with the continued strength in our life sciences, in our scientific businesses and with this, kind of all this coming together, we have a more favorable outlook for the balance of the year.

Obviously, I'm going to talk in-depth here in a few minutes about what we're inside of our businesses. But before that, I thought I'd take a look at what's going on in the markets and the regions.

For the first quarter, we had – I guess you got a really clear view of what we can deliver when you combine our ability to execute with some improved market condition. We had organic revenue growth that was up 5%, really driven by outstanding execution in FMT, which was up 6% organically and HST, which was up 5%. And both of these delivered robust order growth as well. We had 5% organic order growth at FMT and 8% organic order growth at HST.

FSD, a little bit of a different picture, we had 1% organic revenue growth. We had orders down 11% on organic basis. But if you sift through this, it's really due to some tough comps and it's a movement of some things late in the first quarter to the second quarter. So, overall with FSD, no real concerns with the underlying order pattern.

So, obviously, we're optimistic. We do remain a little bit cautious and I'm going to talk about that in a second and some other things that I think are out there that we just need to be mindful of. But our teams did a great job in the quarter.

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Overall, organic order growth was up 2% and organic revenue growth was up 5%, as I mentioned. Op margin was at 21.8%, which was up 120 basis points. Adjusted EPS was $1.03, which was up $0.14 or 16%. Cash flow was up 21% to $75 million. And I think importantly, we did build $15 million of backlog in the quarter.

Also in the quarter, we did have about $5 million of restructuring costs, mainly around site consolidation and this is all in support of the strategies that we've outlined about building some scale in our businesses and really driving long-term competitive advantage.

And our balance sheet's in great shape. We ended the quarter at about 1.7 times gross leverage and obviously very strong free cash flow.

So, taking a look at what's going on in the markets and the regions around the world. First, on the industrial side. As I mentioned, the industrial markets have improved across our regions. Importantly, in the North American industrial distribution, we had strength late in the fourth quarter that has continued throughout the first quarter and really this is the first sustained rebound that we've seen here in some time.

Energy remains somewhat mixed. Upstream has been good and we see that in our BAND-IT, our Sealing business, but as you know, that's a pretty small part of our overall business. The midstream has remained pretty muted. You'll see strength in aviation, in our mobile business. But overall, as you look at truck build, those are down. Had a very warm winter and so that's really been a mix, and that tends to lag anyway.

Agriculture, we start to see signs of recovery. We started at the end of last year. I think it'll be a slow pace, but generally the signs are positive.

In Scientific Fluidics, life sciences generally, continued strength in IVD, bio, analytical instrumentation and optics. And then finally on municipal, the trends have continued. We've got kind of a Steady Eddie marketplace and I think that will continue to be relatively peaceful for us.

In terms of regions, North America really led the recovery. We saw strength across most businesses, most market, and so those are favorable. In Europe, the conditions are also improved. Auto and housing have really been the two things that have led there. And generally, we haven't seen any negative impact from Brexit. So, a decent market in Europe. And then in Asia, the good story that we've had in India has continued and we did see some positive turn in China.

So, all this kind of adds up to some pretty good news and a more positive outlook certainly than we've had in sometime. But I did want to talk about just a word of caution.

And so, obviously, we're happy with the broad-based improvements to the markets. Our team is executing very well. But I do want to be clear that I'm cautious about the overall outlook. And I am because my personal view is that the financial markets and the M&A markets have really fully priced in this good news. And the good news of improving demand, confidence levels are up, obviously low interest rates. And really up until the last week or so, I would say that the policy improvements of the U.S. had also been priced in, whether it's tax reform or infrastructure spending.

When I don't think that a lot of the risk have really been fully accounted for, the potential issues that are out there, that could impact demand, and I think it's important to note whether it's geopolitical conflict or policy gridlock in the U.S., or really what has turned into a regular unpredictable U.S. domestic and foreign policy. And the reason I

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mention this is not that we have any control and we're certainly not experts at any of this, but I think it creates volatility.

So, as I look at the back half of the year, it's still pretty hard to get your head around some of these major impacts that could happen out there. So, I'm pleased to the start with 2017, the outlook has improved. But I think we have to be mindful not to get over our skis for IDEX to control what we can control and understand both the upside and the downside of the full risk and reward basket.

Okay. Let me talk a little bit about capital deployment. Obviously, it's a big piece to our overall story. And our strategy remains the same with a focus on long-term organic growth investments, disciplined M&A, consistent dividend, and opportunistic share repurchases.

On the organic growth side, we believe that we've meaningfully outpaced our markets obviously in this quarter. But also during the industrial recession, we took share in many of our businesses. And so, we've been committed to invest for long-term organic growth.

That commitment is not going to change. We believe that superior organic growth is the key value driver in our company, and we're going to continue to invest in projects and people that make the most strategic sense to us. And that the series of investments that we talked about in detail on our last call, those have started and we've really committed ourselves to making sure we're making these investments going forward.

