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IDEX Corp. (IEX)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to IDEX Corporation Fourth Quarter 2022 (sic) [2021] (00:00:08) 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, Allison Lausas, Vice President and Chief Accounting Officer. Thank you. You may begin.

Allison S. Lausas

Chief Accounting Officer & Vice President, IDEX Corp.

Good morning, everyone. This is Allison Lausas, Vice President and Chief Accounting Officer for IDEX Corporation. Thank you for joining us for our discussion of the IDEX fourth quarter and full year 2021 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months and year ending December 31, 2021. The press release, along with the presentation slides to be used during today's webcast can be accessed on our company website at idexcorp.com.

Joining me today is Eric Ashleman, our Chief Executive Officer and President; 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 IDEX's business, including a recap of our recent performance and our 2022 outlook. Bill will then discuss our fourth quarter and full year 2021 financial results and will conclude with our outlook for the first quarter and full year 2022.

Lastly, Eric will close with comments around our focus areas for 2022. 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 13724802, or simply log on to our company 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 this call over to our CEO, Eric Ashleman.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thank you, Allison. I'm on slide 6. 2021 year was another record year for IDEX. We hit all-time highs in most of our key metrics. Demand for our differentiated technology remained strong. This underlying momentum, combined with our targeted growth initiatives and ability to capture price, drove a strong rebound from 2020. Across most of our portfolio, we saw an expansion beyond pre-pandemic revenue levels.

In the fourth quarter, we achieved a record for orders and sales, and our backlog position is very strong as we enter 2022. We expanded our margins in a highly inflationary environment. We levered well on the previous investments we made to optimize our cost position and executed on our productivity funnel. We maintain positive price/cost, albeit at a compressed level versus historic performance.

We remain diligent in controlling our discretionary spend and used our 80/20 principles to allocate resources to our most promising opportunities. Our strategic focus, purposeful resourcing and strong operating cash flow enabled us to deploy record capital. We acquired ABEL Pumps and Airtech and made a collaborative investment in a technology company driving advancements in connected products. We also invested across the portfolio to support growth and productivity. We optimized our cost position within our Fluid & Metering Technologies segment through a consolidation of our Italy facilities and our energy businesses, and delivered on operational productivity projects across the segments.

All of this drove a record year in order sales, margins, earnings, and capital deployment. We said in the past that we built IDEX to outperform through a cycle, and we continue to find ourselves in a very challenging one, characterized by supply chain disruptions and labor scarcity, exacerbated throughout the year by the emergence of new COVID-19 variants.

Our view continues to be that we don't see gradients are bad. Rather, the supply chain environment is very tough and numerous challenges persist. As pockets of issues improve, they tend to be replaced by new obstacles. Our teams have done an excellent job navigating these day-to-day operational issues, and I'd like to take a moment to thank our IDEX employees around the globe for their dedication and perseverance throughout this prolonged period of disruption.

The agility of our teams adjusting to new issues almost every day has been and continues to be outstanding. As we look forward to 2022, we do not see any near-term signs of diminishing supply chain related headwinds, and the impact of COVID-19 remains highly variable. In the short-term, these conditions have and will impact our ability to efficiently ramp production and have created significant pockets of disruption for our customers and suppliers as well.

We expect that these challenges will remain at a high level at least through the first half of 2022. Regardless of the near-term challenges, our overall IDEX strategy remains focused on the horizon. The core of what makes IDEX strong, highly engineered, specialized products used in mission-critical applications remains a solid driver for long-term success.

We'll continue to deploy capital and invest in the resources necessary to drive organic growth in order to capitalize on a robust demand environment. Our balance sheet has ample capacity, and we will leverage that strength to continue to play offense in M&A. To that end, we expect to close on the acquisition of Nexsight later this quarter. The technologies and capabilities within their business segments will nicely complement our water platform within FMT.

With that, I'll turn to our outlook for our segments on page 7. In our Fluid & Metering Technologies segment, we anticipate growth in our industrial day rate businesses in 2022 with a return of larger projects towards the latter half of the year. In the short term, large projects continue to lag as our customers have limited capacity to execute larger upgrades or expansions. Agriculture is expected to perform well due to high crop prices, strong farmer sentiment and limited availability of new equipment driving aftermarket demand.

Our municipal water business is stable. We see improved optimism in the market and project planning activities increasing. We are expecting an uptick in the energy and chemical markets. The North American mobile truck market is improving due to a strong construction market in home heating oil prices and North American pipelines are reporting modest increased capital budgets for 2022. We see international oil and gas quote activity outpacing domestic demand and opportunity we are well-positioned to capitalize on.

FMT continues to be in a strong position to realize price, and we expect this to drive improved margins in 2022. Likewise, the projects we completed last year to optimize our cost position, as well as new operational productivity projects will yield strong flow through in 2022, tempered by a discretionary spending rebound and continued resource investment in the segment.

Moving to the Health & Science Technologies segment. We expect the strongest growth in HST of all our three segments, and we plan to make the largest resource investments in HST to support that growth. We anticipate margin improvement driven by volume leverage parts – partly offset by these resource additions. HST continues to have robust demand across all their major end markets, semiconductor, food and pharma, analytical instrumentation, and life sciences are all expected to perform well.

Next-gen sequencing instrument demand is growing with research and clinical applications outpacing COVID detection and surveillance. Our ability to execute in the current environment continues to distinguish us from our competition and improve our share position.

On the semiconductor side, we continue to capitalize on tailwinds generated from global broadband and satellite communication trends. In auto, supply chain issues at our customers, especially around semiconductors, mute our growth.

Underlying market demand remains favorable, and we expect our results to improve as supply chain issues ease. The industrial businesses within the segment face similar trends to FMT. Finally, we expect that our Fire & Safety/Diversified Products segment will be our most challenged next year.

In Fire & Safety, North American OEMs are experiencing significant supply chain constraints around chassis and component availability, which limit their production. On the rescue side, we anticipate that larger tenders will lag compounded by China localization policies that are driving delays.

We do not anticipate near-term easing of these conditions and see the potential for recovery towards the latter part of 2022. In our BAND-IT business like in HST, we see auto supply chain issues dampening current demand. Despite this pressure, our business continues to outperform the broader market due to our content on key vehicle models.

Lastly, in the near term, we expect continued momentum within our dispensing business as customer capital investments are deployed in early 2022. However, for the year, we will see a non-repeat of North America projects as we reach the end of the replenishment cycle this year, as [ph] composed (00:09:17) to last year.

