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IDEX Corp. (IEX)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation Fourth Quarter 2018 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, Bill Grogan. Thank you. You may begin.

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

Thank you, Matt. Good morning, everyone. This is Bill Grogan, Chief Financial Officer for IDEX Corporation. I'm stepping in for Mike Yates this morning and will cover the introduction. Mike unfortunately lost power overnight to the polar vortex hitting Chicago and is anxiously waiting power to get restored to his house. We're hoping you get back power soon, Mike.

Okay. Let me start by saying thank you for joining us for discussion of the fourth quarter and full-year 2018 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months and year ending December 31, 2018. The press release, along with the presentation slides to be used during today's webcast can be accessed on our company's website at idexcorp.com.

Joining me today is Andy Silvernail, our Chairman and CEO. The format for our call today is as follows: we will begin with Andy providing an overview and update on market conditions, geographies and our capital deployment

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strategies; I will then discuss our fourth quarter and full-year 2018 financial results and walk you through the operating performance within each of our segments; and then, Andy will wrap up with our outlook for the first quarter and full-year 2019. Following our prepared remarks, we'll open the call for 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 13684161, or simply log on to our company homepage for the webcast replay.

Before we begin, a brief reminder. This 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 now turn the call over to our Chairman and CEO, Andy Silvernail.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Bill, and good morning, everybody. I appreciate you joining us here to discuss the fourth quarter of last year and also the full-year operating results from 2018. I'm going to start with some highlights from 2018 and then move to the outlook for 2019. 2018 was another record year for IDEX. We hit all-time highs in all of our key metrics and we continue to outperform the market. The overall macro economy was strong and our team is capitalized when we leveraged our target organic growth initiatives to deliver results above and beyond the underlying market support.

We continue to invest back in our businesses with record levels of CapEx and engineering investment in 2018. Those investments help drive our terrific top line performance as well as margin performance. We saw over 100 basis points' improvement in op margin in all three segments. Our balance sheet is in great position and we have plenty of capacity to deploy capital across our framework and drive long-term value for shareholders.

Looking ahead to 2019, we're moderating the geopolitical and global economic environment and its volatility. However, we're confident in our long-term strategic objective to grow faster than the underlying market. We're able to do so as a result of our lien positions and diversified product portfolio, and we look forward to another solid year in 2019.

Now, let me take a moment to talk about what we're seeing in the markets that we serve and the regions we do businesses in. In the industrial market, the conditions remain favorable and we see this in both FMT and in HST. Day rates for our book-and-ship businesses continue at high levels, project activity is decent and our growth funnel is very solid. And scientific fluidics and optics, our life science markets continue to expand. We're seeing strong growth across IVD/Bio and DNA sequencing driven by new product – project traction and share gains.

In energy, we did see some softness in Q4. And with the fluctuation of energy prices, we expect to see that kind throughout the year. As it firms up now, that could get better as we go into 2019. The teams continue to drive growth to new project activity and over-serving our customers.

In ag, the OEMs are holding up but depressed commodity prices and lower net farm income are concerning. We're watching that closely as we head into 2019.

On the municipal markets, the North American market is stable and expected to modestly expand. Our focus remains on new product development in water and investment in emerging markets within fire and rescue.

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The semicon market is small for us relative to our portfolio but it's grown rapidly in the last couple of years. It was a difficult market in Q4 and we see more softness into next year.

Now, let me move onto the geographic outlook. Sales across all geographies performed well in the quarter with North America leading the way. We're starting to see lower market support in Europe and Asia, but our targeted growth initiatives have driven positive results across the globe. Looking ahead, the fundamentals are still decent as evidenced by stable day rates and strong project funnels, but we do have pockets of concern in some markets and general caution with the overall 2019 global economic condition.

Let me switch gears for a second here and talk about what we're seeing with tariffs and inflation. In the current tariff environment, if we expect that to continue, our best estimate is an incremental $5 million to $7 million of impact in 2019. We'll continue to employ internal countermeasures to offset these additional costs, and we do not see them as significant headwinds for us as we go into this year.

Inflation has slowed down on the materials side, but we are experiencing wage inflation. However, we have and will continue to mitigate inflation through productivity and price realization. Again, regardless of the external environment, which we expect to be more challenging and remain volatile in 2019, we're committed to outperform our markets.

Let's turn now and talk a little bit about M&A. The current valuation environment remains the biggest hurdle for us when it comes to acquisitions. Our team is hard at work with evaluating several deals, but we're going to be disciplined with our return framework and we'll only move forward when our target has great strategic impact and financial impact, and it fits our style of competition.

Shareholder returns is our number one focus, and we'll continue to evaluate deals with our commitment of providing long-term shareholder value. Our balance sheet is in very strong position. And when the right deal comes along, we'll capitalize on it. Our gross leverage is 1.3 times and our net leverage is only 0.6 times.

Consistent with our balanced capital allocation framework, we repurchased $174 million of stock in 2018, with $122 million of that coming in the fourth quarter with opportunistic purchases. We also returned $127 million to shareholders in 2018 via dividends.

