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IDEX Corp. (IEX)

Q3 2020 Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

OTHER PARTICIPANTS

Deane Dray
Analyst, RBC Capital Markets LLC

Scott Graham
Analyst, Rosenblatt Securities, Inc.

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

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Allison Poliniak
Analyst, Wells Fargo Securities, LLC

Rob Wertheimer
Analyst, Melius Research LLC

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

Joseph Giordano
Analyst, Cowen & Co. LLC

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

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to IDEX Corporation's Third Quarter 2020 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Mike Yates. Thank you. You may begin.

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

Great. Thank you, Rob. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Let me start by saying thank you for joining our discussion of the IDEX third quarter 2020 financial highlights.

Last night, we issued a press release outlining our company's financial and operating performance for three months ending September 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.

[ph] Joining me is (00:01:05) Andy Silvernail and Bill Grogan. Additionally, Eric Ashleman, our President and recently announced CEO of IDEX, will be joining us as well.

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

Thanks, Mike. Good morning, everyone. Before we dive into our – Mike? Before we dive into our third quarter results, I'd like to take a moment and talk about the leadership transition we announced yesterday. After 12 wonderful years at IDEX and nearly a decade as Chief Executive Officer, I'm stepping down as Chairman and CEO in mid-December. I'm delighted that the board of directors has elected our President and COO, Eric Ashleman, as IDEX's new CEO effective December 15, 2020.

Eric is a uniquely capable leader who was the clear choice for the role. He and I have worked closely together since I joined IDEX. We've worked side-by-side to establish our strategy, build our culture and deliver value for all of our stakeholders. Eric brings extensive knowledge of our business, deep insights into our markets and a passion for bringing out the best of our people.

My decision comes after deep reflection. Leading IDEX has been the greatest [indiscernible] (00:02:16) to my career. It's a significantly different company today than when I joined in 2009. We've accelerated our transformation from an acquisition-based holding company into a high-performing global enterprise that improves lives on a daily basis.

With this strong foundation, IDEX is in good position for continued growth and value creation. So, it's a good time for change for two reasons. First, IDEX is ready. We've led our remarkable company through this pandemic crisis. Our mission has never mattered more, our culture and financial position have never been stronger and our team has never been more capable. To that end, we're fortunate to have Eric as the next IDEX CEO. He's a proven leader who has delivered excellence for our shareholders and our broader stakeholders for the past 13 years.

Second, I'm ready. For the last couple of years, many of you have asked me about my career thoughts. I've always said that I love IDEX. But I thought 10 years is about the right shelf life for a public company CEO. I could never have dreamed what we have accomplished over this span. We've built an organization that advances and saves lives of millions of people around the globe. We have created a highly engaged organization that is among the best in the world. We've impacted our communities through compassion and generosity with the support of the IDEX Foundation. And we have delivered for our owners, producing total shareholder return of greater than 530%.

For me, personally, I'm excited for a new phase of life that brings along new challenges and opportunities for me and my family. I'm going to become Chairman, CEO and an owner of Madison Industries, one of the world's largest private companies. This new opportunity offers a chance to build another great organization and make positive change in the world over a very long horizon. I'm confident now is the right time to pass the torch and welcome IDEX's next generation of leadership.

On a personal note, Eric has been a true partner and a dear friend to me. And I'm confident that this transition to CEO will be seamless for our company, employees and all of our stakeholders. As this is my last earnings call, I want to say how grateful I am to have worked alongside our incredibly talented team in the last 12 years. It has been an honor to serve as Chairman and CEO and to be part of a company like IDEX. I also want to thank all of our investors and analysts on the phone who are with us today for the support through the years. The future of IDEX is very bright. We have reached new levels of industry leadership and sustained value creation. And we will do so again under Eric as our CEO.

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As Mike mentioned, Eric is joining Bill and I for the earnings call. Bill and I will walk through our assessment and analysis and view of the future, as we normally do. We'll then turn to Q&A, and Eric will join the conversation and talk about the future.

I'll now turn to our results for the third quarter. We continue to see a strong sequential rebound in orders with September 2020, topping the same month last year. That's a good sign. I want to thank all of our people around the globe who have risen to the occasion. In a year no one could have predicted, our people continued to shine. So, to all of the IDEX team members listening on this call, thank you. A time like this truly tests the culture of a company. Are you rooted in strong values that people really live and believe? If so, you'll be better prepared to survive and even thrive. IDEX is this kind of company. And it's serving us well. Because of the protocols we've put in place, the disruptions we've seen in our operations have been limited. We have protected our people within the workplace. And we will do so even if the COVID trends are moving in the wrong way. We've continued to focus on solving our customers' greatest challenges, many of which have shifted this year. That has reinforced the need to stay close to our customers even when we have to remain socially distanced to understand their needs.

Bill will walk through the details shortly. But as you've seen, our organic sales were down 12% year-over-year, falling at the better end of our predicted range. Importantly, organic orders were down only 5% and continued to improve sequentially, a trend that is continuing in October. Being a diversified company helps a great deal in times like these. While certain sectors like energy continue to struggle, other aspects of the economy are booming. This diversity gives us strength, limiting our exposure to any one sector.

The financial controls we put in place early continue to serve us well. We are delivering strong profitability and exceptional cash flow. As we have pivoted to growth, we have ramped up our capital spending and investment to support some really exciting initiatives. We've also seen activity in the M&A markets start to pick up. While those pillars of safety, business continuity and liquidity are all still part of our pandemic operating focus, it is time to aggressively play offense.

I'm turning to slide 7. That increased focus on playing offense has us involved in some exciting new opportunities. A variety of our businesses are producing new solutions for cleaning and disinfecting public spaces. One shining example is a sprayer that uses electrostatically-charged particles to envelop a surface, not just hit the side facing the sprayer. We anticipate solutions like this will continue to be in demand not just during this pandemic, but for years to come as public demand for cleaning and disinfection will be forever changed by this period of time.

We also have an exciting new opportunity to partner with customers to develop a highly accurate point of care solution for diagnostic testing for COVID-19. Our IDEX Health & Science team is hard at work ramping up with public health experts increasingly predicting that the coronavirus will be like influenza, remaining in circulation even after vaccines are widely available. We anticipate this will be a significant new program for our company for the foreseeable future. I'll share more about that in a moment.

