27-Apr-2022

IDEX Corp. (IEX)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Q1 2022 IDEX Corporation 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] Please note this conference is being recorded.

I'll now turn the conference over to your host, Allison Lausas, Vice President and Chief Accounting Officer. 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 the discussion of the IDEX first quarter 2022 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending March 31, 2022. 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. Then Bill will discuss IDEX first quarter financial results. He'll also give an update on segment performance and the markets they serve, and provide our outlook for the second quarter and full-year 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 13724803, or simply log-on to our company homepage for the webcast replay.

And 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 and President, Eric Ashleman.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thank you, Allison, and good morning, everyone. I'm on slide 6. The first quarter was an outstanding start to the year for IDEX. I'd like to thank our IDEX employees around the globe for their hard work and contributions to our success. We saw a strong, broad-based demand for our differentiated technologies with growth across all three of our segments leading to record orders, sales and backlog.

This robust market plus outstanding operating performance resulted in 12% organic sales growth and excellent margins. We achieved adjusted EPS of $1.96, setting another IDEX record. Overall, the operating environment in the first quarter was much like the fourth quarter of 2021 but our teams improved their ability to navigate through this challenging environment. We effectively mapped our 80s and 20s from customers through work cells and back to the supply base in a way that increased overall throughput and velocity.

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We also worked together to attack our most problematic supply challenges through resourcing or redesign. Although we expect these challenges to remain for us in the near term, we are confident in our ability to adapt, execute, and deliver for our customers. This period of rapid economic recovery, coupled with geopolitical disruptions and constrained supply continues to drive material and freight costs higher. We kept pace with our own robust price capture efforts as we leverage the highly differentiated nature of IDEX's product portfolio and our leadership positions in critical niche markets around the world.

We also saw strong benefits from our productivity initiatives, specifically benefits from our site consolidations in FMT, capital investments that drove efficiencies and product design changes that reduced material consumption. The results in Q1 are a testament to our team's long view across business cycles as they build productivity roadmaps to support growth and margin expansion.

Turning to capital deployment, M&A continues to be a key priority for us. We recently announced our intent to acquire KZValve, a leading manufacturer of electric valves and controllers. This acquisition will extend our expertise in providing OEMs with critical solutions for precision agricultural and industrial applications and serve as a complement to our agriculture business within FMT. We're excited to welcome KZValve to IDEX. We also closed Nexsight, a complement to our FMT water platform.

Our funnel is strong and we continue to build conviction and interest around faster growing areas that complement the IDEX style of competition. Roopa Unnikrishnan, who joined us in March, will be an outstanding addition to these efforts as she leads Strategy and Corporate Development for the company.

Also, in the first quarter, we deployed $28 million to repurchase approximately 148,000 shares of company stock. We employ a disciplined methodology to create long-term value for shareholders when we see a break between our intrinsic assessment of IDEX enterprise value and our public valuation.

Finally, we continue to make reasonable and modest resource investments to drive long-term sustainable growth. These investments typically involve incremental additions to our commercial and engineering resources to support our best organic bets or targeted resources to support our inorganic efforts through M&A.

With that, let me turn it 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 8. Q1 orders of $856 million were up 20% overall and up 16% organically. We experienced favorable performance across all our segments and built $105 million of backlog. First quarter sales of $751 million were up 15% overall and up 12% organically. We saw favorable performance within each of our segments led by strong results in HST. Q1 gross margin expanded 70 basis points and adjusted gross margins expanded 60 basis points versus last year at 45.6%, driven by favorable volume leverage, operational productivity and favorable price cost despite rising inflation. First quarter operating margin was 25%, up 110 basis points compared to prior year. Adjusted operating margin was also 25%, up 70 basis points compared to prior year. Excluding the impact of acquisition-related intangible amortization, adjusted operating margin expanded 130 basis points. I'll discuss the drivers of adjusted operating income on the next slide.

Our Q1 effective tax rate was 22.4%, down slightly versus our prior-year rate of 22.6% due to the mix of global pre-tax income among our jurisdictions. First quarter net income was $140 million which resulted in EPS of $1.83. Adjusted net income was $150 million, resulting in an adjusted EPS of $1.96, up $0.34 or 21% over prior-year

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adjusted EPS. Finally, free cash flow for the quarter was $64 million, approximately 43% of adjusted net income. This result is driven by higher earnings being more than offset by increases in working capital due to the volume impact on receivables as well as additional inventory we have strategically added to help mitigate some of the longer lead times we are experiencing.

Moving on to slide 9 which details the drivers of our adjusted operating income. Adjusted operating income increased $29 million for the quarter compared to the prior year. Our 12% organic growth contributed approximately $25 million following through in our prior-year gross margin rate. We levered well on the volume increase, had strong price capture, and our teams drove operational productivity to offset the profit headwinds we experienced from inflation. Additionally, we saw benefits from our FMT site consolidations and non-repeat of prior inventory reserves associated with a COVID-19-related new product development. Mix was not a significant driver this quarter. We reinvested $4 million, mainly in the form of engineering, commercial and M&A resources to enhance our long-term growth capabilities.

