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# IDEX Corp. (IEX)

Q2 2016 Earnings Call

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**Michael J. Yates**

*Chief Accounting Officer & Vice President*

**Andrew K. Silvernail**

*Chairman and Chief Executive Officer*

**Heath A. Mitts**

*Chief Financial Officer & Senior Vice President*

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## OTHER PARTICIPANTS

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**Steven Eric Winoker**

*Sanford C. Bernstein & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the Second Quarter 2016 IDEX Corporation Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Michael Yates, Vice President and Chief Accounting Officer. Thank you, Mr. Yates. You may now begin.

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### Michael J. Yates

*Chief Accounting Officer & Vice President*

Thank you, Rob. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation. Thank you for joining us for a discussion of the IDEX second quarter financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three-month period ending June 30, 2016. The press release, along with the presentation slides to be used during today's webcast, can be accessed on our company's website at [www.idexcorp.com](http://www.idexcorp.com).

Joining me today is Andy Silvernail, our Chairman and CEO; and Heath Mitts, our Chief Financial Officer. The format for our call today is as follows. We will begin with Andy providing an overview of the second quarter financial results, and then he will provide an update on our markets, what we're seeing in the world and discuss our capital deployment. He will then walk you through the operating performance within each of our segments. And finally, we will wrap up with an outlook for the third quarter and the full year 2016. Following our prepared remarks, we'll then open the call for your questions.

If you should need to exit the call for any reason, you may access a complete replay beginning approximately two hours after the call concludes by dialing the toll-free number 877-660-6853 and entering conference ID 13620006, or you may simply log on to the company's homepage for the webcast replay.

As we begin, a brief reminder. This call may contain certain forward-looking statements that are subject to the Safe Harbor language in today's press release and in IDEX's filings with the Securities and Exchange Commission.

With that, I'll turn the call over to our Chairman and CEO, Andy Silvernail.

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### Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Thanks, Mike. I appreciate everyone joining us here for our second quarter 2016 discussion. As Mike said, I'm going to start off here with just a little bit of an overview before getting into some more detailed commentary.

Just as a highlight, as an overview here, we had strong execution, especially from the bottom line perspective here in the second quarter. The second quarter economic picture is still pretty mixed. If you look at the North American industrial markets, especially on a year-over-year basis, that's continued to be pretty soft.

However, we have started to see some sequential improvement in those markets, specifically within FMT and with HST, which gives us some positive reaction. If you look at our consumer-facing businesses or those things that

touch the consumer in one way or another, life sciences, automotive, dispensing, and if you look at the municipal-facing businesses of water, fire, and rescue, those all remain pretty solid.

The question marks that really exist out there on top of the overall North American industrial environment and the direction that's going to take is really around China, which continues to be soft, and obviously the questions around Brexit and how that's going to impact the overall European economic condition and as we look at the industrial markets and we think about the impact and the derivative impacts of the oil and gas business, how that's going to play out here for the balance of the year.

The bottom line, however, is given continued questionable market conditions, I think our team has done a very good job in the second quarter in terms of execution. As I mentioned, we did see some sequential improvement. We saw throughout the quarter a ratable increase in business. We had a \$168 million April, \$177 million May and \$184 million June in terms of orders. And in June, we delivered about \$200 million in sales, which drove most of the operational improvement that we've talked about. So we're still very cognizant of the challenges that are out there in the marketplace. We've done a great job controlling cost and driving margin. And overall, this has produced pretty strong results that we saw in the quarter.

Orders and sales were up 5% and 7% respectively. Organically, they were down 2% and 1% respectively. GAAP EPS is \$0.99, which is up \$0.10, 11% higher than a year ago. And we had operating margin of 20.6%, which was down 70 basis points, and I'll get into that here in a little bit but that was really impacted by the fair value step-up for Akron Brass, and the remaining contingent consideration for CiDRA. But again, I'll talk about that in more detail in a minute.

In terms of our commitment to strategic acquisitions, we've continued to drive that strategic priority. On July 1, we completed the acquisition of AWG. They're a leader in the European fire and safety markets and they're a terrific fit with Akron Brass and our existing fire and rescue platform. And so really, it's just wonderful to invite AWG into our family. Additionally in the second quarter, we completed the private placement of \$200 million of senior notes. Our quarterly dividend of \$0.34 was up 6% year-over-year. And we continue, albeit at a slower pace, our repurchase plan, and our M&A pipeline remains robust.

Like, I think, everybody out there in the marketplace, we're still not certain exactly what Brexit is going to mean for us in the longer term. In the shorter term, it did have an impact on us in the quarter. And as we look at the second half, if we assume that the rates remain the same between the dollar, the pound and the euro, we will have some translation pressure in the second half of the year.

Let me turn now and talk a little bit about core markets and geographies and what we're seeing out there. In terms of energy, the lack of demand is still a headwind for us, specifically in our energy platform at BAND-IT and at sealing solutions. And as we've stated before, the lower energy prices, they do impact our industrial businesses from a derivative effect, and that's still a condition in the marketplace. As we think about the industrial businesses, industrial distribution remains challenged, especially when compared to a year ago. But as I said a second ago, we have seen signs of stabilization in the marketplace.

Ag continues to be a challenge also. Commodity prices have remained depressed in the second quarter. We don't expect that to rebound as we've said for some time. But we have seen some stabilization there, too. Scientific Fluidics continues to be strong across our markets in bio, analytical instrumentation and IVD, and we expect that to remain the same through the balance of the year. And as I said a moment ago, municipal has been a good story for us.

In term of regions, in North America, the story really all is about industrial distribution and how that's playing out. Some signs of stability are a good note, but the picture remains pretty much the same as we've been talking about here for a couple of quarters. In Europe, we actually have – we've over-delivered in Europe around our dispensing and our water businesses in a tough environment. But certainly, the Brexit decision leaves some question marks that will have to play out here over the coming quarters.

And finally in Asia, it's really a story of two major economies. One is China that continues to struggle. That's not a surprise at all. We're managing that well. But the good news story for us has been India, and we've seen strong demand with fire, rescue, energy, and dispensing as we've executed throughout that region.

Let me turn to capital deployment for a moment here. Our capital deployment strategies for investing in long-term growth, disciplined M&A, consistent dividends and opportunistic share repurchases remains unchanged. And as we look at our ability to deploy capital here in the future, we're in a really good position. We completed a \$200 million private placement, the proceeds of which we paid down our revolver.

Today, we have about \$500 million of availability on our revolver. That availability, plus cash on hand gives us lots of capability. In fact, we paid for the AWG transaction completely out of cash from our balance sheet. So when you put together our balance sheet availability, cash on hand, and what will be more than \$500 million of free cash flow after paying dividends and after investing fully in the company, we have north of \$1 billion to deploy here over the next three years.

In terms of organic growth, the story remains the same. We continue to make investments to drive profitable growth for years to come. This year in particular, we've made specific bets in Scientific Fluidics sealing in our fire businesses, and they're all positioned well for long-term growth. In terms of dividend, as I had mentioned we announced a \$0.34 dividend here in the quarter, which is 6% above last year.

