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# IDEX Corp. (IEX)

Q3 2018 Earnings Call





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# MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings and welcome to the Third 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.

I would now like to turn the conference over to your host, Mike Yates, Chief Accounting Officer. You may begin.

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

Thank you, Sherry. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Let me start by saying thank you for joining our discussion of the IDEX third quarter financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending September 30, 2018; and later today, we will file our 10-Q. 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 will begin with Andy providing an overview and an update on market conditions, geographies and our capital deployment strategies; he will then discuss our third quarter financial


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results and walk you through the operating performance within each of our segments; and finally, we will wrap up with an outlook for the fourth quarter and the full-year 2018. Following the prepared remarks, we will 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 number 13675421, or you may simply log on to our company's homepage for the webcast replay.

Before we begin, a brief reminder, today's call may contain certain forward-looking statements that are subject to the Safe Harbor language in last night'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.*

Thank you, Mike, and good morning, everybody. I appreciate you joining us here to discuss our 2018 third quarter results. Let me start with a brief summary of some key results and also our guidance. And I think as we go through the call today and questions later on, these are the points that I think really matter.

Overall, the organic landscape of our business remains very positive. Our targeted growth investments continue to pay off. The economics of our end markets are fundamentally strong and we continue to see growth across all geographies. Our balance sheet is strong and we have ample dry powder to play across our framework to drive long-term value for shareholders.

Tariffs and inflation are ramping. Our teams have been able to offset the headwinds through pricing actions and productivity to remain ahead of the inbound pressure. Finally, our effective tax rate for the third and the fourth quarters have been more variable than normal. In the third quarter, we had favorability in our rate due to excess tax benefit related to stock compensation that drove [ph] $0.04 EPSB (00:03:24) versus our guide. In the fourth quarter, we have approximately $0.07 of EPS pressure in our guide to revise assumptions impacted by a repatriation of a tax estimate associated with tax reform. However, our full-year ETR is still expected to be 23%, which is in line with our guidance. At the end of the day, we exceeded our Q3 performance and we're raising our full-year guidance.

All right, onto the quarter. We had great execution by our team, along with healthy market conditions, which drove another quarter of outstanding results for IDEX. We, once again, achieved high-single-digit organic growth rates for both orders and sales and we outperformed our markets. I continue to be very pleased with our results and here are some highlights.

Orders were up 7% overall, 8% organically. Sales were up 8% overall, 9% organically. Adjusted op margin was 200 basis points up, is 24% for the quarter. Adjusted EPS was $1.41, which was another record, up $0.33 or 31%. The $1.41 is $0.10 higher than the midpoint of our previous guidance, and I'll walk you through some details of that shortly.

Free cash flow was $114 million, 104% of adjusted net income, it was impacted by a couple items that I'll talk about here in a minute. Continuing the momentum we had in the first half, our Q3 operating results were strong across the board. Our targeted growth efforts continue to pay dividends, we're driving high-single-digit growth rates in orders and sales across our business.


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Finally, the IDEX difference continues to be the catalyst behind our results. Great teams, focused on critical few initiatives in their businesses that are driven by our customers. We see example after example throughout our units, it's what separates us from the competition and allows us to deliver for our employees and for our shareholders.

Now, I'd like to take a minute and just walk you through what we're seeing in the markets we serve and the regions we do business in. The industrial markets conditions continue to be favorable, day rates for our book and ship businesses continue at high levels, project activity is strong, and the funnel remains full. In Scientific Fluidics & Optics, our life science market remains healthy, our teams continue to drive expansion in IVD/Bio and DNA sequencing through customer intimacy and innovation.

The Energy market has rebounded with oil prices rising and stabilizing, we're seeing project activity across liquid petroleum gas, refined fuels and commercial aviation. In Municipal, the North American market is stable, our focus remains on new product development in Water and investments in emerging markets within fire and rescue to drive growth.

If we turn to a geographic outlook, the bottom line is that sales across all geographies have performed well in the quarter, with healthy underlying economic conditions and our targeted growth initiatives we've grown across the globe.

However, we are keeping our eye close on several factors that could impact the overall growth environment. As we look at tariffs, our best estimate for the impact to IDEX is approximately $2 million for the remainder of 2018. We'll offset the impact, but we continue to monitor the potential future ramifications as we get deeper into global trade uncertainty.

Inflation remains a concern and continues to have an impact. We've been successful in mitigating inflation through productivity and price realization. With that said, we keep an eye on any aggressive actions from central banks that could negatively affect the current growth trajectory. These two items are real risk for the overall economy and IDEX. Regardless of the external environment, which we expect to remain volatile, we are committed to outperform our markets.

Before I turn to the quarterly results, just a quick comment on M&A. Overall, it remains a top focus for us, but remains challenged due to the environment that we're in with valuations. Our teams are hard at work at both cultivation and evaluation of several deals, but we're going to remain disciplined and we're only going to do deals that fit into our criteria. Our focus has and always will be to deliver the best possible returns to our shareholders. Our balance sheet is very strong, and when the right deal comes along, we'll capitalize on it.

