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IDEX Corp. (IEX)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation's Second Quarter 2020 Earnings 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 our host, Mr. Mike Yates, Vice President and Chief Accounting Officer for IDEX. Thank you. You may begin.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Great. Thank you, Melissa. 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 the discussion of the IDEX second quarter 2020 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending June 30, 2020. The press release, along with the presentation slides to be used during today's webcast, can be accessed on our company's website at www.idexcorp.com.

Joining me today is Andy Silvernail, our Chairman and CEO, and Bill Grogan, our Chief Financial Officer. The format for our call today is as follows. We'll begin with Andy providing an overview of IDEX's second quarter performance and addressing the impact of the COVID-19 pandemic on our operations, as well as the company's response to date. He will then provide an overview of our primary end markets. Bill will then discuss our second quarter 2020 financial results and walk you through a review of the company's cost actions, liquidity and financial durability. And finally, Andy will conclude with our current framework for the third quarter and closing remarks.

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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 the complete replay beginning approximately two hours after the call concludes by dialing the toll-free number, 877-660-6853 and entering conference ID number 13694805; or, you may simply log on to our company's home page 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 this call over to our Chairman and Chief Executive Officer, Andy Silvernail. Andy?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Mike. I want to start by thanking all the people across IDEX. They've really stepped up with the challenges that COVID-19 has presented and have embraced the evolving protocols along the way. As COVID-19 has impacted families globally, we've not been spared loss here at IDEX and I want to make sure that all of our teams know how proud we are of their contribution.

In a crisis, especially one as devastating as this, your true values are exposed and the culture that we've built at IDEX is stronger than ever. We continue to supply our customers with critically-enabling products across the globe, meeting their challenging demands, and partnering with them to rapidly support and develop innovative new products to battle COVID-19. I'm going to share one of those examples here in a few minutes.

Our businesses continue to deliver during this pandemic. With our internal safety protocols and resilient supply chain, we've been able to deliver products with limited interruptions. When issues have arisen, the teams have been able to react quickly and mitigate the impacts on our business and customers. While we've experienced significant sales decreases, our balanced end market exposure and mission-critical product offerings have limited these declines.

The diversification into various life sciences, pharma and municipal applications have lessened the more cyclical declines in energy and general industrial end markets. Also, our operating and finance teams across the globe did an excellent job of de-leveraging the balance sheet and helping to drive record second quarter free cash flow. We converted at 193% of adjusted net income.

Finally, we continue to be proactive on mitigating the bottom line impact from the historical economic dislocation created by the virus. We've ramped down all non-essential expenses to mitigate our organic decrementals at less than 40%. We're leveraging and restructuring actions that we took in 2019 along with new actions that were required in several of our businesses that will see more prolonged volume impacts.

As these organizations right-size for the new normal, we've increased investments in several other businesses to capitalize on several short-term COVID-19 opportunities as well as invest in projects that will support our longer-term growth. We've made swift and smart decisions to keep our people safe, keep our business moving and ensure our financial performance, making sure that we do everything we can to help win the COVID-19 fight.

Turning to slide 7, we outlined four key strategies to operate in a COVID-19 world in early March. Focusing on this framework has been a key part of our ability to perform across our businesses. From a safety perspective, protecting our teams as we remain open has been our priority. The standards we've implemented globally have

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been effective in keeping our operations consistently running with minimal work stoppages across our facilities. We've evolved our protocols and have implemented mandatory face coverings in all of our facilities to protect our employees and limit the spread of COVID-19.

As I mentioned earlier, our operations and supply chain team have done an excellent job ensuring business continuity. We continue to improve our operation preparedness and bolster our supply chain, with plans to help avoid business disruptions. We anticipate continued volatility in the months ahead, and the dynamic planning support structure we've built should serve our businesses well.

Our actions in the second quarter have minimized any concerns we have with liquidity. We issued $500 million of new bonds to pay off our 2020 notes and bolster our cash position. We had record second quarter cash flow and we have $746 million of cash on our balance sheet and full capacity on our revolver. The efforts of our teams have put us in great financial position. We have more than enough capital to fund all of our operational needs through the pandemic as well as position us to take advantage of other capital deployment opportunities.

Lastly, our leaders are spending more time playing offense. Our teams continue to innovate and bring new products to market that capture short-term opportunities, but also lever our portfolio to capitalize on longer term secular trends that are evolving as a result of the pandemic, particularly, around testing for viruses and antibodies, as well as the creation of a vaccine. I will go into more detail on one of those opportunities here in a minute.

We also see the M&A markets open up with more deals starting to come through. While it's still going to be a challenging year from an M&A perspective, we're more optimistic in our ability to get a deal done than we were 90 days ago. With that update on the status of the COVID-19 playbook, I'd like to spend a few minutes walking you through one of the products that's a critical technology in the mass production of vaccines.

I'm on slide 8. In the HST segment, products from our microfluidics product line within our Materials Processing Technologies business are keys to help bring a vaccine for COVID-19 to market. Our Microfluidizer processors are a key technology used to manufacture the vaccine adjuvants required for several of the vaccine trials. Vaccine adjuvants are immune stimulators added to many vaccines commonly used today. By using an adjuvant in a vaccine, the body can produce a better immune response to the antigen or the germ while also allowing vaccine manufacturers to be able to produce more doses of vaccine with less antigen.

