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IDEX Corp. (IEX)

Q4 2016 Earnings Call

CORPORATE PARTICIPANTS

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

OTHER PARTICIPANTS

Mike P. Halloran

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

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Andrew Krill

Analyst, RBC Capital Markets LLC

Nicholas K. Chen

Analyst, Alembic Global Advisors LLC

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Patrick Wu

Analyst, SunTrust Robinson Humphrey, Inc.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Joseph Giordano

Analyst, Cowen & Co. LLC

Chris Dankert

Analyst, Longbow Research LLC

Bhupender Bohra

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation Q4 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Great. Thank you, Doug. 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 fourth quarter and full year financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the quarter and year ending December 31, 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.

Joining me today is Andy Silvermail, our Chairman and CEO; and Bill Grogan, our Chief Financial Officer.

The format for our call today is as follows. We will begin with Andy providing an overview of the fourth quarter and full year financial results. And then he will provide an update on our markets and our geographies and discuss capital deployment. He will then walk you through the operating performance within each of our segments. And finally, we'll wrap up with an outlook for the first quarter and full year 2017. Following our prepared remarks, we'll 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 13652250, or you may simply log on to our company's homepage for the webcast replay.

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

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

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

Thanks Mike, and good morning, everybody. I appreciate you all joining us for the discussion of our 2016 fourth quarter and our full year results. Before I get going, I want to introduce Bill Grogan, our new CFO. Bill, welcome to the senior executive team and the CFO chair. Bill has been with us for more than five years and most recently was head of our Financial Group for Operations, working side-by-side with Eric Ashleman. And so he really did an outstanding job there with building the teams, driving the operating model and has been a key part to our overall success in terms of driving results in the last half decade. So, congratulations, Bill, and welcome to the team.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Andy.

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

Also I want to thank Mike Yates. Mike has really stepped in the late summer when we had the interim chair open up and did an outstanding job. And I think it's a real testament to Mike that we did not miss a beat through this process, and really we are incredibly fortunate to have somebody of my Mike's caliber on our team and continuing on our team as we go forward. So thank you again, Mike, very much. I appreciate it.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Very welcome, Andy.

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

So, I want to take a second here and just summarize 2016. As everyone knows, it was a difficult year in terms of the top line with a challenging global industrial environment. At the same time, we did a really nice job on the bottom line and with cash flow. And so, even with these mixed economic conditions throughout 2016, there were some bright spots. And they were really around our Scientific Fluidics business, municipal and commercial markets. And all of those actually performed reasonably well in the year.

And then, we had some major headwinds, really around the global industrial markets, clearly within FMT and then the industrial pieces of HST. But I will say, as we had organic order growth in the third quarter and again organic growth in the fourth quarter and a promising start to January, we're cautiously optimistic that we're beginning to see a recovery.

With that said, I am hesitant, and I'm hesitant because I'm not convinced yet that we're seeing a comprehensive turn. And really I'm not because the global economic environment and very much the global political environment is volatile and it's uncertain, and I think it's prudent at this stage to be more conservative than aggressive.

And as we built our plan for this year, we took in mind all of the volatility that's out there. And as you guys full well know, we can respond very well on the upside. We have a very flexible operating model. We have low overall labor content in our business. We really have no capacity constraints in terms of machinery, equipment or facilities. So really it's supply chain that becomes the sticking point in the upside. So we can respond very quickly. We would have outstanding flow-through in case that happened, but we're going to be prudent right now.

And so as we exited 2016 and I look back, I'm very proud of how our team executed. We drove productivity. We improved working capital and we continue to invest in our teams and the culture of this business. And we come into 2017 with a very strong balance sheet. We have gross leverage of 1.8 times and, obviously, net leverage significantly below that, cash flow is strong, and we're in a great position to exploit this via our capital deployment strategy, that's fundamentally unchanged here for almost a half decade that we've been using and has been driving returns for us.

As I mentioned, we did see positive order trends in the third and the fourth quarter, the initial signs in January are decent, and we're hoping that the global growth challenges are leveling off. But as I said, we're going to remain cautious with the uncertain environment. We do believe that there is a backdrop of low growth as we think about planning our 2017, and so we are going to be prudent with this uncertainty of the economic and the political environments.

As we look at the year, orders grew sequentially each month in the fourth quarter and the improvements were broad-based across our portfolio, so virtually every business saw improvements as we moved through the quarter. And this resulted in organic order growth of 3%.

In the second half we had our first two sequential positive order growth quarters since the beginning of 2014. So again, that's encouraging. We also deployed over \$0.5 billion last year, we acquired three businesses as you know. And we also divested four businesses, I'll get into more detail here in a minute. But the four businesses that we divested weren't aligned with our strategic objectives and I'll walk you through that here in just a little bit.

As you know, deep segmentation has been a critical element of our success and really the fundamental foundation of our operating model. And the improvements in profitability, cash flow and return on investment these past years have really been driven by these efforts. And over the last 18 months, we've taken this segmentation, which really has been focused on the product line and the customer level, and we're thinking about our entire business portfolio. And we've categorized our businesses into growth, outperform and fix. And as we sit here today, about 70% of our portfolio is in the growth category, 10% is in the outperform, and 20% is in the fix.

And so our strategy here, with all of the businesses within these different categorizations, is to provide a complete clarity of mission, of goals, resource deployment across the portfolio that's going to allow us to drive innovation, improve customer service and satisfaction, drive profitability and improve return on investment.

And so as we look at 2017 – and I'll walk you through this in some detail here towards the end of my remarks – but we're going to continue to invest aggressively around a series of areas, and we think that's critical to our long-term success. So in our growth businesses, we're going to put about \$0.10, \$0.11 of earnings, so to speak, into incremental investments in those businesses. And I think that's been key to us winning these past few years and it's going to be very important to us winning going forward.

And then our fix businesses, which, again, I said is about 20% of our portfolio. In 2016, these businesses improved by about 300 basis points in profitability. And so it's been an important part of the profit execution you've seen across our businesses, in particular in FMT, which we saw really strong margin improvement. And these businesses are either going to graduate to growth or outperform or, eventually, if we don't think we can move them out of the fix category, we would consider divesting some of them. But I will say that that 20% is largely on track to graduate here, and we kind of give it a two year timeframe. So they're going to fund growth in the future and our teams are executing very well around that.