Okay. Let's turn to third quarter results, I'm on slide 4. Q3 revenues were $623 million, up 8% overall, 9% organically, driven by outperformance in all three segments. We expanded gross margin by 10 basis points to 45%, primarily due to production efficiencies and volume leverage which is partially offset by investments in engineering related to new product development. Adjusted op margin was up to 24%, up 200 basis points over last year. Q3 net income was $106 million, resulting in EPS of $1.37. If you exclude restructuring, adjusted EPS was $1.41, up $0.33 or 31% over last year. Our Q3 effective tax rate was 20.2%, which is lower than the 26.4% last year, mainly due to the enactment of 2017 tax reform at the end of last year and higher excess tax benefit from stock options in the period.


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The third quarter ETR of 20.2% was 280 basis points lower than our previously guided amount. It accounted for $0.04 out of the $0.10 of EPS favorability compared to the midpoint of our guidance. The remaining $0.06 of EPS favorability was driven by operations. Free cash flow was a solid $114 million, 104% of adjusted net income and it was impacted by two items. First, we invested $19 million in CapEx primarily for growth; and second, we made a discretionary $10 million contribution to our defined benefit pension plan to take advantage of accelerated deductions.

In regards to the balance sheet, it remains very healthy. Gross debt leverage is 1.3 times and net debt leverage is 0.5 times. The combination of a strong balance sheet, capacity of our revolver and free cash flow have us in a position to deploy well over $1.5 billion in the next 12 months if we're able to.

All right. Let's turn to the segment discussions, I'm on slide 5, and we'll start with FMT. Look, Fluid & Metering had really strong numbers in the quarter, for both orders and revenue. Orders were up 9% overall, 12% organically. Sales were up 8%, also up 12% organically. Op margin, if you exclude for restructuring, was at 29.5%, up 140 basis points over the last year, and the performance was driven by really a wide array of businesses, but principally in our Industrial Fluids business, our Pump business had another great quarter, up double-digits in orders and sales. U.S. distribution remained strong and targeted growth efforts are gaining traction and driving project wins in oil and gas and the chemical markets.

Ag continues to perform well and has had solid pre-season orders, that's a good signal for the momentum of the future, and our OEMs have been optimistic and have confirmed that outlook. In Energy, we had a strong quarter for Energy, up double digits in orders and sales, and the market conditions look favorable here into the future.

All right. Let's go on to Health & Science, I'm on slide 6. I was very pleased also with the performance here at Health & Science. Q3 orders were up 9% overall, 8% organically. Sales were up 7% overall, 6% organically. Excluding restructuring expense, adjusted op margin increased 130 basis points to 23.5% due to higher volume and productivity.

In Life Science and in Optics, our IVD/Bio business and our Life Science Optics businesses are outpacing their markets due to targeted new product development in collaboration with our customers. And the Finger Lakes acquisition, that integration is going well. The technology offerings are already helping us better serve our customers. In HST in the industrial side, we had double-digit order growth and sales growth in the third quarter, driven by some large new product development wins. These were achieved by some great work by a team at Gast.

The Sealing Solutions, it continues to perform well in the industrial, automotive and the oil and gas end markets, although we are seeing some slowdown in semicon, although that is still growing in the single digits. And finally, in MPT, strong overall commercial activity in pharma & food and we have seen a pickup in India.

Okay. I'm on our last segment, Diversified. I'm on slide 7. Q3 orders were up 2% overall, 3% organically. Q3 revenues were up 10% overall, 11% organically. If you exclude again for restructuring, adjusted op margin was 27.7%, which increased 300 basis points over last year and again attributable to volume and productivity.

In Dispensing, we had strong project volume in North America that drove a significant amount of their growth in the third quarter, while the rest of the world remains somewhat steady. And we did see some push and pull between the third and the fourth quarters in Dispensing, and I'm sure when we get into question-and-answer we can talk about that. But we did have some revenue move into the third quarter and out of the fourth quarter here, that was meaningful for Dispensing


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In Fire & Safety, the Fire business posted positive orders and sales growth versus last year, even though there is some constraint in the OEM supply chain. The Rescue business posted double-digit orders and sales growth this quarter, driven by some nice project wins around the globe.

And finally, at BAND-IT, energy continues to recover, industrial run rates are stable, and OEM volume continues to be above expectations.

All right. Let's conclude here with some comments on guidance for the fourth quarter and for the year. I'm on slide 8. In Q4 we're estimating the EPS ranging from $1.25 to $1.27 with organic revenue growth in the range of 5% to 6% and operating margin around 23%. The Q4 effective tax rate is expected to be approximately 26%, primarily driven by the revised assumptions related to repatriation taxes associated with the 2017 tax reform. This is providing approximately a $0.07 headwind in the fourth quarter. We'll also have about a 1% top-line headwind from FX based on the September 30 rates and corporate costs are expected to be $18 million to $20 million in the fourth quarter.

If we turn to the full-year, we've increased our full-year guidance of EPS as we're now at $5.35 to $5.37. This is up $0.08 on the low-end and $0.02 on the high-end from our previous guidance, due to the Q4 tax pressure that we noted.

Full-year organic revenue growth is expected to be approximately 8%. We guided 7% previously. Op margin is expected to be 23%, and overall, we'll have a 1% tailwind from FX based on the September 30 rates.