I'm going to pause now. I'm going to turn it back over to Bill Grogan, who is going to talk about financial results and our segment discussion.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Andy. I'll start with our consolidated financial results. I'm on slide 4. Order rates slowed down in Q4. We were up 1% overall and 2% organically. However, for the year, orders were up 7% overall and 6% organically; a solid year from an order intake perspective.

For the Q4 slow down, I'll get into more detail as we go through the segment discussions. But I'd like to say this, our core industrial franchises did extremely well in the quarter. Secondly, we did see some timing-related issues where we had some early receipts in Q3 and some delays out of Q4. And, finally, we did see some true softness in a few markets. But we think the quarter was closer to 5% organic growth number if we normalize for some of these items, closer where we think our new run rate will be for 2019.

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From a sales perspective, Q4 revenue was up 5% overall and organically as well. While fiscal year revenue was up 9% overall and 8% organically. This was our highest organic sales growth since 2011. We expanded gross margins by 10 basis points for both Q4 and the year, primarily due to production efficiencies and volume leverage. This was partially offset by investments we made in engineering related to new product development.

Q4 adjusted operating margin was 23.3%, up 120 basis points. And fiscal year adjusted op margin was 23.4%, a 150 basis point increase. The teams did an excellent job of leveraging the great organic performance throughout the year in the bottom line results.

Q4 net income was $98 million, resulting in EPS of $1.27. Excluding restructuring expenses, adjusted EPS was $1.31, up $0.19 or 17%. Full-year net income was $411 million, with EPS of $5.29. Again, excluding restructuring expenses, adjusted EPS was $5.41, up $1.10 or 26% higher than last year.

Our Q4 effective tax rate was 23.8%, resulting in an ETR of 22.4% for the year. Both rates were lower than our previous guidance, resulting in $0.04 of EPS favorability in the quarter. The difference was primarily due to additional interpretations the IRS provided and tax reform, along with the reduction in the statutory rate in the Netherlands.

Free cash flow for Q4 was strong at $137 million, up 14% and 136% of adjusted net income, which resulted in full-year free cash flow of $423 million, which was up 9% and 101% of adjusted net income. Free cash flow was only up 9% for the year, primarily due to working capital and capital expenditures investments that we made to support our long-term growth.

In regards to the balance sheet, it remains very healthy. Gross debt leverage is 1.3 times, while our net debt leverage is at 0.6 times. The combination of our strong balance sheet, capacity on the revolver and free cash flow provides us the ability to deploy well over $1.5 billion over the next 12 months.

I'll now turn to our segment discussion. I'm on slide 5 starting with Fluid & Metering. FMT continues to deliver strong numbers from both an order and a revenue perspective. Q4 orders were flat overall, up 2% organically; while full-year orders were up 6% overall and 7% organically. The lower order rate was primarily driven by the timing of pre-season orders for Banjo, wherein Q3 orders were up 36% and Q4 orders were down 5%, as well as we saw some project push out in the quarter in the chemical and energy markets. Q4 sales were up 7% overall and 8% organically, while full-year sales were up 8% overall and 9% organically.

Adjusted for restructuring expenses, Q4 op margin was 29.1%, up 70 basis points over the prior-year quarter. Full-year op margin was 29.2%, up 150 basis points. FMT's performance was primarily driven by market growth across the industrial and chemical sectors, coupled with continued stability in the muni market. Those served as the core drivers of growth over the year as evidenced by strong global demand and core distribution and project wins across the group.

Oil price fluctuations in Q4 did postpone some investments, but we're seeing market conditions improve as we have seen prices increase and stabilize. Ag order rates did slow in Q4, primarily due to the timing of the pre-season orders I mentioned earlier, but the fundamental economics in ags do give us some concern heading into 2019.

Project funnels in various end markets remain strong and active, but have been less predictable in timing as we close out the year with the backdrop of caution in the global market. However, overall, the targeted growth efforts

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across our businesses in the segment continue to gain wins and market share regardless of the slower market support.

Let's move on to Health/Science, turning to slide 6. We're very pleased with the Health/Science results both for Q4 as well as the fiscal year. Q4 orders were up 10% overall and 9% organically, while full-year orders were up 10% overall and 7% organically. In the quarter, the 9% organic growth was aided by some timing shifts related to receipts of annual POS by some of our large OEM customers. Q4 sales were up 8% overall and 7% organically, while fiscal year sales were up 9% and 6% organically.

Excluding restructuring expenses, Q4 adjusted op margin was 23.4% and full-year adjusted op margin was 23.6%, both margins up over 110 basis points over the prior year.

HST's performance is primarily driven by continued success in IVD/Bio and our Life Science Optics businesses where they continue to outpace the market due to targeted MPT efforts in collaboration with key customers. HST industrial remains strong with double-digit growth due to some large wins within our gas business and also continued strength in their day rate distribution business. Strong execution in MPT drove customer lead times and helped enable growth. We also had some solid project wins in the pharma and food space that drove double-digit orders increases. Finally, despite the downturn in the semicon market, our Sealing Solutions continue to perform well in oil and gas and the industrial end markets.