So, with that, let me pivot here and talk about our markets and some regions. So on the market side, energy. The trajectory is modestly better than it's been, obviously, with the improvement in the price of oil, that certainly is helpful. But there's going to be headwind, right. The CapEx cuts that came in the midstream and downstream are going to impact us this year, and that's going to hit our energy platform, BAND-IT and Sealing to some degree. The downhole business I think will improve, and we are starting to see that on the BAND-IT said in particular, but I do think that the LPG market's going to be soft here in 2017.

On the industrial side – and that's really been the story for a couple years now, and the industrial markets remain challenged in 2016. We did see some stabilization towards the middle part of the year and as we move forward, and we are hopeful that we're turning the corner but obviously we're going to wait for more evidence before we're willing to make a bet on that.

Ag, depressed commodity prices, low farm incomes have been a huge headwind there. We have seen a slight improvement and we think that's going to continue into 2017. Life sciences has been a real bright spot for us. It was an outstanding year in that market. Our core markets in bioanalytical and IVD have all performed well, and we think that's going to continue to do so here in the future. And finally, municipal, all the indicators point towards continued modest growth in 2017, so we think that will be a plus.

In terms of geographies, in North America, the story goes back to the industrial recession that really existed here for a couple of years and so, obviously, we're hopeful of the signs of recovery but again, we're going to be cautious. Europe is really a mixed bag. Depends on the country and it really depends on the business. Our dispensing and our water businesses, which are two of our bigger European-facing businesses, have done quite well. But the performance across Europe is pretty spotty. And so, we think that will probably continue in 2017.

Asia. India has been terrific for us. We have – we really won in terms of market share and business focus there. But China's been a bit more difficult with really the industrial recession there, also, as they move from an investment-driven economy to a consumer economy. We do expect some improvement in China, however, in 2017.

All right. Let me turn to a little bit of conversation on capital deployment. So we've had this balance disciplined capital deployment strategy for some time and I think it works very well. Our overall goal is to drive superior total shareholder returns and we have four pillars of this strategy. We're going to fully fund organic growth, we're going to pay consistent quarterly dividends, we're going to opportunistically repurchase stock, and we're going to execute strategic M&A.

And so, here we are with a very strong balance sheet, strong free cash flow, and this is going to give us leverage as we go forward. And we used that leverage well in 2016. So as I mentioned before, we deployed over \$0.5 billion in three acquisitions, Akron, AWG and SFC. And those had two different end markets in three different countries, so really spread nicely across our portfolio and our ability to manage and integrate those businesses.

The Akron and AWG really changed the face of our Fire & Safety business, and SFC did the same for our Sealing Group. The integrations across the board are going well and so we're very positive about these acquisitions going forward. And the benefits that we expect to see in 2017 are identical to what we talked about in the third quarter, and I'll detail that here in a little bit.

We did decide to divest in businesses this year, four relatively small businesses. Hydra-Stop, two optics businesses, one in Japan and one in Korea, and then our IETG business, which is in the UK. In total, those businesses had about \$40 million of revenue for us in 2016, which obviously will trade off against the benefits against the three acquisitions that we did. And again, I'll walk you through the puts and takes of that here towards the end of my remarks.

As we think about organic growth, we've continued to invest in organic growth across our businesses, but as we go into 2017, there are a few businesses that are going to get even more money and we're going to get more aggressive around it. And that's really around our bio, bio-pharma businesses, some product launches in water, next generation of rescue tools and local-for-local products in India. And then to some degree, an increased

investment in China where we've recently opened a facility. And so we're going to put money – really, it's about the future and as you know, investments for us it takes time to germinate, the markets move slowly but you have to be committed and you have to invest year in and year out, and that's what will allow us to be successful in the long term.

On the capital deployment front, in 2016, we increased our dividend by 6% and we returned 38% of net income to our shareholders. And we also bought back 739,000 shares in the year at a cost of about \$55 million, which is about 1% of shares, and that happened very early on in 2016.

All right. I'm now on the 2016 financial results. That's slide four, if you'll join me there. So just a reminder, these results exclude the impact of restructuring actions, the gain and loss on divestitures in 2016 and 2015, as well as the pension settlement, but I will detail all of those for folks so they can get their modeling correct as we go forward.

All right. For the full year, orders and sales were \$2.1 billion, up 6% and 5%, respectively. Orders were flat organically and sales were down 1% organically. Organic orders and sales were really pressured by the weak economy that I talked about in detail already around oil and gas in North American industrial.

And then our margin – actually this is a good story – so we finished the year – but there's a lot of moving parts, let me take a minute here. We finished the year at 20.6%, which was down by 40 basis points year-over-year, but keep in mind that had \$14.8 million of fair value step-up versus \$3.7 million in 2015. So obviously that's a big impact.

If you neutralize for that, our margins were up about 10 basis points year-over-year, but also keep in mind that has a dilutive impact of acquisitions. And so if you look at apples-to-apples, so if you remove the acquisitions and look at the base business versus base business, 2016 versus 2015, margins were up 80 basis points to 22.5%. So, that really shows terrific execution in the base business, pre-acquisitions, and demonstrates that operating model continues to work.

Cash flow, a great story. Cash from operations was \$400 million in the year. \$362 million of free cash flow, and that was up 12% over last year and 125% of net income. GAAP EPS was \$3.53, adjusted EPS is \$3.75. That was up \$0.20 or 6% on adjusted basis.

Let me take a second and walk you through that \$0.22 between the adjusted and the GAAP EPS. So, we had a \$0.03 charge from restructuring actions, I'll talk about the benefits here in a moment. We had a \$0.16 loss on the sale of four divested businesses, and we had a \$0.03 charge from the pension settlement.

On a final note, of the \$3.53 in GAAP EPS, there's also about \$0.04 related to a favorable transaction FX in regards to an intercompany loan that we acquired when we bought SFC. So that was favorable by about \$0.03 in the four quarter and \$0.01 in the first quarter. We have hedged that loan and so we won't see the volatility here in the future, and so those \$0.04 will be a headwind as we think about 2017.

All right, for the fourth quarter, organic orders were \$547 million, that was up 10% overall and 3% organically, and we continue to see an uptick in those orders here that we started to talk about in the third quarter. Revenue was \$530 million, up 6%, flat organically, and organic sales were up slightly, 0.3% in the fourth quarter. And although that certainly is modest, it's the first positive organic sales growth that we've seen since the fourth quarter of 2014.

Adjusted op margin for the quarter was 20.5%, that was down 50 basis points year-over-year, but again entirely due to the fair value inventory step-up. And so exclusive of this charge, we actually improved margins by 40 basis points over last year.

Fourth quarter free cash flow, very strong, \$106 million in the quarter, that was up 20% from last year and 143% of net income for the fourth quarter.