In addition to vaccine adjuvant, Microfluidizer processors can be used to manufacture lipid nanoparticles that are key ingredients with the new mRNA-style vaccines currently in the pipeline. The team at MPT has done a fantastic job responding to the increasing demands in the market for COVID-19 vaccine testing and pre-production, and has quickly aligned priorities to meet this market need and participate in the fight against the pandemic. This highlights just one of the ways IDEX businesses have answered the call and wholeheartedly embraced our mission of Trusted Solutions, Improving Lives.

We're moving, now, to slide 9. We've outlined here how we're seeing the current environment impact our primary end markets. In our Fluid & Metering Technology segment, we've seen a broader industrial softness that we called out at the end of 2019 become exacerbated by the pandemic as well as volatility in the oil and gas markets. Our industrial businesses have seen a decline in volume due to the lack of capital investment from our customers. While we've seen the like-for-like replacement sales in these businesses hold up well because of the critical nature of the components, the impact of the soft market [indiscernible] (8:51) pandemic in delaying capital projects has led to broader declines.

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Our water business, while down year-over-year, has held up well as municipal projects have largely been continuing with some delays as municipalities have responded to critical needs of the communities that they serve. Similarly, agriculture has held up reasonably well given a stronger spring season in the US and relatively optimistic demand from growers.

In the Health & Science Technology segment, we've seen two bright spots, coming from both the opportunities I discussed previously as well as a strong rebound in the semiconductor market in 2020, which has largely been driven by demand for 5G products. We've seen semicon come out of the downward cycle that they had experience for the past 18 months. On the other hand, analytical instrumentation, industrial and automotive markets have been impacted significantly. In AI, as the medical industry focused on COVID-19, other investments in lab equipment were delayed and we're just now seeing those investments start to pick up.

Auto experienced a wide-ranging production shutdown, significantly impacting our Sealing business. We expect some modest sequential improvement as we move into Q3, but expect these markets to remain challenged in the short and medium term.

Moving to Fire & Safety/Diversified, we also saw the automotive and aerospace industry shutdown in the US significantly impact our BAND-IT business. Additionally, we've seen lower capital spending, globally, impact our dispensing business as many customers are delaying replacement and upgrades as they assess the pandemic's impact on our business. Our fire and rescue businesses, while countercyclical similar to other municipal businesses, saw non-committed capital projects pushed out due to municipalities prioritizing COVID-19 response and only engage in mandatory equipment purchases.

Previously funded projects continue to grow and demand for our new products and offerings in fire and rescue are partially offsetting these project delays. As I mentioned previously, we firmly believe in the strength of the IDEX business model. While there will be continued softness in some of our harder hit businesses, our diversified end market offerings will mitigate the impact of some of the cyclical declines that we've experienced. Our investments in life sciences, pharma and municipal markets have helped provide countercyclical opportunities that we believe will continue to somewhat offset the weakness in these markets.

With that, let me stop here and, Bill, I'll turn it over to you for the financial results for the quarter.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Andy. I'll start with our consolidated financial results on slide 11. Q2 orders of $522 million were down 17% overall and 18% organically. As Andy just mentioned, the slowdown in our industrial end markets, volatility in oil and gas and the compounding impact of the pandemic drove year-over-year declines in most of our geographies and end markets.

Pacing for the quarter seemed to bottom out in May with April orders down 18%, May down 23% and June down 13%. Second quarter sales of $561 million were down 13% overall and 17% organically. While we are able to maintain operations effectively and avoided extended facility shutdowns, the interruption of automotive and transportation markets, decreased CapEx spending in energy and in general industrial and weakness in dispensing led to the organic sales declines. As mentioned before, we saw relative strength from a bounce back in semicon and new applications we've developed in response to the pandemic.

Q2 adjusted gross margins declined 290 basis points to 42.6% primarily driven by lower volume, the dilutive impact of acquisitions and business mix, partially offset by strong price capture and cost actions which I will detail

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out on the next slide. Second quarter adjusted operating margin was 21.1%, down 340 basis points from prior year, mainly driven by lower volume leverage and the impact of acquisitions, partially offset by restructuring actions in discretionary cost controls.

Our Q2 effective tax rate was 22.7%, which was higher than the 21.7% in the prior year primarily due to a decrease in the excess tax benefits related to share-based compensation. Second quarter adjusted net income was $84 million resulting in EPS of $1.10, down $0.40 or 27% compared to the prior year EPS.

Finally, free cash flow was a record of $161 million for the quarter, up 36% compared to prior year period and was 193% of net income. The strong performance was the result of significant focus and discipline on working capital management aided by federal tax payments push in the third quarter. The teams de-levered the balance sheet with a lower sales volume, primarily through collecting cash from our customers. Pass-through AR was the lowest it's been in several years.

The reduction of receivables will stabilize with the sales volumes. So, we do not view this level of free cash flow performance as sustainable going forward, but we are confident in our ability to drive cash flow conversion in excess of 100% of net income.

Moving on to slide 12. As we discussed in our Q1 earnings release, we dimensioned our cost structure and identified both, discretionary and structural cost actions, we could take to help mitigate the impact of reduced volume. While our overall adjusted operating income declined $38 million in the quarter, we would have expected that $110 million organic sales decline to have a negative impact on operating income of $66 million and our robust 60% contribution margin rate.