In terms of share repurchases, we bought back 726,000 shares this year for \$56 million, and that's at about \$77 a share on average. In terms of M&A, we've had an active year, as you know. We purchased AWG on July 1 for €46 million, which has about \$36 million of sales, and that complements well with Akron, which fits into our fire and rescue platform. And together, along with our existing businesses, really makes a market leading platform in that space.

In terms of M&A, the pipeline continues to be strong, really no change from what we discussed earlier in the year. All the work that we've done and continue to cultivate, our M&A pipeline, has certainly paid off for us and we expect it to do so again in the future.

Okay. With that, let's switch now to talk about results for the quarter. I'm on slide four. In Q2, we had \$550 million of revenue, which is up 7%, down 1% organically. Orders are \$529 million, which were up 5%, down 2% organically. On an organic basis, and again both orders and sales has been challenged. However, as we look at the second half of the year, we are facing easier comps and so we do expect here a flat overall organic growth for the year.

Operating margin, as I mentioned earlier, was 20.6%, down 70 basis points year-over-year. Similar to last quarter, our 2Q results include a few moving parts that I'll get to here on the next slide. Overall, again, I'm very, very impressed with our team's ability to execute in the challenging environment.

Free cash flow was \$80 million. This is 106% of net income. It was down \$6 million from last year but that's entirely due to the timing of some tax payments here in the U.S. and so we'll get the benefit on a comparable

basis here in the back half of the year. And finally, net income came in at \$75 million with GAAP EPS at \$0.99, up \$0.10 or 11% from last year.

So let me just take a minute now and I want to bridge for you the \$0.99 of EPS on slide 5 here compared to the midpoint of the bridge or the midpoint of the guidance that we gave you last quarter. So turn to slide five for me and you'll see the bridge. The midpoint of the guidance from a quarter ago was \$0.92, and we delivered \$0.99. And just let me walk you through the elements of the bridge.

First is very solid execution. That gave us about \$0.02 points beat in the quarter. Lower inventory step-up gave us another \$0.02 from Akron Brass that's lower than expected. We had the reversal of a contingent consideration of \$1 million from CiDRA, and that gave us \$0.01 benefit. We had a lower tax rate from an excess tax benefit for the new accounting for a share based compensation that gave us \$0.01. And we also got \$0.01 from the rapid change in the exchange rate between the dollar and the British pound here with the Brexit announcement, and that gave us \$0.01, too. So all told, when you add that up, that is the \$0.07 of beat versus the midpoint of our expectations.

Let me transition now to the segment discussion. I'm on slide six, and we'll start with Fluid & Metering. In the second quarter, organic order has decreased 1 point, while organic sales increased 1%. And I know it's a small number, but this is the first increase in organic sales we've had at FMT since the first quarter of 2015.

Margins were up 20 basis points driven by an increase in volume and energy. Specifically within energy, we saw a stronger aviation market that was offset with the mobile market that was softer. And we did shift a few large international projects in the second quarter that had been delayed for several quarters. And we've mentioned that in the past, but those kind of all came here in the second quarter. And the delivery of this business really was the bulk of the overperformance here in terms of operational overperformance.

Water had another good quarter. Sequentially, they continue to improve and they have over the last few quarters. The municipal markets remained favorable, and we had just a great profit execution as a team at water. Industrial, as I mentioned before, continues to be soft on a year-over-year basis, but we are seeing some signs of stability, which is encouraging. And we've done really a great job around cost control and profit execution in our industrial businesses in FMT. And then finally, Ag continues to be soft. We expect it to be so for the balance of the year, but it's certainly not deteriorating any further.

With that, let's turn to slide seven and we'll talk about Health & Science. Overall, the life sciences in the scientific markets remain strong and steady, with softness in those businesses that are facing the industrial marketplace. Organic orders were flat in the quarter and organic sales were down 2%, and operating margins were down 30 basis points really from the lower volume in the industrial portion of the segment.

Scientific Fluidics continues to be a good news story. Orders and sales continue to be up in all markets over 2015. We've seen strength in analytical instrumentation, bio and IVD. All of those marketplaces continue to deliver. And again, we expect that to do so for the balance of the year.

In terms of sealing solutions, we had an uptick in Q2 really coming out of strength in our semiconductor business, although it was offset in many parts by the weakness in oil and gas and heavy equipment. HST industrial, which I had mentioned earlier, that has had dynamics that are very, very similar to what we've seen within FMT. And so we are still seeing negatives on a year-over-year basis but again, some signs of stability on a sequential basis. And then finally with MPT, we had some strength in Asia with some shipments of some projects. So we had a decent quarter at MPT.

Okay. I'm on our final segment, Diversified on slide eight. Organic orders, they were down 9 points from the quarter with organic sales down 1 point. And operating margins were down 400 basis points versus prior year. That being said, the real impact here came from the remaining inventory step-up with Akron Brass, which was \$3.6 million. If you exclude that, operating margins came in at 26.6%, which is down 150 basis points versus last year. But remember, this is our first full quarter of having Akron into the business, and I also ask you to remember that in the second quarter, we're going to see \$2 million more of fair value inventory step-up for AWG.

Dispensing continues to outperform. X-Smart has been a true success story for us, especially in developing markets. We shipped our 25,000th unit in the quarter. And remember, we launched this just three years ago. This is a great example of our team's ability to drive organic growth.

In fire and rescue, again we welcomed AWG and Akron into the family. It gives us a terrific market-leading position. Rescue continues to struggle in the international markets and has for several quarters now, but we've had a great launch of our strong arm technology, which we think is going to be a real success for us.

Finally, BAND-IT. The transportation business within BAND-IT has been strong. But general, industrial and oil and gas continue to be challenged overall. We did see, interestingly enough, some improvement in business as oil prices reached over \$50. And while I certainly wouldn't call that a recovery, it's certainly an interesting data point to see how that tracked so closely as we saw oil break \$50 a barrel in the quarter until it settles back down.

Okay. I'm on the final slide, slide nine. Let me give you some guidance here for the third quarter and also for the balance of 2016. In Q3, we expect EPS to be \$0.90 to \$0.92. But just please remember that that includes \$0.02 of inventory charge associated with AWG, and we're going to get a penny of pressure from the additional interest expense from the private placement that we did in June.

Operating margins will come in at about 20.5%. We expect organic revenue to be flat. In Q3, the tax rate should be about 27%. If you look at the full year, we're maintaining our guidance at \$3.70 to \$3.75. Also remember, we're going to have \$0.02 of interest expense from the private placement, and as well as \$0.01 of incremental impact from AWG for the fair value step-up charges, and we'll also have some impact from purchase accounting amortization.

For the full year, we're still expecting revenue to be approximately flat. Operating margins should come in at 20.5% to 21%. CapEx should be \$40 million to \$45 million. Free cash flow, we're expecting to be at about 120% of net income. And for the full year, we're expecting a share reduction of about 1% for the year. As always, remember to exclude any impact from our guidance from acquisitions, either the costs or the benefits in the future.