We also continue to see machines used in production of pharmaceuticals and vaccines. Insourcing critical API manufacturing is a key initiative for several countries. And last quarter, we shared our Microfluidizer processors are key technology for manufacturing vaccine adjuvants. Vaccine adjuvants are immune stimulator added to many vaccines commonly used today. By using adjuvants in a vaccine, the body can often produce a better immune response to the antigen, while also allowing vaccine manufacturers to be able to produce more doses of vaccine with less antigen. Our team was excited to recently deliver machines for use in producing advanced supplies of one of the leading vaccines in testing today. We are also working actively with other vaccine manufacturers as the world prepares for an unprecedented race for production and distribution of this critical piece of the puzzle for solving the COVID-19 crisis.

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I'm moving to slide 8. In Health & Science, our products are being used to help and enable rapid highly accurate testing for COVID-19. Our thinXXS microfluidic cartridges are a key technology used to diagnose COVID-19 infection and the point of care molecular market, which allows tests to be done near the patient versus being sent to a laboratory. Our technology enables a miniaturization of complex laboratory workflows by integrating pumps, valves, sample, reagent management and signal detection in order to provide a simple workflow for the operator of the instrument. This instrument operator only needs to add the patient sample to the cartridge, insert it in the instrument and then push a button to run the test. Our microfluidics capabilities allow for high volume production and consistent repeatable results that are needed to combat COVID-19.

In addition, IH&S has optical filters and several diagnostic instruments that are used for COVID-19 testing. We provide various fluidic components designed and in-vitro diagnostic instruments used for COVID-19. We have degassers, pumps, manifolds and fluidic connections in these IVD instruments that typically analyze blood samples. We also have both optics and fluidics assemblies and next-generation DNA sequencers being used to analyze COVID-19 to better understand the virus and track its spread. I'm proud of how our businesses have answered the call over the past two quarters and worked closely with our customers to innovate and deliver critical solutions to the marketplace.

All right. I'm moving to slide 9. We provide an update on the state of our primary end markets. We saw sequential improvement in most of our end markets with some of our more challenged markets, including auto and dispensing, recovering faster than we anticipated. In fluid metering, the broader industrial softness and the volatility in oil and gas has continued, though we did see a pickup in daily order rates in the month of September which provides optimism as we close out the year and we head into 2021.

Significant capital investment by our customers continues to be on hold pending a broader market recovery and reduction in global economic uncertainty. Our water business has continued to show resiliency, impacted only by timing delays in some municipal projects. As we called out last quarter, agriculture has performed well as growing optimism and investment held up in the quarter.

In Health & Science, semicon has continued to outpace our expectations and was strong sequentially and year-over-year. Our Sealing business recovered nicely in the quarter due to the resumption of activity in the auto market. Additionally, the product innovations I discussed earlier helped generate positive momentum for us in multiple end markets, including industrial. On the other side, in analytical instrumentation and some aspects of IBD bio, we continue to see that, as medical industry has focused on COVID-19, other investments in lab equipment were delayed and we've not yet seen the activity materially pick up.

Moving to Fire & Safety and Diversified. We saw a sequential improvement in most of our markets. Recovery in auto and retail were big stories, driving a rebound in our BAND-IT and Dispensing businesses. Fire and Rescue continued to see strong performance. But we have been impacted by production delays at OEMs, pushing projects out and extending lead times for municipal deliveries. Backlog in these businesses continues to be strong. And we're working closely with our customers to monitor delivery schedules and assess the impact of COVID-19 on future year municipal budgets. Previously funded projects continue to go and demand for our new products in these businesses has been strong.

We are overall optimistic about the market recovery we've seen in the third quarter and continue to believe that the diversified nature of our businesses has helped mitigate the impact of the global economic decline. Our dedication to our customers and ability to respond and innovate quickly has continued to generate momentum for

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us to combat market declines. As we head into the fourth quarter, we expect to see a pickup in order rates, particularly in our day rate businesses, as an indicator of further recovery.

Okay. I'm moving to slide 10. I want to provide some additional context to the organic order trends we've seen over the past two quarters. We saw a broad rebound in order rates in the third quarter, recovering from organic declines in as much as 23% in the second quarter to organic growth in the month of September. All of our segments participated in this trend. FMT organic orders improved each month, driven by strength in agriculture and stabilization in industrial as well as a slight pickup in energy. HST was driven by a recovery in the auto market and targeted new product initiatives, as well as the positive momentum in semicon and pharma that I mentioned earlier.

Finally, Diversified's organic orders saw dramatic improvements at BAND-IT and Dispensing as auto and aerospace businesses opened back up and capital spending returned in the paint markets. On top of the year-over-year improvements, we also experienced sequential increases with FMT up 12%, HST up 6% and FSD up 11% versus the second quarter.

With that, I'd like to turn it over to Bill to discuss our 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 12. Q3 orders of $570 million were down 3% overall and 5% organically. As Andy just mentioned, we saw a broad bounce back in order rates across our businesses and monthly sequential improvement in organic order rates throughout the quarter. Third quarter sales of $581 million were down 7% overall and down 12% organically.

Industrial energy markets remained challenged in the quarter and were the main contributors of the organic declines. As mentioned before, we saw recovery in the auto and dispensing markets as well as continued strength in semi and pharma that helped offset those headwinds. Coupled with the benefit of new applications and innovations we have made in response to COVID-19, we're able to drive organic sales to the top end of our previous estimate.

Q3 adjusted gross margin declined 190 basis points to 43.3%, primarily driven by lower volume, the dilutive impact of acquisitions and business mix, partially offset by price and the continued impact of cost control actions we have taken. Gross margin was up 70 basis points sequentially versus the second quarter. Third quarter adjusted operating margin was 23.1%, down 210 basis points from the prior year mainly driven by lower volume leverage and the impact of acquisitions, partially offset by our restructuring actions and discretionary cost controls. We also saw sequential improvement in op margin, increasing 200 basis points from Q2.

