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IDEX Corp. (IEX)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Fourth Quarter and Full-Year 2020 Financial Highlights. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Thank you. You may begin.

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

Thank you. 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 our discussion of the IDEX fourth quarter and full-year 2020 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months and the year ending December 31, 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 Eric Ashleman, our Chief Executive Officer; and Bill Grogan, our Chief Financial Officer.

The format for our call today is as follows. We'll begin with Eric providing an overview of the state of IDEX's businesses, including a recap of our recent performance and how we are viewing 2021. Eric will then provide an update on a few initiatives that we believe are key to IDEX's culture before moving into a review of our order performance and providing our 2021 outlook for our end markets. Bill will then discuss our fourth quarter and full-

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year 2020 financial results and will conclude with an outlook for the first quarter and full-year 2021. Following our prepared remarks, we will open the call for your questions.

If you should need to exit the call for any reason, you may access a complete replay beginning approximately two hours after the call concludes by dialing the toll-free number, 877-660-6853 and entering conference ID 13712088. Or you may simply log on to our company's homepage for the webcast replay.

Before we begin, a brief reminder. This call may contain certain forward-looking statements that are subject to the Safe Harbor language in last night's press release and IDEX's filings with the Securities and Exchange Commission.

With that, I'll turn the call over to our CEO. Eric?

Eric D. Ashleman

Chief Executive Officer, President and Director, IDEX Corp.

Thank you, Mike. I'd like to start by thanking our people all around the world who have risen to the occasion during such a challenging year. It's been a year full of challenging change with the numerous safety protocols and disruptions in the marketplace. In that environment, our people continued to shine. So, to all the IDEX team members listening in on this call, thank you.

Because of the protocols we have in place, the disruptions in our operations have been limited. The COVID trends across Europe, North America and India have been troubling, but we continue to follow those developments closely and remain steadfast in providing a safe place for our employees to work. We continue to deliver solutions for our customers during a challenging year, focusing on the critical innovation we need to support our long-term strategy, as well as producing new products to help the fight against the pandemic.

Bill will walk through the details shortly that customer focus, strong execution, and our ability to react quickly to unpredictable events helped us deliver relatively strong performance in 2020, a true testament to our resiliency. Liquidity was the primary focus of our management strategy as the pandemic hit, and I'm happy to say that we were able to drive record free cash flow this year.

As we address the challenges in front of us, we see a path to bullishness for 2021. We have seen a steady recovery in our end markets which we will detail in a few slides. The diversity and quality of our businesses continues to serve us well ensuring that we can weather any storm and quickly capitalize when market conditions improve. While the pandemic still presents many challenges to solve, we are starting to see a focused pivot back to core commercial endeavors as we and our customers prepare for a world healed from the ravages of COVID-19. Our businesses remain focused on operating safely, and we are prepared to leverage our supply chains and react to increased demands.

A year like 2020 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 that kind of company and it served us well in a year none of us could have ever predicted. I'm proud of the culture we have built at IDEX. It is admired by many, but we can strengthen it still. We leveraged our culture and mission to bind together a uniquely decentralized and diverse company, and our commitment to work even harder to support diversity, equity, and inclusion is tied directly to this important aspect of IDEX differentiation.

Our resiliency, agility, and fundamental ability to execute have IDEX exceptionally well-positioned to play offense aggressively as we move forward. We are actively investing to support our best organic growth bets, and we have

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ramped up our capital spending to support very exciting initiatives. M&A markets are moving again, and we are expanding our capabilities to execute on strategic acquisitions. In January, we announced an agreement to acquire Abel Pumps and expect that deal to close in the first quarter. We actively seek to deploy additional capital to acquire IDEX-like businesses as well as make some calculated bets in new technologies to bolster our growth potential to further strengthen our portfolio and enhance our return to shareholders.

Moving to slide 7. As I just mentioned, the strength of IDEX comes from the IDEX difference, a teachable methodology with great teams working together in a superior culture, focused on the critical things that matter with a natural orientation towards the most important needs of their customers. Our culture is a significant focus and one of my key leadership priorities. To that end, we are making ongoing improvements based on feedback we receive from our employees every day.

