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PRESENTATION

Operator

Good morning. My name is Danisha, and I will be your conference operator today. At this time, I would like to welcome everyone to the first quarter earnings conference call.

(Operator Instructions)

Mr. Kevin Coleman, you may begin your call.

Kevin Coleman *- Ametek Inc - VP of IR*

Great. Thank you, Danisha. Good morning. Welcome to AMETEK's first-quarter earnings conference call. Joining me this morning are Frank Hermance, Chairman and CEO, Bob Mandos, Executive Vice President and Chief Financial Officer, and Dave Zapico, Executive Vice President and Chief Operating Officer. AMETEK's first-quarter results were released earlier this morning. These results are available electronically on market systems, and on our website at the Investors section of AMETEK.com. The call is also webcasted. It can be accessed at AMETEK.com and StreetEvents.com. The call will be archived on both of those sites.

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 risks 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 Investor section of AMETEK.com for a reconciliation of any non-GAAP financial measures used during this call. We'll begin today with prepared remarks, and then we'll open it up to take questions. I'll turn the meeting over now to Frank.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Thank you, Kevin, and good morning, everyone. AMETEK delivered solid earnings in the first quarter, despite a very challenging global macroenvironment. Overall demand across a number of our markets remains weak. In particular, we are seeing meaningful headwinds within our oil and gas and metals markets. These headwinds are larger than we anticipated when we started the year. Although these short-term headwinds are challenging, we remain confident in the long-term positioning and growth prospects for our business. Before covering the financial highlights, please note that any references made to 2015 results, will be on an adjusted basis, excluding the realignment costs in 2015.

Now onto the financial results. In the first quarter, sales declined 4% to $944.4 million. Organic sales were down 9%, acquisitions added 5%, and foreign currency was a 1% headwind during the quarter. Operating income for the first quarter declined 12% to $208.5 million, and operating income margin in the quarter was 22.1% versus 24.1% in the first quarter of 2015. Net income for the quarter was $134.2 million, and diluted earnings per share of $0.57 were down 10% over last year's first quarter, meeting our Street guidance. Operating cash flow was $152 million in the quarter, up 24% over the prior year.

Now turning to the individual operating groups. The electronic instruments group reported a sales decline of 4% to $569 million for the quarter. Organic sales declined 8%. The acquisitions of Surface Vision, Brookfield Engineering and ESP/SurgeX contributed 5%, and foreign currency was a 1% headwind. The lower sales versus prior year were driven largely by our process businesses which had exposure to oil and gas markets. We are seeing incremental weakness above our prior expectations in oil and gas, both in the upstream, and in the mid and downstream markets.

EIG's operating income declined 12% to $141.8 million, and operating margins were 24.9% in the quarter, versus 27% in last year's first quarter. The electromechanical group reported overall sales down 4% to $375.4 million. Organic sales were down 9%. The acquisition of Global Tubes added 6%, and foreign currency was a 1% headwind. The lower sales were driven largely by the impact from commodity price deflation in our engineered materials interconnect and packaging business, as well as from soft demand in our floor care and specialty motors business. EMG's operating income of $79.4 million was down 10% from last year's first quarter, and operating margins were 21.2% in the quarter, versus 22.7% in the first quarter of 2015.

I'll now provide some updates on our four growth strategies of operational excellence, global and market expansion, new product development and strategic acquisitions. Each of these strategies plays an integral role in the overall growth and success of AMETEK. We are focused on consistently executing on each of these strategies over the business cycle. However, in slow growth environments, we increased our focus on strategic up acquisitions and operational excellence initiatives, while ensuring we continue to make targeted investments in research and development and global expansion.

First, let me touch on acquisitions. We've had a good start of year, acquiring two businesses in the first quarter, Brookfield Engineering Laboratories and ESP/SurgeX. Combined, we deployed approximately $300 million in capital, and acquired nearly $100 million in sales. ESP/SurgeX is a leader in power protection. Their patent-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. The company has annual sales of approximately $40 million, and is headquartered in North Carolina.

Brookfield is the global leader in viscosity measurement instrumentation for quality control applications. The company 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 products.

The addition of Brookfield allows AMETEK to expand our laboratory instrumentation platform into a broader range of adjacent markets and applications. They are headquartered in Middleboro, Massachusetts with additional operations in Germany, the United Kingdom, China, and India and have annual sales of approximately $55 million. The integration of both of these acquisitions is going very well.

As part of our acquisition integration process, we conduct monthly integration meetings with each acquired company, for at least the first six months following acquisition. These meetings are important drivers of the success of our acquisition strategy, as they allow us to closely monitor progress on key integration activities and value drivers during the critical early stages of the integration. Acquisitions will continue to be a key focus for us. They will continue to be the primary use of our strong cash flow and financing facilities. Our acquisition and business teams remain very active, and so we are quite bullish on our opportunity to continue to deploy capital, and create meaningful shareholder value.

Now turning to operational excellence, our management teams and employees are doing a great job, driving continued operational efficiencies and improvements through their businesses by leveraging our operational excellence tools. Our operational excellence initiatives take on even greater importance, and become more of a focus in slow growth environments. For all of 2016, we now anticipate approximately $130 million of total operational excellence savings, with our global sourcing and strategic procurement initiatives driving approximately $60 million of the total savings. The total operational excellence savings is up from our initial estimate of $120 million, as a result of the continued strong efforts of our teams.

Now moving on to new products. We're pleased with the continuous success of our new product development activities. Our businesses are doing an outstanding job developing and introducing exciting new products. These new product developments are targeted at both expanding in existing markets, and penetrating adjacent markets. Despite the slow growth environment, we continue to invest meaningfully in our new product development activities. In 2016, we expect to spend approximately $210 million on RD&E, up 5% from last year. We continue to see excellent results from this investment, as our vitality index which measures revenue from products introduced over the last three years, was 22% of sales in the quarter.

