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AME - Q4 2015 Ametek Inc Earnings Call

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OVERVIEW:

AME reported 4Q15 sales of $988m, adjusted net income of $150.7m and adjusted diluted EPS of $0.63. Co. expects 2016 revenues to be up low-single digits on percentage basis from 2015 and diluted EPS to be $2.55-2.65. Expects 1Q16 sales to be down low-single digits from 1Q15 and diluted EPS to be approx. $0.56-0.58.

CORPORATE PARTICIPANTS

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Frank Hermance *AMETEK, Inc. - Chairman & CEO*

Bob Mandos *AMETEK, Inc. - EVP & CFO*

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Matt Summerville *Alembic Global Advisors - Analyst*

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PRESENTATION

Operator

Welcome to the AMETEK Q4 2015 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded on Friday, February 5, 2016. I would now like to turn the conference over to the Vice President of Investor Relations, Mr. Kevin Coleman. Please go ahead, sir.

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Thank you, Frank, good morning, everyone. Welcome to AMETEK's fourth-quarter earnings conference call. Joining me this morning are Frank Hermance, Chairman and Chief Executive Officer; Bob Mandos, Executive Vice President and Chief Financial Officer; and Dave Zapico, Executive Vice President and Chief Operating Officer.

AMETEK's fourth-quarter results were released earlier this morning, these results are available electronically on market systems and on our website at AMETEK.com. A tape of today's call may be accessed until February 19 by calling 800-633-8284 and entering the confirmation code 21802769.

This call is also webcast; it can be accessed at AMETEK.com and streetevents.com. The call will be archived on both of these sites.

I will remind you that any statements made by AMETEK during the call that are not historical in nature are to be considered forward-looking statements. As such these statements are subject to change based on various risk factors and uncertainties that may cause actual results to differ significantly from expectations.

A detailed discussion of the risk and uncertainties that may affect our future results is contained in AMETEK's filings with the SEC. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements.

I will also refer you to the Investors section of AMETEK.com for a reconciliation of any non-GAAP financial measures used during this conference call. We will begin with prepared remarks and then we will open it up for questions. I will now turn the meeting over to Frank.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Thank you, Kevin, and good morning, everyone. AMETEK delivered solid operational results in the quarter to complete another strong year. We achieved a record level of operating income, operating margins and diluted earnings per share in 2015 despite a very challenging global macro environment.

Looking ahead, we expect these difficult conditions to persist in 2016; therefore we have taken additional realignment actions in the fourth quarter to help minimize the effects of the ongoing global softness. These realignment costs totaled $20.7 million or $0.06 per diluted share and we expect annualized savings of approximately $35 million as a result of these actions with an approximate $20 million benefit in 2016.

Before covering the financial results, please note that any references to 2014 or 2015 financial results will be on an adjusted basis excluding the realignment costs in 2015 and the Zygo integration costs in 2014.

Now on to the fourth-quarter and full-year results. In the fourth quarter sales were $988 million, down 4% from last year's fourth quarter. Organic sales were down 4%, acquisitions added 3% and foreign currency was a 3% headwind.

Operating income in the quarter was $229.5 million, down 1% versus 2014's comparable quarter. Operating income margin for the fourth quarter was very strong at 23.2%, a 50 basis point improvement over the fourth quarter of 2014. Net income for the quarter was $150.7 million and diluted earnings per share of $0.63 were flat with last year's fourth quarter.

For the full year 2015 sales were $4 billion, down at 1% versus 2014. Operating income was a record $944.3 million, up 3% from 2014. And full-year 2015 operating margins increased 100 basis points to a record 23.8%. Diluted earnings per share were up 5% over 2014 ending the year at $2.55 per diluted share, a record level.

Now turning to the individual operating groups. The Electronic Instruments Group had a good quarter with solid operating performance. For the quarter EIG reported sales of $628.4 million, down 2% versus last year's fourth quarter. Organic growth was down 2% while the Surface Vision acquisitions added 2% and foreign currency was a 2% headwind.

Solid growth in our Aerospace and Ultra-Precision Technology businesses was more than offset by weakness in our upstream oil and gas business as a result of the continued slump in oil prices.

EIG's operating income increased 2% to $170.9 million and operating margins were superb at 27.2% in the quarter, a 110 basis point improvement over last year's fourth quarter.

The Electromechanical Group managed well through a very difficult market environment. Sales were $359.6 million in the quarter, down 5% from last year's comparable quarter with organic sales down 8%. The acquisition of Global Tubes contributed 5% and foreign currency was a 3% headwind.

The lower sales were driven largely by the impact from commodity price deflation in our Engineered Materials, Interconnects and Packaging businesses as well as soft demand in our Floor Care & Specialty Motors business. EMG's operating income of $70.9 million was down 8% from the fourth quarter of 2014. Operating margins were 19.7% in the quarter, down 60 basis points from last year's fourth quarter.

Now turning to our four growth strategies of operational excellence, global and market expansion, new product development and strategic acquisitions. First I will touch on acquisitions. In 2015 we acquired two businesses, Global Tubes and Surface Vision. we deployed approximately $360 million of capital and acquired roughly $180 million in sales on these two acquisitions.

2016 is off to a solid start as we announce today the acquisition of two additional businesses, Brookfield Engineering Laboratories and ESP/SurgeX. Combined we deployed approximately $300 million in capital and acquired nearly $100 million in sales. First I will touch on Brookfield.

Brookfield Engineering Laboratories is the global leader in viscosity measurement instrumentation for quality control application. Brookfield provides a complete range of viscometers and rheometers, as well as instrumentation for the analysis of texture and powder flow.

Key applications for Brookfield's products include research, development and production of food and beverage, pharmaceutical, paint and petroleum type products. The addition of Brookfield allows AMETEK to expand our laboratory instrumentation platform into a broader range of adjacent markets and applications.

