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IDEX Corp. (IEX)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

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

Thank you, Doug. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation.

Let me start by saying thank you for joining us for a discussion of the IDEX first quarter financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending March 31, 2019. 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 update on market conditions, geographies and our capital deployment strategies. Bill will then discuss our first quarter financial

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results and walk through the operating performance within each of our segments; and finally, Andy will wrap up the call with an outlook for the quarter and the full-year 2019. Following these prepared remarks, we'll open the call for your questions.

If you should need to exit the call for any reason, you may access a complete replay beginning approximately two hours after the call concludes by dialing the toll-free number 877-660-6853 and entering conference ID number 13684162, or you may simply log on to our company's 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 our call over to our Chairman and CEO, Andy Silvernail.

Andrew K. Silvernail

Chairman, Chief Executive Officer and Director, IDEX Corp.

Thanks, Mike. Good morning, everybody, and thank you for joining us for our first quarter call. I'd like to start with some key themes. Q1 results are strong and somewhat better than our expectations from 90 days ago. Bill will walk you through the details, but overall I'm pleased with our organic growth in both orders and sales, the team's execution, it was outstanding driving operating margin expansion and cash flow. And this helped us deliver another quarterly EPS record driven by both operational outperformance and favorable tax rate. Momentum continued in our industrial, municipal and life science markets, but was partially offset by softness in ag and semicon as well as some lumpiness in our project-oriented businesses specifically dispensing and MPT. There were some concerns in slowing global economic – the global economy, and those do remain, but we're confident in our ability to grow faster than the underlying markets as a result of our market leading positions, our ability to capture price and deliver on our targeted growth initiatives. Pulling it all together, we're raising our full year EPS guidance while maintaining our organic revenue growth expectations.

Now, I'd like to take a moment and talk about we're seeing across the markets we serve and the regions we do business in. In the industrial market, the overall conditions remain favorable with continued strength in OEM and our targeted growth initiatives. We are, however, seeing some day rate volatility in pockets of our business due to customer caution about the macro outlook. In scientific, fluidics and optics, our life science markets continue to expand. Our IVD/Bio business is leveraging new product launches and platform wins to drive growth and the AI market demand remains solid. In energy, we're seeing some rebound driven by higher oil prices, mobile truck builder demand is increasing and we're seeing positive signs in the aviation fueling space.

In municipal, the North American market continues to modestly expand. Our focus remains a new product development notably the recent launch of our new hydraulic tool and our SAM system and fire and rescue, as well as continued expansion in emerging markets. In ag, we're experiencing some contraction due to macro uncertainty around the soybean tariffs and the OEM slowdowns. We are seeing some growth in Latin America and Europe but North America is a challenge.

In semicon, we continue to see broad based pressure by lower investments in Asia and the downturn in memory chip demand after substantial growth in 2017 and 2018. In auto, as you all know, there has been a slowdown in global light vehicle sales and that's driven some softness in this market but as you know that's a relatively small piece for us.

Now, let's move on to the geographic outlook. Sales across the majority of geographies performed well in the quarter with North America leading the way. Asia was positive specifically India and China but was primarily driven by our initiatives versus the macro trends. The European economy lost some traction in Q1 and we saw

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some supply chain disruptions ahead of Brexit. And finally, we are seeing some softness in the German economy. Nevertheless, our targeted growth initiatives and new products continue to drive positive results around the globe.

All right. Let me turn now to capital deployment. M&A continues to be a priority for us. With that said, it remains a challenge in the current environment due to valuation. Our teams have evaluated several deals but our approach has not changed and we will remain very discipline with our return framework. We will only close on a deal if it fits the IDEX in competition and delivers long-term value for our shareholders. This remains our number one priority.

As I said, our balance sheet is very healthy. Our gross leverage is 1.3 times and our net leverage is 0.6 times. When the right deal comes along for IDEX, we will capitalize on it. In terms of other capital deployment, we did repurchase $52 million of stock in the quarter at an average price of about $140 a share. We also returned $33 million to our shareholders via dividends.