Lastly, discretionary spending increased by $4 million versus last year. COVID-related constraints remained in place for a portion of the first quarter, limiting our spending. As we noted in our full-year guidance, we expect discretionary to continue to ramp up as we progress through the year and restore to our normal pre-pandemic spend base, although on significantly higher sales. Our organic flow-through was a solid 35% for the quarter. Flow-through was then negatively impacted by the dilutive impact of acquisitions and FX, getting us to our reported flow-through of 29%. With that, I'll provide a deeper look at our segment performance.

I'm on page 10. In our Fluid & Metering Technology segment, we experienced a strong first quarter for both orders and sales with organic growth of 14% and 11% respectively. FMT adjusted operating margin expanded by 300 basis points versus last year, driven by strong volume leverage and operational productivity which includes benefits from our energy and Italy site consolidation projects, non-repeat of prior inventory reserve adjustments and some offset from resource investments.

Our industrial day rates were strong. Customers do remain cautious around larger projects though but we have seen some projects come through in the oil and gas and petrochemical markets. Agriculture continues to perform well due to strong global crop demand and higher prices. Our municipal water business is stable though project activity is increasing. States are actively submitting applications for infrastructure bill funding and there is general optimism for funding availability in the second-half of the year. We see potential for larger spending in the long-term and we are well-positioned to capture this demand. Our energy business continues to improve. Higher oil and home heating fuel prices are providing support and funnel activity is increasing as global energy supply volatility is expected to drive higher US production. Domestic pipeline companies continue to communicate increased CapEx but there is some lag due to supply chain constraints and the Russia-Ukraine uncertainty.

Moving on to Health & Science Technology. We experienced excellent commercial performance with orders up organically 21% and organic sales up 16%. HST adjusted operating margin contracted by 40 basis points versus the first quarter of 2021 but expanded by 90 basis points, excluding the impact of incremental amortization tied to the Airtech acquisition. This was driven by strong volume leverage, partially offset by increased discretionary spending and resource investments. HST continues to benefit from strong secular growth trends within life sciences, analytical instrumentation, semicon and the food and pharma markets.

Life sciences continues to experience strong demand due to an overall renewed focus around healthcare in areas such as point-of-care and patient diagnostics as well as increased next-gen sequencing demand as the market for cell-based therapies expands in applications like cancer research. On the semiconductor side, we continue to see

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broad-based growth tied to wafer production and quality inspection. Other growth areas include optics applications in additive manufacturing as well as broadband satellite technology.

Finally, turning to our Fire Safety & Diversified Products (sic) [Fire & Safety/Diversified Products] segment. This segment posted favorable orders and sales performance with organic growth of 12% and 5%, respectively. FSD (sic) [FSDP] adjusted operating margin contracted by 340 basis points versus last year. This was driven by higher employee-related cost and discretionary spending as well as pressure on price costs due to longer-term OEM contracts on the Fire side and automotive exposure with high metal content in BAND-IT. We have taken action to address this gap and expect that price costs will improve in the second-half of the year.

Our dispensing business continues to experience strong results driven by North American project volume and our overall positive global paint market. Our BAND-IT business performed well with industrial and energy demand more than offsetting lags in automotive driven by supply chain-related customer delays. Within Fire & Safety, we are seeing core North American and European markets improving but still challenged due to supply chain. North American fire OEMs continue to experience supply chain constraints, slowing their order to revenue conversion cycle.

With that, I would like to provide an update on our outlook for the second quarter and full-year 2022. I'm on slide 11 which lays out our updated guidance. For the second quarter of 2022, we are projecting organic revenue growth of 8% to 9% and operating margin between 23% and 23.5%. Q2 forecasted op margins is lower sequentially due to a full quarter of Nexsight which is dilutive to our operating margin by approximately 50 basis points due to intangible amortization as well as increased resource investment and discretionary spend. We expect GAAP EPS to range from $1.69 to $1.74 and adjusted EPS to range from $1.85 to $1.90.

Turning to the full-year, given our strong first quarter performance but with potential risk and uncertainty on the back-half of the year, we are raising the low-end and holding the high-end of our organic growth and adjusted EPS guidance. We now expect full-year organic revenue growth of 6% to 8% which does not imply a significant sales ramp in the second-half of the year. Rather we are applying a normal seasonal pattern to our current output level. At this time, we see potential risk that further revenue acceleration maybe tempered by the Russia-Ukraine war and supply chain effects related to the China Zero-COVID policy. We will continue to monitor the situation and reassess our guidance range in the next quarter's update. We expect GAAP EPS to range between $6.87 to $7.00 and adjusted EPS to range from $7.50 to $7.63. Our operating margin expectations for the full-year is to be approximately 24% and is diluted by Nexsight intangible amortization of about 50 basis points.

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

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QUESTION AND ANSWER SECTION

Operator: And at this time, we will be conducting a question-and-answer session. [Operator Instructions] And our first question comes from the line of Mike Halloran with Robert W. Baird. Please proceed with your question.