The full-year effective tax rate, it will be approximately 23%. But I think everybody knows that the IRS is still working through interpretation, so there could be some volatility in overall tax numbers as we get to the end of the year.

CapEx is anticipated to be over $50 million and free cash flow should be around 105% of net income due to the pension distribution and the increased capital expenditures that I mentioned before.

And finally, corporate costs will be in the $78 million to $80 million range. As always, our earnings guidance excludes any associated costs of future acquisitions or restructuring.

With that, let me pause here and, Sherry, let me turn it back to you for any questions that we have.


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# QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question is from Mike Halloran with Robert W. Baird & Company. Please proceed.

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

Good morning, guys.

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

Good morning, Mike.

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

So, Andy, why don't you just talk about your perspective on where we are cyclically right now? Obviously, order rates are really strong internally. It certainly seems like still strong order rates from some of the more leading indicator-type businesses, you mentioned BAND-IT in the prepared remarks, but a lot of volatility with the tariffs and things like that. So, just some color on where you think we are cyclically and what it means for your sustainability of the underlying dynamics right now.

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

You bet. So, Mike, I think there are three things that are really important. The first one is, where are we sitting in the cycle relative to kind of what a normal cycle looks like. And the issue that we've talked about quite a bit with folks is, we've got a very long overall cycle that we're bumping up against, but the industrial cycle is actually still pretty young. If you think about, we're just two years out of a really tough industrial recession. And so, I think that, overall, that kind of clouds the overall cyclical conversation. So, that's number one.

Number two, the indicators within the business are really quite good, meaning, if you just look at the strength of our businesses across the board, it's – you're still struggling to find weak spots. And look, as you get further into this, you run into comps, you get into fourth quarter...

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

Yeah.

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

...comps become more difficult. 2019, the comps become very difficult. That's just the reality of where we are. But the indicators of – are the markets healthy, are the geographies healthy, with some exceptions in emerging markets. But generally in the places we play, boy, it's hard to find a soft spot.


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And then you get into – I think the two items that I mentioned in my prepared remarks which are inflation and tariffs and, of course, the go hand-in-hand. And I think that that's the danger. I think that's where you have a dangerous potential of both rising inflation and a market rolling over at the same time, which is probably why our stock has traded down $26 in four weeks. But when you kind of – when you look at that, I think it does – it creates a pretty cloudy picture of what you would think would be strength in a relatively young industrial cycle. But these issues of tariffs and inflation have people concerned, right. They have customers concerned, they have suppliers concerned. And so, we are – as you would imagine, we've always said, we are – it's much easier for us to adjust to the upside than the downside. So, as you might imagine, we're being pretty tough minded about thinking about the future, we want to be prepared if anything does happen. At the same time, there's really nothing that would tell us that something negative is on the immediate horizon.

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

Q

Yeah. Great color. And then, let's take that last point and segue into a conversation on. One, how are you guys responding to the inflation pressures? Obviously, you called out a $2 million of headwind in the fourth quarter, I'm assuming it's kind of the run rate into next year, how do you feel you are relative to the inflation pressures that probably could – probably persist in the next year? How on top of that?

And then, secondarily and related, how do you think about the overall margin picture for the organization? You're at peak in two of the three segments, really close to peak enough in your Fire & Safety, Dispensing side...

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

A

Yeah.

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

Q

...there's still opportunity for progression, but maybe marry those two in the conversation about where do you think margins, how much room and runway there are in margins in the context?

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

A

So, our goal relative to price-cost is obviously to continue to have that positive gap that we've had historically, which has been 20 basis points to 40 basis points, and we still have that today. The – I can't see why we wouldn't continue, we've been on the front edge of pricing and we'll continue to do that as we go into 2019.

The inflation side has ramped up a lot. We – if we saw inflation that was running at 20 bps or 30 bps of sales, if you just use that as a percentage of sales, a proxy, that's gone up to 80 bps or 90 bps recently, if you kind of look at those run rates. And so, then you add in the impact of tariffs and whatnot, and we still have positive price-cost, and it's our expectation to stay there.

So, I don't think there's a reason why we're going to give up margin in terms of that relationship in total. So, I feel pretty good about that. As you go forward, I don't worry about peak margins if we continue to have a relatively decent growth environment, meaning, if we continue to see growth – underlying market growth in the 2% to 3% range and we can go get our couple hundred basis points on top of that, we're going to flow through, right, we're going to see flow through that's in the 30% to 35% range. The flow through on this quarter was pretty hot, as a matter of fact, little bit hotter than you really like it to be, frankly. But we'll still be able to produce at that level.


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And the reason that I don't think we're going to hit a threshold like maybe a lot of companies are going to hit in this environment is that, we still have a lot of room between our contribution margins and our operating margins, right. So, we're not hitting a threshold where we need to now put in a bunch of fixed costs that are going to naturally depress overall, the overall margin profile. So, we still have that gap, and so incremental volume still flows through at pretty attractive rates.

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

Q

Great color, as always. Appreciate it.

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

A

You bet.

**Operator:** Our next question is from Deane Dray with RBC Capital Markets. Please proceed.

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, maybe just a follow-up on that last point on Mike's questions there. Did you give the specific price, gross pricing in the quarter, and then where do you expect to be for the year? I know you've reaffirmed the target of 20 basis points to 40 basis points positive price spread, but what was price?