In terms of dividends, our policy of being in that 30% to 35% range, we're going to continue to be there over time. Share repurchases, we nibbled a little bit around the edges here in the first quarter. Pretty small numbers, 82,000 shares that were bought back. And as you all know, we have a very disciplined methodology of how we think about share repurchases, think about driving long-term value for our shareholders, and we're going to keep that discipline.

In terms of M&A, the M&A funnel is solid, not different from what we talked about here a few months ago and we're continuing to work that funnel. Price has obviously continued to be elevated. And so we're going to be selective and targeted and make sure that we put money to work in ways that are going to create shareholder value. And obviously, we're in a position with our balance sheet and our cash flow to execute that strategy fully here going forward.

All right. Let me turn to the first quarter results. I'm on slide 4. Revenue in the quarter was $554 million, which was up 10% in total, 5% organically. As I mentioned, it was driven by 6% and 5% organic numbers at FMT and HST. It's worth mentioning, as I did earlier here, that this is the first time we've seen organic revenue growth since the end of 2014, so obviously I'm very pleased by that.

Orders were up 8% at $569 million, 2% organically. As I mentioned earlier, FMT was up 5%, HST was up 8%. And so, the underlying businesses have nice strong order rates here as we move into the second quarter. And we also built $15 million of backlog in the quarter. The team did an excellent job of executing it. March was a particularly strong month for us. And obviously, this team with the flow through to the bottom line, they've done a nice job.

When you adjust for $5 million of restructuring, op margin was at 21.8%, which was up 120 basis points. And obviously, I'm pleased with that strong execution by our teams. Cash flow was a great story, up 21%, $75 million. Net income at $75 million or $0.99 on a GAAP basis and $1.03 or up $0.14, up 16% for the year on an adjusted basis.

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All right. Let me turn now to the different segments. I'm on slide 5 and we'll start with Fluid & Metering. So FMT had an excellent quarter. As I mentioned before, sales and orders were up 5% and 6%, respectively. Op margin, when you adjust for $1.6 million of restructuring, was up 300 basis points in the quarter. Obviously great results, and you're seeing the benefit of the restructure of that overall cost structure within FMT and the impacts that you get from the volume leverage when you see the business turn.

Water continues to be a very good story. Municipal industrial markets are solid. We are seeing some seasonal trends that point towards a good second quarter for that team. And in particular, I think they've done some of the best work in the company around new product development. So, we've got a couple of new products here that have been launched that I think are going to be good news for water here throughout 2017 and into the future.

In terms of industrial fluids, obviously all the trends that I've talked about impact that business probably as much as any within IDEX. We've seen nice increases in North American distribution, an uptick in upstream oil and gas albeit at a small piece, and then some firming in Europe and in the Gulf region. So a decent improvement there in industrial fluids.

Energy, I already mentioned earlier. Aviation business, the project funnel is very healthy and the stationery market is doing well. The mobile market, which is really around LPG, has been softer and really should be, we expect that it will be here through the balance of the year. And then ag, as I mentioned before, nice start to the year. Now, we have seen some improvements. It's a good sign, but we think that will be overall relatively slow improvement.

I'm on slide 6 now, let's talk about Health & Science. So, like FMT, strong first quarter. Organic orders were up 8%. Revenue was up 5%. If you exclude the $3 million of restructuring charges, HST had a 90-basis-point increase in the quarter. One of the questions I would assume we're going to get is why that actually wasn't a bigger increase in margin and that's really due to the mix of businesses within that portfolio here in the second quarter, but still very nice performance obviously.

Our life science and optics, the analytical instrumental business, bio/IVD end markets all continued to be solid and we're seeing really nice business wins and new product to the combination of Fluidics & Optic.

Sealing had a great quarter. Our acquisition of SFC has turned out quite nicely, along with some very nice business wins in the semicon market by our Sealing team. We made a substantial investment a few years ago in new capacity in United States really to allow us to attack the semicon and the energy markets and that is paying off well.

Just as a kind of interesting note, in terms of volume in our Brenham, Texas facility, it's up 10 times what it was this time last year. Now, albeit that was a startup volume, but they've just done a terrific job of getting up the speed and servicing some very demanding and important customers.

On the industrial side, much like FMT, a nice pickup on the – in industrial distribution in North America in particular. And then in our Material Process business, pharma and the nutrition markets have been decent, and our consolidation of a number of those sites into one significant site in North America is going quite well.

All right. I'm on our last segment. I'm on slide 7, and we'll talk about Diversified. Organic orders were down 11% in the quarter and sales were up 1%. I think this is an important note because I'm sure we'll get some questions on this, too.