I'm moving on to our final segment, Diversified. I'm on slide 7. Q4 orders were down 10% overall and 8% organically, primarily due to the lumpiness of our dispensing business coupled with the timing of a large annual blanket order at BAND-IT, while full-year orders were up 5% overall and up 4% organically. Q4 sales were down 2% overall and 1% organically, while full-year sales were up 9% overall and 7% organically. We'll give more details on that in a moment.

Excluding restructuring expenses, Q4 adjusted op margin of 26.5% was flat with the prior year, while adjusted fiscal year-end operating margin was 26.8%, up 170 basis points from prior year. FSD sales performance was primarily driven by our fire business reporting high single-digit growth due to strength across most of their product categories and geographies.

Rescue sales were up due to strong project volume in emerging markets and several wins in key markets in the U.S. BAND-IT saw growth across most of its verticals with transportation sales up due to significant volume increases in their airbag applications through new product – new platform wins. They also had some nice project wins in the Middle East.

The sales growth in fire and rescue and in BAND-IT was muted by the lumpiness of the dispensing business which was down 25% for the quarter, but it was up 7% for the year. Dispensing does have market-leading positions across all of their geographies, but it is our most project-oriented business and creates tough comps from time to time. The dispensing sales decrease was the primary reason for op margin being down – being flat for the quarter as well for FSD.

I'll now pass it back to Andy to talk about our expectations for 2019.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Bill. Everybody, I'm on slide 8, we can walk through 2019 guidance. So, on operational basis, we expect full-year organic revenue growth to be in the 4% to 5% range, which will provide $0.30 to $0.50 of benefit to EPS.

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We expect our productivity initiatives to offset inflation and then leverage these actions to drive about $0.03 of benefit over 2018.

As I mentioned earlier, our focus has always been to invest in our best organic opportunities: people, new products as well as applications – new applications for existing products. We'll continue to make these investments across all three segments, and these growth investments will create about $0.05 of pressure in 2019.

Although our two acquisitions in 2018, Finger Lakes and Phantom, will provide very modest boost to the top line in 2019, we're not expecting a significant benefit to the bottom line because of deal amortization.

Let's take a quick look at a couple of non-operational items. First, FX, it will be a headwind in 2019 based on the December 31 rates and provide about $30 million of top line pressure. The bottom line pressure from FX, it has two pieces to it that together add up to about $0.15. $0.11 is from FX translation due to the higher rates, plus an additional $0.04 on foreign currency transaction gain recorded in Q1 of 2018 as we unwound intercompany loans relative to tax reform – 2017 tax reform that we talked about last year. Second, share buyback activities that we mentioned before have taken our share count down and boost our EPS in 2019 by about $0.06.

So, in summary, we're projecting organic revenue growth in the 4% to 5% range and have EPS expectations of $5.60 to $5.80.

We're going to wrap things up here. I'll summarize things regarding 2019, the fourth quarter and the full year, I'm on our last slide, that's slide 9. In Q1, we're estimating EPS of $1.35 to $1.38 with organic revenue growth again in the 4% to 5% range and op margin at about 23%. We're projecting a 1% top line headwind from FX, again based on the December 31 rates, which translates to about $0.02 of EPS. However, as I mentioned earlier, we're also facing additional $0.04 of FX headwind from the transactional gain that we incurred in Q1 of 2018. The Q1 effective tax rate is expected to be 22.5% and corporate cost should be about $20 million to $22 million.

If we turn to the full-year 2019, again EPS is expected to be $5.60 to $5.80, full-year organic revenue growth should be in the 4% to 5% range and op margin ought to be about 23.5% to 24%. Top line FX will be impacted by 1%, again based on the December 31 rates.

Full-year effective tax rate should be about 22.5%. CapEx is anticipated to be about $60 million and free cash flow should be about 105% to 110% of net income. And corporate costs are expected to be in the range of about $80 million to $84 million for the year. As always, our earnings and guidance exclude any potential associated costs of future acquisitions or restructuring.

With that, Matt, we're going to pause here, and I'll turn it back to you for questions from folks on the phone.

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QUESTION AND ANSWER SECTION

Operator: Great. Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Allison Poliniak from Wells Fargo. Please go ahead.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

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

A

Hey, Allison.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

I want to go back to – I think I heard it correctly on the order rates in Q4, I'm trying to normalize some of the puts and takes, were you saying the order rate was around 5% organically or did I hear that wrong?

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

A

Yeah. Let's – we'll talk to it and let me give just a little bit of high level, and Bill, if you want to jump in, go ahead.

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

A

Yes.

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

A

So, it was a pretty unusual quarter from an order perspective, Allison, and what I mean by that is if you kind of look at our normalized booking and term business and our normalized funnel, that was kind of right in that 4% to 5% range. So, it was real solid. But we had a bunch of things that moved around. In dispensing, we had some pretty big overall project things that moved around, and actually, in BAND-IT too. And so, in both those places, we had some pretty good sized chunks of things that got pushed over into 2019. And so, we – I can – I would certainly understand the concern of a headline, organic 2%, but I do think that the underlying day rate support is more than that mid-single digit. Bill, anything you want to add?

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

A

Yeah. [indiscernible] (00:20:30) as Andy said, a lot of puts and takes, but if you normalize our core, as we reconcile the business, as we prepare to go into 2019, really comfortable with a – close to 5% organic number in Q4, hence our guide for the balance of 2019.