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

A

Yeah, it's – hey, Deane. This is Bill. It increased in the third quarter versus the second quarter. We were at around 1 point in the second quarter. We've elevated that, and our expectation, it's going to continue to increase here into the fourth quarter. That's primarily due to inflation from just a material and wage perspective, it's flattened out sequentially, and the incremental drag we have is really the additional tariffs we've seen. So, the incremental pricing is really out there to offset that tariff run rate as that escalates here into the fourth quarter.

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

A

Yes. So, we're north of 1 point, Deane, and that will get a little bit better here in the fourth quarter and we expect to be a little bit better into next year. With the total inflation also inching up and we'll keep that 20 bp to 40 bp positive gap.


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Deane Dray
*Analyst, RBC Capital Markets LLC*

Q

And just to clarify that, $20 million – excuse me, $2 million tariff headwind, what's included in that assumption?

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

A

That is the direct impact and what we can calculate on the indirect impact is our supply chain is fragmented with their purchasing from overseas.

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

A

It's not perfect science, Deane. We are literally going line item by line item to do it. But then you have all of the other impacts, the second derivative impacts that happen that you can't kind of factor into it. But that's what we see is going to hit our P&L flowing through material cost and into the business.

Deane Dray
*Analyst, RBC Capital Markets LLC*

Q

Got it. And then, just to switch gears, but also to use the term Andy used a moment ago about thresholds, and this is a high-quality problem question to be asked. But what's your willingness to pass the threshold into a net cash position? I think everyone applauds your discipline not chasing bad deals because those are with you forever. And is there a – any sensitivity about passing that threshold into 2019?

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

A

Deane, I don't think we get – when do we get there, Mike? We get there at the end of the...

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

A

Second – yeah, second half of next year.

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

A

Second half of the next year, yeah. So, I guess, the direct answer to your question is no. I always sit back and think about what's the – what are the smartest things to do to drive overall long-term total shareholder return. And to me, that becomes a little bit of a fictional issue of building cash or not building cash, right, we want to do the right things, if I don't have something better to do with it, I'm better to build cash. And so, if we got – if we found ourselves with an inordinate amount of cash three years from now, maybe we're having a different conversation, but I don't believe we'll be there. So, if we pass it in 2019 and we're in a net cash position, I'm okay with that for a period of time.

Deane Dray
*Analyst, RBC Capital Markets LLC*

Q

Got it. And then, just last question, and you – I think you asked for the question in Q&A, but can you just give us the color what's going on, on the Dispensing side and the push outs?


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

Yeah. So, it's actually – we had some relatively large project, order activity that ended up hitting in the third quarter that we thought was going to go in the fourth. And so – and you know, we kind of see this periodically in that business, it doesn't happen to us a lot. So, we had a little bit better revenue here in the third quarter and we'll be a little bit lighter in the fourth quarter because of it

Deane Dray
*Analyst, RBC Capital Markets LLC*
Q

Did you size that?

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

Yeah, I would say, within the spend, FSD is really where there is a little bit of the Q4 pull into Q3, and it's about $5 million from Dispensing and about $3 million from the Rescue business. So, if you calibrate it, the organic growth, if you – between the two quarters would be 8% and closer to 7% in Q4.

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

Yeah.

Deane Dray
*Analyst, RBC Capital Markets LLC*
Q

That's helpful. Thank you

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

You bet, Deane.

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

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

Hey, good morning...

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

Hi, Scott.

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

...Andy, Bill, and a hearty welcome back, Mike.


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

Thanks, Scott.

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

I wanted to ask about the restructuring in the quarter because it looks like we've got a little bit of an outsized charge in HST, and what exactly did you guys see there that how do you go ahead with that type of number?

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

Hey, Scott, it's Bill. That's primarily related to, we opened up the Rochester Center of Excellence that we've been talking about. And the final building moves were completed – two out of three were completed within the third quarter which was a significant amount of the incremental expense.

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

So, there is – please.

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

Go ahead. Go ahead, Scott.

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

No, I was just going to say that, so on that piece, we shouldn't look at that as necessarily a dollar for dollar cost saving number in the...

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

Correct.

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

Right.

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

Yeah, that's probably fair, but that – look, this is very exciting. We're going to officially open the building, we have operations going there, but we're going to officially open that building here in a few weeks. And it's a big deal, right. When you look at what we're going to have there in Rochester around optical capability that's going to be best-in-class and our ability to continue to win content on new programs worldwide, this is a great win for us.

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


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Yep. Thank you for that. I guess, my follow-up is very simple and it's maybe more from the frontline folk. Obviously, the concern in the industrial markets right now, there are several things, but one of them is certainly, if tariffs and inflation maybe start to take a choke hold on demand...

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

Yeah.

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

...you guys are very short cycle, and so – in a number of your businesses. And so, I was just wondering if – what the customers are saying about that to this day?