Last month, the IDEX Foundation, which was created to positively impact the communities in which we live and work, took a significant step forward as part of these efforts. IDEX committed $6 million to do sponsored activities across the company. The foundation formally added equity and opportunity as a lasting and fully funded part of its mission, creating opportunities for underserved disadvantaged people of color in our communities. This donation allows the foundation to more than double its annual giving. In addition to initiatives focused on equity and opportunity, we will continue the great work our people have been doing in our communities like building homes for the homeless, renovating community centers, and supporting schools and learning opportunities for young people.

This month, we will host more than a dozen facilitated employee-focus groups around the world. And the feedback from our employees will help shape our path forward in diversity, equity, inclusion. Developing a formal framework and goals for our DE&I program is something we have deployed at the senior leadership level, making it a top priority. As part of that commitment, I intend to have a senior DE&I leader in place reporting directly to me later this year. We will continue to grow and advance our culture as a key element of differentiation. You have my commitment on that.

Turning now to our commercial results on slide 8. The broad rebound in order rates we discussed in the third quarter continued and our fourth quarter organic orders were up 7% compared to the prior year. We entered the quarter with optimism based on the strength of the third quarter improvement and that continued into the fourth quarter. Excluding timing of large OEM blanket orders year-over-year, our monthly order rates improved throughout the quarter. FMT organic orders for the fourth quarter were up 3% driven by project orders in our water businesses, continued strength in agriculture, and recovery in industrial day rate businesses. HST organic orders were up 6% in the fourth quarter, driven by new product initiatives in life sciences and the recovery in auto and semicon continuing to boost our sealing solutions businesses.

Finally, Fire Safety and Diversified's organic orders were up 15% in the quarter. Dispensing saw significant improvement as retailers began to release pent-up demand for equipment refreshes, BAND-IT after a strong bounce-back in the third quarter continued to improve based on auto market strength. And Fire & Safety saw growth in several product lines.

A year ago, as we entered 2020, we talked about the general industrial slowdown that we were seeing and what a flat to down 2% to 5% world looked like for IDEX. We had proactively taken strategic actions to address these factors. We then faced the onset of a pandemic and we responded to it with purpose. As we close out 2020 and look forward, we are optimistic that our units and markets are quickly on a path to pre-COVID levels. The actions that we took in 2019 and 2020 have left us well positioned as we move into 2021.

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Turning to slide 9, we provide our current outlook for primary end markets. In our Fluid & Metering Technology segment, industrial day rates continued to tick up in the fourth quarter, further solidifying the optimism that we discussed last quarter. We see this increase driven largely by OpEx needs of our customers. We continue to see large capital projects remain on hold, and we anticipate that broader signs of economic stability and higher degrees of certainty on COVID recovery timing is required before capital projects begin to move again. But the investment discussions are happening.

Our water businesses continued to show resiliency, and we are closely monitoring the toll that 2020 will take on municipal budgets in 2021 and beyond. The strength in agriculture that we've called out for the previous two quarters has continued, and we expect it to grow in 2021. Energy markets continue to remain challenged with markets still down compared to 2019 levels. Stabilization of these businesses is largely dependent on increases in fuel prices driving new capital investments in oil and gas.

Turning to the Health & Science Technology segment, as we discussed last quarter, we have identified opportunities in applications to help fight COVID across each of our segments, but particularly in HST. We were able to drive approximately $30 million of revenue in 2020 and expect to generate about the same amount in 2021 related to these initiatives. While some of this revenue is one time in nature, we believe that technologies and applications we have developed here will generate recurring opportunities in 2022 and beyond.

So, relative to our $25 million to $100 million of opportunities we highlighted, we will achieve about $60 million. AI improved during the fourth quarter and looks to be on the rebound in 2021. In life sciences, we saw an offset by continued weakness in IBD bio as lab capacity is still largely focused on COVID response, putting on hold other projects and initiatives.

The strength in semicon that we mentioned last quarter has continued. In addition, our sealings business has benefited from a rebound in automotive. We see continued recovery in 2021 for the auto market, particularly driven by strength in European car sales in China and India. Food and pharma has also remained a bright spot as our businesses continue to benefit from growth in MPT projects and microfluidics business.

