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IDEX Corp. (IEX)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Fourth Quarter 2023 IDEX Corporation Earnings Conference Call. At this time, all participants will be in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I'll now turn the conference over to Allison Lausas, Vice President and Chief Accounting Officer. Ms. Lausas, you may now 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 2023 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months and full year ending December 31, 2023. 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 are Eric Ashleman, our Chief Executive Officer and President; and Abhi Khandelwal, our new Senior Vice President and Chief Financial Officer. Today, we'll begin with Eric providing an overview of the state of IDEX's business. Abhi will then discuss our fourth quarter and full year 2023 financial results and provide an

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update on the various markets we serve. He will also discuss our outlook for the first quarter and full year 2024. Lastly, Eric will close the call with his final remarks. We will then open the call for your questions.

If you should need to exit the call for any reason, you may access the complete replay beginning approximately two hours after the call concludes by dialing the toll-free number 877-660-6853 and entering conference ID 13742102, 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 will now turn this call over to our CEO and President, Eric Ashleman.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Allison, and good morning, everyone. First, I'd like to introduce and welcome our new CFO, Abhi Khandelwal, back to IDEX. Abhi previously worked at IDEX for 10 years and served as my finance partner for the majority of that tenure. I'm thrilled to welcome him back and, in many ways, it feels like he never left.

Turning to slide 6. We navigated the challenging backdrop in 2023 with really strong execution. As backlogs normalize, we took inventory out of the system, reduced lead times for customers, increased cash flow to record levels, and delivered productivity through strong price capture and operational excellence. As always, I want to reach out to our IDEX employees around the globe with a sincere and appreciative thank you.

I want to apply a bit high-level perspective as I cover last year's dynamic demand patterns. Coming into 2023, we expect that this would be a year of recalibration across our broad array of markets, and our thesis certainly held. Our fragmented industrial markets within FMT and parts of FSDP and HST played out as expected. Supply chains improved, dropping overall lead times, bringing artificially high backlog and inventory levels into focus. Customers attacked these positions moderately over time through order reductions to our businesses, ultimately reaching levels of stability for us in the fall.

Our less fragmented markets within life sciences and analytical instrumentation and semicon recalibrated in a dramatically different way. Through much of the post-pandemic recovery, these markets had run red hot with demand that was really only constrained by supply chain availability. Demand pressures from high interest rates, lower capital availability and a lackluster post-COVID recovery in China, combined with outsized inventory balances and backlogs, drove sharp order reductions throughout these normally fast-growing sectors. This played out dramatically in the first half for IDEX. Given our short cycle character, we saw the decline quicker than many and reached equilibrium in the fall sooner than some.

As we delivered against expectations within a stable Q4, we took a breath and developed a plan of attack for the year ahead. Lead times in backlogs are back to pre-pandemic levels. The majority of our industrial and municipal businesses are stable and seeing improvement, with early and encouraging signs of modest growth ahead. The open questions are the specific catalysts and timing to support further acceleration. Our teams continue to aggressively engage with our top growth bets to drive market outperformance. These initiatives are spread across all segments in a variety of niche verticals. We're particularly excited about our growth work with customers in our water, semicon, space communications and energy transition markets.

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The markets not yet showing signs of near-term recovery remains life sciences and analytical instrumentation. We haven't forecasted a positive inflection yet for 2024. That said, our teams continue to work a robust pipeline of innovative projects in conjunction with our customers, positioning us to win on tomorrow's next-gen platforms. We believe in the long-term growth potential of these end markets and are well-positioned to support growth at the first signs of improved demand.

We continue to focus on aggressive capital deployment towards M&A, as we tune the portfolio towards faster-growing, high-quality markets. We acquired Iridian and STC Material Solutions last year, adding important pieces of material, science, technology to our HST segment. Our funnel is expanding, filled with targets that enhance our growth potential. Our balance sheet is strong, fully supporting our ambitions. Finally, we divested tow businesses, Micropump and Novotema, as we practice 80/20 at the enterprise level.

With that, I'll turn it over to Abhi to discuss our financial results.

Abhishek Khandelwal

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Eric, and thanks to everyone for welcoming me back to IDEX. It's great to be here and be rejoining a great organization.

Moving on to the consolidated financial results on slide 8. All comparisons are against the prior-year period unless stated otherwise. Orders of $754 million in the fourth quarter were down 6% overall and down 10% organically. We experienced an organic decrease in each of our three segments. FMT and FSDP declined mid-single digits, while HST contracted by about 17% as markets stabilized at a new level post recalibration. For the year, orders were down 7% overall and down 11% organically.

Our HST segment contracted upwards of 20%, as customers experienced a sharp inventory calibration during the year and level set to new near-term demand targets that included stunted growth expectations for China coming out of the pandemic. Our FMT and FSDP segments were down low-single digits as they also experienced recalibration, although at a much smaller scale.

Fourth quarter sales of $789 million were down 3% overall and down 6% organically. We experienced a 19% organic decrease in HST, while both FMT and FSDP grew by 3% organically. Full year sales of $3.3 billion were up 3% overall and down 1% organically. HST contracted by 10% on an organic basis, driven by declining life sciences and article instrumentation and semiconductor markets, partially offset by price. FMT and FSDP grew mid-single digits, driven largely by strong price capture on slightly higher volumes.

Fourth quarter gross margin was essentially flat at 42.7%, while adjusted gross margin, which was also 42.7%, contracted 90 basis points due to lower volume leverage, unfavorable mix and the dilutive impact of acquisitions and divestitures, partially offset by strong price/cost and operational productivity. Both full-year gross margin and adjusted gross margin of 44.2% contracted 60 basis points for the same reasons I just described.

Fourth quarter adjusted EBITDA margin was 25.8%, down 120 basis points. I will discuss the drivers of fourth quarter adjusted EBITDA on the next slide. On a full-year basis, adjusted EBITDA margin contracted 40 basis points to 27.5%. A bridge of the full-year adjusted EBITDA can be found in the appendix of this presentation.

Despite a year of significant volume pressure, our teams delivered on price/cost and operational productivity, significantly muting the impact of these unprecedented volume declines.