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

It's an interesting thing, and I think I said something similar in the last call. But what people are saying and what people are doing aren't necessarily the same things. And so, what do I mean by that? So, there is a lot of chatter out there about what inflation and what tariffs mean and the risk to overall demand, there's clearly a lot of chatter out there in the customer base and supply chain, et cetera. And I think where you could see that play itself out is, if you saw project activity slow down, right. So, I don't expect to see the book and ship, the book and bill business, that's been pretty steady. The real driver in changing demand over the last two years, yeah, clearly book and ship business has gone up, but you've seen project activity pick up. And I think where the risk is, people go, okay, wait a second here, I'm going to push off my decision-making until I get clarity. That to me is a real risk. We haven't seen evidence of that yet, Scott, to be clear, but that is something that we're really looking out for.

And the problem with things like that is, it can move, that stuff can shift pretty quickly. It can get pushed out of when you think it's going to go to being pushed into the future. And so, it's something that we're keeping our eye on. But if you just look at the overall book and bill business, it's in the industrial world, it's solid, I mean, it's good. And so, as we go through the quarter here, I think we'll know by the middle part of November – I think we'll know by the middle part of November, as you get close to Thanksgiving, of whether or not anybody starts getting happy feet around some of the stuff. So, to your point, we're still a short cycle, we don't have an insight into that today except to say that our business looks good, but that's the thing that we're going to be watching out for as we get into the – deeper into the fourth quarter.

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

Okay, thanks.

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

You bet.

**Operator:** Our next question is from Steven Winoker with UBS. Please proceed with your question.

Peter Lennox-King
*Analyst, UBS Securities LLC*
Q


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Good morning, guys. This is Peter Lennox-King on for Steve.

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

Hi, Peter.

Peter Lennox-King
*Analyst, UBS Securities LLC*
Q

I was hoping that we could talk a little bit about the CapEx increase in quarter.

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

Yeah.

Peter Lennox-King
*Analyst, UBS Securities LLC*
Q

In particular, as you were talking about the fixed cost front in the margin discussion. And could you just lay out for us where you're investing, whether that's incremental planned investment to cope with the higher growth rate that you're seeing. And then from that, is that incremental investment along with the pension contribution, the reason for the slightly lower free cash conversion guidance for the year?

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

So, Peter, let me – I'll talk to it a little bit, and then I'm going to ask Bill to jump in too on it. So, generally, if you look at our CapEx, our CapEx was actually a little bit lighter in the first part of the year than we had expected, and a bunch of that is due to how quickly things can be delivered. So, as you think about equipment lead times, they've been extended. I think, I talked about that in the last call. They've been extended more than we would have expected. So, we were a little bit lighter than we would have liked to have been in the first half of the year and we caught up with a bunch of it here in the second half.

So, I wouldn't say there's anything surprising in that $19 million number. It's not like something we just found in the third quarter and decided to invest in. These are things that have been long planned and in process just generally. And the vast majority of that is around growth, and that's the exciting part. So, as I look into 2019, 2020, 2021, and I look at the things that we're investing in, we just finished our strat planning internal discussion and we'll have that discussion with our board here in a couple weeks. Those investments are all aligned with the bigger growth initiatives that we're teeing up. And hopefully the things that will drive couple hundred basis points of outperformance that we've been able to deliver here in the recent future. So, I feel good about the investments. The timing is a little bit between first quarter and second quarter, and it's kind of nothing that popped up.

And Bill, do you want to – anything else you want to add to that?

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

No. I think, as we went through and a lot of the capital investment's really around new product development tooling, where we've done a build-out of a couple engineering labs across the organization, cleanroom capacity in some of our higher tech businesses. And then, the last piece, obviously, there's a significant part of growth, but


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we have talked a lot about productivity through new equipment relative to addressing labor shortages across the portfolio. So, we have retooled a couple sites with increased machine capacity to address skilled labor consolidation within various markets. So, I think it was probably two-thirds growth and a third of some of that productivity capital that will help us in the next year, too.

Peter Lennox-King
*Analyst, UBS Securities LLC*

Q

Great. That's helpful. And then, is that CapEx along with the pension the reason for the slightly lower...

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

A

Oh, yeah, yeah. I'm sorry, we didn't answer that direct. Yeah. So, we had $19 million incrementally or $19 million in CapEx. What do you think that was over our normal run rate, maybe $6 million, $7 million?

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

A

Yeah, exactly. So, we raised our guide, it was around $45 million. It's going to be a little bit over $50 million for the year now, and the pension expense at $10 million. That reconciles back to 110% of free cash flow.

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

A

Yeah.

Peter Lennox-King
*Analyst, UBS Securities LLC*

Q

Okay. That's really helpful. Thank you.

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

A

You bet, Peter.

Peter Lennox-King
*Analyst, UBS Securities LLC*

Q

Then, if I could sneak in one more on just the capital deployment or the M&A sort of environment. Is the recent volatility that you're seeing in the market, is that – do you think that's going to help shake some deals loose here in the near term? And how are you sort of seeing the conversations that you're having with people?

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

A

Peter, I actually think it's going to have the opposite effect in the near term. I think some of the things that have been coming to market might end up with more pressure than the sellers would have liked, and it may actually make them hesitant. I'm hoping that people find religion relative to valuations. But I think, if anything, it might actually put a little bit of a pause on some folks who have pretty high expectations.


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Now, that being said, if we get something sustained, then you'll start to normalize, right, you'll get things to normalize a little bit. But you got to get off the sugar high that's existed here for quite some time and get into some level of realism. So, I think it's going to take some time for that to play itself through.