Brookfield is headquartered in Middleborough, Massachusetts with additional operations in Germany, the United Kingdom, China and India. The Company has annual sales of about $55 million.

Now let me touch on ESP/SurgeX. They are a leader in power protection. Their patented protected products operate at the plug level and monitor, protect, analyze and diagnose power-related issues remotely or on-site. In addition, their products help control power to mission-critical equipment.

ESP is a great strategic fit with our existing power protection platform. It is highly complementary with our recently acquired PowerVar business providing us with new opportunities for product innovation and market expansion. They are headquartered in Knightdale, North Carolina and they have annual sales of approximately $40 million.

Over the last 24 months with acquired eight businesses, deployed over $1.1 billion in capital, and acquired approximately $510 million in annual revenue. Acquisitions will continue to be a key focus for us throughout the year as we see this strategy as a key driver to the creation of shareholder value, especially in low growth environments.

Acquisitions will also continue to be the primary use of our strong cash flow and financing facilities, which gives us ample liquidity to continue the strategy.

Now turning to global and market expansion. We continue to invest in the development and expansion of our global sales channels, service infrastructure and manufacturing footprint in emerging markets to capitalize on the attractive long-term growth opportunities.

In the fourth quarter international sales represented 53% of our total sales. Our Ultra-Precision Technology division continues to see great results from their global expansion investments with mid-teens organic sales growth across Asia in the fourth quarter.

Their Taylor Hobson business delivered excellent growth in China and India in the quarter following recent investments to expand their sales and services infrastructure in these two key markets.

Also, their Creaform business continues to see great growth internationally with double-digit growth in Asia in the quarter. This growth is being driven by continued development of their sales network across Asia and from strong expansion in the quality control market driven by a number of recent new product introductions.

Now moving on to new products, our businesses are doing an outstanding job developing new products to serve their existing markets and to help penetrate adjacent markets and applications. We have consistently invested in RD&E to ensure our businesses are developing the right products to serve our customers.

As reflected in our vitality index, we continue to see excellent results from these efforts. Revenue from products introduced over the last three years was strong at 26% of sales in the quarter, up from 25% in last year's fourth quarter. In 2016 we expect to spend approximately $210 million on RD&E, or about 5% of sales.

We are excited about some recent new product introductions. Our TMC business, the leader in precision vibration isolation systems, recently introduced the Everstill K-400, a compact vibration cancellation system. The Everstill is ideal for small vibration sensitive instruments such as optical microscopes, scanning probe microscopes and metrology instruments.

It is patented vibration cancellation technology is especially suited for the 1 to 10 hertz vibration range where precision instruments tend to be the most sensitive. The portable Everstill is ideal for bench tops and work tables as it requires only a standard AC power outlet.

The LEAP 5000, the latest generation of atom probe microscopes from our CAMECA business, was recognized by R&D magazine with an R&D 100 award.

Widely recognized as the Oscars of innovation, the R&D 100 award is presently -- presented annually to the 100 most significant new developments in research and development as determined by an independent panel of judges. This product was recognized as a breakthrough instrument whose unique capabilities have enabled engineers and scientists to gain new insight into materials and processes.

Lastly, AMETEK power instruments recently added an IEC version of their JEMStar II electricity revenue meter for use outside North America. The JEMStar II is the most accurate revenue meter on the market with the broadest communication options and features the industry's first color graphic display. The meter is specifically designed for applications with a high electric usage such as utility generation and transmission substations.

I will now touch on operational excellence. Our management teams and employees continue to do an excellent job driving continued operational improvements through their businesses by leveraging the operational excellence tools we have put in place throughout the Company.

In slow growth environments the success of our operational excellence initiatives takes on an even greater importance as we are able to drive meaningful margin expansion while continuing to invest in key growth initiatives.

Overall, we realized approximately $150 million in savings in 2015 through our various operational excellence initiatives. The largest contributor to these savings was our global sourcing and strategic procurement activities where we recognized approximately $75 million in savings for all of 2015.

For 2016 we expect approximately $120 million in total savings through our operational excellence initiatives, including $60 million in savings through our global sourcing and strategic procurement initiatives.

Turning now to the outlook for 2016, we do not anticipate a meaningful change in global economic conditions in 2016. We expect sluggish conditions across oil and gas, emerging markets and the broad industrial markets to continue.

As a result we anticipate 2016 revenue to be up low-single-digits on a percentage basis from 2015 with organic growth down low-single-digits for all of AMETEK. Earnings for this year are expected to be in the range of $2.55 to $2.65 per diluted share, probably focused more on the lower end of that range, and that is flat to up 4% over 2015.

First-quarter 2016 sales are expected to be down low-single-digits from last year's first quarter. We estimate our earnings in the first quarter to be approximately $0.56 to $0.58 per diluted share versus $0.63 in last year's first quarter.

So in summary, our overall business performed well in the fourth quarter and for all of 2015. We delivered record operating results in 2015 despite persistent global economic weakness. Our strong balance sheet and significant cash flow generation provides us with plenty of liquidity to continue to invest in our businesses and pursue our acquisition strategy.

Our strong portfolio of businesses and commitment to driving success through our four growth strategies should enable us to continue to deliver strong and consistent long-term growth.

Before turning the call over to Bob Mandos to cover the financial details, I wanted to note that Bob has decided to retire effective May 15 of this year. Bob has done a tremendous job over his 35 years of service with AMETEK and he will be greatly missed. I want to thank Bob for all his contributions to AMETEK and wish him all the best in his retirement.

Bill Burke, who many of you know, will be assuming the CFO role on May 15. Bill has also done a superb job for AMETEK over his 28-year career and is well suited for his new role. Now Bob, if you could cover the financial details please.