This $66 million was offset by $25 million in executed operational actions, $5 million from the impact of restructuring taken in the fourth quarter of 2019 combined with $15 million of discretionary cost controls taken in the quarter along with $5 million of price and net productivity that was partially offset by negative product and business mix.

To reconcile the $15 million of discretionary cost actions for you, we identified $120 million of actions we could take at revenue declines of 35% in our last call. The quarterly impact would have been $30 million. With sales down 17%, roughly half of what our scenario depicted, our discretionary savings of $15 million is also about half of the target.

While the teams did an excellent job in the second quarter mitigating our revenue declines, we saw the need to take additional restructuring actions in several businesses to right-size their organizations for their new normal. The additional structural actions that were taken were focused in those businesses that we believe will experience a longer-term impact from the pandemic and underlying market softness. These businesses had to make some difficult decisions but prudently responded to the existing economic circumstances while also supporting our long-term growth initiatives. These actions will provide another $10 million of annualized savings for us starting in the third quarter.

Turning to slide 13 on liquidity. Free cash flow for the trailing 12 months ending June 30 was $516 million or 138% of net income. As mentioned before, we continue to be well-positioned to weather the current environment. We expect to generate free cash flow in excess of net income as we focus on cost containment and working capital management.

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Cash and cash equivalents totaled $746 million at the end of the quarter. We also have full availability of our $800 million revolving credit facility. With cash on hand, available financing and conservative leverage, we are confident in our ability to continue to meet our obligations, fund operations and make critical investments in the business.

We addressed our prior $300 million 2020 notes during the quarter by issuing $500 million of 3% senior notes due in 2030, ensuring that we have adequate liquidity in capital as we pivot the offense. The proactive steps that we execute in the first half to enhance our focus on liquidity and working capital have resulted in record free cash flow for the quarter. And although we are confident in our current position, we continue to actively monitor conditions with our customers and suppliers to ensure that we are able to react to any market condition.

With that, I would like to turn it back over to Andy to summarize our Q3 expectations and provide some final thoughts.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Bill. I'm on slide 14, folks. As I mentioned last quarter, we believe we will continue to operate in a challenging environment. We do not anticipate the economic recovery from this unprecedented situation will be a straight line and we expect that we will continue to see certain markets remain challenged while others bounce back more quickly. IDEX's strength is in our business model and our people, and we will continue to make prudent decisions to navigate the environment effectively.

We feel strong with the actions we've taken to position the company to weather the existing environment, but as importantly to rebalance strongly as we come out of the other side. We remain well-structured from operational talent and financial perspective but we acknowledge the challenges that we'll face across all of our business units. And we expect that the revenue in the third quarter will be down 12% to 17% organically.

While we expect modest sequential growth from some markets that have started to recover, we know that some other markets will continue to be challenged. We're focused on balancing the need to take responsible cost control actions while investing in areas that will allow us to recover quickly. We look forward to additional ways to play offense and deploy solutions that help in the fight and provide opportunities for us to generate long-term growth.

To conclude, I'm extremely proud of how our employees have responded to this crisis. The teamwork that has been displayed, as we rolled out evolving safety protocols, responding quickly to volatile market conditions, and ultimately delivered critical solutions for our customers, is a testament to the mission and the values of our company and the great people who are central to the IDEX difference.

While we have started to learn how to live and operate in this new world, there'll be further challenges that we face in the coming months. From what I've seen from our team, I have no doubt that we'll continue to meet and overcome these challenges as they come.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from line of Mike Halloran with Baird. Please proceed with your question.

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

Q

Hey, good morning, everyone. I hope everyone is doing well.

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

A

Hey, Mike.

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

Q

So let's start, kind of, where you left off there, Andy, not a linear recovery from here. Maybe some thoughts on how July shaped up, what kind of assumptions are embedded as you think about the rest of the year and the type of curve or how you think things play out. And then maybe little bit more timeframe the next year, a year and a half, what's the organization planning for as it sits here? Obviously, you guys are going to be positioned to be very fluid and be able to attack the problems or opportunities as they come, but what's the base case for improvement as you guys look at and how you're planning for things?

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

A

Thanks, Mike. So, Mike, let me – I'll break this into two parts, so that I answer and tackle the short-term piece or take maybe kind of three parts: what's happening right now, what we expect the rest of the year and as best we can starting to think a little bit about 2021 and the ultimate recovery. Look, short term, July has continued to improve which is a good sign. So we did all of our operating reviews here over the last week or so. And I would say pretty consistently across our businesses, we are seeing sequential improvement, and that's what gives us confidence to believe that we did hit the bottom in May.

You heard Bill talk about sequentially kind of what this looked like. And in July is looking a lot like June; maybe a little bit better than that. And so, barring another kind of global shutdown and/or major issues with this surge that we're seeing, I think we can expect to see this sequential improvement through the balance of the year. And I would guess that when we're talking 90 days from now, we're talking about guidance in the single digit to low-double-digit range on the top line. That's what I'm hopeful for, Mike. But to be clear, that is all with a big caveat of what's happening in the surge in the United States. And also, we're seeing really what is a tragic situation in many parts of the emerging world. So there is a big caveat around all of this.

In terms of the longer term recovery, I'm still very much where I have been since we talked in March on your conference call, and that's that we are going to be in bumpy territory until there is a vaccine. I really do believe that. Obviously, we're pretty close to some of the work that's being done here in our HST segment, in particular. I think the news that is out there is good news on what we're seeing relative to the vaccine.

