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IDEX Corp. (IEX)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the IDEX Corporation Q2 2024 Earnings Conference Call and Webcast. [Operator Instructions] A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Wendy Palacios, Vice President, Investor Relations and FP&A. Wendy, please go ahead.

Wendy Palacios
Vice President-Investor Relations & FP&A, IDEX Corp.

Good morning, everyone. This is Wendy Palacios, Vice President of FP&A and Investor Relations for IDEX Corporation. Thank you for joining us for our discussion of the second quarter 2024 financial highlights.

Last, night we issued a press release outlining our company's financial and operating performance for the three months ending June 30 of 2024. The press release, along with the presentation to be used during today's webcast, can be accessed at our Investor website at investors.idexcorp.com.

Joining me today are Eric Ashleman, our Chief Executive Officer and President; and Abhi Khandelwal, our Senior Vice President and Chief Financial Officer. Following our prepared remarks, we will open the call up for your questions.

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Turning to slide 2. Please note that during today's call, we will present certain non-GAAP financial measures. We will also make forward-looking statements within the meaning of the federal securities laws, including statements regarding events or developments that we expect or anticipate will or may occur in the future. These forward-looking statements are subject to risk and uncertainties. Actual results might differ materially from any forward-looking statements that we make today, and we do not assume any obligation to update that. Information regarding these factors that may cause actual results to differ materially from these forward-looking statements is available on our website in our SEC filings.

With that, I'll now turn this call over to CEO and President, Eric Ashleman.

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Wendy, and good morning, everyone. I'm on slide 3.

IDEX delivered against expectations in Q2 despite increasing macro uncertainty, with both adjusted EBITDA margin and adjusted EPS coming in slightly above our previous guidance. I'd like to thank the IDEX teams around the world for their strong execution on behalf of our customers and shareholders.

As mentioned on our first quarter call, we saw a noticeable uptick in industrial day rates in our closest to consumption FMT businesses in December. This continued through the end of February, but pulled back a bit in March as a surprisingly firm inflation report reduced the likelihood of near-term interest rate relief. These daily order rates are largely stable now and in line with our original 2024 assumptions. However, as the US election cycle has come into full daily view creating even more uncertainty given the perceived disparity of outcomes, we've seen a pullback in project commitments. There's no talk of project cancellation, just a quarter or two pushed to the right. We'll continue to watch these businesses as open economic and political questions are resolved for any early signs of inflection.

Within the HST segment, we don't yet have enough growth catalysts to overcome the pressures facing our life science and analytical instrumentation markets. Our HST industrial markets are performing as described earlier for FMT with stable day rates and deferred project activity. Despite some encouraging discussions from our semiconductor customers asking us to get ready to launch to support the next cycle of growth, we just haven't seen it yet turn into accelerating releases or increased order positions. We think we're close here, as most major players are pointing to likely strong growth in 2025. Life sciences and analytical instrumentation performed in line with expectations, with a strong focus on innovations to support the next cycle of growth and excellent productivity to support margins as we await market recovery. As we said at the beginning of the year, we believe we are unlikely to see positive inflection for these markets until 2025.

FSDP had a strong quarter. Our dispensing teams are performing exceptionally well within emerging markets. Their share gains within India are nicely offsetting much of the pressure from their North American markets as large retailers step back following a strong two-year replenishment cycle. Our fire business continues to grow as industry throughput improves. They are also growing share through higher adoption of mobile platform automation.

Finally, BAND-IT was affected by softness in auto and industrial demand, but continues to deliver a very strong above average profitability. Finally, we were thrilled last week to announce the acquisition of Mott. We'll talk a bit more about the company in a moment as we update our work within capital deployment. Turning to slide 4.

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Although market headwinds persist, we are leveraging our strong technical and innovation capabilities as well as our close customer partnerships to position our business for growth across technology-enabled markets and applications. Our Materials Processing Technology, MP350 Microlyser processor, won the Biotech Innovation Award at Interphex, the leading global pharmaceutical and biotechnology conference. The MP350 is designed for production scale cell disruption, which is used in the manufacturing of many biotech products such as antigens for vaccines and viral vectors supporting gene therapy.

In the life sciences area, our new Melles Griot XPLAN CCG Lens Series imaging system released in February is providing customer access to superior quality optics with off-the-shelf lead time. This aligns with our strategy to deliver leading innovation and operational scale to support our customers from prototype to production, positioning us well for growth.

During the second quarter, our Intelligent Water inspection team at [ph] EPAC (00:06:08) launched Verisight Ultra. This inspection technology tackles challenging infrastructures with remote access and an intuitive digital interface, capturing and converting data into powerful insights in the inspection of wastewater management systems. This is one of the many examples of how we are helping municipalities deliver clean water to their communities.

We also received customer approval at our Trebor business for the next generation of sustainable ultra-pure water heater and pump applications used to support the semiconductor wafer fabrication process. The Quantum XNT (sic) [Quantum NXT] (00:06:41) heaters have saved semiconductor manufacturers over half a billion liters of ultra-pure water this year alone. We anticipate this will provide long-term growth as the semiconductor market reaccelerates.

