

24-Apr-2020

IDEX Corp. (IEX)

Q1 2020 Earnings Call

CORPORATE PARTICIPANTS

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

OTHER PARTICIPANTS

Deane Dray

Analyst, RBC Capital Markets LLC

Michael Patrick Halloran

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

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Joseph Giordano

Analyst, Cowen & Co. LLC

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Walter Liptak

Analyst, Seaport Global Securities LLC

Matt J. Summerville

Analyst, D. A. Davidson & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the IDEX Corporation's First Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the conference over to our host, Mike Yates, Vice President and Chief Accounting Officer. Thank you. You may begin.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

Thank you, Diego. Good morning, everyone. This is Mike Yates, Vice President and Chief Accounting Officer for IDEX Corporation.

Let me start by saying thank you for joining us for a discussion of the IDEX first quarter 2020 financial highlights. Last night, we issued a press release outlining our company's financial and operating performance for the three months ending March 31, 2020. 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 Silvernail, our Chairman and CEO and Bill Grogan, our Chief Financial Officer. The format for our call today is as follows. We'll begin with Andy providing an overview of IDEX performance drivers

and addressing the impact of the COVID-19 pandemic on our operations, as well as the company's response to date. Bill will then discuss our first quarter 2020 financial results and walk you through an assessment of the company's liquidity and financial durability through several scenarios. And finally, Andy will conclude with our current framework for second quarter in closing remarks.

Following our prepared remarks, we will open the call for your questions. If you should need to exit the call for any reason, you may access the complete replay beginning approximately two hours after the call concludes by dialing the toll-free number 877-660-6853 and entering conference ID number 13694804 or you may simply log on to our company's home page for the webcast replay.

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

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

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thank you, Mike. I appreciate everyone joining the IDEX Q1 earnings call today. I'm starting off on slide 6. The world's spinning with great uncertainty; but as you leave this call today, I want you to feel certain about one thing, IDEX is well-positioned to survive and thrive through this COVID-19 crisis. We have the quality of businesses, we have the people, and we have the financial wherewithal.

We've invested in our company aggressively over the years to build a very special organization. Most important, we build a culture. We built a culture with incredibly talented teams who run great businesses that matter to the world. Our culture has helped us react very early to this crisis. We've made swift and smart decisions to keep our people safe, to keep our businesses moving, and ensure liquidity making sure that we do everything we can to help win this COVID-19 fight.

IDEX has an important mission that we capture in four words; trusted solutions, improving lives. Our mission has never been more important. In a world consumed with physical, emotional, and the financial impact of COVID-19, IDEX plays a critical role in keeping people safe and healthy while helping directly with the fight to defeat it.

I'm going to move now to slide 7. There are so many ways that IDEX is in this fight. In our Fluid & Metering segment, we enable food, energy, and industrial supply chains. In Fire & Safety/Diversified, we've acted swiftly to quadruple the production of our mobile medical tents used by hospitals as they struggle to handle the surging COVID-19 cases. And in Health & Science Technologies, we're making compressors used in ventilators, mobile carts that produce hospital grade air where it's not available, and compressors for mobile disinfecting prayers. And of course, we're also a critical supplier enabling the genetic sequencing that decoded the RNA of the coronavirus, enabling the development of test for COVID-19 and its antibodies as well as finding therapies and hopefully an eventual vaccine.

There are dozens more examples across the company where we bring essential products to a market in need. I'm turning now to slide 8. I want to pause here for a moment and thank all of our people across IDEX especially those in manufacturing, shipping, and other roles that require presence in our facilities. We have robust safety protocols at our sites worldwide to protect our people performing essential jobs. The safety of our people will always be the most important consideration as we continue in this new environment.

In a crisis especially one that is devastating as this, your true values are exposed. I've never been prouder of the people of IDEX. From the first sign of the COVID-19 crisis in China, our teams have been collaborating, problem solving and acting. While great strategy is a product of this crisis, we're also seeing the best in who we are.

I'm now moving on to slide 9. On March 20, I held a conference call with investors where I laid out our operating context and our priorities to steer IDEX successfully through this crisis. Much has changed in five weeks, but our point of view and our priorities remain the same. We've built our strategy and our operating plans based on four phases of this evolving crisis. I believe we're now moving out of phase 1, the acute phase, and into phase 2, which will be a period of ongoing uncertainty and significant challenge for the next three months to six months. There'll be little visibility as quarantines are lifted and we all work to gradually restart the economy safely. During this phase, we expect to see a significant drop in demand and production capability as customers, suppliers, and our own teams are regularly impacted by shutdowns and shortages.

The third phase will be learning to live and work with COVID-19. This will require significant changes to much of what we do. And this period will extend until there is a solution that gives people confidence to engage socially and professionally without fear. While this phase will not be easy, we're seeing from our businesses in China which have rebounded quickly that we can successfully pivot our approach.

The final phase will be a post virus world. I know we all look forward to this day when normal returns. I'm convinced, however, that normal will be redefined just as it has been in other severe crisis like the Great Depression, the Second World War, 9/11, and the financial crisis. There will be significant and permanent societal and economic changes. The coronavirus will shape our lives and our economy in countless ways, some easily predictable and others yet unknown. Over the next 12 months to 18 months, as we move through these phases, it's our job as leaders to successfully transverse phases 1 through 3 and enter phase 4 with a company that's financially strong and an organization that is positioned to thrive.

I'm now turning to slide 10, we've outlined four strategies to guide our way to a better future. Our top priority is safety, protecting our teams as we try to remain open to serve customers that are essential to our society. While we are normally highly decentralized, this is the time when we have carefully laid safety protocols and mandated certain standards worldwide. These have included temperature checks at beginning of all shifts, guidelines for face coverings, cleaning, and sanitizing practices, and processes for addressing a variety of scenarios from COVID-19 cases to possible exposures.