Let me now turn it over to Bill, who's going to go over our financial results and our segment discussion.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Andy. I'll start with our first quarter financial results on slide 4. Q1 orders of $655 million was an all-time record and was up 4% overall and 6% organically. All three segments were up with FMT leading the way. Q1 revenue was $622 million, up 2% overall and 4% organically. We expanded gross margins by 40 basis points to 45.6% primarily due to price, production efficiencies and volume leverage, partially offset by investments in engineering related to new product development. Our Q1 operating margin was 23.8%, up 120 basis points compared with the adjusted prior year period, mainly driven by our gross margin expansion, lower intangible amortization and lower variable compensation costs.

Q1 net income was $110 million resulting in record high EPS of $1.44, up $0.15 or 12% over prior period – prior year adjusted EPS. Our Q1 effective tax rate was 19.5% which was lower than the 24% in the prior year period, mainly due to an increase in foreign tax credits, discrete tax expense in the prior year period and the mix of global pre-tax income. The first quarter ETR of 19.5% was also 300 basis points lower than our previously guided amount, mainly due to a higher excess tax benefit from greater than expected stock option exercises in the quarter. This lower tax rate accounted for $0.05 out of the $0.07 EPS favorability compared to the midpoint of our previous guidance. The remaining $0.02 of EPS favorability was operationally driven. Free cash flow was solid at $76 million, up 12% over last year and 69% of net income. This was our highest Q1 free cash flow of all time.

In regards to the balance sheet, no change here. Gross and net leverage remain very healthy. The combination of our strong balance sheet, capacity on a revolver and free cash flow provides us visibility to deploy $2 billion in the next 12 months for the right opportunities.

I'll now turn to the segment discussion on slide 5, starting with Fluid & Metering. FMT continues to deliver strong numbers from both an order and revenue perspective. Q1 orders were up 8% overall and 10% organically. Q1 sales were up 4% overall and 6% organically. Our margin was strong at 29.6%, up 110 basis points over the adjusted prior-year quarter, mainly due to price, volume leverage and productivity initiatives. As Andy mentioned earlier, we are seeing some day-rate fluctuation in pockets of the business. But overall, the fundamental strength within the industrial sector continues to drive solid results.

Our Viking and Richter businesses posted record order and sales in Q1 with continued project wins in the processing and chemical markets across the globe. The municipal water business remained steady and the oil and gas market conditions have improved due to oil price increases and stabilization. The only business in the

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segment that contracted year-over-year was Banjo. The concerns we highlighted with the ag market in Q4 materialized in Q1, and we continue to be cautious on the balance of the outlook for Banjo. Overall, the targeted growth efforts across our businesses in this segment continue to gain wins and market share.

Let's move on to Health & Science turning to slide 6. Q1 orders were flat overall but up 1% organically. We highlighted on our last call we expected a tougher comp for HST orders due to an OEM blanket we received early in Q4 of last year. Along with the last time buy we offered customers in Q1 of 2018, as we eliminated a product line as part of the Rochester COE project. Normalizing for the items, orders would have been up 5% organically for the segment. From a sales perspective, Q1 sales were up 2% overall and 3% organically. I'll give you a bit of more – more color on this in a minute. Operating margin increased 10 basis points to 24%. This was primarily due to lower amortization. Core margin performance was negatively impacted by lower project volume in FX at MPT. Overall, HST's performance was primarily driven by continued success in scientific fluidics and optics. Underlying AI and IVD/Bio markets remain positive and we continue to grow through targeted MPT efforts in collaboration with our key customers.

GAST saw strong underlying industrial OEM demand and solid execution on our growth initiatives in the food and beverage market. On the negative side, organic growth was impacted by contraction in our sealing business, which was affected by both a downturn in semicon and lower auto sales. Finally, MPT backlog remained strong and has grown sequentially versus last quarter. But timing of project shipments is skewed towards later quarters in the year due to longer lead times.

I'm now moving on to our final segment, Diversified. I'm on slide 7. Q1 orders were up 5% overall and 9% organically. Revenues were down 2% overall, but up 1% organically. Operating margin of 25.8% increased 90 basis points in the quarter. This was mainly attributable to price, productivity initiatives more than offsetting our volume decreases. FSD's performance was driven by our fire and rescue business continuing to see growth across most of the product categories and geographies with several project wins resulting from new product launches.

BAND-IT saw growth in several of its verticals with aerospace leading the way. They also had some nice project wins in cable management. Our dispensing business was down around 15% organically for the quarter as they had a tough comp against some larger projects last year. We expect them to recover some as we progress through the year, but will be down overall for the full year based upon timing of customer replenishment cycles.