Our Q3 effective tax rate was 14.4% which was lower than the 18.6% in the prior year due to discrete benefits associated with the recent changes to the Global Intangible Low-Tax Income regulations. This was a multi-year true-up going back to the start of tax reform and will only have a minor benefit on our rate going forward.

Third quarter adjusted net income was $106 million, resulting in an adjusted EPS of $1.40, down $0.12 or 8% compared to prior-year EPS. When compared to our second quarter year-to-date tax rate, the reduced ETR increased adjusted EPS by approximately $0.11 in the quarter.

Finally, free cash flow was $135 million for the quarter, down 7% compared to the prior year and was 128% of net income, a conversion rate higher than last year. The strong performance was a result of a significant focus and

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discipline on working capital management. The teams continue to drive our DSO lower and improve our pass-through rate as well as increase our inventory turns. We continue to demonstrate our ability to drive cash flow conversion in excess of net income.

Moving on to slide 13. As we discussed in our previous earnings call, we continue to take the necessary steps to manage cost to mitigate the significant impact of reduced volume. Our adjusted operating income declined $23 million in the quarter. With organic sales down $75 million, we would have expected a negative impact on operating income of approximately $45 million at a roughly 60% contribution margin. This $45 million was offset by $25 million of executed operational initiatives, $7 million from the impact of restructuring actions taken in Q4 of last year and the second quarter of this year, $13 million of discretionary cost control items and $5 million of price and net productivity that was partially offset by $6 million of negative product and business mix primarily associated with FMT.

The $13 million of discretionary cost actions in the quarter was lower compared to the $15 million we referenced last quarter, primarily due to modest increases in spend to support and service our customers as well as some targeted investments we made in growth initiatives. Overall, our teams continued to do an exceptional job of managing cost to mitigate revenue declines. As Andy discussed earlier, we have ensured that we are well positioned to pivot to offence and continue to invest in initiatives to generate growth in the fourth quarter and beyond.

With that, I'd like to turn it back over to Andy to summarize our Q4 expectations and provide some final thoughts.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thank you, Bill. I'm on slide 14, everyone. As I mentioned earlier, we are firmly in what I've called Phase 3 of the pandemic response, living with the virus. I'm proud of how our teams have adapted and innovated in this environment. Our teams have embraced our mission and our values and have been diligent in executing our COVID-19 playbook. We maintain the optimism that the market recovery we've experienced will continue. And we've seen the benefit of the proactive steps we took at the end of last year and throughout the early phases of the pandemic, positioning IDEX to remain strong while taking advantage of new opportunities.

We expect that revenue in the fourth quarter will be down between 3% and 5% organically based on our current backlog position and expected daily order rates. We are in close contact with our customer base, and we continue to look for signs of confidence in capital spending that will be the catalyst for sustained recovery. We continue to make strategic investments in our business to spur further long-term growth, will remain disciplined in our effort to manage costs.

To conclude, this quarter was a great display of the strength of the IDEX business model from the resiliency of our base business to our ability to respond to challenges quickly and deliver innovative solutions to our customers. I continue to remain optimistic about our prospects to come and think about coming out of this crisis even stronger than when we entered it with new opportunities for growth on the horizon.

With that, let me pause and turn it over to the operator for your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Deane Dray with RBC Capital Markets. Please proceed with your question.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone, and congrats to Eric, and we wish Andy all the best of luck.

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

A

Thank you, Deane.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

First question would be for Eric and, look, no one should be surprised that you were picked to take the helm based upon your role as COO for a number of years and most recently as President. So, you've had the opportunity to be part of the leadership team for a number of years. But you've also had the opportunity to make your own assessment about the opportunities at IDEX. So, I'd be really interested in hearing just at the outset what kinds of changes might you be considering, just at least the areas of focus that you think you would be taking initially. And I'd be remiss if I didn't ask about your commitment to the 8020 business system? Thank you.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Sure, sure. Thank you, Deane. It's great to talk with you and great to talk with everybody here. I'm excited to get going. Look, I think, as we think about focus and priorities, I want to make sure that we all appreciate that this is a story of continuity alongside purposeful evolution. So, I have worked for Andy for 12 years. Every day, he's been part of IDEX. I'm essentially reporting to him.

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

A

Yeah.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

And for the last five years, I've served as the COO of the company. And so, side by side, I mean, we have been partners in all the major decisions that we've made along the way that have evolved the company to where we are today. And that certainly includes 8020. I mean, that is at the cornerstone of what we call The IDEX Difference. And so, maybe less appreciated is the evolution – the organizational evolution that's happened alongside all of that. So, in these five years, I mean, we've been very, very deliberate to work on developing other voices that are

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now part of the senior team and have been. Frankly, our group executives joined our senior team over a year ago. And I look down the table here at Bill. Bill was my original operating partner in finance. So, this is a team effort. It has been a team effort. And so, the strategy that's in my head is the same one that we've been working on all these years.

Now, that being said, look, the world is definitely in a dynamic spot now. There's a pandemic in front of us. There's things like digitalization that are happening all over the place. And we've got to think of things like aggressive capital deployment and how we're going to work all of that in this environment. So, those priorities were here before this day. They remain very firmly in front of me as we go forward. And I absolutely am an advocate of 8020. It's a way of thinking as much as it's a part of the operating model.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's great to hear. And just second question would be more along the lines of the issues at hand. And I'm especially interested in getting some more color on these COVID business products and service opportunities. I know you've sized it at $25 million to $100 million. And maybe you can give us some additional color about the potential time to revenue. And will this all be organic in terms of the investment? Might there be any JVs, acquisitions along the way? But if you can start with time to revenue, thanks.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. Sure, sure. So, look, there's multiple phases. I mean, this is no doubt a dynamic world. I mean, this – most of these applications didn't exist in our minds sooner than March of this year. So, we have some elements, some components that are – that they're moving now. They're part of the fight today. They're embedded in our sales numbers that you're looking at. I would say that the bulk of the opportunities and some of the things that we talked about here today, they're a little further out. They are compressed development cycles. They're very, very active now. And we would see a lot of them starting to get some initial market traction in early 2021, but some very, very important milestones along the way that we're working with different partners and customers to bring those to bear. They are organic in nature now. Certainly, as things continue to develop and evolve, that inorganic opportunities to make them bigger and more impactful would be something we'd absolutely consider.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Great. Again, congrats to everyone and, Andy, all the best, and you'll be missed.