We anticipate that the unfavorable price/cost position we experienced last year will rebound this year as annual contracts are renewed at current pricing. We see this improvement tempered a bit by some mixed pressure as dispensing volumes reduce and we make some targeted investments.

To summarize, we see favorable conditions across the majority of our end markets. However, the degree to which our customers and our facilities will be impacted by rolling supply chain and COVID-related disruptions remains highly variable.

We'll continue to monitor conditions and be as prepared as we can be for potential interruptions. Despite these short-term headwinds, we are optimistic about our growth potential and the trajectory of our end markets.

With that, I'd like to turn over to Bill to discuss our financial results.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

Thanks, Eric. I'll start with our consolidated financial results on slide 9. Fourth quarter orders of \$795 million were up 17% overall and up 13% organically. Organic orders increased across each of our segments. For the year, orders were up 26% overall and up 21% organically. We experienced a strong rebound in demand for our products across all our segments and steadily built our backlog in each quarter of 2021, totaling \$266 million for the year.

Relative to full-year 2019, organic orders were up 15%. Q4 sales of \$715 million were up 16% overall and up 11% organically. We experienced a strong demand rebound from 2020, but our results were tempered by supply chain and COVID production limitations. Full-year sales of \$2.8 billion were up 18% overall and up 12% organically.

We saw favorable results across all our segments and, again, strong performance relative to full-year 2019 with organic sales up 4%. Fourth quarter gross margins expanded 20 basis points to 44%. For the full year, gross margins expanded 60 basis points and adjusted gross margins expanded 80 basis points to 44.7%, primarily driven by strong volume leverage.

Q4 operating margin was 22.7%, up 10 basis points compared to prior year. Adjusted operating margin declined 60 basis points, driven by a rebound in discretionary spending, targeted resource investments, and a dilutive impact of acquisition-related intangible amortization, partially offset by volume leverage.

Full-year operating margin was 23%, up 90 basis points compared to the prior year. Adjusted operating margin was 23.9%, up 110 basis points compared to prior year. I'll discuss the drivers of adjusted operating income on the next slide.

Our fourth quarter effective tax rate was 22.5%, relatively flat compared to the prior year ETR of 22.2%. Our full year effective tax rate was 22.5%, compared to 19.7% in the prior year due to lower tax benefits associated with executive compensation and the non-repeat of benefits associated with the finalization of the global intangible low income tax regulations in 2020.

Q4 net income was \$119 million, which resulted in EPS of \$1.55. Adjusted net income was also \$119 million, with adjusted EPS of \$1.55, which was up \$0.18, or 13% over prior year adjusted EPS. Full year net income was \$449 million, which resulted in EPS of \$5.88. Adjusted net income was \$482 million, resulting in an adjusted EPS of \$6.30, up \$1.11 or 21% over prior year adjusted EPS. The tax rate movement I mentioned drives a \$0.23 differential in EPS as compared to the prior year.

Said differently, our EPS would have expanded by \$1.34 or 26%, had 2021 been taxed at the 2020 rate. Finally, free cash flow for the quarter was \$136 million, 115% of adjusted net income. For the year, free cash flow is \$493 million, down 5% versus last year and was 102% of adjusted net income. This result was impacted by a volume driven working capital build and higher CapEx, partially offset by our higher earnings. We spent over \$70 million on capital projects this year, an increase of over \$20 million versus 2020.

Moving on to slide 10, which details the drivers of our adjusted operating income, adjusted operating income increased \$125 million for the year compared to 2020. Our 12% organic growth contributed approximately \$106 million flowing through at our prior-year gross margin rate. We levered well in this volume increase and our teams drove operational productivity to help mitigate the profit headwinds we experienced from increased supply chain

costs and the associated inefficiencies. Although we have maintained positive price/cost for the year, inflation continues to ramp and we saw a compressed price/cost spread versus historic levels, which pressured our op margin rate and flow-through percentages. The positive mix is primarily a result of the portfolio and business mix normalizing to pre-pandemic levels that had a negative impact on our results last year.

We reinvested \$35 million back into the businesses, taking the form of a partial rebound in discretionary spending to pre-pandemic levels, higher variable compensation expenses and targeted reinvestment in resources to drive growth. Despite this incremental spend and a challenging supply chain environment, we achieved a solid 38% organic flow-through for the year. Flow-through was then negatively impacted by the dilutive impact of acquisitions and FX, getting us to a reported flow-through of 30%.

With that, I'd like to provide an update on our outlook for the first quarter and full year 2022. I'm on slide 11. As a reminder, going forward, we will be adjusting EPS for acquisition-related intangible amortization in both our guidance and results. Our fourth quarter adjusted EPS under this definition would have been \$1.71 per share, while our full-year 2021 adjusted EPS would have been \$6.87 per share. Under this new definition, for the first quarter of 2022, we are projecting GAAP EPS of \$1.57 to \$1.60 and adjusted EPS to range from \$1.73 to \$1.76. We expect organic revenue growth of 6% to 7% for the first quarter and operating margin of approximately 23%. Q1 expected results incorporate headwinds arising from COVID-driven absenteeism and supply chain production constraints.

The first quarter effective tax rate is expected to be approximately 22.5%. We expect FX to be unfavorable to our top line by 1%, and acquisitions to provide a 4% benefit. Corporate costs in the first quarter are expected to be around \$19 million.

Turning to the full year 2022, we project GAAP EPS of \$6.70 to \$7, and adjusted EPS to range from \$7.33 to \$7.63. We expect full-year organic revenue growth of 5% to 8%, and operating margins to be around 24%. We expect FX to be unfavorable to our top line by 1%, and acquisitions to provide a 2% benefit. The full-year effective tax rate is expected to be around 22.5%. Capital expenditures are anticipated to be around \$90 million, an increase over 2021, as we continue to identify opportunities to reinvest in our core businesses. Free cash flow is expected to be approximately 105% of adjusted net income, and corporate costs are expected to be approximately \$80 million for the year. Our earnings guidance excludes impacts from future acquisitions and any future restructuring charges. Nexsight is excluded from the figures above, as the transaction is yet to close.

Next I will provide some additional details regarding our 2022 guidance for the full year. I'm on slide 12. On an operational basis, we expect supply chain constraints to mitigate our output for the first half of the year, muting an otherwise strong demand environment. Therefore, we are projecting organic revenue for the year to be up 5% to 8%, which translates to an EPS impact of \$0.60 to \$0.95, depending on the top-line results. This range also assumes improving price/cost.