Moving to the Fire & Safety and Diversified segment, we saw continued improvement in most of our markets. The largest driver was the significant improvement in the dispensing market with large retailers' increased demand for equipment refreshes combined with order strength in the Asia dispensing markets. As mentioned previously, the pace of the auto recovery continues to exceed expectations spurring on our BAND-IT business. Fire and rescue businesses continued to see strong order performance, and we believe that we are seeing a recovery in the OEM businesses driving through some of the delays and backlog concerns we referenced last quarter. As with all our municipal businesses, we continue to closely monitor the impact on budgets to see if there are any lagging effects from COVID response spending.

As I highlighted in my previous remarks, we are optimistic about the market recovery we are seeing across most of our markets, and we need to be prepared for potential interruptions, particularly in the first half of 2021. Our teams have shown the ability to address these short-term shocks proactively, and the strategic actions we have taken across our businesses has us well-positioned to be able to ride the positive momentum we are seeing as we exit the issue of a pandemic.

With that, I'll turn it over to Bill to discuss our financial results for the quarter and full year.

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

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Thanks, Eric. I'll start with our consolidated financial results on slide 11. Q4 orders of $679 million were up 10% overall and up 7% organically. Organic orders increased across each of our segments with drivers highlighted by Eric in his previous comments. For the year, orders were down 3% overall and down 4% organically with strong organic order recovery in the fourth quarter, partially offsetting the 18% organic order decline we saw in the second quarter at the height of the pandemic.

Fourth quarter sales of $615 million were up 2% overall, but down 1% organically. Our industrial and energy markets led the decline, but did have positive organic growth in around 60% of our reporting units led by strong performance in our sealing, MPT, and dispensing businesses. Full-year sales of $2.4 billion were down 6% overall and down 9% organically, driven by the impact of COVID, industrial market softness, and challenges in oil and gas.

Q4 gross margins contracted 20 basis points to 43.8%, driven by a decline in volume and unfavorable sales mix, partially offset by price capture. For the full year, gross margins contracted 140 basis points. Excluding the impact of the FMD inventory step-up, adjusted gross margins contracted 130 basis points to 43.9%, driven by volume declines and sales mix, offset by our continued ability to capture price and drive operational productivity. Fourth quarter operating margin was 22.6%, up 50 basis points compared to prior year.

Full-year operating margin was 22.1%, down 110 basis points compared to the prior year. Adjusted operating margin was 23.4% for the fourth quarter, up 10 basis points compared to prior year and 22.8% for the year, down 140 basis points compared to 2019. I'll discuss the drivers of operating income on the following slide.

Our Q4 effective tax rate was 22.2%, which was higher than the prior year ETR of 20.6% due to the revaluation of foreign deferred income tax balances, driven by changes in foreign tax rates. Fourth quarter adjusted net income was $105 million, resulting in an EPS of $1.37, up $0.04 or 3% over prior-year adjusted EPS. Full-year adjusted net income was $397 million, resulting in adjusted EPS of $5.19, down $0.61 or 11% compared to prior year. Finally, free cash flow for the quarter was $149 million, up 9% compared to prior year and was 142% of adjusted net income. For the year, free cash flow was $518 million, a record for IDEX, up 9% versus last year and 131% of adjusted net income, driven by strong working capital performance.

Moving on to slide 12. We're going to review our full-year adjusted operating income. As Eric mentioned, we face unprecedented challenges in 2020, but the structural and discretionary actions we took were critical to lessen the volume impact on our income and margin.

Using a similar framework as we have for the previous two quarters, we wanted to walk through the components of our full-year adjusted operating income. Adjusted operating income declined $66 million for the year. With organic sales down around $247 million, we would have expected a negative impact in operating income of $148 million at roughly 60% contribution margin rate. The $148 million was offset by $58 million of executed operational actions, $23 million from the impact of restructuring actions combined with $35 million of discretionary cost control items, and $10 million of price, net productivity, and negative business mix.

Finally, we had $7 million of reduced variable compensation for the year. This yielded a better-than-expected flow-through of 34%. Again, organic flow-through is based on taking reported sales and op income less the impact of FX and acquisitions which is roughly $77 million on the top line and $7 million of profit.

Overall, our teams focused on quickly managing the crisis at hand and effectively managing cost to mitigate revenue declines and has IDEX well positioned to leverage the recovery we expect in 2021.