We have a number of notable new product introductions within the quarter. The new Xepos energy dispersive X-ray fluorescence spectrometer from our SPECTRO Analytical Instruments business is considered a breakthrough product for performing elemental analysis. The compact bench-top unit incorporates a number of advances, that allow it to perform rapid multi-element analysis with greater accuracy and precision. The instrument's enhancements make it suitable for demanding environmental and geological research, as well as precise at-line quality control in chemical and petrochemical production, food processing, and pharmaceutical production.

The new Extreme Performance Series of MIL-XTM fans from AMETEK Rotron delivers best-in-class airflow for harsh and demanding military, aerospace, and industrial environments. The new fans feature shock-proof Mil spec construction, and are optimized for electronic cooling applications. The fans are offered with a range of features that permit their use in a variety of situations and configurations. They can be used alone, or stacked with multiple fans to cool electronics, equipment racks, and personnel in airborne, land-based, and sea-borne installations.

Our Zygo business provided high precision optics that were used in the recent detection of gravitational waves that confirmed one of the key predictions in Einstein's 1915 general. theory of relativity. The international team of scientists that collaborated on the discovery, relied on advanced LIGO detectors that incorporated very high precision optical components manufactured by Zygo. The optics manufactured to some sub nanometer tolerances are among the most precise optics ever made. I'd like to recognize the Zygo team on their contribution to the success of this important global scientific project.

Now turning to global and market expansion. Global and market expansion continues to be an important part of our long-term growth. In the first quarter, international sales represented 53% of our total sales. We remain committed to expanding our presence in attractive higher growth regions and market segments through continued investments in our sales and service capabilities, and through the expansion of our technology into new adjacent market segments.

I want to highlight one recent success of our adjacent market expansion initiatives. Our process instruments business has pioneered near-infrared tunable diode laser absorption spectroscopy, or TDLAS technology. This technology has been very successful for use in online process applications within natural gas processing and petrochemical production. The process instruments business is now adapting to TDLAS technology for use in online pharmaceutical processing, through modifying its existing Model 5100 Series analyzers to provide continuous process control of pharmaceutical drying.

The use of this technology as an online analysis tool, allows manufacturers to obtain a clearer picture of the drying process in real time. It is an economical and efficient technique for determining dryer endpoint detection, since it eliminates the need for pharmaceutical manufacturers to stop, analyze, and restart the drying process. The process instruments team is starting to see strong interest in this new market application for an existing technology.

Now turning to the outlook for 2016. As a result of the end market challenges, we now anticipate overall sales for 2016 to be roughly flat versus 2015, with organic sales down low to mid single-digits on a percentage basis versus 2015. We expect earnings for 2016 to be in the range of $2.42 to $2.52 per diluted share, down 1% to 5% over last year. Our overall second quarter 2016 sales are expected to be down low single-digits, versus the second quarter of 2015. We estimate our second-quarter earnings to be approximately $0.58 to $0.59 per diluted share, down 8% to 9% over last year's second quarter.

In summary, while the economic environment across many of our markets remains challenging and very difficult to predict, we remain focused on executing on the factors within our control. This includes deploying capital on strategic acquisitions, making growth investments in new product development and global expansion, and executing on our operational excellence initiatives. Our strong cash flow and prudent operating model give us confidence that we'll continue our long track record of strong performance and shareholder value creation. Bob will now cover some of the financial details, and then we'll be glad to take your questions.

Bob Mandos - *Ametek Inc - EVP & CFO*

Thank you, Frank. As Frank noted, we had a solid first-quarter. I will provide some further details. In the quarter, organic selling expenses on a percentage basis were down the line with organic sales on a percentage basis. General administrative expenses were 1.3% of sales in the quarter, slightly above last year's first quarter level of 1.2% of sales.

The effective tax rate for the quarter was 26.7%, down from last year's first quarter rate of 28.1%, and in line with our expectations. The lower tax rate in the quarter was the result of our ongoing tax planning initiatives. For 2016, we estimate our tax rate to be approximately 28%. As we've said before, actual quarterly tax rates can differ dramatically, either positively or negatively from its full-year rate.

On the balance sheet, working capital defined as receivables plus inventory less payables was 20.8% of sales in the first quarter. Strong working capital and management remains a key priority. Capital expenditures were $11 million for the quarter. Full-year 2016 capital expenditures are expected to be approximately $70 million. Depreciation and amortization was $40 million for the quarter. 2016 depreciation and amortization is expected to be approximately $[165] million.

Our cash flow was very strong in the quarter. Operating cash flow was $152 million, up 24% over last year's first quarter. Free cash flow was $141 million, representing 105% of net income. For the full year, we expect free cash flow to be approximately 120% of net income.

The primary use of our strong cash flow is to support our acquisition strategy. In the first quarter, we deployed $300 million for the acquisitions of Brookfield and ESP/SurgeX. In addition in the first quarter, we repurchased approximately 2.4 million shares of stock for approximately $115 million.

Total debt was $2.22 billion at March 31, up $280 million from 2015 year-end. Offsetting this debt is cash and cash equivalents of $386.9 million, resulting in a net debt to capital ratio for March 31 of 35.7%. At March 31, we had approximately $900 million of cash and existing credit facilities to fund our growth initiatives.

This amount includes the incremental financing capacity provided through the amended revolving credit facility we announced on March 11. This amended facility increases the size of our revolving credit facility from $700 million to $850 million, and extends the maturity date to March 2021, provides AMETEK with a larger financing capacity, and increased flexibility to support our growth initiatives.