I'll now pass it back to Andy to provide an update on our 2019 guidance.

Andrew K. Silvernail

Chairman, Chief Executive Officer and Director, IDEX Corp.

Thanks, Bill. So, let's wrap things up, and I'm going to summarize here with some additional details on 2019 for both the second quarter and the full year. I'm on our last slide, and that's slide 8. In Q2, we're estimating EPS of $1.47 to $1.50, with organic revenue growth in the range of 4% to 5% and operating margin about 24%. We're projecting 2% top-line headwind from FX based on the March 31 date which translates to about a $0.02 headwind in EPS. Q2 effective tax rate is expected to be about 22.5% and corporate costs will be around $20 million. Looking at the full year, we're raising our full year EPS guidance. We now expect earnings to be in the range of $5.70 to $5.85. Full year organic revenue growth remains the same at 4% to 5%, with operating margin of about 24%. Top-line FX impact will be about 1% based on the March 31 rates. For the full year, we expect our tax rate to be about 22%, CapEx to be about $60 million and free cash flow in the range of 105% to 110%; and finally, corporate costs in the range of $80 million to $82 million. As always, our earnings guidance excludes any costs associated with future acquisitions or restructuring.

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With that, Doug, let me pause here and we're going to turn it over for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Allison Poliniak with Wells Fargo. Please proceed with your question.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Hi, guys. Good morning.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Good morning.

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

A

Good morning.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Can we go back to the commentary around MPT. I just want to make sure I understand it. I think, Bill, you were saying sales were weak in the quarter, but you have a strong backlog, so it's really timing of when those projects are getting delivered. Is that I heard it correct...

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

A

Yeah. MPT is going to be down for the first half, but they'll be up in the back half, and overall positive for the full year.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah. So, Allison, we actually built backlog and we actually have a great backlog position at MPT, but it's along with dispensing those two tend to be – is the most lumpy of our businesses. And so we're going to see that backlog flush itself through in the back half.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Got it. And then what are those one-time events that you referred to on the side? Is that just the order commentary you were talking about?

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

A

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Correct.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Okay. Perfect. And then on acquisitions, obviously, a lot of dislocation in the markets here, are you sensing I know it's been a long-haul. But any sense of...

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

...multiples kind of starting to pull in any sort of change there that you can give.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Not really. It's been pretty consistent and I think for us, Allison, it really continues to be working it very hard and being patient and disciplined. Eventually something will break here. But the last thing we want to do is do a really expensive deal that doesn't fit our framework. So, we're going to keep our discipline.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Fair enough. And then last – that corporate expense, it looks like it was just adjusted down a little bit. Is that just your cost control or is there something else in there?

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

A

No, it's just a flow-through of the favorable variable compensation that we incurred in the first quarter.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Perfect. Thank you.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Thanks, Allison.

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

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

Q

Good morning, gentlemen.

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

Good morning, Mike.

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

So, I'm hoping to triangulate a couple of things here, Andy, you know if I think back, you were essentially projecting from an end market perspective kind of a low single digit environment with choppiness quarter-to-quarter.

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

Yeah.

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

Is that still the case? Any change there? And then secondarily, could you triangulate that with some of your leading indicator type companies?

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

Yeah.

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

I know you didn't – I don't think you mentioned Warren Rupp, could have missed it but GAST and BAND-IT both were really strong in the quarter. So, I'm hoping you can kind of put those pieces together for me.

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

It was actually mixed, Mike. So, if you go back and you look at how the quarter developed, it was pretty soft in the first half of the quarter and then strength picked up pretty broadly as we got into the second half of the quarter. That was a good sign. And obviously building backlog in the quarter and a 6% order rate is a good sign as we walk into Q2. That being said, those businesses that we look at as being very short-cycle, that was mixed too, right? So we had some – if you strip out some really specific wins that we know we got and you look at the day rate business, pretty choppy. You know in some places and then relatively strong as you get – as you lean more industrially pretty strong. So, I actually don't think that the point of view has changed much from when we talked 90 days ago.

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

Any different on the regional side?

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

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Yeah, a little bit. I think Asia is probably a little bit better than we had expected. North America is just about what we had expected. And Europe's a little weaker.

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

Q

Great. Appreciate it. Thank you.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Thanks, Mike.