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Moving on to guidance. I'm on slide 13. Based on current order rates and expected market recoveries, we see an accelerating 2021 and expect organic revenue for the year to be up 6% to 8%. This translates to an EPS impact of roughly $0.75 to $0.95 depending on our top-line results. We expect our productivity initiatives to more than offset inflation providing $0.04 of benefits. The structural cost actions we have taken are expected to provide $0.12 of EPS benefit in the year.

As we move past the pandemic, we will aggressively invest in both organic and inorganic opportunities. As business recovers, we will loosen discretionary cost controls as appropriate. As mentioned previously, we expect approximately two-thirds of the discretionary costs to return over time.

Additionally, we'll be making investments to enhance our ability to execute and integrate M&A opportunities as we view this as a critical time to enhance our capabilities as well as continue to fund our targeted organic growth initiatives. These discretionary add-backs and strategic investments will provide approximately $0.19 to $0.26 of pressure in our 2021 guidance. Next, we anticipate $0.08 to $0.11 headwind from variable compensation as we reset our incentive comp for the year.

Finally, FMD has one quarter of inorganic results, which we expect to provide $3 million of revenue, but provide $0.03 of EPS pressure. The structural actions we have made to improve FMD's profit profile based on the situation in the energy market will get FMD back to positive op profit in the second quarter.

Now let's take a look at a couple of nonoperational items. First, we expect an $0.18 headwind from tax primarily related to discrete benefits we realized in 2020 associated with equity vesting and option exercising. Second, we expect a 2% tailwind from FX, providing $0.13 of EPS benefit. So, in summary, we are projecting organic revenue growth of 6% to 8% for the year, and EPS expectations are in the range of $5.65 to $5.95, a 9% to 15% increase over 2020.

Moving to slide 14. Let me provide some additional details regarding our 2021 guidance for both the first quarter and full year. In Q1, we are projecting EPS to range from $1.38 to $1.42 with organic revenue growth of 2% to 4% and operating margins of approximately 23.5%. The Q1 effective tax rate is expected to be approximately 23%. We expect a 3% top-line benefit from the impact of FX and corporate costs in the first quarter are expected to be around $18 million.

Turning to some additional details for the full-year guidance. Again, we are projecting full-year EPS in the range of $5.65 to $5.95 with full-year organic revenue to be up 6% to 8% with operating margins between 23.5% to 24.5%. We expect FX to provide a 2% benefit to top-line results, the full-year effective tax rate is expected to be around 23%, capital expenditures are anticipated to be around $55 million, and free cash flow is expected to be between 115% to 120% of net income. Corporate costs are expected to be approximately $70 million for the year.

Finally, our earnings guidance excludes any associated costs or earnings with future acquisitions or restructuring charges. Abel Pumps is not included in these estimates, and we will revise guidance once that deal is closed.

With that, I'll throw it back to Eric for some final thoughts.

Eric D. Ashleman

Chief Executive Officer, President and Director, IDEX Corp.

Thanks, Bill. Before questions, I would like to once again thank our employees and stakeholders for their contributions to what I consider exceptional execution in a challenging environment. We have proven the resilience of our businesses and clearly demonstrated the impact of the IDEX difference in our operating model.

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While we are not completely out of the woods, this is a time for optimism. And I believe that our businesses are well positioned to focus on the critical priorities that will accelerate our growth on the other side of the pandemic.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Allison Poliniak with Wells Fargo. Please proceed with your question.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

I want to go back to your comment, Eric, on M&A and this concept of technology and investing there. Could you maybe give us a little bit of color on what that means in terms of size of those verticals? And then also how you're reconciling those opportunities with the historical discipline that IDEX has always held with M&A?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. Well, it's great to talk to you, Allison. Thank you. So, look, I – you know, we talked a little bit here before about obviously we think the technology cycle is compressed a lot. And no doubt it was already kind of flying in a dynamic way. So as we're thinking about that at IDEX, you know, we're thinking about organic bets in development that we're going to do internally. But no doubt, we're going to have to appropriate some of this from the outside world.