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

A

Thank you.

Operator: Our next question is from Mike Halloran with Baird. Please proceed with your question.

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

Q

Hey. Good morning, everyone. Eric, congratulations. Very well deserved. Andy, it's been a good decade. I'll miss working with you. It's been a pleasure.

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

Thank you, Mike.

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

You're going to do awesome at Madison obviously, but we'll miss you here. Eric is going to be a great replacement, but we'll definitely miss you so...

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

Thank you.

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

...thanks for everything over the years. So, with that, first question, I know that you partially answered this. But just want to confirm, with Eric taking over, I'm guessing the willingness, desire and ability to push forward on the M&A strategy doesn't really change. So, just confirm that and give me any thoughts on how you're thinking about the funnel as we sit here today, actionability and ability to convert.

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

Yeah. Well, absolutely. The focus remains very, very high on that front. I mean, ultimately, IDEX was built that way through acquisitions. So, I think, as the pandemic unfolded, obviously, things froze up in the early days. We've seen things free up now. The process, as you might imagine, is quite different. I mean, we're – none of us are in airplanes. We're doing a lot of it remotely and virtually. But we've adapted just as we've adapted our businesses in that way. And I think, as we look forward, this is an area of huge focus for our teams. The group executive is one of the big reasons we brought them onto our senior team. And so, frankly, we can get more hands on the opportunity itself. And so, we're looking aggressively. I think we're looking for properties that are – that got to be good IDEX businesses. That's something that we're always going to keep firmly in our sight.

You could imagine in times like this that this is a complex operating environment and businesses that might not be able to handle it quite as well but are very, very differentiated. It would be something that we think we could bring a lot of value to. And so, we're considering that as an extension of sort of our normal course in the normal filters that we use as we think about businesses we'd like to own. But I can assure you. It absolutely remains a fundamental piece of the day and a priority for us.

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

And then, secondarily, good to see the sequential trends continuing to October here. Maybe some initial thoughts on next year and how you're handicapping things internally. Obviously, one of IDEX's mantras is to be able to adjust and adapt to whatever the environment looks like. But how are you thinking about linearity trends in the next year? And any kind of thoughts along those lines at this point?

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

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Yeah. Mike, maybe I'll just touch on it first and then – and let Eric go deeper on it. So, really no real difference from how we thought about it last quarter. If you look at the sequential improvement that we've seen go back from the second quarter – first quarter to third quarter, second quarter to third quarter and that sequential gain. And we're now in that 3% to 5% down. The last really tough comp will be Q1 of next year. And I think we'll know a lot more going into that quarter. But I will say, going into the fourth quarter, we always look at the backlog load and that gives us a confidence level. And we're at the higher end of our normal backlog load going into the quarter. So, that's a really good sign and gives a lot of [indiscernible] (00:27:38) around that 3% to 5% organic.

First quarter will be a tough comp and then – but if you keep thinking about the sequentials and you think about that acceleration, that puts us in a good spot for the entire year to think about it. I know, Eric, you've put a lot of thought into this as we're prepping for our budgets and going through strat plan.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.
A

Yeah, yeah. And absolutely, Mike, you know as well, I mean, we stay agile and reactive along the way. That always serves us well. So, as we think about the variability that's still in front of us at least in the next quarter or two so we get a handle on where the pandemic is going to go, I mean, we've set up an operating cadence that allows us to course correct and adjust really, really well.

And so, I mean, a good example of that you can see in our opening comments. And we've got – we've taken the structural actions where we need to really fast. In fact, we took some of that even before the pandemic first showed up in the early spring. And at the same time, we've been able to rally and pivot resources around the opportunities that we outlined as we talked about fighting the pandemic. That's the way we do business. And it works equally well for things on the downside because of more variability or opportunities that are accelerated in front of us even sooner. And so, that's how we're going to run the company and follow that course.

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

Great. Appreciate it. Best of luck, Andy.

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

Thank you.

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

Congrats again, Eric.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.
A

Thank you.

Operator: Our next question comes from Allison Poliniak with Wells Fargo. Please proceed with your question.

Allison Poliniak
Analyst, Wells Fargo Securities, LLC
Q

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Hi, guys. Congrats, Eric. And accurately, everybody's comments, Andy, it's hard to see you go, but best of luck there.

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

Thank you.

Allison Poliniak
Analyst, Wells Fargo Securities, LLC
Q

Just kind of reflecting back over your tenure, Andy. As you had this vision for IDEX when you first took the helm, how far off have you veered off of that vision, obviously, very successful still? And then, also, what surprised you over the years the most with the enterprise as you went through that tenure?

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

Yeah. I guess, Allison, you're asking that question at a good time. You can imagine I'm pretty reflective right now about everything we've done together. I think that the early kernels I'll remember back and the folks from IDEX who are listening to this call, they'll remember. We had a Global Leadership Meeting in March of 2012. And when you look at what Eric just referred to as what we internally call The IDEX Difference, which is around great teams, 8020 and obsessive focus on the customer, we started laying those kernels out then. And from there, they grew. And what you found was that as you – as that kernel grew and you dug in deeper, you saw that the levers that really matter are actually very few.

When you get right down to it, the levers that matter are very few. And Eric and I have had about 10,000 conversations over the years in offices, in airplanes, in conference rooms, at each other's houses talking about how to make that real and talking about how that – how do you get these big concepts that sound like frankly stupid corporate speak down to the people who actually do the work? And that's where we dug in really deep.

And so, the levers that matter, the first thing is do you have a mission that people care about, right? Do the people actually care about the work that they're doing and how their impacting the world? And when you get a compelling mission, it aligns everybody really quickly. Second is do you have good businesses or bad businesses? I've been in good businesses. I've been in bad business. And Eric I know has been in some pretty bad ones, too. And those are instructive, right, because bad businesses, you spend a lot of time on problems that you can absolutely frankly never fix. And so, position yourself into good businesses and that means acquisition and it also means that approach to 8020 all along because, within any business, there are the great business and there's bad business. And you got to work through that on a constant basis and you got to move resources, right? You got to move resources to the things that matter most where profits really exist, where you have a differentiated position.

