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IDEX Corp. (IEX)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the First Quarter 2018 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.

It is now my pleasure to introduce your host, Michael Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Thank you. Mr. Yates, you may begin.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Thank you, Doug. 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. This morning, we issued a press release outlining our company's financial and operating performance for the three month period ending March 31, 2018, and later today, we will file our 10-Q for the same period. 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 and update on market conditions, geographies and capital deployment strategies; he'll then discuss our first quarter financial results and walk through the operating performance within each of our segments; and then, we finally will wrap up with the outlook for the second quarter and the full year 2018. Following our prepared remarks, we'll 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 13675419, or you may simply log on to our company's homepage for the webcast replay.

Before we begin, a brief reminder that 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 & Chief Executive Officer, IDEX Corp.

Thanks Mike. Good morning to everyone. I appreciate you joining us for our 2018 first quarter results. Let me start here with a brief overview. On the back of a record year, we continued to see broad based strength in nearly every end market and continued economic improvements across the globe. I'll elaborate more on market conditions and geographies in a minute.

Favorable markets, share gains and our execution drove another record quarter. We once again delivered all-time highs in orders, sales, operating income and EPS, and most of the challenges experienced in HST in the back half of 2017 have subsided. We delivered organic revenue and order growth across all three segments in the first

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quarter. As a company, we achieved 11% reported and 7% organic order and revenue growth. Adjusted op margin was 22.6%, up 80 basis points; and adjusted EPS of $1.29 was up $0.26 or 25%.

Our efforts around segmentation continued to pay dividends and when combined with our targeted growth initiatives, we see a culture across the company that is even more customer and growth focused. Our balance sheet remains very healthy. Our gross debt leverage is 1.4 times and our net debt is 0.7 times. If you combine our strong balance sheet, capacity on our revolver, plus free cash flow and cash balances across the globe, we have the ability to deploy over $1 billion in the next 12 months should the right opportunity present itself.

Now, I'd like to take a moment and talk about what we're seeing across our markets and across the regions we do business in. Our industrial markets are robust. Day rates of our book-and-bill business continued to improve and we saw more project activity in the quarter signaling a pick-up in CapEx spending. If you turn to our Scientific Fluidics and Optics business, demand continues to be strong for IVD/Bio and DNA Sequencing markets, and show early indicators of continued growth throughout the year. NIH funding in the latest federal budget was up 8.3%, alleviating initial concerns of a cutback. If you look at Energy, midstream oil and gas markets continued to show signs of rebound, and upstream energy continues to do very well.

Semicon market continues to outperform with high global demand. In the first quarter, we finished 15% up year-over-year. In Agriculture, you may recall that we ended the previous year with a very robust preseason orders. We saw some moderate slowing in the first quarter mainly due to the long winter conditions, but we still managed to finish up double-digit in organic revenue growth. The municipal market in the U.S. has remained very solid and we continue to see opportunities with new product development in water and investment in emerging markets within Fire and Rescue to capitalize on demand.

Now, let's move on to the geographic outlook. In short, the global economic outlook remains promising. The North American region continues to be positive for the vast majority of our categories. The European market is also robust with a stable political environment and all economic industries favorable for the first time in several years. Asia has accelerated with specific strength in China and in India. In summary, the growth we experienced in 2017 continued in the first quarter of 2018.

While I'm talking about the global economy, let me talk for a second about the tariff question. Tariffs and the estimated impact have been on the top of many people's minds here, including mine. Clearly, we have to wait and see where all this settles, but at this point, based on the enacted section of the 232 tariffs on March 23rd, our best estimate is it'll be somewhere around $2 million to $3 million of impact for the remainder of this year. This estimate excludes the Section 301 that have not been enacted.

We're looking at all of our options, including pricing and alternative sourcing strategies. We'll be very thoughtful about how we address these issues, and we'll consider the impact on both our customers and our shareholders going forward. I also want to comment on inflation. Our team did an excellent job in the quarter driving productivity to offset inflation. However, inflation remains a concern and we will continue to work on productivity and pricing to stay ahead of it.

All right. Let me turn now to capital deployment. Let me take a minute to recap our commitment to our capital deployment strategy. First, our M&A pipeline continue to be robust, and as I've mentioned previously, our balance sheet positions us favorably to capitalize on the right opportunities. However, as we talked about many times in the past, we'll be very disciplined in terms of capital deployment with a focus on delivering the best possible returns to our shareholders. In the meantime, we'll work diligently on integrating our latest acquisition, thinXXS, into the IDEX portfolio.

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In terms of organic growth, the team remains dedicated to our target organic growth and new product development initiatives. We saw the evidence of this in the quarter, where we saw strength across all three segments. This makes five quarters in a row that we saw organic revenue growth and seven quarters in a row that we saw organic order growth. Although, we did not repurchase any shares in the first quarter 2018, we remain committed to opportunistically repurchasing shares and we expect to be back in the market in the second quarter. Finally, on dividends, on April 25th, our board approved a $0.06 increase in our quarterly dividend, or a 16% overall increase, from $0.37 to $0.43. This puts us at the high end of our payout ratio of 30% to 35%.