Our highest priority for capital deployment remains acquisitions. In summary, our businesses performed well in the first quarter, despite challenging macroeconomic conditions. 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. That concludes our prepared remarks. Danisha, I'd love to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian Konigsberg, Vertical Research.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Yes, hi, good morning.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Brian.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Hey, I just want to start off, maybe just more of a conceptual question. So Q1 March, this may be the second or third quarter in a row, where you fell short of expectations, on an operational basis. Just thinking about how you're thinking, when you go into the planning process for guidance. What is it that's changed that it's becoming a lot more difficult to guide in this market? We know obviously things are difficult, but we're not used to AMETEK falling short, like it has over the last few quarters. Have you cut it too close to the bone potentially, where it's becoming a little more difficult to guard against some of the shocks in the market, or are there other issues at play that you could maybe discuss?

Frank Hermance - *Ametek Inc - Chairman and CEO*

No. The key factor here is, it surely it's not in terms of anything we've done in terms of cost reductions, et cetera. The key issue is that we have exposure on both sides of our Company to markets that are in a pretty significant downturn.

Oil and gas is a major part of our Company, and we've have just seen over the course of the last several quarters, that it has deteriorated further than we had expected. You may recall that we had called oil and gas, in terms of the downturn last year. When we called it in January, we hit it right on. But this year, we did not hit it right on, and the conditions are worse.

If you look at oil and gas, we initially thought for 2016 with respect to 2015, we'd be down around $50 million. Our best look now is down around $90 million. And that changed, there was an inflection point actually, right around the time of our last earnings call, when oil hit $26 a barrel.

And when that happened, we just saw a large number of projects just move to the right, and that we were actually anticipating that we were going to get sooner. Most of those projects are still going to happen. But they're going to be moved, and probably moved, many of them into next year. So we miscalled that particular business. And it's simply because the changes have been so dramatic, and it's very difficult to predict them.

It has really nothing to do with how we're operating the Company itself. It's just predicting the future is not an easy thing. And I would say similarly, if you look at the other side of the company with EMIP, with the issue with metals pricing, and the deflation that happened, and we talked about this in the fourth quarter. In a way, a similar thing happened that when metal prices went down so drastically, the buying levels from our customers just went very, very soft, and have remained soft through the first quarter.

And now the good news, in that particular market is we are starting to feel improvement, where actually our order intake is improving. So we actually believe that one will improve as the year goes on. But we're not predicting that the oil and gas business will improve. So this is really a market-related issue, with dramatic changes on each side of the Company, that's causing this problem.

Now given that, and the contribution margins of our businesses, we're actually quite pleased with the operating performance in terms of profitability. We met our first-quarter guidance on profitability. Margins, although down a bit, are still extremely good, one of the better ones in the industry. So we're managing a difficult situation, as well as I believe anybody could manage it so, but that's fundamentally what happened. I hope that helps.

Brian Konigsberg - *Vertical Research Partners - Analyst*

That is helpful. Thanks, Frank. And maybe just secondly, and obviously there are a lot of numbers that are going into this, but I don't know if you could simplify it. When I just look at your bridge, talking about flat sales for the year, obviously 4[%], 5[%], 6[%] percent -- percentage points of acquisition contribution, organic down. I presume there hasn't been a change in the assumption on price and inflation. I guess, price is offsetting inflation by a modest amount still. And then you're talking about productivity savings of $130 million.

I still have a hard time kind of bridging the guidance to the new range that has been provided. In fact, I'm actually coming above the range. So when I think about, when I put together the qualitative components, I'm coming out to an EPS that should be higher than where you're guiding. I thought that, probably for the last four or five quarters, and clearly that didn't materialize. But I was just curious if there are -- maybe you could kind of walk through some of the components, that get you from the 2015 EPS, to your new guidance of -- the new guidance range that you provided today?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, actually you can view it in relatively simple economic terms. The organic growth, if you look at the entire company, and you look at it -- for the year, we think we, and our guidance assumes, that we're going to be 2 points less on organic growth. And that's as a result of the two factors, predominantly that I talked about in answer to your first question.

You take 2 points on a $4 billion company, that's $80 million. $80 million, the detrimental -- or decremental -- excuse me, they are detrimental too, I guess (laughter). But decremental margins of this company, similarly to when volume goes up, are on the order of greater than 45%, roughly 50%. So just take the $80 million, multiply it -- I'll take -- make the numbers easy, 50%. You've got $40 million of pre-tax operating income. And that's $0.12 or $0.13 a share. Yes, we haven't put it through more cost reductions, about $10 million of additional cost reductions, over what we talked about last year -- or last quarter, excuse me.

And you take that. And what happens, in many businesses when the economic environment gets tough, is that the basically people buy lower in the product portfolio. So that the overall sort of mix of the Company, for lack of a better word, goes down a bit. And that has, in essence, offset that $10 million of other cost improvements.

In terms of price and inflation, what we told you at the beginning of the year, was that we expected price to essentially offset inflation, and that's still our expectation. So that is a very high level look. Obviously, there are puts and there are takes. But that's the overall thought process. And you take that, and that is the reduction in the guidance essentially.

Brian Konigsberg - *Vertical Research Partners - Analyst*

And the investment spend of $60 million -- (multiple speakers)

Frank Hermance - *Ametek Inc - Chairman and CEO*

It's $60 million on investment, absolutely. We have not changed the investment spend. So we are continuing to make the investments, so that when we get some market lift, the contribution margins are obviously going to be extremely high in the other direction, and we're going to make a lot of money.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Understood. Thank you for the detail. I appreciate it.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Okay.

Operator

Allison Poliniak, Wells Fargo.

Allison Poliniak - *Wells Fargo Securities, LLC - Analyst*

Hi, guys. Good morning.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Allison.