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On a GAAP basis, our Q4 effective tax rate of 22.7% versus last year's fourth quarter effective tax rate of 20.5% increased primarily due to absence of one-time foreign currency benefits realized in 2022 in connection with the funding of the acquisition of Muon, as well as the impact of the loss recorded on the sale of Novotema during 2023, for which no related tax benefit was realized due to the type of consolidated group in which it participated. Our full-year GAAP effective tax rate of 21.7% was flat with the prior year. However, both 2023 and 2022 included favorable discrete events.

Fourth quarter net income was $109 million, generating EPS of $1.43. Adjusted net income was $139 million with adjusted EPS of $1.83, down $0.18 from the prior-year fourth quarter. Full year net income was $596 million, resulting in EPS of $7.85. Adjusted net income was $624 million, generating adjusted EPS of $8.22, up $0.10 or 1% from last year.

Finally, free cash flow for the quarter was $179 million, up 22% over the prior-year period. We achieved a conversion rate of 129% of adjusted net income, mainly driven by improved working capital performance despite lower adjusted net income. On an organic basis, we drove more than $40 million of inventory reduction in the quarter through our targeted reduction efforts, and we saw inventory turns improve.

For the year, we delivered record free cash flow of $627 million, up 28% versus last year and coming in at 101% of adjusted net income, mainly driven by lower net working capital as we reduced organic inventory levels by almost $65 million and achieved higher adjusted net income. We achieved this despite higher year-over-year capital expenditure, as we maintain focus on investing for the future. We will continue to drive inventory levels down and optimize working capital levels further in 2024.

Moving on to slide 9, which details the driver of our fourth quarter adjusted EBITDA. Adjusted EBITDA decreased by $15 million compared to the fourth quarter of 2022. Our 6% organic sales reduction unfavorably impacted adjusted EBITDA by $36 million flowing through at our prior-year adjusted gross margin rate. Price/cost was accretive to margins, and we drove operational productivity that offset employee-related inflation. Mix was unfavorable by $3 million. Reductions in variable compensation contributed $3 million of benefit in the quarter. These results yielded a negative 39% organic flow-through.

Overall, our team's focus on cost containment and resource reallocation has effectively managed our revenue declines. IDEX is well-positioned to recover and grow back stronger than before when market dynamics turn favorable. The impact of FX and acquisitions, net of divestitures, contributed $5 million of adjusted EBITDA in the quarter. However, the divestiture of Micropump lowered flow-through as the margins were higher than those of our newly acquired assets who are experiencing volume de-leveraging, given the end markets they play in.

With that, I will provide a deeper look at our segment performance. I'm on slide 10. Let me walk you through our outlook as it relates to our end markets. First, as I consider the market served by our Fluid & Metering Technologies segment, industrial day rates began to see some sequential improvement in the fourth quarter. And we expect continued stability in the near term as our short cycle businesses meet underlying customer demand. We continue to see normalized book-and-bill order patterns given shorter lead times and normalized supply chain dynamics.

As we move into 2024, we are cautiously optimistic as we continue to see tailwinds due to domestic infrastructure initiatives and within mining. We anticipate these patterns will hold, though we will continue to monitor day rates to evaluate longer-term expectations as this is the most short cycle market exposure. Our water businesses continue to be favorably positioned as we enter 2024. Municipal project activity remains strong with no signs of

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funding delays, and the project funnel is healthy with new opportunities, winning share to deliver solutions for critical water challenges.

Our energy businesses remain steady even as new well production is down and fuel markets are flat, driven by declining fuel prices and mild heating seasons in North America and Europe. As consolidation occurs within this industry and funding for new projects remain delayed, we see operators doing more with less, using the same infrastructure to drive production. These market dynamics favorably impact our demand profile as our energy businesses meet customers' need for replacements as they keep existing infrastructure running.

In the chemical market, we continue to see positive results across US and Europe, with pharma and battery applications providing opportunities for growth. China softness is being mitigated by the rest of Asia. The one area experiencing pronounced headwinds in FMT is the agriculture business. The size of this market is about 10% of the FMT segment, which equates to mid-single digits for overall IDEX. We continue to see headwinds as OEMs have stepped down their projections due to continued de-stocking and declining net farm income and crop prices. Our KZValve acquisition continues to be a differentiator with its automated actuation valve technology, and we are focused on targeted share gain to offset the pressure of current market challenges.

Moving on to the Health & Science Technologies segment. We continue to see positive results stemming from our space, broadband laser communication initiatives, which are bolstered by Iridian's technological capabilities. We expect this space to grow in 2024. The industrial markets served by businesses in the HST segment are experiencing signals in line with FMT's expectations.

Our material processing technology business is gaining share in battery production with a step-up in new orders as we enter the year, and we continue to see signs of improvement within biopharma related to new vaccine development, where our technologies are uniquely positioned.

We see particular strength in emerging markets. For semiconductor, we began to see initial signs of improvement as we exited 2023. We expect this market will continue to recover somewhat in 2024, driven by an improved outlook for memory chips due to demand for devices. Further out, we look forward to continued growth in semicon, driven by artificial intelligence, automotive and long-term secular tailwinds driven by electrification.

While these markets point towards growth, the area within HST that is not yet showing signs of recovery is in our life sciences and analytical instrumentation markets, which represents nearly 35% of HST and above 15% of overall IDEX. However, the long-term growth drivers have not changed. While orders appear to be stabilizing, we have not forecasted a positive inflection yet for 2024.

While this industry navigates immediate-term challenges, we continue to have our eye on the future. We are closely partnered with our customers across our life sciences businesses, and we are actively innovating to provide tomorrow's solution. With our focus on innovation and operational scale to support customers from prototyping to production, we are uniquely positioned for growth as these markets recover.

Turning to our Fire & Safety/Diversified Products. We expect FSDP will be flattish to down slightly in 2024, driven by headwinds in dispensing, as key customers recently completed their multi-year refreshment cycle. We expect Fire & Safety end markets to remain stable and growth to be driven by strategic share gain initiatives our teams are focused on. We continue to win through value-added integrated systems and technology and standardized offerings that enable higher OEM throughput. Overall, demand at BAND-IT continues to remain strong, and we expect growth on a year-over-year basis.