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

A

What I would add to it, Allison, that I didn't mention on the positive side in the fourth quarter, we had a real nice blanket order that happened in HST. And so, we will see a whole relative to that, that usually has happened historically in the first quarter and it happened in the fourth quarter. So, as we – when we – when we're talking again here in 90 days, you will see some headwind from that on an order rate basis in HST. So, just so you understand the puts and takes.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Oh, great. That's helpful. Thank you. And then, you talked about project push-outs, I think you mentioned chemicals specifically. Is this just typical project push-outs that happen or does this some – you feel like something underlying is going on there at this point?

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

A

The fourth quarter was a pretty lumpy quarter. I mean, historically, what we'd see is we'd see shrunk ramp through the quarter. In the fourth quarter, it happened right up until the holidays, that's what kind of things would look like. And what the quarter looked like here was a weaker October, actually a really good November, and then a weaker December. And what we – and obviously, we've been talking with our customers to make sure there's not something systemic and what we just heard time and again is, is with all the craziness in the world, there was a big pause in December. And so – and by the way, what we've seen in January supports that. So, I walk out of January not feeling really concerned about what we saw in December and I think it's normalizing now. Bill, anything you'd add there?

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

A

Yeah. I'll just say, so that the point is the things that we saw pushing December we've realized several of those here in January.

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

A

Yeah.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks so much.

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

A

You bet, Allison. Thank you.

Operator: Our next question is from Mike Halloran from Robert W. Baird. Please go ahead.

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

Q

Hey. Morning, everyone.

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

A

Good morning, Mike.

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

Q

So, just following up on that. When you think about the non-lumpy piece of the business, so getting rid of dispensing and any of the other project oriented...

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

A

Yeah.

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

Q

...and stuff, how have you seen trends track, trying to strip out comparisons, has it been relatively stable in the context of that or has it seen some of that same December stall and then reaccelerate?

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

A

No. There's been – well, maybe a little bit of that, but not as much as, I call it, the project-related stuff, Mike. And so, generally that – it's the day rate businesses and if you look at – if you guys think of day rate businesses, it's basically everything except for a couple things in life sciences that happen once or twice a year, dispensing, MPT, and then the BAND-IT thing, they've got a couple of large customers that typically put in blankets and move around. But that is not really project-related, Mike, it's more just when does the blanket hit. Everything else in the portfolio, so you're talking 75% of the business is you're looking at day rate type of stuff or maybe two-thirds of the business. And that's real stable; nothing surprising there.

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

Q

And you always offer good broader perspective, so maybe you can try to balance with a certainly confident commentary on your side and growth expectations for 2019 that are healthy with a lot of the headline news we're seeing and some of the regional risk and geopolitical risk out there, and how you're blending that all together?

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

A

Yeah. So, maybe, Mike, the way to take a step back and think of it is we believe we'll deliver 200 to 300 basis points better than the underlying market. And as we have triangulated on global industrial production forecast, those look to be in kind of the 2% to 3% range, and that's what kind of gives us confidence around that 4% or 5% as we think about this year.

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That being said, we were very purposeful in our written commentary here on our prepared remarks about the volatility that we continue to see in the world. I think that the fourth quarter, that variability that you saw, October, November, December, is a good example of what I think the world is going to look like.

We had eight quarters of sequentially ramping growth rates. And I think we mentioned a quarter or two ago, certainly last quarter, that we thought that was going to change and become more lumpy and more volatile. And that is where we are. And so, if we buy into a 2% to 3% industrial production, we will land at that 4% to 5%, we feel very confident. But that underlying volatility is real and it's something we're paying a lot of attention to.

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

Q

So just one follow-up on that. And because there is volatility month-to-month, quarter-to-quarter here, what are you guys tracking or looking at internally to give a sense for what is just volatility...

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

A

Yeah.

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

Q

...or cause for more concern?

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

A

Yes. So, I'm going to say there are kind of two or three things that really matter, right? So if you think about what accelerates our business or decelerates our business, Mike, right? One is, what's happening to day rates. And the day rates actually matter more to us than anything else because so much of our business is quick turn. And so, we're monitoring those. And in those, we've always talked about the BAND-IT core industrial business, the Gast business, the Warren Rupp business; those are three really good beacons. And right now, they tell us that things are okay. That's what they'd say. So that day rate piece is something we spend time on.

As you look at project, as you know, Mike, we don't typically do big projects. I mean there is one here, one there that's really meaningful. What matters though is the size of them and what's happening to where they sit in the scheduling. When you start to see projects shrink in size, number one; and number two, they get multiple kicks down the road, that's when you start to worry, right? When you get something pushed from December to January, you kind of get it, especially when it shows up in January. You understand it. If you get the January, no, it's now April, nope, it's not – when you start to get that and things that were $1 million have now gone to $250 million, that's when you start to get concerned.

The last thing I'd say is just really close relationships that we have with our OEMs and our value-added distributors, those are conversations that are just happening every day. Now, sometimes they don't know their own business as well as we do sometimes. And so, understanding kind of what's happening to their turnaround. We don't see a lot of things stocked for the most point, but we do have electronic compounds at major OEMs, so we monitor those. And we do have a handful of distributors who are a little bit more classic in their inventory setups. And so, we watch those two.