Allison Poliniak - *Wells Fargo Securities, LLC - Analyst*

On the energy side, Frank, let me just ask you -- I know historically you've had some level of visibility, and that's fallen off again pretty dramatically with -- which is what happened last financial crisis. I guess, what's your confidence, now that we're sort of modeling this while -- as we stand today. Obviously, oil is a little better right now, but I guess your confidence, and just thoughts on the visibility as we move through this now?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, sure. It's a great question, and we have asked that same question of ourselves, a number of times over the last few months. We're giving this our best shot. And from everything we know, in talking with customers, and also quite frankly in listening to some of our peer companies, I believe right now, we got it called right.

And we have not assumed any improvement in oil and gas as the year goes on. The levels are low. It's hard to believe they could get a little bit worse, but we also put a range on our guidance. So and the guidance, just to be very clear, the guidance is balanced both ways, both plus and minus. It's not a conservative estimate. It's what we really believe is going to happen.

And if things do get a little weaker, we're going to be at the low end of the guidance. If things get to be a little stronger, we're going to be at the high end of the guidance. So we think we've got it.

But predicting the future is not an easy thing to do, but with our best people and our best thought process -- and it's fairly consistent with what other companies are saying. The only release that I saw that hinted at improvement in oil and gas, at the latter part of this year was in GE's report. Just about everybody else, at least the ones I listen to, and I don't listen to that many, maybe four or five, were predicting pretty much what we are predicting.

Operator

Okay, great. And then, just RD&E on a high level, up 5%. In this kind of environment, does the bar get set higher in terms of what you're investing in? I mean, any change to sort of the process now, in sort of a softer versus stronger market for you?

Frank Hermance - *Ametek Inc - Chairman and CEO*

We, it's, probably the last expense in the Company that we do not like to touch. It's so critical to our future, in terms of -- as you know, the level of technology in our products is quite high. And if you make dramatic cuts in that cost, you're going to hurt yourself. You won't see it for two or three years. So you could improve the short-term performance of the company, but not the -- you just don't want to sacrifice the long-term.

So we have not made any substantial changes in that number. It's the same number that we talked about at the beginning of the year, and it's also up over last year by that 5%. It is a lever that we would have, if things did by any chance get any worse. But again, we don't anticipate that at this point in time.

Allison Poliniak - *Wells Fargo Securities, LLC - Analyst*

Great. Thanks so much.

Frank Hermance - *Ametek Inc - Chairman and CEO*

You bet, Allison.

Operator

Matt Summerville, Alembic.

Nick Chen - *Alembic Global Advisors - Analyst*

Hi, guys. This is actually Nick Chen for Matt this morning. Thanks for taking our call. I was hoping that you could just talk a little bit more about total and organic orders, in terms of the backlog, and what we're seeing for book and bill?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Sure. Book and bill in the quarter was 1.02. Orders overall, were up 3%. Organically, they were down 8%.

Nick Chen - *Alembic Global Advisors - Analyst*

That's very helpful. Thanks so much. And then just finally, can you talk a little bit about the M&A funnel? And just, I know you sort of got into a little bit earlier, but sort of your thoughts on the ability to deploy meaningful capital, in regard to the balance sheet of 2016?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, we feel real good that there's a high likelihood that we're going to be able to deploy a sizeably larger amount of capital as the year goes on. We have actually beefed up our energy on the acquisition front. We've set up a couple other teams within the company to look at opportunities. We're working with external advisors, and we've got a lot that's in the pipeline. They're varying sizes, from the smaller deals like the two we talked about earlier in this meeting, to the larger deals. And I would say, it's probably one of the top priorities of the Company right now. We've got extremely strong cash flow. And we believe that this is the best way for us to create value for our shareholders, while our markets are in a depressed condition.

Nick Chen - *Alembic Global Advisors - Analyst*

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

Frank Hermance - *Ametek Inc - Chairman and CEO*

You bet.

Operator

Matt McConnell, RBC Capital Markets.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Matt.

Matt McConnell - *RBC Capital Markets - Analyst*

Good morning, guys. Just to touch to on the guidance reduction. So $40 million is probably half, or a little bit less than half than the guidance reduction that's the oil and gas piece. (multiple speakers)

Frank Hermance - *Ametek Inc - Chairman and CEO*

No. No, that's not right.

Matt McConnell - *RBC Capital Markets - Analyst*

So what else --?

Frank Hermance - *Ametek Inc - Chairman and CEO*

No, that's not right.

Matt McConnell - *RBC Capital Markets - Analyst*

What's that?

Frank Hermance - *Ametek Inc - Chairman and CEO*

No, you take $40 million, this is pre-tax, $40 million at the pre-tax level, that goes to the bottom line at about $0.12 to $0.13.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. On the revenue side, just going down to flat versus prior outlook for up low single-digits, I'm figuring that's about $100 million on revenue. And if oil and gas is $40 million, there's another bucket there that got weaker, is that -- ?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Oh yes. No, okay. Now I've got your question, yes. No, it's the other part that I was talking about. That on the EMG side, with the metal price deflation that I talked about, that's the other $40 million. So the total is not $100 million, it's about $80 million.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay.

Frank Hermance - *Ametek Inc - Chairman and CEO*

The contribution margins are bit different between those two $40 million. That's actually higher on the oil and gas businesses, and a bit lower than the 50% number that I was using in EMIP. So you take the $80 million times the [0.5], you get basically $40 million of pretax. And that's what I thought your original question was. And that's how you get to the $0.12 to $0.13 number.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay, great.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Does that help?