Peter Lennox-King
*Analyst, UBS Securities LLC*

Q

That's great. Thanks very much, guys.

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

A

Thanks, Peter.

**Operator:** Our next question is from Allison Poliniak with Wells Fargo. Please proceed.

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

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*

Q

On the tariff cost pressure with your component suppliers, can you maybe talk to the opportunity to adjust that supply chain to mitigate some of those costs, do you have that opportunity?

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

A

We do, and we've done some of it already. We actually buy the vast majority of our supply chain is in region for region, so we're not buying a ton of stuff across borders. There is some. So, in places where we can consolidate and we are doing some of it. And then, on the other side, we have a few pockets of opportunity where we're actually moving production.

So, we're moving production from some regions into others. It's not big, to be clear with you, it's not big numbers. You know that's just not something that we can do. But places where we actually have the opportunity to get closer to a customer base, we are taking some of that and moving production from regions that are being negatively impacted by tariff. So, we're doing a little bit on both sides, but they're not big numbers, Allison.

Bill, anything to add to that?

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

A

No. I think you hit the two major work streams.


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

Okay. Yeah.

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

Got it. And then, you touched on the supply chain challenges that you had in the first half, and then it looked like in Fire you had a little bit coming maybe on the OEM side. Are those starting to worsen, are they kind of stable at this point, any color around that?

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

Yeah. To be clear, Allison, the supply chain issues that I was talking about are specific to Fire, and they're actually specific to the Fire OEMs who are our customers. So, we're able to deliver to them, but they're having other issues relative to supply chain that's slowing down a shipment. So, you're seeing the backlog build substantially in that customer base. So, that just did – the fact that it slows down our ability to roll that business. So, we'll see their ability to pull out of that, but they have a huge backlog. If you look at the main truck builders in the U.S. in particular, they've got a big backlog.

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

I guess, on that point, do you have the visibility in that Fire business or could we see some, I guess, volatility in numbers quarter-to-quarter because of that?

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

I don't think so. I think actually if you – any volatility in the near-term is going to be positive if they get better at shipping. But I don't think you're going to see them increase by 10% or 20% their volume coming out of their factory. So, I think it's going to be marginal.

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

Yeah, if anything, it stabilizes a bit...

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

Right.

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

...if there is a downturn, because they're going to work off that backlog as the macro economy slows.

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

Got it. Thank you.


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

A

You bet, Allison.

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

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

Q

Good morning, everyone.

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

A

Good morning.

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

A

So, Andy, you talked about – a little bit there about that your kind of worst fear of what could happen in the macro economy here as being kind of a stagflation environment or recession with inflation in it.

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

A

Yeah.

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

Q

You guys have talked about maintaining a 20 basis point to 40 basis point spread above these inflationary pressures. Given the strong demand, you can say how that's possible to do. If you got into kind of your worst possible outcome environment here, would you still be able to maintain that spread, are the businesses critical enough to the customers? You've got nichey businesses with high market shares. Do you think you could still maintain that kind of spread in that kind of environment?

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

A

I do, Nathan. I think, is it possible that in a quarter or two in that kind of – what you're describing is a radical environment that we haven't seen in 40 years, right?

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

Q

Yeah.

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

A

But if you got that, could you – I think we would keep it. Certainly, if you look at it in a year-long window, I don't think we'd go negative, and I don't believe there's been a time in IDEX history when we have. Would there be – would it be really tight? Yeah, it'd be a lot tighter. But that would work itself out in a matter of a quarter or two. I


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don't believe there's any environment that would be sustained in a way that we get behind that curve for any meaningful period of time.

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

That's helpful. And I know we've talked about inflation and you guys have signaled that – for a while now that you expected inflation to get worse in the back half of this year, and it sounds like you expect it to get worse in 2019. Can you talk about maybe what you're expecting in terms of inflation to hit the P&L in 2019 given everything that you know at the moment and understanding that...

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

Yeah.

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

...that's a moving target?

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

So, I think – so, let's – for a second, let's separate tariffs and other inflation, and then obviously they come back together in total inflation. But, in what I'd call a core inflation, that's actually starting to stabilize. So, if you look at what's happening with supply and demand generally in our market spaces, you're seeing that stabilize. The wildcard that destabilizes all of this is tariffs. And I think that, if you look at what's going to be enacted on January 1, assuming that it happens, there is another impact that I think is pretty meaningful.

And then, where I get concerned are, what bullets are left in whose guns and how our actors going to behave based on that. And so, given the fact that certain actors don't have many bullets left, they can start to work with regulatory issues, they can start to work with the ability to slow down permitting and stuff like that, right, that also turn into inflationary issues.

And so, my point of view is that, as we go into 2019, assuming that the demand environment is essentially what we have now that the incremental inflation is going to be tariff-driven and that's just – that's a wildcard because we just don't know how people are going to – we don't know if people are going to be rational or irrational, we just don't know.

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

Okay. Thanks very much. That's all I got.

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

Okay. Thanks, Nathan.

**Operator**: Our next question is from Matt Summerville with D.A. Davidson. Please proceed.


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

Q

Thanks. Couple of questions. First, can you give a little bit more geographic specificity in terms of what you experienced organically across the regions and whether or not, in China specifically, have you seen any discernible change in business tempo into October?