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But I think we're all learning real time that, number one, these vaccines may not be effective. They may take longer than, I would say, the very optimistic scenarios that are out there right now, and the virus could mutate. And so, our current thinking is very much around you start to see sequential improvement through the third and the fourth quarter and, I would expect, the first quarter. And then, you assume you get a vaccine sometime in the first part of the year that gets deployed throughout. I think that's when you start to see a much more aggressive acceleration.

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

Q

No, that's helpful. And then, second piece on the M&A side, the prepared remarks: tough environment, but a little bit more optimistic.

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

A

Yeah.

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

Q

A couple folds here. One, what is the approach you guys are taking in this environment at a high level? And two, what's driving the optimism behind the thought process?

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

A

Yeah. So at a high level, it really is all about staying very close to your knitting. It's pretty hard to do a deal in this environment with something that is an adjacency that you don't know very well. And the reason for that is diligence is just a lot more challenging. We're involved in diligence in a couple of different deals right now, and one is a European-based business, one is in the US. And it's just not like it was six months ago. You can't kind of physically get out there and do the stuff that you need to do in the ways you have in the past.

And so, you've got to know your markets really well, and you've got to know the essential structure of that business, and what you can do with that business pretty intimately in this environment. So that's kind of a high level. What we've seen here in the past 60 days is simply more deal flow, more – people who we've talked to for years and years and years, and we've had relationships with and been cultivating. There's more conversation to be had.

If you recall, one of the questions that I was asked back, I think, on our last call was how do you get confident? And I said, when you start to feel solid ground around cash flow. And I feel really good about understanding the trajectory of our cash flows. Obviously, we had a phenomenal cash flow quarter. We'll get some benefit of more deleveraging in third and fourth quarter with inventory. And so, now, I feel very, very good about our underlying cash flows, and then, therefore, our ability to predict what a business that is similar to us is going to do with its underlying cash flows.

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

Q

So could, then, you put that also in context of how you're balancing M&A and then buybacks? As we sit here today, pullback on buybacks because of the environment, not because of liquidity, and/or maybe you feel better about the M&A side, so a better place to put capital. Any thoughts there?

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

Yes. So, let me answer that in two ways. So first, we slowed down – we suspended buybacks in the middle of the quarter – or the beginning of the quarter, really. We bought pretty aggressively early on as the stock went down, and then with the just incredible uncertainty, we paused it. We did have a 10b5-1 in place in the second quarter. And so, we're open to repurchase shares. So that is – there's no doubt about it and we have plenty of both capital availability and authorization from our board. So we can do it there.

As always, Mike, we would much prefer to acquire, right. It builds a business strategically. It allows us to compound capital. It creates opportunity for our people. And so, that always remains the highest priority after fully funding our business. And so, we're going to continue to push there. Prices have basically remained the same, for the most part. And so, the trade-off in interest rates and some drop in cash flows because of the pandemic are, kind of, effectively balancing each other out in terms of valuation. And so, from a overall value perspective, we're kind of where we were six months ago.

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

Yeah. That makes a lot of sense. I appreciate the time.

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

Yes. Thanks, Mike.

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

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Thank you. Good morning, everyone.

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

Good morning, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Andy, if you think back like a year and a half ago, we had investor meetings with you and we talked about what the playbook was in a normal recession, okay?

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

Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

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So like, clearly, this is anything but normal. But there's still a playbook that you're running and maybe just want to refresh us on this. So when I look on slide 12, this is very telling, but just if you could amplify a couple points for us. We see the part you cannot control and that's the near-term organic volume, and we see what that drop-through is. Now, to the right, we get the total flow-through after all of your cost cutting and there's a lot of strategy in what you're going to cut, how you're going to cut. So the first question is, that to the far right, the total flow-through, is that an outcome or is that a target? So that's – and as you answer the question, address that and then where are we in terms of how deep will you cut. How much of a growth opportunity are you protecting on the other side of this? Maybe we can start there.

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

A

Yeah. You bet. You bet. So if you – the way to think about this is from a playbook perspective, as you recall, we go into any given year with really a battle plan of what you do on the downside, right. So you're building a contingency plan and we executed on that. We viewed 2020 as having a relatively high likelihood for a mild recession, right. That's where we were in the fourth quarter of last year. And so we took $15 million to $20 million of actions. And you can see that sitting in that next line over, FY 2019 cost action, that's the $5 million that we got in the quarter around that.

And then as you start moving over, we laid out for people a plan or a scenario if things got really ugly, at the end of last quarter, we laid that out saying, hey, if business went down as much as 35%, there was $120 million of cost that we could go after, call it discretionary or variable cost that we could go after, which obviously was very aggressive, and unfortunately, got misinterpreted as we were going to execute that, we had to clarify that with some people.

And then another $40 million of, call it, break the glass, right. And so, as you start to move over to the right, we did execute about half of that discretionary. So, that's the $15 million that you got in the quarter. And then you keep moving over to the right, and we obviously – a good mix of price productivity and acquisitions. And then, we also decided, Deane, that we have a number of businesses that we think are going to be challenged for – considerably. Structurally, the business is now different. And we did some incremental restructuring in the quarter.