Matt McConnell - *RBC Capital Markets - Analyst*

Yes, it does. I'm thinking more along the lines of strictly, end market weakness and top line weakness, what changed since February? And just getting at, what might have gotten worse, besides oil and gas but -- ?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Well, it is what I said in response to Brian, is that also the metals deflation in EMIP was deeper than we had anticipated, and it's also slower coming back. Now we are seeing a trend, where it's starting to come back. But it's not coming back at a rate, that we think could achieve the original guidance. And that's why we also reduced that part of the company by the $40 million. So it's a double hit. That's what's happening here. I mean, it's pretty simple actually. We got a hit on the oil and gas and EIG and a hit on EMIP on the metal side, and that's the core issue on what we're dealing with.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay, great. Thank you. And the, just on -- you mentioned a greater importance put on the operational excellence initiatives, and that's helped a bit. But the contribution would still be less than what you saw last year, and I'm wondering if that's a realistic expectation, given the incremental effort that you're putting on those initiatives?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, right. If you remember last year was -- and we said it when it happened, it was an exceptional year. We did several restructurings last year, one in the first quarter of 2015, and another one later in the year. So yes, that number last year was bigger, but I hope we set the expectation that was not the run rate.

And what we're doing now at $130 million level, we think it's pretty darn good, and we feel great about it. And it comes that back, to one of the original or initial questions that, you don't want to destroy these businesses. These are phenomenal businesses, and you don't want to go in and take so much cost out, that you then will not be able to recoup. So we think we've done the appropriate amount. We're pleased with it. You can see it in the overall performance of the Company. And we're talking about earnings being down here, if you take the average of our estimates about 3%. So it's not like we're going to be down 10% or 15% on earnings. So we're actually pretty happy with that, although I know it's not good from the change in guidance viewpoint.

Matt McConnell - *RBC Capital Markets - Analyst*

Yes. Okay, great. Thank you very much.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Okay.

Operator

Scott Graham, BMO Capital Markets.

Scott Graham - *BMO Capital Markets - Analyst*

Hi, good morning.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Scott.

Scott Graham - *BMO Capital Markets - Analyst*

Hey, Frank. I wanted to maybe slice this organic sales question a little bit differently. If we were to maybe pull out oil and gas and EMIP, it looks to me like your organic would have been down, let's call it 4% to certainly 5%, which is a third deterioration in last three quarters, which of course includes those numbers as well. But the point, of course, is that the $80 million, if you straight-line it, it's still kind of looks like organic was weaker than certainly I would have expected. And so, I guess my question is, one of your four operational model points -- legs of the chair if you will, is in fact new products.

And had there been thought given to maybe finding a way to bump up the cost reduction target a little bit more, to let's say fund a little bit more organic growth? Because there's got to be some reason why that the organic has been kind of stubbornly weak for really six quarters now. So I was just wondering what you were thinking about terms of your model, tweaking it to promote more organic?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Well, I mean, you look basically at our strategies, and clearly in RD&E and global and market expansion are definitely focused on the organic growth side of the business. If you look at the organic growth of AMETEK, and Kevin has done this analysis over the last -- almost any period you pick, say a year, three years, five years, and I think he even had a 10 year chart, our organic growth lines up quite well with our peers. But obviously, when you've got the impact of these two market conditions that I'm talking about, it's not just not -- you can't overcome that, is basically what happens.

Your number, if you really look at it, isn't as significant as you think. It's not a 4% to 5% on -- it's a lower number than that. But it's running slightly negative I would say, for the rest of the company, and that's what's in our guidance. But the overwhelming impact is really from those two areas, and that will change when those markets change.

So in terms of tweaking the model, yes, we do that all the time. And as I mentioned to Allison's question, that's why we're keeping the RD&E expense up, when the top line is weak. And sure, we're doing everything we can, to help the organic growth picture of the Company. And we're continuing to invest in higher growth regions of the world, and those are really the two key drivers to the organic side of the question.

Scott Graham - *BMO Capital Markets - Analyst*

Got it. Thank you, Frank. Hey, and I was wondering, if you could do your typical across the business divisions summary for us?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Sure, Scott, be glad to do that. So let me start with EIG. EIG aerospace sales were down low single-digits, against a difficult comparison in last year's first quarter.

We had very good growth in our commercial OEM and commercial aftermarket business in the quarter. But it was offset by a difficult comparison in our business and regional jet business, which you may recall was very, very strong last year. For all of 2016, we expect EIG aerospace sales to be up low to mid single-digits, again driven by strength in our commercial OEM and commercial aftermarket businesses.

Our process businesses, our organic sales and process were down about 10% in the quarter, reflecting obviously what we've talked about in terms of greater than expected weakness in our oil and gas business. And as I mentioned, while some of the incremental weakness was in our upstream business, project delays and push-outs also impacted our mid and downstream business. And as a result, for all of 2016, we now expect sales for our process businesses to be down mid single-digits organically.

And the last part of EIG is power industrial. There we had a solid first-quarter. Overall sales were up 10%, driven by the contributions from the acquisitions of ESP/SurgeX and Brookfield that I talked about in my opening comments. Our organic sales were down low single-digits. And for all of 2016, we expect organic sales for power industrial to be down a mid single-digit number. So if you sum that all up for EIG, we're expecting overall sales to be roughly flat. And that's obviously driven by the acquisitions of Surface Vision, Brookfield and ESP/SurgeX, with organic sales down to the mid single-digit kind of region.

Moving to the other half of the company, Scott, in EMG and the differentiated side, organic sales for our differentiated business were down high single-digits versus the first quarter of 2015, driven largely by weakness across our engineered materials interconnect and packaging business. And the weakness, as I've already indicated, was really due to the impact of commodity price deflation. However, here we do expect sequential improvements over the rest of 2016, and we're really basing that on current order trends which have strengthened, and thus we really do expect a stronger second-half than first half. So if you sum all of that up for the differentiated piece, for all of 2016, we expect our differentiated EMG businesses organic sales to be roughly flat versus the prior year.