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Really, the order decrease was relative to a very strong order book last year in our dispensing business that we're going to comp against and the order that we expected to follow got pushed into the second quarter. So, you'll see some lumpiness in here both that you'll see in the order book here and then as we look at the second quarter, you'll see some lumpiness on the sales side. So, nothing from an underlying basis to be concerned about. Really, this is the lumpiest segment that we have and that shows up from time-to-time.

We did see a margin decrease about 70 points, all due to the impact of acquisitions. So, very much in line what we expected.

Dispensing obviously had a great year in 2016. Orders and sales are going to be down in dispensing – were down in dispensing and as I mentioned, you see a large order got pushed into the second quarter. Generally, the markets remain stable and we've just got a great competitive position in that business.

Our Fire & Safety had a really nice quarter, that the overall project funnel is strong. OEM activity is strong. The combination of our legacy Fire business with Akron and AWG, that strategy is playing out and Akron, in particular, has had just really strong results here since we bought the business just about a year ago.

BAND-IT, the BAND-IT had a nice showing here. The energy business was up. Transportation was solid. Obviously, the upstream improvement that helped us in BAND-IT, and the North American industrial market is seeing improvements also like in other parts of our business.

Okay. Let's conclude here with the second quarter and full-year guidance. I'm on slide 8. So, for the second quarter, we're estimating EPS to be in the range of $1.04 to $1.06. Revenue to be up 2% to 3% year-over-year. Margins – and again, some of that has to do with the timing of some larger things that are getting pushed in quarter-to-quarter. Operating margins will be about 21.5% and the Q2 tax rate, we expect, actually to be very favorable at about 26.5%.

In terms of full year, based on our performance here in the first quarter and raise in our outlook here a little bit for the second quarter, we're expecting $4 to $4.10 for the year in earnings. We're also increasing our overall growth rate expectations to 3% to 4% and margins to be at about 21.5%.

We should have about 1 point of impact from FX for the year. Corporate costs will be around $66 million and no changes in expectation of conversion of free cash flow, still should be about 120%.

As always, our guidance doesn't include any impact of acquisitions or restructuring as we think about the balance of the year.

So with that, Brenda, operator, I'm going to stop here and turn it over for questions.

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QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of Scott Graham with BMO. Please go ahead with your question.

Katja Jancic
Analyst, BMO Capital Markets (United States)

Q

Hi. This is Katja for Scott Graham. Could you discuss a little bit about what pricing for the company in first quarter was?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Very consistent, Katja, is what we've seen here in the past, which is about 1 point. So not a big deviation from what we've seen. And so, it's pretty consistent with what we've seen over time.

Katja Jancic
Analyst, BMO Capital Markets (United States)

Q

And what about the inflation of that?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Actually, we haven't seen a lot of inflation yet. I will note that obviously around some of commodities have started to inch up, we do expect that that will start to be a bigger issue as we go through the year. Obviously, we plan for it and we're mindful of the fact that with the improvement in outlook, you're likely to see some improvement – or some increases in commodity prices. But generally, nothing has been a major offset yet. Bill, anything you'd add on that?

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

No. I mean, as we continue to monitor inbound inflation, we'll look for opportunities to pass it along to the customer, is all.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. We're really, this is pretty high in our list, Katja, about making sure we don't get behind in inflation curve if that starts to pick up. And our expectation is it's going to, right? And so, that's something that's very high in our priority list if we look at the balance of 2017.

Katja Jancic
Analyst, BMO Capital Markets (United States)

Q

Just one more question, sorry about that. Can you discuss, it looks like corporate expenses look lower for the rest of the year. Can you discuss why?

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Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

No, it's pretty consistent. It's not meaningfully different from what we've talked about in the past. It's got $16 million – $16.5 million a quarter, plus or minus.

Katja Jancic
Analyst, BMO Capital Markets (United States)
Q

Okay. That's all for me. Thank you.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Thank you.

Operator: Our next question comes from the line of Nathan Jones with Stifel. Please go ahead with your question.

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hey. Good morning. This is Adam Farley on for Nathan.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

You guys are all tricking us here this morning. Hey, Adam. How are you?

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

I'm doing well.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

All right.

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

First question's on North American industrial. We called out in the press release that there was some improvement in larger capital projects.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Yeah.

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

What markets are driving this improvement specifically related to the larger capital projects?

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Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

It's actually pretty broad-based. Energy is a place that we've seen more of it, meaning upstream energy. We haven't started seeing it in the midstream yet, so to speak, but I think it – you're not seeing one place for your massive investment and not seeing it in others. You're starting to see it. Now, to be clear, right, it's not huge capital investment. It's things that are just – the larger projects that are starting to move through the pipeline.