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

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Hey, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey, maybe we can start with a review of some of these sector puts and takes that number of the multi industries have been commenting on they were or were not affected. So, let's start with – there were some issues about pull forward of demand out of the first quarter into the fourth quarter. There was a company last night reported after close where it ended up being much bigger than they thought. Did you see any of that dynamic? Was that at all related to the softer start to the year for you guys?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Not really. We had that one order in HST that we talked about but that went into the quarter to fourth quarter but not a big deal.

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

A

That wasn't tariff related, just wanted to get ahead of something that was pure timing.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

That's pure timing with the customer. So, generally, Deane, we're so short cycle that we don't tend to – we're so short cycle and we're not generally in off the shelf product that we don't play a lot in some of these, for lack of a better term, games that you see out there. Last year we did see, as the tariff stuff was kicking in, we did see some

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crazy activity there between the second quarter and third quarter. But in terms of looking at 2019, 2018, I don't think it's material for us.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Good. And then I didn't hear weather come up at all but when I hear about ag softness, there was a company – Pentair had issues there...

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

...with weather, anything on your side?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah. The only weather here was Mike's house being shut down by the weather but...

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That was last quarter.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Exactly, you're right. There was a little bit here and there but not enough to have mattered. Specific to ag, look that market is just soft. And we saw come in late last year we had that bolus of activity that we cautioned everybody on that we didn't think was going to hold. And that has been reality and they're just going to have to work through their cycle. In terms of whether or not that's bottomed yet, you got some people saying that I'm not sure. And so we're going to kind of hold off making that call at this stage. And – but it's an important business for us, but we think we have it triangulated in terms of the rest of the year.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Good. And then just last one for me. Can you comment on price cost in the quarter and any changes in the outlook for the year?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yes. So, we're still above 1% and pricing inflation did settle in a little bit. So we had – we definitely had a little bit of incremental benefit relative to the expectation of that 30 bps to 40 bps, so a little bit better than expected. So, we think we're in a good spot for the rest of the year.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

Great to hear. Thank you.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Thanks, Deane.

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

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

Q

Thanks. Two questions. First, in the prepared remarks, you referenced supply chain disruptions you saw in Europe. Can you get into a little bit more granular detail on that and whether that's still with you here as we're into the second quarter at this point?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yes. Matt, the bigger thing here was really specific to the UK, and we have a number of businesses, fire and sealing in particular that are in the UK. And what you saw was you saw some hoarding of product as people were ramping up to that expected Brexit date. And so we'll see how that plays itself out now that we've got that kick down – that can kick down the road again. But you definitely saw some behavior around relationships between the UK and the continent in terms of supply chain. It's not that big a deal to us, but to that – those businesses, it is. And so we'll keep an eye on it, but I expect it as this continues to unfold, we'll continue to see some of that wackiness.

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

Q

And then, are you seeing any evidence? You mentioned sort of the short-cycle day rate business. But beyond that are you kind of thinking in some of your longer cycle businesses, have you seen any evidence that customers are delaying capital positions awaiting some sort of outcome with all of this trade stuff?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Absolutely. I actually think that if you go back to last summer, what changed was people pulling in capital, be much more hesitant about releasing larger chunks of capital while this tariff stuff is working itself out. And obviously, with the government shutdown in the U.S., those combined events I think made people skittish. And if you look across – I was in China last week, and if you look across kind of behaviors, what's happening in Asia, it's a big time wait and see. And then, any U.S. businesses that could have a lot of China exposure is a big time wait and see attitude on how things are going to play out. So, I do think that there is some constrained relationships between kind of natural supply and demand with this situation.

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

Q

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Thanks, Andy.

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

Thanks, Matt.

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

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

Good morning, everyone.

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

Hey, Nathan.

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

Hey, Andy. Question here just on FMT and the impact that Banjo had in the quarter. I mean, you got pretty phenomenal order growth, 110 basis points of margin expansion. And I think Banjo is one of the higher margin businesses in there. So, it probably was a bit of a drag on margin expansion. Can you maybe talk about what the drag from Banjo was? You're getting pretty close to 30% operating margins now. Can we see that number breach this year?