GAAP EPS was \$0.75, adjusted was \$0.96, that was a \$0.02 increase over last year. We had \$0.21 between the Q4 adjusted and the GAAP EPS, and those are all the items that I mentioned before except there was \$0.01 of that that fell into the third quarter. So \$0.21 fell into the fourth quarter.

I will also note that we did have significant translational FX as we saw the dollar strengthen significantly in the quarter, and that cost us about \$0.02 in the fourth quarter.

All right, so let me spend a few minutes here on the noise in the fourth quarter. I know there's a lot of moving parts and I want to make sure everybody has these pieces really clearly. So as I discussed earlier, the four divestitures, we incurred about a \$20 million pre-tax loss on the two businesses that we sold in the fourth quarter. That's a \$14 million net loss after the \$6 million tax benefit that we realized. We also incurred a \$3.6 million pension settlement in the fourth quarter. This charge was related to employees taking a lump-sum distribution rather than future monthly pension patient payments. We did talk about this in the third quarter and it was on the low end of our expectation.

We also incurred about \$3.7 million of restructuring cost. We noted that we were going to have some restructuring costs when we talked about it in the third quarter. These are related to severance and facility closures around acquisitions and plus an announced facility consolidation with our MPT platform. We will get about \$4 million of benefit in 2017.

Okay. Let's pivot now and let's talk about the segments. I'm going to start with Fluid/Metering, I'm on slide 5. So we finished 2016, organic orders were down 2% in the fourth quarter and down 3% for the full year. Sales were flat in the quarter and down 1% for the full year.

Op margin was a great story, up 190 basis points for the quarter, up 100 basis points for the year. Really terrific execution around productivity. And even with difficult market conditions maybe – except for water – people really got after the cost structure and rightsized their businesses and we had just outstanding margin improvement. And so, as I mentioned before, we had great improvement in our fix businesses, and many of those sit in FMT, and were a major portion of the margin improvement in the segment.

In terms of some of the areas, water services has been strong, it was strong in the fourth quarter. Again, we think it will be solid if you think about 2017. Industrial, the story I've told already many times, softness across the North American landscape. The impact of oil and gas has certainly been substantial. And weakness in the chemical market in Europe also. So while we do see some beginning signs of recovery, we're pretty cautious here around this marketplace.

Energy, it remains a tough story. Our mobile business, the downstream portions of the business that CapEx cuts just started late last year, those are going to play negatively through those businesses, I think, in 2017. So they'll be behind the curve relative to what you'll see in the downhole side, which I think will pick up faster, and certainly some of our peers have seen that. But we'll have some headwind here early in 2017 around those markets. And

finally, ag, as I mentioned earlier, we have seen some positive indications, so we're looking for kind of a very small improvement in 2017.

Okay. Let's turn to Health & Science. I'm on slide 10. At the end the day, no real changes in our perspective in the Health & Science markets. Our overall life sciences and scientific businesses are doing really well and they've been offset by weakness in industrial, very similar to everything I've talked about with FMT.

We had a very strong organic order quarter, up 7% on the heels of also a strong order quarter in the third quarter. So this is promising for the year. Organic orders were up 2%, but certainly we finished very strong in the order front with HST. Sales were down 1%, both in the fourth quarter and for the year, but obviously we come into the year with momentum.

On the op margin side, and again I think there'll be a number of questions here on this, so let me take some time on this. They were down 330 basis points in the fourth quarter and down 100 basis points for the year. Both of these decreases were really primarily impacted by the step-up in SFC. If you exclude that, margins would have been down 100 basis points for the fourth quarter and 20 basis points for the year, and really all of that is due to mix.

In 2015, we had a very strong overall profitability in our Material Process business and that flipped around in the fourth quarter of this year, and had relatively weak margins in MPT, and that really accounts for that balance. We do expect margins in HST to be in that 23% range in 2017, so we expect that to rebound nicely as we go forward.

In terms of the overall segments within Health & Science, industrial looks a lot like FMT, as I've already talked about. And we have seen again some early signs of improvement but cautiousness generally. Scientific Fluidics and Optics, as I said before, really strong overall performance. The markets are growing, we're winning share on new platforms and so overall, we have a lot of confidence in that business going forward around life sciences.

Sealing Solutions is a mixed bag, oil and gas has been weak while the semiconductor market has been strong. And those two have really kind of balanced each other off. And then finally, MPT, as I mentioned, has been mixed. This is a pretty lumpy business. It had a strong fourth quarter order book, so we think we'll come out of the gates relatively strong with MPT, but it has been a mixed bag between pharma and industrial businesses.

All right, I'm on our last segment. Diversified on slide 11. Boy, it's just an outstanding year for the teams here in the Diversified. The two major acquisitions that really changed the landscape for our fire and rescue business, and so now it's all about driving the execution here. We finished very strong. Organic orders were up 9% in the fourth quarter, up 2% for the year. Sales were down 3% for the year, but following orders, we had a strong finish at sales being up 3%. Op margin was down 150 basis points, but entirely due to the step-up that we had of \$7.5 million. So again, this business is performing well and we expect to have a really solid margin profile in 2017.

Dispensing was solid across North America, Europe and Asia. The X-Smart product line continues to have momentum and, generally, dispensing outperformed. Now fire and rescue, a nice uptick in the fourth quarter. As you know, this has been a business that's been weak here for some time and that we saw strength across the markets, and we had some nice wins in Asia, which we hadn't seen in quite some time.

The team did an outstanding job with new product launches. And they're doing a nice job of integrating Akron and AWG and we're on track to hit our goals with those acquisitions. BAND-IT, the transportation business was solid. We are seeing some modest improvements on the oil and gas side, that would be a good sign here for BAND-IT going forward.

All right, couple more slides here and really all about guidance for the year and for the fourth quarter. I'm on slide 12 (sic) [8] (26:40). So we anticipate organic growth to be about 1% to 2% for the year and this should give us somewhere between \$0.15 and \$0.23 of incremental earnings for 2017. However, we're going to have a pretty significant \$0.12 headwind from FX.

As you know, the dollar has strengthened significantly. We have exposure to the euro, the Swiss franc, the Canadian dollar and the pound, and so those are meaningful headwinds. And as I mentioned before, that's broken down into about an \$0.08 headwind on translational FX and the \$0.04 that's related to the intercompany loan that I mentioned earlier that we've hedged here going forward. But, in total, as you got into the back half of the year and really starting the back month or so of the year, as the dollar strengthened, we lost a lot of ground, couple cents in the fourth quarter and now in total \$0.12 of headwind for the year.