We continue to drive operational productivity across the portfolio and expect to see benefits from our 2021 restructuring actions. This will drive \$0.20 to \$0.25 of favorability next year. We also continue to invest in the resources required to grow in the current year and beyond. These investments will reduce EPS by \$0.20 to \$0.25 and are funded by the productivity gains I mentioned previously.

Our discretionary spend partially recovered to pre-pandemic levels in 2021, and we expect this spending to be fully recovered by the end of 2022. The unfavorability impacts EPS by \$0.20 to \$0.25. I'll note that we were ramping spend to pre-pandemic levels, but with 20% higher revenues.

ABEL has one partial quarter and Airtech has two quarters inorganic results included in our guidance. We expect the acquisitions to contribute \$54 million of revenue and \$0.08 of EPS. The incremental amortization that we see in 2022 versus 2021 is largely related to these acquisitions and will provide an additional \$0.05 of EPS.

Now let's take a look at a couple non-operational items. First, our guide assumes no impact from tax, as our guided rate is flat year-over-year. Second, we expect a 1% headwind from FX providing \$0.07 of EPS pressure.

So in summary, we are projecting organic revenue growth of 5% to 8% for the year, adjusted EPS expectations on the range of \$7.33 to \$7.63, a 7% to 11% growth over 2021. Implied in our guidance is mid to high-20s year-over-year flow-through on the low end and 30% on the high end.

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

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Bill. I'm on the final slide, slide 13. Before we open the call up for questions, I'd like to wrap up with a summary of our most critical 2022 focus areas. In an environment characterized by uncertainty and disruption, it's important not to lose sight of who we are as a company. First and foremost, we are a portfolio of great businesses that leverage 8020 with an obsessive focus to serve our customers. We refer to that simple model as The IDEX Difference. We're committed to navigating the challenges of the short-term landscape but remain focused on the longer term. We must continue to utilize our 8020 toolkit to create efficient, innovative, value-creating businesses.

In a world with this level of variability, the simpler you are, the more successful you'll be. We remain committed to investing in the resources needed so our businesses are poised to take advantage of the growth potential in front of us. We're a company committed to its core values, and we'll continue to develop top-performing teams as part of an inspiring company culture. Diversity, equity, and inclusion continues to be an area of focus, creating environments where people feel they belong and are comfortable bringing their true selves to work every day.

Our strong operating cash flow and balance sheet put us in a great position to continue to put capital to work, and we've already identified several high-return organic investment opportunities across the company that'll push us past our 2021 CapEx record levels. We have invested in new industrial automation that will improve efficiency and expand capacity for growth. We're supporting focused digitalization efforts across our install base to solidify our superior positions and expand share of wallet. Our facility expansions in China and India are well underway, effectively doubling future capacity to support growth across Asia. Lastly, our M&A opportunity pipeline continues to be strong, and we look forward to deploying additional capital in 2022, welcoming new businesses to the IDEX family.

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

Q

Hey, good morning. Eric, you had talked about projects lagging the first half in FMT. Could you maybe give us color in terms of your customer conversations? Are these – the rest of these sort of get delayed indefinitely at this point, just the urgency around getting some of these projects going? Just any thoughts around that?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah, yeah. Good to talk to you, Allison. So I mean, it's a bit of a continuation of the theme that we've seen now for a while. There's plenty of confidence out there that there's lots of demand support to get things done. It is really difficult to do, to just frankly, bring together all the resources that you need to, to take a really complex project and take it from beginning to end, lining up material, lining up resources, things like that. So what we are starting to see, frankly are kind of smaller to medium-sized versions of that. Slight expansions, things you can kind of do on the fly.

And then, continued staging for projects that are of those slightly larger incremental scale aspects as people talk about that. I mean, quite honestly, it's kind of the same thing that we're going through in our own business. I mean, we've got a couple of critical big projects that we've deployed. They were really hard to put together. And then all over the place, we're kind of – while we're running doing those things that give you that little bit of 3% to 5% output lift as we go. So, I think that's really the nature of it.

And of course, it varies depending on certain markets or further out ahead of that, a little bit more positive. Some are lagging even further because they're just inherently involve larger chunks of infrastructure. But I was going to summarize that I'd put it – I describe it that way.

Allison Poliniak-Cusic

Analyst, Wells Fargo

Q

That's helpful. And then just the free cash flow guidance, you talked about CapEx and the increased spend there, which makes sense. I know working capital, you saw some increases in 2021. Should we expect a similar level in 2022 just given the ongoing challenges that you guys are facing? Just trying to get some color on sort of...

[indiscernible] (00:24:31)

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Allison, it's Bill. I think it tapered down a little bit. Obviously here as we progressed through the year, a little bit of inventory build to support the higher revenue load. But I don't think it'll be as big of a build as we experienced last year. Our efficiency metrics are down a little bit, but some of that's just related to increased inventory to buffer extended lead times that we have across our vendor base.

Allison Poliniak-Cusic

Analyst, Wells Fargo

Q

Got it. And I guess along with that, you guys are still in the midst of it, so it's probably not a fair question, but are you guys kind of revisiting some of your processes and such to deal with some of these shocks that we inevitably go through time to time? Just any thoughts around that.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Allison, you're asking about the supply chain shocks in general?

Allison Poliniak-Cusic

Analyst, Wells Fargo

Q

Yeah. The supply chain shocks. I mean, are you guys trying to think of things differently going forward just to kind of avert some of this stuff?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. I mean, it's a great question, something we've revisited continuously as we've gone through this. I mean, we are – I think we're – from a high level, we're positioned really, really well. I mean, we do a lot of local supply, close proximity with people that we've known for a long, long time. Deep relationships, lot of trust there, very collaborative. So I like that topology. I don't think we would try to change it or move it farther away. Frankly, any change right now is difficult because everybody's bandwidth is constricted. So in a couple of places, we're looking at that. It's kind of at the sharpest reason why. We just – we have to do something different and we've got resources allocated there.

I will say the one thing we're spending a lot of time working on and I mentioned it in the opening comments is simplification. You can generally see our businesses that have done the most there are frankly having the easiest time of it. We have a highly customized model at the company. And so that's always an inherent challenge for us. So I think one of the things we've learned here and we've gotten better at as we've gone along is trying to find a way to say, is there a simpler way to do it, more modular, simpler design that's easier to reproduce against kind of a given supply base that will probably stay pretty similar for us as we go forward.