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With that, I'd like to provide an update on our outlook for the first quarter and full year 2024. I'm on slide 11. We expect full year organic growth of 0% to 2%, with the majority of our end markets stable to growing, as I highlighted in my market outlook commentary. This range reflects low-single digit growth from FMT and includes acknowledgment of the uncertainty in timing and scale of recovery given the short cycle nature of our business.

For HST, we expect low-single digit growth, as broader expectations for year-over-year growth across its markets are moderated by the lack of visibility in the life sciences and analytical instrumentation space.

And we expect FSDP to be down slightly, as the dispensing refreshment cycle has completed and volume in that space will step down. The dynamic is expected to lower overall IDEX organic growth by 1% and offsets the growth expected by Fire & Safety and BAND-IT.

This organic rate guide equals earnings per share contraction of $0.03 to growth of $0.26, depending on top line results and includes price/cost, which we anticipate will be positive for the year and mix pressure stemming from dispensing volumes. Additionally, we expect the operational productivity will more than offset pressure from wage-related inflation and provide $0.10 to $0.15 of EPS growth.

As always, we're committed to investing in the future growth prospects and expect to make incremental resource investments of $0.05 to $0.09 during the year as we invest in the people needed to champion our growth efforts and drive the next chapter of our outperformance. The reset of variable compensation levels, after a challenging 2023, provides a $0.16 headwind, while the impact of recent acquisition and divestitures contributes $0.12 of adjusted EPS growth.

Finally, considering a few non-operational items, lower levels of debt due to paydowns in the second half of 2023 are expected to yield $0.07 of EPS growth, and we expect FX to also provide $0.07 of benefit. These are more than offset by an increase in the effective tax rate on a year-over-year basis, creating $0.19 of headwinds to adjusted EPS. The 2023 effective tax rate includes certain discrete events, which produce $0.09 benefit to adjusted EPS in 2023 as compared to 2022.

Those benefits do not repeat in 2024. And conversely, the projected 2024 rate of 23% includes a heavier mix of improved performance in geographical regions with higher tax rates as well as certain legislative changes, increasing global tax.

So in summary, we are projecting organic revenue growth of 0% to 2% for the year. The variable compensation and tax rate pressure essentially rewards 4% of EPS growth year-over-year, lending adjusted EPS expectations in the range of $8.15 to $8.45, or down 1% to up 3% over 2023.

Moving to slide 12, I'll provide additional details regarding our 2024 guidance for both our first quarter and full year. In Q1, we are projecting GAAP EPS to range from $1.45 to $1.50 and adjusted EPS to range from $1.70 to $1.75. Organic revenue is expected to decline 6% to 7% year-over-year due to tough comps, and adjusted EBITDA margins are estimated to be about 25%.

While it is not a factor impacting year-over-year comparability, I would like to remind you that on a sequential basis, when walking from fourth quarter results to first quarter, we have a headwind of $0.10 related primarily to the accelerated recognition of share-based compensation in the first quarter of each year.

Turning to the full year 2024. In summary, we estimate full year organic revenue of flat to up 2% to yield GAAP EPS of $7.15 to $7.45, and adjusted EPS of $8.15 to $8.45. Adjusted EBITDA margin is expected to be

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approximately 28%. Capital expenditures are anticipated to be about $75 million, normalized upon the completion of certain factory automation investments and emerging market footprint expansion in 2023. And free cash flow is expected to be over 100% of adjusted net income. Corporate costs are also expected to be approximately $95 million, up from 2023 by approximately $10 million as variable compensation resets to current market expectations.

With that, I'll turn it over to Eric for closing remarks.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Abhi. I'm on slide 13. In summary, the majority of our businesses are stable and starting to see the early days of market recovery. We're working together as a team to drive outperformance above that baseline, and we are well-positioned to capitalize on growth to come as we invest our cash back into the business to support organic and inorganic expansion.

Our core FMT businesses are back in world-class lead times with expanded margins. They're ready to expand them again as volume leverage broadly returns. Fire & Safety and BAND-IT within FSDP have differentiated technologies to accelerate growth and continue as the leading players in their global markets. Much of HST is seeing recovery or the early signs of growth. We temper these expectations a bit overall, given our lack of insight supporting demand recovery within life sciences and analytical instrumentation markets, and we also face the cyclical headwinds from global dispensing in our agriculture businesses.

Finally, it's really the early days of a new normal following three years of unprecedented change. Better to be appropriately cautious and careful as we line up our resources and strategic plans to support the full cycle ahead, one I feel will be especially strong for companies like ours. We are prepared to help customers solve their toughest problems or seize their greatest opportunities. Our businesses and technologies are outstanding, our teams and talent are world-class, and our culture is really unique.

We appreciate your support and interest in IDEX. And with that, I'll turn it over to the operator for your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] One moment, please, while we poll for questions. Thank you. Thank you. And our first question will be coming from the line of Nathan Jones with Stifel. Please proceed with your questions.

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

Q

Good morning, everyone. Welcome back, Abhi.

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

A

Hey, Nathan.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thank you, Nathan.

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

Q

I just want to start off with a question on inventory de-stocking versus demand. I guess it's most appropriate to the life sciences and analytical instrumentation businesses. Obviously, sharp declines you saw in that in 2023. Is there any way for you to pass out or give us some more color around what you think was actually core declines in your customers' demand versus them taking down their levels of inventory of your products?

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

A

Yeah. Well, certainly, the second is much larger than the first, probably, by a level of 2. So we saw these kind of double-digit declines here pushing, I think, 20% at some point. I don't think that's representative of their underlying markets, and we haven't seen that in the public comments for them either. So this really was incredible run up. And then, obviously, kind of an artificial plunge down, as those things were normalized.

So where is the state of their markets? Kind of down low-single digits to maybe slightly double, the early spot of double. But again, and I think one of the main points we want to make sure people understand is while the comparisons even in Q4 were dramatically different for us, and we could continue to see that calibration, we've actually been living at kind of a sequential level of stability here for a while now. We were talking about in late summer and certainly saw it through the bulk of the fourth quarter and are now projecting that more formally across 2024.