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. That's helpful. Turning to gross margins, what are the sources of gross margin improvement? Is it COGS reduction, value pricing, maybe new product releases or all the above?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Actually, it is all the above. Pricing is about what we expected it to be, plus or minus. I mentioned, when Katja asked the question, 1 point. The math is actually a little bit less than 1 point in the first quarter, but that's about what we expected. You're getting some, obviously with our business, specifically FMT, you get a lot of volume leverage. These are very high contribution margin businesses to see any improvement there. And then, just on ongoing basis, the work that we've done around segmenting our portfolio and specifically our fixed businesses, we're getting more overall leverage in those businesses than we have in the past.

Adam M. Farley
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Oh, great. Thanks.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Thanks, Adam.

Operator: Our next question comes from the line of Mike Halloran with Robert. W. Baird. Please, go ahead with your questions.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.
Q

Hey, guys. It's actually me.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Hey, Mike.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.
Q

So, first on sustainability here, obviously, the confidence level seems a lot higher, Andy, based on what you've seen over the last couple quarters and then three quarters in a row now of positive organic orders.

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Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe if you take a layer deeper and just talk about how much you think is inventory replenishment, how much is going right to end market demand. The project activity that you just commented on being broad based seems favorable from the sustainability perspective, but maybe anything underneath there and then also just how things trended to the quarter through April. It sounds like March was good.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

But some cadence on that, too.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So, Mike, let me – I'll start there. So, March was really good, yeah, to be clear, right? So, I think as we – when we got here the last time, our last call, we had mentioned that January had started well.

January was a strong month for us. To be honest with you, February was kind of muted. And so, part of my cautionary tone in my earlier prepared comment is when you look at our order book over the last three quarters, it's not like through any quarter we've had kind of sustained strength, right. You still see spottiness, so I'm mindful of that. But March was really strong, both in terms of orders and our ability to execute, frankly.

In terms of overall kind of peeling back the onion, so to speak, the improvements that we saw were pretty broad-based. And so it's not a singular market. And so, obviously, our life sciences businesses have been solid here for a long time. And what we really saw – what we've seen here in the last two quarters, specifically this quarter, is improvement in the core industrial business. So, general industrial is kind of the big difference between now and six months ago. And we're seeing that across different businesses.

In terms of the inventory, do I think that some of it is inventory? I think this probably is a little bit. But as I've mentioned in the past, the stocking and destocking, it doesn't impact us as much as it does I think some other businesses.

So a lot of that has to do with we're doing a lot of value-added stuff, so we don't have a ton of general products, right, of off-the-shelf stuff. So, we don't see that quite as much as maybe some others do. So, I think it is more demand.

That being said, what you do see in times like this is people – where you do have customer kanban, you see them changing those levels, right? So they're going to take on more stock because they've got to meet more volatility in demand. So, there's a little bit of that, but I would say generally, it's been an improvement in end market demand.

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Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Makes a lot of sense. And then, on the margin side, historically, you've always talked about how organic, as the organic revenue accelerates, so too does the drop-through for you, guys.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Pretty nice drop-through in the quarter.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

When you look at the rest of the year, 1Q margins on an op basis are a little bit ahead of what the median for 2017 looks like.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yes.

Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

So, maybe talk about how the margins you expect through the year. Was there something in the first quarter besides maybe really good mix? Something else that drove something that's not repeatable as we go moving forward, or is there just some level of conservatism being baked in? Some thoughts there would be great.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Mike, we're only about 30 bps off of what we're talking about for the year. So, it's not a big number, right, number one, and that can flex a lot. If you look at the FMT margins, the FMT margins were very positively impacted by mix in this quarter and so up 300 basis points. We do think that we've definitely taken a step function – or it's not step function, but another step in where our sustainable margins are. We do think we have reached a new level there, but we did have pretty favorable mix in FMT.

In HST, actually we had kind of negative mix. Our sealing business had a really strong quarter and that's, on the lower end, still quite good, but it's on the lower end of margin mix. And so, when I look at the year, that plus/minus 21.5%, that feels pretty good. The 21.8%, that's within striking distance of that 21.5%. Not a big difference.

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Michael P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. That's fair. Thanks, Andy. Appreciate the color, as always.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Thanks, Mike. Yeah, no problem.

Operator: Thank you. Our next question comes from the line Charlie Brady with SunTrust. Please proceed with your question.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi, guys. This is actually Patrick Wu standing in for Charlie. Thanks for taking my question.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yes, Patrick.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hey. Just wanted to touch a little bit on growth investment. I think last quarter when you guys outlined 2017 sort of expectations, I think growth investments are around $0.11 sort of a headwind on the bottom line, I guess, for 2017. How much of that has been realized in the first quarter? And I guess, how should we think about how that is progressing in management thinking? So this could potentially change now with higher growth, organic growth expected I think with that.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So, we're right on track. The spending that we had planned in the first quarter to ramp that has happened, so nothing surprising there. And so, I don't see us, from those planned investments, they're going to happen very much like we've outlined. With a little bit better environment, obviously we'll push even harder around investments. And so, if what we've seen here in the first quarter sustained, I would expect that some of the investments will increase over the year. Not big numbers, Patrick, but I would expect us to make some further investment.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

But I guess that number, that $0.11 number, probably wouldn't change even if you're thinking about pushing that up a little bit more.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

No, no. Yeah. In terms of how it impacts our margin structure, no. No.