Bob Mandos - *AMETEK, Inc. - EVP & CFO*

Thank you, Frank. As Frank noted, we had a good fourth quarter with strong operating performance. I will provide some further details. In the quarter selling expenses were down roughly in line with sales on a percentage basis.

General and administrative expenses were 1.2% of sales on the quarter, unchanged from last year's fourth-quarter level of 1.2% of sales. Other expense in the quarter was up approximately $6.3 million versus the fourth quarter of 2014 due to an insurance gain in last year's fourth quarter.

The effective tax rate for the quarter was 26% versus last year's fourth quarter rate of 27.1%. The lower tax rate in the quarter was the result of our ongoing international tax planning initiatives.

For 2016 we estimate our tax rate to be approximately 28%. As we have said before, actual quarterly tax rates can differ dramatically, either positively or negatively, from this full-year rate.

On the balance sheet working capital, defined as receivables plus inventory less payables, was 19% of sales in the fourth quarter, down slightly from the third-quarter level. Strong working capital management will remain a key priority.

Capital spending was $24 million for the quarter and $69 million for the full year. Full-year 2015 capital expenditures were 1.7% of sales. 2016 capital expenditures are expected to be approximately $70 million.

Depreciation and amortization was $40 million for the quarter and $150 million for the full year. 2016 depreciation and amortization is expected to be approximately $165 million.

Our cash flow was very strong in the quarter and for the full year. In the fourth quarter operating cash flow was $199 million and free cash flow was $176 million, representing 128% of net income.

Excluding the $50 million contribution to our US defined benefit pension plan in the first quarter, full-year 2015 operating cash flow was $723 million. And full-year free cash flow was $654 million, or 111% net income.

The primary use of our strong cash flow is to support our acquisition strategy. In 2015 we expended $360 million on acquisitions. And thus far in 2016 we have deployed approximately $300 million on acquisitions.

In addition, in the fourth quarter we repurchased approximately 2.4 million shares of stock for approximately $130 million. Total debt was $1.94 billion at December 31, up approximately $230 million from 2014 year end.

Offsetting this debt is cash and cash equivalents of $381 million resulting in a net debt to capital ratio at December 31 of 32.4%. At December 31 we had approximately $930 million of cash in existing credit facilities to fund our growth initiatives. Our highest priority for capital deployment remains acquisitions.

In summary, we had a strong 2015. We are well-positioned with a strong balance sheet and cash flows to support our growth initiatives.

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Great, thank you, Bob. Frank, we are now happy to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Matt McConnell - *RBC Capital Markets - Analyst*

Good morning, guys.

Just hoping to get some visibility around your conviction on the 2016 outlook. You are already setting expectations kind of for the low end.

Just how do you go about planning in an environment like this where it is probably hard to tell whether things are getting worse or flattening out? Just any more insight into how you plan in that kind of environment and level of conviction.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, I mean, it is very difficult, as you stated. There are a lot of moving factors right now in the global economy. And in Q4 we had some difficulty in our EMIP metals business and that will continue into Q1, which is one reason why the Q1 forecast is lower than we would have liked.

So to get conviction it is more difficult in this environment and that is why I mentioned in my opening talk that with that sort of cloudy outlook it is probably best to be conservative on the guidance that I gave.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. And then switching gears a bit just to the M&A that you are announced. What are the EBITDA multiples and maybe margins now versus margin potential of these businesses? And what is your playbook for creating value on these deals?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, absolutely. The Brookfield deal we paid about 11 times and the ESP deal we paid about 10 times. We see significant synergy with these businesses. If I look at the ESP deal, their margins are quite good. However, we can offer significant amounts of synergy in terms of international expansion. They don't do a lot outside the United States.

And also just our normal operational excellence initiatives can definitely create value. Our goals and how we price these deals, we look for a 10% return on invested capital in year three. Both of these deals actually exceed that. So we are pretty confident of getting a good return for our shareholders.

Following up on Brookfield, Brookfield is just a phenomenal Company. Their name is well, well known in the industry and it is almost synonymous with rheometers, because they basically have a very, very strong position in that market.

And their margins are lower than the AMETEK margins. So we believe over time we can definitely put our operational excellence capabilities in place there and move those margins up to the AMETEK average and possibly beyond.

So, we are pretty excited about both of these deals. Obviously doing deals is the primary use of our cash flow. And we are going to continue to make acquisitions throughout the year and we think it is a very significant value creator for our shareholders.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay, great. Thank you very much.

Operator

Matt Summerville, Alembic Global Advisors.

Matt Summerville - *Alembic Global Advisors - Analyst*

A couple questions. First, with respect to EMG being down 8% organically in Q4, I would assume that sort of caught you by surprise. Can you talk about within EMIP, and maybe even just walking through the other businesses in EMG, how much of the decline are you experiencing there that is really volume driven versus price and/or commodity deflation driven? And I guess when do we anniversary that commodity deflation as it sort of flows through your P&L?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Okay, Matt, you are right, that was the surprise in the quarter, EIG came in essentially where we were expecting. But what happened during the Q4 is that there was a significant decline in metal prices. A few examples: nickel was down 13%; copper -- this is just in the quarter, was down 17%; and vanadium was down 23%.

Now in terms of how that affects the profitability, we pass the commodity prices through so that there is not a major impact from the viewpoint that the prices came down from that perspective.

The issue is that because the prices were coming down, and so rapidly, our customers basically stopped purchasing. They wanted to make darn sure they were purchasing at the bottom instead of at a different higher level. So the impact here was therefore on the sales line from the viewpoint that they essentially stopped buying. And that is continuing into Q1.

