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IDEX Corp. (IEX)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation First Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Michael Yates, Vice President and Chief Accounting Officer. Thank you. 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 first quarter 2021 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending March 31, 2021. 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 will begin with Eric providing an overview of the state of our businesses, an update on our M&A activity and an overview of our order performance and outlook for our end markets. Bill will then discuss our first quarter 2021 financial results and provide an update on our outlook for the second quarter and full-year 2021. Finally, Eric will conclude with an update on our sustainability, diversity, equity and inclusion programs. Following our prepared remarks, we will open the call for your questions.

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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 13712089 or you may simply log-on to our company's homepage for the webcast replay. Before we begin, a brief reminder. This call may contain certain forward-looking statements that are subject to the Safe Harbor language in last night's press release and in IDEX's filings with the Securities and Exchange Commission.

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

Eric D. Ashleman

Chief Executive Officer, President & Director, IDEX Corp.

Thank you, Mike. Once again, our teams across IDEX should be extremely proud of the results we've achieved together. I don't think any of us would have imagined being at this point when viewing the state of the world a year ago. Our diverse array of high-performing businesses continues to serve us well. We're seeing most of our end markets either largely recovered or steadily improving at this point. We continue to build on the momentum we experienced in the fourth quarter and expect 2021 to be stronger than our expectations 90 days ago.

Although tremendous progress has been made in our recovery, there are still some areas we're keeping a close eye on. Our day rates have accelerated but we have yet to see larger projects in our industrial sector moving forward. Customers are more confident in their outlook but are now trying to balance the surge in demand with capacity to make larger investments.

As for COVID, the conditions vary widely around the world. In the UK and the United States, the vaccination rate has been remarkable of late. In China, much of life has been continuing as normal for many months now. The situation in Europe and India where lockdowns and virus variants are still a serious issue reminds us that we are not fully past the societal and economic impact that the pandemic has had on our businesses.

The quarter was not without challenges. From safety protocols and lockdowns to sporadic shortages of parts and materials to rapidly changing logistics hurdles and a variety of staffing challenges, this was far from smooth sailing. Recognizing all of that, I want to thank every IDEX employee on this call for their efforts in the past quarter. I'm proud that our team successfully navigated many tough hurdles to achieve these results. The operational excellence of our teams continues to pay off.

Pivoting a moment to capital deployment, with the closure of the ABEL Pumps transaction this quarter and the announcement of the Airtech acquisition last night, covered in more detail in a moment, we have started off 2021 on a strong note and we'll build on this momentum as we further invest in M&A capabilities. We recently allocated some of our most talented resources towards focused strategy and business development roles. And we engaged the external expertise to expand our ability to identify, assess, win and successfully integrate new companies into IDEX.

Our deal funnel is expanding as we look for more opportunities to acquire organizations that fit the IDEX style of competition. We seek to both widen and deepen the moats around our best businesses as well as establish positions within new market niches with the capabilities of our teams, will drive the most value for customers and shareholders. We are fortunate to have significant financial resources to deploy towards these efforts.

Moving on to slide 7, yesterday we announced our intent to acquire Airtech Vacuum Group from EagleTree Capital for $470 million. Airtech engineers and manufactures high-performance regenerative blowers, pneumatic valves, air compressors, and vacuum pumps. Airtech had revenue of $85 million with EBITDA margin in the mid-

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30s range in 2020. It is a 16 times trailing deal and a 15 times deal including acquired tax benefits. Within the IDEX family of businesses, a complement and expand upon the solutions provided by GAST manufacturing which produces fractional horsepower air-moving products and systems that include air compressors, vacuum pumps, air motors, and tank systems.

While there are some overlaps in the solutions they provide, much of Airtech's product lines will be complementary. They will remain separate businesses within IDEX but we anticipate collaboration and synergies from each company with shared expertise leading to further innovation. This deal, which we expect to close in the second quarter will then create a $200 million pneumatics platform within our Health & Science Technologies segment.

Turning to our commercial results on slide 8, the positive momentum in order trends continued in the first quarter both compared to prior year and sequentially, allowing us to build $59 million of backlog in the quarter. Most of our business units are at or approaching pre-pandemic levels. I'll go into more details in a minute.

Organic orders in the quarter exceeded the first quarter of 2020 and were an all-time high for us. Q1 orders were also up 4% organically versus Q1 of 2019.

As we look across our segments, Health & Science Technologies and Fire & Safety/Diversified Products delivered strong organic order growth with Fluid & Metering Technologies slightly lagging. As growth rates in HST and FSDP began to naturally level off, we expect FMT will drive additional growth due to the return of project-based businesses in the energy and industrial markets in the second-half of the year. These commercial results and the strength of our rebound highlight the resilience of our businesses and the critical importance of the solutions we provide to our customers.