Our COVID-19 issues and response team has led the way and regularly provides guidance for our local sites as issues arise. And because of the strong procedures we have in place, in the handful of incidents where employees have contracted the virus, few if any coworkers have been quarantined. Not only is this good for business but it's great for the health, well-being and morale of our employees. I'm glad to report that every IDEX employee who has contracted COVID-19 has so far recovered.

To ensure business continuity, which is our second priority, we have developed plans for each site to use in the event of a ramp down of operations. We want to ensure these are handled smoothly in a way that prepares the business to return quickly to operations. We are also regularly addressing supply team concerns. While our supply teams are generally shorter than many of our other global manufacturers, we have quickly addressed the issues from lockdowns and travel restrictions. So far, our business continuity planning like our security plans can help us avoid more significant business disruptions. In the months ahead, we expect we'll be chopier as extensive planning and support structure we've built should serve our businesses well.

Our third area focus is liquidity. IDEX entered this time with a strong cash position and we have remained cash flow positive since the beginning of the crisis. Our goal is to remain so throughout protecting our liquidity and our balance sheet. We're working with our businesses and finance leaders to help them manage through a period unlike anything they've seen in their careers. Bill Grogan, our CFO has instituted daily cash management practices that he's working with all of our leaders across the globe.

Finally, we're playing offense. That means different things in different areas of our business. In some instances, it means pivoting to focus on the needs of customers who are now booming as they're selling essential products. In other instances, it's meant helping businesses in need like we did in Novotema, that's just outside Bergamo in Italy that was closed. Our sister company PP in England stepped in and produced seals for medical ventilator manufacturer as Novotema was struggling. Playing offense also means being prepared to accelerate acquisitions when the market unfreezes and a thoughtful approach to share repurchases.

With that, I'm going to pause here. I'm going to turn things over to Bill, and he's going to walk you through an overview of our financials and liquidity.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Thanks, Andy. I'll start with our consolidated financial results on slide 12. Q1 orders of \$645 million were down 2% overall and organically. The slowdown in our industrial end markets that we discussed during our previous call was compounded by the impact of the pandemic in most of our geographies and end markets. However, there was positive momentum in our life sciences and pharma businesses. The backlog we built will help fill the decrease in orders we expect in Q2.

First quarter sales of \$594 million were down 4% overall and 5% organically. Results early in the quarter were better than expected in most areas of the business outside of China. But as the impact of COVID-19 ramped, most of our businesses with the exception of life sciences and pharma, took a negative turn and drove us to the low end of our guide.

Q1 gross margins expanded 10 basis points to 45.7% and were up in all three segments primarily driven by strong price structure, continued productivity initiatives, and discretionary cost control. These actions more than offset the negative margin impact of lower volume leverage.

Operating margin was 23.5%, down 30 basis points from the prior year mainly driven by the dilutive impact of the Velcora acquisition, which had op margin of 8% but EBITDA margin of 25% and lower volume leverage. This was offset by our gross margin expansion and SG&A cost actions we took in the fourth quarter of last year.

Our Q1 effective tax rate was 20%, which was higher than the 19.5% in the prior year due to a reduction in excess tax benefits related to share-based compensation. First quarter net income was \$102 million, resulting in an EPS of \$1.33, \$1.11 or 8% compared to the prior year EPS. Finally, free cash flow was \$72 million, down 5% compared to the prior year, but was 71% of net income compared to 69% last year.

Turning to slide 13 on liquidity. Free cash flow for the trailing 12 months ending March 31 was \$473 million or 113% of net income. We continue to be well-positioned to weather the current environment. IDEX has consistently generated positive free cash flow in excess of net income through margin expansion, ongoing working capital initiatives, and an effective capital allocation philosophy.

LTM adjusted leverage was 1.5 times, providing sufficient capacity to fund all of our business needs and allowing us to quickly pivot to offense as the economic environment improves. Leverage increased slightly in the quarter as we drew \$150 million on our revolver in late March in response to temporary challenges in the short-term funding markets.

Cash and cash equivalents totaled \$569 million at the end of the quarter. We also have \$642 million of availability under our \$800 million revolving credit facility. With cash on hand, available financing, and conservative leverage, we are confident in our ability to continue to meet our obligations, fund operations, and make critical investments in the business.

In relation to the \$300 million of notes due at the end of the year, we are currently exploring potential options including availing ourselves to the capital markets. As Andy mentioned, we have put in place additional processes to enhance our focus on liquidity, and we have actively monitoring conditions with our customers and our suppliers to ensure that we're able to maintain positive cash flow and mitigate the impact of a challenging environment on cash and working capital. We're taking all necessary actions to make sure we're appropriately positioned to operate effectively during this period.

Moving on to slide 14, while we believe that we are well-suited to operate in this environment, we are continually monitoring the impact of COVID-19 on our operations and are modeling a number of possible scenarios. These examples are meant to give our investors a picture of our durability, not a reflection of what we expect for full-year sales. Under our current cost structure, which reflects the structural actions we took in the fourth quarter of 2019, we believe that our annualized breakeven revenue, the point at which we continue to generate positive cash flow, is approximately \$1.8 billion or a 30% decrease to our 2019 sales results.

To be proactive in this uncertain environment, we have developed a playbook with actions to reduce that breakeven point. We've identified approximately \$120 million worth of additional cost reductions, which will drive our breakeven revenue closer to down 35%. This would include bonus actions, eliminating travel, marketing, and supplies, and many other discretionary cost items. If the conditions warrant it, we are prepared to take structural cost actions and generate an additional \$40 million of reductions resulting in a breakeven revenue point of down 40%.

Lastly, although we intend to fund our dividend, if we were to suspend it, our breakeven point would be as low as 50% down on an annualized basis. We are taking all prudent actions to manage discretionary spending as we continue to gauge the impact of this volatile environment. At this point, we do not believe that further structural actions are necessary, but we're staying closely tuned into our end markets and supply chains and are prepared to take additional steps if necessary.