As we look at acquisitions, last quarter, we told you that net of divestitures, we thought that acquisitions would add about \$0.25 to earnings incrementally. That number is now \$0.24 but entirely due to the fact that we sold two other businesses in the fourth quarter. And so we're right on our expectations of what those businesses should add to our portfolio.

Share count will creep a little bit and it's going to be a \$0.03 headwind for us. The restructuring actions that I mentioned before are going to be a \$0.03 tailwind and they're really related to rooftop and severance items. We did have a couple of one-time corporate items in 2016 that are not going to repeat in 2017. About \$0.04 is from the earn-out reversal that we talked about in the first quarter of last year. So if you remember in our first quarter earnings report of 2016, we had a really strong overall quarter, and because we had about a \$0.04 benefit from that earn-out reversal that, obviously, we won't get again in 2017. And we did have a couple pennies of benefit coming from compensation related items as the CFO change happened and some compensation was forfeited.

We'll get about \$0.02 of benefit from productivity, net of inflation. So our teams have done a really nice job of offsetting wage inflation and very modest material inflation, but we will get \$0.02 of net benefit. And then as I mentioned before, we're going to keep investing. Even with this backdrop of continued low growth, we think we need to continue to put money into our best bets and that's going to be kind of \$0.10, \$0.11 in 2017 of incremental spend.

All right. I'm on our last page here on slide 13 (sic) [9] (29:29) and couple more items here on Q1 2017 and full year 2017 guidance. So in the first quarter, we think EPS is going to be \$0.91 to \$0.93, organic growth kind of 1% to 2%, and operating margins ranging from 20.5% to 21%. The tax rate should be around 27%. And we are going to see, kind of, a 2% FX headwind here on the top line, and this is all based on the December 31 rates. So everything that I've talked about relative to FX was based on the rates at the end of the year, which is our traditional practice.

Corporate costs in the first quarter will be about \$17 million. And if you look at the 2017, just a few more items. So full year EPS should be \$3.87 to \$3.95. Revenue growth, 1% to 2%, and full year operating margins as 21.5%. Again, we're going to have about a 2% FX headwind based on the December 31 rates, and we think corporate costs will be about \$66 million for the year. And finally, the tax rate should be around 27.5% based on the current U.S. tax rates and the global tax rates. Always, as we think about these things, we exclude the impact of acquisitions, costs or benefits associated with them or any further restructuring that we might have.

So with that, let me pause here and Doug, let's turn and open this up for questions.

QUESTION AND ANSWER SECTION

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

Mike P. Halloran

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

Q

Hey, morning, guys.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Hey, Mike. Good morning.

Mike P. Halloran

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

Q

And congrats on the new role. I wouldn't say welcome aboard, but you've been here for a while. So, let's start on that bridge, obviously, super helpful providing the puts and takes because there's a lot of them.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah.

Mike P. Halloran

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

Q

Maybe you could frame the growth investment side. You said you're basically putting the foot down and really reinvesting this year. Two-fold question there, one, frame that level of growth investment that you've got on the 2017 bridge to what a typical year would look like; and then two, what the main focus areas look like. Is this to deal with a lot of the acquisition pieces? Is it relative to that 80% of the company that's really kind of in that growth mode? Where are the pieces going?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So, Mike, this is – if you go back and you were to look in time, this is not atypical, right. So this is kind of how we thought about things over time. I think why it stands out a little bit now, right, is the backdrop of slower overall organic growth. And so, I guess very importantly, we made a conscious decision that we were not going to trim back on those given the backdrop.

And for us, as you know, it takes an awful long time for these investments to germinate, and if we were to go and cut \$10 million, \$12 million of that cost, which you could easily do by the way, right. These are pretty variable costs. You can take these out. We could have easily put up – covered the FX headwind that developed here in the latter part of the year, and we just decided that was not the prudent thing to do, and we should continue to invest. So very typical for us.

I think the difference is, Mike, these are investments that are really, really targeted around a few, mostly, product-related areas. So in the bio, bio-pharma area that whole life sciences world has taken off for us, obviously. And we've got some very interesting new products that are going to take a few years to germinate, but we're going to have to put several million dollars a year into those while those take off. And so that fits right into the life sciences, fluidics and optics world. That's a good piece of the investment.

We've got a series of new product launches in our water world. So if you look at our water business that's led by Floyd and Beverly, they've done a great job. They have been part of – a lot of those businesses have been in the fix category, and they have done an amazing job of changing that profile and have a whole series of new products of that are going to come to market here over the next two years. That's a major investment.

In India, we are – as you know, we've built two facilities in the last five, six years here in India with expansion. And we're moving more and more for local-for-local needs, so a lot more product development that's happening for the local markets. X-Smart has been a home run there. And what we've really learned from our success and we're doing more like that. And then if you look at new product developments, the next-generation on rescue tools, as you know, eDRAULIC has been a big win for us. So we're going to continue to invest there.

The StrongArm product line we've mentioned before, that's going to continue to get investment. And then finally around the AWG, Akron acquisitions and the combination with our other fire assets, there are some really important product development opportunities around electronics, which is bringing together, kind of, all of the superior product capability that we have on a fire truck that links it together and creates a closed system that is going to get investment for us.

So those are the major areas and they're all about growth. And so it's going to take time to germinate, but I think it's the right thing to do.

Mike P. Halloran

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

Q

And then staying on the growth side then as we look through the year, obviously, highlighted caution going into the year, which I think is prudent. Maybe one, give a sense for what you're seeing on the industrial side of your pieces, ones that little more short cycle, maybe have some movement that can help the industrial side of BAND-IT, Viking Warren Rupp. Trends through the last couple quarters, have they been stable, slightly better, are you seeing some chopiness, and what's that lead into for the year?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So Mike, if you remember, kind of, back in the summer, I mentioned we've seen some stability, right. Things had really been at a decelerating pace in the industrial – or accelerating decline in the industrial landscape up until kind of after the first quarter of 2016, and I mentioned some stability. What we saw in the third quarter was a kind of the backend of the quarter got meaningfully better, but still spotty. It was still pretty spotty. What we saw in the fourth quarter was much more broad-based improvement across our businesses. And then I'd say January has continued that trend.

And let me be really candid. We have a lot of internal debate about the top line, the market – what number we're picking around the market. And everything that we're talking about here is based on market estimates because of what we think has really not been taken into account around the economic and the political volatility.