Allison Poliniak-Cusic

Analyst, Wells Fargo

Q

Got it. Thanks so much. I'll pass it along.

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

President, Chief Executive Officer & Director, IDEX Corp.

A

Hi, Mike.

Michael Patrick Halloran

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

Q

Kind of related to Allison's first question or at least to tack onto it. When you think about some of the delays you're seeing on some of these CapEx decisions just because of bandwidth or you also put it in the context of the supply chain challenges and everything is seeming to linger a little bit longer than people were thinking. How do you think about the risk of demand degradation or at least pipeline degradation that could materialize related to all of those moving pieces?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Well, I mean, there's inherently always a little bit more risk as you extend things out than any other externality could jump into the mix and start to inflect decisions along the way. So I think that's there. I mean, as we've kind of thought of the projects that we're working with, when you consider a project across a long-term cycle, the ones I feel the most assured about where you can just see, there's not enough capacity or there's a lot of labor challenges. I mean, these things aren't going to go away in the long term.

And when you sort of see that condition, let's say, if that's in a food market, that's somebody recognizing there's a lot of demand here. We're struggling to meet it. We know it's going to be there in the long run. While the projects themselves can be delayed and they keep extending, honestly, the conversations stay pretty active. The transfer of documents and data and things is still going on. So, we kind of put those into a different category.

The things that are – you can just tell are a little bit more susceptible to shocks, new technology, it's launch, it's dependent upon certain conditions to be there. We probably put that in a slightly more variable category. But I honestly think over the long term, there's a lot more in the first that ultimately everybody would love to do if they could. And we've now seen and certainly we've talked about before on this call, I think we're seeing the impact of not having it deployed as we try to recover from now just essentially above levels that were sort of – were here originally before the pandemic.

Michael Patrick Halloran

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

Q

No, that's super helpful. And then sticking kind of with the concept of moving pieces and how you're thinking about guidance for the year, obviously, you have these first quarter challenges with absenteeism and everything else and then the price/cost curve and how that works itself out through the year in the context of everything. So, when you think about the guidance specifically both on the margin side as well as on the revenue side, how would you think about profitability versus call it a normal sequential curve through the year? Is it a little bit more sloped to normal, and best guess for when you think you can start getting to something more normalized. I am not necessarily saying back to 2019 levels of smoothness, but at least more repeatable or better understanding of what the process can look like?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Well, I think – hey, Mike. It's Bill. Some of that is to be determined how the year plays out, but our – what's implied in our guidance is, from a ramp as we progress through the year, it is obviously more weighted towards latter in the year. But if you look at the second quarter, it's kind of, a couple percent ramp in output versus the first quarter and it has to hold there for the balance of the year.

So relative to where we're at here and the challenges we have in the first quarter, there is an assumption that those will resolve. We do have some of the discretionary costs that have just built through 2021 that are in our current run rate for the second quarter. And as we ramp volume, we'll lever on that incremental cost. And I think you'll see our margin profile continue to expand sequentially as we progress through the year.

Michael Patrick Halloran

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

Q

So the point, Bill, is that there's not a massive assumption that there's normalization through the year, there's a step up 1Q to 2Q because there's some identifiable things that normalize out. But beyond that, it's a little bit more wait and see and pretty normal sequentials from, call it, a 2Q run rate?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah. So I said, there's not some huge switch that needs to be flipped. I think we're comfortable with the ramp that we see here in the short term. The second quarter seasonally always goes up for us. So we've got that on top of some of just the output relief, I think we'll get. And then it's, unless something created some headwind to decelerate, we should be in a reasonable position.

Michael Patrick Halloran

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

Q

Appreciate it, Bill. Thanks, Eric.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Thanks, Mike.

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

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Hi, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, I'd like to put the spotlight on these buckets of discretionary spending, reinvestment, growth investment if we could. So just so we're trued up, what was – how much of that went into the fourth quarter? So on slide 10, that \$35 million, did you kind of front-load any of that spending into the fourth quarter or was that level throughout the year?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

No, Deane, it ramped throughout the year. I think Q3 and Q4, there's a marginal increase in the fourth quarter. We talked about that in our Q3 call that some things had moved from Q3 to Q4. That's one of the issues we have with the first quarters. Just last year, we were still extremely diligent and didn't spend a whole heck of a lot, and then ramped two, three and four. So, there's a little bit of ramp here as we progress from Q4 to Q1, but it's not overly material.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Got it. And then on slide 12 for your 2022 bridge, you've got the two buckets, growth investments and discretionary spend rebound. I mean, collectively that's \$0.40 to \$0.50 in your guide. They both feel a little bit discretionary by definition, right? So, just where and how is that being targeted? Is that level throughout the year? Is it contingency in any way? And what would be the expected returns that you would get on some of these growth investments? Thanks.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Sure. So, a couple things there. I mean, one in general, the nature of this kind of spend, let's say, today versus where it was three years ago, I mean, there are some differences. There's actually some productivity that we're all going to enjoy as we've learned how to work in different ways. Travel won't be as high as it ever was, certainly marketing and digital, ways to get messages out to customers much more efficient than we've seen before. And so, that's one of the reasons, even with the slight increases here and the ramp-up, we're basically at kind of a level we were three years ago with \$400 million more dollars of sales in the company.

What it's targeted towards is a lot of our investments, frankly, is people, and it's people on the front end of business and the technology side of the business tied to the parts of the company that we think have the most favorable wind at their backs in terms of our positioning and the end markets that they're sitting in. So we talked before about kind of the top 25 bets across IDEX that list ebbs and flows from year to year, but about two-thirds of it holds constant. And many of the resources that are here, some ways they were identified a year, a year and a half ago. We kind of let the last year play out. We're really, really careful with things, but at some point start to see that, hey, we've got some real momentum here. And the nature of people driving the investments, they've got to get in, they've got to learn the company, they've got to learn the markets and then start to add some value.