With that, I'll turn it back over to Andy to review our current view on the second quarter.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thanks, Bill. Hey, everybody, I'm on slide 15. As I mentioned in my opening remarks, we believe the next three to six months are going to be extremely challenging. Everyone will face the same uncertainty as we reopen the economy safely and execute an environment where COVID-19 exists and impacts operations potentially in waves. While we believe strongly in the IDEX business model and we're very well-positioned, we acknowledge the challenges that we face across our business units. We expect revenue in the second quarter could be down as much as 15% to 25%. We know that some of our end markets will be significantly challenged. But those

headwinds will be somewhat offset as we continue to deliver mission critical components to essential customers worldwide.

We've taken prudent actions to significantly reduce our discretionary costs across our businesses, and the steps we took in the fourth quarter of 2019 have positioned us to react to a market that is significantly more challenging than we expected when we started the year. We are closely monitoring our markets and our businesses, and we will react quickly to changes.

To conclude, I'm extremely proud of how our employees have responded to this crisis. And even though the next 12 to 18 months will be challenging for all of us, I know that we will meet this challenge and come out strong on the other side.

With that, let me pause here and turn it over to questions from the audience. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time we will be conducting our question-and-answer session. [Operator Instructions] Our first question comes from Deane Dray with RBC. Please state your question.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Good morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey it's great to hear the IDEX team and I'm wishing everyone the best. Appreciate the – all the details in terms of the potential scenarios this morning. And the first question really kicks off where Bill left off on page 14 on those scenarios. Because Andy, I want to say for the past year, you've been asked about the IDEX playbook for a normal recession. And it really feels like, I don't even know what that is anymore because we're far beyond that...

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Neither do we, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

So it's just – the idea here as you'd said, if things progress or get worse, it just feels like we're already there.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Deane Dray

Analyst, RBC Capital Markets LLC



So talk about it – and I know this is a tough conversation but the deeper cuts that you're likely going to have to take like is that \$120 million of cost out, is that enough? What are the milestones that you're looking for here and maybe some comments on decrementsals?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.



Yeah. You bet. So, first of all, that first look at the \$120 million, that's stuff that we are very actively putting our arms around and taking the cost out of them. And obviously, you can see that even impacted in a positive way to some degree in the first quarter because we started those actions really as we were coming into February and early part of March. And so, there's some benefits there. So we're grabbing that lever already and we're grabbing it very aggressively, Deane. So that's the first thing.

One of the main priorities that I have going through this crisis is to maintain as much of the structure and the talent that we can in IDEX appropriately. And so, I am willing for a short period of time to eat some of the incremental costing to maintain that talent base and to position the company well. That being said, as you know, we're a very diversified and decentralized business. And so you have companies that – some companies are absolutely growing in this environment and some are really taking it on the chin. And so, we'll have to get the appropriate footprint in the appropriate places depending upon how much deeper and how much longer this goes. And – but our first priority is to certainly keep the integrity of IDEX intact as much as possible. So, I look at that secondary group of actions that the incremental \$40 million and steps that we will take if we have to, but would prefer not to, Deane.

In terms of decrementsals, if you look it on a sequential basis versus year-over-year, I think that's probably a good way to look at it. Obviously, we're a very high contribution margin company. So, we have contribution margins in the low 60s. And so, if we can offset a good chunk of that and end up in the 40s or 50s without having to make massive structural changes to the company, we would do so in the short-term. But obviously in the longer term, you got to have the appropriate cost structure.

Deane Dray

Analyst, RBC Capital Markets LLC



That's really helpful. And then I just – I appreciate the four phases that you've laid out, and I don't want to minimize how much heavy lifting and frankly some pain to get through all four of these phases. But looking beyond into that new normal and maybe the idea of when you will start to shift to offense.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.



Yeah.

Deane Dray

Analyst, RBC Capital Markets LLC



And you've got balance sheet now. You didn't chase expensive deals for the last couple of years. When does M&A make sense? We know markets have to normalize a bit but when do you start to flip the switch and play offense here?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Well, some of that is in our control and some is not. In terms of overall playing offense, we're doing some of it right now, Deane. We are – if you look across our businesses, those places where essential products are booming. So, disinfection, many of our Health & Science markets, pharma reshoring, which we think is going to be a major trend. We're playing offense now. We have redirected our people and investment and are making sure that we can, first and foremost, help with this fight but also make sure that we're doing the right things for our shareholders, our owners. And so, some of that's happening now.

As it regards to M&A, there are really two challenges with M&A. First, the first one is having enough confidence in your own situation to deploy that liquidity and that balance sheet; and the second is that you have willing sellers. We are doing an awful lot of work right now on both sides of that equation. So, let me talk about the liquidity side.

So, there's liquidity that is to survive that a lot of people are having to utilize. And at the end of this, they will have a stretched balance sheet and a very difficult circumstances. That is not our situation and I don't want it to be our situation. Our drive and why we have so much focus on this breakeven level of cash flow is because I want a balance sheet that is deployable, aggressively deployable, as the world starts to settle itself. And so, if we can maintain this north of a \$1 billion of liquidity, as cash flow has become more certain and the market stabilize, we will get aggressive. No doubt about that.

Now, the other side of that equation is who are the sellers? And so, as you can imagine right now when you guys are talking to a lot of folks, that's frozen. It's just a frozen marketplace. I think it will take through a quarter or so for that to start to unfreeze when boards of directors and families are going to look at the situation and recognize that it's going to take a while, and that an attractive price in this marketplace might make sense. But I think it will take a little bit of time, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you, and best luck to everyone.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

A

Thanks, Deane.

Operator: Thanks. Our next question comes from Mike Halloran with Baird. Please state your question.

Michael Patrick Halloran

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

Q

Hey. Good morning, everyone.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Good morning Mike.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Hi, Mike.