And so, it's kind of a case of two realities, one that's going to, for a while now, continue to still have those year-over-year comparisons because of the market difference we have 12 months ago, the periods we're going to move through – at least through the first half of the year. But a relatively stable platform here. Just lacking a little bit of visibility as to when the catalyst comes in there that starts to accelerate again.

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

Q

Yeah. I was looking at the order rates in HST, and they've certainly stabilized over the last couple of quarters. There was a sequential improvement from 3Q to 4Q. Can you possibly parse out the different pieces in HST sequentially on the order rates, where you're seeing things improve versus where the life sciences and analytical instrumentation orders are going on a sequential basis?

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

A

Yeah. A couple of things there. And Abhi can fill in anything I miss. But, I mean, we do get a little bit more blanket activity at the end of the year even in those core life cycle analytical instrumentation market. There's a little step-up there. About half of HST is kind of classically more industrial anyways and mirrors a lot of what we have over in FMT. And so, that same kind of broader support and early indicators of growth that I know we'll talk about a lot here on the call, we saw that kind of at that Thanksgiving time on there, too. So that accounts for a piece of it. A little bit of activity on the semicon side, although that's real early days and modest, too.

So nothing really on the declining side. A few things moving up. The only thing – again, most of it just sort of reflective of broad-based support with that one exception of a little bit of year-end blanket activity on the life science world.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. Nathan, the only thing I'd add is if you look at the sequential order lift in HST, we're up about $30 million. Majority of that, to Eric's point, was demand. There was about $10 million of blanket activity that happens typically year-over-year. But to Eric's point, we saw orders improve starting Thanksgiving into December.

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

Q

And then, I guess, last one. Just across the portfolio, your customers' level of inventory now, I mean, you guys talked about still taking your inventory down in the first half of 2024. Do you think your customers are still doing something similar and there's still a headwind from de-stocking in the first half of 2024? And when do you think we actually get to a point where customer inventories match demand levels?

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

A

Yeah. I mean, I would say – I'd parse that out a bit, too. I mean, a lot of inventory that would be closest to us on the FMT side would be largely in distributor channels, in places like that, highly fragmented. That's largely corrected now. As we always remind you, we don't sell a lot of products that stock real well anyways. So we probably hit quicker levels there than maybe some. But we're good on that side.

On the OEM side, I think it's customer by customer. But between us and our end customers, I mean, we're really, really clean. And a lot of that's just been driven by the fact that we got back to really, really high levels of customer performance and lead time performance early. And then, even if nobody is monitoring that in a manual way, eventually and pretty quickly, it automates. And so, kind of then ties those two things together.

The only piece, of course, that we can't quite see would be end customer solutions inventory way out into the extended nature of their channels. And we hear about pockets of it here and there from different places. But

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again, the fragmentation and the diversification of IDEX, I think, puts us in a place where no one or two of those places is going to upset the balance much.

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

Q

Excellent. Thanks very much for taking my questions.

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

A

Thanks.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thanks, Nathan.

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

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

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

A

Good morning, Allison.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Just want to ask on the life sciences side. New product development, I think you mentioned it was ongoing. Could you talk to it relative to historicals? Like, how it's pacing? Is it stronger? Is it sort of the same amount of investment? And then, just a fairly large reset in that business as well. Has any of the competitive dynamics changed as a result of that? Just any thoughts there. Thanks.

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

A

Yeah. No, great questions. And early here in the year, there's a number of conferences and trade shows and things that always reoccur. So it's a good time to have good touch points with people. I would tell you, and I think I've said this the last couple of quarters, the level of innovation that's happening between our folks on the ground and our major customers is at a really strong level.

And I think if you step back a second, I mean, it actually makes sense intuitively. It's a tough environment. People are coming off of a phase where largely it was about replenishment and trying to make things. And now, I think there's a recognition. It's back to – dynamics that are going to be more normal. You've got real competition between some very, very serious and well-established customers. Innovation in this sector is going to lead the way. And then, if you look at the way that we typically interface with IDEX, I mean, we're really good at scaling with customers.

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So we're hearing a lot of things now around, can you get the prototypes done sooner? Because if we do that, then that gets you to scalable production right behind it. And so, I think that's as healthy as I've seen it. And in many ways, to the extent that people are grappling with their own dimensions of trying to normalize cost and potentially might not have as many resources, that actually dials in well for the kind of work that we do as well because we've got now a full suite of integrated capabilities. So I think that side of it actually is our most healthy barometer about long-term success here for both us and the sector.

Competitive dynamics, there's not a ton of names in this world. I think we have a good understanding of where we stack up and how we're positioned in our share. So I feel very good about we've maintained, if not enhanced our position with all the major players. And then, we continue to follow how they are doing as they battle it out side by side. And I always feel very good about the number of bets that we have with virtually all of them.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Got it. Understood. And then, just on working capital. I know you mentioned you wanted to bring it down. Is there any target that you're focused on and trying to attain in 2024? Just any thoughts there. Thanks.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Yeah. Allison, as we mentioned in our opening remarks, we took down inventory about $65 million in 2023, which is about a 0.4 point improvement. As we think of 2024, we are targeting another 0.5 point of improvement from an inventory standpoint.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Got it. Thanks for the color.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Thank you.

Operator: The next questions come from the line of Mike Halloran with Baird. Please proceed with your questions.

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

Good morning, everyone.

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

Hey, Mike.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.
A

Good morning, Mike.

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

Q

So let's just start on the overall thought process for the year. Certainly appreciate all the color, prepared remarks. But as you think about how you're conceptually setting the guidance here, is the thought that you're basically looking for sequential stability across the platform from current levels, understanding that the ag piece, dispensing piece has some cyclical pressures. But for the remaining pieces is it just relatively normal cyclicality, not assuming an inflection? Or should we be thinking about those positive catalyst markets as you're pushing some sort of inflection into the numbers this year as an offset? And then, maybe just talk about how you're expecting that cadencing to work out.