On slide 9, we provide a deeper outlook for our primary end markets. To level-set, we entered the year cautiously bullish about the state of our underlying markets and the velocity of the pandemic recovery. Our day rate businesses began to accelerate coming into the year and we continue to leverage our diversified portfolio to aggressively pursue opportunities to drive organic growth coming out of the pandemic. We are now measuring our markets against their pre-pandemic levels. Many of our markets have fully recovered and the majority of our markets are on track to have fully recovered by the end of the year. As I mentioned earlier, we're not out of the woods yet but even with pockets of concern around supply chain disruptions and COVID in certain geographies, we are optimistic about the outlook of our end markets.

In our Fluid & Metering Technologies segment, industrial day rates continued to increase throughout the quarter. As I've mentioned, we will not be at full recovery until we see large CapEx projects resume but the underlying industrial markets are in a state of recovery trending back toward 2019 levels. Agriculture continues to drive outsized growth as crop prices and customer sentiment remains strong. Our water business is stable. We continue to assess any subsequent impact from the pandemic, municipal funding as well as tailwinds that might come out of an infrastructure bill. Energy markets continue to lag 2019 levels primarily due to limited capital investment in the sector.

Moving to the Health & Science Technologies segment, we experienced solid growth across almost all of our markets. Semicon and food and pharma continued to outperform driven by a strong market and winning share with our differentiated technology offerings. The overall automotive market faces many challenges but we have won several new platforms driving our performance. Our AI and life science markets are on the rebound as the impact of the pandemic in the United States has improved. The industrial businesses within the segment are seeing a similar result to FMT. Day rates are improving but projects are lacking. One last item for HST, we do see

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risk with the COVID opportunities we have been talking about in this segment specifically around testing. The end product application is yet to receive FDA approval which will impact volumes for this year. We do believe that the strength in the rest of the segment will be able to offset most of that risk.

Finally, in our Fire & Safety/Diversified Products segment, dispensing continues its rebound as large retailers free up capital and work through pent-up demand for equipment. Much like our automotive exposures in HST, the auto recovery and FSD (sic) [FSDP] at BAND-IT is driven by new platform wins coupled with an improved market. In fire and rescue, we continue to assess municipal budget headwinds especially in Europe and India as budgets have not been released, delaying tenders.

The US market has been better and we are optimistic about the impact of our businesses from increased infrastructure spending. The other lagging category in FSDP is primarily BAND-IT's energy and aerospace exposure, along with some industrial applications in fire and rescue.

We continue to closely monitor market conditions and are focused on ensuring the stability of our supply chain as persistence in global supply chain issues threaten to create choppiness in the back-half of the year. Despite these factors, we are confident enough in our outlook to raise our organic growth expectations for the year.

With that, I would like to 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.

Thanks, Eric. I'll start with our consolidated financial results on slide 11. Q1 orders of $711 million were up 10% overall and up 6% organically as we built $59 million of backlog in the quarter. Organic orders grew sequentially and year-over-year in each of our segments as highlighted by Eric on the prior slide.

First quarter sales of $652 million were up 10% overall and 6% organically. We experienced growth across all our segments with over 75% of our business units increasing year-over-year. Strength in semicon, food and pharma and dispensing were the notable highlights in the quarter.

Q1 gross margin contracted 80 basis points to 44.9% but was up 110 basis points sequentially. The year-over-year decrease was primarily driven by the dilutive impact of acquisitions, inventory step-up associated with ABEL, mix and one-time inventory reserves. The inventory reserves were associated with our pandemic-related electrostatic sprayer businesses not materializing at the rate we expected. Excluding acquisitions and the inventory reserves, gross margin would have been flat to prior year.

First quarter operating margin was 23.9%, up 40 basis points compared to prior year. Adjusted operating margin was 24.3%, up 80 basis points compared to last year driven by the increased volume and the impact of cost actions taken last year, offset by the gross margin pressure I just mentioned. I will discuss the drivers of operating income in more detail on the following slide.

Our Q1 effective tax rate was 22.6%, which was higher than the prior-year ETR of 20%, due to a decrease in the excess tax benefits from share-based compensation. This drove a $0.05 headwind on EPS for the quarter.

First quarter adjusted net income was $115 million, resulting in adjusted EPS of $1.51, up $0.18 or 14% over prior year. Excluding the $0.05 tax headwind, adjusted EPS would have been up $0.23 or 17%.

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Finally, free cash flow for the quarter was $95 million, up 32% compared to prior year and was 82% of adjusted net income. The strong performance was driven by higher earnings and the continued impact of our working capital initiatives.

Moving on to slide 12, as Eric mentioned we entered the quarter cautiously optimistic about the pace of growth coming into 2021. We knew that we were structurally well-positioned to take advantage of the improving marketing conditions from the cost actions and discretionary controls we put in place last year.