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

Q

Hey, there, Eric. So maybe just to start on the demand side of things. Obviously, there's a lot going on on the environment here but it sounds like demand is still pretty healthy. Order is still pretty healthy underneath the hood for you. I know you mentioned in the prepared remarks maybe some hesitancy on the larger project side of things. But I'd like a little sense for how you're thinking about how those – the challenges from a broader perspective were impacting the business from a demand perspective. Are you seeing any cracks emerging anywhere? How is momentum through the quarter? Just really any context you can give around what you're seeing?

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

A

Yeah. Yeah. Thanks, Mike. Now, look, it's holding pretty steady for us all over the place. I mean the sectors we outlined had been strong. They were strong through the first quarter. The momentum has continued into the early part here at the second quarter.

Probably the only thing that we've seen continually here that's been held back a bit is the large projects category that we talk about a lot. I continue to see that. Honestly, it's just a question of resource availability, ability to focus on doing the work; either in the current context or even projecting across the future as people consider all the things that are on the table there that could disrupt that.

That being said, we've seen some projects here and there in places like energy and certainly a few in the chemical space; some short-term stuff in water that indicates people are trying to get at capacity just like we are and throughput. So that continues to add to the mix. So I – very, very strong overall; steady. And that's one thing that makes it pretty easy to navigate.

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

Q

No. That makes sense. And on the margin side of things, the FMT margins really stood out this quarter. I know Bill highlighted some of the reasons but maybe just some thoughts on sustainability on that side if there's anything that wasn't repeatable in that mix as we look forward here?

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

A

Yeah. Now, look, I think we – as you can see and I'd said in the remarks I mean we made some nice progress on throughput and velocity that always helps our situation. It's nice from a leverage perspective and it also implies that things are working more efficiently. The – being past the consolidations that we had last year in FMT specifically has been a big benefit for us as we go. And then we'll – I know we'll dive into price cost along the way but of course we've done our best there to keep our head above water. You've kind of put that into the mix with more throughput and output. That's a good mix for us overall and you see it reflected in the performance.

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

Q

Appreciate it. Thanks for your time.

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

A

Thanks, Mike.

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.

Q

Good morning, everyone.

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

A

Hi, Nathan.

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

Q

Just a couple questions on the guidance to start with. It looks like pretty much your guidance for revenue for the rest of the year, even at the high-end relative to the first quarter; the quarterly run rate is up only by about as much as the next acquisition adds. I think Bill you said you built $100-plus million of backlog during the quarter. Is this really – are you guys just assuming that supply chain limits your output for the remainder of the year? Maybe core demand is a little bit better than that but you're just assuming that you don't get a lot of relief from these supply chain constraints and that restrains what you can actually ship?

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

A

No – exactly, Nathan. As we look at – obviously, the team's ability to increase their output, directions, we're taking internally has improved but some of the external events that have happened recently and the unknown longer-term implications, we just can't count on a significant ramp from our current volumes that we're at now. Obviously, if things unwind and resolve, there's upside opportunity in the back-half definitely based upon the strong backlog that we've highlighted.

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

Q

Yeah. I think caution is fair enough. Things could always get worse, right?

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

A

Yeah. Exactly.

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

Q

Second question I had is on capital deployment here. You guys have certainly stepped up the pace of acquisitions and how aggressive you've been there. The market is clearly worried about recession in 2023. Does this change your calculus in how you are thinking about going after acquisitions in terms of how you're de-risking your deal models, risk premiums that you're putting on things? Any change to the calculus that you guys are using over there as you're approaching acquisitions at the moment?

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

A

Yeah. I'd say – I mean not a lot in the short-term. Again, I come back to kind of the nature of the assets that we're looking at here. They're very representative of kind of classic IDEX businesses; high mission-critical solutions, risk-averse end-markets. I mean they're not the kind of businesses that bob and weave a lot in the short-term, and ultimately the valuation on the part of the seller and for us on the part of the buyer comes down to the assurance of pretty steady growth in cash streams and high-quality earnings over time. And of course what we think we could do to our business on the inside which is mostly under our control anyways. So not to say we're discounting any of those things but certainly – but particularly in the short-term it doesn't really change the view of what we think is favorable for the long-term health of the company.

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

Q

Have you seen that uncertainty in the market out there at the moment from the seller's perspective improved the pricing at all in any of these assets that you're looking at?

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

A

No, I wouldn't say we've seen that. That's often a lagging phenomenon, and again we're in very high-quality waters with generally long histories that anybody would refer to and just degrees of health in the future are all positive. So it doesn't really enter the mix of these kind of assets too much.

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

Q

Perfect. Thanks for taking my questions.

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

A

Thank you, Nathan.

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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
President, Chief Executive Officer & Director, IDEX Corp.

A

Hi, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey. When we see record orders, record sales, record backlog and upside in organic, it's – I'm not sure that you did miss any revenues because of supply chain but did you have any projects that you couldn't ship past due? Anything you could size there?

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

A

No. I mean there was a couple of isolated things. The amount left on the table versus the number we recorded in Q4 was down substantially. Again, the team's ability to work through some of the operational output and then just slight improvements in some of the supply chain areas, a lot less than I think we reported it around 3% in the fourth quarter; much lower number, kind of a couple basis point type of framework.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. And on the cascade that shows the growth investments in discretionary, I'm always interested in knowing some of the specifics inside there because obviously you could cut back on growth investments any time and dress-up quarterly earnings but that's not what you all do. So what's in the growth investment and the discretionary buckets and what kind of payback should we expect?