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

A

Yeah. I'll kind of hit it from a revenue and demand side, and let Abhi sort of square up how it financially tracks alongside of it. But I think if you move from left to right, kind of start at the midpoint of last year, again, we saw a back half that was pretty stable for us. Slight reductions in final reductions in backlog, but really ended the year with a normalized position. And I'll remind people that for IDEX, what that means is we turn things really, really fast. It gives us about a half a quarter of visibility when we stand here on January 1, looking at it. So we're kind of back to equilibrium in that perspective. And then, we started to see this sort of broader support emerging out of the snow, if you will, in the end of Q4 and continuing through January. January was a nice start for us in all three segments.

And so, then, as you project forward, you're right, Mike. We actually have – it's a little bit of a seasonal uptick for us that's fairly typical from Q1 to Q2. We've not been able to see it the last couple of years because of some different dynamics that have been out there that's simply weather-related and hits businesses like water and a few others. And so, we have a natural uptick there. Some of these early bookings and some of the support that we've seen, just given our lead times and customer expectations, kind of dials in around Q2 as well. So there's a little bit of an additive bounce there and explains a bit of the difference between Q1 and Q2.

We have a series of growth bets that, of course, we have positioned across all verticals. I offered a few highlights in the opening comments. Those are known programs, known platforms. We're engaged on those now and we feel more assured about when they're going to start along the way. And then, we have things like a slight recovery in the semiconductor markets kind of modeled more back half than the first.

So I think it's normal IDEX, certainly a normal entry position as we look at the year, some normal seasonality and normal run out of growth bets that we have that accelerate through the year, made a little bit more exaggerated, I think, by certainly a conservative call on the first quarter, given that we just landed here. We just landed here. We're seeing some things come together, and we just kind of have a – there's a little bit of an air pocket here just based on lead times as to where those things lay in and how quickly we can get at them.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. Mike, just to add a little more color to it as you – kind of just to build on Eric's commentary here. So if you go from left to right, kind of think about where we ended Q4, we ended Q4 at $1.83. As I move the pencil forward and look at what we're seeing in Q1, again, to Eric's point, we took a bit of a conservative view. Just sequentially, we expect operationally to get better by $0.12 to $0.15. So if you just look at it operationally, $1.83, add $0.15 to it, you're now at $1.98, closer to $2.

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Year-over-year, it doesn't matter. But sequentially, as I think about it, what does impact us is a $0.10 stock comp timing and then $0.04 of variable comp reset. That kind of takes our guide down to what we've laid out in the paper here, from $1.75 to $1.77. But sequentially, as you look at it, operationally, we are seeing the improvements that Eric's talking about. It's early days. But as Eric mentioned, we built backlog in January. Majority of that is shippable in Q2 and beyond. And then, you see a seasonal uptick from Q1 to Q2.

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

Q

Great. Super helpful. And then, just an update on how you're looking at the M&A landscape here, actionability of the portfolio – I mean, of the – from [indiscernible] (00:38:34) opportunity. And I guess it's probably not that different from what you've talked about the last few quarters, the last couple years, but would love any update you have?

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

A

Yeah. No, it continues to be an area of tremendous focus. I think irrespective of what the backdrop is, we've driven the increases and potential there with funnel build and cultivation and conversations and analysis and all the things that really are at the highest level we've ever had in the company.

I do think, though, that as – maybe [ph] the year (00:39:05) feel some of the same fundamental support that we're talking about here, I could imagine that, that might help availability of targets and people might start to think about monetizing them and moving and maybe lift the market around us as well. So it's still largely be driven by our efforts, but I think a good environment. And we feel very, very positive about what we're going to be able to do there.

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

Q

Great. Really appreciate it, everyone.

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

A

Thank you.

Operator: Our next question is from the line of Deane Dray with RBC Capital Markets. Please proceed with your questions.

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.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

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Good morning, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey. Just want to also add my welcome back to Abhi, and also thanks for all the detail and how you've laid out the assumptions. Very, very clear. We just appreciate all the specifics.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thank you, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Just I want to circle back on the life sciences, analytical story here and just make sure I understand how you're not expecting and not forecasting any inflection in 2024. And I get that you want to be conservative here because it's been a moving target. But if you listen to what your customers are saying in terms of their earnings reports and how they are forecasting, they're collectively talking, if I were to generalize, that there would be still some inventory normalization running at least through the midyear, so call it the end of the second quarter. And at that point, they would start to see some normalization, some recovery. They've got easy comps in the second half.

So I would imagine maybe there's a timing issue for you and to when that would start to read across into your recovery with these customers. But let's just start there, just what's the lead timing difference in terms of that recovery because it does seem like it pivots this year?

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

A

Yeah. From an inventory reduction perspective, I mean, again, there is a – it is a big industry with a lot of end markets. We have different platforms, different programs in all of them. So, I mean, we really get it down to customer by customer, factory by factory and inventory position between us and them in every single case. So we've known for a while that we are in pretty lockstep at that level.

Then, it comes down to individual demand swings. And to be fair, there will be some and maybe in line with what you're talking about, there's some pockets of end customer inventory that might still be out there and in the way of recovery and pieces of what we have. But in other places, I think we're comfortable that the mix is going to work over and kind of hold the flat narrative that we have here and the flat projections that we have internally.

Absolutely, I've heard some of the same commentary around the back half. I don't have information to refute any of that, and I'd be quite happy if it were to come about that way. But I think just from an internal planning and forecasting perspective, being conservative in this way, making sure our costs are in control, we've got everything ready to go from a materials, resourcing perspective, we've built some muscle here to be more dynamic than ever before, I think presents us and lines us up in a way should that then start to happen in the second half.

So I certainly take the point. I think if you could see it at our level, you'd see kind of technology and major platform and customers sort of arrayed on a grid. That is the way that our teams think about it as they just move across quarter-to-quarter.

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Deane Dray
Analyst, RBC Capital Markets LLC

Q

That's really helpful. One question that's come up in a couple of calls and discussions that we've had in this market is a question of inventory obsolescence just because of this pocket that we've been in of a de-stock, some of the inventory just is obsolete. It probably is not as much of an effect for you all, but is there any issue there and what might the dynamics be?