And so we believe that we'll beat the markets by one or two points, and so it really kind of depends from what you think what you're picking the markets to be. And we've gotten pressed on some of this commentary. And my point of view, Mike, is that people have gotten a little over their skis on the positive sides of some of the things that have been talked about and even experienced, and not enough attention has really been put into the potential downsides. And so for us, we're really weighing this – both sides of this equation which has led us to be more conservative, I'll give you that, there's no doubt about it.

And a lot of it comes down to we know how our operating model flexes. And if things are better, we'll flex very quickly up and the incremental margins will be attractive. And if things are worse than some people are talking about right now, we're already positioned to deal with that.

Mike P. Halloran

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

Q

And then last an easy one, if you just look at the guidance, is the underlying thought process here stability from current levels, normal sequential as you work through the year or are you embedding any improvement? Doesn't sound like you are but just want to clarify.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yes. So we're talking first quarter being up one to two, no real big hockey stick built in. So we don't have – I think the first quarter's going to be telling for us, to be candid with you, right. And so that's going to be an important barometer for how we think the rest of the year is going to play out. And January is decent.

Mike P. Halloran

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

Q

Good. Hey, thanks. Appreciate the time.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thanks, Mike.

Operator: Our next question comes from the line of Steven Winoker from Bernstein. Please proceed with your question.

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Good morning, all.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Hi, Steve. How are you?

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Q

Good. Hey, I'd love to just start at a little higher level on capital deployment, Andy. So if you think about the pace that you're running at \$0.5 billion this past year, based on what you're looking at in the pipeline, obviously, you have the capacity, are your expectations for something as good this year?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Steve, I think that would be a real challenge, to be honest with you. At this time last year, we were really bullish on the overall ability to deploy, but we had line of sight at that point, with a lot of confidence around a couple of things. While we have a – we have a very typical funnel right now. And so if we deployed \$0.25 billion that would be terrific. We don't have things kind of sitting right in front of us like we did this time last year, and so this feels more like a normal pipeline. That being said, it's a good pipeline. It's across the portfolio and obviously we have the firepower to do it. It's just going to be actionability, Steve.

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. All right. And then on that 2017 guidance bridge, I would've thought maybe more than \$0.02 on productivity, net of inflation. Can you just talk through maybe the pieces there, what are you baking in and why isn't it more?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yes, so you've got about -- what you have is you've got about \$20 million of headwind, plus or minus, and that's mostly driven by wage inflation, which -- there's not a lot of material inflation, obviously, you've got some metals here and there that have -- we've seen a little bit on. We're in a really good position, and obviously we're really cognizant of potential inflation spikes, and that's something that we're paying a lot of attention to. But the materials side should be modest, the wage side is very typical, so call it \$20 million. So we we'll get kind of \$22 million of total productivity, and so that will net us -- or sorry, a little bit more than that, \$23 million, \$24 million, and that will net us kind of a couple pennies in total.

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. All right. That sounds...

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

And by the way, that does not include restructuring, right, so you've got another \$0.03, \$0.04 on the restructuring side. So I would call all of that productivity, but we just happen to break it out specifically because we called out restructuring charges.

Steven Eric Winoker

Analyst, Sanford C. Bernstein & Co. LLC

Q

Right. No, normally, that's how we'd see it, so that's helpful. I'll pass it on. Thanks, Mike (sic) [Andy] (41:26).

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Great. Thanks Steve.

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

Nathan Jones

Analyst, Stifel, Nicdaus & Co., Inc.

Good morning, everyone.

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

Hi, Nathan.

A

Nathan Jones

Analyst, Stifel, Nicdaus & Co., Inc.

Andy, I'd like to go back to the growth investments for a minute and you've never been shy about funding growth investments in the company really regardless of the environment. \$0.11 is a pretty big step-up, is this something that we should anticipate continuing at that level for the next few years? Will it step up again in 2018, step down in 2018?

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

I think it's what you would expect, right. And so the way I kind of think about the math, the math doesn't change here, right. So the incremental benefits that we've always talked about, that 30% to 35% even including these investments is there, right. So when you kind of work through all the puts and takes of all this and you look at it, you go, okay, those incrementals are there, especially when you kind of step back and you think about the one-time things that we've benefited from in 2016.

A

So we're not going to compress our incrementals by these kinds of investments, Nathan. But I think the variable here is obviously in a higher growth environment, you're going to get much better incrementals, in a lower growth environment, you get more towards the downside of where we've guided historically.

Nathan Jones

Analyst, Stifel, Nicdaus & Co., Inc.

Understood. I was more talking about the level of investment that you're putting in to the growth investments.

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

Oh yeah, I see us being really aggressive, Nathan. I think everyone we talk to and we spend time with, the differentiators is going to be organic growth, right. And even when you think about acquisitions, right, when you acquire, the way you really drive overall returns here, obviously, we're very good at the cost-out, but you got to deliver on the top line too, which means you've got to deliver overall on the organic side. So these kinds of investments, I think, are prudent and we're going to do it in good times and in difficult times.

A

Nathan Jones

Analyst, Stifel, Nicdaus & Co., Inc.

Q

Understood. And you've been pretty clear about that over many years. I'm just wondering whether or not we should expect those growth investments to remain at the same level going forward, or whether you will get more aggressive in 2018 and step it up again, or just how you're thinking about that over – just longer than 2017?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

I'm sorry, Nathan. Yeah, so I would say that proportional to the size of our business, this feels about right. Right? So as the business gets bigger, the dollars will get bigger, but I don't think proportionally it's going to change dramatically from what we're talking about here.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then there's a \$0.03 headwind from higher share count, I think IDEX typically looks to offset dilution, is that not the case this year?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

No, our practice has been to – we have a really disciplined process that we go through, and so we just said, hey, at these levels, we'll probably see some creep. But that could push one way or the other, to be honest with you. We're just kind of basing it on the activity that we've had here in the last six months, but that's one variable that could move throughout the year.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Fair enough. And then just one on North American industrial, do you have any visibility into the parts of North American industrial where you're seeing improvement, or is this going through distribution and you lose visibility into it?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Well, so I think the way I'd say it, so you do lose some visibility going through distribution, but what I'd say is what we saw in the fourth quarter and what we're seeing early in January, and I want to – the reason I'm being so cautious here around this is a few months does not make a trend, right. But I will say that what we saw through the fourth quarter early in January is pretty broad-based. And so whether you're talking about kind of classic distribution at Viking or, say, Gast, as an example or Warren Rupp, or you're talking about more value-added distribution or you're talking about even on the OE side, it's been pretty broad-based.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

All right. That's helpful. Thanks very much.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thanks, Nathan.