And the last, and now much a smaller part of our company, floor care and specialty motors, they were also down approximately 10% in first quarter, as a result of softer global market conditions. And for 2016, we expect sales for this business to be roughly flat organically versus prior-year. You take those two parts of EMG, so overall then for EMG, we expect overall sales and organic growth to be roughly flat versus 2015. And then lastly, obviously, you sum EIG and EMG, and that's where we get to the flat overall sales, and organic sales down the low to mid single-digits on a percentage basis.

Scott Graham - *BMO Capital Markets - Analyst*

Thank you, Frank.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hey, you bet, Scott.

Operator

Robert McCarthy, Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Good morning, everyone.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Rob.

Robert McCarthy - *Stifel Nicolaus - Analyst*

So a couple questions here. I mean, one question that's come up from an investor, is just thinking about, and maybe drilling down on this question about the size of deal. I think investors have been concerned about perhaps in the context of a lower structural organic growth and some of the challenges there, that doing a larger deal is kind of a priority, just given the law of large numbers. And could you just talk about your capacity to do a deal now, of what size, and then ultimately how you think about your funnel?

I know you did allude in previous comments, how you're looking at a variety of deals. And then, clearly there's a priority -- all things being equal to do a larger deal. But could you just talk about that, particularly in the context of -- I do think you brought up your revolver and your leverage a little bit this quarter. So could we get a sense of what is kind of the outward bound of your capacity right now?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, sure. You've got a bunch of questions in there. Let me start with, what we consider a larger deal. First of all, we are not looking at mergers of equals here. If you look at most merger of equals, they don't create shareholder value.

So when we look at the size of deal that we are focused on, it's really between in volume between $50 million and a couple hundred million dollars. And if a larger deal comes along, up in the $400 million or $500 million region, we would consider doing that. In order to meet the model that we have discussed with you, where we basically want to achieve on a yearly basis -- it's not going to be every year, but on average 5% to 10% of our sales coming from acquisitions -- that's the basic model we've talked about for years.

You take the upper end of that, and it's $400 million, right? We're $4 billion right now, so you take the upper end, 10%, you need to do $400 million in volume. And there's different ways you can say, what's the purchase price based on that? But you take $400 million and multiply that by maybe 1.2 or 2 -- say 2, just to make the numbers easy, you got to deploy $800 million a year in capital on average to make, to get to the high-end of that range.

What's our capacity? Right now, our capacity is -- with everything we've got, we have well in excess of $900 million in capacity. But more important than that, if you look at the free cash flow of the Company, the operating cash flow is going to be this year, on the order of $775 million. Which means the free cash flow, we have our CapEx set at around $70 million, is around $700 million. So, and when you buy companies, you get in EBITDA stream. So basically we could easily deploy $1 billion-plus, probably a $1.3 billion. I haven't run the numbers recently -- without affecting significantly the leverage of the Company.

We will remain investment-grade. That's absolutely our thrust. We don't intend to float equity. We don't need to based on the numbers that I just told you. So we're in a great position.

Now if you look at it from the viewpoint of capacity, from a management viewpoint, the way we have put the -- made changes in the Company really over the last number of years, is to basically put enough resource in the Company, which is already there now, it's already done. So that we could handle three deals a year, or three deals simultaneously, excuse me. And if you take on average how long it takes to do a deal, it means you could easily do 10 deals a year, probably even do a few more than that.

The key point is, we don't have to do that larger deal. We can get to that $400 million number, by doing a bunch of small deals. But on the other hand, if we can find something, and we've looked at a few, and we're actually very close on one a few quarters ago that we talked about, that's larger we will do that. So we're part not management constrained, we're not financially constrained from a cash flow viewpoint. And it just comes down to finding really good companies.

And we've got a lot of effort going in, the backlog is good. We're looking at deals. I can tell you that Dave and I are involved in deals on a daily basis. And I can't tell you exactly when the next one is going to close, but I can tell you that we're fairly optimistic that we're going do well. And that's the best way, that we can take the strong cash flow of the Company, and create value for you. So I don't know if I've answered all of your questions. I tried to bundle them altogether, but did that get at them?

Robert McCarthy - *Stifel Nicolaus - Analyst*

That's encyclopediac. (laughter) Thank you for the full response, and for the audience, we didn't collude on that question, because it was a very well-scripted response (laughter). In terms, of two other points, one on restructuring. I mean, do you think we'll continued to see call outs going here going forward? So just given, I mean, how do you think about, the sense that what's ongoing, and what should be just built into your earnings base, just cost of doing business? (multiple speakers)

Frank Hermance - *Ametek Inc - Chairman and CEO*

We think of this number of -- I'll call it, $100 million-plus. We're at $130 million now. That's what we think we can do on a year in, year out basis. We've put the infrastructure in the Company to do that, and we believe that can continue for a substantial amount of time.

And the majority of that is sort of built into our revenue and our guidance, as we give it to you, guys and ladies. And the reason for that is the structure that we have put in place. As you know we are operationally focused company. So in terms of just our normal operational excellence strategies, we can get $50 million to $70 million a year, and in terms of our materials strategy, we're in that same ballpark. And therefore, that's an ongoing cost.

And in terms of any, what I would call major restructuring of the company, no. We're not envisioning that, and we have to modify these strategies as time goes on. And I'll give you an example, and Dave maybe you can speak to this. That on the material side, we had to change the strategy a bit, and we've done incrementally over the last number of years, and we've added a value analysis tool into our toolbox. And Dave, why don't you speak to that a little bit? You've really led that activity, and done a great job with it.