And in our Fire & Safety group, our teams unveiled the WildCAT solution for brush trucks used to fight wildland fires. Through a touchscreen application in the cab, firefighters can take control of essential water path functions while stationary or on the move in a much safer environment. With wildfire season clearly upon us in North America, this is a critical solution that can really make a difference. Now, turning to our disciplined capital deployment initiatives on slide 5.

We continue to lever our strong balance sheet to tune our portfolio for profitable growth through strategic acquisitions. Last week, we announced the acquisition of Mott Corporation, a leader in the design and manufacturing of sintered porous material structures and flow control solutions, with deep material science knowledge and process control capabilities. Mott develops highly engineered, configurable mission-critical solutions for scalable, high-quality applications. Their business is complementary to our broader applied material science technology businesses within HST, including Muon, FTC and Optical Technologies. And perhaps most impressively, they deliver for customers with outstanding culture that fits really well with ours. We believe the addition of Mott will deliver value for IDEX via strong organic growth, EBITDA margin expansion to above HST average, and near-term EPS accretion.

In addition to Mott, we acquired a small company, Subterra, on July 25. Subterra's technologies help digitize underground infrastructure. It will become part of the Intelligent Water platform within our FMT segment, adding an important piece to our analytics solution across wastewater collection systems.

Finally, as we optimize our portfolio, we continually reconsider the long-term growth prospects for all of our businesses. Occasionally, and typically with smaller companies that like a path to scale, we decide to sell to an owner that can better maximize potential. During the second quarter, we divested Alfa Valvole only for $45.5 million in cash. They operated within our FMT segment.

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

Abhishek Khandelwal

Senior Vice President & Chief Financial Officer, IDEX Corp.

Thanks, Eric. Turning to the consolidated financial results on slide 6. Please note that all comparisons are against the prior year period unless otherwise stated.

Orders of $773 million were up 1% on a reported basis and up 2% organically. We saw mid-single-digit organic growth in FSDP and HST, which was partially offset by a mid-single-digit decline in FMT, driven by projects being pushed to the right. Second quarter sales of $807 million was down 5% reported and 4% organically. We experienced an 11% decline in HST while FMT and FSDP were essentially flat as compared to the prior year period.

Second quarter gross margin and adjusted gross margin were 45.4%, an expansion of 70 basis points, driven by strong price/cost and favorable operational productivity, partially offset by unfavorable mix, higher employee-related cost, and lower volume leverage. Second quarter adjusted EBITDA margin was 27.8%, down 60 basis points. However, as compared to Q1, adjusted EBITDA was up 180 basis points. This strong sequential expansion highlights our team's continued focus on deploying 80/20 to drive profitability as we manage through challenging market dynamics. I will discuss the drivers of second quarter adjusted EBITDA on the next slide in a moment.

On a GAAP basis, our Q2 effective tax rate was 21.2% versus 22.4% in the prior period. The decrease was primarily due to a discrete benefit from research and development incentive resolution related to prior years from an international taxing authority. Second quarter net income was $141 million, generating an EPS of $1.86.

Adjusted net income was $156 million, with adjusted EPS of $2.06 down $0.12. Free cash flow for the quarter was $118 million, a decrease of 2%. We achieved a conversion rate of 75% of adjusted net income, a 310-basis-point improvement on a year-over-year basis. We have a strong balance sheet and this quarter, we repaid $25 million of the $50 million previously outstanding debt under our term facility and repaid $52.2 million in cash dividends. The dividend was a 119th consecutive quarterly dividend payout.

Moving on to slide 7, which details the adjusted EBITDA drivers, for the second quarter, adjusted EBITDA decreased by $17 million. The 4% organic sales reduction unfavorably impacted adjusted EBITDA by $23 million, flowing through at a prior-year adjusted gross margin rate. The negative volume flow-through was partially offset by strong price/cost spread of 100 basis points in the quarter and operational productivity resulting in a $13 million benefit over the prior year. In the quarter, we saw unfavorable mix driven by dispensing and lower overall industrial activity. These factors resulted in a negative 48.7% organic flow-through.

The impact of FX lowered adjusted EBITDA by $1 million, while acquisitions net of divestitures was flat on a quarter-over-quarter basis as the benefits from our acquisitions were offset by adjusted EBITDA from divested companies. This resulted in a negative 42.4% flow-through for the second quarter.

I will now review segment-level performance.

Turning to slide 8 and FMT segment, in Q2, orders decreased 4% organically, driven primarily by the cyclical decline in the ag market and pushout of industrial project activity, as Eric discussed in his opening remarks.

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Organic sales were flat as lower volumes, particularly in our industrial [ph] safety and (00:13:20) pump businesses, were offset by continued strong price capture.

More specifically, we are seeing stable day rates across industrials. We are seeing project spending pushouts in the current macroeconomic climate. Our water businesses continue to benefit from strong municipal activity. While the ag markets are experiencing a cyclical downturn, our teams continue to make their own luck and we are pleased with the team's performance against the current backdrop.