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

Yeah. So it was – it's less than you might have thought. There is definitely some impact, but it's less than you would think for a couple of different reasons. Most importantly, the margin profile of the rest of FMT has closed some of the gap on the rest of – relative to Banjo. So, the mix impact isn't quite as big as you would think. And when it's all said and done, you're talking about this is a company that is sub 5% of IDEX sales. And so even if you look at it relative to FMT, you're still talking about, what, 12%, 14% of FMT business, is that about right to plus or minus. So, it's not immaterial, but it's not that big a deal; not as big a deal it would have been, say, five years ago.

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

Okay. And then maybe – yeah, you did talk about pockets of weakness in FMT.

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

Yeah.

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

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And you've danced a little bit around what those are. Maybe you could give us some more details on which of the businesses or which end markets that you're seeing that weakness in?

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

Yeah. More generally the pockets of real weakness across the company are around ag, around semicon and auto. Now the good part is as we don't – I mean those – all those things together are sub 10% of revenue for IDEX. So, when you all said and done, yes, there's pockets of weakness there. The bigger thing that I was referencing in my prepared remarks was around the volatility of day rates. And so we've seen this in a couple of different periods kind of going into 2015, 2016 coming out of 2015, 2016 and then last summer you start – as you look at one kind of inflection positive or negative, you kind of tend to see some of this volatility, and I think that goes back to the earlier question that was asked about capital being held up. I think if capital gets held up the book and term business tends to have more volatility in it and also projects get kicked out. So, I think it's a combination of those things. The good news story here is if you get some relief on that, I think that that volatility goes away and you inflect upwards.

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

Okay. So going into 2015, 2016 and coming out of 2015, 2016, that volatility clearly resulted in a big downturn and a big upswing. I guess that the volatility last summer didn't really move the needle in a big way one way or the other.

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

I'd say we still [indiscernible] (26:02) I would argue that we're in a six-month period, if I were to go back kind of the third quarter through the first quarter, I'd say it's been six months of that, right? We've had months that have been weak and months that have been very strong. And so I think we're still in that question-mark zone.

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

Okay. So you're still in the period of volatile day rates waiting to see whether that's going to sort itself out or jump off a cliff or inflect up or something like that. Any sense from you of what you think is going to happen around that?

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

The issue I think is this isn't tied to normal economic activity. It's tied to very big macro and political issues. And so I don't have any idea.

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

Fair enough. Fair enough. And I'm glad to say Mike didn't freeze to death. All right. Thanks, guys.

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

Thanks, Nathan.

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

Thanks, Nathan.

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

Joseph Giordano
Analyst, Cowen & Company LLC
Q

Hey, guys. Good morning.

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

Hi, Joe.

Joseph Giordano
Analyst, Cowen & Company LLC
Q

Hey. So some of like, the higher profile OEMs in some of the HST areas like unmet spec and chromatography, et cetera, talked about having – it sounded like there was some build-up there in the channel perhaps, I'm just curious if there – what you're seeing, I know it's longer sales cycle for you guys there. So what are you seeing relative to that? How temporary does that feel like for you guys?

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

Yeah. So, we didn't see, if you actually look at the life science piece itself that was actually pretty darn healthy. And so we have not seen that play through. With the major customers, we have electronic [ph] compounds (27:45) that are in place with all of them and so we have a pretty good visibility. How that might play through their supply chain, their forward supply chain to their customers back to us, we have less visibility on, but I don't think you're looking at something that's going to be a really big deal.

Joseph Giordano
Analyst, Cowen & Company LLC
Q

Great. FSD I mean I guess the pop in orders probably is a bit surprising to most people, how sustainable do you think that is? Is that a business as a segment that might be down organically this year, full-year, how do you – how are you calling that right now?

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

No. I think – this is Bill. Overall, it's going to be up for the year. I think there will be again quarter-to-quarter volatility for dispensing, right? Sales were down 15% but orders were up 10%. We called out in the fourth quarter. We had something that pushed in the first quarter. We landed that order but fire and rescue really strong mid-single digit and just kind of same expectations for BAND-IT.

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

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Yeah.

Joseph Giordano
Analyst, Cowen & Company LLC

Q

Okay. And then just last for me, I mean we've talked about day rate volatility a bit, a bunch here. Andy, I know that's something that really gets you kind of laser focus, so...

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah.

Joseph Giordano
Analyst, Cowen & Company LLC

Q

...how are you kind of – when you're not sure which way it's going to break, how do you kind of act, do you kind of – do you think – do you kind of get ready for one side or the other or get actions in place that if it goes one way we're ready to cap. I know you hate getting behind that either side.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Yeah. I think...