Adjusted operating income increased $18 million for the quarter compared to prior year. Our 6% organic growth contributed approximately $13 million flowing through at our prior-year gross margin rate. The impact of previous discretionary cost controls contributed $5 million and we were able to net $4 million from price, productivity partially offset by inflation. After accounting for $2 million of negative mix, our organic flow-through was extremely strong at 58%. Flow-through was then negatively impacted by the $3 million charge related to the inventory reserve I discussed on the last slide and the dilutive impact of acquisitions and FX, getting to a reported flow-through of 32%.

As we highlighted it in prior calls, we expect to reinvest aggressively in the business to drive both organic and inorganic opportunities. We have already started those investments and expect the associated costs from these initiatives will reduce our organic flow-through in subsequent quarters.

With that, I would like to provide an update on our outlook for the second quarter and full-year 2021. I'm on slide 13. For the second quarter, we are projecting EPS to range from $1.60 to $1.63 with organic revenue growth of 18% to 20% and operating margins of approximately 24.5%. The second quarter effective tax rate is expected to be about 23% and we expect a 2% top line benefit from the impact of FX. Corporate costs in the second quarter are expected to be around $21 million with the increase primarily driven by the M&A investments we discussed earlier.

Turning to the full-year outlook, we are increasing our full-year EPS guidance from $5.65 to $5.95, up to $6.05 to $6.20. We are also increasing our full-year organic revenue growth from 6% to 8%, up to 9% to 10%. We expect operating margins of approximately 24.5%. We expect FX to provide a 1% benefit to top line results. Our full-year effective tax rate is expected to be around 23%. Capital expenditures are anticipated to be around $55 million. Free cash flow is now expected to be 115% to 120% of net income and corporate costs are expected to be approximately $74 million for the full-year.

Finally, our earnings guidance excludes any costs or earnings associated with future acquisitions or restructuring charges. ABEL Pump (sic) [Pumps] is now included in these estimates with the deal closed in the first quarter. Airtech is not included in these estimates. We will update our guidance accordingly once the deal closes.

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

Eric D. Ashleman

Chief Executive Officer, President & Director, IDEX Corp.

Thanks, Bill. I'm on the final slide, slide 14. Before we open the call for questions, I'd like to share an update on our ESG journey and the evolution of our company culture. We recently published our second corporate social responsibility report. This report is our first to adopt the Sustainable Accounting Standards Board sector standards also known as SASB. We have increased our disclosures in key areas including health and safety, diversity and environmental impact.

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I would like to take this opportunity to thank Denise Cade, our General Counsel and her cross-functional team for their outstanding efforts to bring our hardworking commitments to light. Diversity, equity and inclusion continues to be a point of emphasis in our evolving company culture. Since we last met, an outside facilitator conducted anonymous focus groups with employees from around the world from which we learned and we're able to begin developing more targeted goals for the company. We are currently planning training sessions for all leaders to help them understand and become comfortable fostering dialogue on these important issues. We are addressing our talent management processes including our assessment of existing talent and our consideration of new talent through recruiting to help ensure our processes are free from unconscious bias. And we are assessing our purchasing practice to expand our use of diverse suppliers.

IDEX is a decentralized company with a diverse collection of businesses. Our superior economic model depends upon problem-solving and decision-making at the point of impact closest to our customers. Our collective work within this important area as outlined in this report is an essential component of our next phase of business growth.

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 your question-and-answer session. [Operator Instructions] Our first 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 & Director, IDEX Corp.

A

Hi, Mike.

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

Q

So let's just talk about what's embedded in guidance here. Obviously, really strong first quarter; second quarter guide seems where the uptick in guidance comes from between the first and the second quarter, maybe a little less movement in the back-half of the year relative to prior expectations.

So just kind of want to understand what the trajectory you're thinking about through the year is, how you're viewing the recovery, how much of what I just mentioned is true and what are some of the puts-and-takes you're thinking about because obviously the tone that you're striking is cautiously optimistic as you move in the back-half of the year and just want to make sure I have all those things balanced.

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

A

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Yeah. Well, thanks, Mike. I mean, look, it's – I mean it's an interesting time as I've said in the opening comments there. I mean we've got this broad-based momentum which we feel really good about and it's got these little chapters that lie over it; whether that's shutdowns, coming out of Christmas, terrible weather in Texas in February, supply chain stuff now and I think that's going to be the story as we go.

And then that lays over the IDEX story which always kind of had our second quarter as a high point for us and so we see that momentum lining up nicely on our typically seasonally adjusted second quarter. And then the back-half, I think that's going to be a story of we've got some projects and things that we know about on the inside that we feel good about. We think the momentum certainly will continue, but we would suspect we're still going to have a lot of these challenges out there that we'll have to navigate around.

And of course then I think the typical seasonal patterns that we see around summer's shutdowns and things in Europe are embedded on top of that. So it's an interesting story with very broad-based support, early momentum, these kinds of episodic challenges that we have to navigate around that we feel confident we will.