Operator: Our next question comes from the line of Matthew Mishan from KeyBanc. Please proceed with your question.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you and good morning.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Good morning.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, I just wanted to go back to the 2017 guidance bridge and maybe I missed it, but it seems like the incrementals from the \$20 million to \$40 million of organic growth going down to \$0.15 to \$0.23 of EPS seems very high. Can you talk about the incrementals you've assumed on that?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. So you got to remember that includes price, right, so that's not just volume. And so the price side of it flows through at 100%. So when you're looking at numbers that are that – that are 1% to 2%, kind of that granular, that the, call it, 7/10 to 8/10 of a point that we'll get in price in 2017, that's going to flow through very high.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Got it. So assuming that, let's call it, 80 basis points of price, what should we be thinking about if you were able to do, as far as incrementals go, if you were able to go from 1% to 2% growth to 3% or 4%, like what would an additional incremental 100 basis points of growth give you?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. A really kind of simple rule of thumb for us is 1 point of organic growth is going to give us about \$0.08 of earnings.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. And then on the Health & Science Technology side, I'm just curious what you're hearing from customers around the expectations for pharma/biotech in 2017, and if you saw any change in Scientific Fluidics in the fourth quarter.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So, Matthew, if you recall, even kind of two years ago at this time, we were talking about a product cycle in the industry that was going to get a lot better starting in 2017. We said we had a lot of visibility to that and that's playing itself out now, right. So the product launches that we're seeing across the industry are pretty good and you could pick your submarket, right. They're generally – it's pretty healthy. And we are well positioned in terms of

content by platform. So we think that 2017 and 2018 are going to be pretty good years here, if you look at the analytical instrument, IVD, bio, genomics, you pick your market, it's going to be pretty good.

Obviously, we don't know how policy might impact that. That's one wildcard that we really – everyone needs to pay attention to. And just with the uncertainty that we've seen early days, we don't know. But generally in current conditions, we think both the industry's going to be pretty good and we're well-positioned.

Matthew Mishan

Analyst, KeyBanc Capital Markets, Inc.

Q

I think that's fair. Thank you very much.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

You bet, Matthew. Thank you.

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

Andrew Krill

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning. This is Andrew Krill on for Deane.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So hey, Andrew.

Andrew Krill

Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. Thank you. So I want to ask, there's been a lot of speculation on tax reform in the U.S. Can you comment on how IDEX might fare given these various proposals including the border adjustability please?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

It's really tough to put your finger on it. So let me kind of – I'll walk through a couple things and, Bill, if you want to add some color to this.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So, obviously, if you just assumed that you had a 10 point U.S. tax cut, right. A way to think of that is – what's the math on that again? We said 10 points...

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

A

Yeah.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

If we have \$100 million pre-tax in the U.S., so you're talking \$0.09, \$0.10 of earnings impact if you went down to a 25% statutory tax rate in the U.S., right. So that's one way to put your finger on it. In terms of the cross-border issues, Bill, any commentary on that?

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

A

Yeah. I don't think we have any material risk if there were significant tariffs added and replaced of NAFTA. So I think for the most part, our production and supply chain is local-for-local, so not a lot of exposure there.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. So probably not a ton of negative. Obviously, the thing that I'm most worried about, Andrew, is a trade war. I think everybody in my seat is nervous about that same possible reality and one of the reasons why, frankly, we've hedged our bets here going into 2017.

Andrew Krill
Analyst, RBC Capital Markets LLC

Q

Got it. Thank you. That all makes sense. As a quick follow-up, like, in terms of in a similar vein with if there's any favorable repatriation holiday, can you remind us like how much of your cash is overseas, and I guess maybe what this could be used for?

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

A

There's about \$200 million overseas, primarily within Europe. So if there was a repatriation, we'd have to look at that and see. We've done several deals in Europe, so to pay a 10% repatriation tax might not be worth it if we have line of sight to some uses for that cash within Europe or abroad.

Andrew Krill
Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Andrew Krill
Analyst, RBC Capital Markets LLC

Q

Thanks, Andrew.

Operator: Our next question comes from the line of Matt Summerville from Alembic Global. Please proceed with your question.

Nicholas K. Chen

Analyst, Alembic Global Advisors LLC

Q

Hi. This is Nick Chen for Matt Summerville this morning. Thanks for taking our question. You guys touched on it a little bit before, but I just wanted to dig a little deeper into M&A. I was hoping you could talk about sort of some of the multiples you're seeing following the recent melt up in the market. And additionally, what verticals are seeing the most activity from your view?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. So, generally, Nick, the world has not changed that much that we look at, right. So the biggest changes have really been around the public markets, and obviously, we don't play a ton in that world. We bought some businesses from public companies in the past and whatnot, so that level of volatility, so far, we haven't seen it play itself through to the broader M&A funnel that we look at.

That being said, we're in the same position we've been for an awful long time, which is things are expensive, there's no doubt about it, you've got to be incredibly disciplined and you've got to be disciplined around price, but you also have to be really disciplined around what fits in your operating model. And so there's very few things that can make a deal go sour faster than overpaying, and we're just not going to do that. And so we like our funnel but we're going to be very disciplined about prices in the marketplace, and that fundamentally hasn't changed here in the last few months.

Nicholas K. Chen

Analyst, Alembic Global Advisors LLC

Q

Great. And then just finally, I was hoping you could talk about in terms of an improvement in energy in the general industrial markets, what's your guys' view there?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So I'm going to call it cautious optimism, right. So as I said before, we have seen some sequential improvement and it's relatively broad-based. The downhole-related things, which we don't have a lot of exposure to, right, it's kind of 2%, 3% of our total business, that has been, obviously, the much more volatile piece and where people are calling more potential upside, it's a really small piece for us, so I don't get too excited about that on one side or the other.

The things that are further downstream from there, those CapEx cuts came a lot later in the cycle and they're still playing themselves out now, so I think we'll actually be behind that curve to some degree as that plays itself through and then we'll see if capital investment makes its way downstream again. So I'm cautious, generally, with industrial and oil and gas. I'm more favorable in general industrial. I think the oil and gas stuff will take more time to play itself through.

Nicholas K. Chen

Analyst, Alembic Global Advisors LLC

Q

That's great. Thanks so much, guys. I'll jump back into the queue.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thank you.