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

Q

Great context, as always. Appreciate it.

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

A

You bet.

Operator: Our next question is from Deane Dray from RBC Capital Markets. Please go ahead.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

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

A

Hey, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

And special shout-out to Mike to get his power back and get back to normal.

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

A

Yeah. No kidding. It was 26 below, Deane, when I drove in. That didn't include the wind.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Yeah. That's just gets dangerous.

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

A

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

So good luck with all of that. I think you're sending it our way to the East Coast...

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

A

Oh, boy.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

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Hey. Just let me echo Mike's comments, just then how helpful it is that way you were able to parse out your business and the indicators, that's real helpful to us. And just to clarify, I heard Bill chime in at the end on Allison's question about those two orders...

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

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

...that were pushed, the dispensing and BAND-IT, so are they in that January category? Maybe just a bright color on those, since it's so fresh.

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

So the BAND-IT order, they split their annual PO into two six-month POs. So we expect that to get the BAND-IT piece later in the first half. And dispensing a couple of projects, we have landed and expect to land here within the next couple weeks.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Good. You said BAND-IT's typically blanket type order. And so, that's...

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

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

....classified.

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

Yeah.

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

Deane, that is a very specific large aerospace customer that we have. Most of the balance of their business is in that type.

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

Yeah, yeah.

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

So it's isolated really to a single customer and how they're breaking up their orders in 2019 versus what they've done in the last two years.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

And we've seen some softening in the whole dispensing supply chain, is that also what you're seeing there?

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

So the issue we have with the dispensing, right, is we monitor market share gain pretty carefully, right, because of our leadership position and to make sure that we're not losing anything significant. So that's kind of number one. Number two, when you get into some of these larger programs, they hit periodically. And it just makes for, frankly, a really difficult comp when you go for – and you can't go for a year or two without having that.

And so, we had some activity in 2017. As we closed out 2018, we didn't have that. And we'll see what happens here in 2019, right? We track every single age of machine and replacement cycle and et cetera. But it's really driven by some of these larger paint retailers and whether they're going to refresh or not and we just don't know that really until a few months until they're ready to move.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Got it. And then, just a swing over on the 2018 free cash flow, it came out on the right side of that 100% threshold...

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

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

...that everyone watches.

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

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

...and you parsed out the two factors which makes sense, a higher working capital and the CapEx.

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

Yeah.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

So, maybe some color there, how much of the working capital reverses? And then, on the CapEx, can you call out any of the projects and what kind of IRRs that you're seeing or that you expect on those investments?

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

A

You want to take that, Bill?

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

A

Yeah. Yeah. Sure, so I would say specifically on the CapEx, I think this year we looked at a bunch of investments relative to new products and getting the capabilities to enhance our ability to get to market faster. We looked at several businesses that we had that had the opportunity to upgrade equipment to improve productivity and throughput to support the increased growth that we had, right. These are 12 to 24-month returns, higher than our overall IDEX return on invested capital number. So, no brainer from an investment perspective. And the teams really took a hard look as we've seen CapEx ramp, still significantly below most of our peer groups relative to the capital we need to operate the business in, but high return projects. Relative to the working capital, there is some opportunity here as we level out on the growth side to unwind some things and you see our guidance is higher than the 101% that we saw in 2018.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Great. And just last quick question on Fire & Safety. Have the orders started to show up yet in India, I know that's a big...

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

A

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

...growth opportunity for you guys, where does that stand?

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

A

Yeah. I was actually over there between Thanksgiving and Christmas and we did a specific review on that. And that's actually starting to play out nicely. We're starting to get some of the wins. The spend, as you know, is – it's got – it's a little bit of a national and then it turns into kind of regional or state how the funds are distributed and we are seeing some of that break and we're seeing some pretty nice growth there.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Terrific. Thank you.

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

Thanks, Deane.

Operator: Our next question is from Nathan Jones from Stifel. Please go ahead.

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

I'm going to go into the margin side of this. The guidance for 2019 has "only" 30 to 40 basis points of margin expansion.

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

Thank you, Nathan.

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

Well, it's a – it is a significantly less than whatever you guys have been doing for the last few years.

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

Yeah.

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

So, I'm wondering if we could – if we can talk a little bit about that the puts and takes there, I'd imagine that there's probably not that much left in your fixed bucket at the moment that says margins crop up a bit. Obviously, there's some impact from higher investments here, probably a little bit lower incremental margins because you got a little bit lower organic growth, but just if you can walk through kind of the puts and takes of that margin increase in 2019.

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

I think – let me talk about it first, and if Bill wants to kick in too, we'll do that. But I think that the increase that we're looking at to me is what a normalized expansion should look like based on the kind of growth that we're factoring, right? So that to me feels right. Frankly, in 2018, our margin expansion was a little high, right. So, it – obviously we outgrew our expectations. And so, we just got much stronger incrementals throughout the year. I've said a few

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times that, look, if you're below 30% incrementals, you're probably investing too much. And if you're above 40% for a long time without kind of structural actions, then you're probably not investing enough. And so, this feels about right.