We expect some stabilization in Q2 and probably a pretty sure bet would be by Q3 that those -- that will stabilize because in essence those customers need the product. I mean that is the fundamental issue.

So they will drive their inventories down to where they are as low as they can be. And then they will be forced to basically go ahead and purchase. So I think that covered all of your questions, Matt.

Matt Summerville - *Alembic Global Advisors - Analyst*

Yes, thank you. And then just one quick follow-up just on oil and gas. As you entered 2015 you threw out some numbers, I think down 10%. Is that where it sort of ended up for you guys? Were you able to sort of get that right I guess?

And then what are you looking at there for 2016 on an incremental down draft basis? And also fold in how mid and downstream impact that as well as upstream.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, okay, Matt. We definitely got it right in 2015. We made that call right at the beginning of the year and in essence when we looked at the results for 2015 we hit it right on, which is almost unbelievable that we were able to call it as close as we did.

Looking forward what we are expecting, if you look at the total linkage that we have to oil and gas, it is about $360 million. Of that about a third is upstream, so say $120 million. And we are projecting that piece to be down around a third, around 30%-35%, which is down an incremental $40 million.

And then if you look at the remainder, which is mid and downstream, we expect a mid-single-digit type decline. So overall what is in our forecast is an incremental $50 million of decline due to essentially the price of oil being down at the $30 a barrel level right now.

Matt Summerville - *Alembic Global Advisors - Analyst*

Great, thanks a lot, Frank.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a question -- this has been a very confusing earnings period I guess for me. When was the last time outside of a recession you remember that your businesses sort of could not grow organically?

And what are you guys just seeing on a broader economic sense, because some companies are talking about things reaccelerating into the first half of the year? Just sort of if you can take a longer historical perspective first and be -- just to talk about the fact that some people are sort of calling for reacceleration and some people are not.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Well, I think it depends on the particular markets and your particular business concentrations. I think if you look back historically where AMETEK has had say negative organic growth is typically when the industrial cycle is down.

And in my view we are in an industrial recession right now. That is the view that -- the consensus of all of our managers is that we are in an industrial recession. And therefore to get any sizable organic growth in this environment is challenging.

And where AMETEK shines is that we are able to be very good on the cost side of the business and therefore we are looking to be able to hold or slightly increase our earnings in a recessionary environment. So that is probably the best I can say.

And if companies -- I will give you some examples, without specific names, but if you have a company that doesn't have oil and gas exposure or doesn't have a lot of exposure in Asia or in metals areas. Those companies are going to have a better opportunity to grow organically and that is probably why you are hearing some of this I will call it confusion in the market.

When we step back and we look at these kind of environments, we are going to be very aggressive on the cost side of the business and we are going to look to deploy capital to increase our earnings. And remember, the guidance that I am giving does not include any future acquisitions.

So, whatever we can do to deploy more capital and bring more companies into our realm we've got the operating capability that we have shown over many, many years and over a period of time we always create value.

As a matter fact, the way I view this environment right now is this is a buying opportunity for AMETEK. We very seldom have a dip like our stock is experiencing right now. And I can tell you I'm going to increase my ownership. So that shows some commitment.

Unidentified Participant

And just to follow up on that, I had breakfast today with somebody a lot smarter than I am and the question was about sustainability of this M&A driven model versus 10 years ago.

And I know what you think, but it is interesting that this earnings season the companies that have disappointed investor expectations actually were these sort of high quality companies with heavy emphasis on M&A model. What do you think about your actual ability to re-accelerate M&A in this environment?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

I think it is super. I think what we are going to see, because we are in this slowness in the industrial economy, is we are going to see a lot more properties becoming available. There will be an exodus of companies where they want to sell because they don't want to wait out until market conditions get better.

And we have the capital; we have the management talent. So to me it is one of the two pillars. In terms of buying companies right now, I think we will see the multiples start to come down. As a matter fact, I heard Bill Edginton in a recent Board meeting the first time say he is seeing multiples start to come down. So that is a good sign as well.

So we are going to be aggressive, you take advantage of this on the acquisition side and you focus on cost. There isn't a lot you can do about the global macro. So you just -- you sort of have to wait that out and when they come back the earnings of this Company are going to skyrocket.

So, I mean that is the best way I can describe the situation. I know it is difficult for all of us, including yourselves, to really get a handle on exactly what is happening. But that always happens in a recessionary environment. I hope that helps you.

Unidentified Participant

Thank you very much. No, this is great, thank you.

Operator

Joe Radigan, KeyBanc.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

Frank, just to follow up on that M&A comment you made. Looking back at how active you were on the acquisition front last cycle, you closed a lot of deals in 2008; that was just ahead of the downturn. And then 2009 was one of your lightest years in terms of deal flow.

Does that make you at home hesitant to get overly aggressive right now ahead of perhaps a worsening macro outlook where maybe you can be more opportunistic? It doesn't sound like it, but what are your thoughts there?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, I think the downturn in 2008 and 2009 was clearly an abnormality. And the reason is that the whole economy was just crashing. Everybody just stopped, is the best way of saying it. And -- because nobody knew where a bottom was and I mean that was a different kind of recession probably than I have experienced in my business career.

So, yes, your historical picture is exactly right. However, this recession, what I am saying we are in now, is different; it is not as deep, I will start there. And I think in 2008 and 2009 -- I don't remember the actual numbers -- but I think we are down about 15% or something of that magnitude. We came back, we came back very strong right after that.

But this is not of that magnitude and you can see that in our guidance where we are talking about organic growth for 2016 being just down low-single-digits. So it is not anywhere near as significant an issue. So I would not use that as a model.

Actually if you go back to the previous recession before that, we did buy companies in that downturn. So that is why I think this is just an ideal opportunity to be aggressive. And I don't mean aggressive in the sense of buying companies that are not good, I mean we have got the capital and we have got the manpower and we are going to continue to look at companies.