And, I think that you can think of that as a range of technologies. I mean, for a lot of our component products, it's probably going to come down to things like sensors and data readouts. From other businesses that we have, it might be more analytical in nature. So it's going to take some of the inputs that we're able to provide and a severe duty space and come up to some determinant outcome and present that to our customers. So I think it would run the gamut from everything from embedded sensors and control elements up to frankly some software pieces that might be out there that would stick, and sit very nice comfortably next to some pieces of our business. And I just think, ultimately, the call on that is going to be speed, speed and the ability to impact a solution in a way that we think will give us some differentiated edge.

No doubt, when you're looking at assets, especially on the inorganic side, the economics can often work in different ways. And so, we've challenged our teams to think about value creation in a different way as well in terms of how it might extend our solution, bring us closer to customers, lead to other open doors. So, we're spending an awful lot of time on that as a team, Bill and I and the rest of the senior team and really putting our heads together on what that will look like for IDEX, but we're excited about it.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

That's helpful. And then I just want to go to your comment on capital projects. It sounds like you're getting some inquiries or they're starting to increase there. But the balance of that going forward potentially sounds like it's almost like a reopening kind of theme there. Are you feeling like there's starting to be sort of this pent-up demand as people look out into the balance of 2021? Just any thoughts there.

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Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Yeah. Well, I think so. As you know, I mean, especially, I'll just take the FMT segment in general. There's a ton of support there on the day rate side and much of the improvement that we've seen in Q3 and Q4, and that's where it's coming from. The system is working. People are adding shifts. There's just more output. And we come along with that.

And then there's that important component of project business that we would need to see to kind of take it to the next level. And I will say that you don't see a lot of that yet in the actual order numbers that we have, as good as they are. But the discussions that support that, the discussions around spec points and applications and problems that we can solve, you can feel that building. And I think that's behind some of the optimism that we feel coming ahead particularly as the virus, the course of the virus becomes more understood.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks a lot. I'll pass it along.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Thanks, Allison.

Operator: 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.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Hi, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Hey, Eric. So, congratulations. You got your first quarter under your belt. And as we look at the results and the quality of the earnings, it looks just like vintage IDEX and by seeing the incrementals come back. But could you share with us any, like, high-level thoughts here now where do you think you'll be focusing a little bit differently, where might there be an Eric imprint here as CEO is, I'd suspect that a lot of it is just continued focus on 80/20 and the IDEX way.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Sure.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

But just broad strokes how you're thinking about that now.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. Sure, Deane. Look, I think some of it we touched on in my opening comments. I mean, I would actually start with the cultural aspects. I think one of the reasons we've performed as well as we have, we've been as nimble as we have, I mean really comes back to what we built here in terms of a culture and an organizational mentality that allows us to course correct and really focus on things without, frankly, a lot of control coming from Bill or I or the rest of the team. So, in an environment that probably has even more of that, going to the next level there is hugely important.

Then I think, partially thinking back a bit to the comments around Allison's question, technology and how that's going to layer across the solution sets that we have at IDEX, recognizing we've got a lot of different states of evolution depending on the companies, that's a place where I'm spending an awful lot of time to make sure that we're thoughtful and not in some ways kind of overdoing it with a center-led answer because that's not really the appropriate response.

And then, I would end with certainly capital allocation and a lot of focus on how we can frankly put some more of it to work. And the environment is tough, but we're doing some things around focused resources, focused pieces of the company, and a lot of just very iterative thinking as a team of how we can tackle that and frankly capitalize on the engine that we've really built over the last two years. I mean, I think we're uniquely positioned here, even in a difficult environment to bring that to bear.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. And, I think, you've given some good insight into how you're thinking about the end markets. That page 9 was especially helpful, as was the bridge that Bill walked us through. So, if I could just take a moment and ask more specifics on your muni outlook because that came up a couple different times. We talked about the toll that COVID is taking, but there's like two pieces to muni. One is water, which tends to be more resilient; and fire and rescue a little more CapEx. But what are your assumptions on muni budgets and spending here on those two areas?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. I mean, no doubt that's definitely an area that we're watching with a lot of focus. As you know, I mean, those markets tend to lag an awful lot. And so, something bad happens in the world and it takes a while for it to read through. And then, of course, if you think of kind of our exposure layered on top of it, particularly the two areas that you mentioned, we're doing very important work that many times is buffered against some of it.