All right. Let's turn, now, to the first quarter results. I'm on slide 4. Q1 orders of $632 million were up 11%, overall, and 7%, organically. This was driven by strong organic order growth across all three segments: FMT was up 7%; HST was up 8%; and, FSD was up 5%. The strength in orders gives us confidence that the remainder of [ph] 2018 (8:19) – as some of the orders that we saw in Q1 won't convert to sales until the second half of the year. We've had excellent success driving above market growth through segmentation and targeted growth initiatives, and we expect this to continue.

Revenue of $612 million was up 11%, overall, and 7%, organically, driven by positive organic growth across all three segments: FMT was up 5%; HST up 6%; and, FSD up 9%. Importantly, we built $20 million of backlog during the quarter. The team continues to do an excellent job executing. Our flow through was 30% on sales in the quarter excluding the impact of restructuring from both periods. And if you look at flow through excluding the impact of foreign currency, it was up even a more robust 38%.

Gross margin was 45.2%, down 10 basis points from prior year, mainly due to continued investments in engineering, but gross margin was up 70 basis points, sequentially, as the operational challenges within HST have subsided. Op margin, adjusted for approximately $1.6 million of restructuring charges, was up 22.6%, up 80 basis points year-over-year. The majority of the $1.6 million in restructuring was in HST and associated with our Optics Center of Excellence in Rochester, New York.

Consolidated operating margin was also impacted by corporate costs being $3 million higher than the midpoint of our prior guidance. The increase in corporate costs was driven primarily by higher stock compensation, pension expense, and outside consultants related to M&A and income taxes. Adjusted operating income of $138.3 million, adjusted, again, for that $1.6 million of restructuring, was up 15% compared to prior year.

Q1 net income was $99 million, resulting in EPS of $1.27. Excluding the impact of restructuring, adjusted EPS was $1.29, an increase of $0.26 or 25% over last year. The $1.29 of adjusted EPS does include about $0.02 of pressure from a higher tax rate of 24% that compared to our ETR guidance of 22.5%, and $0.04 of other income due to onetime FX transaction gains due to tax reform.

If we turn to free cash flow, that was the one disappointment in the quarter. It was $62 million and converted at 62% of adjusted net income, and is down 18% compared to prior year, primarily due to higher operating working capital. Sales in the month of March were $25 million higher than both December 2017 and February 2018, which drove the majority of the increase in receivables. Inventory also grew as we sourced additional raw materials to ensure we could meet customer demands.

All right, let me turn, now, to the segment discussion. If you'll turn to slide 5, I'm going to start with Fluid & Metering. FMT continued to remain strong with both order and revenue growth. Q1 orders were up 9% overall, 7% organically. Sales were up 7% overall, 5% organically. Op margin adjusted for restructuring was 28.5%, up 110 basis points over last year. If you look at Ag, it remained strong with double-digit revenue increases year-

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over-year. On the industrial side, pumps had a very impressive quarter with double-digit increases in both orders and sales year-over-year. The increased oil prices have driven more business in the global oil and gas markets as well as our LACT business. And importantly, our U.S. distribution market is solid and day rates for book-and-ship continue to improve.

In our industrial valves business, the highlight for the quarter was really in China, where we saw a robust market. And water remains well-positioned to grow via new products. And in Energy, also a great new product story, we're seeing aviation show signs of recovery, and the cold winter drove strong truck builds for the segment.

Let's move on to Health & Science. I'm on slide 6. I was very pleased with the Health & Science first quarter. Q1 orders were up 14% overall, 8% organically. Revenues were up 11% overall, 6% organically. Excluding the impact of the restructuring expense, adjusted op margin was 23.9%, an increase of 120 basis points over the first quarter of last year, mostly due to higher volume and productivity initiatives; and, it was up 160 basis points, sequentially, as operational challenges that we discussed last year have subsided. The 23.9% operating margin is much closer to where I expect the segment to be performing overall, and I'm very pleased with how the team executed in the quarter.

If we look at the Life Science and Optics business, again, IVD/Bio end markets remain strong. We saw some earlier than expected FDA approvals for our customers, which drove favorability in the first quarter. And as I said, the integration of thinXXS is going quite well. I'm very happy to have them on board.

If you look at Sealing Solutions, the semiconductor market continues to be very strong globally, as well as the transportation market. The Sealing Solutions group led the entire segment in terms of growth. MPT had a strong quarter with an improving funnel of opportunities and projects. And then, finally, in HST industrial, we saw nice growth across multiple markets and, importantly, we're seeing the distribution business within HST perform very well.

I'm on our last segment, Diversified, slide 7. Orders were up 11% overall, 5% organically in the first quarter. Revenues were up 16% overall and up 9% organically. Excluding restructuring expenses, adjusted op margin was 24.9%, which increased 110 basis points in the first quarter. In Dispensing, the North American and the European markets remained strong with new products performing very well. Project activity in emerging markets is also positive.

Looking at Fire & Safety, we saw rescue which is very positive across the globe and we've seen project activity pick up in India, China, and the Middle East. In the Fire business, we've seen strength in OEM and the Muni business which has remained pretty steady. And margin improvements for Akron Brass and AWG continued to be ahead of expectations.

Finally, on BAND-IT, we had double-digit organic order and revenue growth in the quarter. We saw our share gains across global regions through new products and new program wins. And then finally, we are cautiously watching the impact of tariffs on BAND-IT. Most of its supply chain is domestic, but an increase in demand for U.S.-produced alloys could have an impact.