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

A

Yeah, Deane. We're committed to making these investments. And outside of what happens in the short-term, these are things that we're committed to that are going to drive growth for us long-term. We've talked about engineering resources, different commercial initiatives we have across the portfolio. Eric has highlighted several times just the buildout of our M&A team to improve the conversion that you've seen in our M&A pipeline. And we've got great projects in all three segments, either through new product launches, investigating new markets to leverage different applications for our technologies.

And then too, even in the second quarter here, we've got some larger tradeshows that were back; the largest North American tradeshow for fire and rescue that we're going to launch a couple new products and bring those to market. So, a lot of exciting things across the portfolio that we're committed to investing as we progress through the year like we talked about when we gave our initial guidance.

And Eric is there anything else you want to add in?

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

A

No. I would just continue to highlight, we talk a lot about the top – kind of those – that list of top organic bets for the company; the resources Bill is talking about maps really, really solidly to that list. So it's not spread evenly. It's very disproportionately tuned with that addition for sort of more enterprise work around strategy and sectors we're interested in as we think of putting money to work.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. And Eric, since you asked – we ask about price cost. Take us through where pricing is expected to read-through the rest of the year and how you expect to end up on price cost?

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

A

Yeah. I'll hit it generally. I will let Bill kind of fill in the blanks in terms of models and numbers. But I mean look we've been, as you'd suspect, very, very aggressive on the pricing front. We've been talking about it for a long time where we think we're entitled to it given the differentiation and the problems that we solve out there. We've worked out very systematically across the company. I mean there's an approach to how we do that. We take into consideration the long and deep, often personal relationships that we have with customers and how to navigate that effectively in an environment like this.

So I would say here as we talked through last year, we got – in some ways the cycle came up and the velocity of it was in many ways unexpected in the beginning of the year. We kind of caught up with it in the back-half. And then I see us in a more favorable position as we enter the year here and I think you see that reflected in the margins.

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

A

Yeah. I think continued progression here in the first quarter. I think as each month goes by, the additional pricing actions we've taken, we have seen increased inflation. The teams are doing a much better job getting out in front of it. And I think towards the back-half of the year, we'll be at or in excess of our historical price cost based upon the line-of-sight to what we have as of now.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. Thank you.

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

A

Thanks, Deane.

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

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Allison Poliniak-Cusic
Analyst, Wells Fargo

Q

Hi. Good morning.

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

A

Hi, Allison.

Allison Poliniak-Cusic
Analyst, Wells Fargo

Q

Just want to go back to your comments on the project side, Eric. I mean you had mentioned it seems like it was more of a when-not-if kind of scenario. With obviously elevated concerns of this next downturn which seem more consumer-facing at this time, just would love your perspective as you see kind of think forward here in terms of this project? Would it support maybe a more shallow recession if-and-when one comes for industrial, just any thoughts on your view there?

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

A

Well, I mean, the second-half of that is a broader question that involves a lot of other things. But I would say just from what we can see here, it's just been a consistent story. I mean I think a lot of companies have got work that they need to get at. In many ways, it's concentrated in certain areas that are more favorable than others. They would love to deploy capital and get at it, sometimes at larger scale.

But you just see increasingly – I mean that the bigger the project, the harder it is to put together. You've got to have the people to do it. They've got to be familiar with the company and then you've got to be able to marshal all the resources and count on it across a horizon that's going to be longer than it has been before. So, all lead times are much longer than they have been. So any project's duration has got to be able to traverse essentially more risk and uncertainty.

And so I think what we are seeing and in fact even some of the things that I look at that we deploy in our own company as you kind of go to the head of a list and you say, all right, but where's the absolute place that we have to put some money to work and you can see the returns sitting in front of us because the demand is pronounced. And if you can do it in a slightly different way, maybe it's a little bit faster, it's quicker. The scale is of a different nature. Those are the kind of things that we're interacting with. And it kind of – it matches the deployment within our own business which of course is a sort of a different scale.

So I think that bigger transformative project stuff that's out there, it's just that's the situations that it face. I don't know when that ends. I guess that's the open question for all of us but I see a lot of that related to – it's just got to find a way to settle into a very different planning environment. That's been this way now for a while. But I think if folks had a magic wand, they would like it to go away and they'd like to put that capital to work. That's what continues to kind of give us the confidence and the momentum on the longer-term nature of the cycle as you can see how much of it does need to be deployed.

Allison Poliniak-Cusic
Analyst, Wells Fargo

Q

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No. That's great. And then just a question on mix. You're neutral in the quarter. Just based on the backlog and sort of certainly the pricing actions, but more on the mix side, how should we think about that mix as we kind of move through the year based on what you're seeing in your order book at this point?

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

No material impact on the year-over-year. I think for us a lot of the margin mix will be just the FMT margin expansion that will be more consistent this year relative to other productivity initiatives that we had last year. So more productivity driving the margin expansion versus favorable or unfavorable mix having a major impact.

Allison Poliniak-Cusic Q
Analyst, Wells Fargo

Great. Thank you.