Michael Patrick Halloran

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

Q

So, a couple of things, first, when you look at that down 15% to 25%, what's that predicated on? Is that based on what you're seeing now? Are there signs of stability after that initial shutdown words? Any kind of context on what kind of logic you're using to get to the 15% to 25% down?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. So, I have – what I first say is that the 15% is our experience as March unfolded and what we're seeing here in early April. And being a short cycle business, we certainly saw the reaction pretty quickly both on the ups and the downs, by the way, in terms of things that are struggling. The industrial businesses are certainly taking it on the chin more so than other businesses. So, if you look at FMT, that's just going to be more painful there. You've got the combination of the coronavirus impact and then, of course, what's happening in the energy world that's unfolding. So that 15% is what we've experienced here.

Recall it, six weeks, seven weeks, Mike, my view is it's likely to get worse than the 15%. And we see kind of slippage happening in a number of places that especially have more impact if you've got, say, if you're in energy, transportation, those places in particular are really getting pounded, and others are holding up. So, I feel pretty comfortable with that range, Mike.

Michael Patrick Halloran

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

Q

And then, you alluded to it earlier, but maybe just talk about how you guys are thinking about what the structural changes could look like here? What are some of the themes that you're thinking you might rotate to obviously some of the pharma medical stuff you already mentioned. Anything else you're thinking about? And then, how do you prepare for it in the short-term here and balance that with all the other things as you have up in the air?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I think one of the things that really works in our favor in this environment is our structure. It could be an impediment. We put that rapid response team in place very early on because we knew that our decentralization and in terms of kind of how we're structured worldwide, we knew that we could end up with kind of 45 different answers. And so, there were certain things that you just couldn't have 45 different answers on. And we've been able to move very quickly.

In this case, in terms of playing offense, Mike, our structure helps us a ton because the places that are really struggling with massive demand fall-offs, you can isolate them specifically and you can start redirecting resources to things that are exciting. I'll give you an example. So in the world of Health & Science, we have a significant demand for engineering right now because of all the new things that are developing whether it's from testing, which you're seeing PCR tests take off that we're helping with. We need an engineering and we actually redirected engineering from our business in rescue to help our business in Health & Science. And so we're doing a bunch of things like that, Mike. So we're definitely moving to – those opportunities and moving people and resources.

In terms of the big structural changes, I think they're going to happen around a lot of things touching our Health & Science world. If I think about, say, the food supply chain, that's going to be an area that I think will be impacted. There's a lot of talk of re-shoring in terms of moving things out of more difficult or more risky environments. I think that will happen. That was already happening but it's not like a big boom. I think it's a relatively slow phase. But overall, I feel like we're positioned well and our structure really helps us move to the areas where opportunity and demand are likely to be and move away from places that are likely to be hit harder.

Michael Patrick Halloran

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

Q

Thanks. And then one just clarification on slide 14, the breakeven cash flow. Is that our free cash flow before CapEx or after CapEx?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

After.

Michael Patrick Halloran

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

Q

All right. Great. Thank you. Appreciate it.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Bill, that's right. Isn't it?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Michael Patrick Halloran

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

Q

Great. I thought so. Just want to make sure. Appreciate it.

Michael J. Yates

Chief Accounting Officer & Vice President, IDEX Corp.

A

Yeah. Thanks.

Operator: Our next question comes from Scott Graham with Rosenblatt Securities. Please state your question.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Hey. Good morning. And as usual, Andy, thank you for your frankness and clarity.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah. Thanks, Scott.

A

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Sure. So, I just want to make sure that I'm at least thinking about what you're saying about decrementals correctly. So, if we're at 15% to 20% thinking for decline in this quarter sales, if I choose the midpoint and say minus 20% just for example's sake, I'm taking that number multiplying it by 50%, and that's your decline in operating income this quarter. This is simple as that, right?

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah. Plus or minus. Yeah. That's close enough. Yeah.

A

Scott Graham

Analyst, Rosenblatt Securities, Inc.

And within that, how much of the \$120 million discretionary are we talking about? In other words, what I'm trying to get to here is that if it's \$50 million this quarter; next quarter, it could be \$40 million and so on. That would be helpful.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Okay. I think I understand your question, Scott, but if I don't get it right, just reiterate or help me out here. So, the \$120 million is an annual number, right? And because we're not that seasonal and our fixed-cost structure doesn't – isn't that variable, you could basically take the \$30 million a quarter that's going to come out of there. And that's pretty much coming out now. It might be a little bit more as time goes on, but that's coming out pretty darn rapidly. And that's what enables you to go from -instead of having to be a 62% or 63% negative flow through, that to helps you kind of ratchet that down over time.

A

So, Bill, is there anything you'd add there?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

No. I think some of the items maybe a little bit less in the second that would ramp up, but it's close.

A

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Okay. Okay. That's...

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Did I answer your question, Scott?

A

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Yes. For all intents and purposes, the \$30 million quarterly is kind of the exit rate right now.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I mean, we've clamped down so hard here that we're not spending money on things that don't have kind of a direct – that aren't essential, right? That \$120 million is really clamping that down.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Okay. Got you. Two other questions. What would be the trigger for the \$40 million? What level of sales? Is it this 35% to 40% decline in sales, that's the trigger for the structural?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

There is – to some degree, Scott, it is an amount but more than anything else it's what we think the duration is going to look like, right? So, if we're going to reset the business, let's just say down \$20 million, let's just use that number just as an example. And you're no longer a \$2.5 billion company. You're now a \$2 billion company. You have to have different cost structure, right? If you think that's going to be sustained for a period of time. And so, that's what we're really trying to evaluate is what we think the duration and the depth is likely to be, and it's a combination of those two that would trigger us to look at the \$40 million.