So I think the return, as it often is and anything we do when we're supporting organic growth, is really, really strong on investments of that type. Because it's people dependent, it also makes it pretty easy to be careful with as you go forward. So, as Bill said, if we start to see things all of a sudden take a turn or there's something that comes into the mix that none of us expected, by nature, we can hold off, we can do more with the less, we can ask people to redeploy towards other areas across IDEX. So I think what you're seeing here a little bit is probably we would have liked to have more of that on board and a more of an even ramp through the year last year. Again, because a lot of it's people, as everybody knows, it's hard to find. When you find them, I think you want to be careful and make sure you bring them on board when you can. So that's part of the mix, too.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's real helpful. And then just in context of the building backlog, and I might have missed this, I apologize. Did you – can you calibrate how many in the way of revenues could not be shipped? Either you didn't have the

products on hand or customers weren't ready, so you got finished goods. But have you calibrated what that would have been?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah. We haven't. But in the fourth quarter, there's probably 3% to 5% organic that we could have had incrementally to what we delivered if we had full availability of parts and labor.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Got it. That's real helpful. And have you given the quick overview of Nexsight? It sounds like a really interesting addition to your water business.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. No, I mean, it's a business we've known for a long, long time and we've partnered with them with our sewer robots franchise. They've been kind of closer to the customer and a partner for us. Frankly, they're a predominant partner over the years. So essentially, they're going to market here in North America predominantly. They do a lot of things around sewer inspection, have a few other ancillary products that go with that. There's some tremendous software capability embedded within that business that's used in that space and we think has appropriation abilities elsewhere in the kind of water technology area. And a couple of other interesting nascent extensions that they've launched that we also are interested in potentially opening a door for us. So it's a really, really nice fit for a partner that we've known for a long time, and it was just the time was right to bring them into the IDEX family.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great. We're hearing lots and lots of focus on stormwater from municipalities, and there's, yeah, just such a need right now and there's lots of regulatory pressures as well, fines that will be imposed on municipalities if they don't address it. So hot area and nice to see that investment. Thank you.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. Compliance is a driver for our businesses in that space. Yes.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Thanks, Deane.

Operator: Our next question comes from the line of Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Thanks. Good morning, everyone. So my question is a pretty simple one. You had positive price/cost in two segments, negative on Fire & Safety, and maybe some of the distinctions are obvious there, but could you just kind of walk through the pace of how things flow through on pricing changes, if it's all due to that, if there's any inherent pricing power differentials, that'd be helpful too? But maybe just talk to the dynamics and what you do there. Thank you.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah. Sure. So, the dynamics of price/cost is obviously it varies across the portfolio between the segments and the businesses. Holistically, FMT is our strongest price/cost relative to a lot of their business goes through channel, our ability to move price through there is favorable. Obviously, they've got more exposure to heavy casting metal, motor inflation, but they have the power to offset it. HST is much more OEM focused, so there's opportunities but more on an annual basis on that side of it and the stuff that looks like the FMT, the industrial parts of it, similar dynamics.

FSD has been the challenge, primarily in our fire and rescue businesses. We've talked about the flare OEM challenges and the large backlogs that they're sitting on in excess of 12 to 18 months. And what we've priced that on, we haven't been able to reprice it. So we continue to work through the lower margin profile on that through the back half of the year and most likely through the first half of this year. They've gone out with significant price increases here recently on any of the annual contracts that they have. So they're poised for a large recovery and margin improvement as we progress through the year, but still challenged in the first half.

Dispensing was fairly strong. BAND-IT, relative to their steel exposure and their automotive and aerospace customer base, they were challenged as well. So, they were significantly under on the price/cost, weighing down the overall organization, but a lot of good effort from the teams to manage through it and I think are much better positioned as we stand here today to progress through the rest of the year.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. That's helpful. And is there anything sort of structural changing on how you think about those long lead times and backlogs and how you're priced? And then just one more quick one, Omicron, you mentioned sick offs, which is universal, I suppose, in 1Q. Is that already crested in savings, so that you're – until the next wave, you see the risk continue to 1Q or maybe January, February? And I'll stop there. Thank you.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah, Rob. So, on the nature of pricing, I mean, I will say, I think we and everybody else are looking at kind of the historical ways that long-term pricing has been done and are finding ways to make sure that we've got more opportunities for investment along the way, as you'd suspect though, given the pressure in the volume and just the nature of that space, that's probably going to take a while. But that is in the mix in terms of innovation and different ways to handle it.

On the virus, I'd say we're plateaued, slight decrease, but we're such a – we got such a global topography that as it decreases in one area, it kind of comes up in another one. So I'd say, kind of level right now, not increasing anywhere, but still at a higher rate than we've seen in any of the other episodes that have come across.

Rob Wertheimer

Analyst, Melius Research LLC

Thank you.

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Rob.

A

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

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone.

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Hi, Nathan.

A

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

I wanted to start with a couple questions following up on Deane's line on the growth in discretionary spend rebound. Those are really the two large buckets in 2022 that are dragging the incremental down from kind of the level that we would normally expect from IDEX. Specifically, you guys said that you're back to 2019 investment levels on \$400 million more revenue. IDEX has always been a big investor in growth. Does that mean that we should expect potentially more incremental growth investments in 2023, or are you able to leverage those growth investments better, and you think it's kind of a one-year ramp-up, and I assume the discretionary spend rebound is probably anticipated to be back to normal levels by the end of 2022?

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Yeah. Yeah. I mean, this – again, because of the nature kind of our model and what those investments usually are in terms of people, I mean, to be honest, there's kind of a bandwidth limit on the upper side that also governs some of this. These are not the kind of businesses where you can sort of just endlessly pull people in there, and it all works better. These are super, super targeted around and aligned highly to the bets that we're talking about. And then sort of everything else, we leverage a lot of that productivity to actually support those investments and kind of run the company that way at a pretty consistent level. So I really do think of this more along the lines of rebuilding a basic base to fuel growth as a company in the highly targeted way that we do it more than, let's say, a next chapter of spend profiling for the company. We don't need to do that.

A

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

So long term, I think you guys always talked about, when you were at low-single-digit, you get 35% incremental margins, maybe getting to 40% if you got mid to high-single-digit organic growth. Nothing's changed structurally in

Q

that outlook over the long term; we're just in a period of bringing investments back after a period of underinvestment forced on you by COVID.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah, exactly, Nathan. I think your point on the discretionary is that being somewhat of a catch-up here as we progress through the last two years, that'll fall off. There will be nominal increases on that going forward. And then as Eric said, it's our normal investment profile. So if you normalize for the discretionary ramp, we're at our traditional mid-30s type of flow-through.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Just one on capital deployment, record level of acquisition spending in 2021, but you still have rich people problems over there in an under-levered balance sheet. And it would take several years of spending that record level of capital on acquisitions to get you into a more optimal balance sheet structure. Is the pipeline robust enough, and are there enough opportunities at the right prices out there for you to look to deploy similar amounts of capital in 2021 as we go forward over the next few years?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah, Nathan. I mean, that's exactly the target and the expectation here. I mean, we've talked, I know, for the last several quarters about the intentionality we've put on this. Some of the investments in resources are focused in this particular area because they have to be. The achievements that we made in 2021, I think, was a direct result of they are all high quality. I can assure you, we looked at a lot more than those companies to get the ones that we brought in on the board. And that's the way we're thinking of it going forward.