David Zapico - *Ametek Inc - EVP & COO*

Sure. It really comes down to getting that $50 million a year of cost savings that you talked about. And for some of our maturer businesses, where we've already globalized the supply chain, we really focused on [targeting] the bill of material from an engineering viewpoint. So we've taken our bill of materials, focused on the highest cost items, and used both our engineering capability and supply chain capability to attack that, and very quickly go through projects, and we're introducing cost-out designs in a matter of three or six months. And we've done that across the company, and we've institutionalized it as one of our operational excellence tools. And that was the largest driver of our material cost savings.

So if you think about it, we bring a new company in. We go after the supply chain hard, and we get big savings. We often can take 25% out of the company's material costs, because of our global sourcing. Well, if you've owned the company for 5 or 10 years, we have to find other avenues to take material costs out. And that's where the value analysis, value engineering comes in, and now let's institutionalize across the whole business. And as I mentioned, it's the largest driver of the material cost now. So we're very happy about that.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Thanks for your time.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Okay.

Operator

Bhupender Bohra, Jefferies

Bhupender Bohra - *Jefferies LLC - Analyst*

Hey, good morning, guys.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Good morning.

Bhupender Bohra - *Jefferies LLC - Analyst*

Yes, my question, Frank, if you could give us some color on the BRIC countries, the global especially China.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, good news and bad news is the best way to say it. Overall, BRIC countries organically were down 8%, and China was the driver down about 9%. If you look at the other countries, Russia continues to be weak. Brazil weak, but actually a little bit better than it was doing in terms of decremental organic growth versus last year. But obviously, the driver here is China, and I should mention India is good. That's the one that was good last quarter, and it remains good. We had mid-single-digit kind of organic growth in India.

The good news is that we're feeling a stabilization in China. And if you look at the numbers we've provided over the last three quarters on China, they're not the best in the world, but the key thing is the orders in the first quarter were flat organically. So and in talking with our people there, they are feeling a bit of stabilization I would say, is probably the best word. So we're feeling a little bit better about China. But obviously, the BRIC countries, which for a while for us were growing at 25%, 30% overall, are now more of a challenge. But hopefully, what we saw in orders in China is an indication that things are going to get better there.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. So just a follow-on on the energy business here, you talked about the shortfall of $40 million. Can you give us some color into the upstream, the midstream, and the downstream portion?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, basically if you look at -- you're talking about the incremental $40 million that I talked about. It was evenly split, between downstream at about $20 million. And the combination of upstream and downstream at -- or upstream -- yes, upstream and downstream at $20 million. So $20 million in upstream, $20 million in the combination of mid and downstream. I don't think I said that right a moment ago. Okay. And then, between upstream -- or between midstream and downstream, it was more downstream-oriented.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. And the other $40 million on the metals business. Now I thought, when we saw the commodity prices jump in February, your customers would have actually come into buy the metals, but I don't know --?

Frank Hermance - *Ametek Inc - Chairman and CEO*

It's a great question, absolutely a great question. And the issue is what metals are key to AMETEK. And in our case, the key metals on the EMIP side are molybdenum trioxide, cobalt, vanadium and to a lesser degree nickel. And if you actually look at those three metals, they're down, and they have not come back.

And that's why, when they do come back, our customers -- right now, they don't want to buy when they're very low, right? So we don't have an impact on our cost, because we pass basically the price of the raw material on. So we're not sort of -- we don't have an issue from that viewpoint. The issue from us is when metal prices are very low, our customers are just going to hold off as long as they possibly can, and before they start buying, and that's what's really happening right now. And the fact that those metals have not rebounded yet, is the issue. So you can't look at us, in terms of the standard metals that you think of.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. Thanks a lot.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Sure.

Operator

Christopher Glynn, Oppenheimer.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Good morning, Chris.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Hey, good morning. So a question on the full-year guide, versus the first half. It looks like were implying a couple points of margin improvement in the second half versus the first. That's steep, so just wanted to get some help getting my brain around that.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes. We feel pretty comfortable, as we move through the year, in terms of the improvements. And I'm going to talk sort of about the overall improvements in EPS, and there's three drivers for this. The first is that in our process businesses, there's a seasonality impact of several of our non-oil and gas-related businesses, where they always have a stronger second half than first half.

The second thing is that in one of our oil and gas divisions, thermal process management, they have actually won market share with a good share of that improvement, from the market share gain viewpoint already in backlog. And they've done that really through several initiatives. The first was increased penetration in the Middle East, and also a partnership that we have with Pentair.

So the first factor is, we expect the process businesses to have some improvement because of those factors. The second factor is what we've already talked about in terms of EMIP, that we believe that situation, and we're already seeing it in order intake, will have a gradual improvement through the year. And therefore, we will see incremental improvements from that volume, and we're very confident in that.

And then, the third thing, is really the cost improvements. And if you look at how the cost improvements layer in, they become much more significant in the latter quarters in the year. So you take the organic growth of the first two reasons I outlined, and obviously when that goes to the bottom line, that improves your margins, because of our very high contribution margins. And then, you put these incremental cost improvements through the business. That's why we feel those margins will in fact improve.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Does that help?

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Yes. That's helpful And then, in terms of M&A I think you did mention a heightened focus on energy-related assets in particular. So if I heard that correctly, I'm wondering how you match that focus up against, maybe gauging the risk of a commodities super cycle, that could be a mirror image of a 10 year emerging markets boom?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes. Our focus is to fundamentally buy good businesses. We are not afraid of buying a business, when it's in a downcycle. We believe oil and gas is going to be a good place to play on the longer term, and we are in a substantial down cycle. Now is oil going to get back to $125 a barrel? No, I don't think so. But I think it's reasonable to assume that it's going to get back to a healthier level, so we're not afraid to buy assets. And you can get extremely -- potentially extremely good pricing, because you've got businesses in distress.