Let me now conclude with some additional details regarding our 2018 guidance for the second quarter and for the full year. I'm on slide 8. In Q2, we're estimating EPS to be $1.30 to $1.32, with organic revenue growth in the range of 5% to 6% and operating margin around 22.5%. The Q2 effective tax rate is expected to be approximately 22.5%, with an estimated 3% top line tailwind from FX based on the March 31st rates. Corporate costs for Q2 are expected to be about $20 million.

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If you turn to the full year 2018, we've increased our full year guidance to $5.05 to $5.20, that's the new range. Full year organic revenue growth is expected to be in the range of 5% to 6%, which is an increase from our previous guidance. Full year operating margin is expected to be in the range of 22.5% to 23%. We also expect to see about a 3% overall tailwind from FX based on the March 31st rates. The full year effective tax rate is expected to be 23%. But as the IRS continues to interpret tax reform, we could see some more variability in taxes throughout 2018.

CapEx is anticipated to be around $50 million, and free cash flow will remain strong at about 110% of net income. Finally, corporate costs are expected to be in the range of $73 million to $77 million for the year. This is a $3 million higher number compared to the guidance we've given before, all of it which occurred in the first quarter. Finally, our earnings guidance excludes any impact from associated costs or impact from acquisitions or restructuring in the quarter.

With that, let me pause here, and operator, let me turn it over for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we'll now be conducting a question-and-answer session. [Operator Instructions] Our first 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

Hey, guys. Good morning.

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

A

Good morning, Allison.

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

Q

So, obviously, really strong orders this quarter. Certainly, there's been a lot of conversation as to whether 2018 is peak, and I know it's probably too soon to say that. But is there anything that you see in any of the businesses that gives you time to pause for concern here, any thoughts on that?

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

A

Allison, no. I think we saw strength throughout the quarter. We actually saw things pick up as the quarter went on, which is not atypical of us. But there's nothing that indicates that things are slowing at this point.

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

Q

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That's great. And then just going back to your comments on the alloys, I mean, are you in a position now from a pricing perspective that you feel that you'll be able to pass that through at this point or is that a risk out there right now?

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

Generally, I think we're pretty well-positioned. We were pretty aggressive as we thought about coming into this year. If you remember, Allison, we talked a lot about inflation last year, and a lot of our internal conversations have been about productivity and price and making sure we didn't get behind the curve, and I don't think we will in 2018. When I look at what we're seeing now, we're seeing behaviors that are showing things like extended lead times, people trying to jump to the front of the line, stuff like that. We're not seeing major changes in prices.

What I would say, Allison is that if what we're seeing today holds up, I believe you're going to start to see rising inflation here in the back half of the year, and I think 2019 becomes – where it becomes significant if the economic conditions continue. And obviously, we've got our finger on this. It's absolutely – probably it's the biggest thing besides overall global growth rates that I think about in terms of what could hurt the overall story. And so, as we think about productivity and if you think about pricing, we're committed to being ahead of the curve.

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

Perfect. Thank you.

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

You bet.

Operator: Our next question comes from the line of Mike Halloran from Robert W. Baird. Please proceed with your question.

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

Hey. Good morning, everyone.

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

Good morning, Mike.

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

So, first one just on guidance, Andy, could you just talk a little bit about what's assumed in the revenue guidance from here, just pretty normal sequentials from current levels, any kind of change in the trajectory assumed in guidance on the revenue side?

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

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No, not really. If you look at it, what it assumes is that sequentially, we basically kind of hold in here that we don't see acceleration necessarily from this point. And then, the numbers just kind of fall in line based on comps, right? So, we're not expecting things to get weaker from here, and the – last year, we had abnormal pattern, if you look at last year, because things were accelerating into the second half of the year. But we're expecting is a more normal historical pattern and that business holds in terms of the overall book-and-bill rates, project activity, we don't see acceleration or deceleration.

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

Q

Makes sense. And then, on the capital deployment side, a couple quarters in a row now with elevated corporate expense related to some of the consulting costs for M&A actions.

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

A

Yeah.

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

Q

You're talking about a robust pipeline. Maybe talk a little bit about the actionability of the pipeline at this point. Are there more opportunities rising that you feel you can work on? We've seen public market multiple start coming in. Is that happening on the private side at all? Any color there would be great.

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

A

Yes. Let me start there, Mike. So, in terms of the private market multiples coming in, no. As a matter of fact, I'd say in the last two quarters, we've seen behaviors that are – what I would call unusual, meaning, a lot of preemption, a lot of preempted bids. We've had some folks who are out in the marketplace tell us that they're seeing 40% to 50% of deals being preempted at this stage, and so – at elevated prices. So, we're being pretty careful around that.

Now, I do expect if you see multiples continue to compress a little bit in the public markets, that obviously will show itself in the private markets, no doubt about that. In terms of the other thing, in terms of actionability, we've got some things that we're working on now that that certainly fit into that category of actionable. And so, it's a matter of whether or not we can cross the line. But what we're mostly seeing now are auctions. We're not seeing a lot of stuff that's private right now. So, you know how that works out.

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

Q

Yeah.