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

Thank you.

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

Joseph Giordano Q
Analyst, Cowen & Co. LLC

Hey. Good morning, everyone.

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

Hi, Joe.

Joseph Giordano Q
Analyst, Cowen & Co. LLC

So I'm just curious like obviously with what's going on in Europe, some major themes around how we transfer energy and food shortages globally. I mean I realized these are more international problems than domestic here but just curious if you can kind of take us through how you might be able to help attack those problems that are emerging now?

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

Yes. Well, of course, we go from macro to micro pretty quick when we start to think of how that impacts us. But I like the way you framed it which is actually any time there's disruption, there are problems to solve and that's usually healthy for us. So, as things swing around and production goes from one zone to another that means largely the infrastructure might be used in ways that's more aggressive or higher rates than it has before. We do things like custody transfer on the energy side. If we're shipping it around the world or building out ports to do that, that's places that we play. And so I think ultimately I'd put that in the net favorable for us and I think we saw some of that activity in the first quarter in places like energy. Same thing over on food production. I mean if that becomes a bigger deal and starts to move around in different geographies and things like that where capital

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maybe or may not be a need to be deployed, we come along with it; with the mission-critical fluidics solutions that we have in there as well.

So, a lot of major trends to track and get a sense of where they're heading or where they're coming from. But I would say just the fact that they're changing often presents opportunities for us in the ways that I described here.

Joseph Giordano
Analyst, Cowen & Co. LLC
Q

That's helpful. And just on the backlog, just given the orders and the backlog where it is, what's your ability to kind of protect what's there? I assume that the duration of the backlog is longer – it's longer than it typically is. So as you get like kind of inflation while it's still there, are you able to protect the margins inherent in the backlog?

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

Yeah. I would – and most of it Joe, we've been able to evolve our terms and conditions over the last 18 months to make sure that we can pass on incremental inflation as it comes into. There's certain contracts that we have that we can but I think we're well-positioned overall.

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

Yeah.

Joseph Giordano
Analyst, Cowen & Co. LLC
Q

Thanks, guys.

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

Good morning, guys. Thanks for taking my call.

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

Sure.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.
Q

So strong results, impressive first quarter and you put up strong operating leverage and productivity despite what we know is a challenging period given Omicron in North America for a lot of the companies we hear from. So can you just talk more about how you were able to navigate that environment and what you're seeing now in terms of ongoing productivity runway in your plants?

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

A

Yeah. Yeah. No, that's a great question. So there's a number of factors at play; some of which we turn to our advantage here in the quarter. I mean from an external perspective, I see the supply chain environment is basically the same; difficult, some subjects better, some worse but that's not really markedly different.

The labor availability piece, I mean we're low labor content but it is critical, somebody eventually has to put things together; that actually improved for us in the first quarter mainly from absenteeism. We entered the year with high rates, and then as we went on February and March that actually improved. And I'd say labor availability generally, while it's a tough market out there for people I mean that did get a bit better for us. And we've got less kind of open roles especially in the production side overall. So that was a component that turned more favorable for us.

And then a lot of the work that we do, I mentioned it in the remarks it's tuning 80/20 from beginning to end, supply right through the factory, right to the customer base. We've kind of always naturally had that orientation on how we produce. The harder part is actually to draw those connections all the way back into the supply chain and then move them around. And that's why I'd say we've done the best work here over the last really six months but we saw the benefit in the last three.

So all that simply means is you've got your best supplier making the parts that's the most critical for our best part of the factory to our best customer set. That alignment is in place. We've got ways to query that across the company now and we can really see the benefit of that. And then that gives you a lot of that volume throughput that we referenced.

And I don't want to lose the other two pieces we called out. I mean we did very difficult consolidations in the middle of a very difficult time last year. We're now – those are completely behind us and they're in parts of the business that has got good order velocity against them, so that's like an additive component here.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

That's great color and it shows in the results. Maybe just one follow-up from me on the capital allocation side. It's nice to see you deploy some cash to share buybacks, kind of I guess the first we've seen in the past year plus. Can you just talk about, given the stock performance year-to-date, how you and the board are thinking about repurchases going forward and whether that's an area we could maybe see you to be more aggressive through the year if the shares remain around where they are?

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

A

Yeah. No, Vlad, I'll take that one. We've historically had a very disciplined approach to our share buyback program. When we think the stock is undervalued to what we consider intrinsic value of the company, we're back in buying shares. And obviously with the significant decline we've seen here, we think that's short-term related. A lot of the conversation Eric's highlighted is we're really bullish on the next couple of years, both from an industrial cycle and our ability to put broader capital to work in the M&A space. So we're taking advantage of where the share price is and we're going to continue to buy at the current level if we're still at this value here to progress for the quarter.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

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Great. That's helpful. Thanks.

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

Sure.

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. Well, thanks for taking my question. I understand for sure from your comments Eric that the impact of supply chain on the top line was a lot less in this quarter than the last. But is that a number that you guys can maybe give us the impact on sales?