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

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Hey, good morning, Andy, Mike and welcome, Bill.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Thank you.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Hey, Scott.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Did you say Eric was there as well?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

No he's not.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Oh, Okay. All right. A lot of questions have been answered, but I do have a couple others. The acquisition divestiture -- this is just a simple one -- is that sort of like a \$75 million/\$35 million, \$80 million/\$40 million territory on the acquisition add versus divestiture subtracts on revenue?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Scott, I'm not exactly sure what you mean [indiscernible] (54:42)

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

The \$40 million of incremental sales from acquisitions...

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Oh...

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Yeah.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So, the \$40 million is the amount of revenue that we had in IDEX in 2016 from the businesses that we sold. So we had \$40 million of revenue in those businesses. If you look at it kind of on an apples to – if you look at it kind of on a trade-off basis, incremental revenue of what we're going to lose from divestitures versus the incremental that we're going to get from the acquisitions because of where they landed in the year, you get somewhere around \$40 million, \$45 million of incremental good guy in revenue in 2017. Does that make sense? And that's on [indiscernible] (55:28)

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Yeah. I was just looking for the two numbers that net.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah, so you're talking about \$40 million of divestiture that we won't get next year, right.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Okay.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Against about \$80 million, \$85 million of revenue that we'll get incrementally this year, netting out to, call it, plus \$40 million to \$45 million.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Yeah. That's exactly what I was looking for. So, let's say things don't get better from here and your conservatism is valid on the organic side, Andy. Where you have flexibility down the bridge here, obviously, I'm talking more specifically about the restructuring savings, the corporate expenses, the productivity, where can you flex up a little bit to make sure that you make the guidance maybe even at the high end?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. I'm not real worried about our ability to execute here, right. So, we've proven our ability to manage these items – operationally manage the investments. If the business were to slow down, could we accelerate some restructuring? Yes, we could. Could we slow down some timing of investments? Certainly we could. And I think we've demonstrated a pretty good ability to do that over time.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

Fair enough. Last question on the M&A pipe. So, obviously, you had a big year in 2016. Based on kind of where you sit today with things at various levels in the funnel, can you get halfway there? I mean, where's your head?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

At this stage, it's tough to say. Because, as I mentioned, I think it was Steve who asked the earlier question around this, we've got a decent funnel. We don't have anything kind of imminent, and so we could end up having a really big year or a soft year. My hope would be that we'd get somewhere in between, but at the end of the day, it's not something that I can peg at this point.

R. Scott Graham

Analyst, BMO Capital Markets (United States)

Q

That's fine. Thanks.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thanks, Scott.

Operator: Our next question comes from the line of Patrick Wu from SunTrust. Please proceed with your question.

Patrick Wu

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Hi. I'm standing in for Charlie Brady this morning. Thanks for taking my questions.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

You bet.

Patrick Wu

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Just one more – I guess, for you guys on the growth investments, I know you guys have been talking about it quite a bit on the call. How should we think about the margin impacts on each segment from these investments? And sort of I'm looking at FMT, right, the adjusted margin at 27.2%. It's pretty peaked out, how should we think about that moving forward? Is there potential to move up?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. I wouldn't think about the growth investments kind of how they would impact that, it's not going to be material, so to speak. If you look at the overall margin performance that we'd expect in 2017 by segment, I think FMT for the year, it should be in the 25% range, maybe a little bit higher, 26%.

HST in that 22% to 23% range, and FST in that kind of 25% range. At the segment operating level, that's what you should expect next year, so the investment shouldn't materially impact that. Again as I answered before, even with the investments, we're still very much in line with our expectations for incremental operating margins.

Patrick Wu

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Got you. Thank you. And then just last one for me. What are you guys seeing sort of for the exit order rates in January? I mean obviously 2% growth in organic orders in 4Q is obviously a welcoming sign, but how do you guys sort of see January shaping up and is that progressing more in February?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yes, so far, through January, things have been decent. I think the trends that we saw at the back half in the fourth quarter have continued. At this stage, I'm hesitant to get more aggressive because it's such a short period of time and hey, the level of uncertainty that's out there economically and politically, it's prudent to be cautious.

Patrick Wu

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Great, thanks. That's all I have.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thank you.

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

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Hi. Good morning, all.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Good morning, Brett.

A

Morning.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Hey. Just wanted to come back to HST, orders up 7%, you mentioned a large pharma order there. What was the contribution in the quarter? And then, I guess, are you able to put a finer point on if you sort of unbundle that and look at the industrial-related businesses within HST, what are the underlying order rates looking like there?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. So the strength that you mentioned there was in MPT, right. So we had some strength there in the MPT business. But even minus that, orders were solid, were very good in the life sciences side, in industrial, similar to what we talked about in FMT. So I'll call it a few light spots, but not ready to call it. Semicon was strong, the general industrial, Gast, micropump still soft, meaning kind of flattish, but certainly better than the trends that were in the first half, or even a little bit later than that, in 2016.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Okay. And then, Fire & Safety, I mean orders are big there, at 9%, obviously, a pretty easy comp.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

You mentioned a lot of the closed system opportunities and new product opportunities, but just in terms of the channel side, did you see any pull-through activity from AWG and Akron? And then, as we look forward here and you've owned these now for about six months, how are you feeling about the cost side?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

So it's still very early days for any kind of what I'd call revenue synergies, right. Those are things that take meaningful time in those businesses, because you don't want to break what are already very good channels. And so nothing meaningful there, nothing different than our expectations, but it's not like that's accelerating yet.

On the cost side, very much in line with our expectations, right. The restructuring charges that we took were related to that, and both Akron and AWG are on track for what we committed. We talked about getting 500 basis points of improvement in those businesses over three years and I think we'll get there.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Okay. And just one last one, you talked about having a difficulty in, obviously, forecasting 2017 growth. You did mention you intend or you'd like to outgrow those markets by one to two points.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Are you assuming that for this year and implicitly does that mean you're basically kind of saying the market's flattish in your view for 2017, and you get a little bit of outgrowth about that? Could you kind of square that for me?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah. That's the math, right, is kind of flattish to modestly up given the environment. Back at the Baird conference, of course, I think I gave my talk on the day of the election. I said I thought the world was going to be kind of negative one to plus one and I'm still kind of there, maybe with even more volatility given what's going on, so maybe I'll revert back to negative two to plus two. My overall view hasn't changed a lot. Obviously, the strengthening of the dollar plays into this and that obviously hit us as we think about 2017, and then there's just a lot of uncertainty, right, that it's really hard to pick.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Yes. Okay, great. Thanks, Andy.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thank you.