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

A

We're going to work within our parameters that makes sense for us and for our shareholders, and if we can get them across the line. But there are a few things that we're looking at and working on that I would definitely call actionable.

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

Q

Great. Thanks, Andy.

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

A

You bet, Mike.

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

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

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

A

Good morning, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey, Andy. Want to go back to your macro thoughts here for a moment if we could, and just how would you describe the conversations with customers today? We were all wondering at the beginning of the year how much tax reform might change some of the buying behavior and willingness to spend. How much you're seeing is geosynchronous benefit versus IDEX-specific growth initiatives, like new product introductions? So, kind of navigate us through the macro and then IDEX-specific.

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

A

Sure. So, on the macro side, in terms of growth across the globe, this is as good as it's been in my time as CEO, right? So, in the seven years that I've been doing the job, it's as strong as it's been. So, that's obviously positive. In terms of what's making that up, it's a good mix between the short – very short cycle book in term business and improving CapEx. We're still – we don't really get involved in megaprojects for the most part, but you are seeing the increase in things that are kind of a couple hundred thousand to say, $5 million, you're seeing an improvement across the globe in those areas. And I think tax reform has played a role in that. Obviously, cash flows meaningfully change for U.S.-based companies or those who have to pay taxes in the U.S. And so, that's certainly a positive thing in that regard.

In terms of IDEX, we track a handful or a couple handfuls of programs that we view as being differentiated growth for us. And as we track those, we still think we're about half – half the benefits that we're seeing today come from the underlying markets, the strength in the underlying markets, and about half we're getting ourselves. And so, that's a good sign for us. And as you know our goal, as we've always said, we want to be north of 200 basis points above underlying industrial production, and the last numbers I say – I've seen suggest that we are very much doing that. And we're a lot less cyclical than a lot of the folks that you guys kind of compare us to and – both on the up and the down. So, when I look at the 7% organic numbers, given kind of 2.6%, 2.7% industrial production, that feels like a pretty good number.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really good color. And when you say this is as good as it gets or it's good as you've seen...

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

A

It's good as it's been, yeah.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Yeah, good as it's been, you're not saying that this is the high watermark. That was a phrase that spooked the market last week.

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

A

Yeah. There's nothing that suggests that. And you know me. On the scale of people, I tend to be a little bit more skeptical. And right now, we are – when I combine what's happening across the globe and what's happening with IDEX specifically, the thing that – again, that I worry about most is inflation getting overheated, and then the global economy having to deal with that, both in terms of just ability to supply, and then what interest rates have to do on that back end. So, when I think – obviously, I can't control any of those except to deal with what IDEX can deal with, but barring some kind of crazy geopolitical event, that is the thing that I think we all should keep our eye on that would stop this growth.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Got it. And then, just on company – or business-specific, can you address the water market, the municipal spending? And you commented – the slides talked about new product introductions. What was the contribution there?

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

A

Yeah. So, if you're talking water specifically, the markets continue to be pretty good, but let me break that into two pieces, right? So, if you look at our ongoing services business and you look at our equipment businesses that we have that are tied to new product development, those are a good story. But the current U.S. administration has effectively stopped any kind of penalties that are coming in for – as an example, surge overflows. And so, the amount – how regulation is being interpreted and enforced is a net negative for that business. There's no doubt about it. And so, the overall Muni spending market is good, because tax receipts are good. Obviously, the federal government, in terms of enforcement, is a negative. So, I think it's just going to be kind of a steady single-digit – call it, low- to mid-single-digit here for the balance of the year.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

Yeah. You bet.

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

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

Good morning, everyone.

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

Hi, Nathan.

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

Andy, I think over the last couple of years, you talked about – if we got organic growth up into this kind of level, you thought IDEX could do 40%, perhaps even a little bit better in terms of incremental margins. I don't think, probably, when you were talking about that you anticipated this kind of inflationary pressure that would come along with it. Can you talk about what, if at all, your expectations for incremental margins and how they've changed in the face of this inflation?

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

Yeah. If you recall – if you go back and look at some of those comments, I think what I said was in the short-term you could see that, right. So, if you saw growth accelerate that you would see a pop just because the spending wouldn't keep up, right. So, where – if you adjust for the FX impact, we were about 38%, which is, obviously, not very far off from that number. I don't think you're going to see – let's neutralize for FX for a second. I don't think you're going to see high-30s incrementals. And the reason I say that is just the amount of investment that we're making specifically around engineering. And so, we've been pretty aggressive in terms of our engineering spend and pretty aggressive in terms of our CapEx. And so, I think if we're in that 30% to 35% range on a consistent basis, I'm really happy, Nathan.

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

And I know you have always been of the opinion that it's easier to ramp up than it is to ramp down.

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

Yes.

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

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Where is IDEX in terms of capacity to deal with this kind of demand, in terms of maybe engineering or in terms of labor or even in terms of bricks and mortar, if there's any need for additional square footage or anything like that in the next 12 to 24 months?

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

A

The square footage and, I'll call it, the machining capacity, those – I mean, you got pockets here and there that we're making investments in, but they're not – there's not big capital requirements around those things to allow us to meet demand. So, if you think of just kind of square footage and machine capacity, we're in pretty good shape.