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

Q

So on those challenges; supply chain inflation, price cost dynamics, maybe talk about how those are impacting you, when you think there's, call it, peak pain from your perspective on all these things hitting with that. I mean, first quarter margins were obviously excellent; second quarter implies – still very good. So just talk about how you're managing effectively. I know you did a ton of work coming into this to prepare for a lot of these challenges but I'd certainly like to understand how it's impacting you and how it phases through the year?

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

A

Yeah. Sure. Well, look, we – this is where our model and our talent really helps us. I mean we've got a lot of local sourcing, very close to where we produce, very close to where we sell, so we're in a kind of an inherent advantage there. And we got really, really talented teams that used, frankly, a lot of the lessons in the year's worth of severe acute phases of the pandemic to make some smart moves around supply chain to prepare us for this.

That being said, I would say on the inflationary front, it's kind of spotty for us. I mean remember we're a little further down the food chain. We don't buy a lot of giant quantities of base material. We buy things that have been converted, so it does have a little bit of a lag for us. And so we see the same things others are seeing where we buy lots of metals. There's some inflationary pressure; electronics, a few other places but we're navigating around those on the freight side. That's certainly a challenge both on the price, frankly more on the availability side.

We're no different than anybody else trying to find sea containers, trucking, trains, port facilities that have to unclog all of those things. Our model helps us. Our folks help us. I think as we go further out, the inflationary pressure, I actually think that's going to ramp up a bit for everybody. One of the things that you can still appreciate, I see it in our own businesses is today we still have a little bit of a benefit; our people are good scavengers. They'll go around and they'll find some things over here; find some places over there; take advantage of some inventory shelf stock. Eventually, you kind of get back where you're right at the end of the factory and then you're kind of dealing with what everybody else is. So we're planning for that. We're making all the moves that we need to. And certainly of course all of this for us, you can never tell this story without talking about price capture. And so we've got these things aligned. And as you'd suspect, we're always trying to manage that spread and taking advantage of the price capture side as we sell and then executing the heck out of a difficult environment on the back-end to maintain that spread as we go and doing it all with our customers top of mind and

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considering and remembering the lead time requirements that we have kind of where we fit the criticality of what we do. That's what drives all of it.

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

Yeah. Mike, so we were pretty comfortable relative to where we're sitting right now that we've maintained our historical price cost spread where we have seen some businesses, the inflation has ramped up here more quickly. They've gone out proactively with incremental prices or surcharges to their customers. So our commercial teams are actively working with our supply chain teams to make sure that we have the ability to continue that spread as we progressed through the year.

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

Thanks for the answers, guys. Appreciate it.

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

Thanks, Mike.

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 & Director, IDEX Corp.
A

Hi, Deane.

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

Hey, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Hey, there were a couple of products cited in the prepared remarks, COVID-related, that were looking like they were lagging in terms of initial expectations. I know last year that was part of an IDEX initiative. There were $25 million to $100 million potential revenue, new COVID products. It sounds like two of these were in that bucket; the HST, the COVID tester; and for FMT the electrostatic sprayer. So just give us an update of those COVID-related initiatives, how many – not all are going to come through...

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

Right.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

...to get that. But just where does that stand in terms of expectations?

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

A

Sure. So, I'll kind of step back in the beginning and just walk us from high to low. I mean we originally talked about that range pretty quickly that moved through about $60 million of a split pretty evenly between 2020 and 2021, and now we're kind of talking about a $30 million bucket for this year. And the two biggest components in there were the electrostatic sprayer application which we talked about and you saw in the margin walk; I'll come back to that in a second, and then the COVID testing, the diagnostic application which was always a little bit more back-end loaded. And as you noted and we noted in our remarks, we've got some pressure points around both of those related frankly to the improving situation that we see across the globe in terms of vaccination rates and some other things. On the sprayer front, that's literally is binary; a change in thought. A change in thought that was part of the CDC guidelines around the need for sanitization not being as high as previously thought at the time, pretty coincident with some of our launch planning.

So, as you would suspect, we've taken a slightly different view of that business. I think it's a good product line. There's still plenty of places, a lot of it involved in transportation where that's still going to be an essential piece of it but it's no doubt going to run out slower. I do want to pause just for a second though and point out the positive aspect of that. That was – it was one of our hardest-hit businesses in terms of their core markets that rallied massively quickly, put together a business and put together all this product and got it ready to frankly live our mission and try to make the world a better place. So we celebrate that one and we're going to leverage that capability going forward.

On the other side, on the testing front, it's a little bit more complex. We've got some issues on FDA approvals with our partners and we have this backdrop of vaccinations and things rolling out across the world. But I must tell you, I said – I think we're viewing that a little less favorably as we go forward, again with an eye towards what happens in the back-half. The world still is not at the recommended level of surveillance testing, we're underneath it by more than half. And we still think this has a role to play that we want to at least point out that there's an impact of an improving world through a couple of these applications. But overall, couldn't be happier with how our teams responded and put together the solutions here.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

All right. That's really helpful. Thanks for the update there. And, look, we'd much rather see you take these shots on goal because that's good initiative and there's always some positives that will come out of it in terms of product development and other market opportunities, so appreciate all that.