Adjusted EBITDA margin decreased 140 basis points due to higher discretionary spending, lower volume leverage and higher employee-related cost, partially offset by strong price/cost spread and favorable operational productivity.

Moving on to slide 9 and our HST segment, despite slower-than-expected recovery in the semiconductor industry and delayed industrial projects due to demand softness, organic orders were up 5% year-over-year. Organic sales were down 11%, primarily driven by our life sciences and analytical instrumentation markets. While the market is experiencing a transitional period, we continue to work closely with the customers on innovation as we position ourselves for growth while we wait for the markets to recover. While we are seeing early signs of encouragement in our semicon end markets, we have not yet seen the inflection in our orders.

In line with our FMT industrial businesses, our HST industrial businesses are also experiencing project pushouts. Q2 adjusted EBITDA margin for HST improved 10 basis points year-over-year, primarily due to the net accretive impact of acquisitions and divestitures. On an organic basis, adjusted EBITDA margin decreased 20 basis points driven by lower volume leverage, unfavorable mix and higher employee-related costs, partially offset by operational productivity, strong price/cost and lower discretionary spending.

Sequentially, margins improved 150 basis points despite a sequential sales decline, which is a reflection of our strong focus on driving operational efficiency.

Now, turning to slide 10, organic orders in our Fire & Safety/Diversified Products segment were up 6%. Organic net sales were up 1% compared to the prior year, driven by price capture across all markets and continued dispensing project wins in emerging markets. We are seeing positive trends within the Fire & Safety business as the OEMs continue to work their backlogs down. BAND-IT saw weakness tied to auto and weaker industrial project activity.

Q2 adjusted EBITDA margin declined 40 basis points year-over-year, primarily due to higher employee-related costs and lower volume leverage, partially offset by strong price/cost and operational productivity.

With that, I would like to provide an update on our outlook for the third quarter and full year on slide 11. Note that our guidance does not contemplate the impact from future acquisitions.

For the third quarter, we project organic sales to increase 0% to 1% compared to prior year. We anticipate an adjusted EBITDA margin of approximately 27% with GAAP EPS in the range of $1.61 to $1.66 and adjusted EPS in the range of $1.85 to $1.90. On a year-over-year basis, we expect low-single-digit organic sales decline in HST and FSDP and low-single-digit growth in FMT.

Given our current view on the timing of end market recoveries, we are revising our full-year outlook. We now expect revenue to decline 1% to 2% compared to a prior outlook of growth of 0% to 2%. Given the revised organic

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assumptions, we expect full-year adjusted EBITDA margin of approximately 27% versus the prior outlook of approximately 28%.

We project GAAP diluted EPS to range from $6.85 to $6.95 compared to our previous guidance of $7.13 to $7.43, and adjusted EPS to range from $7.80 to $7.90 versus our previous outlook of $8.15 to $8.45. The update to our full-year revenue guidance implies mid-single-digit organic sales decline in HST with low-single-digit growth in FMT and FSDP. We will continue to closely monitor the end markets while maintaining our focused effort on driving profitable growth.

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

Eric D. Ashleman

President, Chief Executive Officer & Director, IDEX Corp.

Thanks, Abhi. I'm on slide 12.

Today along the way, we touched on each of our key value drivers: organic growth, inorganic growth and margin expansion. We continue to apply our IDEX operating model and 80/20 philosophy across all aspects of our business. It frames our culture and drives our growth and profitability. We are innovating and winning today with our best [ph] 80s (00:18:38) customers in very attractive markets. We believe broader economic support will really amplify these efforts over time.

We have stepped up inorganic efforts with a series of thematic proprietary acquisitions intended to drive above average growth in advantaged markets, and we continue to strip complexity out of our businesses to support maximum financial leverage and impact. Thanks again to our IDEX employees and partners around the world for all that you do to drive trusted solutions that improve lives.

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-answer-session. [Operator Instructions] Our first question is coming from Mike Halloran from Baird. Your line is now live.

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

Q

Hey, good morning, everyone.

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

A

Hi, Mike.

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

A

Hi, Mike.

Wendy Palacios
Vice President-Investor Relations & FP&A, IDEX Corp.

A

Hi, Mike.

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

Q

So let's start by understanding the change in the guide here. If I hear the comments right, Eric, the underlying daily rate is relatively stable in the quarter. And the demand commentary has, I don't know, maybe a touch of optimism to it, but there's been more project pushouts and timing related things.

So the core of the question is, what's really changed from an end market dynamic as we move through the second quarter into the back half? The magnitude of the drop of your organic trends in the back half versus where it was previously seems more severe than the comments you're making. So just kind of want to bridge the gap between the two, if you would.