With that, Rob, let me stop here and let's turn it over for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Nathan Jones with Stifel. Please proceed with your question.

Nathan Jones

*Stifel, Nicolaus & Co., Inc.*

Q

Good morning, Andy, Heath, Mike.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Nathan, Good morning.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

Good morning.

Nathan Jones

*Stifel, Nicolaus & Co., Inc.*

Q

Andy, could you just start by telling us how much those international energy projects contributed to the quarter?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. It was about \$6 million in total that we shipped pretty much in the last week of the month. So, it was substantial and it flowed through at some pretty decent levels. And so, that's a big piece of the operational execution. And just remember, Nathan, this stuff has been sitting in backlog for an awful long time. It's pretty unpredictable when it shifts and actually two or three of them just kind of broke at the exact same time.

Nathan Jones

*Stifel, Nicolaus & Co., Inc.*

Q

Is there more that's still delayed sitting in backlog? Are there any orders sitting in backlog or is this truly something we should be thinking about as discrete?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Not of substance, Nathan. You've got some smaller things here and there. As you know, we don't have a lot of large things that tend to sit in backlog. These are things, they're being shipped to North Africa, the Middle East, and they require letters of credit and an incredibly painful process to get them shipped. And frankly, they're incredibly unpredictable and we had not had them in our forecast. We actually had them in the forecast for later in the year and they happened to break in the second quarter.

Nathan Jones

*Stifel, Nicolaus & Co., Inc.*

Q

Okay. And then just on the guidance for the rest of the year. You've had about 2% organic decline in the first half.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah.

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

Q

To get to flat, you made plus 2% in the second half. I don't think the comps are that much easier in the second half in there, and the first half organic orders are still running negative. Where does that incremental demand come from that can get you to flat organically for the year?

Heath A. Mitts  
*Chief Financial Officer & Senior Vice President*

A

Nathan, this is Heath. Largely, it's the things that we have visibility to in the fourth quarter. As you know, there is a little bit of seasonality in some of our businesses, specifically around oil and gas and a few things on the rescue tools side. So, it's our current outlook in terms of where we see the third and fourth quarter coming in. But most of that growth is going to come from the fourth quarter numbers. And obviously, we'll get smarter over the next 90 days and sharpen our pencil, if that changes.

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

Q

Okay. And I don't know that you're going to be able to answer this question. You talked about industrial distribution stabilizing or maybe a little bit better sequentially. Do you have any visibility into what kind of end markets are helping there or do you lose visibility once it gets into the distribution channel?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

You certainly lose visibility into the distribution channel. Although I will say that the businesses that we saw then tend to be pretty good predictors for us with the exception of one. So, we saw strength at Viking – I mean, when I say strength, I mean stability. So, not improvement necessarily, Nathan, but certainly the decrease stopped at Viking, at Rupp, and at the industrial businesses within – or the industrial distribution business within BAND-IT. The one counter to that is we still saw some softness at gas. And typically, gas kind of goes along with those other three, so that was a one contraindicator, but those other three were good signs.

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

Q

And then I wonder if you could just give me a little bit more color on the comment that you made that you saw some improvement in oil and gas markets when the price got to \$50 a barrel. Can you talk about where the demand improvement stabilization, whatever we want to call it here, came from being it upstream, midstream, downstream, MRO?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

So, the comment was really specific to BAND-IT which has very, very short cycle delivery, and it was more around the MRO marketplace. And so, I think – again, I want to be really clear. We're not calling for any kind of recovery, just it really struck us how tight correlated the improvement in the BAND-IT MRO business was when that ticked above \$50. And so, I just – what that tells me, Nathan, is just how tight the overall supply chain is. And

the fact that when you do see recovery, I think it's going to come at a pace that's going to move pretty quickly especially around parts and service.

Nathan Jones

*Stifel, Nicolaus & Co., Inc.*

Q

That's very helpful. I'll jump back in the line.

**Operator:** Our next question is coming from the line of Steven Winoker with Bernstein Global. Please proceed with your questions.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

Hi. Thanks and good morning, all.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Good morning, Steve.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

Just want to push on one of your answers to that last question. I think that second half not only is a couple of percent but the fourth quarter means 4% implied. And in fact quarter-to-quarter, there really is no comp difference in total from getting easier. So, can you push a little harder there to give us some...

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

...comfort level that all of a sudden we jump to 4%.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. I think, first of all, Steve, you have to keep it in perspective because that's – to get there, that's a \$550 million quarter which is what we just did.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

Okay.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Now, we did burn some backlog in the second quarter. We expect that to reverse itself to some degree. So, while the flat versus 4% or down 1% versus 4% seems like a giant number, recognize that when you look at it from a

comp perspective and when you look on a sequential perspective, it's not that big a number. It's the same number we delivered this quarter.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

Okay. That's fair. And then just getting a little bit into that FSDP order decline, the 9%, not – I understood what happened on the sales front. Are you seeing the same dynamics though in the order – would you attribute it to the same areas then?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

That's just a more – remember, that's the most lumpy of our business, right, when it comes right down to it. And so, you'll see that disconnect between order and sales that you don't see in the other businesses, there's nothing there that jumps out to you that says that that has a significant disconnect from history or that's a big red flag in the future. I don't see that happening.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

Yeah. Steve, that – obviously, that's the smallest segment. It's a little bit of a tyranny of small numbers a little bit in terms of just a couple million can swing it either way. So, I wouldn't read anything into that.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

Okay. And one more question that I've been debating with investors is in your last financial reporting, one of the things you guys had talked about was how revenue from new products introduced in the last three years has dropped to 8%. Where is that – and I think it used to be 20% in prior years. Where is that trending these days and what's been driving that number down?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Steve, I think you may have us confused to somebody else. We haven't reported any new product sales numbers in years.

Steven Eric Winoker

*Sanford C. Bernstein & Co. LLC*

Q

It's in the last – it's in the 10-K on page 8 from this year.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

I'll have to look at that.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

Yeah.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

I'm not sure what you're referencing. I apologize.

Steven Eric Winoker  
*Sanford C. Bernstein & Co. LLC*

Q

Okay.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

I'm happy to follow up with you on that.

Steven Eric Winoker  
*Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

But let me take a look.

Steven Eric Winoker  
*Sanford C. Bernstein & Co. LLC*

Q

No problem. But it is there on page eight. It says new products from – revenues from new products introduced the last three years. So, it's an MPVI reference and I looked at it this morning, so I'd love to understand that.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. I'll have to look at it, Steve, sorry.

Steven Eric Winoker  
*Sanford C. Bernstein & Co. LLC*

Q

Okay. Okay. That's fine. We'll follow up offline. I'll pass it on. Thanks.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

No problem. Thanks, Steve.

**Operator:** The next question comes from the line of Matt McConnell with RBC. Please go ahead with your question.

Matthew McConnell  
*RBC Capital Markets LLC*

Q

Thank you. Good morning.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Hey, Matt.