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

A

Yeah. So, generally, if you look at it, our – China and India were very strong for us. But I would put the vast majority of that strength on our ability to execute. China has been a terrific turnaround story for us here in the last 12, 18 months, and has driven really nice growth. The U.S. would be next, and then Europe has softened. It's still positive, to be clear, but it has softened compared to what we were seeing earlier this year, late last year. So, that's how I kind of rack and stack them.

In terms of China specifically, I do think that the underlying conditions have softened. I don't think we're going to see it in a big way in our numbers just because I think we've got a lot of initiatives that are going to continue to drive growth for us here in the near-term. But when you talk to folks in China and you see the underlying conditions, it is pretty clear that that has softened, and there is a lot of concern, right. When you talk to people independently in China, there is a lot of concern about the overall slowdown that they are experiencing.

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

Q

Are there any specific end markets, Andy, that you would call out either in Europe or China that may stick out to you as we head into 2019 as maybe being softer spots potentially for you?

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

A

Bill, would you think anything specific to call out?

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

A

No, I mean, little bit on the Municipal side.

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

A

Yes. That's what I was thinking too. Yeah.

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

A

That would be the one I'd probably point to.

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

A

Yeah. Muni has softened generally and that's very susceptible to government spending. So, that's one. So far, the more cyclical businesses, so I'm thinking oil and gas and chemical, those have been really good, and we haven't


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seen indicators, but those – back to Mike's question early on, those are some that can pause pretty quickly with slowing down projects. So, we've got our finger on the pulse of that pretty carefully. But there isn't – I would not say that a singular industry that jumps out other than maybe Municipal.

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

And then, I would say, it's been really positive this year, so I think...

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

Yeah.

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

...it will slow next year.

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

Yeah.

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

And then, just a follow-up in terms of how customers or how their concern on tariffs, and the comments you made earlier, Andy, are you seeing any customer behavior that would suggest they're actually trying to buy ahead of some of these things, including the potential ramp-up, incremental ramp further on January 1? Are people trying to get ahead of that?

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

We did see a little bit of behavior early in the quarter that we can't demonstrate it. We can't prove it, but it did look to us like folks were accelerating some buy in the July and August timeframe. We did see some of that, but again, because so much of what we do is configured, that's a harder thing to do in our business generally, but we do think we saw a little bit of that. And, yeah, could we see that pre-January? We could, we could. But I don't think – you're talking a point or two here or there, it's not five points.

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

And for anyone who did try to put an annual PO in to get ahead of anything next year, we didn't let them do that. We consolidated the amount of time they were going to be able to buy ahead on purchases.

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

Yeah.


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

Q

Got it. Thank you, guys.

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

A

Thanks, Matt.

**Operator:** Our next question is from Brett Linzey with Vertical Research Partners. Please proceed.

Brett Logan Linzey
*Analyst, Vertical Research Partners LLC*

Q

Hi. Good morning, guys.

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

A

Good morning.

Brett Logan Linzey
*Analyst, Vertical Research Partners LLC*

Q

Hey. You called out Energy as strong, you had a little bit of follow-up commentary as well, but maybe just talk to some of the projects or the size and scope of the engagements that you're seeing out there. And then, maybe just a little bit more color on the pace of activity in upstream versus mid in some of your chemical markets?

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

A

Yeah. So, on the oil side, you got to remember, again, where we play. We play more in the midstream, and as you recall, we knew that that business was going to be kind of later in the overall pick-up, and that has been the case. The two places we're seeing at the most are really our LC and our Corken brands. Both of those have had a nice run here this year and real strength in the third quarter, and we expect that to continue.

The overall truck builds for LC have been good. And our Corken business, they're benefiting from the market, but they've also done a great job in terms of some new products and their ability to serve customers that I think is differentiated. So, I think they're winning some share there.

In the overall chemical markets, really no change. I think you're seeing the CapEx that we hadn't seen in some time. The book and bill business is stable and we expect it to be, and it's going to really all be driven by what happens with CapEx.

Brett Logan Linzey
*Analyst, Vertical Research Partners LLC*

Q

Okay, great. And then, maybe just shifting to Muni, I think in your prepared remarks you said that business was stable. Are you suggesting the rate of growth is slowing a little bit and dollar revenues are sort of flattening out here, maybe just a little bit of context on your comment? And then, just the overall state of spending with different metrics and issuances...


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

Yeah.

Brett Logan Linzey
*Analyst, Vertical Research Partners LLC*
Q

...starting to moderate here?

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

So, our view is that the Muni market in the Western world is moving to a low-single-digit, more normalized growth rate after a pretty good run here. And so, we think that we're looking at that low-single-digit growth as we go into 2019 and even further out as we think about our own strat planning period.

And all the data around it suggests whether it's tax receipts or the projects that we're seeing, everything supports that point of view. Obviously, in the U.S., enforcement is at an all-time low, and so we don't expect to see a pick-up from anything in that regard. And so, we think we've entered into a pretty normalized environment that gets impacted by the overall economic condition.