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

A

Yeah. I mean, I haven't heard that raised as an internal concern or issue. I'm thinking a lot of the business we do, let's say, in analytical instrumentation, I mean, it's a little bit more of a mature space, mature industry, maybe not as likely in a short-term dimension to be obsoleted by major steps in technology. But I'd kind of end it there. That hasn't been something that we've talked a lot about on.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Good. That would be my impression as well. And then, just separately, just because it's a good time of the year to look at that very near term crystal ball that you have. All of your bellwether businesses collectively, whether it's BAND-IT or Gast or Warren Rupp, just what is the kind of cadence of demand that you're seeing in your day rates versus your expectations?

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

A

Yeah. That's one of the healthiest indicators that we have here. Just for everybody on the call, again, these are the shortest cycle, more sort of widely dispersed businesses that we have with the most fragmented customer sets. And so, when they move, they tend to indicate where the world is going, either way. When they move together, they strongly indicate where the world is going. And we saw them move together back at the original zones of recalibration here as they moved down. And in Q4 and certainly continuing here in January, they are all moving together towards the positive. These are modest rates, but a simple green arrow next to all of those names across IDEX is meaningful and supports a lot of the confidence that we have.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

That sounds great because we look at those and it's coincident with some of the better indicators we've seen from the ISM new order. So I'm glad it's consistent. And that's it. Thank you.

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

A

Thanks.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thanks, Deane.

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Operator: The next question is from the line of Vlad Bystricky with Citigroup. Please proceed with your questions.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Hey,. Good morning, guys. Thanks for taking my call, and thanks for all the great information. Just quickly, and sorry if I missed it, did you say what price/cost actually was in the quarter and what you're assuming for price/cost in 2024 as well as your overall price assumptions in the 0% to 2% organic growth outlook?

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. Absolutely, Vlad. This is Abhi. So firstly, for fourth quarter, we saw pricing around 4%. We definitely start to see it come down as the year progress. So Q4 was lighter compared to the prior quarters, but it's closer to 4%. As I think about 2024, what we're modeling is a 2% price in the guide. But what we're more focused on is the price/cost spread. As I think about the price/cost spread, it's in the 80 to 100 basis points, which is, again, higher than the historical averages IDEX has seen. And even the 2% price capture, if you go back in time and look at the IDEX historical pre-pandemic was in the 80 to 100 basis points, 120 basis points. So that's what we've modeled in the guide.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Perfect. That's really helpful. Thanks, Abhi. And then, I just wanted to ask you a little more. Slide 10 is very helpful color around what you're seeing in businesses and end markets. Can you talk a little more about what you're seeing with respect to energy transition related demand and kind of particular project types that are seeing a pickup or driving that and whether you're seeing it across regions or more pronounced in any particular geographies?

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

A

Yeah. I'll take a shot at that. And of course, it always goes through a bit of an IDEX filter. So we're a couple of derivatives away from what you might notice as a headline. So think of this as almost any technology that's involved in kind of the transition from traditional energy to alternate sources and emerging sustainable sources. And we see that in places like battery manufacturing. We don't make the batteries, but we do a lot of the work around material handling because it's pretty nasty caustic material. And so, we've seen really, really nice velocity there and continuing into 2024 on things supporting kind of all the work that goes on for switch over to battery tech.

Even some of the businesses that we have in FMT that have a little bit of mining exposure, they've been strong for a while. They continue strong. And of course, it's tied to the mineral extraction that goes with that. One of our recent acquisitions on the Airtech side, that business ever since it came in – was a part of IDEX, one of its strongest catalyst has been alternative energy solutions, where we do some of the thermal management that happens inside.

So, again, we're kind of in the box with our high-tech components and we're doing very, very critical jobs. And we're doing them a little far away from the headlines, but you can absolutely see the lines coming right back into that industry. You asked about geographic spread. I wouldn't say there's – I mean, we have projects in Europe.

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Some of them, ultimately, land in Asia. So it's pretty uniform across the globe. But again, we're hitting it in these niche verticals and niche applications.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Great. That's really helpful color. I appreciate it. Thanks.

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

A

Thanks, Vlad.

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

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thanks. So my question is going to be on HST, life sciences within it, and how you manage costs. And I guess there's a kind of a specific one, two-year question on how the financials may play out, and then just a larger question on philosophy on how you manage the business. Is the cost structure currently set such that if demand does come back and you see above-normal incrementals, you kind of return towards historical margin levels? I mean, that's kind of the first one. Do you kind of prime for return or would cost come back.

And then, the second question is more just how do you think about cutting cost when business has turned down? Obviously, nobody has a crystal ball. We can't see what happens two years ahead. If you'd known how deep this downturn would have been, would you have managed the business any differently or not? Thanks.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thanks for the question. So as I think about where we've been over the last couple of years, right, just good operators, good business cadence. We've been looking at our cost structure. You can see in our financials, where quarter-after-quarter if you look at our restructuring line, right, we've done work in that area. Where we are today from a cost standpoint in our life sciences business, because that was your specific question, we feel comfortable with where we are, given where the volume levels are.

To your point, as the volumes start to turn, the leverage on that is going to be a point where the margin rates are going to expand. As I think about how we are going to be thinking about this business long term, it is all about balancing our cost structure and where it fits the current volume levels. We don't have any specific plans today to take any more cost out.

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

A

But I think coming back to kind of how we manage it and maybe then applying some hindsight and whether or not we would have done it different, I mean, I would put this the same for all IDEX businesses. The places where we are the most careful are areas of domain expertise, technical know-how and customer relationships. And we're really, really careful with those because, look, these programs and the life cycle in these risk-averse areas, they only change and come around so often even when it's in a market as dynamic as this one.

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And so, if you're not staffed and ready to go – and I use my comments earlier here about it might seem like a counterintuitive part of the cycle where business is down, we're wondering when it's going to recover, and yet the innovation loops are actually really active. And again, maybe counterintuitively, because customers are struggling with some of – maybe potentially their own resource allocation abilities, that actually dials in quite favorably to our ability to help solve problems with our people. And so, think of that as like a very solid core that's sort of under glass and we're very, very careful about going near it.