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

A

Thanks.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Second question, just – it's more for Bill, just in terms of expectations on incrementals for the balance of the year and I really appreciate how you highlight the organic drop-through to separate out like the inventory reserve

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taken. So, just the expectation here both on reported incrementals and organic incrementals and what is baked-in on guidance here?

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

Yeah. Yeah. So maybe I'll speak to the organic; absolutely really healthy when you look at core organic flow-through at 58%. I think relative to the increasing guide, where we're at with our reinvestments and discretionary cost add-backs, that's probably going to moderate around the low-40s as we progress through the second, third, and fourth quarters. Yeah. If you do the math, that's really what's implied with the revised EPS guidance.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

That's really helpful. Thank you.

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

Sure.

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

Thanks.

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

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Hi, guys. Good morning.

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

Good morning.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Just want to go back to your comments on the industrial, more around that big project focus, just want to make sure I understand it. It sounds like it's – the first-half thoroughly flowed; second half, you're getting some expectation that that could improve. Any color there, the sort of confidence from customers increasing, quality of inquiries, any color you can provide on that side?

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

Yeah. Absolutely. I mean it's an important piece of the business especially as we think about the rest of the year. I think actually the situation has changed there. The daily order rates, of course we pointed to that momentum and that's a great sign. That's a great sign that the system is working and that the momentum is there. The project

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side I think has shifted from one of confidence and a lack of belief in, let's say, an improving outlook in the world and all of those things; that's actually quite favorable now.

I think now it's actually caught up in a space – a zone that people just trying to execute it. I look at my own businesses and see some of that same thing where some things, larger projects we've been thinking about, a lot of people that would have been moving those along are trying really, really hard to ship product, get things going, understanding that's on inventory; all of that.

So if we engage with customers, particularly right down that fairway of industrials with an FMT, this is the difference in tone. You see a lot of optimism but you also see a lot of very, very busy people. And that's especially true of the nature of the kind of projects we have. These are kind of those medium-term expansions of facilities and things like that. So we're pretty confident, I'm very confident that those are going to come back. In some ways, we just need to – get a little bit more space to work on them, continue to see the momentum that's already out there. And then the lines cross and we think that's an important part of our story going forward.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Great. That's helpful. Thank you. And then just next, M&A, it sounds like a pretty active pipeline; two deals so far. And I guess two things: One, how are you balancing that managerial capacity to handle some of these incoming properties with activity increasing? And then second is really around leverage. Any change to sort of that comfort level and/or if there's some – I would say, more interesting opportunities that come along here, just any thoughts there?

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

A

Yeah. No, great questions. Well, so a couple of things and just capacity in general, as you've seen in the comments for a couple of quarters here we've been building that all along. A lot of the optimization we've done with IDEX over the last five years gave us the muscle that we're now leaning on as we think about looking for acquiring and integrating companies. So that's something just at the foundational level. Relative to the two transactions that we have here, they're both very good standalone businesses that while they're going to require some integrative activity, these are well-positioned, in good shape, and let's say a lighter touch in terms of demand from IDEX talent across the board.

And so bottom line is I feel confident that we could continue to work the funnel that we have with the intent that we're driving. If we were to kind of lap this experience again in the back-half, I wouldn't see that as a problem in terms of our teams being able to go out and work on acquisitions. I will tell you, we are – as you'd suspect, we always filter these. There are some properties that if we said yes and we were successful, they take a lot more work than others and we would factor that in and we're always pretty aware of that. But right now, in very good shape with an intention to build on the bottom side and on the top; two transactions that very fortunately are in kind of great shape out of the gate.

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

A

And then relative to your second part of your question, I would say we still think our balance sheet is most efficient at about 2.5 times. So relative to the capital availability we have on-hand plus additional leverage for us to go deploy another $2 billion post the Airtech closure is extremely reasonable. So we have more than enough capacity to go after the things that Eric just mentioned.

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Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks so much for the color.

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

A

Sure.

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

A

Thank you.

Operator: Our next question comes from the line of Connor Lynagh with Morgan Stanley. Please proceed with your question.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC

Q

Yes. Thank you. I wanted to talk about the Airtech acquisition. Just wondering if you could sort of provide a overview of why you found this to be an attractive asset, how we should think about the market structure and the competitive positioning of the firm?

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

A

Sure. Well, this is an exciting transaction. This is a really, really phenomenal company, and it fits very nicely next to the GAST business that we illustrated there on the opening deck. And the nature that they're both involved with very, very specialized air handling applications that they're highly complementary. So the strength of GAST in different areas of compression are then balanced very nicely with the regenerative blower side and the specialty and the valve piece of Airtech. So they fit together seamlessly.