So, on the water side, we're heavily tilted towards the analytical side, analytical services and support. And so, even if the system has to make do, with infrastructure might have to delay some kind of layout of heavy infrastructure, they often turn to our kind of work to make sure that they're leveraging the system that they do have. Frankly, also on the water side, I mean, if we go into an era where the environmental compliance has stepped up a bit, that's another dynamic that helps us there. So, that's against that sort of other trend that we are

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watching around budget support and budget assurance. So, the two things are kind of working there together, but we see that same resiliency.

Fire and rescue, again, this is one of the most global stories that we have. And so, no doubt in the more mature spaces, CapEx purchases, considering where the source of that funding is going to come from is always something that we're thinking about and tracking. But we're – we course correct a bit here. And so, it's a different story in some of the emerging markets where we've got great presence and, frankly, a lot of technology and people on the ground. So, I think that global breadth helps us on that side as well. But no doubt, we're watching the same dynamics that you all are. As we go forward, we're looking to see if there's backstopping and support or not all over the world. And – but we think we're well-positioned.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Appreciate it. Thank you.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Thanks, Deane.

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

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

Q

Hey. Good morning, everyone.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Hi, Mike.

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

Q

So, let's start on the demand curve here. Obviously, understand the optimism comments, really good to hear. Is that – how is that optimism embedded in the guidance range? How are you thinking about trends as you work through the year here? And, any commentary on how customers are thinking about what their spend patterns look like and how much optimism is there in the channel when you're having those conversations? And, I guess, one more tail to that, what do you think that means for the next couple of years?

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

A

Well, Mike, maybe I'll start off with the first part of your question relative to how we're thinking about pacing through the year in our guidance. I think, it's kind of consistent sequential improvement as we progress through the year. And you looked at the 6% to 8%, and where we are in the first quarter, there is kind of a gradual improvement that we need to achieve in each quarter that's reasonable.

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When you think about the 6% to 8%, between the segments, HST a little bit on the high end, FMT in the middle, and FSD on the lower side. So generally balanced with small sequential improvements as we progress. And obviously, we got some targeted growth things that will phase out through the year that could inflect that, plus or minus. But, we're not looking for significant growth in any specific quarter as we progress through the year.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Yeah. Mike, I just would continue to point to, I mean, in many ways what we call it internally is sort of predictable uncertainty. There's a lot of stuff going on, no doubt. But, it's at least found a level where, one of the things we've noticed all around the world is certainly we're going to keep the machines on, keep the factories running, keep the borders open, keep products moving. Might be difficult at times, but that assurance is there. And certainly with, some good signs in terms of, virus mitigation, that provides another piece of assurance. And then I think most people recognize there's a lot of pent-up energy more broadly that if things continue to go this way, would be released at some point. And, again, IDEX has such broad exposure, we think we'd participate in that.

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

So third question, just maybe some thoughts on supply chains, how they look for you specifically, what channel inventories look like, and then lastly, how are you thinking about price cost dynamics?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Yeah, sure. On – well, no doubt the supply chain is tricky to maneuver. I mean, we're seeing that as well as everybody else. I mean, the ports are clogged up, and they've got some staffing issues in both of the coast. Containers are in the wrong places, all of that stuff. And just, frankly, there's not enough aircraft in the sky. So we're not immune to that. However, as you know, we are very localized generally in terms of our supply, our production, and our sell-through into markets, it's a very localized model.

And so, I think relative to a lot of people we probably don't experience this at the same levels. Our teams now, for quite a while, you know, frankly even going back to the times where we were talking a lot more about tariffs and things like that, have been thinking about where we have, key sources and supply, how we can make that frankly more flexible. And, to this day, every Tuesday, we kind of go around the horn and talk both about kind of how we're holding up in terms of the virus, how we're navigating supply chains and fortunate that teams have been able to react and navigate around that. And that's the go-forward assumption for us.

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

Appreciate it. Thank you.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.
A

Thanks, Mike.

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

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

Q

Thanks and good morning, guys. Can you maybe talk a little bit about the order cadence you experienced through the quarter? It sounds like things got better than what you've seen so far in January. And if you wouldn't mind adding some geographic overlay to that as well.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. So, relative to the order pattern through the quarter, we mentioned it a little bit in the prepared remarks. Our day rate businesses continue to progress as we marched through the fourth quarter. We had some timing of the OEM blanket that made the absolute month numbers a little bit choppy. But for the things that we look as indicator, the sequential improvement was there and that's continued on in January with another positive month of broad-based order improvement across all of our businesses.