We'll consider, valuations will be high, competition will be fierce, and we have to make sure we get plenty of at-bats as we go at it and hold our discipline at the same time. But we've kind of talked there, our ideal spot here would begin to level load at this high – at a minimum, this higher level of deployment that actually helps you build a more uniform resource base as you do the work, with always looking for the potential to expand it if, in fact, we can do that efficiently, manage a change across the company. So it's definitely an intentional travel to a higher level. Yes.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks very much for taking my questions.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Thanks, Nathan.

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. Given some of the pluses and minuses you talk about with respect to the margins as we progress through the year across the segments, how should we be thinking about the incremental margin at the segment level relative to kind of the full-year guidance range you talked about, Bill, at the high and low end? Can you give a little more color there?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah. Obviously, our first quarter is going to look fairly similar to the fourth quarter. With ramp, I think you're going to see margin profile improve on a basis point perspective, more in FMT as probably our highest margin improvement as, one, obviously, we had the challenges within the FMD business this year with the CapEx reduction and then being significantly lower from a volume perspective. They did several site consolidations and the incremental costs associated with that, and then just that business levers extremely well as they progress.

So, I would say, FMT margins building throughout the year; HST still extremely strong, but moderated relative to a lot of the investments we're making around that side of the house. And then, FSD recovering on the price/cost side being a primary driver of their margin improvement for the full year with pressure here in the first half like I mentioned earlier with Rob's question.

Matt J. Summerville

Analyst, D.A. Davidson & Co.

Q

And then, just as a follow-up, just to be clear, how much price do you anticipate achieving in 2022 versus maybe what you achieved in 2021? Thank you.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

So more, I mean, last year, we were about 200 basis points, and we'll be in excess of that here in 2022.

Matt J. Summerville

Analyst, D.A. Davidson & Co.

Q

Got it. Thank you.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Sure.

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

Morning, guys.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Good morning.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

Looking into – a little bit more into your HST segment in that your guidance does imply some pretty decent growth despite really tough comps this year. So I'm wondering, what exactly in there, I mean, you'll be lapping, I think tough comps in semis and life sciences and it sounds like auto could be a source of upside. But are there other areas that just haven't recovered that are really where there's a lot of juice left?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

I don't know that the story is really that one where it's focus coming off the pandemic map or something like that. I mean, these are just inherently strong sectors that we think are going to continue. We've seen good ramping in 2021. And it's – honestly, its market dynamics that are going to drive it in 2022. So, the pharma space, which you didn't mention, I mean that is a really good space now. We participate there. We make vaccines more effective. As you can imagine, that's going really, really well. That's where we're seeing some of the medium-term capital projects. I spoke of sometimes not the biggest ones, but these smaller to medium projects to get expansion out there. That's an area where we're seeing a lot of that.

Our optical technologies businesses is really, really well positioned for some great applications, and broadband access and coming down from space and things that are really kind of out there. And then I would say just step right down in the middle of the fairways is really good for us.

Next-gen sequencing, of course, there's all of the growth aspects that were always there as part of that space. But let's be honest, all this COVID surveillance and varying identification, that's the gear that's doing it across the world. So, this is just – this is a story of strong markets. We're well positioned and they continue to be needed more than ever, more than it is in any way kind of a recovery aspect. I mean, again, I always remind people there's some industrial businesses in there that might have more FMT-like aspects, But for what – I think the spirit of the question is the heart of it, it's a continuation of a theme that we think is going to continue.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

Okay. And a similar question, though, I think FMT and probably IDEX seem to kind of have – it seems to be somewhat influenced by energy in that even though it may not be a direct exposure, it's this indirect impact which now seems to be kind of more topical. That area is coming back we think. So, what about your sense maybe in FMT with an energy recovery helping that business maybe exceed your expectations, what are your thoughts there?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Well, I mean – so a couple things. Energy in general, I mean, it's – our single digit exposure there is localized largely in FMT. That is a story of recovering off of pandemic lows, no doubt because of commodity pricing and some other things and just delayed investments. It's a little different than it was two, three years ago, but it's positive, and that'll help.

And you're also right, it's always hard to identify. But no doubt there are derivatives impacts of that sector in terms of just the up and down the Street industrial businesses that are throughout FMT. So, we do think we have that factored in the mix, but to the extent any of that over achieves, that's the area that we'd see upside.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Okay. Got it. Thank you.

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks.

A

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

Yeah. Thank you. I was wondering if we could return to the capital allocation question and particularly the step-up in M&A allocation that you're targeting over the next couple years. I'm wondering if you can frame, are there any specific end markets that you see as you sort of look at the pipeline right now where you're overweight, underweight? How do you sort of overlay a view on end markets and cycles to that framework?

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

It probably doesn't map as cleanly as you might imagine, because, I mean, when we think about the markets that we're going after, they are often defined by kind of niche application sets. And so, you can see those in any one of our three segments. And in some ways, they might even strike you as kind of counterintuitive. So in general, we're obviously looking in areas that we think have more fundamental growth tailwinds behind them. And so a lot of it just would be exactly where you think it would, lots of focus in the HST world. Lots of focus, as we've just seen here, in water technology and spaces like that.

A

But there are some great industrial franchises that have done a great job of targeting into certain application spaces that make a lot of sense too, that are sitting in places that you might not otherwise think. The two other examples in 2021 are actually great examples of that. ABEL Pumps, for example, tied to mining is one of its core markets. That's actually really attractive now because of all the mining that's going on to support alternative energy applications.

Then you look at Airtech which, from far away, looks like kind of just an industrial compression business or blower business and yet, they've tuned very nicely to some alternative energy applications as well. So it really does – it plays out at that kind of specific work to be done and then how well that lines up often to a high-level macro trend. But we very quickly kind of bring that down into the niche kind of environments that we're comfortable with, and we could see that across any one of our overall segments.