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

Well, I mean, it's – so from how much we would attribute to gating supply chain conditions overall, I mean it's a slight-step down. I think we've said typically before we've been somewhere in the point or two of things we wish we would have been able to get out or otherwise. And I'd say this is a slightly more favorable tune or landing position for us largely for a lot of the work that I just talked through there. I mean I'd say the one external component is that slight uptick in labor availability for us, recognizing again it's a relatively small part of kind of our spend and P&L.

Scott Graham
Analyst, Loop Capital Markets
Q

Understood. Thank you. And as far as like the 20 to 25 projects, I note that they look a little bit different today than they did pre-COVID. I recall that you talked about the monetization when you guys pivoted into a post-COVID environment. Forgive me for not remembering that number. I thought it was like $100 million in incremental sales or something like that that you guys envision maybe being able to capture. Can you kind of tell us where you guys are on that curve?

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

Well, Scott, maybe I'll take that one. So, yeah, back in late 2020, we said, hey, $50 million to $100 million of potential incremental COVID opportunities. In 2021, we said incrementally it was probably flat; $50 million versus $50 million, so no big increase last year. And as we progress through this year, it's been pretty consistent. There's been no material pickup in COVID opportunities or decrease. So...

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

But then that would – Scott that would still leave kind of a standard deck to drive outperformance for us of 200 to 300 basis points.

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

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Yeah.

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

And as Bill said, we went through a period where there was more COVID things in it, now those have kind of normalized to some degree and we're back looking at fast growing applications, the kind of maps of the world we see ahead of us. So we tune that fairly regularly. We're always looking at what should be up there, what should be – should not. We don't do that around sort of calendar cycles. We're continually evaluating that and saying if we hit a milestone that would suggest something needs to come off and we're seeing an opportunity elsewhere.

Scott Graham
Analyst, Loop Capital Markets
Q

Got it. Look – thank you. And if I could just squeeze one in on dispensing. In fourth quarter call you were a little bit of – a lot guarded on the dispensing outlook for this year and then it looks like it had a pretty good first quarter. Could you kind of update on what you're seeing there and what to expect?

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

Yeah, Scott. I think that's a first-half versus second-half. We continued through to the back-half of last year to win some larger projects here in North America that will be delivered in the first-half. So, continued strength here over the second quarter and then much more difficult comps in the back-half of the year.

Scott Graham
Analyst, Loop Capital Markets
Q

Thanks very much.

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

Thanks, Scott.

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

Will Jellison
Analyst, D.A. Davidson Companies
Q

Hi. This is Will Jellison on for Matt this morning. Good morning.

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

Hi.

Will Jellison
Analyst, D.A. Davidson Companies
Q

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So I want to ask about the first quarter performance and try to understand better the extent to which the performance was enabled by preparation measures taken throughout 2021 versus things that were more on the fly, if you will, in response to things as they arose throughout the first quarter.

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

A

Well, I mean if I go back to the comments I had just a few moments ago where I sort of delineated the labor impact which was positive for us, I mean I would say almost all of that; that's an external situation playing through coming off the Omicron infection rates and higher absenteeism and then that moderated as we went through the quarter. But I do think labor availability more generally in some regions we do business improved from conditions last year. So I'd put that on the external side. That's a component.

The tuning I talked about relative to 80/20 and supply chain and how we've moved that through the supply base or resourcing, I made some comments about that engineering resourcing and our – or engineering design work in the opening comments, prepared remarks.

I mean that's our side of it. That's things we've long been doing to try to keep pace with a very, very difficult supply environment. So I don't know the exact balance I would say but you've got some of both coming together there and both I think likely to continue for us as we go forward.

Will Jellison
Analyst, D.A. Davidson Companies

Q

Understood. That's helpful. And then I do want to ask you about China. I know that at this point it's a relatively small portion of the footprint. But I know that throughout 2021, you were making investments in facilities there. I'm wondering at this juncture in April given the kinds of lockdowns activity we've seen there, what's your view on the impact or potential impact there might be and how IDEX might be positioned to respond to it?

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

A

Well, I think I like everybody else, we're watching the current situation play out. I mean pretty hard to predict how things are going to go, also hard to imagine that this is a big long-term event. I mean, no doubt, there'd be some overhang here. But I would just kind of go back to what we said when we thought of the investment and we talked to everyone here about it; this is a massive economy. Our approach there is very local. It's completely local. So, we've got resources on the ground, we've got technologies available, and we've got domain expertise to solve local problems from within the economy.

And so that doesn't insulate it entirely from macro events that happen there but it does it does minimize the sort of disruptive things you can get doing lots of cross-border and that's never really been our model there. It isn't the model for India as well. We have a similar campus there. So the investments that we talked about, the facilities expansion is actually nearing completion and we look forward, as everybody does, for hopefully a healthy resolution to what's going on over there where we've got a lot of employees in the region and are going to start there with – our first concern is with their health and wellbeing. And then I still feel very confident about the investments we're making to be appropriate given the potential of that economy.

Will Jellison
Analyst, D.A. Davidson Companies

Q

I appreciate that. Thanks for taking my question.

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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

Yeah. Thanks. I think we've covered a lot on the full-year outlook, so I just wanted to ask a couple on the near-term thoughts here. I mean it seems like your overall message is demand looks strong and there aren't any sort of warning signs you're seeing but you want to be conservative given the overall macro environment. I guess I'm curious...