What I really, really like about these businesses is they're both filled with incredible domain experts who have just got phenomenal abilities to innovate. Airtech has got a great growth track record. As I've said in my opening comments, it's very profitable, very close to end markets that we're extremely interested in. In the GAST side, we've got some of that as well and frankly we've got a lot of channel strength in markets that I think are going to complement that business.

And then we've got a toolkit. We've got a talent base, a cultural base and an 80/20 toolkit that we know when you apply to IDEX-like businesses, particularly ones of high-quality, can drive the whole thing further.

The last piece of it is there's other things out there in this world that could be interesting that the two businesses together may unlock for us that are part of the funnel and things that we're thinking about as we consider capital deployment in the future. So the suite of options around a – all of it centered around a super attractive business that we could not be happier with.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC

Q

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Yeah. Understood. Maybe just to dive a little deeper on that, could you help us understand sort of the big end markets that the business serves and just how you think about longer-term, ex-COVID normalization-type growth within the business?

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

Sure. Sure. I mean the business has got – it's similar to GAST in some respect. It's got kind of an industrial core that serves as a foundation piece, both financially and in terms of scale. And the markets that they've picked, they've done some nice things in alternative energy. They've done some great work within some specialty medical applications, some very interesting things around some technologies that are going to be important for the world going forward; industrial tech.

So, they just – again, it's a lot like IDEX. Many of them are industrial-like applications but they really leverage being up at the tightest end of the tolerance and duty spectrum, and this business has a great filter in terms of how they bring those about.

So, a lot of it is going to sum up to general industrial but when you pick at it, that next level has always been the most important for us. And you just see incredible little niche applications that line up really well with their capabilities and the financials of the business.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC
Q

Appreciate it.

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

Thank you.

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

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

Thanks. A couple of questions, first with respect to HST, it looked like that business delivered a pretty nice breakout performance from an operating margin standpoint. Can you talk about what's sort of driving that and how you feel about the sustainability in that profit performance that you delivered here in Q1?

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

Yes. Sure. I'll take the first stab at it and then Eric can add. No, I think relative to the actions that we took last year to restructure some of these assets and then the mix of the businesses within the portfolio that have performed extremely well here over the last couple of quarters, so the combination of a much better foundation to build off of. They did have significant growth and then the mix of sales within the different businesses were the primary driver. So I'd say we would look for them to be at this level of profitability here going forward.

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

Q

Got it. And then just as a follow-up to the price cost sort of question that came up earlier, how much price were you guys able to realize in Q1 and how much incremental price realization will you need in the balance of the year to keep that price cost spread where you want it? Thank you.

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

A

Well, we're just north of 1 point in Q1. That was fully in-line with what we saw on the inbound side. I actually think we're going to aggressively target to ratchet that up a bit but we always do that with the indicators that we see and thinking a lot about the ultimate spread that we realize. So I don't know that we've got a number pegged, but we have a method that we peg that sort of is very active, follows along, takes advantage of the short lead times that we have in the way that we are able to execute price.

So I guess the shortest answer would be probably north of where we are here, a lot of it dependent on where we see some of the underlying commodities and some things heading for us but we're always mindful of where that spread is. But ultimately we want to keep that as a net positive item for the company.

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

Q

Got it. Thank you, guys.

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

A

Thanks, Matt.

Operator: 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.

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

A

Hi.

Francisco Amador
Analyst, Cowen and Company

Q

Hi. Are you guys seeing any impact specific to the semi shortage whether it's specifically on that end market or any other markets that are sort of feeling the pain like automotive?

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

A

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Yes. I mean we see it in both fronts. So there are those occasions where end customers certainly got some issues. Automotive is the easiest one to point to. That's the more recent coming into our world in the first quarter. We look at – we think about our exposure there is very much program-by-program. So it literally comes down to kind of are they making trucks versus cars. And so we've seen some of into the mix in Q1 and we talked about that.

From our side, we don't have a ton of computerized elements of the products we make. We see it in sensors, in some displays, in some other places. So it's out there and we're navigating just like everybody else. But it's been – frankly, we've been able to move around it, work around it and bring it all together here.

Francisco Amador
Analyst, Cowen and Company

Q

Great. That's helpful. And then can you expand a little bit more on the dispensing side? Are you seeing replenishment there, like just expanding on the demand in general?

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

A

Well, I think – yeah, I think on the dispensing side you see a couple of things coming together. I mean one of the big drivers there has always been sort of life of the fleet. And we were coming up at a point where that – we knew that that was going to be refreshed. On top of that of course we had a pandemic where frankly there – even while we were locked down and shut down there was a lot of painting going on. And we saw a reluctance to say, well, let's go interrupt that stream with capital deployment.