Matthew McConnell  
*RBC Capital Markets LLC*

Q

You talked about the order ramp through the quarter, and certainly each month got better. How does that compare to the normal seasonality? So, was that ramp-up in orders through the quarter the same as what you typically see, or was it – were the underlying trends better?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

It was a little bit stronger, Matt, than what we had seen. Now, typically, you will see some difference between early on in the month – early on the quarter to later on the quarter. But it did improve especially on the sales basis. But even on the orders, it was a little bit better than what we've seen in the past.

Matthew McConnell  
*RBC Capital Markets LLC*

Q

Okay. Great. And then on the balance sheet, how much of your cash is accessible right now, because you did the private placement ahead of a pretty strong cash generation period over the next couple quarters, I would expect. So, of that \$360 million, how much is kind of available and if you were to have U.S. needs?

Heath A. Mitts  
*Chief Financial Officer & Senior Vice President*

A

Well, Matt, this is Heath. Most of that, as you can imagine, is offshore and most of it resides in Europe with some in China as well. So, it would be fair to say, we're probably pretty easily get our hands on about \$200 million of it without having to do too much on the tax side in terms of dividend-ing things back and forth. But it's somewhere between \$150 million and \$200 million would be easily accessible and then all of a sudden it gets a little more challenging.

Matthew McConnell  
*RBC Capital Markets LLC*

Q

Okay. Great. Thanks very much.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Thanks, Matt.

**Operator:** Our next question is from the line of Mike Halloran with Robert W. Baird. Please go ahead with your questions.

Mike P. Halloran  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Hey. Morning, everyone.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Good morning.

Mike P. Halloran  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Hey, just a quick follow-up on Matt's first question. When you look at orders as they've tracked through the quarter, did orders turn positive as you've got to that June month with that ramp through the quarter or are you still tracking modestly negative by the end of the quarter?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

You mean...

Mike P. Halloran  
*Robert W. Baird & Co., Inc. (Broker)*

Q

On a month-to-month basis.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

June versus June comparison?

Mike P. Halloran  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Yeah, year-over-year, sorry.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. Let me go back and look at that. I'm going to say yes, but I don't have the number right in front of me. Just by the nature of where it was coming out in April versus where we ended for the quarter, the answer to that is going to be yes. But I got – let me caution you on that, right? Any one month of orders into our sales is not a good parameter for direction.

Mike P. Halloran  
*Robert W. Baird & Co., Inc. (Broker)*

Q

No, no, absolutely, but orders turning positive for the first time in a while, just curious if that was the case. And then on the CapEx side, you guys lowered that from \$50 million to, I think you said on the call, \$40 million to \$45 million. The deck says \$45 million. Anything behind that, Andy, or is that just kind of normal machinations?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

No, it's just normal stuff. You end up – typically, you come into the year with a pretty large wish list, right? And as the year gets down, as you look at the ability of the units to actually absorb the capital, it just tightens over time. That's a pretty natural pattern for us.

Mike P. Halloran

*Robert W. Baird & Co., Inc. (Broker)*

Q

All right. So, it's tightening and not incremental concern from your perspective on the environment and investability.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

No, not at all.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

No.

Mike P. Halloran

*Robert W. Baird & Co., Inc. (Broker)*

Q

Great. Appreciate it.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Thanks, Mike. Take care.

**Operator:** Our next question is coming from the line of Allison Poliniak with Wells Fargo. Please proceed with your questions.

Allison A. Poliniak-Cusic

*Wells Fargo Securities LLC*

Q

Hi, guys. Good morning.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Hi, Allison.

Allison A. Poliniak-Cusic

*Wells Fargo Securities LLC*

Q

Andy, can we just go back, I think it was Nathan who asked the question on stabilization. I think last quarter when we talked, you noted some stabilization but you still thought there was a lot of risks versus opportunities out there right now.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah.

Allison A. Poliniak-Cusic

*Wells Fargo Securities LLC*

Q

I mean, has that changed at all for you and your thoughts?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. I think the bottom has come up a little bit, Allison. So, I certainly – I'm not going to take away all the concern that I had. If I look back toward last quarter, the big concerns that I really had were around softness on the industrial side potentially moving into a recession, and then the really big questions on China, and then finally, just kind of the constant concerns in Europe.

And so, if I were to kind of step forward and say what's changed since then, China had stayed exactly the same. I think Europe we've actually performed better. We've had pretty strong performance specifically in dispensing and in water. But the Brexit stuff, it just puts a level of uncertainty that, frankly, it's hard to get your arms around what exactly that could mean. So, I'd say – in total, I would say that's modestly worse than where we were a quarter ago. And in the U.S., with another quarter of stabilization in industrial distribution, I think that's modestly better.

Allison A. Poliniak-Cusic

*Wells Fargo Securities LLC*

Q

No, that's great. Thanks. And then just on acquisitions, you brought in obviously your pipeline. Is there any area that may be looking particularly more attractive in this environment or a product category that you guys are a little bit more focused on in that pipeline?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Not necessarily. As you know, we kind of think of our pipeline around kind of four major areas, right, so industrial fluids, HST components, engineered fastening, and then around Fire & Safety. So if you look at our pipeline, it's pretty decent throughout. I will say that within the HST world, things are still at really frothy levels. And so, you've just not seen as many opportunities nor is the cultivation kind of moving along as rapidly as you would love.

That being said, in the other three areas, it's pretty good. So, we're continuing to work that. We work at every single month, so it's just – it's ongoing strategic process for us. And right now, it looks pretty decent.

Allison A. Poliniak-Cusic

*Wells Fargo Securities LLC*

Q

That's great. Thank you, guys.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Thank you.

**Operator:** The next question is from the line of Charley Brady with SunTrust Robinson. Please go ahead with your question.

Charles Brady

*SunTrust Robinson Humphrey, Inc.*

Q

Hey, thanks. Good morning, guys.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Good morning, Charley.

Charles Brady  
*SunTrust Robinson Humphrey, Inc.*

Q

Hey, I just want to comment on the commentary around the Brexit commentary. I mean, you – are you hearing anything specific subsequent to that vote from customers, or have you seen any movement in terms of projects being slowed or pushed out, or is it just kind of, you don't know what's going to happen yet, but nothing definitive from a customer base standpoint?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. It's nothing definitive. And just to give you some kind of some sense of what it all looks like, right? So, if you look at our total revenues, it's about 5% or so of the business that's moving through the UK. Our cost base is actually, on a comparative basis, a little bit higher. So, we actually have a decent hedge there all in all. So, I don't think we're going to get pounded from a transactional or translational perspective. It's pretty well-hedged. And so far, we haven't seen that play itself through except for how currencies have moved and what that's done on a translational basis.

I think the bigger concern for me, Charley, is if that starts contagion, right? That's the – I think the UK in and of itself is not a huge concern. The bigger concern is if it starts to kind of – a snowball starts to roll here throughout Europe.