Labor; obviously, labor markets have eased up a bit. Frankly, it's easier to flex them. And so, some of what Abhi is talking about under the year, we've made those moves. We've taken variable resources out that can be brought back in, we think, quite easily, should we need to go up. But that technical core kind of remains.

The other thing that we leverage really, really well at IDEX, and I think do it quite intuitively, is, frankly, when we look at our leaders, all of our leaders are kind of ready when the need comes to be able to go do more because they have a flat organizational structure and we're close to the point of impact anyways. And so, avoidance is actually a big thing, cost avoidance and holding back additions. We're actually able to flex that muscle a lot more than most companies.

And so, environments are here and we're starting to see the early signs, we can sort of be really careful and hold back because we've got a deployment plan that allows very smart people to get close to the action and step in.

So I think it's those two things working around, frankly, a labor environment that's healthier for some of that flexing that you just want to do, all of which says that in the early days of demand runup, back to Abhi's points on margin expansion, we always perform very well as we're coming out of a period like this for all of these reasons. The leverage is at kind of its highest point.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Perfect. Thank you for the education there, Eric. And I look forward to meeting you, Abhi. Thanks.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. Same here. Thank you.

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

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, all.

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

A

Good morning.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

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Good morning, Brett.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey. Just want to come back to distribution MRO and some of the stabilization you're seeing there. Good to see. Just curious on the other side around CapEx and planning assumptions among your customers. Has the tone changed in terms of capital outlays and things of that nature? And what are you expecting in those types of businesses for the year?

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

A

Yeah. I mean, you kind of see that large project work and large capital, primarily in our water business, to some degree, you see it. Of course, that's municipal capital, be it in energy, a little bit in pharma. So, I mean, in those zones, I would say it's early days and modest, but it is positive. So these would be small expansion opportunities or projects that they've been talking about for a while that they want to now start to get moving. I don't know that – in many of them, I would say, you're at the kind of mega project level, or we're ready to go, or it's been sanctioned. But to be fair, that's the usual step up when things get more positive.

So we are hearing some good indications from a variety of different markets about more intentional capital deployment, not yet at the levels of kind of full cycle supporting multi-quarter or even year in duration. But good early signs that's actually quite different than what we saw in a lot of 2023.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Okay, got it. And then, just one last one on the margin outlook for this year, so 28% EBITDA margins. I was hoping you might be able to provide a little bit of context and dimension, the segment levels, FMT specifically. I'm interested with that, softer – but how are you thinking about the outlook for the segments around that 28%?

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah, absolutely. I can do that for you. So as you saw in our guide, our guide for 2024 for the company is 28%. So if you think about HST, I think as we exit the year, you're going to start to see our margins come closer to 30% as the volumes flexes back up in the back half of the year. On the FMT side, you should expect slight bit of margin expansion on top of what you saw in 2023. And then, on the FSDP side, you should expect to see slight margin erosion due to the completion of the big box retail or refresh cycle, which puts some mix pressure on the margin line. But again, HST, you should see expansion; FMT, a slight bit of expansion; and FSD, a little bit of contraction tied to dispensing.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Got it. Very helpful. Thank you.

Operator: Thank you. Our next question is from the line of Jeff Sprague with Vertical Research Partners. Please proceed with your questions.

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Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Hey, thank you. Good morning, everyone. A lot covered here. So maybe I'll zoom out; and Eric, maybe just a little bit longer-term perspective here. Some talk about be in position for the recovery and the like. I just wonder your confidence level or your view on sort of normalized organic growth for the company, right? We've come through this tumultuous three years. But looking at it through the lens of kind of your pre-COVID growth rate, 2011 to 2019, was 3% or 4% organic on average. It sounds like from Abhi's comment, maybe there is another point of price in the future relative to what you have. But what is your confidence level that – maybe putting aside kind of a snap-back year in 2025, that you're at a higher level of organic growth going forward on a normalized basis?

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

A

Yeah. Well, I appreciate the question, and that's absolutely where we're heading. And so, think of this as two levers primarily that we're moving. One is just the nature of the portfolio of IDEX. So we've been more aggressive towards capital deployment. Everything we're bringing into IDEX today is inherently in faster-growing markets than, let's say, more of the industrial core that we see most notably in FMT. So the comparative basis, that's tuning. We haven't done a lot of pruning on the other side. It's fairly modest. But to the extent we're doing it, that's actually moving that portfolio average up as well.

And then, with reasonable market support, sort of absent massive swings, either way, as you suggested, I think we've long been targeting 200 to 300 basis points of outperformance, and everything we're working on today is moving that towards the upper bound of that run out. So if you think of a world that, let's say, would start to dial itself in more from a fundamental perspective towards something in the 2% to 3% range is sort of natural entitlement. And maybe that's lifting from there because of the work that we're doing, as I mentioned, and then outperformance above it.

It has us moving into a space where we're targeting mid-single digit growth for IDEX on an organic basis, but then obviously some fundamental capital deployment on top of it, which would then extend the overall organic rate of the company. It's absolutely the area of focus has been for a while. And we're excited about potentially taking out some of the forces that have been swinging up and down and sideways and making that hard to see.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

And where do you stand on the view of price, right? You'll have more than normal still in 2024. There's some argument out there that industrial companies that develop more price muscle coming through this period. Do you think there's kind of durable stickiness in the 2% range? Or do we sort of head back to something more like 1% over time?

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Well, look, first of all, I think to your point, where the world is, we're not back to the inflation levels that we were at pre-pandemic. I mean, even if you look at the near-term view, it's still at, what, 2.5%, 3%. So are we going to hang on to where we are today? No. Does that mean we're going to go back to where we used to be back in the historical levels? No, it's going to be somewhere in the middle. But looking at 2024, we feel pretty good about our position and where we are from a price/cost standpoint.

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

And I would say here, I think this is a point of absolute point of competitive advantage for us, where price capture – we've always been in the price capture game. We've done that because of our positioning and our innovation with great customers, period. So yes, we've come through a phase here where kind of everybody got price because you had to. But I think as the world normalizes here, as Abhi says, we'll probably land a little north of where we've been as long as the underlying core inflation stays a little hotter, too. So we'll maintain the spread that you'd expect.