The last one – the next one is great teams. We – one of the interesting things about IDEX, we have 45 businesses. We have 45 corner offices. And we've seen time and again, when you put a great leader in, it is like a light switch. It's not slow. It's fast how – what they do with the business. And if you combine that great leader and leadership team with a great business, there's a magic that happens there that is just incredible. And then, I'd say the last thing is process discipline. And if you think about this as an exponential equation, right, and you bring process discipline to bear, for us, that happens to be the elements of The IDEX Difference. That really is the formula or the equation that Eric and I and the team have been putting together for years and years and years.

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And, Allison, in terms of some of the learning, they all go into those buckets. If I could go back in time and pull and change a couple of things, look, there have been times when I moved too slow with leaders who weren't getting it done. And I've learned that you can't do that, right? People either buy in or they don't. It's very hard to convince somebody that they should do something that they are opposed to out of the gate. And so, you got to get people who are excited and you got to ride those horses.

Asset choices, look, I really do believe that in this next phase of life – and Eric is incredibly well positioned to do this, acquisitions are going to matter a lot. And we've made some really good asset choices. We've made a couple of bad ones and again, kind of like choosing good and bad. When you choose bad, it hurts. And when you choose good, it's amazing what they do. And I'll just – I'll reference one.

The first business we bought – that I bought as part of IDEX was PPE. And that was in 2010. I wasn't CEO yet. And it was a little business in England. And what you saw there were all the elements of what makes IDEX special. And we've gone from that little business in England to a $300 million platform that is just an incredible part of our business. That's the model that I think we need to follow here going forward. And so, Allison, I appreciate the question. It definitely is a reflective time.

Allison Poliniak
Analyst, Wells Fargo Securities, LLC

A

Great. Thanks for the perspective. And just turning to the comment around sort of living with the virus makes sense. Is that reflected in sort of your current order trends that you're seeing from customers? We're just seeing Germany going back into a lockdown here. Just trying to, I guess, better understand how you're thinking about that potential volatility here with the resurgence happening at this point.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Well, I'll take that one, Allison. So, look, I think, ever since the pandemic started here, I mean, we've seen that volatility enter our order book and we always kind of have two ways that we delineate it. We've got kind of that everyday replenishment cycle that happens in a lot of our component businesses. And then, honestly, as long as the system is on, stays pretty constant. And so, irrespective of border closings and other things, it generally has held up pretty well.

What tends to move on us is our little bit more project-intensive businesses, larger units of measure and they're very much affected by the view of the world around us. So, I think, as we see this, no doubt, I think this next wave will be different than the one we saw in March because everybody kind of recognizes the economic consequence of that. And everybody has done a better job of tooling their organizations up to be able to live with it and coexist with it. So, we're expecting more volatility as the cases go up. But I don't see that it should knock us off the trend path that we're on as we just continue to live with it and that goes for IDEX. That goes for any other business.

Allison Poliniak
Analyst, Wells Fargo Securities, LLC

Q

Great. That's helpful. Thanks so much, guys.

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

A

Thank you.

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Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you.

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

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

Q

Yeah, yeah, echo everyone's sentiment. Congrats to everyone. So, question on the COVID-19 opportunities you identified, the $25 million to $100 million, I assume that's kind of an ongoing run rate you're looking for. I guess, organically, what sort of spend is associated with going out to get that revenue? And what sort of defines the high and low end of that range?

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

A

So, maybe I'll take a first shot at that. I would say we've made some initial investments in the quarter from an investment perspective as we've worked with our customers to get some of these things, get some traction on early development. Obviously, we've invested in some capital, support some initiatives relative to tooling s some of these opportunities relative to that range could be sizable. Obviously, we've got multiple partners with each of the applications. All the volatility we've talked about, who's ultimately going to end up winning is one factor. And then, two, the commercial viability of whoever wins in the marketplace will also be another variable. So, that's why it's a wide range for now.

Obviously, Eric highlighted we were spending a ton of time on these initiatives across several different businesses and I think we'll have more visibility coming out of the year and early first quarter and be able to size that up a little bit better for you when we talk about 2021.

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

Q

Got it. And then, maybe just another just quick question on M&A. Would you say, in the last 90 days or so, the actionability in the pipeline, the actionability in the funnel is actually getting better? And what are you seeing from a multiple standpoint?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah, well certainly, the actionability, I think, is quite a bit better. I think everybody has found a way to actually do the work in a remote way. In many ways, everybody else has kind of got their head around the fact that this is going to be with us for a while and yet things are going to continue and business is going to go on. All of that helps. And then, of course, it seems like there's ample liquidity as well, certainly for us and for others. So, the actionability is high. The process is slightly different.

I would say on the valuation, there's not a lot of change. It's high. It's high. And I think it's a long-term view. And certainly for the businesses that we're going to be attracted to, they have tremendous long-term potential. And so, those out years, if anything we're looking at, we're anticipating are going to be strong and the sellers are – have a firm belief that that's the case as well.

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

Q

Great. Thank you, guys.

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

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

Q

Good morning, everyone. Congratulations on the new role, Eric. And, Andy, congratulations on a pretty phenomenal 10-year round here. It's been my pleasure and privilege to work with you and get to know you over that time. So, I'd like to wish you and your family all the best.

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

A

Thank you, Nathan.

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

Q

Just getting on to a few questions here on maybe some of the red dots on the end markets. Energy and the analytical instrumentation, just like to get your thoughts on the potential timing of recovery there. I mean, energy is probably a little bit longer than the analytical instrumentation side. But I think, Andy, you talked about focus on the vaccine taking away from maybe some sales there. It looks like maybe we're getting towards a point where a vaccine is going to be out and available and production facilities will be put in place there and maybe some of that focus moves around. So, just any thoughts you have on timing of recovery in both of those businesses.