What I would tell you right now is there's a little bit left to do in the third quarter based on where we are today. It's not a ton. It's a little bit. And then assuming that the bottom doesn't fall out, we're in a very good spot right now. We don't have more to do. But we can, right? We still got another half of that discretionary that we talked about. It's available. And that $40 million of break the glass, so to speak, we are doing a little bit of that in some businesses, but that is not ubiquitous across IDEX.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. And if I can switch gears and go back to the side on the Microfluidics.

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

A

Yes.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

For a second there, I thought I was on a Danaher conference call. But just a couple of questions.

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

We play in a lot of the same markets.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Yes, sir. A couple of questions here on the application and then broadly are you seeing investments yet on this whole wave of the re-shoring of the US pharmaceutical production capacities? So two questions, one, for this application on page 8, are you both in vaccine discovery and also vaccine production? And then all the pharma re-shoring, are you seeing any of that?

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

Yes. So the answer to your first question is yes and yes, or question a and question b, it's yes and yes.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

So production and discovery...

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

...and production. Yeah.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

...of the vaccine and then eventual production, it gets used in both.

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

Well, so on the discovery piece of this, it's more in our life science business where we're playing in analytical instrumentation and in biotech via sequencing. And if you – this example here with a Microfluidizer, this is not new technology, so to speak, Deane. It's just now being brought to a scale that we've never seen before and we're in a very unique position to be able to scale up a market-leading technology in what is going to be an unbelievable boom in this business, right, around that because we're going to see lots of vaccines produced that actually never get used because all the money that's flowing through that system. And so, we've been a market leader here and we'll continue to be going forward.

Deane, I'm sorry. Can you repeat the second question?

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Oh, the pharmaceutical re-shoring.

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

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Oh yes. Yes. There is – that is definitely happening to a degree. I think it's going to be slower than a lot of people think. It's not easy just to pick everything up but we absolutely will play as that trend continues. And there will be certainly along some of the more sensitive areas, there's no doubt that that's happening. And we will benefit from that particularly in our material process business, it will play a big role in that and then to some degree in our analytical instrumentation and life sciences business.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's real helpful. Thank you.

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

A

Thanks, Deane.

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

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

Q

Thanks. This is just more of a geographic question. Can you give a little bit of color in the quarter around the 17% organic, what you experienced in North America versus Europe versus China. And then similarly maybe at least some qualification around directionally how things progressed in the geographies as things shut down and opened up during the quarter. Just maybe more color around order rates therein as well, if you could.

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

A

Yeah. Sure. So if you look at the geographic breakdown, the US was a little bit worse, Europe was just, kind of, right on, and Asia was better. China was actually positive for the quarter which was a good sign, but we really got hammered in India because it fundamentally just went to zero, right. I mean, there were some sales but there was such a massive shutdown in India. And those are really the big markets that matter for us.

In terms of how things flowed, those numbers that Bill gave you around the months, that was pretty consistent around the world with – what I would say is Asia getting better or China rather getting better, faster, so that was kind of one anomaly relative to the other data. But then, everything really has followed the reopenings.

So, as you've seen reopenings, you've seen improvement as you've seen shutdowns, you've seen business follow suit very, very closely. So that's kind of the best forerunner to what's going to happen to a business. It's what's happening relative to business getting back to business or things being aggressively shut down.

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

Q

You mentioned on the microfluidics type of opportunity, but it also sounds like you're stepping up growth investments elsewhere. Can you maybe frame some of those up and is there any way to sort of size up the magnitude of potential opportunity here with what you're seeing?

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

A

Yeah. So we've got some things that I'm going to call. They're not particularly high beta, and we know how to do them today, meaning there's an application and we know how to do it. So I'll give you an example in spraying technologies and compressors or in the continued global ventilator buildup, our gas business is playing in there. Those are pieces of business that are kind of happening today and are – you can see the path going forward. They may come down. But you know how to do it, and the business is there. And those are things that are in the – those are over $10 million total that you're seeing, right. That's the kind of size we're talking about. These are big overall programs that are heading and are very attractive.

Then, you've got some things, Matt, that are a lot more – that are much higher beta. So we are doing a bunch of work on some revolutionary testing protocols where we have some really interesting technology, and a lot of money is flowing from the outside towards these things. And what I would say is they're either going to be very big. We're talking tens of millions or the technologies don't work and they don't turn into anything. So, there's just – there's a lot more volatility around new technologies that we're playing in, kind of, where the end market goes, how quickly does global testing capability ramp up because when you think about testing capabilities, not just COVID testing that we're talking about, there is – our thesis and I believe this is correct, is you're going to see a reset of global testing capacity because you're going to – no one wants to get caught with this again. And so, I think you're going to see a multi-year buildup of testing capacity. So, two very different types of things, but you're talking in the tens of millions depending upon the success in the commercial markets.

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

Q

Great. Thanks, Andy.

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

A

Thanks, Matt.

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

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Hi, guys. Good morning.

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

A

Good morning.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

I just want to build on Deane's question around that, the playbook that you talked about. Obviously, the portfolio was quite stressed in the quarter. But as you move to that playbook, did anything come to light in terms of a process, a business, or even a regional exposure that you're kind of questioning now that you may kind of go back and have to revisit once things stabilize here?

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

A

Do you mean, like for instance, a business that became vulnerable or something like that, is that's what you mean, Allison?