And I think we can sustain that at those growth rates. And then, if you saw the world get tougher, our job would be to boost that and not lose a lot of ground here, right. And for some reason we saw some improvement in growth rates. We'd probably invest a little bit more, probably not as aggressively as we had the last two years but we'd probably invest a little bit more, Nathan, than we have. And part of – if you go back to the bridge, you can look at – Bill, I may get this wrong, so correct me. But I think last year, we laid out $0.16 of incremental investment for the year in our bridge.

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

Kind of a little bit less than that, but those double-digit – yeah.

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

Yeah. And this year is kind of 5-ish. So, you can see what we are definitely tailing that back down a little bit based on how quickly the environment is expanding.

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

Does the – does currency impact the margins at all or is this primarily just translation that just affects the actual dollar number but not the margin?

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

Correct.

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

It's translation, that's right.

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

That's right.

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

Got it. Maybe just – I know everybody is fairly concerned about the environment in China, and I think you guys do less than 10% of revenue over there, but you do have a few businesses that participate over there. So, just any color you can give on what you're seeing in China at the moment?

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

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Yeah, absolutely. And part of that trip, I was in India, I was in China in that same period too. So, that was a big question you are talking about here just a month ago. Look, it is definitely slowing. There's no doubt about that. There are – the concern on the ground in China is pretty substantial. When you get – when you start talking to the people who are living it day to day, they are concerned about the growth rate. We've had some really strong growth in China in the last year or two because of we frankly fixed a problem that we've had for a while, and so we've had some good growth and we expect to see some continued good growth because of that. But I do think overall that market support is coming down.

Now, the key to it then I think, Nathan, is where are you picking, right. So, which markets are you picking in. This is a ubiquitous statement that everything is slowing, but more things that not are. And so, I think we've got to be in China for China to sell into the region. You got to be in there for the long term, but I do think you know certainly in 2019, I think it's going to be more challenging.

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

Just last one on capital allocation, you guys got a bit more aggressive in the fourth quarter on share repo. Is that just a function of the market melted down and you saw an opportunity to get your stock at a good price and we shouldn't read more than that into it?

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

I think that's exactly right. We're following the framework that we've always talked about relative to intrinsic value and being more aggressive when we see disconnects and we saw a disconnect.

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

Okay. Thanks very much for the time.

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

Thanks, Nathan.

Operator: Our next question is from Scott Graham from BMO Capital Markets. Please go ahead.

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

Good morning, Andy. Good morning, Bill.

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

Good morning.

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

Good morning, Scott.

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

Q

I was hoping you could tell us what pricing was in the quarter and then what materials inflation was relative to that? I know that's not how you do it. You look for productivity, but I'm just – for the purposes of the old price cost question...

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

A

Sure.

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

Q

...if you could help us out. Thanks.

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

A

Yeah. Price capture was a little bit over 0.10 inflation. We maintain that 30-point spread that we've been able to do throughout the last two years.

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

A

Yeah.

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

Q

And that's just materials inflation or was that oil inflation?

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

A

That's material and wage at a gross margin level.

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

A

How about they cover just materials.

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

A

It's...

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

A

It slowed a lot.

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

Yeah.

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

Yeah. Right. So, there is – materials leveled off – material inflation leveled off in the back half and a little bit of kicker as we saw some of the tariff increases come through in the third and fourth quarter.

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

Got it. Bill, you went through the capital allocation thinking for 2019. You mentioned the billion-dollar number. Forgive me, but I wasn't able to write that fast. So, could you kind of say kind of where you guys are at capital as we should be heading into the year?

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

Scott, we're at 1.3 times gross leverage and 0.6 times net. We have – what we said in our comments, it was over $1.5 billion. It's closer to $2 billion that we have availability on at any time here in the next 12 months.

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

So, would it suggest that in the absence of M&A that your $0.06 of share reduction benefit for 2019 might prove conservative?

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

Well, it depends, right. So, we're going to stick with the framework. And as we've said several times but just to remind folks, our framework, we take a look at and we just did it in the fall with our board, we take a look at what we think the long-term intrinsic value is. We build in a buffer relative to opportunity cost of capital. And then, as we see our stock behave relative to that, we decide how aggressive we're going to get and we build that framework into a 10b5-1 in close periods and we use the same framework in open periods. And so, what we try to do, Scott, is really bring discipline to it. So, it's not people reacting emotionally to good or bad news.

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

Got you. Last question. Can you tell us after essentially what is now the first month you indicated that you were sort of run rate day rate orders or were kind of 5-ish...

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

Yeah.

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

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...in the fourth quarter. What does that number look like in January?

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

It's not much different, right. It's – we're basically we kind of on our plan so far for the year. So, we feel pretty good about it. I mean, just as start of the year, not – I wouldn't get overly excited about it and it's not bad news is basically what we expect.

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

Understood. Thanks a lot.

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

Thank you.

Operator: Our next question is from Matt Summerville from D.A. Davidson. Please go ahead.

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

Thanks. Just two questions. First, can you give a little bit more geographic granularity around how you performed in North America, Europe, Asia for Q4 around that 5% and then what the expectation is sort of around the 4% to 5% that you're guiding organically for 2019?