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

A

Yeah. I'll touch on it first and then – and let Eric kind of go from there. The interesting thing is both Eric and I were group executives in charge of bad business at one point. So, we both know it really well. Look, I think what you're seeing here is counterintuitive to what's happening in that marketplace, right, because if you look at analytical instrumentation, one would think that immediately because there are health-related issues that it should be growing. The reality is that a lot of the stuff that happens in that big AI space is being pushed away right now because priorities are going over to other spend. It's very much our expectation that as we get into I don't think any later than the midpoint next year that that starts to improve. And so, obviously, we have a lot of confidence it's a really good business for us.

So, Eric, your thoughts?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. It's certainly the same thing. And then, of course, there's a there's a consumables dynamic there that's kind of out ahead of us where we're generally making the componentry for the equipment. So, even as things recover, there's a little bit of a lag there as you go through a consumable stream and then into the actual devices themselves. But I agree with that.

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

Q

Any comments on the energy market and potential pace of recovery there?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. Well, on the energy side, of course, as you know, we tend to be more downstream and associated with things like custody transfer and mobile applications. And so, less resilient – or less tied to the wellhead and places like that. And so, I think, ultimately, we've seen a little bit of improvement here now. I mean, obviously, that took a hard hit initially. And some of this is probably pent-up demand that's coming back. But I think it's going to be a while. It's going to be a while for the energy markets to kind of sort themselves out. Often, when you get it down to where we do business, it depends on things like building trucks for mobile fleets that actually do the work of custody transfer. And so, those were kind of decisions that have to be made, the confidence that has to be there. But certainly, we're much happier to be a little further down the stream and up in the front of it.

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

Q

And given the – sorry. Go ahead.

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

A

Maybe the only thing I'd add is we talked about a specific initiative we had in energy relative to last year. That was a huge initiative for us. Obviously, that business this year has seen significant contraction, which is weighing on FMT a lot more than we had expected coming into the year. So, just as folks have poked around a little bit on why FMT's margins and volumes are down a little bit more with a run rate business improving, that was fairly large for that...

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Well – and that, of course, has a political question associated with it as well.

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

A

Yes, exactly.

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

Q

Is vehicle miles traveled really the best indicator we can look at for the energy business?

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

A

Let me jump in on that one. One of the problems with any of these kind of big macro things is we actually do business in a lot of these micro areas. And so, if you're going to make a big energy call, of course, that's going to influence us. But if you think about our business, we're at the micro level.

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

Q

Okay. Do you feel like the cost structure in those businesses that is struggling the most is aligned with demand now? Are there targeted cost actions that you can take here?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

So, look, we're taking the opportunity now to make some of those actions. We opened up a factory down in Oklahoma actually ahead of the pandemic. It's been a big assist to us. And we intentionally built that with some extra floor space for any potential. And we're leveraging that now. We're doing some instructional work around the footprint of the company because I think this is a good time to think about sort of taking a down situation and creating competitive advantage out of it. And by moving some of the structure around the way we are, it actually allows us to augment or increase some of the innovative potential we have in the business while at the same time doing the right things and just base administration. And so, yes, we've pretty active efforts underway in this area right now.

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

Q

Thanks very much. I'll pass it on.

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

A

Thanks.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thanks, Nathan.

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

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Hey. Good morning. I thought I was surprised when Larry resigned and you took over, Andy. This is double that. But for sure, you've had an amazing run here. To say that you've had a good run is an understatement. Great value creation. You and Eric are a terrific team. So, congrats to you, Andy. And, Eric, anyone that knows you knows that you're up for the challenge. So, I love your line about this being a story of continuity. So, thanks for the last nine years, Andy and Eric. Look forward to the next 10 with you.

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

A

Thanks, Scott.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

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Thank you.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

This is maybe more – the first question is maybe more of a question for Bill, the more – who I'm certain is more of a mathematician than me. But could you walk us through the organic flow-through of $37 million and then the total flow-through of $53 million on the operating income walk? And I guess I'm having a little trouble, math challenged that I can be, on how we get there on $3 million of sale – $3 million of income. But maybe I'm just not understanding it.

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

A

Yeah. So, maybe we'll start with that. So, on acquisition and FX piece, that's $3 million of income on roughly $30 million of sales, so only a 10% contribution from that aspect, which is extremely dilutive to the overall margin. So, when you exclude that and you just look at our core business, like-for-like, last year versus this year, right, are – the cost actions, the things we've done within our core business materially reduced the organic flow-through from what we'd expect of 60% down to less than 40%

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Got you. That makes a lot of sense. So, the next question is same for you again here, Bill. What does the $13 million of discretionary look like in the fourth quarter? And then, sort of, what are you looking at as sort of the reversals for next year with sales now starting to get better?

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

A

Yeah. I mean, we've targeted – once we get back to normal run rate levels, obviously, discretionary expense relative to doing business post COVID will be different but adding back about 2/3 of that on a consistent basis going forward. Yeah. We ramped up our spend slightly in the third quarter, probably up slightly again here in the fourth quarter with increased volumes so – although it'll never come all the way back, if you're doing modeling, I'd assume, roughly 80% of that cost coming back on a longer-term basis.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Okay. That's great. Thanks. One other question, if I may. The $25 million to $100 million range which we're all been talking about, I didn't hear you say kind of where you are on that spectrum right now. I can see how really you're focused on the areas that really are kind of for keeps areas so that does become part of the organic. But where are you on that curve?

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

A

Well, with revenue year-to-date, obviously, we're on – we're below the low end and that's a full year run rate on an annualized basis. So, we've got some wins that we started to experience, obviously, in the first half of the year that have continued on here in Q4. I think some of the items that will ramp us to the top end of the range are things again we won't have full visibility here until we get into 2021.

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

Yeah. And just to think about what those triggers are, right, so some of them, as Bill said, they're already there. We're already winning. It's already in the base business, so to speak, right?

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

Yes.

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

You'll – you won't last until the second half of next year for the most part. And then, you've got some big digital events, right? So, the work we're doing on COVID testing, the work we're doing on vaccines, as I said last quarter, if those go in the right direction for us, they are huge wins and we'll get to the top end of the range fast. But if they don't, they're not there. So, I caution anyone to build those into your models, the top end of that range, until we have – know whether we're aligned with wins and whether that has momentum.

Scott Graham
Analyst, Rosenblatt Securities, Inc.
Q

That's great. Andy, thank you, best of luck to you. Eric, best of luck to you.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.
A

Thank you.