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Vulnerable or sort of the way you're doing business today that maybe you have to kind of rethink some of that process, anything that came to light that was pretty unique as you kind of move through the stress that we had this quarter? It might be an early question here because we're still going through it.

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

A

Yeah. So, I think a couple of things to that regard, Allison. The first thing I'd say is, I'm going to make a general statement, so not around any specific business, is our ability to work at a distance that we've just all proven that out, right? And I don't like the concept of everyone thinking that we should all work remotely from now on. I think that's a horrible idea. But the ability to intimately work with customers and suppliers at a distance with, I would say, equal or better outcomes is – I think, is going to change a lot of things.

I think our ability to understand our customer better and at a more frequent clip with the comfort level that everyone has now built with technology, I think that's actually a really big deal. And it's important for a business like ours that so application-centric. So the ability to understand the problem, the ability to serve, the ability to problem fix in vitro, I think that's actually pretty important. So that's a big one.

Second, I would say, is the blessing and the curse at times of an IDEX, right, are these very, very high contribution margins. And we love them, and we don't want to – we obviously don't want to give them up. But I think our ability to make some things more variable is important, right. And so, I think, in some of our businesses where the fixed cost is wonderful when you're ramping, boy, when it turns the other way, it can get painful. So, you've got a few businesses out there that I think over time we're going to do – want to do more work on can you make things more variable.

Then, I guess, I think maybe the last thing I'd say is I think everyone has been surprised or, at least, we have been surprised that what you think is fixed and what you think is variable. It's a lot more flexible than maybe people have their head around. And if you just told me a year ago that we could do what we've done with our cost structure, I'm not sure I would have believed it, Allison, to be candid with you. And I think we've demonstrated to ourselves our ability to do that. And I think going forward how do you keep those lessons learned and make sure that we have as dynamic a P&L and balance sheet as we can, both on the upside and the downside.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Great. Great color. Thanks. And then, I guess, just a question on the municipal-facing markets, obviously you saw some pressure with rescue and fire, water was holding in better. Have you – with talking to those customers, are there concerns as we head into 2021 that there could be incremental pressure on those? Obviously, we're seeing in the news every day about various cities and municipalities be coming under financial strain. How are you viewing those markets and is this something that you would anticipate some level of government funding coming in at some point?

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

Yeah. So I think – look, if you went back and looked at the financial crisis from 12 years ago, the municipal businesses held up well, and then 18 months or so later, you saw the suffering. And I don't think it's going to take 18 months this time, because I think everybody has learned how to react more quickly. And I do expect there to be a hole around municipal budgets globally.

And then, I think what will happen is you are likely to get a some kind of step in, in terms of federal funding again – or sovereign funding from governments because some of the stuff that's being delayed right now because they're moving people and money to COVID-related things, it's going to create actually a demand hole going into – it's going to create a hole that you're going to have to fill with demand next year. And so, there's a little bit of compounding that's going to happen here. So I do think it will be – I do think you'll see a hole here over the next 12 to 24 months.

I think it's likely that you'll have some level of federal funding that will step in. But I think either way, there will be a negative comp as you think about the next year or two.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities
Q

Great. Thanks. That's helpful. Thank you.

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

Thanks, Allison.

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

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

Good morning, everyone.

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

Hey, Nathan.

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

I'd like to go back to slide 12 as well and I'm going to ask you a few questions about what that might look like when we change it to Q3. Your FY 2019 cost actions should still have $5 million on that bar. You said you've got about half of the discretionary cost out. So should that discretionary cost bar be $30 million in Q3 or should it be some number between $15 million and $30 million?

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

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No. I'm sorry, Nathan, if there's any confusion on that. The $30 million is what would have happened if we had seen our business go down by 35%, right. So in the quarter, our business was down about 17% organically. And so, we went after about half of that discretionary. So just to make sure everyone on the phone understands exactly what we're talking about, if you went back to our presentation after the first quarter, the $120 million that we outlined was cost that we could potentially take out based on 35% volume decrease. We've had about half of that, so we've gotten about half of the discretionary. That's what that $15 million is.

So if you think about the third quarter, I would expect something around the $15 million, but again volume dependent. So if we end up kind of closer to the $12 million, maybe that number is a little bit lower, but I think the $15 million is probably a good number.

Bill, would you concur with that?

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

Yeah. I agree. It will be pretty close to $15 million next quarter, plus or minus.

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

Yeah.

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

Got it. And then, the price, productivity and mix should be roughly the same; maybe it's a little lower. I mean, I know you've talked about maybe less than appointed price this year. So maybe that's four or five, something like that, and then we have another 2.5 bar from the structural cost actions that you've taken in 2Q?

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

Correct.

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

Okay. So your organic flow-through number is probably going to be something like maybe a [ph] 35 (45:43) or something like that by the time we get to the end of Q3?

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

It was in that ballpark.

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

Yeah, I think that's – yeah, it's in the ballpark.

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

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Okay. Then, the next question I wanted to ask is on this overall 12% to 17% organic guide. Clearly, you have the lowest order number in May. You turn your inventory about every six weeks, so you should have basically worked through that already, if not in the early part of July. You got a [ph] 3.8 year (46:15) comp year-over-year. We've talked about things getting sequentially a little bit better. Maybe you can talk about what would have to happen to be at the low end at that 17%. That would seem to be – you'd have to see some kind of disruption in supply chains or shutdowns or something like that to be at minus 17%. And maybe what you would need to see in order to get better than that minus 12%, because it looks to me at the moment like you should be trending at least towards the better end of that range rather than the worse end.