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

Yeah. So we – so, North America as we said in our comments, North America continues to lead the way, and it has so for quite some time. And all indicators, Matt, suggested that's going to be the case in 2019 unless we see a material global softening, right, which – that is the biggest concern that I have, the biggest concern that I have is the volatility that we have, the geopolitical instability that's out there, the length of duration of the expansion overall – not the industrial but the overall. That's what I think the risk is. But North America has continued to be strong.

Asia and Europe both started to soften two quarters ago, I think we mentioned that in the last call. And that's continued. Now, Asia is kind of dependent upon where you are, right. So, China has softened. India is still pretty good and other parts of Asia-Pac have been okay.

Europe, I think the biggest concern in Europe is Germany, right. We've got a pretty good footprint in Germany. We export a lot to other parts in the world from Germany, and the softness that I think everybody experienced was above expectations, right. It was softer than people had thought. So, that's a place that where we're keeping a pretty close eye on.

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

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And then, as my follow-up, can you just give a little more detail on what you're seeing in your energy phasing businesses and FMT and with respect to BAND-IT, maybe tying in sort of up, mid, downstream commentary there?

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

Yeah. So as you know, Matt, we've got to be somewhat careful in this commentary because we're not the best barometers for what's going on in the energy field just by the nature of the nicheness where we play number one and the fact that most of what we do is kind of midstream. And so, I would just caution people that we're not the best barometer.

But that being said, when the energy prices kind of tank there, we did see a slowing and it was reasonable. I mean, it was a material slowing for that piece of business, which has since we've seen a pick backup here. Some of what we're experiencing in terms of positives, we know, are driven by our own activity. So we've got some very specific wins that we got BAND-IT that we can put our finger on, they were kind of non-market related. Same thing I'd say over LC and Corken. And so, I would say that the general market conditions have been softer with recently a little bit of improvement, but I still think that that's a – I'm going to put that in the cautionary category. And our job is to keep getting wins and frankly keep taking down lead times.

One of the things that we've certainly learned around energy is that the folks who are deep in the upstream, the pricing sensitivity is brutal when things go south and we just don't have that. So that's not a place we want to put big bets into the future, but also lead times really matter, right? So your speed of service and quality of service is a major advantage in those markets. And so, we're spending more time really trying to build that advantage.

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

Thanks, Andy.

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

Thanks, Matt.

Operator: Our next question is from Joe Giordano from Cowen and Company. Please go ahead.

Joseph Giordano
Analyst, Cowen and Co. LLC
Q

Hey, guys. Good morning.

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

Hey, Joe.

Joseph Giordano
Analyst, Cowen and Co. LLC
Q

So, Andy, I've got to say you sound more optimistic than I expected on this quarter.

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

Well, I think, Joe, obviously everyone gets a little bit of reputation. Yeah, I think my optimism is more on our ability to execute than it is on the markets, to be clear, right? We've built some really excellent capability around executing. And, look, we're kind of living with what the global "experts" are saying around global industrial production. And that's a really good starting point for us. But where I feel good is our ability to consistently outperform.

And so, a lot of this depends upon what your view is, right, of the markets. And at this stage, we're not bucking the trend. We do tend to be earlier cycle. And so, I will tell you there are parts of the fourth quarter I get a little nervous during the fourth quarter because of the clunkiness that we were seeing. And that coming back has given me a better feeling about certainly earlier in the year.

Joseph Giordano
Analyst, Cowen and Co. LLC
Q

So you're talking about the 200 bps that you expect to do over market, and I think you've proven the ability that that's a reasonable expectation. But when you think about that market component, that other 200 bps, I have a couple of auto guys that we've talked to in the different market clearly, but...

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

Yeah.

Joseph Giordano
Analyst, Cowen and Co. LLC
Q

...they're guiding like way underneath what current third-party estimates are for growth. So do you feel like you're gaining the market at all, or are you just like this is the number which it will probably go down, but we're using what they say for now, like, does that makes sense?

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

It's hard to tell, right? So my point of view of this is we kind of start with what does the world think is going to happen, what do the experts saying is going to happen. And we tend to be a little more bearish on that than average, right? So if the world is saying 2 to 3, we'll tend to go more towards 2 than we will towards 3, right?

Joseph Giordano
Analyst, Cowen and Co. LLC
Q

Yeah.

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

And then, from there, it's really starting to dissect where we have exposure and where we don't, right? And the nice part of our portfolio is we have really broad exposure. And so, there isn't a lot on the margin that happens relative to our exposure versus global exposure, except maybe in a quarter, right, a quarter or a half year. And then, it's really driven by our ability to get some things done.

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And so, as I sit here, my confidence level in our ability to execute is high. My confidence level on the responsibility and the capability of the folks who are in the geopolitical discussion is exceptionally low. I have no confidence that they're going to get it right. And so, my concern then, right, is in event that gets driven by the intersection of the aging cycle and the irresponsibility of global leaders.

Joseph Giordano
Analyst, Cowen and Co. LLC

Q

I think that's definitely fair. Last thing for me, so you guys spent a lot on growth investments this year. You're calling out another $0.05 next year.