So now that we're kind of passed through that, we've got kind of the two things that come in together and you got economies that are opening up on a global basis. Remember, this is a really global business for us. We're doing business all over the world here. And so we're seeing kind of a bunch of positive forces come together all in one place. On a business that has this potential over time; it does tend to get some cycles and some valleys. And right now it's hitting many positive cycles.

Francisco Amador
Analyst, Cowen and Company

Q

That's helpful. Thank you.

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

A

Thank you.

Operator: Our next question comes from the line of Walter Liptak with Seaport Global. Please proceed with your question.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Hi. Thanks. Good morning. And...

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

A

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Good morning.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

...congratulations on the good quarter.

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

A

Thanks.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

I wanted to see if we can give some insight on the M&A pipeline with the Airtech deal? Was this a deal that you've been working on for a while? Clearly, there's a nice split with GAST and maybe a sector to go after but was this a brokered deal? Was this something that was – kind of went through a process or have you been working with Airtech for a while to try and get something going?

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

A

Yeah. I mean like a lot of the companies that are out here, we've known about Airtech for a long time. Honestly, I kind of watched them as they've grown very, very well over the last half decade or so. So they're under a private ownership, a lot of things came together and I will tell you it moved pretty quickly. In this particular case, this is, as you might imagine one of the easier businesses for us to get our heads around. And then as we did that and saw the quality of it, it moved quite a bit faster than some other transactions just because of a lot of those things lining up well for us.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Okay. Great. Thanks for that. And then in the past, you guys have talked about the valuation multiples, of M&A deals. I wonder how do you feel about the multiple that you'll be paying for this one and you mentioned 80/20 is like a value-add that you can bring to the business. Is it too early to start talking about where you think – what you think you could do with it?

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

A

Well – yeah. Look, it's very strong business, the valuations are high now. We're pleased with the transaction. That's why we did it. I think from an 80/20 perspective, it's interesting. This, in many ways, I think is going to – this is representative of the sweet spot of what 80/20 can do. You've got a business here that's a lot like ours in terms of it's filled with these incredible problem solvers, full of passion.

What 80/20 helps you do is just understand what are the things you're going to go after, why is that and how can you get disproportionately more of your resources over on the things that are the best. I mean it's a very simple framework and a thinking process that becomes intuitive over time, and we're excited to introduce it and work with the Airtech team on how it might help them improve an otherwise already good business.

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You can use it for other things, in different businesses that are in different states, but this one is very much around continuing to help a really strong business grow even better in the future and use it as a lens to think about the combinations and synergistic elements between the two companies together.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Sounds great.

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

A

Relative to the multiple, obviously we focus on the returns and this is a high-quality business that we think is going to be – drive returns well in excess of our cost of capital here as we proceed over the next couple of years. So although it's a little bit on the higher side on the print number, long-term this is a phenomenal transaction for us.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Yes. Looks great. Thank you.

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

A

Thanks.

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

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Hey, good morning, and nice quarter for you guys. Thanks for taking my question. I apologize I was sort of jumped on and off the call here [indiscernible] (00:43:35). If I ask a question that's been asked, I apologize in advance. Did you mention Airtech's sales specifically?

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

A

Yes. We did, in the opening comments, around $85 million.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

$85 million. Thank you. Additionally Eric I noticed that you put in your markets sum up life sciences is sort of recovering, and I know a couple of companies that are out there; be it Illumina, Danaher which are proxies [indiscernible] (00:44:07) customer but really had blowout first quarter results in some other markets. And I know it's not perfectly like-for-like particularly with Danaher, but I was curious as to why you have that in recovering as opposed to not recovered?

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

A

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Well, a couple things. Like a lot of things with IDEX, it comes down to where we play and the products that we have there. So a lot of companies have a lot more consumable exposure than we do. And so that would be – very clearly that's the piece that recovers first and a lot of the elements that are embedded in life sciences.

Let's just take the kind of classic IVD space. As things open up and people go back in for testing, you get a lot of action on the consumable stream but it takes a while before you're going to do a large-scale box replacement and that's what we supply. So we've got a mixed bag here. We've got some places like that where we're going to have to wait and we certainly have some exciting stuff especially in the microfluidic side and some other stuff around AI as it involves itself in vaccine development and therapeutics because that's in a different place. But when you put it all together, we sort of use this category to say recovering but not quite there yet. And we understand the elements that we're going to have to find their way in there for us to move into the next space.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Right. Right. I guess by just the – a little bit different space and things than move around within the space, would you be surprised if on the next quarter call that – if you didn't have life sciences up a notch into the recovered zone?