The two issues that we face and everyone faces in the Western world, certainly, is around supply chain, so material availability, and skilled labor. Those are the two areas that are the biggest constraints in the Western world. Obviously, the issue today around supply chain – what you're seeing is, you're just seeing longer lead times. And I think what we need to watch out for, and what you guys need to watch out for, is what happens in this environment is you start getting people with behaviors around things like double bookings, where people start to order much more than they need, which causes kind of a ramp. It ramps that cycle very, very aggressively. And then, obviously the back side of that is ugly. And so, I think all of us need to really have our finger on the pulse of, is that happening, and you see it when you see spikiness in very specific markets. And so, that's what we're looking out for.

In terms of the skilled labor, look, there is nothing you can do in the short-term about bringing on more skilled labor. That is a finite resource. The investments that are going into trade schools, the investments that are going into training programs will help ramp that at a minimal pace. What we have done is – are investing in more capable machining and what I'll call semi-automation. We're not – almost nowhere except for a few places are we heavily automated, and we won't be because of the nature of the mix, but that's something we certainly are spending more time on. And by the way, that's out of necessity. We would love to be able to hire more capable skilled labor, but that's a real bottleneck for us and for everybody.

Nathan Hardie Jones
Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's helpful. Thanks very much.

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

A

You bet, Nathan.

Operator: Our next question comes from the line of Scott Graham from BMO Capital Markets. Please proceed with your question.

R. Scott Graham
Analyst, BMO Capital Markets (United States)

Q

Good morning, Andy and Bill.

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

A

Hey, Scott.

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

Good morning.

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

How are you guys doing?

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

Good.

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

My question is really kind of 1 and 1A around price/cost.

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

Yeah.

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

What was your pricing in the quarter and what do you expect it to be for the year?

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

So, we were between 0.5 point and 1 point for the quarter which was – we expect that to ramp actually as the year goes on. I think we'll end the year very close to 1 point. That would be my guess, assuming that we don't have to go out with more aggressive actions depending upon where inflation is. And as you know Scott very well, that's targeted in areas where we have that capability, and generally, we have pretty good pricing flexibility. So, I expect that we'll be fine there. And so, our goal has always been how do you neutralize inflation with productivity and let price flow through. When you get that, that set is kind of the magic equation. You don't always get it, but that's a great equation and that's what we're continuing to try to get this year.

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

Yeah, understood. Within that...

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

Scott, this is Bill. The only thing I'd add is, relative to the spread, we've been able to maintain that spread. So, as Andy said, we expect our price to ramp up as the balance of the year. We do expect inflation to increase. So, our goal is to maintain that spread through the rest of 2018.

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

Yeah.

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

Okay. So, on the pricing getting up to 1, are those from price increases that are in or still to come?

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

In.

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

Okay. And now, if you were to maybe separate out our productivity, do you think you were price/cost neutral or was that a little negative for you this quarter?

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

No. That's positive.

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

No. It was a positive spread.

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

That's all I had. Thanks.

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

All right. Thanks, Scott.

Operator: Our next question comes from the line of Matt Summerville from D.A. Davidson. Please proceed with your question.

Matt J. Summerville
Analyst, D.A. Davidson & Co.
Q

Thanks. Good morning.

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

Hey, Matt.

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Matt J. Summerville
Analyst, D.A. Davidson & Co.

Q

A question on HST, a pretty nice breakout to the upside and operating profit margins.

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

A

Yeah.

Matt J. Summerville
Analyst, D.A. Davidson & Co.

Q

Can you talk a little bit more about what's driving that? You mentioned that you feel it's sustainable. And I guess I want to look back a year or two to kind of what transpired in FMT, and I'm wondering if there is a similar playbook, if you will, at hand here pertaining to HST?

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

A

So, you got a handful of things that are happening, that had happened in HST over the last few years, that if you kind of follow the pattern going forward or follow that pattern here over the last few years, the first one is that the Optics business, we've seen very, very significant improvement in profitability and growth rates in that business. So, that's been a big win for us. Second, as you know, we made a pretty substantial investment in our Sealing business in the U.S., and that was a drag for a couple years as that got up to scale. And I don't know – Bill, that's going to be a big business here this year?

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

A

Yeah. From basically zero to $25 million.

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

A

Yeah. And so, that goes from kind of a negative to in line with the company fleet average in terms of margin over that period of time. And then, you just get the benefits of volume, right. HST, if you look at it across the segment, has the same sort of variable margin components that you have throughout the company. And then finally, as you know, on the back half of last year – and really kind of three quarters of last year, we kind of laid an egg there operationally and we had several million dollars that we left on the table that's – I'm not going to say it's completely cleaned up now, but it's not material. It's out of the way. And so, that 23.9% is a good number, right? I feel good about that being sustainable assuming that the volumes hold up.

Matt J. Summerville
Analyst, D.A. Davidson & Co.

Q

That's all I had. Thanks, Andy.

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

A

Thanks, Matt.

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

Steven Winoker
Analyst, UBS Securities LLC

Q

Thanks. Good morning, Andy.

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

A

Hey, Steve.

Steven Winoker
Analyst, UBS Securities LLC

Q

Hey. Just – look, you're obviously firing on all cylinders this quarter and you did mention the cash flow point, but could you go into a little more detail there around mostly just receivables and inventory on the demand front? And if so – I mean you guys run pretty lean, maybe talk about the initiatives there.