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

A

Yes.

Joseph Giordano
Analyst, Cowen and Co. LLC

Q

So obviously less of an incremental, but still a big number of a big year, like in gross dollar terms.

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

A

Yes, yes.

Joseph Giordano
Analyst, Cowen and Co. LLC

Q

So do you feel like you're teeing up more and more things to start restructuring and taper down, like, maybe not executing on them yet, the things that have gone, day rates still look good, but are you like teeing up more of this stuff now than you were like maybe a year ago?

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

A

I think if I actually take a look at cap spending, let's go back two or three years, right, because that's when it started to pick up a little bit. We went from kind of 1.6%, 1.7%, we're now kind of 2.1%, 2.2%. So that, call it, 0.4 to 0.5 of increase in cap spending, what that's been associated with is really is the function of all of the segmentation work we've been doing for a half a decade and getting better and better at picking the organic growth opportunities and the productivity projects that have much bigger bang for the buck. And so, I go back to my comment just a few moments ago. My confidence level about our ability to execute over and above whatever the market does is really based on that. And so, that investment is mirroring that condition. And so, I think where we are is I feel pretty comfortable that we're in a range that we like to be for a while.

Joseph Giordano
Analyst, Cowen and Co. LLC

Q

Fair enough. Thanks, guys.

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

A

Thank you, Joe.

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Operator: Our next question is from Walter Liptak from Seaport Global. Please go ahead.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Hi. Thanks, guys. I think I've got one question left for you. We covered a lot. I wanted to go back to the margin questions. And you're netting inflation with productivity. So, I wonder if we could just drill down into that productivity part of it, how do you feel about productivity in 2019 and how much more is there to go on bringing up margins 2019, 2020, is there still a lot of work to do?

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

A

Hey, Walt, it's Bill. I would say a couple of things. First, I'd refer to Andy's earlier comment on margin expansion in that 30 basis points to 50 basis points relative to the 4% to 5% growth that we've seen. Relative to our ability to drive incremental productivity, there's still stuff out there. I mean the teams had a rolling 12-month funnel that we leverage, actively looking at ways to improve material cost through alternate sourcing, reengineering parts to take cost out, labor efficiencies, overhead streamlining through, we did site consolidation this year and other capital investment to improve our overall throughput with enhanced technology. So, as we look at the funnel, our projects that we've signed up for this year from our internal plans is on par with what delivered in 2018.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. And just thinking about that longer term, you guys have done a great job with productivity over the last few years. Are we – are margins sort of peeking out here or is this the kind of a process where you can keep on going for a number of years and continue to get that 30 basis points to 50 basis points margin improvement?

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

A

Walt, I think we can still go get more. And I've kind of two pieces of thinking around that. The first one is we spend a lot of time looking at the difference between our contribution margin and our op margin. And when you do that walk, right, you've got about a 40-point walk that we call conversion cost. And so, you can still reinvest aggressively back into the business and still very, very actively improve conversion cost to get the kind of lift that we're talking about without starving the business.

So, that's kind of the first, just I think structurally one of the things that I think makes IDEX different and far more on average more attractive financial engine, for lack of a better term, is that reality, right. And so, if you assume you're going to get positive growth in the business, once you get kind of past 2%, at about 2% you're paying the bills, right. You're covering your normal inflation. And once you get past that, you have the ability to get some level of expansion. And if you're in the mid-single digits, you're going to get that 30 to 50 basis points, chances are. And I think that that reality of the IDEX economic engine, I think, is really, really important. And so, we just spend a ton of time – but when we say productivity, right, we're not trying to grind out kind of marginal productivity. We go into every cycle. When I say cycle, Bill said, we've got a 12-month rolling funnel. Every time we have a business review, we're looking a year forward and we have a base expectation that people are going to cover or do better than inflation. And when you partner that with a business to get positive – that gets positive price, there's really no reason why you can't continue to see margin expansion. Certainly, as you move from what we're calling now 23% to 24%, into the mid-to-high 20s.

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Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay, that sounds great. Okay. Thank you.

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

A

Thank you, Walt.

Operator: Thank you. This concludes the question-and-answer session. I'd like to turn the floor back to management for any closing comments.

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

So, first of all, let me just say thank you for everybody for your time and your effort that you put into following IDEX. We appreciate that the analyst community and we appreciate our investment community. I think it's important to note, we – we're very cautious about the underlying environment, right, that's out there in terms of where we are in the cycle, in terms of the likelihood of a recession. We very much believe that somewhere in the next 24 to 36 months, there's going to be a recession and we believe that to be true.

At the same time, we think that the long term relative to the industrial cycle, we actually think is really attractive. And so, we want to put ourselves in a position to really win over the long term and I like what we're doing in terms of focused investment. Putting our money in our highest priorities, continue to segment our business, building our team. And the team has done a great job and I want to congratulate them, they've really been outstanding. And so, I want to thank everybody there.

And then, just as a final word before we go, being a Maine Native from New England, I've got to say, Go Pats. So with that, we'll cover things. We'll finish up the day. I want to thank you, Matt, and thank you everybody again. Take care.

Operator: Great. Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.

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