We didn't feel like we had to do that today. We felt like we should buy ourselves some time. And we have with the \$120 million. And so, we'll continue to evaluate that. As you know, we took out a big chunk here in the fall. We took out \$15 million and we had another \$5 million, which obviously we've gone and got. So we were – although we hadn't predicted this, we did predict a tough year. And so, we went and proactively got that \$20 million out. And so we'll decide on depth and duration here as we go through this quarter to figure out whether or not we want to take out the other \$40 million.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

No. I got you. That's very clear. And then I think you actually in that answer just answered my third question, which was sort of the way that slide 14 was structured to do 30%, 35% and 40% and higher revenue declines. That is both depth and duration in these numbers.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

It is. It is. Yeah.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Right because your organic – you're thinking for the second quarter if it's minus 15% to 25% even if it ends up at 25%, what you're talking about here is on an annualized basis, there would be a duration here that would get us to these numbers.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

That's right, Scott. And I want to be very clear, Bill said that in his remarks but just so everyone hears this correctly. We are not – do not use these as guidance for where we think the world is going. This is really for example only. And we are trying to get a couple messages across here. And that I think probably they have landed but just in case. Message one was there's a lot that can happen in this world before we become – before we have a cash flow issue, and therefore, we don't have a liquidity issue. We have tons of liquidity, but we're not going to – I don't believe we're going have to utilize that liquidity to stay afloat. I want to utilize that liquidity to play really aggressive offense. And so, hopefully that came across to, number one. We're in a great position from a cash flow standpoint. And number two, our liquidity is really being pointed towards playing offense from the moment it's correct aggressively.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Yes. Page 14 is much clearer to me now. Thank you, guys.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Great. Thanks, Scott.

Operator: Our next question comes from Nathan Jones with Stifel. Please state your question.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Hey, Nathan.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I guess I'll go a little further on the cash flow side. Slide 14 here we're looking at revenue changes and expense changes. Maybe we could look at the working capital side of this.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I guess you should clearly have some source of cash out of inventory. Maybe you can talk about...

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

...what you're expecting there, if you're seeing any slowdown in DSOs or changes in receivable collections or any changes in customer behavior as maybe they're getting stressed out. Any more color you can give us on that side of the equation?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I'll comment on this. And then, Bill, I'll let you comment on it also.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

From – in terms of how we're managing this, I think this in a couple of ways. The first one is inventory. We've got to make sure it comes out naturally as volume gets affected, right? And that is – and that has been a winning move in any slowdown for us. And historically, we have taken out inventory and that's obviously had a very positive cash effect in any kind of slowdown. So you should expect us to continue to do that and take cash off the balance sheet or cash out of inventory rather and on the balance sheet.

In terms of payables and receivables, my philosophy here is don't be the bank. Meaning, we can't get caught between customers and suppliers, at the same time, I want to be very careful about not damaging customers and suppliers in here. So if we can end up neutral in that regard and really play that strategically, I think that's important. Obviously, we've got suppliers that we want to make sure they are healthy. They're our partners. This is not a time to beat on them when they're struggling. At the same time we can't finance them. And so, as our customers are coming to us and asking for relief, we're really weighing that against what we can do across the working capital spectrum. And so, we're being pretty firm. We've got excellent service levels, we've got great lead times competitively. We're not going to become the bank.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. So, the target payables and receivables, net cash neutral and inventory [ph] is the sauce (00:36:39)?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. My second question is on pricing. You guys have reported positive net pricing every year for as long as I can remember including 2009.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah.

A

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

This is clearly a little different thing maybe a little steeper in the short-term here. Do you guys think you can still be net price positive or at least net price neutral in this kind of environment?

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

I'm pretty hopeful that we can stay positive. The price that we put out at the beginning of the year was already out and going. And so, I don't see why that won't stick. I think there will be some challenges next year as we think about pricing about whether or not we can – how aggressive we can be there.

A

Bill, on those two topics, do you want to give your view?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Yeah. I would say our price capture in the first quarter was in line with what we experienced for most of last year. My only comment on the working capital piece is there are some selective businesses that took some actions that target to build some buffer stock relative to supply chains in certain countries that we're shutting down. So, first quarter inventory performance was good, impacted slightly based upon some of those builds. And to Andy's point, we fully anticipate to bleed that off here in the second quarter but price capture is still strong across the portfolio.

A

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Bill, what's your view of price here as we think about this year unfolds?

Q

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

Yeah. I mean, obviously, it will get more challenging as we go through the balance of the year as customers are more impacted. But I think our core pricing initiatives that we have across the portfolio will remain positive. Does it come down slightly? Potentially. But overall, price cost is still positive for us.

A

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah.

A

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Thanks a lot. I'll pass it on.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Thanks, Nathan.

Operator: Our next question comes from Allison Poliniak with Wells Fargo. Please state your question.

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Hi, guys. Good morning.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Hey. Good morning, Allison.

A

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

So, Andy, I just want to talk maybe higher level, IDEX, you build a really solid foundation here. You've talked about that and then you mentioned through these phases. But particularly as you go to the new normal, is there anything that's really coming to light here in terms of portfolio growth? It sounds like you're starting to pivot some of that near-term organic investment into some of these new applications. Just trying to get a sense if that's temporary or if it's sort of potentially a new direction here for IDEX.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yes. So I think we've had a lot of things come out of this, Allison, in terms of opportunities that – where people have come to us on trying to help with very specific things relative to the COVID-19 crisis. And as we have evaluated those, we've been pretty careful. And what I mean by that is what we don't want to do is take a bunch of people and resources and ship them to something where the lead time is so long that effectively when you bring your solution to bear, it doesn't matter anymore. And so, there are going to be a bunch of boom and bust cycles in this – of different things that are coming to market both because they're very effective and then there is no longer needed or they weren't particularly effective and they wash away. And so, we're trying to avoid those kind of things and we're trying to move the portfolio to things that are really about helping to fight where we have capabilities and we can ramp up really quickly. I'll use the mobile medical tents out of our Vetter unit in Germany. We sold more in the month of March. And we sold as much in the month of March as we sold all of last year. And so we've ramped that up. They've literally quadrupled their overall capacity here as we go through the rest of this year. And so, that makes a ton of sense. It doesn't take any major investment or capability that we don't have. So we're moving to those sorts of things very aggressively.