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

A

Yeah.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC

Q

...just in the second quarter, it seems like you are pointing to some potential for some margin compression. Is that based on what you've actually seen thus far, either in March or April or is that just similar sort of conservative vein there?

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

A

No. I think we've highlighted sequential margins declined 50 basis points of it just the Nexsight acquisition coming into the fold – excuse me, on the dilutive impact of the deal amortization. Depending on what your comp is there's kind of another 50 to 100 basis points, primarily through incremental investments on the discretionary and resource side. As we've said, hey, we're going to have about $20 million, $25 million for each category this year. We spent $4 million in both incrementally. That's going to ramp a little bit here in the second quarter. It will compress margins slightly.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Understood. And then just in terms of capital deployment for the year or so, the CapEx guidance for the full-year would indicate that you're sort of accelerating there. Just want to make sure we have context for – what are the incremental things that you're investing in there, what are sort of some of the big focal areas for you guys over the next year here?

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

A

Yeah. I think some of the big ones Eric highlighted; continued investments in facilities in emerging markets, our China expansion, our India expansion. The CapEx associated with that will ramp here over the next two quarters. And then we talked about a large infrastructure investment, our Banjo business with new technology; increased automation and overall output as that business has continued to grow in scale here relative to the differentiation that that product brings to market, along with the bunch of other investments to support growth and productivity across the portfolio.

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

Yeah. We've got some things in life sciences and in our sealing business related to semicon expansion too. So we're investing in that machine tools and equipment to do that, I would say with an additive emphasis on the automation capabilities that are out there today that also has a secondary benefit of helping us on the labor front.

Connor Lynagh
Analyst, Morgan Stanley & Co. LLC
Q

Makes sense. Thanks very much.

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

Thank you.

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

Andrew Shlosh
Analyst, Vertical Research Partners LLC
Q

Hey. Good morning, guys.

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

Hi, Andrew.

Andrew Shlosh
Analyst, Vertical Research Partners LLC
Q

So, firstly, do you know what total price was in the quarter?

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

Yeah, it's close to 3%.

Andrew Shlosh
Analyst, Vertical Research Partners LLC
Q

3%. Great. That's great color. The other thing I was kind of curious about what do you think the demand outlook is for kind of bios/medical flow? What are you seeing there?

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

I mean that's been very, very healthy. I mean obviously there's a piece of that that's involved with COVID or, at a minimum the vaccine, the therapeutic side of that. Lots of interesting things going on with cell-based therapies and other things that are out there. So I mean it's an area of focus for us. We've got a nice presence there that has done well and we continue to stay very interested in it.

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Andrew Shlosh
Analyst, Vertical Research Partners LLC

Q

Great. Thanks for the color. I'll pass it on.

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

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hi. Good morning all.

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

A

Good morning.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey. I wanted to come back to the guidance framework. You brought up the low-end, left some contingency there and certainly understandable and you mentioned the potential risks. I was just hoping you could put a finer point on there. Are there specific one or two regions or areas of the portfolio that worry you most and this is really a demand side versus price cost? Any color would be great.

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

A

I would say from a high-level, none of this really comes back to specific areas of concern that map against where we are and kind of where we intersect the world out there. They're more general and they are pretty close to the same ones that everybody else is thinking about. So, region lockdown in China and what happens as that all plays out and broader exposure to Asia-Pac and supply side is back into mature economies. It put us on the radar on keeping an eye on that. Certainly the issues geopolitically in Europe, we don't have a lot of direct presence there but there's a bunch of derivative impacts for us and others. We'll see how that plays out. But I don't think we're looking at units of measure that are different than the ones that are on the macro screen for most people.

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

A

And again, I think relative to some of the earlier commentary, less on the demand side, more on the supply side.

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

A

Yeah.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Got it. It makes sense. And then just back to HST, the continued wins in sequencing and semiconductor. I was hoping you could just un-bundle that and what the contribution was to the 20% order print? And then specifically

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within semiconductor, how are you aligning with some of these big capital commitments here in the US, in Europe on the fabs?

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

Well, I mean, so look, it's kind of hard to do that specifically because it goes in different businesses and goes in different places. I would just say very, very strong on both of those categories.

On the semi side, I mean we're – like we're involved in different aspects of that. We're involved in some businesses. We kind of come in there on the fab side when we build out infrastructure. Another place is we're actually involved in the metrology side of the inspection of things that are made in that infrastructure. So we're well-positioned throughout and well-positioned with the names that most people think of when they think of that industry,

Brett Linzey
Analyst, Mizuho Securities USA LLC
Q

Okay. Great. I appreciate it. Thanks a lot.

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

You bet.

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

Rob Wertheimer
Analyst, Melius Research LLC
Q

Hi. Thanks. Good morning, everybody.

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

Hi, Rob.

Rob Wertheimer
Analyst, Melius Research LLC
Q

I just wanted to see if you'd round up the discussion a little bit on capital deployment and acquisition where you've obviously been successful and steady in the past year and into this quarter, 1Q and 2Q. Can you give any just sort of background on how the funnel looks versus a year ago, versus the year-and-change ago? The operational focus, I think is shifting more and more towards there. Any changes to how that broadens up the funnel or accelerate the progress through it? And I'll stop there.