Charles Brady  
*SunTrust Robinson Humphrey, Inc.*

Q

Right. Thanks. That's helpful. And just one more. On HST, can you give us a little more granularity on the industrial piece of that business? How much was that off, and did you see, in terms of stabilization of that business, improvements through the quarter as well, or was it just kind of soft throughout?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Except for gas, right? So, gas is a pretty good-sized business for us and it's a good profit generator. And unlike what we saw in FMT where we saw Viking and Rupp, we saw some really nice stabilization there. We did see continued softness into gas. Remember, gas has – a good chunk of its business is going into the scientific world, and then it's got – the majority of its business, frankly, that's general and industrial, and it's the general industrial piece that continued to be soft. And so, we're keeping an eye on it. But if you look at – four things that we kind of look at as early indicators, Viking, Rupp, gas, and BAND-IT. Three of the four certainly saw some positive signs from stabilization. Gas was the outlier.

Charles Brady  
*SunTrust Robinson Humphrey, Inc.*

Q

Thanks.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah.

**Operator:** The next question is from the line of Scott Graham with BMO Capital Markets. Please go ahead with your question.

R. Scott Graham  
*BMO Capital Markets (United States)*

Q

Hey. Good morning.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Morning, Scott.

R. Scott Graham  
*BMO Capital Markets (United States)*

Q

So, you indicated that during the quarter that you felt better about orders, and I know you talked about that more in a sequential basis. And I think others are asking and I was going to ask the same thing about the year-over-year. And you cited in particular feeling better about distribution. Yet the distributors are kind of saying, it went the other way in the middle of the quarter. So, I'm hoping you could help us with that a little bit particularly year-over-years would be helpful and the months.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

You got to remember, Scott, when you – the stuff that came out this morning from some of the distributors are the commodity distributors, right? And we play very minimally there. We're playing more in the value-added side of distribution that bring engineering content to work. So, I fully recognize that what you saw specifically out of Grainger here this morning flies in the face of some of the stuff that we saw in the quarter. But remember, we just don't play a lot in their world of distribution.

R. Scott Graham  
*BMO Capital Markets (United States)*

Q

Okay. I just would add that MSC Industrial and Fastenal, which are maybe a little bit more engineered than that...

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

They're really not, Scott. Those guys all play in that same world of pretty much commoditized piece part, so...

R. Scott Graham  
*BMO Capital Markets (United States)*

Q

Okay. Fair enough.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

So, we touch them very modestly. That being said, I fully – we pay attention to them, too, and what's going on in the marketplace. And so, I think that's – you're making an important point here. What we're seeing are signs of

stability. To be very, very clear, we're not seeing signs of continued erosion, and I think what we are seeing in the marketplace and everybody has been seeing in the marketplace certainly around anything that was commodities-related and then the derivative impact had been continued negatives. And where we're seeing some stability, I know that's not exactly the most encouraging statement in the world, but stability to me is encouraging, given what we had been experiencing.

R. Scott Graham

*BMO Capital Markets (United States)*

Look, I'm with – stability is the new up, Andy. So...

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Doesn't feel very good, does it?

A

R. Scott Graham

*BMO Capital Markets (United States)*

No, it doesn't. The other question I had was around pricing. Are you guys still pricing positive?

Q

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

We are.

A

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Yeah. We are.

A

R. Scott Graham

*BMO Capital Markets (United States)*

And there's still a gap between that and inflation?

Q

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

Yeah. For sure, Scott. This is Heath. The numbers in Q2 were very consistent with what we've seen in the past, both on the absolute gross pricing as well as the spread that we would see in this environment, so...

A

R. Scott Graham

*BMO Capital Markets (United States)*

That's great. And maybe more specific to Allison's question earlier, is there something that you think in the second half that you guys could close, anything you're – maybe further down the funnel that you would say maybe we can get another nice-sized deal closed in the second half?

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Listen, Scott, we're – I'm going to give you an unfulfilling answer and that is that we're always in different levels of diligence for a variety of different things. And some things break our way and some things don't, and we'll see. But

A

you would expect that the process that we followed historically would be consistent with what we would do for the remainder of this year and going forward.

R. Scott Graham

*BMO Capital Markets (United States)*

Yes. Unfulfilling. Okay. Thanks.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

[indiscernible] , Scott.

A

R. Scott Graham

*BMO Capital Markets (United States)*

Thank you, guys.

Q

**Operator:** Our next question is from the line of [Andrew Bahr] with Jefferies. Please go ahead with your questions. [Mr. Bahr] your line is open for questions.

Q

Hey, good morning, Andy and Heath.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Good morning.

A

Hey. A question on the fourth quarter here. You guys mentioned, as we're looking at like core sales decline in the first half and core sales is expected to improve in the second half now, that is more like fourth quarter-driven here. Could you give us some more clarity from segment perspective? What is going to drive, which segment we should think about?

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

You mean to get to the \$550 million for the fourth quarter?

A

Yes.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. So, again, the answer – let me touch two things and then I'll answer the question. The first one is I think is to recognize that the \$550 million is the identical number to what we just delivered. So, it's not like we're looking at a big – a giant step-up here. So, I think it's important to note that we're not calling for some massive breakout in sequential economic performance here in the fourth quarter.

That being said, we do have some visibility with some of the large chunks of business that Heath mentioned earlier, that we see kind of moving us sequentially to that number. We do have some natural seasonality. So, when you put those two things together, it's just not a huge reach to get to that \$550 million. And so, is it \$445 million, is it \$555 million plus or minus, but around that number feels pretty good.

Q

Right. Yeah. Because the second quarter you just mentioned about, like, oil and gas, a few projects which came in the last week of the quarter here, right. So, I'm just thinking about, like, are there any big buckets which you are looking at whether it will be in FMT or HST and we're seeing HST and [FST] kind of organically weak here for the first two quarters, and should we think about, like, some improvement in those markets or should we bank more on the FMT side of the business to kind of drive?

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

Our visibility in the fourth quarter is not dependent upon a lot of project activity. There are some natural things that would be more seasonal in nature in, for instance, energy business, but not necessarily project activity in that regard. But if you go back over time, I think you would see that Q2 and Q4 largely look – have a similar profile.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Andrew, the pattern that we're talking about is not abnormal at all.

Q

Okay. Okay. And on the question on the capital spending here. Somebody did mention that you lowered the CapEx here. Any particular segment or was it kind of broad-based here, the \$10 million.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

We're wholly funding the things that we outlined for the year. We're moving forward with the investment in the facility in China that we had talked about, and we're actively investing in and pursuing investment. So, this is more, Andrew, just a tightening of expectations kind of given what we see how people are going to absorb capital here through the balance of the year.

Q

Okay. And lastly, just the – some question on the incremental interest expense and the AWG, this type of inventory charge for the third quarter. I think you did give some numbers. I just wanted to clarify, if you can give those again.

Michael J. Yates

*Chief Accounting Officer & Vice President*

A

Hello. This is Mike Yates. In the third quarter, we'll have a \$2 million – approximately \$2 million charge, including cost of sales for the AWG step-up fair value inventory charge. And for the back half of the year, interest expense will increase about \$0.02, about \$1 million each quarter, as a result of the \$200 million private placement that we completed in June. That's just the difference between the blended rate on the private placement of about 3.3% compared to the revolving credit facility rate because we used the proceeds to repay down the revolver. The revolver is about 1.5%, 1.55%. So, that delta drives about \$0.02 of incremental interest over the back half.