But I'm really proud, and I think we will be noticeably differentiated because of this core capability that we have to differentiate in sticky markets with risk-averse customers that reward us when we do our job well.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Thanks. And just one other quick one. What percent of your total life science and analytical is in China at this point?

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

I mean we don't have a lot of direct business there. We're kind of following customers. So a better ratio would be what percentage of their business is in China, which is – I mean, it's a fraction. It's less than 20%, plus or minus, depending on the sector that we're involved with. But again, it's kind of an indirect vectoring for us there. We don't have a lot of feet on the ground there in a direct way.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Got it. Thank you very much.

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

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.
Q

Hey. Good morning, guys.

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

Hey, Andrew.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.
Q

Just wanted to – on slide 10, you gave a great breakdown of kind of where you're thinking things shake out, where they're going by end market. I'm wondering – HST margins really kind of struggled towards the end of the year there. That life sciences and analytical instrumentation piece, how do we think about it from a mix standpoint? Because you mentioned mix a few times. I imagine if that were to come back this year, that could be a nice bonus for your margins.

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Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. Just to make myself clear, the mix that we were talking about was the mix of the dispensing business causing pressure in 2024 since the refresh cycle with the big box retailers were over. But to go back to your question, if I think about the life sciences business and think about volumes coming back, I think, as Eric mentioned, just where we are positioned in our cost structure as the businesses come back and we see a little help from volume, you should see our margin expand in our HST segment throughout the year.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.

Q

Okay. Okay. In FMT, I thought that was surprising, the growth you saw this quarter. How much is attributed to really like some of the government stimulus you're seeing? And is that where some of your confidence is coming in 2024?

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

A

I mean, that's out there to some extent. It's probably most directly linked to spaces like water within FMT.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.

Q

Yeah.

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

A

But that's a small part of the overall segment. It's an indirect relationship for us. So to the extent that is one of the elements that's out there as a backstop providing some confidence, yes, it of course correlates. I would say more generally, for me, it's just a healthier view from a number of folks that think it's time to be confident, lean into their markets, stop ripping inventory out of the system and kind of get to work.

Again, just to make sure everybody can 3D think this through. So if they're building a lot of roads out there, I'll use that as example, or if they're starting to fix them with abandon, we've got a lot of pumps and things that are involved in pumping liquid asphalt. So that's kind of the nature of some of these relationships. So you can line up both government-intensive work that supported that way as well as this general industrial are people feeling confident about the work that they're doing in their factories, either one and taken together drive this dynamic.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.

Q

Yeah. All right. Thanks for the color.

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

A

You bet.

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

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Joseph Giordano
Analyst, TD Cowen

Q

Hey, guys. Thanks for sneaking me in here. I had a question on HST just on the revenue guide. I was a little surprised at the strength there, and I know you guys don't guide to orders specifically. But if you just kind of hold orders around the fourth quarter level, maybe a little bit above into the 2024 and just run off the excess orders that were done like post-COVID when book-to-bill is really high, it kind of implies like a decent decline next year. So I was curious if you're contemplating an order recovery of more magnitude in 2024 for HST.

Abhishek Khandelwal
Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. So if I kind of think about the guide for the year and look at the sequential order runup from Q3 to Q4, as you mentioned, first of all, the uptick in orders of $30 million from Q3 to Q4, $10 million of that was blanket orders that's going to ship throughout 2024; and $20 million of that was true demand or sequential improvement that we saw throughout the quarter. That said, as I think about 2024, we do expect to build the orders up as we go throughout the year. As Eric mentioned, we are being cautious given where we are. We're seeing early signs of recovery in the different parts of HST. So as you think about our order profile and think about the balance of the year, we expect to continue to build that order book up and ship that throughout the year.

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

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And then, just a reminder that again about half the segment is pretty industrial in nature. So it kind of mirrors a lot of the other comments that we had, many of them around FMT businesses. But you get about half of that driving and supporting HST as well.

Joseph Giordano
Analyst, TD Cowen

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Thanks, guys.

Operator: Thank you. At this time, we've reached the end of our question-and-answer session, and I'll turn the call over to Eric Ashleman for closing remarks.

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

Okay. Well, thanks, everyone, on the call for your questions and the interest in IDEX. Abhi, thanks for joining and coming through your first earnings call with me.

Just a few things here. I mean, number one, we realized from the outside, IDEX is a complex and diversified company. And it hasn't helped that we've had a lot of swings in some of the larger markets of the company, both up and down over the last couple of years. So we've done our best to work through that with you and help you understand where we are. I think right now, though, we're actually in a place where things are a lot clearer than they've been in a while.

Certainly, one of our key messages here is we've hit the uniform market stability. We hit that last fall. And we really enjoyed Q4 of being having a chance to take a breath and get lined up here for the beginnings of what we think will be a great cycle.

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The vast majority of our end markets are starting to see a return to growth, as we said. And I think that point around the shortest cycle business is starting to move together, that has always been a very reliable proxy for us in the company. Early days, but we've seen that and we've now seen it reinforced in January.

And I remind people that as we've tuned IDEX and tuned it to the kind of companies that we've brought in that are faster growing, closer to really, really strong OEMs, it drives a series of bets and initiatives across the company where the unit measure is a little bit larger. We're working to execute that and laying that on a foundation as we go. It's a fundamental piece of the story here as we have confidence in accelerating through the year.

The life science and analytical instrumentation world, it is uncertain for 2024. But I do want to come back and just echo some comments I've made before about just our commitment to that space and are confident in the long-term fundamental performance that we're all going to enjoy there. And our positioning is fantastic. We see that evidenced by the innovation that we're being asked to do.

And finally, we've put a lot of capital to work over the last three years with real intentionality in some pretty choppy seas. And so, if things are going to calm down and we'll get some more winds at our back, I'm really, really confident we'll be able to push that further and continue to do that work and continue to transform the company. So thanks again for joining. Have a great day.

Operator: This will conclude today's conference. Thank you for your participation, and you may now disconnect your lines at this time.

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