On the geographic side, I think it was a really strong performance in Asia, in Europe, and North America lagged a little bit only because of, hey, that's where most of our core industrial and energy exposure is. It was the only area that was the lowest out of the three but, again, still sequentially improving.

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

Q

And then realizing dispensing is a fairly small piece of overall IDEX, they can still kind of bounce around FSD a bit. I would imagine some of the orders you received may be for future periods. Is there any sort of sequential cadence we should be thinking about as it pertains to FSD because of some lumpiness as we fine-tune our models? Thank you.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah, we're starting to see strong order quarter for dispensing. I would say, it's going to pace out through the first three quarters of the year for the most part, maybe a little bit more heavily weighted towards the first two quarters, maybe because we did receive some orders for the full year from several customers.

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

Q

Great. Thank you.

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

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Hey. Good morning. And, Eric, congratulations on your first solo quarter. Good luck.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Thanks, Scott.

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Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

So, I wanted to maybe get a little bit more on your 6% to 8% organic for the year which obviously suggests a pretty, steady but pretty healthy improvement 2Q, 3Q, 4Q and maybe specifically in FMT where you're kind of saying that's sort of like in the middle. What are the markets that you're looking at in FMT that are going to be the drivers for that level of growth as the year progresses?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Well, I mean, as you know, Scott, I mean, FMT is such a broad collection, catch all of a wide variety of industrial markets. But, it's – honestly, it runs the gamut. So, food production is in there. Anything related to, starting to work on infrastructure and build out of highways and buildings and things, we're going to participate there as well. So, the chemical sector kind of coming back to life. We've got a significant presence there. I mean, it's – it really is that sort of broad-based support coming from the industrial sector largely in kind of our mature geographic markets that just day rates, that's kind of been the first chapter of it. I think, the projects that we talked about earlier is starting to come on, starting to get funded. You put those two things together, that's sort of what the picture would look like. And it – we'd see it as a pretty steady march. I mean, it's not like a hockey stick out there. We just think the line sort of continues as the world heals.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Right. Yeah. Well, you're shorter cycle, so that makes sense.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Bill, one for you. Could you give us an idea? I think, you guys have been kind enough in the past to kind of share with us some, your revenues that are from OpEx which includes the day rates versus CapEx. What was the exit rate on that?

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

A

I would say it's more heavily OpEx related. Again, to Eric's comments relative to the larger capital projects, I think the conversations around those are picking up. We haven't seen a significant increase in order book relative to those things falling through yet though.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Would you say, Bill, that the OpEx is maybe 70%, 75% of the revenue run rate right now?

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

A

Yeah, plus or minus. It's around there.

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Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Great. Thanks.

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

A

Thanks, Scott.

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

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Good morning, guys.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Hi.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

I wanted to focus on Health & Science Technologies for a second. So, you gave some color there on the rapid test coming roughly in line with kind of what you thought revenue wise. But what are the puts and takes elsewhere in the business throughout the year? Because it seems – I'm actually surprised that life sciences was more stable and analytical instrumentation is, given what we're seeing with other companies. I don't know. I guess, what are you seeing in 2021 in that segment and how that is going to ebb and flow throughout the year.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Well, I mean, look, I think the analytical instrumentation story, for us, it's a pretty mature business. It was, obviously it faced some headwinds last year like a lot of life sciences did related to sort of up and down the street, medical things and analytical services. We did see a nice bounce-back there in the fourth quarter for AI. I think it kind of returns to its sort of historical rates as we go forward.

The IBD bio side, which is also pretty mature, that's the one that's still got the most pressure on it. It's much more dependent on people going and visiting labs. And then as a consumables stream, it tends to be out ahead of capital purchases. And that's kind of where we come in. So, consider that a bit of an offset to the AI story. And then pretty quickly, we get into the more dynamic pieces of this related to the works that we do in genomics. And obviously, the rapid test is the most dynamic of them all.