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Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And can you maybe just talk a little bit more about I guess sort of on that front, some of the new product rollouts that you guys have, maybe you've already done in the first quarter and sort of throughout the rest of the quarters here?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. So, it's pretty broad-based, right. So, if you look at our new products, we have a whole host of products that are launching in conjunction with our customer's scientific fluidics, and those are things that take years to develop, right. And so, we expected those to really kick in. In 2017, we've seen that happen.

In our water business, we have two significant new product launches around, one on the meter side and one on the sewer pipeline side. We have new a product investment again in black skid coming from our Viking business. And in dispensing, we've got the next-generation. As you know, the X-SMART has been excellent, been a great product for us and we're launching kind of the next phase of that, which is into the next level up market segment that we've been planning here for some time.

So, those are all kind of moving ahead. And these are things that have been in the pipeline for a long time for us.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Great. That's good color. I guess just one more. I think you talked a little bit about sort of order rate, February being a little muted and March being probably a little bit better than you expected.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yes.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

What is sort of the exit rate I guess, for the orders coming out of March, and what have you seen so far for the first, let's say, 20 days of April?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. It's fine. Orders have been kind of in line with our expectation in April. So nothing, no big deviation. March was definitely stronger than we had expected, but February was softer, right. And so, month-to-month orders, we obviously pay attention to it. I think the thing that matters more to me now is the fact that we still see the volatility. And so, we have, obviously, the tone here in both our release and our prepared remarks and whatnot, obviously the tone is more positive. So that's one of the reasons that I remain a little bit cautious is that volatility is still there. Certainly, we're in a better position than we were 90 days ago in terms of our confidence level, but there's still volatility.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.

Q

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And that order that you mentioned in FSD that's being pushed into second quarter, is that, I mean, I know you said it's timing related, but what is the reason? Is that a customer saying, hey.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Customer chooses.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Would you hold back on that one?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Yeah. Customer chooses, right? It's a matter of their readiness. So, it's not that I'm concerned about; it's just we don't have a lot of things that are on the larger side. And when I think it moved by a few weeks, it has an impact.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Got it. Thanks a lot for taking my questions.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

You bet.

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

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Hi, guys. Good morning.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Hey, Allison.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Can I just go back to the margin assumption question that somebody had had? You talked about mix in FMT being more favorable in Q1. How should we think of that for the rest of the year and was there a specific vertical with that mix that was driving that?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

I don't know that it's going to be as good as that for the year in some of its mix versus expectation, but ag was better than we thought it was going to be, Allison.

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Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Okay.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

And as you know, that's very favorable for us. And so that was kind of one that was better than expectation. And then, when you peel back the businesses, as you know, we've got a few brands that just have much higher contribution margin. I'm thinking of the Viking and Warren Rupp as an example, right?

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Yeah.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

And they had a better quarter. In terms of their – for the balance of the year, again, I think in total, we're in striking distance of kind of overall what we expected.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Okay. That's great. And then just your comment around obviously the risk out there and you're bringing forward the question about the sustainability of the early stage of the recovery.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Obviously, order is great. You seem comfortable with the near-term outlook. But as you talk to your customers, is there a specific market that you're more concerned about the sustainability? I understand your concern, but I guess what are you seeing I guess from your customers that is – could be driving some of that?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. No, I don't have a specific. I'm not putting my finger on anything specific. It's much more – I think your term early stage is a good way to put that in the industrial side. And there's – we're literally six months out of a horrible industrial recession. And so, I'm cautious about that and I'm cautious about the fragility of it.

With a lot of things that are still pretty unpredictable out there and with a lot of positivity priced in, and I don't mean just in the stock market, but priced into confidence, right? And even in the last couple weeks, we've seen some of that – the negative side to that. And so, I'm just – I feel better about what we're seeing, no doubt about it, but I think we are very prudent to continue to manage our business for expected volatility.

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Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

No, that's great. And then just on FMT in water, you highlighted a lot of the new products, strong order growth there. I don't know, is there a way to parse out that you're driving maybe above-market order growth because of some of these new products? I don't know how you view your...

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

I think so. So if you kind of take the – let's just kind of take 5% growth and let – actually, let's not take 5%. Let's take 3% to 4% for the year, right? And you say how much of that do you believe is just underlying market and how much of that is us outperforming the market. I think a combination of customer focus, meaning really around our segmentation work and new products, I think that's going to get us a point or two above the underlying market. And so, it'll – what – if you're 3% to 4%, I think we're going to get 1% to 2% of that. We're going to outperform on new products and customer focus, and the balance of that's going to be how the markets perform.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks so much.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Thanks, Allison.