We are actually pretty happy that already this year we have announced deployment of about $300 million in capital. And as I said in my opening comments, over the last 24 months we deployed $1.1 billion in capital. So I think it is going to continue.

Now, I can't sit here and tell you exactly what we are going to acquire and what the capital outlays are going to be. I am just telling you from a strategic viewpoint it is a good time. That is probably the best way that I can characterize it. So, Joe, I don't know if that helps with your question.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

Yes, no, that is helpful. Thanks, Frank. And then in terms of your outlook, the low-single-digit organic growth, how do you see that between segments? And maybe it makes sense to do the business rundown in terms of what you are seeing in the segments or what you saw in the quarter and then rolling that up into the guidance.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, sure I would be glad to do that, Joe. So let me start with EIG and Aerospace. EIG and Aerospace had a strong fourth quarter with organic sales up mid-single-digits on a percentage basis reflecting strength in actually all parts of that business -- commercial OEM, business and regional jets and our military business, believe it or not.

Our EIG Aerospace business had an excellent year as they gained sizable new content on a number of attractive platforms. In 2015 they received a record $620 million in life of program awards on 35 different platforms. And that included Rolls-Royce for the Trent 7000 engine on the A330neo, Parker-Hannifin for fuel systems on the Joint Strike Fighter, and GE for the GE9X engine which will be on the new version of the 777.

So they have done a really, really good job of getting content. And of course, when you are on these airplanes that content lasts for 20, 25 years. So looking to 2016, we expect EIG Aerospace sales to be up low to mid-single-digits. And that is by the continued ramp-up of key commercial OEM platforms and some growth in business and regional jets mainly due to our content on new aircraft and in particular the Honda [jet].

Moving to our process, organic sales in process were down mid-single-digits in the quarter, obviously driven by weakness in upstream oil and gas. As I mentioned a moment ago, the weakness in upstream oil and gas in 2015 was in line with our expectations at the start of the year. And for 2016 we expect sales for our process instruments to be down low to mid-single-digits organically driven by continued weakness across upstream oil and gas.

The last part of EIG is power and industrial, their organic sales were flat versus last year's fourth quarter with solid growth in our Programmable Power and Solid-State Controls business offsetting weakness in our Power Instruments business. And also for this business, in 2016 we expect organic sales for Power & Industrial to be down low to mid-single-digits.

So then if you look at all of EIG where you've got Aerospace up and both Process and Power & Industrial down slightly, if we then look across all EIG, we expect organic sales to be down there low to mid-single-digits with overall sales up low-single-digits really due to the acquisition of Surface Vision, Brookfield and ESP/SurgeX with obviously these last two deals being announced this morning. So that is our outlook for EIG.

Moving now to EMG, and I will start with the differentiated part of EMG. Organic sales here were down mid-single-digits in the quarter driven, as we have talked about, by weakness in our Engineered Materials and Interconnect & Packaging business. And this is again the result of the commodity price deflation that I talked about.

And for 2016 we expect our differentiated EMG businesses to actually be flat organically with the impact from commodity deflation within our metals business being mostly pronounced in the first half of 2016, which is again what I said in answer to one of the questions.

And then the last part of EMG is Floor Care & Specialty Motors. They were down actually mid-teens organically in the fourth quarter as a result of softer demand globally. But we actually have a pretty good outlook for that business. We expect the sales for the business to be roughly flat organically. We have won some content on new programs and our managers are doing a great job managing that business. So that is the present outlook.

So if you sum that up, for EMG overall sales are going to be up low-single-digits, just like EIG. And in this case it is driven by the acquisition of Global Tubes on the acquisition side. And for organic sales we expect to be down low-single-digits.

And that -- if you roll up then, to answer your question, for AMETEK as a whole we are expecting overall sales to be up low-single-digits and organic sales to be down to low-single-digits. That is our best call at the present time.

And if I can give you some flavor on our guidance, our guidance assumes these organic growth numbers that I just talked about. And that reason I pushed a little bit to the lower end is that I don't see as much upside on organic growth as possibly we could have some downside.

And that is just because of the fogginess right now of the environment. That's the best way that I can say it and I am trying to be accurate and tell you what my best thoughts are.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

I appreciate it, thanks, Frank.

Operator

Richard Eastman, Robert W. Baird.

Richard Eastman - *Robert W. Baird - Analyst*

Frank, could you provide us with the order number in the quarter?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Sure. Orders were down at 4%. It was $966 million? Do I have it right, guys? $966 million, I got it right. And I'm not looking at anything.

Richard Eastman - *Robert W. Baird - Analyst*

Can you give us a sense of the core order number?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Core was down 6%.

Richard Eastman - *Robert W. Baird - Analyst*

6%, okay, okay. And then also, it appears that at the midpoint of guidance for 2016, if I kind of walk up the P&L, midpoint of EPS guidance I walk up the P&L.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, sure.

Richard Eastman - *Robert W. Baird - Analyst*

It looks like maybe the EBIT margin is around 23% maybe at the midpoint.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

We are projecting EBIT margins at the midpoint to be up 20 to 30 basis points -- even though it is going to be weaker obviously in the first part of the year. But obviously we are putting those cost improvements that I talked about through the business and they will have a greater impact obviously on the second half than the first half. So overall we are talking 20 to 30 basis points up.

Richard Eastman - *Robert W. Baird - Analyst*

Okay, okay. And then just maybe the last question. Could you just give us -- and maybe this just -- on the Aerospace business for 2016, just kind of the four components there. Is there -- are all of the components -- third-party service, defense, commercial and biz business -- is there any difference there or are they all kind of up low-single to up mid-single?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

No, I think they are -- that is true, your statement is very accurate. And you look at -- the surprise here, and I have said this before, is that our military business is actually doing quite well. Some of that is not US military, it is outside military, outside the US, and that is doing quite well.