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

Yeah, the answer to this question is really straightforward, Nathan. I think to be at the bottom end of that, meaning the negative 17%, it would have to look like this past quarter, effectively, right, in terms of how that bumped along. And to be better than the 12%, which obviously, I don't see right now because there's no evidence to that and we did take down backlog in the quarter, I think you have to see more sequential improvement. That's why that 12% to 17% really feels right.

I can see a scenario – there's a potential scenario where that gets a little bit better, unless – the scenario where it gets worse, and it's worse than the 17%, is we get a massive shutdown. And Mike (sic) [Nathan] (47:36) one of the things to keep in mind here also is, so you're seeing a surge in cases in the US. Obviously, Europe has done significantly better at managing this than the US has. So, there's a lot of uncertainty there. And then, frankly, this presidential election is just starting to kick off and I think it brings an awful lot of uncertainty into the world. And so, this is probably going to be the nastiest presidential election that we've seen in our modern history and it's going to cause an awful lot of volatility that – I'm concerned about that. So, those are two things that could make it worse, but I don't see that at this point. I don't see it worse than the 17%.

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

I know you guys plan for the worst and hope for the best. One last one, would you expect to burn backlog during the third quarter or relatively stable?

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

Bill, what do you think there?

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

Yeah, relatively stable.

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

Okay.

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

Okay. Thanks very much for your time.

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

Thanks, Nathan.

Operator: Thank you. Our next question comes from line of Scott Graham with Rosenblatt Securities. Please proceed with your question.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

Good morning. Can you hear me?

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

We sure can, Scott. Good morning.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

Hey, Andy. Good morning. So, I have several questions around the guidance as well. First of all, maybe go back to the second quarter guidance which was minus 15% to 25% and is it a minus 17%. So you sort of came on the better end of that. What surprised you versus the midpoint in the quarter?

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

Yeah. So you remember when we gave that guidance, the world was just starting to unwind. And, frankly, it was very hard to understand what that downside could be. We felt like we could very easily understand what it took to get to 15%. We felt like it was very hard to understand what was coming relative to the low end of those expectations. So it was – we were definitely in a world 90 days ago that our ability to call the top line was significantly worse than our ability right now.

There's still volatility in our businesses, but you are seeing – if you look across our key industrial businesses, you are seeing the flattening of the order rates which is a great sign. As you know, we keep a very close watch on our short cycle businesses. They tend to tell us a lot. The volatility that existed 90 days ago has definitely come down substantially in day rates. And so we feel a lot better around calling this range. So we had a 10-point range at the end of last quarter and we've now shrunk that down to a 5-point range. And typically, right, we're a 2-point range – 1 to 2.

And so I think our ability to call things is getting much better. And assuming that this trend continues and we don't get a massive disruption, I think you'll see us be able to keep tightening that range as we get 90 days from now.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

Okay.

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

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The only thing I'd add to that, I think there was the commercial variability, but then there was the unknown operational uptime and supply chain uptime where I think we've got more comfortable with those two aspects that helped us know the range and the things that Andy identified as potential risk within the quarter, kind of, gave us the range that we have now.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Right. I get that, I guess and in Andy's answer, it sounds to me like the third quarter guidance you feel better about sort of it's a little bit more scientific than the second quarter guidance. I guess to that same end, I would maybe wonder why if you're thinking that things are improving sequentially, it just seems like if you just did a minus 17% in what I think most of us thought was going to be the worst quarter in the history of history, things bottomed out in May. I guess I'm still not quite sure how there is even a 17% organic in that guidance. I mean what's your caution here on that number?

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

A

Well look, couple things we have. We have 1.5 data points, meaning we have the month of June and we have part of July for things sequentially getting better. And I think that if what we're seeing right now holds, that negative 12% feels right, right? So – and that would be sequentially better. If the downside, the 17%, is if you see some kind of significant issue around again, the surge that we're seeing in the United States, just remember the actual numbers are worse today than they were when we were all panicked, right?

The actual data is worse in the United States, in particular, and we're now just starting to see the effects in the emerging world. So the 17% is basically saying that things backslide substantially and they look like they actually did in the second quarter. Now, remember when we were sitting here 90 days ago, none of us had any idea what the real downside scenario was. And I do feel like we've been able to bracket that and understand that in a much better way, Scott, that gives me confidence in that 12% to 17%. I have a lot more confidence in the 12% to 17% than I did in 15% to 25%, a lot more confidence.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Yes. It sounds like that. And so just two other quick follow ups. Number one, let's just look at the minus 12% or let's just look at the midpoint of the 3Q guidance. Which are the markets – the end markets on that really cool page with the – I think it's on page 12, yeah – no not page 12, 9, which of the markets there – which of the markets are the swing factors that gets you better. Could you tell us that?

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

A

You're talking about the checkeredboard slide, Scott?

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Yeah.

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

A

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Yeah. So I think, look, the things that have the most volatility in them right now are in FMT and Diversified. And so, if you look at where the negative volatility has been, it's really been dominated around general industrial, and then things that are touching transportation. [indiscernible] (54:45), right, and oil and gas, obviously. That's kind of a different animal exacerbated by all of this.