Q

Okay. Thanks a lot, Mike. Thank you, guys.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Thank you, Andrew.

**Operator:** Our next question is from the line of Brett Linzey with Vertical Research Partners. Please go ahead with your question.

Brett Logan Linzey

*Vertical Research Partners LLC*

Q

Hi. Good morning.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Good morning, Brett.

Brett Logan Linzey

*Vertical Research Partners LLC*

Q

Just wanted to come back to Fire & Safety. I was a little bit surprised, down revenues against a down 11% comp. It certainly has some pressures in the rescue side of the business. Could you just sort of unbundle the different businesses and talk about those trends? And do you see any firming in some of the more challenged pieces as we look into the back half here?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. So, first of all, Brett, again, as I mentioned before, the disconnect between – the 9% down organic in orders, right, and the 1% in sales, that's a very typical – that gap between those two things is not substantial.

As you look across the businesses, again, the places that have showed strength, dispensing showed strength. BAND-IT has continued to be weaker, right, because of the industrial exposure as compared to last year. Rescue has been weaker, really with the international rescue tools marketplace continued to be soft. And the Fire business has been okay, generally. So, when you kind of put that together, that's the bulk of the split.

Brett Logan Linzey

*Vertical Research Partners LLC*

Q

Okay. And then I guess as you look at the BAND-IT piece and the rescue international, as we look at the back half here, do the comps start to ease or do you think that sort of rolls into 2017?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. They do to some degree. From a BAND-IT perspective, it gets easier really around the oil and gas side of the marketplace. Rescue is a little bit of a wild card just because – it's been soft now, but we're into a year-and-a-half here, frankly, of the rescue business, the international rescue business being soft. Mind you, the U.S. business has been terrific, and eDRAULIC 2.0 and now StrongArm continued to be good pieces of the business for us.

It's really around countries that are buying through central purchasing that you've seen the weakness. Obviously, in the Middle East and in Asia with lot of the crises that's going on around the world there, that's been the weak part. So, while theoretically, there are easy comps, we're expecting that business to be pretty soft here through the back half of the year.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

I think on the organic front, the comps specifically for Fire & Safety/Diversified segment gets much, much easier in the fourth quarter, so...

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

In total.

Heath A. Mitts

*Chief Financial Officer & Senior Vice President*

A

In total for the second. So, I think in the third quarter, we could still see some pressure just based on where the prior year came in. But in the fourth quarter, without much sequential improvement, we do see quite a step-up on the organic side.

Brett Logan Linzey

*Vertical Research Partners LLC*

Q

Okay. Great. And I just want to come back to AWG and Akron. You've owned the businesses for a couple months now. You're kind of working through the integration process. I guess, what's the margin opportunity you see today? And then, separately, as you look at some of the selling channels, top line opportunities as you pull through those different products, how are you thinking about the business in sort of the go-forward here?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

So, I think with both of them, we're targeting about a 500-basis-point profit improvement over a three-year period and, obviously, we would work to bring that forward as much as possible. So, the basic economics of both businesses look very, very similar to our original Fire business. And our Fire business has meaningfully better

overall economics that we think we can get close to with both Akron and the AWG over time. So, we're going to see a nice improvement in profitability and, therefore, driving returns on capital both those businesses from that.

On the commercial side, the benefits on the commercial side are certainly in the U.S. as you look at the Akron business and our existing Fire business. There's a lot of channel overlap, and I think there's a lot of opportunity to bring a better overall product portfolio to market and to be able to do that in a way where we're bringing kind of all of the high-value content from a flow perspective to the OEMs and to the marketplace. So, I think there's definitely some benefit there.

In terms of AWG, AWG and Akron were both the leading players in their respective markets. And so, you've got the number one player in the U.S., the number one player in Europe. There are some materials and technology differences that will take some time to play through. You're not going to just willy-nilly integrate things that don't make sense. You want to be really sensible about that. And the channel overlap is a little bit less there, although there are some nice benefits of having it within the LUKAS umbrella, AWG within our LUKAS umbrella which is our principal rescue tool business.

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**Brett Logan Linzey**

*Vertical Research Partners LLC*

Q

Okay. Great. And if I could just sneak one more in here. So, you've restructured the business to some degree. You've done a real good job on productivity. If we do see some modest inflection within this industrial complex, I guess how should we think about incremental margins relative to the 30% to 35% that you guys have talked about in that sort of modest improvement environment?

---

**Andrew K. Silvernail**

*Chairman and Chief Executive Officer*

A

There's absolutely no reason that we wouldn't achieve those targets. If you assume that you move from what has been a flattish world to a 2% to 3% world, there's no reason that we wouldn't be able to deliver at those rates. If you saw something that was better than that, say, 3% to 4%, I believe for some period of time, you would see even higher incrementals.

---

**Brett Logan Linzey**

*Vertical Research Partners LLC*

Q

That makes sense. That's all I had. Appreciate it.

---

**Andrew K. Silvernail**

*Chairman and Chief Executive Officer*

A

Thanks, Brett.

---

**Operator:** Our next question is from the line of Matthew Mishan with KeyBanc. Please go ahead with your questions.

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**Matt Mishan**

*KeyBanc Capital Markets, Inc.*

Q

Yeah. Good morning and thank you for taking my questions.

---

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Morning.

Matt Mishan  
*KeyBanc Capital Markets, Inc.*

Q

Hey. So, it looks like you call like \$6 million in the quarter from those delayed energy projects. I'm assuming those were not included in guidance for the second quarter. And you still – even with those, you still came in at a decline of 1% organically versus flat guidance. Does that mean the quarter is actually coming in worse, leading up to those orders at the very end of the quarter? And how does that reconcile with the commentary where you're seeing kind of stability and some level improvement?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. So, Matt, I think you're mixing and matching a few things. So, let me set – break them out. First one is around those projects specifically, about half of that \$6 million, we had baked into our expectations and about half wasn't. And, obviously, you guys wouldn't have any insight to that going into the quarter. And so, you're talking \$3-ish million or so of revenue that was a little better than expected, plus or minus.

In terms of that relative to the commentary of stability, you're really talking about two very different markets, right? One is the projects we're talking about were principally around energy and things that had sit in backlog for quite some time, and the comments around stability were really around North American industrial markets. So, two different pieces that I think is important to distinguish.

Matt Mishan  
*KeyBanc Capital Markets, Inc.*

Q

Okay. Got it. And then, what are you hearing from your life science customers around the timing of spending from increased NIH budgets and what they're spending on?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. Nothing that's material. That's been a good news story for that part of the business here for a couple of years now. Spending started to increase. As you know, the aggregate spending itself is not that big a deal, right. So, how much is being spent by NIH is not that big a deal. It tends to be a catalyst for the industry, right. So, the \$35 billion or so that gets spent by NIH and it gets distributed incredibly broadly across the scientific complex in and of itself does not drive a lot of business. It is really what it does to catalyze the industry around research and around production. So, in my view, it continues to be a net positive, but I don't think it is something that's an inflection.