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

A

Yeah. So, look, I think you hit the first part of it dead on here. I kind of walked in – I went back a little further, kind of walked it from December all the way up to the present. And we've seen kind of this level of core rate stabilization since that initial pull back from the exuberance of Q1 right around that March time and it held through the quarter. And that's across the board in FMT and the industrial like portions of HST. I think the two components that are most different from us relative to the last guidance is we had anticipated some semicon launch in HST, and there's a lot of signals sent our way around ramped up in capacity. I mean, obviously, that sector had trouble with it last time. It just didn't materialize into orders. And in fact, we had some deferments in that area pretty late in the late innings of the second quarter, pushed into the back half that we've now got to keep an eye.

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The second piece, we never talk about project business as a massive part of IDEX. But I got to say that what changed here sort of mid-May on and we saw a lot of it in June, some of it continuing into July. I think it's paying off the two uncertainty elements that I talked about here. It's the notion of inflation and rate relief and when it's going to come, which has been sort of out there since that March timeframe. Just a lot of political uncertainty is kind of the second thing. And we've had these conversations with distributors, OEMs. We've asked them about their own businesses, how are you thinking about it? And you kind of consistently hear those two things. And then for us, it's manifested, as I said in the opening comments, not as cancellation or pullback in resourcing, but just approval loops that take a longer to come together.

So for us, that played out. We saw it in FMT and a few sectors. We saw it across some of the markets in HST, and we saw it in that – and frankly, the growth initiative file that we also referenced here that we were counting on to lift a bit for us in the back half. And in fact, some of those projects, too, have that same narrative and overhang.

So I think the optimism through all of that is that ultimately those questions are going to be resolved. As they're resolved, the fact that these are still resourced, we're still engaged, we're still talking about what comes next, I think that's where the confidence comes from. And the fact that it's sitting on a core foundation, those day rates, what that tells you is the system is still operating. It's still effective. People are maintaining things. Those two pieces together give you the long-term view that I think eventually this sorts itself out.

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

Q

So the follow-up on that then is, how do you think this recovery curves and plays out? If you listen to your comments on a lot of the project activities still there, more pushout, more timing oriented and some stability on the daily rates. Is this a scenario when these things start hitting, we could see a pretty rapid recovery pace, not saying this year, not even asking for a timing component to it? Or are you thinking something a little bit more iterative and modest as we think about moving into 2025? Because at the end of the day, it seems like you're saying there's a lot of things underneath the surface to be really positive about. It is just a question of when they hit. And so just trying to understand the recovery timing from your perspective.

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

A

Yeah. No, I'll kind of go through that in two dimensions. And I'm sure the second dimension we'll talk about as well in terms of those kind of core sectors in HST that have been pressured for a while. But if I start where I just left off on the last discussion, the uncertainty attributable to those two dynamics, kind of interest rate and where that's going to go, interest rate travel and geopolitical situation, good shot. Those are resolved to some degree here as we close out the year. And we've seen in other occasions when things like that have been resolved and there's a lot of captive energy, things have started pretty aggressively.

We'll have to see. We'll have to see. I mean, rates have been high for a while now. Does it take a while to fire that engine back up again in terms of investment? Q4 and what we see in kind of the book-to-bill ratio there, I think given just the nature of where the election is and where some of these other decisions are going to play out will be a key input for us to understand kind of rate of travel into 2025. But I would say that the things that are embedded in those projects, the solutions that people are addressing with our technology, things that are being elongated now, I mean, yeah, frankly, they're overdue. They need to happen. We've kind of talked about this for a while. And I think I'm pretty optimistic that those ultimately get deployed and get deployed in a way that's favorable for us as we go forward.

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I think the other side of it, that's where we're going to come back and take an eye at the life science and analytical instrumentation sector, which, as you know, has been kind of flat for us for a while now after an initial slide of recalibration in the first half of last year. And I think there's a little optimism there as well, and the conversations we're having that we're closer to the end of that cycle than the middle or the beginning. We're coming up, and by the end of the year, it'll be about two years that we've been experiencing that as our customers start to now look at the lifecycle of the technology that's out there and the opportunity for refresh.

We're seeing indications of things like accelerating drug discovery in trials. There's a lot of innovation announcements that our customers are talking about, and we've got great content on the gear that lines up well with us. I think in the China piece of that, I think the expectations have been calibrated for a while. We'll see. I think everyone is looking for scientist stimulus becomes effective there. But I see that that's a little bit more optimistic in tone and tenor as well.

And then finally, on the semicon part, as I said in the remarks in the beginning, now a lot of people are referencing, hey, 2025 looks like it's going to be a pretty strong cycle. And so we'll be looking for when does the bridge, when does the bridge link us from here to there.

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

Q

Thank you.

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

A

Thanks, Mike.

Operator: Right. Your next question today is coming from Vlad Bystricky from Citigroup. Your line is now live.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, guys.

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

A

Good morning, Vlad.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

So maybe just a quick question on free cash flow. I think you did about 75% conversion in the quarter. You talked about 100% plus for the year. So can you just talk about what needs to happen to hit that higher conversion rate for the year and sort of your level of visibility or confidence in that?

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

A

Yeah. Vlad, I can – vis-à-vis I can take that. So, first of all, when you think about the 75% for Q2 and compared to prior years, it's in line with what we typically see in Q2, just the way the timing of the cash flows play out. To answer the other question, which is the confidence level in a cash flow north of 100%, we feel highly confident.