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

A

Yeah. So, it's all receivables and inventory. If you actually – if you scrub through the balance sheet, you'll see that how that plays out. So, as I mentioned in the call or in my prepared remarks, March was $25 million more than December and more than February. And so, that receivables bolus that showed up here in March, there's just kind of nothing you can do about that. That's just reality. And on the inventory side, most of that is about making sure that we're in a position to serve our customers. We did see a bit of a jump from year-end that I would not – I mean, we prefer not to have seen, but it did happen. And so, when you put it all together, that's the vast majority of the cash issue. I don't see it as being a problem as we go through the year.

Steven Winoker
Analyst, UBS Securities LLC

Q

So, you're able to hit your cash numbers for the full year? You expect this to catch up in Q2? I mean, sorry...

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

A

Well, I think it'll be a little tighter. Go ahead, Bill.

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

A

Yeah. I mean, we – our guidance, we did take it down slightly. As I think – the receivables, I think we'll watch through the balance sheet, but inventories, we've stepped up again to put a little bit more safety stock within our supply chain to make sure we are able to meet customer requirements. I think inventory will bleed a little bit as we go through the year, but there's inherent build that will remain at this current volume level.

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

A

But we'll be at that 110%-plus of net income.

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

Correct.

Steven Winoker
Analyst, UBS Securities LLC
Q

Okay. And then just from a longer term perspective, Andy, we talked about the IDEX business model for years.

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

Yeah.

Steven Winoker
Analyst, UBS Securities LLC
Q

Without getting too carried away, is – what you're seeing changing in any way the underlying growth profile for the company, the kind of drivers on the RD&E side, kind of how you see the complexity of the company, any of those things shifting as you're going through these exceptional quarters right now?

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

Steve, I think what I would say is, I'm becoming more confident of our ability to consistently deliver over market. In the last year-and-a-half, we've been able to demonstrate that in a rising market. And actually, if you go back in time, even when things were soft in 2014 or 2015 and 2016, if you go back and actually look at our growth rates versus the peer group, we were above. So, we're – I'm going to say, we're three years-plus into delivering at that couple hundred basis points above our market growth.

So, my first I guess answer to you is, my confidence level that we can more consistently do that is as high as it's been, which is a huge plus for us, because as you know, there is nothing like organic growth in our business. And if you go and look at our – one of the things to really look at here is our return on invested capital. And if you go back and do that math and how we measure it, we're up north of 15%, and barring any sort of M&A, we'll end up this year close to 16%. And over – if you go back, I'm going to say five or six years, it was down 11%, so – and that's what organic growth does for you right there. It's a huge driver to return on invested capital, and as you know, it's very defensible growth over time. So, the segmentation we've done, the investments around those segments and really around targeted growth, I think have paid off and we're just going to continue to bet heavily on this model.

Steven Winoker
Analyst, UBS Securities LLC
Q

Okay, fantastic. Thanks.

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

Thanks, Steve.

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

Jim Giannakouros
Analyst, Oppenheimer & Co., Inc.
Q

Hey. Good morning, everyone.

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

Hey, Jim.

Jim Giannakouros
Analyst, Oppenheimer & Co., Inc.
Q

Just to follow-up on something that you gave us a heads up on, a watch item, the accelerate restocking. And are you seeing that? Do you suspect that happening anywhere in any vertical or that's just – you were just classifying that as a watch item going forward?

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

Yeah. Jim, I don't see it yet, but if – obviously, you got to go back a really long time to see that. But this is where I go back and put on my investment analyst hat from 20-something years ago, right? It is in markets of acceleration and inflation. This is one of the behaviors that absolutely happens, the double ordering, the willingness to pay, premiums to get in line. I mean the biggest places you're seeing problems today are around freight and logistics, right?

If you look at freight and logistics, that to me is – it's very hard to get railcars, you're seeing lead times extending out for availability. So, you're starting to see it there, and of course, the capacity is very much finite and easily measured, right? We all see the numbers. It's in the places where it's very hard to see around specialty components, specialty alloys, things like that where there aren't good metrics out there in the world, where I think people could caught flat-footed. And so, we haven't seen it yet, but we are really trying to watch intensely for it.

Jim Giannakouros
Analyst, Oppenheimer & Co., Inc.
Q

Got it. Okay. Thank you. And I believe you said that the corporate costs step-up is isolated to 1Q events. I suspect that the surprise may have been on M&A spend, you mentioned the consultants. Was that – if I'm right, is that a reflection of – just you know what, kicking the tires and you accelerated some due diligence or deals that maybe fell through at the 11th hour?

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

I'll let Bill talk to it, too, but it was – that played a role in it, but we did spend more in understanding this new tax code. It's pretty clumsy as it is. As you know, they rolled it out with zero guidance. And so, we've had to expedite our understanding of that. And so, I don't think we got a bunch more costs, Bill, coming there.

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

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No.

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

But stock comp wasn't small in the quarter. There were a number of items and Bill, color around that?

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

Yeah. I would just say the stock was up 8%, so that was the primary driver of the increased corporate costs. And then, yeah, as we continue to look at spaces within M&A and then tax reform obviously was the last piece, like Andy talked about. But I think a majority of it was related to stock comp.

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

Yeah.