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

Thank you.

Operator: Our next question comes from Brent Linzey with Vertical Research Partners. Please proceed with your question.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC
Q

Hey. Good morning, everyone. First, yeah, congrats to Andy, appreciate all the years of insight and best of luck to Eric. Wanted to come back to the order trends, the improvement is encouraging, were you able to spike out how much of that improvement was market versus share gain? And I imagine you had some of the COVID opportunity wins in September-October orders. Any color you could give us there?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.
A

Yeah. So, look, I think a big piece of that is general market recovery because so much of what we do at IDEX is a broad basket across a wide variety of industries. But no doubt, when we can see and isolate the places where we know we're winning share, one of which we talked about here in the COVID story – chapter in terms of some

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components that we already have placed that are helping that fight. But I would say that the bulk of what you're seeing here in the near term is sequential recovery of industrial markets that we participate in.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. Got it. Great. And I just wanted to shift back to the comments on the muni budgets and some of the work you're doing there. Do you expect the lag effect into next year as the backlogs get monetized, they need to replenish and just curious what some of that work that you're doing on budgets in those particular businesses is informing about the outlook there next year.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. I would say – I mean, there's always a little bit of a lagging element in the municipal markets and it's not ubiquitous. You have some towns and municipalities that are pretty aggressive. And they're thinking through now the consequences and the actions. In some cases, that actually accelerates some work as they're trying to spend money that they have available. I say the bulk of most of the market that we're interfacing with is stuck in the same variability that we are and are trying to imagine what could be in front of them as we go into 2021. Open questions of, in the case of the US, federal support or whether or not it comes or doesn't. So, I think there's going to be a lagging element there that we're thinking about. But we're very close to our customers. We kind of do this town-by-town, jurisdiction by state, province and municipality. And so, for us, it ultimately turns into a series of pins on the map, a bunch of discrete discussions that generally sum up the way I've described it. But we navigate through that field of opportunity as we go.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. I appreciate that. And best of luck to the both of you again.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you.

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

A

Thank you.

Operator: Our next question is from Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thanks and good morning, everybody.

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

A

Good morning.

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Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Good morning.

Rob Wertheimer
Analyst, Melius Research LLC

Andy, thanks for the reflections on a great run. It was a wonderful distillation and Eric on the comments and continuity and evolution. And I'd like to, if I can encourage just a little bit more that really my question is given all that you and the organization has done with margin, the success of 8020 and how margins have come up, it does seem like you're going to add more value to pull the capital you acquire versus what you might have expected, you know, 7 or 10 years ago. And so does that mean that, you know, acquisitions could have a larger role in the future? Eric, you touched on this briefly. And then, you know, do you have specific sort of changes you're making to the organization to push that along, you know, if so? Thanks.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. Sure. I appreciate the nature of the question. I'll take it. Yes to both questions, you know, so, you know, as we've become, you know, more evolved internally and it's better understood, you know, frankly the impact of all of the work that we've done around 8020 and the IDEX difference and we've seen us apply it to our own businesses and things that we've acquired along the way. It makes us more confident about what we can do on the outside world.

And so we've been very, very purposefully thinking about that. We've built it into the modeling that we do is wherever, you know, as we're looking at IDEX-like businesses on the outside and again from an organizational perspective, a lot of the work that certainly I've been working on in the last few years is to get a number of leaders ready to begin to spend a significant amount of their time on this work.

So we're doing that in the background. And then I think going forward, look, as we said earlier the valuations are high; our discipline remains very, very tight and focused. And so we're going to have to spend the time beating the bushes to find these kind of opportunities, get them in front of us and analyze them thoroughly and that's going to take some resources as well.

So one of the things we're thinking about as the world improves and things lever up is making some purposeful investments to support the continued evolution of this work and keeping it a very high priority.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Okay. That's a helpful answer. Thank you. And then just if I can just add on one small on the back of it, I mean, do you expect as you do all that that you'll you have a consistent cadence on acquisitions and flow or you're obviously not – you're still relatively small and can be opportunistic so are you thinking it can steady out a bit? Or is that not part of the goal and just take opportunities where they come? And I'll stop. Thank you.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Well, I mean, I think there's always been a little bit of a sine wave, at least in the time that I've been here, it seems like winds break and it tends to come in clumps. And so, I think we're prepared to have it continue that way. I

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mean, we think about resourcing in a way that would support it. So, maybe intentionally level loading it wouldn't be something that we would do as a purposeful way to sort of balance things out because what it might do is actually cause us to think about opportunities in a different way than we actually should. So, I think there'll still be a little bit of kind of, time to time, some clustering that we will see. But we've set up the organization and we certainly have the capital resources to be able to handle it that way.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Great. Thank you much.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you.

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

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Yes. Good afternoon and congrats to Andy and Eric, both well-deserved opportunities. So, best of luck to you both.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thanks.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Yeah. I wanted to just – I hear your comments on backlog going into the fourth quarter, kind of at the higher end of what it normally might look like and I think Allison touched on this earlier, but are you kind of like haircutting a little bit with what you're saying or at least internally how you're talking to your people in terms of budgeting about just some of the stuff you're seeing over the last week and countries starting to shut down? Like, how are you thinking about deployment of growth capital and things like that near term with some of these kind of more recent developments?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Well, so look, I think we have a general approach here that is very agile, very reactive. And to be honest, what we're going through and what we're seeing here now, we planned for this back in March. I mean, as soon as people started to recognize that there would likely be a second wave in the fall, we built that into our thinking. And so, the fact that we're in it now, yes, we have to be very cautious about the variability that's out there. We're super hesitant unless we have to do it to put in kind of fixed cost back into the business given this environment. So, let's treat it variably if we can. But I have to say that while it's certainly concerning for all of us as citizens in many ways, we sort of set this up as a planned event that we thought would be here. It is here and we're going to stay as variable and agile as we can as we go through it.