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That's a forecast for the year. Things that we are focused on that we continue to drive, inventory reduction in line with where the top line is. As you think about the back half of the year and where our top line is, our teams are focused on driving inventory to the right levels that will drive working capital, and we feel pretty comfortable with us hitting our free cash flow target.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Great. That's helpful of you. That's appreciated. And then I wanted to dig in a little on FSDP. The plus 6% organic orders in the quarter is pretty encouraging. I guess, was there any bigger onetime orders in there to think about or sort of, again, your level of visibility to orders remaining positive in the back half, if the macro holds as it is?

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

A

Yes. Yeah. Vlad, I can give you color on that. So if you think about the order profile for Q2 and where we landed, that growth typically – or pretty much came from FSDP. And if I look at the segment and look at the business and where they were, it was primarily driven by North America OEM demand. So that's where we saw the growth in Q2 from an order standpoint in FSDP.

Now, keep in mind, in FSDP, we also have dispensing. And so orders sometimes can get choppy because you might – we've been talking a lot about the dispensing emerging market growth and those come in bigger chunks of orders. So, you could see something in Q1 that we ship throughout the year. But if you think about Q2 and the growth in Q2 is tied to North America OEM demand that we saw in the quarter.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

All right. Thanks, Abhi. I'll get back in queue.

Operator: Thank you. Next question is coming from Nathan Jones from Stifel. Your line is now live.

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

Q

Good morning, everyone.

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

A

Good morning, Nathan.

Wendy Palacios
Vice President-Investor Relations & FP&A, IDEX Corp.

A

Good morning.

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

Q

I think it's been a while since we've talked about fire OEM demand being positive. So, that's good to hear. I wanted to follow up on the HST numbers. The guidance does imply that you're going to say a little bit of revenue improvement in the back half relative to the first half. Is that just the absence of inventory destocking that you saw

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through second half of 2023 and into 2024? And just how you think that's going to progress as we get into the back half?

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

A

Yeah. Well, some of the cases where we talked about larger chunks that have been deferred and deferred here more recently, I mean, those are lining up closer to the back half of the year. We, again, know what those programs are. We know what the platforms are. And ultimately, they do support the bridge to some of the growth that OEMs are talking about, specifically in the semicon area.

We have a couple other HST programs that we've been monitoring for a while. I mean, they're very, very milestone-based and I'm pretty confident that those are going to hit as well. So, I think it's largely attributable to those two things.

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

Q

I guess continuing to follow up on the project pushout kind of question here. Historically, when industrial companies have started to talk about projects being pushed out, but not canceled, that can be a precursor to projects getting pushed out for an extended period of time. It doesn't sound like you're that concerned that we're in that kind of environment today where you can just say things they got pushed from the second quarter into the second half, get pushed into 2025, et cetera, et cetera.

Just comments on your confidence that we're not in that kind of environment where, by the time we get to the fourth quarter, we're going to be talking about industrial orders that you thought were going hit in the second half of 2024 and now being pushed to 2025.

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

A

Yeah. Sorry, I certainly get the spirit of the question. I'd come back to the magnitude of the reference point here and what they are. So, one of the benefits we have in those early indicator businesses that we always talk about in FMT is they're a great gauge of sensitivity to different narratives. And even, in the last call, one of the reasons I remarked about the dynamic that we've seen in the pullback in core rates in March and it's alignment, so frankly, the hotter inflation rate and then uncertainty of where rate relief was going to come in, it had just, in my mind, showed us the sensitivity level around that particular dynamic and that part of the narrative and that's maintained throughout.

The second one being, frankly, the election cycle here in the US. Almost everything we're talking about is North American based and North American centric even in terms of the numbers, the way it's playing out. So, if you look at those two issues, which are ubiquitously showing up in the conversation of why things are being delayed or elongated or pushed to the right, we actually know that those two are going to have resolution points. And the certainty is pretty high, at least on the first and on the second. Of course, we know it comes in November.

And I've seen these cycles a couple times before where it's not unusual for things to be somewhat captive when these dynamics are playing out. I think, obviously, the post-inflation wave, that's a new one, but I think we're closer to resolution on it than the beginning. And just that sensitivity in the way that these are lining up, I think it gives me some confidence that as we watch those go, you're going to see some things be relieved here.

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

Q

Great. Thanks for taking my questions.

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

A

Thanks, Nathan.

Operator: Right. Your next question today is coming from Deane Dray from RBC Capital Markets. Your line is now live.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

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

A

Good morning, Deane.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey. I don't know if you all were listening to one of your industrial peer conference calls. Just kidding. But they were saying the exact same things about extended approval loops and some nervousness about election and some project pushouts. So, yeah, the commentary is familiar and so you guys are not an outlier. So, just wanted to share that.

The question first is it's kind of like we're not hearing about analytical instruments, life science destocking. You said it's in line with expectations. Is the destocking over? I know you got to be really careful about declaring that, but just what's your sense today?