I think that the general industrial bottoming and starting to improve is what would drive a better outcome. And I would also say that is the most vulnerable to a second downtick. So it's going to be the most volatility around industrial, chemical. Those two stand out to me. And then I put dispensing if you go over to fire safety. Dispensing in automotive – dispensing is a little bit different animal because there's actually something interesting happening there which is on the consumer side of dispensing, that business is actually booming. Meaning, that if you look at the big box retailers and the folks who are selling paint, that business is actually booming, but they're just not buying because they're pushing up their capital spend.

Where I would say on the industrial side, it's actually – it's more correlated with what's actually happening in the markets. But you could definitely see a meaningful uptick in dispensing if people get more confidence. And then certainly around transportation, auto is starting to come back which is a great sign. Clearly, aerospace is a different issue. And in our BAND-IT business which is great mix for us, has had some negatives relative to transportation, specifically aerospace.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

That's hugely helpful. Would you mind if I just knock one more question here for Bill? So, I guess, I was a little bit curious about the break the glass $40 million potential. I'm assuming that that's a structural cost reduction number for potential. And I'm wondering why it's not a larger number than that.

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

Well, I mean, it's compounding on $20 million of actions we took in Q4. So if you look at that total bucket, that'd be $60 million.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

Well, what I mean is...

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

That's a big number.

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

Yes.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

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...$40 million is potential, I thought you said. I'm just trying to understand like if that's structural, and if it's not, please tell me. If that's structural, it would seem like there would be a – what is that number exactly break the glass?

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

You're taking out the fundamental fixed cost of the business, which is facilities and people, right. That's a really big number. And just to give you a sense of it, right, when we laid out the $15 million to $20 million last year, that was a sizable number and meaningful but again kind of structured around a – what we thought would might be a mild recession. But to give you some sense of it, in 2008-2009, Bill, I can't remember – I want to say we took out – was it $40 million total during that...

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

A little bit less, but around there.

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

And that was total, Scott, including discretionary, right. And right now, we are at a total run rate build at $90 million. Is that the number?

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

Yeah, if you add in the discretionary. Correct.

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

Yeah. Yeah.

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

Yeah, I mean, again, the discretionary will ramp down as sales improve. So that would assume the kind of current run rate revenue decline.

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

Yeah. Yeah. So we have been hugely aggressive around cost-out.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

Look, framed that way, I understand it better. Thanks a lot, guys.

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

Yeah. Thanks.

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Operator: Thank you. [Operator Instructions] Our next question comes from line of Joe Giordano with Cowen and Company. Please proceed with your question.

Robert Jamieson
Analyst, Cowen and Company, LLC

Q

Hey. Good morning. This is Robert in for Joe.

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

A

Good morning, Robert.

Robert Jamieson
Analyst, Cowen and Company, LLC

Q

I just want to turn back – hey, good morning. I just want to turn back to M&A real quick. I know this is kind of a very strange downturn that we're seeing right here with economics of companies that might have gone down dramatically but the price of the businesses that they're trying to sell have not. So, I was just wondering what you're seeing in terms of valuation and how people are thinking about like selling their companies and what price they deserved and just kind of how you're thinking about that situation.

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

A

Yeah, if you just kind of look at the general math, what I would say is that when you balance off the cash earnings decline that we're seeing in targets relative to the drop in interest rates, when you actually kind of do the math on valuations, it actually neutralizes pretty close, Robert, with some gap to an increase in aggregate valuation on a cash flow basis, a little bit, but they do offset pretty closely. So, look, people have not changed their expectations on valuation. That has definitely not happened. The downstroke was too brief. The public markets came back so aggressively that private sellers, they tend to build their expectations off of public markets and so, at least anyone who's sophisticated. And so, look, the valuation expectations have stayed elevated.

Robert Jamieson
Analyst, Cowen and Company, LLC

Q

Okay. That's great. Thanks very much. I'll pass it along.

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

A

Thanks, Robert.

Operator: Thank you. This concludes our question-and-answer session. I'll turn the floor back to Mr. Silvernail for any final comments.

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

Thank you very much. Well, thank you everybody for your time here and your patience in understanding what's happening in the world. Obviously, we're all experiencing this together. And two things that I ask you to kind of take away. Number one, the mission of this company and the value to this company have been tested, and I think

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everybody has been tested. And I am just incredibly proud of how all the people across IDEX have responded to this. They have responded with compassion, they have responded with action, they have responded with discipline and prudence and it's just – it really warmed your heart as a leader to see those values not only stick but deepen in a moment like this.

Second, back over the last few years, I've talked about what happens to a company like ours in difficult times. And one of the things that I have been very proud about is that our ability to maintain cash earnings in difficult times. I have always claimed that that's something that we could do certainly over a shorter period say a given year.

And I think what you see here in the second quarter is exactly that, right? We had an incredible cash flow performance. And if you think of it from a cash EPS standpoint, that's really impressive. And as we go through the rest of the year, obviously we won't have the same opportunity with AR that we had here in the last quarter, but we will with inventory. And I expect us when we look back on this year, obviously, we'll all think about this and the difficulty that we had but I think it will show once again the durability of a company like IDEX and the business model that this company has. And I think it's really something else and I'm really – it's a pleasure for me to have the ability to lead this business.

So with that, I'll thank you all for attending and look forward to talking to you all here over the next 90 days. Take care.

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

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