Operator: Thank you. Our next question comes from the line of Matthew Mishan with KeyBanc. Please proceed with your question.

Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, and thank you taking the questions.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

You bet, Matt.

Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

Starting off with HST, could you maybe parse out a little bit around the order growth? What really drove the inflection to the percent increase? Was it an increase in Sealing, Life Sciences or like MPT?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. So, the industrial side was decent. The most strength came out of Sealing, followed by Scientific Fluidics & Optics. And so, those two were really the stronger pieces. Sealing was by far the strongest grower in the quarter and has a little bit of that negative mix I talked about. Still quite good, don't get me wrong, but it just, from an overall mix perspective, is negative to the segment.

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Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

And then you've been talking about like a very strong product cycle in Fluidics & Optics in 2017 and 2018.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

Can you maybe talk about some of the advancements that are driving that for your customers?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Well, the story is very, very similar, right, which is it's really around our ability to bring an improved Fluidics system into the whole host of customers, whether it's IVD, bio, analytical instrumentation. You see those things the same, but we're kind of taking more real estate and that is driven by really performance. And that's a combination of our ability to move smaller things at higher pressures, higher quality, and then the integration of Optics and Fluidics. So those are really the things that come together, and obviously, that was a piece of our thesis many years ago in bringing those businesses together and we're seeing that play itself through.

Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Great. And then if I can squeeze one last one in, there was a large MPT order in 4Q. Did that ship in the first quarter and how much of the growth would be attributed to that?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Mostly second quarter. Is it – mostly the second quarter, right, Bill?

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So, it's mostly the second quarter.

Matthew Mishan
Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Thank you very much.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Thank you.

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

Matt J. Summerville
Analyst, Alembic Global Advisors LLC

Q

Morning. Just a couple questions. Maybe just dig a little bit deeper in what you're seeing in the Fire business, if you could parse compression versus safety and maybe provide a little bit of geographic color around that. I know in the last year, you're – there were some regions that were a bit more challenged than others. And then, also, can you speak to – kind of provide an update on the Fire acquisitions you made during 2016? I know you've kind of anniversaried the Akron Brass at this point.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Right.

Matt J. Summerville
Analyst, Alembic Global Advisors LLC

Q

So how were you performing in terms of driving margin improvement, integration, et cetera?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Well, Matt, maybe I'll start there. So, the Akron integration has gone really well. And certainly, we're a little bit better than our expectation and we had pretty aggressive expectation and that's gone well. It's gone well on a number of levels on the product side, the channel side, obviously an improved cost structure.

The thesis there, if you recall, was really bringing together close – to close the loop with high-value content on a fire truck and then electronics will increasingly play a bigger role. That's not big yet, but it will be. It will be an important piece of that. So, that's certainly at or above our expectation.

In terms of the overall growth, probably the biggest, I would say, net positive compared to our expectation is the Chinese business has improved. The tenders which had been held off for quite some time have been released and we've won those. And by the way, we've won competitive share there. So that's probably – that's the biggest thing in that overall Fire & Safety business.

Matt J. Summerville
Analyst, Alembic Global Advisors LLC

Q

And then just one more follow-up on FMT, I know you kind of talked about the margins a little bit, maybe I'll use the term that you sort of backed off from a little and that's being step function. If you go back 12 to 24 months ago, you were 23% to 24% margin bandwidth. And now, for the last two quarters, you've been above 27%.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

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Matt J. Summerville
Analyst, Alembic Global Advisors LLC

Q

I guess what – when you think about the mix dynamics in the business, what do you feel going forward is the right sort of high/low bandwidth on that business?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. So, I think in that 26%, 27% around FMT, that's probably a pretty good number here, assuming kind of cost to volume generally. I think we're at that range now. And you're right. The reason I corrected myself is I think step function is too great a term, but we definitely made some movement and that's happened around a couple of things. Number one, as you know, those businesses that we define as fixed, probably the greatest proportion of those sat in FMT and that team really led by Florian, they've done a great job. Just bottom line, they've done a terrific job. And by the way, they've done it while launching new product, right? So, we're very, very happy with that.

But also within some of our bigger brands, when you look at the Viking brand or the Warren Rupp brand or even to a degree, if you look at Banjo that had a huge headwind, they held their own with pretty big headwind. And so, we've made improvements in those businesses while they were facing peak-to-trough double-digit headwind, right? And they held their own. And so, when you get the volume back in those things, it flows through to the bottom. So I'll give Eric Ashleman, who's our COO, an awful lot of credit here, was really driving that focus in the FMT businesses and helping them get to the kind of margin structure we would expect.

Matt J. Summerville
Analyst, Alembic Global Advisors LLC

Q

Great. Thanks, Andy.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Thank you.