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

A

Well, look, once – I mean, the way I look a lot of these issues is you just kind of listening for queues in conversations. And that's one of the reasons, as I talked about it earlier, I mentioned positive aspects like innovation, like drug trials accelerating, like duration of the cycle and need for refreshes.

Honestly, at the customer level, that's the kind of things we're hearing about. It's not to suggest there aren't pockets of finished good inventory out there on a global basis. Again, it's super hard for us to see that. But what you don't hear is kind of a domination of the headlines with that aspect the way you did earlier in the cycle.

So, I still think it's uncertain in our own numbers and guide here. I mean, we haven't called victory on it. And we've kind of held the line here for the rest of the year. But I am noticing that there is more positive commentary generally. And to be candid, I think we were just about ready to lap the duration of the run up here as well.

So, I think it's a lot of those things converging. I'm probably most excited of any element in it. Just the level of innovation that I know we've been participating in and I've been talking about, I think you're starting to see that

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now start to hit the market in a bigger way for our end customers. That itself is a vote of confidence, if not in the exact short term, certainly in the medium and the long term.

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

And, Deane, this is Abhi. Just to build on what I just said. And if I look at the performance this year and just look at the first half, quarter-over-quarter one to two, the performance has been relatively flat. So to Eric's point, we weren't expecting a recovery in life sciences this year, but if I look at the performance, it has been flat.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

Yeah, that's exactly the way it appears to us. But just want to see if there was anything else below the radar screen.

And then second question is, given the kind of uncertain backdrop, how about you all making any changes in your discretionary spending? Any pullback in growth investments? You reaffirm your CapEx for the year, but any changes there that you would highlight or not changes that you would highlight?

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

Yeah. I would say steady as she goes there. I mean, as we said before, growth investments typically for us are people based. They're domain experts. They are the people that are really, really good at engineering things and figuring things out with close proximity to customers. The innovation cycle takes longer than a lot of people recognize in mission-critical spaces like this. So making sure that people are engaged and doing the right work, that's always part of what we do. And maybe even more important now than in a relatively choppy period, you're staying on that case because you ultimately could feel that gap later on in our own growth numbers.

I will say, I referenced maybe more specifically the work we're going to do with 80/20 as we talk about Mott coming on the board. And one of the things that that's going to help them do and it helps us across IDEX is that's actually a source of resource deployment and reallocation of resources that we have here from areas that are not as impactful to areas that are more impactful.

So as we play that out business to business and play it out in acquisitions, that's a way to kind of augment the power of resources in areas where we want to apply them without actually upping the spend profile overall. And we indicated that when we referenced it in the transaction as an area of margin lift for the company as they grow, but it's just representative of how we deploy it more generally and more broadly at IDEX.

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

And, Deane, this will be – I know you're going to see it in the commentary and the press release and even in the 10-Q, but if you look at FSDP and HST, discretionary spend is down, and where you will see an increase is FMT. But quite frankly, that's tied to a digitization effort that's front end, and that's one of the growth – best that we are focused on. So overall, I'd say you'd see a discretionary reduction across the two businesses, with the exception of – or two segments with the exception of FMT.

Deane Dray
Analyst, RBC Capital Markets LLC
Q

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Really helpful. Thank you.

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

Thanks.

Operator: Thank you. [Operator Instructions] Our next question today is coming from Matt Summerville from D.A. Davidson. Your line is now live.

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

Thanks. Just a couple of quick ones. First, can you quantify the level of price capture you saw in Q2? And remind us, is that consistent with what you saw in Q1? And then similarly, if you can also compare your organic book-to-bill in Q2 versus Q1. And then I have a follow-up.

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

Yeah, Matt, absolutely. So if I think about the price capture, it's in line with the guidance that we laid out for the year. So price capture for the quarter was closer to 2%. But the bigger thing that we talked about that we were focused on is the price/cost spread. And our price/cost spread for the quarter was 100 bps. If you recall, what we had said going into the year, we were targeting between 80 bps to 100 bps. So we're on the high end of the price/cost capture for the quarter.

From a book-to-bill standpoint for the quarter, we landed at $0.96 versus 1Q of $1.02. Now that said, part of this is the timing of when the blankets book in the quarter. In Q1, we had a few blankets that got booked that we shipped throughout the year. Q2 had lesser of those. So the best way to think about our book-to-bill is, as we go towards the tail end of the year, like Eric alluded to, one of the things that we're focused on is a book-to-bill ratio because that's where we see a lot of blankets come through that feed the revenue for 2025.

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

Got it. And then just a follow-up on the analytical instrumentation and life sciences. I just want to be clear. At this point, is it – are you thinking the inventory to drawdown is indeed completely in the rearview mirror? And to that extent, are you seeing OEMs generally carry less inventory than they were pre-COVID? Or is the absolute stocking level reverting back towards something more in line with the pre-COVID level? Thank you.