A

As we think longer term, I think there are some trends here that are very natural for us. So obviously, around global testing, that was already a trend that was growing and it was what we had positioned ourselves behind in IDEX Health & Science, and that is going to accelerate. I think that's indefinite. And what I mean by testing is testing kind of anything and everything that analytical equipment is used for and biodiagnostic testing is used for, that stuff is just going to continue to grow very aggressively and we're going to continue to position ourselves against that.

And then things like I think the pharma reshoring is the real deal. And so, our material process business, as an example, will absolutely play in that, and I think that's going to be a long-term trend. It's going to take a long time for that to happen, but I believe that that sort of thing is going to develop. And then, you have kind of all those other trends that I think are going to get accelerated because people frankly have had to change their lives so

much that it's going to be easier to move into some of these trends. And I'm thinking trends like digitization, mobile communications, and how that impacts even, say, a Viking Pump where the customer is going to become a lot more comfortable utilizing and expecting digital results and information-based results. And I think that will move some of those things forward faster.

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Q

Great. That's helpful. And then, you mentioned China. It sounds like it's coming out – it's coming through this and going to the recovery phase.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Q

As this rolls through globally, any lesson learned or your approach, has it evolved differently as you [ph] hit (00:42:18) each region based on what's been going on in China? Any color there?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. That's a good – that's a great question, Allison. And I think kind of moving from east to west in terms of how this has – this crisis has unfolded, we've been learning along the way. And we've done a few things. So our Chinese businesses, they really led the way here in creating protocols for safe working. And we have every single one of our plants is up right now. Not everything is at full capacity. But even our places in northern Italy are up and working. And I'll give a lot of credit to that because we learned very early on how to ramp down, how to ramp back up, and how to work in an environment where the virus is with you.

And we created a protocol and a playbook out of that. We then changed that and augmented that for different parts of the world. And we actually very – soon, we actually shared that with the MAPI Group, the Manufacturers Alliance for Productivity and Innovation. We shared with them that and they'd share it will all of their members. And our team just did a great job putting that together. And so that's the basis of that and we're continuing to learn.

We also hear, I guess it was last week, we did a general managers' call, a global general managers' and site managers' call. And we had four of our general managers from Italy on that call taking people through their experience. And I mean the physical experience of what they've gone through, the emotional side of it, how to keep people safe. We did a kind of a virtual lunch and learn for everybody around those learnings. And so one of the things that we're trying to leverage here is the network effect of having so many sites around the world where we can learn and share and get the best practices out in people's hands, so – and we've been trying to do that really intently, Allison.

Allison Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Q

That sounds great. Stay safe, everybody. Thanks.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thank you, Allison.

A

Operator: Thank you. Our next question comes from Joe Giordano with Cowen. Please state your question.

Joseph Giordano

Analyst, Cowen & Co. LLC

Hey, guys. Good morning.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Good morning, Joe.

A

Joseph Giordano

Analyst, Cowen & Co. LLC

So, you guys just closed an energy deal. I know it's kind of a specific niche technology. Can you just talk about your overall exposure there, what you're seeing in the way you guys play in the energy markets?

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yes. So, Joe, I think, as you know, we are principally a midstream player, and so we're not really anywhere near the wellhead for the most part. We have some things here and there, but not a ton. Look, across the energy business, which today is sub-10% of our total portfolio, we have an expectation that that's really going to get hammered here. So far, we haven't had that – it hasn't been as severe as we expect it to be, but we are certainly seeing all those indicators now on the order front. And so, we'll have to get our cost structure right and our overall footprint right to make sure that we can sustain that.

A

I think everybody learned the lesson in 2015-2016 that the overall impact of capital spending and how the energy economy impacts the global economy can't be overestimated. Right? It's – that's going to be – obviously, it can exacerbate this whole situation. And we're going to have to make sure that our businesses are positioned correctly as we go forward. But thankfully, we're not on the well ahead and seeing some of these just ridiculous declines and we will see declines but it won't be like we're seeing upstream.

Joseph Giordano

Analyst, Cowen & Co. LLC

When you think about, it's hard now to think about like new investments you have to make when we're trying to rip out cost at the same time. But as you think about your global footprint, does something like this make you have to step back and like rethink the way you even have your facility set up? Like, does the workflow have to look different in the future? Do you have to – does head count have to be totally different and does it have to be more automated, like what kind of – how do you just think about how you're global clients look coming out of this?

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Joe, I think that question as we move now through that what I call phase three is going to be one of the most important questions that we're wrestling with because when you think about a manufacturing facility especially one that is principally assembly and testing obviously, we do have businesses that are more than that. But we tend to be light machining assembly and test, and we have a couple of businesses that have the boundaries and that's pretty unusual though.

And in a world like that obviously, we've all embraced the manufacturing here for many decades. And the natural output of lean manufacturing is cellular manufacturing, which did not worked with social distancing the way its constructed today. People are not six feet apart. And so, we're already in the process of doing that. It's how do you see the elements of – how do you keep the elements of lean manufacturing, which is the elimination of waste and bringing down lead times, how do you keep those while having the principles of social distancing in place. And that's something that we're working on and I know a lot of people are.

And we're not going to move to batch manufacturing. We're not going to do that sort of thing and destroy three decades of great work, but it does change how people work. And not just in the manufacturing environment. It's going to change the office environment. It's going to change how we interact with customers. So many things like that are going to change until people have that comfort to be closer together again.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Thanks for the color.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Thank you, Joe.