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

Sure. Well, I think for a while we've been talking about the intentionality of the work. So we've resourced it in a different way. We've put some people on, brought some folks in from the outside. I mentioned Roopa in my earlier

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comments. She brings a lot to the effort as we go. But a lot of this comes from bottoms-up. I mean it comes out of the businesses who know their worlds and markets the best and you can kind of see that.

If you look at the last few acquisitions in particular, they're all very close to home, to our businesses, and in fact we've known them for a long, long time. So in some ways we're taking advantage of targets that have been out there that we've understood with much more focused cultivation, understanding and ability to get the transaction done and then integrate it successfully in the company. So that's always going to be a big piece of what we do.

Right next to that then is broadening that work and starting to think about, well, as you go slightly to the left or to the right or extend out the time horizon a bit further, what does that suggest about the universe that's out there, which could be known; in some case isn't known. And so it's very, very focused work and it's process-driven. You can think of it as almost a grid of intersection between the work that we do and the problems that need to be solved in the world and where they cross over. Again, a lot of it is relatively close to home because we're looking to leverage the domain expertise that we have, the market insight and presence, and positioning of current businesses. But it's coming together in an interesting way and we've long said or I've said, ever since I took the seat I was trying to level-load it a bit and that's now happened. It makes that resource base more stable and makes the work more predictable and it's easier to optimize. So that's kind of where we are now. I'm looking forward to where we're going to take it and talking to you about it as we go.

Rob Wertheimer
Analyst, Melius Research LLC
Q

Well, that's fantastic. And so that's obviously the process book, it seems like it's paying off. I mean as you look at your metrics on just scale of opportunity, type of opportunity, progress through I assume you anticipate this higher level of acquisition activity as well support it to continue?

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

That's the plan. I mean, we've got the – to complete the kind of the growth maps that we have for the businesses, we're going to often want to bring in some technologies and position points that we don't have today. This is a great way to do it and we've got the great cash-generating facility and balance sheet to pull it off. And so – but doing it in a way that works for us; process-driven, people-dependent. We like that. I mean that's what we're trying to build there.

Rob Wertheimer
Analyst, Melius Research LLC
Q

Perfect. Thank you.

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

Thank you.

Operator: And our next question comes from the line of Walt Liptak with Seaport Research. Please proceed with your question.

Walter Liptak
Analyst, Seaport Global Securities LLC
Q

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Hey. Thanks. Good morning, everyone.

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

A

Hi, Walt.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Yeah. We did – hi. We did cover a lot of ground but I thought I'd try and drill into a couple of things. Certainly, you recognize that Europe had plenty of geopolitical things during the quarter. Did you notice anything with demand, like orders or with any kind of project delays or anything like that? And if you compare it and contrast the supply chain in the US versus Europe or – can you see any differences?

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

A

I would say nothing yet. Nothing on the front that's hit the radar here. Again, we have a big, broad cross-section of different markets, different pressure points, and I wouldn't be able to pick anything out specifically yet.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. All right. Fair enough. And then I think those remarks about the paint dispensary market, I think you made a comment that globally it was looking okay, is what I wrote down, but – and then in a follow-up question you said that it was still the second-half where you thought that was going to slow down. I just want to make sure I didn't mishear something. Was there some sort of a pickup in dispensing internationally for orders that might get better?

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

A

Yeah. No. Yeah, Walt. I think overall the paint market is strong. Obviously, from time-to-time there's large replenishment orders in North America that were coming off of a back of a huge cycle there that we had the tougher comps in the second-half of the year. So the demand – core demand is still strong across the globe with just tough comps on some of these projects.

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

A

And you still have a lot of – especially the Asia side of things is I mean it's just now automating. We're still involved in that cycle which is a little bit more steady-state, less project-specific. So it's really how these things come together in time-out.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Great. Okay. Thanks very much.

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

A

Thanks.

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Operator: And we have reached the end of the question-and-answer session. I will now turn the call back over to CEO, Eric Ashleman, for closing remarks.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks very much. I'd like to thank everybody on the call for your interest and support of IDEX. Just two final points from me: One, just a really, really big thank you to our IDEX teams and business partners that are out there. Bill and I do our best to simplify the story here, makes it seem easy enough. It's not. I mean we deliver highly engineered solutions to very demanding customers to solve super-critical problems. That's tough to do on the best of days. It's been a pronounced difficult environment and I'm really, really proud of how our teams have come together and made the improvements and progress they have here. So I just really want to – I want to thank them.

And, look, we talked a lot about those challenges that are out there, the things that folks are wondering about. And I just remind everybody, our company is uniquely positioned to help with many of those problems, to solve them. It's reflective of our mission and values. And when we do our job as well, we're rewarded financially with gross margin expansion and cash to take the business to the next level. So we're leaning forward and we feel good about where we are and we look forward to talking with you a lot as we go about the progress we're making. Thanks very much.

Operator: And this concludes today's conference and you may disconnect your line at this time. Thank you for your participation.

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