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

Yeah. So again, there's kind of two pockets of inventory. One, we have a lot more visibility to than another, so the inventory, let's say, between us and customers. So those would be components and things that we supply them. I mean, the planning levels that they have today are pretty typical for what they've been in the past in terms of replenishment rates and how far away we are and how much lead time we're being asked to deliver. So that's been honestly back in sync now for a while.

The inventory of finished goods, which, of course, passed our customers and extend globally, less clear for us. But to the extent we have not seen further erosion in demand here and we've been holding relatively flat and

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continue to project it that way. I don't think it's – we don't see it as a significant driver going forward, and in fact, are leaning on those points of optimism, looking for the turn, which we hope to be somewhere into 2025.

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

Q

Thank you, Eric.

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

A

Thanks.

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

A

Thanks, Matt.

Operator: Thank you. Our next question is coming from Joe Giordano from Cowen. Your line is now live.

Joseph Giordano
Analyst, TD Cowen

Q

Hey, good morning, guys.

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

A

Hi.

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

A

Hey, Joe.

Joseph Giordano
Analyst, TD Cowen

Q

Hey. So just inherent in the revenue guide for the second half of the year, what are you thinking for orders for FMT and HST, like in dollars versus the 2Q level? Did they get better or worse from here?

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

A

If I look at our guide and you kind of think about the back half that we have guided, yes, the orders do get better in terms of dollars sequentially from first half to second half.

Joseph Giordano
Analyst, TD Cowen

Q

Okay. And then like if I look – and I think it's tough to analyze with companies now in the post-COVID, given how supply chain gets crazy. But if I look at all of your – each of your segments independently on like a trailing couple of years, like if I look at since COVID, the excess orders over revenue, it's pretty significant still. So I would think that there's more backlog coverage than like the guidance suggests given like from a trailing three-year or

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whatever, there are significantly more orders than revenue. So like, are you seeing customers not taking delivery as you think for orders that are in backlog? Or are you seeing cancellations there?

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

I mean, I want to make sure we're seeing it the same way. I mean, typically, backlog, we're a smaller backlog company. Normal course of business for us is kind of half a quarter is assured and we go find the rest. That's a general statement for IDEX that absolutely in the pandemic years changed like it did for everybody else. I mean, I think we doubled it kind of at the height here and had a quarter's worth of insurance, maybe a little bit more, as people over ordered and did everything they could for supply chain assurance. Maybe sooner than many companies, we actually reverted back to a very typical backlog profile and we've been there for a while now. So kind of half a quarter in front of us, got to go hunt for the rest.

So the dynamics in backlog for us are not that different. The lead times and replenishment that we're being asked to provide in all three segments is pretty typical. I think the only thing that's atypical here for us has been the level of project commitments and those discussions around when the next thing might be coming. And I just point back to the indicators that we talked about as to what's driving it.

Joseph Giordano
Analyst, TD Cowen
Q

Thanks, guys.

Operator: Thank you. Our next question is coming from Andrew Buscaglia from BNP Paribas. Your line is now live.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.
Q

Hey, good morning, guys.

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

Hi.

Wendy Palacios
Vice President-Investor Relations & FP&A, IDEX Corp.
A

Hi.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.
Q

I wanted to focus on fee margin. I think you said in the past exiting the year, you could see a little bit of a lift. It seems like guidance might imply that, too. But in terms of getting back to that [ph] 30% (00:44:06), that level, how much of it is more dependent on volume coming back versus mix? Because I'm trying to gauge some of these higher growth area coming back. I guess, where are the dynamics as that plays out into margin?

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

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Andrew, I think you cut off for a second or two there, so I might have missed a piece, but let me try to answer that question. If I don't completely get to your answer, then just ask me and I'll go do it.

But if you just take a step back and kind of think about where we are, your general comment about depending on volume, volume is a big part of it because, of course, when we see top line growth, we lever really nicely on our businesses. So that is a big component of how margin expansion happens. But that said, though, given where we are, you will notice sequentially our margin profile got better by 180 basis points, right, despite very minimal help from volume. And that's really tied to the work that we do on 80/20 complexity reduction and cost out in the light of where we've been.

So as you think about the balance of the year and how we're thinking about the year exiting Q4, so I want to be very careful. I'm talking about rates exiting Q4, not full-year rates. We're thinking about HST closer to that 28% kind of profile on EBITDA, FMT closer to 34%, and then FSDP in the 28% to 29% range from an EBITDA standpoint.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.

Q

Okay. Yeah, it's very helpful. And yeah, I wanted to focus on in Fluid & Metering. That municipal water strength has been a nice story for a while for you and others. Where are you guys when you think in that inning or what inning do you think you guys are in? And how much of your business is influenced by government spending or government funding?

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

A

Well, so, look, I think the cycle plays out for a while, mainly because the intentionality of that funding, that's kind of spread over much of the industry. It just takes a long time to spend. These are complex engineering projects for multiple players, not just us. A good portion of things that have been announced is not actually spent yet or engineered. So, I always thought of this as kind of a multiyear safety blanket or a warm comfortable blanket, either one.