Matt Mishan  
*KeyBanc Capital Markets, Inc.*

Q

All right. Got it. And last question from me is I think you brought down your net share repurchase to 1% from 2% for the full year. Is that a function of where the stock is or is that a function of the acquisition pipeline?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

The pipeline has been pretty good already with AWG and with Akron in total. We've put a decent amount of money to work. And we've laid out a very clear capital deployment strategy for people and how we thought about share repurchase. And the combination of those two things are part of our discipline.

Matt Mishan

*KeyBanc Capital Markets, Inc.*

All right. Thank you very much.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Thanks, Matt.

A

**Operator:** Our next question is from the line of Jim Giannakouros with Oppenheimer. Please go ahead with your question. Mr. Giannakouros, your line is open for questions.

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Hey, sorry. I was on mute there. Good morning, guys.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

Hey, Jim.

A

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Sorry if I missed numbers to this, but just to better understand the trends that you're seeing in HST, if that segment is roughly two-thirds life science, et cetera, one-third industrial, what are the order growth trends that you're seeing in each of those buckets that gets you to that kind of flat that you printed for 2Q, or what are the growth expectations for each bucket in the second half just to better understand what the orders of magnitude that are contributing to your outlook in HST? Thanks.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

So Jim, we don't break it down that finitely. But just to give you just some kind of bigger picture, about half of it you would call industrial and about half you would call truly scientific. And so you can kind of piece together that the scientific stuff is up low- to mid-single digit generally and the industrial stuff is kind of down the same, plus or minus in the quarter. And I think what you get is you get some firming from the industrial side in the back half in about the same kind of rate on the scientific side in the way you think about the back half.

A

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Got it.

Q

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Very general numbers.

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Q

Fair enough. That's in line with how I was thinking about the scientific side, just given half what the OE guys are saying.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah.

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Q

One follow-up, if I may, just not to harp on Europe but just to get a better understanding. If you can provide it on the end markets, whether – you said water is a source of strength. I believe you cited Europe as well as North America. But in Europe specifically, just given your views that Brexit just adds another layer of uncertainty, where would you say are you more uncertain or there's more risk? Would you say that muni and commercial are just as much at risk or maybe muni-related type of spending might be a little bit more stickier?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

I think in the short term, I think the muni spend generally tends to have more stickiness to it, Jim, just because the budget cycles move much slower. And I think that's true in Europe as well as in the United States. So with big economic shifts of any kind, municipal tends to be a laggard in one way or the other, right, whether it's a positive laggard or a negative laggard.

That being said, the concern, right, that I have – that concern around contagion, if that were to play itself out, it's going to be a tough world there, right? And so far, there aren't kind of screaming indicators of that being the case, but obviously we're watching pretty closely. If we start to see it unraveling, if you start to see two or three other significant countries decide that they no longer want to play, our view is that that gets messy pretty fast.

Jim Giannakouros

*Oppenheimer & Co., Inc. (Broker)*

Q

Fantastic. Thank you.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Thanks, Jim.

**Operator:** Our next question is from the line of Walter Liptak with Seaport Global. Please go ahead with your questions.

Walter Scott Liptak

*Seaport Global Securities LLC*

Q

Hi, thanks. Good morning, guys.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Hey, Walt.

Walter Scott Liptak  
*Seaport Global Securities LLC*

Q

Wanted to ask you about kind of a follow-up to an earlier question about the new products. And I'll phrase it this way, you guys have done a great job with the operational performance and getting margin even with revenue declines the last year and a half or so. Are there programs in place for organic growth? And I guess asking about the processes that might be different from the past for new products, new markets that might help you get more revenue growth in this very slow growth environment.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Walt, I would not put it in the phrase of programs or processes. It's just – it's what we do, right? And it's just how you run the businesses. And there's no doubt that the economic conditions have been challenging. We face that, too. But when you lay us out against our peer group, and I actually think we – even though I'm not very thrilled with the performance, I think we've performed pretty well organically even though it's been a challenge. And if you kind of lay that out against our peer group that we called out in our proxy or really the peer group that we get compared against, I think you'd see that we have pretty favorable results, both organically and in total.

That being said, how we think about this, Walt, is we've got about two-thirds of our businesses that I've squarely put in the growth category and in our businesses that we're going to continue to very, very aggressively fund and drive for organic performance. And then we've got about 25% that I'd put it in the world of fixed where there's something substantially that needs to be changed in those businesses to position them for future growth. And then you got some stuff that's kind of in the middle that you're really asking to hold their own in the marketplace and certainly win, but you're not asking for giant ambitions around growth.

And so our process is really around differentiating where different businesses fit in that world and then investing and having expectations that are differential. And that's how we think about our portfolio and that's how we think about driving performance. So in those businesses that are in that fixed category, our expectation is really around total profit growth, right? Expansion in margin and total profit growth. And those businesses that are in the growth category, it's around finding product and market entrants and application that you can drive it differentially. And so that's how we break it down. Think of it not so much as a program or a new process.

Walter Scott Liptak  
*Seaport Global Securities LLC*

Q

Okay, got it. Okay. Thank you.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Thanks, Walt.

**Operator:** Our next question is from the line of Matt Summerville with Alembic Global. Please go ahead with your question.

Matt J. Summerville

*Alembic Global Advisors LLC*

Q

Thanks. Now just a couple of things, first, just in terms of maybe talk about the underlying trends you're seeing as we think about bidding activity in oil, gas and chemical, more of those process-oriented markets. Just the absolute level, but also then the conversion rates that you're seeing now in terms of converting a bid to an order and an order to a shipment, so we're getting the quarter-end benefit that you guys had. If you can comment on that, that'd be great.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. Yeah, sure. So, Matt, as you know, we don't touch that very closely. It's a very, very, very small part of our business. You're talking 2%, 3% that plays in that world, generally, that's playing in that large-scale bid world and so we don't have – we're not going to do the efforts on visibility into that world, except to say for those places that we do touch it, there has not been a material increase, right? So the benefits that we got at BAND-IT were around MRO as you saw kind of oil spike. In terms of the other small pieces where we play upstream, there has been no – nothing materially changed in overall activity rate. Rig counts have in-step here recently, but we haven't seen anything that would tell us that there's a significant turnaround on the near horizon.

Matt J. Summerville

*Alembic Global Advisors LLC*

Q

And then just lastly, you hit on this briefly with one of your recent responses, but how are you thinking about both the secular and cyclical factors that impact kind of the life sciences side of things and the water/muni side of things? What inning are we in, in each one of those? And I guess this is more of a question on not necessarily Q3, but just...

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah...