Operator: Thank you. [Operator Instructions] Our next question comes from Andrew Buscaglia with Berenberg. Please state your question.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

Hey, guys.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Hey, Andrew.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

If you could talk – I'm getting the sense directionally for the year FMT gets hit probably the worst and then Fire & Safety maybe second worst then Health & Science maybe third worst because there are some partial offsetting factors. Would you agree with that?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

I would.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yes.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

Okay. And in those other segments, are there – you're talking about some partially offsetting factors maybe in Health & Science. Are there any – in the other two segments, is there anything else you're seeing that could go the other way as a positive?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. Yeah. So, I think as you look at, say, let's look at FMT first. I think that – obviously, the whole agricultural space has been really beaten up, but I do believe that food supply chains are going to be – continuing to be really critical. And so I think that's an overall a good trend as you talk about ag in terms of where we play there. And that would be both for the material-handling business, material-process business, and for Banjo. I'd put it in both of those.

Our ADS business, we are seeing some benefits of actually – there are some very interesting analytics that can be done for what's going on in sewer systems, believe it or not. I know that sounds incredibly strange, but there's a whole bunch of modeling that – in the analytics that are allowed to – or can happen because of our ability to monitor those systems. So, our ADS business we think will probably hold up pretty well in there.

And then I think that the more industrial-facing kind of general industrial is going to have a bunch of things that are pretty negative offset by small things that are positive. So, example, if you're selling into the chemical industry, obviously, there are some chemicals around disinfectants and things like that that are absolutely booming. And then you have other things that are going into large CapEx that are likely to really struggle. So, there are a few trends there over in Diversified.

On the Fire side, the – interestingly enough, there are a number of applications where you can use some of that technology for disinfectant. So, you'll see some of that. You've got a really long – a very, very long pipeline of – for – in the Fire business, for trucks in the US. Particularly, you've got over a year of backlog. What we don't know yet is whether or not we'll see cancellations. We have not seen that yet, but we'll have to monitor that pretty closely.

We've seen in China the rescue business picked back up aggressively, has slowed down as tenders slowed down, and then has picked back up aggressively. And so, I think those hold up. BAND-IT and dispensing both I think take it on the chin here in the short-term because their exposure – one, around the retail space and for dispensing. And then for BAND-IT, you've got some exposure to transportation and oil and gas that will get hit. But other parts will do quite well.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

Okay. That's good. That's some good color.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Thanks.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

If you could – maybe just one last question on – same question but related to margins. I would think FMT would get hit the hardest because it seems like in Fire & Safety you got some – you've made some changes there structurally and maybe they – maybe they're okay or not okay, but they're better than FMT. Is that to safe to say?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I think FMT...

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

In terms of like the decline will be?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I think FMT will fair – will be the most challenged and then Diversified and then Health & Science.

Andrew Buscaglia

Analyst, Berenberg Capital Markets LLC

Q

FMT. Yeah. Okay. Got it. Thank you.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yes. Thanks, Andrew.

Operator: Our next question comes from Brett Linzey with Vertical Research Partners. Please state your question.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Hey. Good morning, everyone.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Good morning, Brett.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

I wanted to come back to your comment on the past six weeks to seven weeks. You mentioned running down mid-teens.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

What does the range look like there? And then just thinking about the complexion across the geographies, as we do reopen commerce, how are you thinking about the pace of return between the US and Europe?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. Just to make sure I understand, Brett, the question you're asking. Are you asking kind of the range of outcomes kind of business by business, like how bad to how good? Is that what your...

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Well...

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

...the question is?

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

...I mean, yeah, I mean, you're saying on average things around mid-teens. I mean, there was probably some growth in there which does imply there are some businesses down 30%, 40%, is that the right math?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. We've got a couple of businesses that we think are going to be down in that 40% range. Very few are – is that severe, but they do have a couple and again it's energy transportation exposure. We don't have really hospitality exposure, so to speak, so we don't have that. But we do have some businesses that are down there that much and we expect we'll probably in the next quarter or two will have that kind of impact. We don't think that will stay long.

And I think to your question, our experience in China has been a very, very aggressive snapback and – but it's actually bifurcated. You have businesses that are kind of COVID facing so to speak. That are helping with the fight, that are growing like crazy. And then you've got a few businesses that are kind of really in the dumpsters. But it's actually come back pretty quickly. I don't think that that's the model for the rest of the world. And for a number of reasons. Obviously, China has some very unique circumstances in how they are able to manage people and businesses, and democracy just don't have those tools. And that's the cost of democracy, which is I think a good cost.

And so, I think it's going to look a lot more like we're seeing in Europe, which is you're going to see people starting to figure out how to live with this virus and figure out how can you still have social distancing, but get back to work, get back to friends and family. And so, that means it just takes longer. And that's what we're seeing certainly in Italy and that's what I expect here.

And just to be clear, our expectation here is that this is going to be fits and starts. I am not someone who has bought into a super aggressive, everything gets fine in the fall sort of thing. I think that's crazy talk. And I think we

have to face the reality that's in front of us. And you know what, if we get lucky and for some reason this goes away with weather or something else or a vaccine is found more quickly than we think or you have very, very effective treatments, great news. I don't think anybody should bank on that and I certainly wouldn't manage the company expecting that.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Okay. Great. No, I appreciate that. And then just one last one. I was hoping you could spend just a moment on the evolution of the portfolio not so much from a product standpoint. You gave a lot of good examples earlier. But just in terms of service or the recurring elements of the portfolio. What's that mix look like today? I mean obviously service is going to be impacted here near-term. But kind of in the new normal, what is the recurring element at IDEX look like?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. We've never been a company that has the classic sort of high recurring revenue so to speak. And the reason I say that is that we don't have a big parts business. But we tend to sell into like-for-like in a very, very high percentage of our applications. And so, Bill, I don't know, what's your estimate of total sort of recurring? How would you characterize that?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

That's greater than 50%.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. I agree with that. And so, look, when you had the financial crisis, our total business was down 14% during that year right after that over the entire year. Our Health & Science business was down 5% and I think our industrial businesses were down, say, 20% in those environments which set us up off. We have a better portfolio positioning than we did then, meaning it's less cyclical and there's more Health & Science in the mix. So, I feel good about that. So, overall, I think our portfolio and our positioning is pretty good, albeit there will be a couple of places that will get hit really hard.