As I mentioned, business and regional jets -- the market is not recovering, at some point it will. People have been projecting an upturn there for the last five years probably and it hasn't happened. But we've won really good content on -- in that segment. So we are thinking that one will be okay.

And then commercial, the key there is the new aircraft. And we have very good content on the new aircraft. And so, we see that -- yes, I think your basic comment of low to mid-single-digits is accurate.

Richard Eastman - *Robert W. Baird - Analyst*

Okay, okay. And then just last thought. I understand that commodities pass through pricing. But exclusive of that (inaudible) business, were you able to capture any pricing in the fourth quarter? And would you expect positive price capture in 2016?

THOMSON REUTERS

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

In that business the answer would be, no, because --

Richard Eastman - *Robert W. Baird - Analyst*

Correct, yes.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

-- one of the advantages and disadvantages of pass-through is when prices go down customers -- we pass that through. And then when they go up just the reverse happens. So you sort of can't have it both ways. So there will not be anything from that viewpoint.

But as people start seeing metal prices go up, they are going to refill their inventories and you are going to have a recovery of the impacts that we are seeing right now. So I mean, the dynamic is more in the customer buying pattern due to price than it is in terms of the inflation effect on our P&L. Does that make sense, Rick?

Richard Eastman - *Robert W. Baird - Analyst*

You know, that is okay, but the question was maybe a little bit around outside of that business, are you seeing any competitor pricing outside of that business?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Okay, I am sorry, I misinterpreted your question.

Richard Eastman - *Robert W. Baird - Analyst*

That's okay.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, okay. No, let me give you some data. In the fourth quarter for the whole Company now, price minus inflation was about 0.2%. Price was about 1%, inflation -- on everything now, I'm including wages, everything all in was about 0.8% so that we got 0.2% of sales to the bottom line in the fourth quarter.

What is in my guidance, and in our guidance I should say, is that price minus inflation will be flat. And again, we are looking at the global macro and we are just not going to assume that we are going to get any pricing above inflation. But we have a lot of pressure on our operating managers to at a minimum cover inflation. And maybe we will end up with some positive there, but that is what is included in the guidance, Rick.

Richard Eastman - *Robert W. Baird - Analyst*

Okay, understood. Thank you.

Operator

Nigel Coe, Morgan Stanley.

Unidentified Participant

Good morning, this is Drew on for Nigel. Frank, just going back to the orders real quick, I think in 3Q you had mentioned that sequentially the orders have actually picked up from July through September. Could you just give us a sense for how things tracked through 4Q and then what you are seeing January to date because we are hearing some commentary from some distributors that things are picking up?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, through the quarter actually our orders did go up. So we had a very strong last month in the quarter. So that trend was definitely there for all of AMETEK. And that also is during this time when I was mentioning the impacts of deflation.

I would say in January, no, I have not seen a pick up. But it is hard to conclude anything from that because our orders tend to be weaker in the first month in a quarter than the third month. But I can clearly tell you I am not sitting here with a euphoric outlook that things are getting better.

Unidentified Participant

Okay, thanks. And then just one more on the -- regarding your comments on still wanting to be aggressive on M&A and valuations potentially coming in. Do you just have a target or sort of a max level on leverage that you would be willing to step up to?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, leverage is just not an issue for us. You look at where we stand right now and our net debt to EBITDA is around 32%, it is up a little bit from last year, our debt to EBITDA was at 1.8, we could easily lever up to 2.5, which is a significant amount of capital deployment, and remain investment-grade. So we would never go to the point where we are not investment-grade.

So capital and leverage is not the determinant in our acquisition strategy. It is finding really good businesses like the two we announced this morning and we just have the capital to deploy and I just don't have to worry about leverage.

I mean, just to give you another statistic, with the budget or the guidance I gave you, the operating cash flow of AMETEK will be about $800 million. Our capital deployment, as Bob indicated in his talk, is going to be in the $70 million, $75 billion region.

So the free cash flow, and I don't know whether your percentage was in there, Bob, is about 119% of net income. So, you can just see that the cash flow of the Company is incredible and that is why acquisitions are very important, because we think that is the best utilization of capital to get you a good return.

Unidentified Participant

All right, very helpful, thanks.

Operator

Brian Konigsberg, Vertical Research Partners.

Brian Konigsberg - *Vertical Research Partners - Analyst*

I just want to touch a little bit more on the guidance especially just with Q1. I know you talked about the deflationary impact on the order trends and presumably the margins with overhead absorption. But I mean it does seem like it is -- the margin does come down even a couple hundred basis points year-over-year.

And then just kind of talking about the comment with margins for the year up 20 to 30 basis points. You have to have a pretty good level of expansion by the back half. Am I actually reading that correctly? And if there is any commentary on the trajectory (multiple speakers).

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, no, your reading is definitely correct. And when we look at the first quarter there is the oil and gas market, our business, we were depleting backlog last year, which obviously it has been now down at a low level. So when you look at first quarter over quarter you are going to have an impact there, plus this material deflation issue that we have talked extensively about.

So, the first quarter is going to be tough. And that is the reason why we decided -- we saw this coming obviously -- and that is why we decided to do the restructuring -- or realignment, I should say -- where we put a major cost savings through the P&L. And obviously we are not going to get significant benefit from that in the first quarter.