Matt J. Summerville

*Alembic Global Advisors LLC*

Q

...looking out over the next 12 months to 18 months, how to think about that.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

So, Matt, when it comes to the life science side, the cycles tend to be driven more around new products than on kind of market demand. Market demand in many, many ways gets defined by new product introduction, right? So as you're able to cure, to test, to develop new things with new technology, that tends to be the stimulant for demand around the life science world. And I think we're in a pretty good phase right now where new products are launching, I think there's a pretty good cycle here in 2016/2017. So I expect it to be pretty to be decent.

That being said, we have seen in the past, as you get a bulk of new product introduction, sometimes you'll see a quarter or so pause as they're ramping up to move through their channels. So we keep an eye out for that. There's nothing that tells us that's imminent, but we'd definitely keep an eye out. But I think generally, we're still in the early to mid innings of that phase there.

I think on the municipal side, Matt, we're still pretty early. And what I mean by that is you've just got to remember how tight municipal spending was for so long. So, certainly in the Western world, what are we? Two years into the expansion here, the improvement? And we think you've got another at least three or so years, maybe even longer, assuming you don't get a major macroeconomic shutdown. That would tighten budgets and that would tighten municipal spending. But there's still – there's a lot of backlog in municipal spending in the Western world right now.

Matt J. Summerville  
*Alembic Global Advisors LLC*

Q

Great. Thanks a lot.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Thank you, Matt.

**Operator:** The next question is from the line of Jim Foug with Gabelli & Company. Please go ahead with your question.

James Foug  
*Gabelli & Company*

Q

Hi. Good morning, Andy and Heath.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Hey, Jim.

James Foug  
*Gabelli & Company*

Q

Good quarter.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Thank you.

James Foug  
*Gabelli & Company*

Q

Just a couple of questions. So on the Brexit impact, where would you see this if the events unfold not as good as expected?

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah. So I mean, again, I'm not as worried about the UK itself, so to speak, because I feel like we're in a pretty good position where our – when you compare our revenue base and our cost base, I think we're in a pretty good spot. So depending upon how dramatic currencies change, depending about whether or not you start to see inflation in the UK. The places that you could see is – we've got 5% of our business that's in the UK.

James Foug  
*Gabelli & Company*

Q

Okay.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

You could see some inflation ramp up there, so you've got to keep your head around that. And then the other parts, whether it's how demand switches patterns, I don't see a big issue with that, again, because of the natural hedge that we have between where we build and where we sell. Again, Jim, I think the bigger concern for me is if this starts to roll itself through broader Europe. That's my bigger concern.

James Foug  
*Gabelli & Company*

Q

So you basically would just come down to the order rates, right? I mean, you didn't see anything in the June order rate, right? Because we saw kind of good numbers growing sequentially...

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

We haven't seen anything yet. There's just a lot of noise. And so when you see that amount of noise – and I'm also realistic about the European Union. With everything that's gone on, it's still – there's a lot of fragility to it. And a major player deciding it doesn't want to play anymore can have the effects and starting to unravel some pretty important pieces.

James Foug  
*Gabelli & Company*

Q

Are you currently seeing delay in potential orders where if we don't get the worst case scenario of Brexit, some of these orders could...

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Not yet, Jim. We haven't seen anything yet.

James Foug  
*Gabelli & Company*

Q

Haven't seen anything? Okay.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

No.

James Foug  
*Gabelli & Company*

Q

And then just moving on. Just to the energy shipments, what drove the customers to take delivery in Q2? I mean, is it because of the confidence in the higher oil prices relative to the past or delay in budget?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

No, it's – ultimately, it's a little hard to tell. And these are things that require cash on hand and letter of credit.

James Foung

*Gabelli & Company*

Q

Right.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

And so when they happen, they happen. And what allowed them to either have the cash or get the letter of credit signed, honestly, it's hard to have any insight into that, but it's clear that those things kind of happen in conjunction with a few things at the same time.

James Foung

*Gabelli & Company*

Q

Are you seeing any positive indications from customers in terms of your book-and-ship industry business?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

No.

James Foung

*Gabelli & Company*

Q

Yeah.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah. Just – I mean, aviation, as we talked about before, that continues to be good. But just on the normal book and ship, nothing of note.

James Foung

*Gabelli & Company*

Q

Yeah, okay. Okay. Thank you very much.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Thanks, Jim.

**Operator:** The next question is from the line of Joe Giordano with Cowen & Co. Please go ahead with your question.

Joseph Giordano

*Cowen & Co. LLC*

Q

Hey, guys. Good afternoon.

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Hey, how are you? We hit afternoon already?

Joseph Giordano

*Cowen & Co. LLC*

Q

I guess we're getting there. Quick for me. I think you mentioned with Akron like a 500-basis-point margin opportunity over the next three years. Would that get you to kind of where the segment is now, or is that a little bit – get you a little bit below where the segment...?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Yeah, it'll be a little lower. It'll be a little lower, but it'd be very attractive.

Joseph Giordano

*Cowen & Co. LLC*

Q

Okay. And then just the capital deployment events more recently towards fire and rescue, is that more indicative of just the valuation in that market? Or rather than like necessarily the forward prospects, is that just where you're seeing the best long-term value based on what sellers are asking for?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

Well obviously, with both AWG and with Akron, we got – we bought the businesses at reasonable valuations. A lot of it have to do with when properties are available. And so obviously, with Akron, that was driven by the seller's need. And as I think we've mentioned in the past, we had been talking to them and about that business for some time and that they decided strategically what they needed to do. That really opened up the opportunity.

And then of course, AWG was owned by a private equity firm. And as pieces and parts start to move in any one industry, it tends to de-catalyze other movement. It had been owned for a few years and what-not and they had done some good things with it. And so I think our purchase of Akron probably started to open up that market a little bit, and we were the natural buyer in both cases.

Joseph Giordano

*Cowen & Co. LLC*

Q

If another property of size in that market was to come available, was that something you'd pounce on despite you've put in a lot of capital into those markets over the last year?

Andrew K. Silvernail

*Chairman and Chief Executive Officer*

A

I don't – first of all, I don't see that happening. There's nothing – there's lots of little things, but there's nothing that would fit that definition today. So I wouldn't expect it today. I mean, obviously it's the greatest thing in the world. If a very cheap price were to come up, certainly we would consider it. But as it looks right now, I don't see anything kind of on the immediate horizon like you've described.

Joseph Giordano  
*Cowen & Co. LLC*

Q

Cool. Thanks, guys. I appreciate it.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

A

Yeah.

**Operator:** Thank you. At this time, I will turn the floor back to Andrew Silvernail for any closing remarks.

Andrew K. Silvernail  
*Chairman and Chief Executive Officer*

Well, thank you all very much. I appreciate the questions here today and I appreciate your interest in IDEX and the support of the business. When it's all said and done, the conditions that remain today are very similar to what we've seen in the past year or so with some benefits of some industrial stability here in the United States that we saw in the quarter.

But mostly, it's really around the teams' ability to execute. And that's what I'm most proud of, our ability to continue to drive performance in an environment that is still murky. And so I really appreciate my team and I thank them for all their performance, and I look forward to talking to you all again here in 90 days. Thank you.

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

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