Operator: Our next question is coming from the line of Brett Linzey with Vertical Research Partners. Please go ahead with your question.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning, everyone.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Good morning.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Hey. Just want to come back to 2017 guide. So you're taking up the organic growth forecast, maintaining the point estimate on margins. I'm surprised you're not getting a little bit better leverage there. If we were to just adjust for

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investments in some of the M&A noise, where the volume-based incremental that you're assuming for the business for 2017?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Boy, I'd have to parse that through, right, in total. Separating out the new investments versus if we didn't new investments and what you get for leverage, that's a tough one, right, to parse out. I think that the overall flow-throughs that we're getting are very much in line with our expectation. I don't see anything, any big deviation from what we have thought about and talked about over time.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Okay. And then just back to some of the energy commentary, it sounds like it's still relatively muted overall. Could you just talk about what the order flow rates were in the quarter here into April and was that total oil and gas business up in the quarter on a sales basis?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Brett, you got to break that down a little bit because when we talk about energy, right, we've got our businesses that are, that liquid controls is an example of our Corken brands and those are by and large, that's all they do is energy, right? And then you've got many pieces of sealing, of BAND-IT, of Viking that, Warren Rupp, that all touch that.

So, let me break it down into what's kind of happening in the segment of the energy business. What I mean is upstream, very strong, right, whether it doesn't matter kind of what part of our business we're touching, but that's only 2%, 3% of our IDEX volume, but that's been up very, very nicely. The midstream side is the part that's much more muted, and that's really around LPG and that has to do with truck build. That's the part that's still soft. And given what we see as an outlook of truck build and we're pretty close to those customers, that's not going to get better here, we don't think, at the balance for this year. So, that's how I'd separate it out.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Okay. No, that helps. And just one more back to FS and DP, do you have any sense as to, or could you maybe quantify what the delta impact was on orders, those large projects, last year? How large they were? And then, could you...

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Oh, you mean comparison, you mean.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Yeah, the comparison.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

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Yes.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

And then, also, what was the size of these projects that got shifted from Q1 into Q2?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So, I mean you're talking, it's sub $10 million in total, right. And I'm talking about what the comp and the push. So the tough comp to last year and the push to this year, that's the kind of magnitude you're talking about in total.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. So underlying orders were still...

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

They're good.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Relatively, okay. Yeah.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So looking at it today.

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. No, I'd say fire & rescue, it was strong for the quarter as well as BAND-IT. Dispensing was the outlier relative to just those couple projects that moved. So, underlying order rates, if you excluded that, would be in line with the balance of the portfolio.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

But that's also when you look at the second quarter and you go, well, why is your organic only going to be 2% to 3% after you're coming off of 5%. That's part of what you're going to comp against, right, because you're going to have – that lumpiness is going to – you've got kind of an order's lumpiness that hits you here and then you get a sales lumpiness that hits you in the second quarter.

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Exactly.

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Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. All right, great.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

So we'll be favorable on the order side from that in the second quarter, but we're going to be hit on the sales side comparatively. That is the right way to put that, Bill?

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay, great. Thanks for the detail.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

You bet.

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

Bhupender Bohra
Analyst, Jefferies LLC

Q

Hi. Good morning guys.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Good morning.

Bhupender Bohra
Analyst, Jefferies LLC

Q

So, just a question on, when we look at the margins here, especially FMT, we have 300 bps improvement year-over-year. And historically, I think even this release, you guys talked about productivity. Can you give us some clarity like in how much mix was, how much productivity actually benefited margins overall in that particular business? I think you pointed out that as one of the margin improvement.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Yes. So, it's...

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William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Go ahead.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

No, go ahead.

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Yeah. Maybe I'll take that one. I would say, right, we've seen ratable improvement within our FMT margins over the last six months. As Andy talked about, some of the focused actions we've taken on some of the fixed businesses. So, I think our underlying kind of target is probably close to that 27% rate, and then you're going to fluctuate off of that based upon the mix within the portfolio. So, I think kind of fundamental improvements have gotten us close to that 27% and the mix will vary slightly off of that.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

But in terms of splitting it between productivity and volume leverage, they kind of go hand in hand, right?

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Yeah.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

So, you're talking about a business that in general is north of 65% contribution margin. And the key is as the volume comes back, we don't have to add fixed cost at nearly the rate, right? So, and that really kind of comes into productivity in and of itself. So they really go hand in hand, Bhupender.

Bhupender Bohra
Analyst, Jefferies LLC
Q

Okay. So, I mean, if I had to bucket that 300 bps improvement year-over-year, you would say like two-third would be kind of top line volume leverage and mix, and the one-third would be productivity kind of thing. Would that be fair?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Well.

William K. Grogan
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

No, you get price in there, too, so.

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Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Yeah, there's some price in there.

Bhupender Bohra
Analyst, Jefferies LLC
Q

Oh, okay.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Honestly, we're probably getting at too fine a level of detail to share probably.