Joseph Giordano
Analyst, Cowen & Company LLC

Q

How are you...?

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

We are – as I've said many, many times in the past, we react much better to the upside than we do to the downside. And so we can move pretty quickly as demand inflect upwards. And I'm happy to have to chase that a little bit. That's all right with me. The contribution margins are going to be high. And you're really chasing it with supply chain and labor. And so I can deal with that getting way out in the front and having the markets turned over on you is very painful, right, because now you're firing people and you've got a really difficult contribution margin on the back side with the decrementals become painful. So, I'd rather be conservative going into that, have to chase the upside a little bit, then I would getting out in front and having to dramatically react to the downside.

Joseph Giordano
Analyst, Cowen & Company LLC

Q

That's fair. Thanks.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Thank you.

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

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Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning, guys.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Hi, Bryan.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

Nice start to the year.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

Thank you.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

I was hoping you could offer a little color on the SAM launch in fire and safety. And I know it will be literally just introduced to the market, but it seems like that that's going to be a game-changing technology. And curious about initial reception and whether it's already contributing to FSD order rate.

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

A

I appreciate the question, Bryan. So, we had the North American fire show in Indianapolis here a few weeks ago and we introduced both the SAM system and the new hydraulic tool. And I think it's fair to say that the SAM system had incredible reaction. The number of people at that booth, the reaction from customers has been terrific. We have already secured our first major customer around that. I don't want to talk about who at this time. And it's a big deal, right? We made that small acquisition, technology acquisition last year that was all about bringing the user interface and our ability to link all of our components into a singular system, and it's really a – in terms of everyone is talking about IoT and digital and this is a great example of where we're really on the forefront of that. And what's going to happen is over the course of years, we're going to change the productivity and the safety profile of a fire truck and that's a really big deal. Now that being said, this is stuff that happens really slowly and it happens solely for two reasons.

One, there's already a year of backlog in the fire truck OEMs, right? So these things have already been ordered. So, unless somebody wants to fundamentally change the nature of their order, it's going to take some time for that to go through the system. And then second, there's going to be conversion, right, you've got a huge installed base over time. But I think what happens is, you're going to see this over the course of three years to five years. I believe we're going to start taking significant chunk to market share. We've got a great intellectual property around this and I do think it's a game-changer for us. As you think about over a decade, our positioning in the fire market relative to this capability and how it pulls through componentry, it's a big deal.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

That's extremely helpful color. Thank you.

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

Thanks, Bryan.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

And if we could follow up a little on M&A, obviously, you obviously have a lot of dry powder right now and...

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

Yeah.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

...good scale and diversification across platforms. With the resources you have in place is larger scale or more transformational M&A perspective going forward?

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

Bryan, we're pretty cautious about that. If you look at the universe of businesses that would be transformational, so let's say, our size to half our size, right? If you look at businesses of that scope and scale, there are very few that fit naturally with IDEX. There are handful and those are things that we keep up on and we work on all the time. And there are a few that we could do that would be wonderful combinations with IDEX. But it's not very many, it has to be at the right price and you've got to be able to drive real synergies. That being said, as you look from, say, that size down to three – $500 million or so, call it, $300 million to $1 billion in revenue. There's quite a bit of stuff out there and it's really a matter of timing and being able to do a deal with the right kind of economics that fits our style of competition. And if that happens, we will move really quickly. We looked at a bunch this year. We've put a ton of effort into them. And we just need to keep to our style of competition and the discipline around our return frameworks and not get seduced into doing mid-single digit ROIC deals that are "accretive" but are really disastrous to the capital structure and the return structure of our business over the long-term and we're just not going to do that.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

Makes perfect sense. All right. Thank you again.

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

Thanks, Bryan.

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

Andrew K. Silvernail
Chairman, Chief Executive Officer and Director, IDEX Corp.

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Thank you very much. And thank you everyone for joining us here on the first quarter call. More than anything else, I want to thank the teams here at IDEX who do just a tremendous job of being laser sharp focused on our customers, understanding that in a market like this we really do need to execute and execute well and they've done that and then discipline around how we spend this free cash flow and so the teams – I'm very proud of the team that we have and the culture that we've built and I look forward to catching up with everybody in the next 90 days. Take care.

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

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