Jim Giannakouros
Analyst, Oppenheimer & Co., Inc.
Q

Okay. Thank you. And if I can sneak in one more if I may. You guys – obviously, broad based strength, we've heard that now for several quarters. If you could give us an update, you used to call out percentage of revenues or certain areas that are not performing to standards either via top line growth initiatives or vis-à-vis your margin expectations. Is that happening still or are we at 100% – or is the rising tide lifting all boats, so to speak? Thanks.

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

You got some pockets there. I mean, the one that kind of stands out a little bit is, if you look at our water business, we expect it to have overall stronger equipment sales, but again, the lack of enforcement has really whacked that. Now, the service business is doing really well and the team is just exceptional. And so, we're very happy with what they're dealing with, but I think the reality is that's one interesting pocket [indiscernible] (43:49).

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

No. I mean, I guess – fundamentally, I mean, there's some timing and some isolated issues, like Andy mentioned, but as we go across the portfolio, nothing sticks out.

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

Yeah. There's nothing that's kind of really ugly. I mean, actually, one of the real highlights in the quarter was our performance in China. I didn't really talk about that in the prepared remarks. But our China business was back to double-digit growth in the quarter, and that has been soft here for a while as we had gone through and done our segmentation in our 80/20 work in China that have been soft for a couple of years. And so, it was nice to see that bounce back.

Jim Giannakouros
Analyst, Oppenheimer & Co., Inc.
Q

Very helpful. Thank you.

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

Thanks, Jim.

Operator: Our next question comes from the line of Charlie Brady from SunTrust Robinson Humphrey. Please proceed with your question.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Good morning, everyone. This is actually Patrick Wu standing in for Charlie. Thanks for taking my questions.

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

Hey, Patrick.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Hi. Just on – it's nice to see dispensing within Diversified growing double-digits in the quarter. Just going back to last quarter's commentary, I think there was some talk about North America being a little bit more flat. And then, that's sort of coupled with some new products that were coming out at the end of the year. Can we just speak a little bit to dispensing growth for this quarter? What's that really from? Is it mostly the positive dynamics of the market? Is it something that IDEX is doing, specifically, organically? Any color on that would be helpful.

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

Patrick, I can take that one. I would say one thing, if you recall last year, dispensing's pacing of orders and sales shifted from first half to second half. So, it's comp-ing against an easier first half, I think, is one component. And then, also, the second thing is they did launch new products across the globe in each of the regions and those have been really successful at the start. So, I think a combination of the new product introduction, and then just timing of sales the way they're going to fall this year versus last year also plays a part.

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

And just to add, Patrick, I think if you look at our dispensing team, frankly, they are the poster child with – for how we're trying to run IDEX more broadly. The team there has had incredible consistency and continuity, their work around segmentation, driving complexity out, reallocating resources to the places where we really have an advantage and we can accelerate growth, and turning that into innovation as Bill just talked about. I mean, you're looking at almost a 100% refresh of their product line over the last two years. It's really impressive. And we are far and away the market share leader around the globe, and these folks have positioned themselves very well to maintain that market share position and even take more share over time.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. That's great color. Just on gross margins, I mean, obviously you guys spoke about the preliminary tariffs impact of like, I think, $2 million to $3 million, coupling that with the pricing that you guys talked about in an earlier

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question. And I just want to pair it with last quarter's commentary regarding mid-45% in the medium term. Is that something that you guys are monitoring or something that you're still comfortable with moving ahead over the next, let's say, 12 to 18 months?

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

Yeah. I think our margin profile in the first quarter is what you should expect for the balance of the year, barring any significant macro changes.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

And that's inclusive, now, with the preliminary tariffs that you guys...

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

Yeah, correct. Correct.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

...had talked about?

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

Yeah.

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

Yeah. As we talked about earlier, we're ramping price to offset any of that and maintain our spread.

Patrick Wu
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Understood. Thank you.

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

Thanks, Patrick.

Operator: Our next question comes from the line of Brett Linzey with Vertical Research Partners. Please proceed with your question.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Hi. Good morning, all.

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

Hi, Brett.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Hey, Andy, just wanted to circle back to your comment on the CapEx pick up. You've had a pretty good – pretty close to that pulse for a few quarters now.

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

Yeah.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Could you maybe put a finer point on, is it particular markets or product lines that are really coloring those comments? And then, are you seeing a broadening out of that capital-light type activity since just a few quarters ago?

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

So, Brett, it's really around a handful of our targeted growth initiatives. So, we've seen some meaningful parts. If you look at our – at the industrial base businesses, we're – in our Viking business, in particular, which we've – has had just an outstanding run here, we're going to put some more capital into that business and – which has been really important. And then, we've got, call it, a couple dozen places that are pockets where we think we can accelerate growth that we're putting capital, so I won't go through them one by one, but these are the kind of things that myself and Eric Ashleman and Bill are really spending our time hands-on.

And so, candidly, the biggest challenge that we have with CapEx is seeing lead times extend with equipment, right. So, the lead time phenomenon that we've talked about relative to supply chain is the same with equipment. So, frankly, I would have loved to have spent more in the quarter than we did, and it's just constrained by our ability to get stuff.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

No. That's helpful. And I guess, maybe more from a customer CapEx standpoint...