So, if the overall economy remains relatively good, I think we see this kind of 2-ish-percent growth in the markets. And if we get a pick-up, that picks up a little bit, but I don't think it moves in a big way from either side of that growth rate.

Brett Logan Linzey
*Analyst, Vertical Research Partners LLC*
Q

Okay, great, I'll pass it along.

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

Thank you.

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

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Hey, thanks. Good morning, guys.

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

Good morning, Charley.

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

You had some comments on semiconductor, it sounds like maybe the only area that you're actually seeing a little bit more slowdown. Can you just put a little more color around that?


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

Yeah. So, if you look, we don't have a large concentration in semi. You're talking about a few points of our overall business. But we've had a great run there. If you look at our Seals business, if you look in our Pump businesses, we've had a really, really nice run with semiconductor here. Part of it's been the overall strength of the marketplace, and then, we've continued to take market share. And so, it's been a good new story for us.

Our expectation has been and is that there's been so much capacity that's come on that you're going to have to, even though you have the secular growth story, which I do think is real, right, the secular growth story in the semiconductor world I buy into, but I don't buy into the idea that it's not cyclical. And so, I just – I think we're going to – we're seeing some of the digestion of all the CapEx that's come on, I think growth rates will slow, and if there's a little bit of a cyclical downturn, won't surprise me. But I think the overall secular story is a good one.

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Great, thanks. Appreciate that color.

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

You bet, Charley.

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Just one more for me. It sounds you guys are always obviously big on new product development, R&D spending...

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

Yeah

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

...but it sounds from some of your commentary and maybe the investments you've made that may have stepped up a little bit, I'm just trying to see if I'm reading that correctly, or is it just typical IDEX that we've seen historically?

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

I think, we have stepped it up some, Charley, and – but it hasn't been – it's not a new thing. If you went back even a couple of years ago, we called out some incremental investments when we guided for the year that surprised people a little bit. And I think the work that we have done around segmenting our businesses to really better understand those applications where we have real advantage and we can really grow in a faster way within segments, we've done a better job of doing that, and the capital and the people investments have moved disproportionately to those things. And so, it's kind of great, as we're looking at our strategic plan here for the next three years, we've been through that here in the last couple of weeks, it's really fun to see a larger number of bigger bets that we're making, and capital and organization that are aligning with those.


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And so, when I think about our ability to outgrow our markets by couple hundred basis points, forget about – you can pick the market growth rate that you want, can we or can't we do that? I have increasing confidence that we can do that. So, if we end up with a – in a 2% world in 2019, boy, I hope we can deliver 4%, and then you can kind of go from there. So, I feel good about the actions and the alignment, and we're really at multiple years into this journey already, so it's not like we're starting from scratch.

Charles Brady
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Got it. Thanks very much.

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

A

You bet.

**Operator**: Our next question is from Joe Giordano with Cowen & Company. Please proceed.

Tristan Margot
*Analyst, Cowen & Co. LLC*

Q

Hey, guys. Good morning. This is Tristan in for Joe, thanks for taking the question.

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

A

You bet.

Tristan Margot
*Analyst, Cowen & Co. LLC*

Q

Could you talk a little bit about the inventory levels of your distribution network especially for FMT, and then how much of order growth in the quarter was due to maybe inventory levels, if any?

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

A

I don't think any, Tristan, yeah. We – the only places that we really have a good piece of visibility into that is really in our FMT business, mostly around industrial distribution. And if you look at where we get POS and the sell-through rates, it indicates that we're in pretty good shape. I don't think there's been a large buildup. We don't – our distributors don't stock a lot of stuff anyway. So, I don't – we don't kind of get a lot of benefit or a lot of – or a hit on the head when you see those things bump up and down. So, generally, I feel pretty good about it.

Tristan Margot
*Analyst, Cowen & Co. LLC*

Q

Great. Thanks. And then, just another quick one. You obviously appear to be outperforming a lot of your markets. So, I was wondering how much of this is your ability to target your sales force or how much is due to simply having the right product?

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

A


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Tristan, for us, when I think about segmentation, it is an alignment of all of your resources. So, number one, it's a clear choice of where you want to play and where you have an advantage. So, you're aligning sales, you're aligning application engineering, you're aligning new product development, and then obviously your ability to serve is aligning too. That to me is the key. So, it's not just one piece of the organization, it's around segmentation, resource allocation, and our ability to focus an application at a time that I think allows us to differentiate.

### Tristan Margot
*Analyst, Cowen & Co. LLC*

Q

Great. Thanks.

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

A

Thank you.

**Operator:** Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing remarks.

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

Thank you very much, Sherry. Well, first of all, I want to thank all of you for your interest in IDEX. We're obviously living in a pretty volatile time that we're all looking at. But I feel great about our company. We have – we've built a team here across our 7,000 people that understands how to deal with any of these environments, so whether things are moving at an accelerated pace forward or we hit an air pocket, either one, we know how to run this business, it's an exceptional business, it's well-positioned to deliver outperformance, and I feel very good about that.

And with that, I want to thank the folks at IDEX. This is a great team of people who consistently deliver day-in and day-out, and I want to thank everybody. And then finally, just before we go, being a Mainer at heart and growing up in New England, I got to say Go, Red Sox.

So, thank you very much, everybody. I look forward to talking to you in the next 90 days.

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


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