We're positioned actually in an – we do important work to help spend that money. So, I think it's one of the reasons we're seeing the strength in our business. We do analytical work that actually helps write the capital request. So, essentially, many of our customers are actually engineers, civilian engineers that are then using that data to suggest projects that are going to tap into funding of the type that you're talking about here.

So, there's a portion of it that is intentional and it's coming from announced government programs. A decent amount of municipalities, of course, is government-funded, but that's ultimately through taxation. And we have – look, we participate in the industrial water side of this, too. And that, of course, is tied to private markets. But I think there's a nice run here overall, if for no other reason, that it just takes a while to frankly bring all this to fruition.

Andrew Buscaglia
Analyst, BNP Paribas Securities Corp.

Q

Yeah. Okay. All right. Thank you.

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

A

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Thanks.

Operator: Thank you. Next question today is coming from Rob Wertheimer from Melius Research. Your line is now live.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you. Good morning. I apologize if this – I cut out for a while in the audio. So, if I missed something or belabor a point that you've covered, you can just cut me off. But on the project delay side, is that tied to specific government policies that might open up one way or the other? Or is it just more of a general unease or uncertainty that has affected how people are willing to spend?

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

A

Yeah. So, we did touch on that before, but I think it's worth a second go around. I mean, it's very specific around two very general themes, one around sort of the cost of money and the fact that it's been higher for longer and there's uncertainty as to the rate of travel to something better. That's all about inflation and interest rate and that dynamic which everybody is watching. And I think the second one is around political uncertainty and uncertainty of outcomes given the polarization here North America approaches.

In our conversations, it doesn't really then travel below that to something more specific, because, frankly, our business is – it's more diverse. It's spread across different places. We're at the component level. So, we're not as heavily indexed to a program or another program. It's kind of like the answer I gave on the water side of it.

The fact that there's intentionality there and it's going to take multiple years to spend, it is kind of good enough for us to then participate in the way we do in municipalities and industries across the globe to participate in that. So, very generalized as we're thinking of it here.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Perfect. Thank you. And then, could you remind us the rate-sensitive businesses within FMT that you're kind of using as guidelines? What's the nature of the activity there and the businesses? Could you just give us a little bit more background around that? And I will stop there. Thank you.

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

A

Yeah. Yeah. It's a series of businesses in the FMT where a lot of them are kind of pumps and valves and fluids. So, they're used for a broad array of purposes. They go to market typically and through industrial distribution. And because of the kind of customized nature of the way that we do things in our rapid fulfillment, we can get an order on a Monday, ship it on a Wednesday and it's in service on a Friday.

I say all that, because what they – because of the nature of that, they provide really good insight into kind of actions, consumptive activities across the board. And frankly, it's more than 50% of the order flow in those businesses.

So, we use them as diagnostics to tell us kind of what's the state of health there. And as we've talked about them here, what we've said is there's two dimensions that we see at work. The core day-to-day rates, which is this

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short-term fulfillment, think of it as somebody maintaining their factory as they run in two shifts. That's steady. It has been steady. And it's really back to the assumptions we had in the fall. It was only interrupted briefly to the positive and for a three-month period, as I think there was more anticipation that we're going to have more favorable rate relief. And it sort of came back down and it's been a steady state.

There's a tie-in there with project work. And project work in our world, and I don't think of them as stadiums or massive things like that, it could be a simple back-end expansion onto a food plant or something like that. It kind of moves you from a pump or 2 to something like 40 or 50 for us. But that's tied to an approval process and a discrete decision that's important. And that's kind of the piece we've said has been hung up in the works here with those two more generalized themes that I talked about.

So, that's what the insight is telling us. We're very happy to see that the day rates are supportive of just strong and relatively stable industrial activity. And we look forward to the day the uncertainty leaves the project driven side of it, which is going to complement it overall.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Perfect. Thank you much.

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

A

You bet.

Operator: Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

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

Well, thank you. Hey, listen, I recognize we struggle a bit here to find our organic guidance footing over the last six quarters. I realize a lot of that chop is coming out of the HST segment. And I'm fully aware that we're disproportionately investing in HST organically and inorganically is a key element of our strategy. But I want to make sure you understand, this is the right call for our business, even in a period of uncertain transition for some of these foundational markets we've talked about a lot here today. A third of this segment plays across two verticals within life science and analytical instrumentation and advanced semicon manufacturing. They're pressured today, but no doubt they're going to have wins at their backs for years to come.

We just built another third of the segment that allows us to lever this applied material science technology to a really narrow band of high quality application areas, and the Mott acquisition completes this phase of the build. And then the remaining third, it's composed of high quality businesses which are all number one in their respective niches and very, very IDEX-like in the way they function.

So together, we're innovating to set really critical specification points that are going to position us for leadership in the years to come, markets that are going to shape our futures. And we'll see the financial benefit of that play out, just as we've seen it play out in the legacy businesses of FMT and FSDP. And it's really important that we kind of get IDEX into the mix as these markets form up and launch.

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So I look forward to walking you through our progress on that in the quarters and the years to come. And I wish you all a good day. Thanks so much.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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