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Joseph Giordano
Analyst, Cowen & Co. LLC

Q

And Eric, you're taking over an organization that's in a really good spot. And if you can replicate what's happened in the last 10 years, I think you'd be pretty happy with it. But just curious, you're taking over an organization that still – that is like twice the size in terms revenue as when Andy did. So, what kind of different things do you have to think about just given the size of the organization and what's happened over the last decade?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah, no. Thanks. Well, certainly, I mean, this is a well-positioned company in a great spot. I will take that. I know it presents opportunities along the way. The bar is high and we need to continue to raise it. But I am very, very thankful that it's in the state that it is now. That being said, as we go forward, there's things that we've talked about. We're certainly more of a global company today than we were even back when Andy joined. I think that even the things we think of acquiring and we have acquired, the unit of measure is a little larger. We know that the story that Andy talked about with our sealing business, we've done the work to integrate that and bring it together with other like businesses. And that will, no doubt, continue to be a chapter for us as we go forward. And that's complex work that takes certain skillsets that we've been building for. So, as I said in the very beginning, I see an awful lot of continuity at play here to keep this company in a great position and take it forward. But there are those little nuances along the way that I think are appropriate, that we have in mind that are going to take it to the next level.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Thanks, guys.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you.

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

A

Thanks.

Operator: Our next question comes from Andrew Buscaglia with Berenberg. Please proceed with your question.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Hey, guys. Congrats, Andy and Eric, and good luck with the new move.

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

A

Thank you.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

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Thank you.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

So, first off, you guys had – the commentary is very interesting on the HST segment with the $25 million to $100 million opportunity. So, how do we – I hesitate to, like you said, put that in the model at this point. But I guess what are some headlines or what should we be tracking to see if the likelihood of this is going forward or is this something that we cannot know, you guys would have to know internally and wait for another update?

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Well, look, I think there's a few environmental things that we can all track. This is – we're making an assumption here that as Andy said in the beginning, that we're going to coexist with this virus for quite a while. So even the vaccines that are planned to be here, we're anticipating that they're not going to wipe out necessarily the virus that's out there and there's going to be a continual need for testing of this type.

So I think all of us tracking the requirements, the necessary nature of the kind of work that we're doing on both fronts is an environmental factor that would support this. But they're very specific. I mean, this is really specific technology, science, and commercial adoption that has to happen here. And as Bill said, I think certainly we'll give you an indication along the way when we've reached different milestones and it's starting to find its way into our sales stream, order and sales stream. So, I think there's a slight environment component, but a lot of it is very specific for us.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Yeah, okay. Okay. And you know, with regards to the orders in the quarter, so it's nice to see those trending in the right direction exiting the quarter. Were orders in any specific segment surprising to you throughout the quarter and how they trended? Specifically FMT, curious how that trended each month and this just seems to be the laggard here, as the important segment to the story.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Yeah. And I would say, Andy referred to it. We saw improvement across all three segments. Obviously FMT is lagging a little bit relative to the end market exposures, but the pickup we saw on a month to month basis was pretty close linearly to how we performed overall.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Okay. All right. Thanks, guys.

Eric D. Ashleman
President & Chief Operating Officer, IDEX Corp.

A

Thank you.

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

A

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Thank you.

Operator: Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back over to Andrew Silvernail for closing comments.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah, thank you very much. Look, I do have a few closing comments. One just around the business as a whole, and two just a few thank you that I'd like to sit – set out and then I'll turn it over to Eric for – to wrap it up. So, look you know, as I exit this company, you got to appreciate the position that we're in and the quality of this business. It is an awesome business and as I answered Allison's question and I walked through those four things, quality of business matters an awful lot and mission matters an awful lot. And we're in a great spot.

Second, we've got positive momentum. You know frankly, I would never have made the decision to leave IDEX if we were in the spot we had been in at the end of the first quarter and the second quarter. And it gives me great confidence and you know, as long as I'm alive, you know, my name is going to be associated with IDEX and I want this company to absolutely blow the doors of it and we have really good momentum.

And then the last thing is, you know, this is a great team. You know, oftentimes, the investment community focuses on a singular person and it's just never so. And under my time as the leader of this company, we've been successful because we've had a great team and Eric has a great team as we go forward. So, I have a lot of confidence in where this business is going.

And just a few thank yous. First, I want to thank everybody at IDEX. As I mentioned before, this has just been a privilege and the highlight of my professional career to work with all of you. I can't tell you how many days I've gone home and had conversations with my wife and conversations with my kids about the joy to work with the people at IDEX. You're just first rate. There's nobody in the world to hold the candle to you, guys, and you brought me just incredible joy and I just want to thank you very much.

To the investor and the analyst community, everybody on the phone here today and those who might listen, you know, sometimes there's a bad rap that between a company, management and the investment community that somehow it's just negative beast that exists. And for me, anyway, it just isn't true. There are a lot of you guys on the phone too. You guys are my friends and you have helped me get better. You have pushed us to get better. You've asked the difficult questions and difficult questions are how you get better. And it's one of the things we do at IDEX all the time. We ask the difficult question. And part of that comes because you guys have asks difficult question and it's just been a privilege to work with you.

And then just to my friend, Eric, we have worked together for 12 years and if people think about professional relationship and we obviously have that. But he is also my dear friend. And as much as I am glad that I have made him better as a leader, he has made me equally, if not, more better as a leader. And there is not a better executive in the world that I've ever worked with than Eric and this company is in great hands.

Eric D. Ashleman

President & Chief Operating Officer, IDEX Corp.

Well, thank you very much for that. Thanks very much for that. As we often do, we end on a lot of the same summary points. I think this business is really, really well-positioned. I couldn't be more excited about where it is now and where it's going to go. This transition is smooth and seamless. We're going to execute this. Everybody is

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leaning forward here. And our priorities are constant. It's like, I feel really, really good here. And that first question I think is the right one. I mean, we know what's important, we worked on it together, and we're going to continue the legacy and the work that you've done, Andy.

A few people I'd like to thank as well. I'd certainly like to thank all the hardworking folks across IDEX. I'm excited to be continuing the journey with them. I'd like to thank our board for their confidence and support. And then, I absolutely would like to thank my friend, Andy. It has been an amazing run from that very first day he came to my business in 2009 and introduced himself. And so, after a long time, we're transitioning from boss and partner to mentor and continued friends. Thank you very much.

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

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