So, we put all that together, I think we tried to lay that out here. But I would say, in general, look, this is a robust sector. It's obviously doing work that the world needs right now. We think we're well positioned in all of it. And, the single biggest catalyst for us still remains that work we're doing around the testing program.

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Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Okay. Based on your orders, order trends, I guess looking out to 2021 for the full year, is it safe to say Fluid & Metering probably leads followed by HST and then Fire & Safety or, I guess, can you rank order those organically?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

For orders or sales?

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

For sales, I mean.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. No. I think I mentioned a little bit earlier, I think HST is probably on the higher end, FMT is down the middle, and FSD is on the low end. You know, if you pick [indiscernible] (41:32).

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Okay. Sorry. Understood. Okay. And then just one last one. On M&A, you guys indicated a quarter or two ago that there were some deals in HST perking up. Anything, any update there or anything just broadly on M&A?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Well, look, as I said in both in the comments at the beginning and some of the questions here, I mean, we've got a lot of work going on in frankly all three segments. So I wouldn't say that one is tilted more than the other. I mean, we've got good opportunities in all three. We've got teams associated in and positioned in places where we're focused on all three. So, I'd hesitate to color it as slanted one way or another.

Andrew Buscaglia
Analyst, Berenberg Capital Markets LLC

Q

Okay. All right. Thank you, guys.

Operator: [Operator Instructions] Our next question comes from the line of Joseph Giordano with Cowen. Please proceed with your question.

Francisco Amador
Analyst, Cowen and Company

Q

Hey, guys. Good morning. This is Francisco on for Joe. I wanted to ask with regards to slide 9, which is obviously very helpful, your general thoughts on automotive. We've seen some headlines on potential production cuts coming from the shortage in semiconductors. How exposed are you to that? And if you can just provide some incremental commentary there, please.

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Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Yeah. Well, I mean, no doubt, we've seen the same headlines. I mean, we – this is still a relatively small piece of IDEX. I mean, we have exposure there in a couple of businesses and none of which is related to the electronics side. So, look, I think what we've seen so far, the momentum is the recovery of an industry that was largely kind of shut down for decent parts of the year. And then, frankly, most of our growth there is through growth of platforms, the technologies where we're actually focused.

Our teams have done just a great job of being able to introduce that to more and more people, more and more players in the market, and then secure those wins and we would see the run out over several years. So, I – we haven't seen a big interruption. But again, we're not in that sort of same area, the parts bins, and we got really, really good exposure to the platform wins in a couple of businesses.

Francisco Amador
Analyst, Cowen and Company

Q

Thanks. That's helpful. And just going back quickly to the M&A topic, just on the environment, would you say it's more favorable than it was a couple quarters ago? I think you guys mentioned at some point that, multiples were still pretty high and people were maybe not as willing to sell. How has that changed in the last couple months?

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Well, I mean, the – like, the valuation remains certainly high and rich. And maybe because of that and some of the confidence that we're seeing generally, you put those two things together, I would say the flow of properties for sale is better, and it continues to grow kind of with the confidence and assurance, kind of same things that we're citing here. So, valuation was frankly high before. We think it's high now. We think it'd stay at these elevated levels as we go forward. That's the challenge for us. But, we think we've got the – certainly have the firepower to do the work both in terms of the teams, the franchises we're thinking of building around, and the demonstrated ability to execute and drive value in our company.

Francisco Amador
Analyst, Cowen and Company

Q

Great. Thank you very much.

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

A

Thank you.

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

Eric D. Ashleman
Chief Executive Officer, President and Director, IDEX Corp.

Okay. Well, hey, thanks for everybody joining. And I know there's always a lot of IDEX folks that join this call as well. So, I do want, once again, want to thank everybody across IDEX for the really, really hard work and solid execution in 2020 and, frankly, a great start already to the year here. So, thank you for your efforts there.

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I think, as you can see, I mean, we're pretty – we're cautiously bullish. We're leaning forward. You know, we're generally optimistic about where things are going here. No doubt, there's a lot of uncertainty that's still out there. But I think if we've learned anything in 2020, it's how resilient everybody is and how quickly we can kind of course-correct and I think our company does that better than many. So, we've got the people in place. We've got the teams. We've got focus. And I'm just really, really pleased to be here and leading the charge with Bill and others.

So, thanks for your interest and time today.

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

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