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

A

I'd certainly consider the arrow to be moving in that direction. A lot of it would come down to the IVD placement of machines, some of the CapEx that's in that part. Whether that's a quarter from now or later, I don't know. But it's hard to imagine that it wouldn't improve. I mean all the dynamics would suggest that we would follow much of what you cited there and those other companies.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

Got you. Okay. Yeah. Thank you. So, another question again on that same page, fire and rescue. And this morning, one of your customers reported a pretty robust fire number which surprised me or might have even surprised you. I know that sort of muni spending and related was a bit of an area that you were watching coming into the quarter. It sounds like you kind of still are. Could you update us a little bit on that market? Is there potentially maybe a refresh that's needed there as well given the number that that customer reported this morning or is that maybe just sort of like – it's sort of like the final good quarter and maybe you think it slows down from here just on fire?

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

A

Yeah. Well, I mean I certainly couldn't talk too much about what they said or what they maybe seeing, but I will say it's an interesting space because you have a lot of things going on here. You've got obviously the municipal spend profile side, and a lot of that we're going to have to wait-and-see where that goes. There's so many elements that are moving around concurrently. There's federal efforts to backstop things in that side of it. There's some regulatory pieces. So we'll see.

And then you've got this dynamic certainly in this market where we've seen, even ahead of some of the more recent supply chain stuff that we're talking about globally, very unique to that industry, challenge around trucks and chassis and things that sort of capped off some of the potential on the sales side for end customers.

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So as that works itself out, that's going to be ultimately good for us. We'll see how successful people are with that. And then we'll have to see where the market itself and the municipal market rides along underneath it. And then you always have to throw in for us, I hate to add more and more variable but this is a really massively global business. And so they don't all move in step. Things going on in China and India and emerging markets are not necessarily the same as what we would see here in the Midwest. So there's a lot of things working together. I think it's safe to put it in the recovering. It has improved, not quite back where we would expect it to be, and I think it will be ultimately. And then we will, like you, monitor a lot of these things coming together here to paint a clear picture as we go.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

Q

That's very clear. Eric, thank you.

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

A

Thanks, Scott.

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

A

Thanks.

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

Q

Hey. This is [ph] Matt (00:48:49) on for Nathan Jones this morning. I wanted to ask about orders. Orders were up 6% organically and 10% in total. Can you talk about kind of the cadence of orders through the quarter? What segments and end markets drove the improvement in order rates and then how daily order rates trended so far in April?

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

A

Yeah. I mean honestly you can kind of take the entire company and say in generally it improved as we moved through that first quarter. I will remind us again each month had its own chapter of externality but I guess all of them were somewhat equal. So a broad improvement kind of marching through the quarter. And as we're looking at April, I mean I don't see anything that would change the story here. Bill, anything you would add?

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

A

No. I mean I guess from what drove the orders; obviously all of the businesses within HST did extremely well. Within FMT, obviously we talked about that's probably the group that's still lagging a bit across the portfolio outside of Banjo that had a phenomenal quarter and it continues to outperform relative to the dynamics in that market.

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And then within FSDP, BAND-IT and dispensing; dispensing specifically did extremely well with fire and rescue improving relative to some of the things that Eric highlighted based upon Scott's question, still a little bit slower than the balance of the portfolio.

Q

Okay. Great. And I wanted to ask a follow-up with muni. What are your assumptions on muni budgets and spending, and then what are the thoughts on the infrastructure spending bill and potential impact to muni market?

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

A

Yes. So, look, I think we've got muni spending generally in kind of a steady as she goes category until we know more and see it. The infrastructure stuff is interesting. As you would suspect probably like everybody else, you kind of go and peel it back headline-by-headline. Then you've got to really work on a variable of timing, like when do we think that that would find its way here.

As always, a lot of it is pretty unclear. So just that term, in itself, if it means roads and bridges, it means one thing for IDEX. If it means underneath and sewers and lead pipes and things like that, that's different. And it's hard for me to see how clear it is until it starts to become more actionable. When I think it supports – I think it's going to take a while to run out but I would say in general the fact that it exists is a positive element. It should help many IDEX markets. So we view it that way. We'll continue to ping it as we get some insight into things and start to see it driving trends within the business, for sure we'll call it out.

Q

Got it. Thank you for taking my questions.

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

A

Sure.

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 & Director, IDEX Corp.

Okay. Thanks so much. Hey, for those external to IDEX, I always want to thank you for your support and interest in the company. We know there's a lot of IDEX employees on a call like this as well and so frankly I want to thank you again for your hard work. It's paying off clearly as we talked about here. There's more hard work to come but we've got a resilient business. I think our positioning in these attractive niches continues to serve us well. We've got a team of people that are second to none here.

So I think you can hear we're pretty optimistic about the path forward. We know there will be challenges, things that are unexpected that will come up along the way. But we're excited. We're excited about the momentum that we're seeing, where it will take us. We're very excited about the story here with bringing Airtech into the IDEX

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family alongside ABEL Pumps and we're working hard to continue that momentum as well on top of it as we go forward. And we will look forward to talking to you all along the way as we make progress. Thanks so much.

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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