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

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Hey, guys. Thanks for taking my question.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

You bet.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

I just wanted to talk FMT orders a little bit here. Strip out – forget about like the year-on-year, just looking sequentially, pretty flat. I'm trying to reconcile that with what some others have said on the short cycle, a bit of a budget flush happened in 4Q. So would you have expected – like how did orders come in for that segment versus how you might of thought? And I appreciate your conservatism for 2017, it's appropriate, but...

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yes, so the energy business sequentially was down and that was really kind of tied to the LPG business. And so other than that, sequentially, it looked pretty similar, not a lot of changes from what we saw in the third quarter.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Okay. And then on diversified, when you look at your dispensing business, obviously, you guys are outpunching that market. But what are you thinking – inherent in your guidance, what are you thinking for those markets that those products play in look like maybe slowing down...

A

<A – [09KG52-E]Andy Silvernail – IDEX Corp.>: Yeah. I get your...

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

[indiscernible] (1:04:41)

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

I think you're right, Joe, I think those markets are going to slow here as we look at the underlying performance, I think the business will do well. We've got a significant product launch that happens here a little bit later in the year, that I think – it probably won't make a big impact in 2017, but I think will be a nice going forward. But I think those underlying markets are – the growth is going to moderate to, kind of, flattish in 2017.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

And that's in your guidance though.

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

It is, yes.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Okay. And maybe just last take on Diversified, that order growth there, [ph] yeah maybe the (01:05:17) comp was a little easy, but how would you look at that regionally?

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Regionally? Bill, has is [inaudible] (1:05:25) regionally?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah. I'd say we had throughout the year some softness in some of our emerging markets and we saw a pickup in the fourth quarter.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah.

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

A

So some projects that have been kind of out to bid for a while finally went to official tender and we won.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

Mostly around rescue. Yeah, that was kind of [indiscernible] (1:05:38)

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Are you seeing like – how was China rescue, like municipal spend over there, how's that, kind of, looking right now?

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

Actually, that was one of the big ones that got better, right.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Yeah.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

With the anticorruption probes, things really came to a screeching halt, right. And we finally saw some that liberated a little bit here, and we actually had a very nice win in the rescue tool market in the fourth quarter with our Dinglee brand.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Good. Thanks, guys.

Andrew K. Silvermail
Chairman, President & Chief Executive Officer, IDEX Corp.

A

Thank you.

Operator: Our next question comes from the line of Chris Dankert from Longbow Research. Please proceed with your question.

Chris Dankert
Analyst, Longbow Research LLC

Q

Morning, guys. Thanks for putting me in here.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

Hey, Chris. You bet.

A

Chris Dankert

Analyst, Longbow Research LLC

Just one quick question. Are you guys talking to some of the market players on the municipal water side, that's been an area that's been identified by the incoming administration as kind of a spot for investment. There is some concern that we're going to see a bit of a pause on the state and local side hoping to get some clarity on when does the money flow through, how do we get it, et cetera. Is that conservatism baked into your guidance right now, or have you heard anything on that front?

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

We haven't heard it kind of specifically that people are having a big pause. Obviously, anything where things are – where monies are coming from the government, we baked in conservatism around there, right. And that obviously fits there, certainly around the U.S., because there is so much uncertainty, right. It could be a bunch of money that flows there and, frankly, it could get cut. It's just – there is no clarity. And so we are – that is a piece of our hesitancy.

A

Chris Dankert

Analyst, Longbow Research LLC

Got it. Got it. And then just finally I guess, any kind of update on the footprint consolidation within Diversified, how much is left to go, there any kind of timetables?

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

We're kind of – stuff we've announced is going well. For the most part, we should have everything done here by the end of the first quarter across the company. And so we've got some stuff in MPT, as I mentioned before, and then the specific work around the acquisitions, most of that's actually been done that we finished up in this year, so not a lot more to go.

A

Chris Dankert

Analyst, Longbow Research LLC

Got it, great. Thanks so much, guys.

Q

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

You bet.

A

Operator: Our next question comes from the line of Bhupender Bohra from Jefferies. Please proceed with your question.

Bhupender Bohra

Analyst, Jefferies LLC

Q

Hey, good morning, guys.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Good morning.

Bhupender Bohra

Analyst, Jefferies LLC

Q

Andy, on your commentary on the press release here that you're seeing some encouraging indicators within North America, could you talk about that from the perspective of your customers' capital spending versus maintenance spending plans, like how do you think 2017, any indications on the – I mean, you talked about CapEx to be weaker, but on the maintenance side, do you think that kind of picks up?

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

I don't think that maintenance spend really took a big hit. In the worlds that we play in, those aren't really optional. It really is kind of the CapEx-related stuff that has been the bulk of what drove the industrial recession. And so I think that what we're seeing early year in this year and late last year are very modest improvements around CapEx. So what's going to drive in acceleration is going to be increases in CapEx.

Bhupender Bohra

Analyst, Jefferies LLC

Q

Okay. And the other question's on China here, I think somebody did ask but I just wanted to – could you remind us how big China is and what are you hearing from that industrial land in China, especially when you look at the ISM numbers which have been inching up like above 50% for the last few months now? Thanks.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

Yeah, so call it in the range of about 5% of total business, right. So about half of that or so is done in China for China and another half comes from other places around the world – other businesses around the world. I would say that there are certainly some modest improvements that you're seeing in China. That's really been a real struggle for everybody here with this transition from investment to consumer. And so, I'm going to call it modestly positive, but it's not like it's going to pick up to where it was pre-2014.

Bhupender Bohra

Analyst, Jefferies LLC

Q

Okay. Got it. Thank you.

Andrew K. Silvermail

Chairman, President & Chief Executive Officer, IDEX Corp.

A

You bet.

Operator: There are no further questions in queue. I'd like to hand the call back over to management for closing comments.

Andrew K. Silvernail

Chairman, President & Chief Executive Officer, IDEX Corp.

Well, thank you all very much for joining the call here today, and I know we had a lot of moving parts to talk about, and I appreciate your patience and your good questions. Obviously, as we think about 2017, we think about this much like we have the last couple years, which is we need to make our own good fortune. And I think we have positioned ourselves very well on the cost side, productivity, how we manage the balance sheet, how we deploy capital and, very importantly, the growth investments that we're making for the future.

And I think we're very, very well positioned regardless of what those markets do. And so, now while we've taken probably a more conservative view of the markets, we're in a great position to take advantage of that and to drive overall profitability and returns on investment. And ideally, that's going to translate into total [ph] returns (1:11:02) for our shareholders.

So, I want to thank our teams here at IDEX for continuing to execute extremely well, and thank you all for your time and your interest in IDEX. And I look forward to talking to you here in 90 days. Take care.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.

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