Connor Lynagh

Analyst, Morgan Stanley & Co. LLC

Got it. Maybe switching gears a little bit here. You mentioned labor being a constraint. I'm just curious, is some of the increase in costs you're targeting related to outright increases in wages? Are you just seeing availability is more the issue? How are you thinking about that as we move through 2022 here?

Q

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. So couple things there. I mean, I always remind people we have a pretty light intensity in terms of labor. It's important, but it's not a huge driver in our P&L. That being said, I think everybody expects a little bit more wage inflation. We have as well here this year. To be honest, we probably see more of it tangibly in terms of premium costs and things that we're doing with the existing bases we're scrambling to try to make things on Saturdays or Fridays in a disrupted manner here today. So, it matters for us, but it's not a massive driver on the P&L. It is a driver, of course, as it comes in in supply components where that same dimension is applying to businesses outside. So, it's certainly we're not immune to it. We counteract it with pricing – price capture on the top and manage it that way.

Connor Lynagh

Analyst, Morgan Stanley & Co. LLC

Q

Understood. Thanks for the color.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

You bet.

Operator: Our next question comes from the line of Jeff Sprague with Vertical Research. Please proceed with your question.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, everyone.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Good morning.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Couple for me, if I could. Just first on FMT. The segment color you provided in the appendix, you note the annual headwind from Flow MD. Was it also headwind in Q4 or is that business now stabilized?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Yeah. No, it's fairly neutral in Q4. I think their current run rate now bottomed out in the third quarter, and we see progression as we progress – as we go over the next couple quarters.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And then on Nexsight, could you just provide a little bit of color on the expected accretion and also just little modeling guidance on what we should expect on the amortization that comes into the adjusted EPS equation as a result?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Jeff, once we close, we'll add that to the guide. We have said it's a \$50 million business with about 20% EBITDA margins to frame it out a little bit for you. And then, we'll nail it down once we close later this quarter and include it in our revised guidance in April.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. And then just finally, just back to labor. Appreciate that additional color. Could you just size it though, roughly as a percent of COGS, the cost to labor?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Our direct labor, so things directly associated with product build is about 7% or 8%.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Great. Thanks for the color. Appreciate it.

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Sure. You bet.

Operator: Our next question comes from the line of Vlad Bystricky with Citigroup. Please proceed with your question.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Morning, everyone. Thanks for taking the call.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Good morning.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

So just – I just wanted to go back to your comments on sort of capacity constraints and lead times. I think during 3Q, you talked about some extended lead times but also said, that you felt you were pretty well positioned competitively versus others in the industry. So can you just give us an update or comment on how you think you're performing versus key competitors across the portfolio? And, whether there's any specific businesses where you think you're more challenged versus peers?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

I appreciate the question. I mean, this is something you have to kind of gauge every single business, one by one. So we do that when we're talking with them and when we go out there. I mean, our model is generally is always designed to be more reactive and quicker than almost any competitor we have. That's why we have local supply and all the things that we've talked about here. I would say from a performance perspective, probably just like everybody else, where we're most challenged just inherently are places that are more electronics specific where we're dependent on that probably most constrained single commodity that everybody is, it's customized, it's very hard to scramble and get something different. Things like spun boards and those things.

Now, the people we're competing against, they got the same electronic content that we do. So I don't see that as a net competitive disadvantage. As a great example, they're frankly in that space where I know we outperformed. Our dispensing business had a really, really strong back half push. It's some of the most electronic intensive products that we have in the entire company. They did a phenomenal job largely because their suppliers are very local and it's – they've done a great job simplifying the architecture over time. So as I go down the list, don't see too many places where folks are pointing to conversion and suppliers that are beating us. For a couple dimensions, I do think we perform very, very well. It's frustrating right now, but I think we're still in a good spot. We're super well positioned and a lot of what goes into an IDEX solution, it's customized nature, the long history of it, there's kind of a natural defense that's part of it.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's really helpful color. And then just maybe one more for me. Just going back to the CapEx ramp that you're expecting again here in 2022, can you talk about sort of where you're seeing the best opportunities to deploy this capital? Is it mainly in areas like automation for productivity? And then how should we think about this ramp?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Is it reflective of some chunkier onetime things? Or is this kind of a more sustainable level over time?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Well, there's definitely a piece of it in there that's a little chunkier in nature because it's related to the facility expansion that we have talked about here for the emerging markets. I mean, we're simultaneously effectively doubling capacity over there to support growth across all of Asia. That, we wouldn't do all the time. I will say, though, that it is stepped up a bit as things like industrial automation becomes more important for companies like us and others. There are not too many places you can go automate away from people standing on a production floor in our environment, but where there are it's quite cost effective to deploy that technology and we're doing it more than we have before.

There's some great CapEx related to supporting growth in some interesting ways, digitalization is a chapter or something that wouldn't have been in there 10 years ago or 20 years ago. It is a chapter now. So, I think it's a fairly typical profile, certainly, reasonable capacity expansion you'd expect given the growth that we had last year,

and we project to have in the future. But there are a couple of these extra chapters in there, one sort of onetime related to facility. But I think the other ones will become part of the mix as we go forward.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Great, that's really helpful. Thanks.

Operator: Our next question comes from the line of Brett Linzey with Mizuho America. Please proceed with your question.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

Thanks and good morning, everyone.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Hi.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

I wanted to come back to the wins you called out in life sciences and semiconductor. Are the life science wins COVID-related or something outside that spectrum? And I was hoping you could put a finer point on how IDEX might be positioned with some of this forthcoming capacity build-out within semiconductor. Any quantification would be great, too.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Okay. Well, I mean, a few things there. So from a life science perspective, certainly the lingering nature of COVID is in the mix, but I wouldn't say it's the predominant driver anywhere. We talked about next-gen sequencing and variant surveillance, that's a part of it, but it's not the majority by any means. It still comes back to quick cancer detection, point of care medicine, I mean, broader trends that have long been important and are even more important as we get more focused on health care.

So, I really don't see the kind of current pandemic as being a significant driver. This is really broad-based and we think has a lot of room to run for us in that space. On the semi side, that's interesting. I mean, we actually participate in kind of two places there in sort of the classic infrastructure build-out. So we're – we do that and attack it from the ceiling perspective, so actually manufacturing things. We're part of that process. And then on the optical side, we do more of it on the sort of metrology and sort of after-production quality side of it. So we see it from sort of two angles.