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Q

Okay. Great. I really appreciate all the detail. Hope everybody stay safe.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

Yeah.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Thank you.

A

Operator: Thank you. [Operator Instructions] Our next question comes from Walter Liptak with Seaport Global. Please state your question.

Walter Liptak

Analyst, Seaport Global Securities LLC

Hi. Thanks. Good morning, guys.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Good morning, Walt.

A

Walter Liptak

Analyst, Seaport Global Securities LLC

I wanted to ask a question about the municipal businesses, your comments so far that Fire okay, China picked up pretty quick.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah.

A

Walter Liptak

Analyst, Seaport Global Securities LLC

I wonder how the municipal businesses you think will do this time. So, is there anything different, more challenging either financially or maybe benefits? I think you mentioned the sewer business could have some benefits. So, I wonder if we can just talk about muni.

Q

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Yeah. Yeah. I think, historically, the municipal businesses have had 18-month to 2-year lag time compared to other businesses, and that's really driven by receipts, right? Especially in the western world; as the receipts come in, that really sets the overall operating and capital budgets. And so I expect there to be a little bit quicker reaction than we saw in the financial crisis. That, in the financial crisis, that took time. I remember that well where the municipal businesses held up really well as we went into that crisis and then they started to really struggle as you got into 2008 – 2010/2011. That took some time for that to make its way through and then obviously has had a pretty strong overall run.

A

I expect that will generally follow a similar path although I think it will be more. I think people will act faster just because there's been such a shock to the global system and everybody's top of mind that municipalities will probably clamp down a little more quickly on their spending. I expect to see that but I do think it will still lag the overall industrial economy.

Walter Liptak

Analyst, Seaport Global Securities LLC

Q

Okay. Great. Thanks. And then last one for me just about the share buyback. I wonder if you can just remind us how much is left on the share repurchase authorization. How you're thinking about it in the second quarter and second half?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Okay. You bet. So, we did buy just over \$100 million of shares. We had a 10b5-1 in place going into this. And so, we did buy just over \$100 million. We did shut that 10b5-1 down as we looked at the value of liquidity and the uncertainty that we are in. We value the certainty more than we did the incremental share buyback. So, we did pause that.

Look, I know there's going to be a lot of – people are going to be looking really hard at those who buy back shares and I know in some ways it's turning into a political football. I don't think that we are in that category number one. Obviously we're kind of pretty low on the overall visibility food chain here, so I don't worry too much about that. Second, we're not going to be a company that takes cash from the government. I can't see where we're going to do that in a way that restricts us in any way to our behaviors.

And then finally, look, we are going to utilize our liquidity, the best way we can to help all of our stakeholders. And if what that means is to buy back shares, then we will do so appropriately. In terms of what we have in total, I'm going to say, we have the \$500 million that we got authorization for back a few weeks ago. Plus, you add that on – I think Bill, is what, about low \$200 million...

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

It's a little over \$700 million. Yeah. A little over \$700 million.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah.

Walter Liptak

Analyst, Seaport Global Securities LLC

Q

Okay, great. Okay. Thanks, guys.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Thank you.

Operator: Thank you. Our next question comes from Matt Summerville with D.A. Davidson. Please state your question.

Matt J. Summerville

Analyst, D. A. Davidson & Co.

Q

Thanks, just a quick one. Most of mine have been answered but just with respect to life sciences and pharma, the strength you're seeing there. Is that COVID-19 related or is that something else. And could you put that in the context of the \$50 million improvement, I believe you saw in overall backlog, how that component plays out looking forward?

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. You've got – there are two stories in there, Matt. So the first one is, yes, there is absolutely a pick up from COVID-related activities. There's no doubt about that, that we're seeing in life sciences. But also we have a number of very important customers that have programs that are ramping. And we have won some substantial business and we had some really nice orders here in the quarter relative to that. And so, that's been strong. So it's both – it's ongoing programs that are really important. And then, you've got the impact of COVID-19. So you've got two things going at once.

And Bill, I don't know, in total what does that make up of, of the \$50 million of backlog, Bill?

William K. Grogan

Chief Financial Officer & Senior Vice President, IDEX Corp.

A

It was a little over \$30 million from HST.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

A

Yeah. So that'll give you a sense, Matt.

Matt J. Summerville

Analyst, D. A. Davidson & Co.

Q

Thank you.

Operator: Thank you. Ladies and gentlemen, there are no further questions at this time. I'll turn it back to management for closing remarks.

Andrew K. Silvernail

Chairman & Chief Executive Officer, IDEX Corp.

Great. Thank you very much and thank you all for being on the call. I know that we're sitting in a time that has shaken us in many ways. And I think I'd like to close with a couple of comments. My first one is that, as I said in my prepared remarks, I could not be more proud of how the team here at IDEX has handled this. I have seen a level of collaboration and teamwork and positivity that it really – it really warms the heart. It's just incredible. And when you see that, sometimes the new cycles have a tendency to get you down. And – but when you see how people are coming together in the real world and tackling this, it is awesome and it's why I am in business. I believe that the purpose of business is to make life better, and I could not be more proud of the team in IDEX for what they've done. It's just remarkable.

Second, I'd like to say thank you to everybody who's on this call and your interest in IDEX. We – while the IDEX brand is not well known in the consumer world, we play a very important role in a lot of places that really do matter and that mission that I talked about, about trusted solutions and improving lives. We live that here at IDEX. And we're seeing in this crisis, in this fight with COVID-19 how important that is.

And I want to thank the people who are investors in the company here and prospective investors for your support, your partnership as we move through this, and we will move through this, and we will get to the other side, and we will have a very strong company that's positioned extremely well. So thank you everybody. I appreciate it and look forward to discussions as we go forward. Take care.

Operator: Thank you. This concludes today's conference All parties may disconnect. Have a great day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.