Bhupender Bohra
Analyst, Jefferies LLC
Q

Right.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

We don't really get into that level of detail.

Bhupender Bohra
Analyst, Jefferies LLC
Q

Okay.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

But I think generally, right, that the big impact here in the quarter that's different from what you've seen in the last, call it, year is that change in leverage.

Bhupender Bohra
Analyst, Jefferies LLC
Q

Okay. Got it. And as we go into the rest of 2017, as you have improved your organic guidance here, could you just talk about some of the end markets from all the three business perspective, which you think are going to be a little bit more positive from your perspective, you think there will be some incremental improvement or, and where you see headwind, if any, basically?

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

I think that the biggest difference from where we talked about a couple months ago here is really around North American industrial. That's the biggest inflection of anything that we have and that shows up in FMT and in HST, right? It shows up. And you see kind of the strength.

The other place that obviously was a big differentiator for us within HST were the wins in semicon. And semicon has been good for us generally. The market has been decent, but the team has done an exceptional job of

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focusing in on a handful of core customers and on applications where we can really differentiate, and we backed that up with a major investment, right.

So, when we opened our new facility in Texas here a couple years ago, it was all about our ability to win in the North American semicon and North American energy market. Obviously, energy has been tough in the last few years, but that thesis and that strategy has played itself out. So that's – they're winning in there. I think they're winning well there.

And then, what's been a little bit lost in the shelf, although I did touch on it earlier, the team in Scientific Fluidics & Optics, they saw this refresh – this 2017-2018 product cycle refresh years ago. And what they have done – what that team has done to be inside our customers to have concurrent engineering happening, we told you this about a year and a half ago that this was going to happen and it's happening. And so, the growth that they're getting is really from years and years of executing their strategy of more high-value content by solving those customers' critical problems and hence, they've just done a terrific job and it's playing out.

Operator: Okay. Thank you. [Operator Instructions] Our next question comes from the line of Deane Dray with RBC. Please go ahead with your questions.

Jeffrey Reive
Analyst, RBC Capital Markets LLC

Q

Hi. This is Jeff Reive on for Dean Dray. My question is more about your M&A pipeline. I was curious how it's looking and which segments you're primarily focused on and if you have any other divestitures or portfolio-pruning actions in the pipeline.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

A

Well, Jeff, maybe we'll start there. So we don't ever really get into specifics about pruning, but as I've said in the past, we've done the vast majority of things that we're going to do from that perspective and I think it's played out well. And so, generally, I don't expect to see a divestiture gain in any major way here going forward.

In terms of the M&A pipeline, it looks really similar to what it did back when we talked about the fourth quarter. It's robust in the sense of we've got a lot of targets that we're working. I would say the private equity side, that's been strong, which obviously gives you a little bit of caution because of the amount of stuff that's been told.

And then prices are elevated. As markets improved, people's expectation's raised and I think that being very, very disciplined here is smart for us. So thinking – having a balanced capital allocation strategy is very important in this kind of market. And then buying businesses like SFC, like Akron, like AWG that are in our sweet spot and working those thing really consistently, that's how we're going to be successful. And so, we're going to be very disciplined and we're going to be consistent and over time, we're going to – we'll put our balance sheet and our cash flows to work, but it's going to be in a very disciplined way.

Jeffrey Reive
Analyst, RBC Capital Markets LLC

Q

Okay. And a final follow-on to that, with the – I mean, I guess equity valuation elevated as you said. Could we possibly see you doing more acquisitions, utilizing your own equity?

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Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

I mean, I guess maybe I'll answer that in a very big picture. I'm not wholly against this. We would use equity if it made sense. The number of situations where I can possibly see us doing that are really, really small. And obviously, we've got the balance sheet and free cash flow that it would have to be a pretty special situation and obviously, we get more leverage by using our balance sheet. And so, that would obviously be our first choice. But to say I would never use equity, that would be too strong. I'd use it in the right situation.

Jeffrey Reive
Analyst, RBC Capital Markets LLC
Q

Great. Thanks.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.
A

Excellent. Thank you, Jeff.

Operator: Thank you. At this time, we have no further questions. I would like to turn the floor back over to Mr. Andy Silvernail for closing comments.

Andrew K. Silvernail
Chairman & Chief Executive Officer, IDEX Corp.

Well, thank you all again for joining us here in our first quarter conference call. Obviously, I'm really proud of how our teams have executed. They've done a terrific job when we had headwinds here for two, two and half years. I'm really proud of what they've got done. And, yes, we are seeing some improvement in outlook and I'm glad we've had the ability to raise our guidance and our expectation.

I still remain cautious and I think we're all – it's all smart of us to not get over our skis. And our job is to execute for our shareholders. I appreciate the ownership, I appreciate the focus and we look forward to talking to you here in 90 days. Take care.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.

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