And in terms of its runout, as you might suspect here, we've got a long way to go until capacity comes to where it needs to be for that particular sector. There's things still just being announced now that we're all seeing that are exciting for all of us. So, we think that's going to continue for quite a while and most of it is located in our HST segment, our exposure.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

Thanks for that. And the other question on orders, another strong year and really finish to 2021. Just curious, as your teams drill down on the order book, are there any signs of double ordering in any of the businesses or pull forward as customers try to secure a spot in line? Any color would be great.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. I think it's a small percentage, mainly because of the kind of highly customized nature of what we make. That's kind of a risky bet. And everybody is then betting on capacity that may or may not come around again, just because of the way that we attack it with the products and the kind of the product structure that we have. So, it's typically not a high level. It's barely anything most days. I think we've pointed, too, it could be a percentage point at the current levels. I think that's pretty consistent. For high-volume things that people are going to depend on, there's probably a little bit of that. But it's not – that is not the majority of what we do here. It never has been.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

Okay, great. Appreciate it.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Thanks.

Operator: Our next question comes from the line of Scott Graham with Loop Capital Markets. Please proceed with your question.

Scott Graham

Analyst, Loop Capital Markets

Q

Hey, good morning, Eric, Bill, Allison.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Hi, Scott.

Scott Graham

Analyst, Loop Capital Markets

Q

Hey. So let me just ask the harder one first, then line that up for Bill. So I'm looking at the FMT margin in the quarter, we were down essentially 180 basis points, whereas in the third quarter, we were up over 100 basis points. And the contribution this quarter from ABEL revenue-wise was less. And it looked like FMT – FMD had a less negative impact on sales in the fourth quarter than the third. So, why was the FMT margin down that much?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

Sequentially, Q4 to Q3?

Scott Graham

Analyst, Loop Capital Markets

Q

No, year-over-year. Well, both, of course, right, but...

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

I would say two things. If you normalize – so just year-over-year, if you normalize FMT and take out FMD and ABEL, you're roughly flat on op margin perspective. I think from a quarter three to quarter four, there's a couple things: one, FMT less working days and some of the vertically integrated businesses, so they have less absorption, which is seasonal. It happens in most years. We had the final costs associated with the facility consolidations that weighed a little bit on their margins in the third quarter, and then just some premium over time in freight at the end of the year to get some stuff out for customers was dilutive. So, those three things on the sequential piece and year-over-year, it's really the ex-FMD and ABEL that's pressuring the margins.

Scott Graham

Analyst, Loop Capital Markets

Q

Okay. And this is – it's not an acceleration in supply chain issues there?

William K. Grogan

Senior Vice President & Chief Financial Officer, IDEX Corp.

A

No.

Scott Graham

Analyst, Loop Capital Markets

Q

Okay, great. Thanks. The second question is more for you, Eric. Bill is kind enough to share with us the supply chain held you back on organic 3% to 5%, and it doesn't look like you're expecting much difference in your second half organic than your first. Just kind of wondering how you're thinking about that 3% to 5% in the fourth quarter and how it affects sort of your first half versus second half thinking. Doesn't that lessen in the second half of the year, and therefore maybe you're being conservative on implied second half guide?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

A

Yeah. Well, I mean – well, so a couple things. I mean, I think we definitely have a frame and a view that Q4 was tougher in a lot of regards because of the things that Bill talked about in terms of as he put some boundaries around it. Clearly, we had more absenteeism here than we'd seen in any other point in the year, and we know the same thing was happening in suppliers and logistic networks and those kind of things. And to the extent that we see that same trend kind of lagging over to the first quarter, we've extended it there.

We're making certain assumptions here as we go forward. One, we always get a seasonal uptick in our business. There's certain businesses that just this is the quietest time for them, because they can't do their work outside. We know those come online. Not all of those are labor-dependent anyways or supplier-driven. So there's things like that that are out there. And then, look, we're already seeing some signs that this current wave is going to subside, come down, we are seeing more evidence that people are wanting to get back into the workforce. So those – kind of those pieces as well, and it's always easier to run the place when it's warmer out. So, there's a few things in there, and I don't think the ramp is so significant that it sort of stands in the way of those expectations.

Scott Graham

Analyst, Loop Capital Markets

Okay. Good color. Thank you both.



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



Good morning. This is [ph] Michael Anastasi (01:07:05) on for Joe.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Hi, [ph] Michael (01:07:09).



Thanks for the color on Nexsight. You mentioned sales would be roughly \$50 million annually. What percentage is from the software component? Is there a portion that is recurring in nature?

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Well, I mean, it's an interesting thing because it's embedded in a lot of the products, so it wouldn't be as identifiable as that, like it's for purpose definable piece. It's an extension of capabilities that's then realized in the products that we go to market with, but we love that capability.



Great. 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

President, Chief Executive Officer & Director, IDEX Corp.

Okay. Well, thank you all for joining the call today. Appreciate the questions as we went there and the interest in IDEX. Just a couple of things to frame it all out, no doubt, tough environment out there for everyone as we've seen and talked about. I mean, the IDEX model in some ways doesn't make that any easier. We've got a lot of iterative innovation and customization. Short lead times is a standard expectation, high reliance on value-added suppliers. I put a but in here that's important. That also strengthen us for the short and the long term. I mean, we're an agile company. We're creative. We solve problems very quickly on the fly.

And that supply chain that we're dependent upon, as I said a few times here today, I mean, it's very close to home. We've known those folks for a long time and there are deep relationships and trust there – a mutual trust.

So, that's a huge asset for us, all that comes together. So, we're going to attack the current situation and deliver our performance and continue to do our best here in the months ahead. But we also want to do that and not lose sight of what we're building ultimately for the future. And I'm glad we had a chance to talk about that as well. We are going to strengthen the growth prospects that we have in our most advantaged verticals through organic and inorganic efforts.

We're going to use the balance sheet to go do that and support it. We're going to continue to optimize the footprint of the company. We've done some great work over the last few years to build these more simple, scalable outposts out there that for IDEX we stripped out a lot of complexity that's going to lever really, really well for us in terms of supporting growth and driving financials. And then lastly, we're going to inspire – support it all with, I think, a very inspiring culture that strives to expand the impact of our mission, which is Trusted Solutions, Improving Lives. So thanks for your time today. I wish you all a great day.

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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