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

Oh, I'm sorry. I'm sorry.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

...and more capital project work you had starting to break free a little bit, you made some comments in the prepared remarks. Yeah. Just a little more color there.

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

You're definitely seeing it on the process industry side, right. So, on the process industries, now put that in oil and gas, chemical, food, pharmaceutical, you're seeing more and larger pieces being released. Again, it's not huge for us, but we're talking a couple hundred thousand to a few million dollars that you'll see in those. But if you go back 18 months, those are – we were just starting to see those things eke out and we're now seeing them accelerate.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Okay, great. And then, maybe just one more, another very strong quarter in FMT margins and incrementals. How sustainable is this type of operating leverage as we look into the balance of this year, but 2019? Is there a mix? Is there other things driving that? And I guess, how do you view the margin entitlement in that business?

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

No. I think the profile within FMT in the first quarter should be pretty consistent as we march through the year. Again, if we're growing at mid-single-digits, we're able to maintain or expand here in the balance of the year.

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

And if you recall, if you went back, I don't know, Bill, would it be a couple years or so ago, or 18 months or so ago, one of the things I said in our calls is I don't think people had realized that, as the industrial recession happened, right, we did something that was not particularly visible and that we held the margin profile of some of our really highly profitable businesses. And the performance that we generated was coming out of businesses that historically had not been as profitable as we fix those. And what you've seen happen now over the last 18 months is, as volume has improved, you're seeing some of those higher profit contributor businesses accelerate. And so, you're seeing – that's been a nice pick up and a nice change. And so, I don't feel like it's really going to be dictated on volume.

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

Correct.

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

Right? So, if volumes hold up, there's no reason why the FMT margins wouldn't hold up. But obviously, we'll be more sensitive to volumes than other parts of the business.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Got it, great. Appreciate it.

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

Thanks, Brett.

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

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Hey, guys. Thanks for taking my questions.

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

A

You bet, Joe.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Andy, your view on inflation getting a little bit more concerned and watchful over into next year, how has that changed businesses that you're looking at from an M&A standpoint? Are you thinking about those differently and how much you'd like to pay for those or what's the timing on something like that that might be more exposed to your views there?

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

A

We tend to not look at businesses that have huge amount of inflation – that have issues relative to inflation, right? So, we're not looking at heavily cyclical businesses or that have a lot of direct inputs from base materials. And so, we're looking at buying businesses that kind of look like us generally. So – and then, if you look at how we value them, we value businesses looking over a very, very long period of time. And that's why I have been I think probably more skeptical than some on prices being paid, where the conversation kind of just avoids the reality that a bunch of people are buying things at single-digit ROIs, right, over time. I mean, they may be NPV positive over years, but you're looking at – people are literally buying things below the long-term cost of capital. And so, I've just been much more skeptical.

And look, one of the beauties of our type of business is, because the cash flows are so defensible, the ability to model those and to get comfortable with a pretty reliable range of value, we feel really good about being able to do that. And so, frankly, unless you think inflation is going to change over the next 20 years – so you're going to look at something really, really differently, it doesn't really change our point of view very much.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Cool. Okay. And last for me, you mentioned on HST, in the quarter, you had some customers get early approval from the FDA.

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

A

Yeah.

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Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Was that kind of a pull forward from your earlier plan or does that change the cadence of how you'd expect to deliver revenue growth for the year?

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

A

I don't think it changes much. I mean, obviously, we baked in a little bit of increasing guidance on revenue there. This is stuff that we've been talking about, gosh, for two years. It was just a matter of when those approvals would happen and they happened a little bit sooner than we thought.

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

A

Yeah. I mean, we got the order in the first quarter, shippable starting in the back half of the year, continue into 2019.

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

A

What is it – a quarter or maybe two better than we thought?

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

A

Yeah.

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

A

So, not material, Joe.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Okay. Thanks, guys.

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

A

You bet.

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

Brett Kearney
Analyst, Gabelli & Company, Inc.

Q

Hi, guys. Thanks for taking my question.

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

A

You bet, Brett.

Brett Kearney
Analyst, Gabelli & Company, Inc.

Q

Just wanted to ask with the roughly $1 billion of available firepower, if you will, to deploy over the next 12 months, just on the acquisition front, what size or size range you guys would be comfortable undertaking there?

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

A

For us anything, that is $50 million to $500 million is, that's kind of right down the alley for us. So, we'd be super comfortable. There are some things that we look at and have looked at that are substantially bigger. And certainly, we reserve the right to do that. But it's going to fit our model straight down the center, right? It's going to be the kind of businesses that we know and we love, and we know how to run. And so, there aren't very many of those out there in the world, but there are a few. But for the most part $50 million to $500 million in enterprise value is what you should expect from us.

Brett Kearney
Analyst, Gabelli & Company, Inc.

Q

Great. Thank you.

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

A

Thanks, Brett.

Operator: There are no further questions in the queue. I'd like to hand the call back to management for closing comments.

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

Well, thank you all for taking the time, and most importantly, thanks to our customers and to the people within IDEX, who continue to execute just exceptionally well. I'm very proud to be part of this team, and I think we are running the business well, and the people within IDEX, really deserves that congratulations. So, I appreciate your time being with us, and look forward to talking to you here in 90 days. Take care.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.

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