And but it's not, I wouldn't say, we're focused on oil and gas -- and I don't think I said that. I just I said, we -- we're not afraid to buy a business in a down cycle. Actually, you have almost the reverse problem. If you're in a very strong up cycle, and you look at the sellers who are selling that business, they of course will take where they are at the top of the cycle, and say they're going to grow organically from that point, and they'll never put a cycle -- down cycle in their estimates.

So you've got to be careful on that side of the equation. So we always put cycles in our acquisition models. We actually have an approach, where we can do Monte Carlo analysis, and change the magnitude of the cycles, change the timing of the cycles, et cetera, so that we make sure we're paying the correct amount for the assets.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. And I know it's getting late, but last quarter you kind of pushed us to the low end of the guidance, that proved prescient. Any way we should handicap the current range?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes. I mean, that's a great point. And if you recall, what I said at -- in one of the questions that one somebody asked in this meeting, right around the time we released guidance -- I don't remember exactly when oil hit $26 a barrel, but we were starting to feel that. And so, therefore when I came out or we came out with guidance at -- a quarter ago, I pushed you towards the low-end, and I did that, because of the concern, that did in fact materialize. I'm not sure -- I don't think I've ever done that before, in my 16 years of being a CEO.

Normally, we come out with a very balanced view on the guidance, not trying to push it one way or the other. And as I've already mentioned on this call, the guidance we're giving you now is balanced. In other words, we think there's as much upside potential, as there is downside risk. So if things are weaker than what I'm saying, you could end up at the low end. If things are better, you're going to be at the high end. So it's a balanced view, and it's not weighted in either direction. And so, which is much more consistent with what we've done in the past.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Sounds good. Thanks.

Frank Hermance - *Ametek Inc - Chairman and CEO*

All right.

Operator

Joe Giordano, Cowen.

Joe Giordano - *Cowen and Company - Analyst*

Hey, guys. Thanks for taking my question here. Frank, I just want to clarify, did you mention earlier, in the floor care business, you mentioned down 10% organic in the first quarter, and then expectation of flat for the full year. So can you kind of talk us through where -- how you're getting to bridging that?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Yes, that's real simple. The second half of the year, last year was very weak. So the [constancy] is here.

Joe Giordano - *Cowen and Company - Analyst*

Okay, easy enough. And then, a question on the guidance. Just I know we've talked about this a lot, but when you gave your initial guidance, and you were pointing us to the low end, were you contemplating like a second-half appreciation in underlying markets that just didn't materialize or?

Frank Hermance - *Ametek Inc - Chairman and CEO*

No, it's the reverse. (multiple speakers) No, it's the reverse. It's really what I talked about in answer to the first question. It's that oil and gas, and the impact of metals deflation got worse. And I was feeling that around the time of the call, but we were unable to quantify it, because the market -- both of those markets sort of just clammed up, is what happened.

Joe Giordano - *Cowen and Company - Analyst*

Yes, so both --

Frank Hermance - *Ametek Inc - Chairman and CEO*

So I did the best, I could to try to give you the best call I could give you, with what I knew at the time. (multiple speakers) I mean, we did make our guidance so.

Joe Giordano - *Cowen and Company - Analyst*

Right. But it's fair to say that both guidances had a flat trajectory from point A, it's just it's a lower starting point now.

Frank Hermance - *Ametek Inc - Chairman and CEO*

I think that's fair.

Joe Giordano - *Cowen and Company - Analyst*

Okay. Thanks, guys.

Frank Hermance - *Ametek Inc - Chairman and CEO*

I think that's fair, yes.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Good morning, guys.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Hello, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

You've covered a lot of ground, so and certainly --

Frank Hermance - *Ametek Inc - Chairman and CEO*

That's for sure.

Nigel Coe - *Morgan Stanley - Analyst*

A couple quick ones. So you took up your revolver in mid March from $700 million to $850 million, and is that the signal of maybe size potential, maybe you need to see in the M&A backlog? Or was it -- am I just reading too much into that?

Frank Hermance - *Ametek Inc - Chairman and CEO*

Well, there's a couple factors, and that was surely one of them, that we have a lot of banks who are willing to give us a lot of funding. So we took advantage of that. But also, you don't like the term of your revolver to get near the end. You have better negotiating power when you're not at the end, and so that also entered into this. And there are some signals, that at some point in the future, interest rates are going to go up. So you're just in a better negotiating position. So that's -- really was those two factors that drove it. Bob, I don't know if you have anything?

Bob Mandos - *Ametek Inc - EVP & CFO*

No, I totally agree with what you said, Frank.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great. The message on M&A is obviously very clear, but the stock price is down here this morning. Is there any bias towards buying back stock at these levels versus M&A?

Frank Hermance - *Ametek Inc - Chairman and CEO*

The bias is definitely towards M&A. I mean, we have said and said repeatedly, that the best way we create value for our shareholders is by buying companies and making them better, and that is the primary use of capital. Having said that, we will do opportunistic buybacks of stock. And I think Bob mentioned in his report that in the first quarter we did some. It was 2.4 million shares, and we may very well continue that. But I don't want to imply that that's going to be a primary use of our cash. We can create better value for you, by buying companies and improving them.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, very clear, Frank. Thanks.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Okay, Nigel.

Operator

And there are no further questions at this time. I will turn the floor back over to the presenters for the closing remarks.

Frank Hermance - *Ametek Inc - Chairman and CEO*

Great. Thank you very much, Danisha. Thanks everyone for joining the call today. A replay will be available on AMETEK.com and StreetEvents.com,. And as always, I'm available for further discussions today. Thank you.

Operator

This concludes today's call. You may now disconnect.