And yes, as we go through the quarters (technical difficulty) is going to have a sizable impact. And there is another factor in here too and that is that the comps get easier as you go forward too overall. So you get a little leverage from the sales line. But your outlook and your high-level thought process is right on.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Yes, okay thanks. And just separately on the restructuring, so the payback seems particularly high. It went up -- I think it was 150% conversion with the math you provided. Can you just talk about why the payback really is so good? Is there something specific about what you are doing that is just that productive?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

No, I would say this is somewhat normal for us, this kind of payback. And I will give you a high-level view that we are obviously going to do some employment reductions, it is not major, but definitely we are going to be doing some. And we are going to be closing some plants.

And I don't want to talk about the particulars, but this is standard AMETEK, I would say, where we are able to continue that operational excellence capability that we have. So, yes, you look at the returns whenever we do this and they are usually very, very good.

Brian Konigsberg - *Vertical Research Partners - Analyst*

If I could sneak one last in. Just on the RD&E, so you are keeping that fairly consistent. Can you talk about where you see particularly -- particular opportunities to kind of improve the product line and essentially kind of expand your capabilities?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, no, that is a good point. I mean, we are basically going to invest, as I said in my opening talk, $210 million. That is up about 5% from last year and it also just coincidentally happens to be about 5% of sales.

So, it is a very healthy number. And we feel this is the organic pipeline of the Company; that investment will go more in EIG than it will in EMG. And I can give you some examples of where we are going to be putting that investment in.

I mentioned in my opening talk that UPT is doing extremely well. This is a high-end measurement company, it does not have substantial exposure to some of the things that we have talked about on the negative side. And they are going to continue to invest.

You may recall a while back we did the Creaform acquisition. That Company has been just superlative in terms of organic growth. I mean, they are growing at numbers in the 15%-20% region.

These are basically instruments that can very accurately look at an object and convert it to a computer, basically a CAD type of drawing just by waving the instrument across an object. And a very, very good marketplace and we are going to continue to invest in that business.

And we are also not afraid to invest in some of the markets that are down. If you look at some of our businesses that are in oil and gas, probably more in the mid and down side -- down area of oil and gas, we will probably invest more there. And we will continue to invest in power and industrial. And I gave some examples of some of the products in my opening talk.

So, the focus on engineering investment is going to be higher in EIG; the focus on capital deployment will be higher in EMG, because those businesses require more capital to grow. So that is sort of the view of how we are going to invest. I hope that helps.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Yes, that is very helpful. Thank you.

Operator

Robert McCarthy, Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

So I guess a couple cleanups given the time on the day. I guess the first question -- you may have said this, but I was transferring to another call. Were the close of these deals contemporaneous like in January or when was the close of these most recent deals?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, they were right after the first of the year. I mean we had been working on them obviously through the fourth quarter. But both closed right after the first of the year. And I decided to just couple them and get it all out at once, in essence.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Right, and obviously a rhetorical question, but clearly that is included in the guidance for the full year 2016 because they have been closed and they are in the reported numbers?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

That is correct.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Okay. And then just in terms of the general M&A environment right now, I mean I guess one thing -- I obviously listen, the organic environment is very challenging, as you have alluded to. And there is a lot of volatility in kind of not only your businesses but also implicitly in your outlook as a result.

But I guess thinking about acquisitions in this environment, there could be a real disconnect between bid and ask because seller's expectations have to get reset further one would think.

And so, do you think you could be in a period of a little bit of an air pocket here as kind of seller expectations get kind of reset around kind of their order backlogs or performance? And how to think about that and what is the dynamic environment?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, I think you are right, there has to be a reset here. I mean multiples have been quite high. But as I mentioned to one of the questions -- in answer to one of the questions, basically we are starting to see that now. We are already seeing those multiples come down, sellers are going to be more realistic.

And if you are a seller, you are sitting there and you are saying either I sell now or I don't want to sell during the downturn. You either sell now or you wait. And that obviously depends on the particulars of the given seller.

We have examples of -- I am just going back historically now -- where many family type businesses just decide at this point that let's do it now instead of waiting. So you do see that dynamic. And right now we feel pretty good and we are going to be able to close more deals; we feel very good what we have recently done.

But I can't sit here and tell you it is going to be this or that and that is the goal, etc., it is more that if we can find some good deals we are going to execute, that is the bottom line.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Now, Frank, one last question and I will let you go, is basically the following -- in this environment does this make you rethink kind of your timeline around transition and management transition? Do you want to leave in a volatile environment or would you extend your kind of tenure to just kind of get through this cycle? I mean how do you think about that in terms of (multiple speakers)?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yeah, I mean, we don't -- I would not even tie where we are to the transition, that is just not a factor in our thought process, my thought process or the Board's thought process. So we -- the transition here is going extremely well. Dave is doing a phenomenal job as Chief Operating Officer.

The debate here is between the Board and my wife as to when I decide. But as I have told you, the transition here will be most likely that I will become Executive Chair and spend a little bit more time in Florida. And whomever we decide, most likely Dave, obviously, who will take over, they will be dealing obviously with all of the day-to-day issues.

Robert McCarthy - *Stifel Nicolaus - Analyst*

The wife always wins. Thanks.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

I don't know, I have got a strong Board (laughter).

Robert McCarthy - *Stifel Nicolaus - Analyst*

Thank you.

Operator

Bhupender Bohra, Jefferies & Company.

Bhupender Bohra - *Jefferies & Company - Analyst*

Frank, can you give us a rundown of sales by region?

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Sorry, Bhupender, you broke up there, we couldn't hear that question.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Can you get closer?

Bhupender Bohra - *Jefferies & Company - Analyst*

Can you give us a rundown by region?

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Okay, geographic rundown?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, sure, I can do that. I will do it organically and we talked about the total Company being down 4%, the US was down 5%, Asia was down 4% and Europe was down 1%.

Bhupender Bohra - *Jefferies & Company - Analyst*

And can you talk about China? How much of that was in Asia?

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Say that one more time, Bhupender, we couldn't catch that.

Bhupender Bohra - *Jefferies & Company - Analyst*

Could you talk about China?

Kevin Coleman - *AMETEK, Inc. - VP of IR*

China, okay.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

China, yes, China was the driver in that minus 4% down in Asia. China was actually down organically about 15%. So obviously that weighed on us. But on the other side, India did incredibly well, they were up well into the double-digits. But China was weak, no question. Everything you hear about China, at least in the impact on our business, is pretty consistent.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. Now I think you can hear me clearly.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Oh, yes, now we can hear you.

Bhupender Bohra - *Jefferies & Company - Analyst*

Some issues here. The other question on the operating excellence of $120 million for 2016, how should we be thinking about that with taking into consideration the midpoint of the guidance? Just give us some color on that $120 million.

You said $60 million coming from the global sourcing and procurement. And is that a [very kind of weighted] number? I mean, usually the history is like you guys actually kind of up that up as you go through the year. And just, Frank, if you can --.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Right, the $120 million is a number that would reflect the midpoint of our guidance. And I think it is reasonable to assume that we can improve that number possibly as we go through the year. So there could be definitely some upside that could come from the cost reduction side, no question.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. And lastly on the M&A we have been talking about here on the call, just remind us what is your sweet spot in terms of the size of the deals. And what is in the pipeline right now?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, I mean the deal size we like to do is up to a couple hundred million dollars in sales. That doesn't preclude us from doing something larger. But we have found if we keep the deal size below that $200 million sales number we typically can get extremely strong synergy in those deals. And therefore the return on invested capital is excellent.

Also with those smaller deals the multiples tend to be lower so that you are not paying quite as much as you will for larger deals. So I would say that sweet spot is in that sort of $75 million to $200 million area in terms of sales.

And when I look at the backlog, we have a fair number of deals that are in our backlog that fit that size range. We also have some deals that are larger and we also have some deals that are smaller. But that is that sweet spot.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay, thanks a lot, guys.

Operator

Joe Giordano, Cowen Group.

Joe Giordano - *Cowen and Company - Analyst*

Frank, I even asked you this last quarter. You talk about Floor Care as being the real economic tale, those kind of products for you guys. And you mentioned I think minus [14] for the quarter.

And your outlook for next year looks pretty positive, but the way you said it, it a kind of sounded like that is an AMETEK specific thing and not a market specific thing with new products and things that you guys have done specifically. So can you maybe talk about that market in context of your broader economic evaluation?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes. No, I mean I think the broader market is definitely a factor in this business. And the reason that we are talking that we think it is going to be better next year than it was in the fourth quarter is that this is not a major part of AMETEK overall.

But fundamentally we saw some inventory realignments in the fourth quarter with our customers. And that is going to play through in a positive sense as we go into next year.

So I would say that the Floor Care business is just consistent with the macro outlook that I provided. And the people who are running this business have just done a superb job and the profitability has done very, very well. So this is actually not going to be a major issue, at least that is our feeling right now, in 2016.

Joe Giordano - *Cowen and Company - Analyst*

all right, thank you. And then just two quick cleanup ones for me. On the two deals you announced, I know you said they are contemplated in guidance. Did you say how much of an impact you are expecting in 1Q or for the full year for those?

And then last on -- I was wondering if there is anything we should be thinking about, any impact from the Boeing 747 production cut and how that might apply to you guys.

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

Yes, on your first question, there is not a substantial impact for the year or in the first quarter. In our guidance actually there are some costs that are going through the first quarter which is included in our guidance, and there is about half a penny of costs that are going through the P&L.

And as we go through the year we will probably recapture that cost downside. But there is not a substantial EPS positive in 2016. Where we are going to see the impacts will be more in 2017 from an EPS viewpoint.

And in terms of some of the announcements around Boeing, if you look at the outlook for Boeing for 2016, their total builds are going to be down about 2%. But offsetting that Airbus is going to be up about 2%.

So if you look at the total commercial build, it is roughly flat. However, if you look at the new aircraft, those are growing at a very, very nice rate and we have significant content on the new aircraft, and in particular Airbus.

If you look historically AMETEK has been much more -- has had much more content on Boeing aircraft, but with the new aircraft that Airbus is bringing to the market we now have sizable content on those aircraft. And, therefore, our projections are higher than that total build rate for all aircraft because of the new aircraft and our content wins.

Joe Giordano - *Cowen and Company - Analyst*

Great, thanks for that color.

Operator

Richard Eastman, Robert W Baird.

Richard Eastman - *Robert W. Baird - Analyst*

Just two quick things. I mean one is what kind of -- maybe, Kevin, what FX impact do you have built into the 2016 revenue guide?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

No impact.

Richard Eastman - *Robert W. Baird - Analyst*

None?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

We are basically saying it is flat.

Richard Eastman - *Robert W. Baird - Analyst*

Okay. And then just last, Frank, could you just talk about -- last couple of quarters here we have bought back a fair amount of stock and I am just trying to reconcile that with the commentary around the M&A pipeline and maybe expectations. for deal flow here going forward. Do we kind of back off on the stock buyback then in 2016 or --?

Frank Hermance - *AMETEK, Inc. - Chairman & CEO*

We have done a little bit in the fourth quarter. I would expect we would do some in 2016, but to your point, it is not the primary use of our cash flow. The primary use of our cash flow is for M&A and there is just no strategy change in terms of that. But we may do some stock buybacks in 2016, but that is not a primary focus.

Richard Eastman - *Robert W. Baird - Analyst*

Okay, understood. Thank you again.

Operator

Sir, there are no further questions at this time.

Kevin Coleman - *AMETEK, Inc. - VP of IR*

Okay, great. Thank you. Thanks everyone for joining and, as always, I'm available for calls today. Have a great day.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day, everyone.