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AME - Q4 2016 Ametek Inc Earnings Call

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OVERVIEW:

Co. reported 4Q16 results. Expects 2017 overall sales to be up mid-single digits on percentage basis from 2016 and diluted EPS to be $2.34-2.46. Expects 1Q17 overall sales to be roughly flat and diluted EPS to be $0.55-0.57.

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PRESENTATION

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

Good morning, everyone. Thank you for joinining us for AMETEK's fourth quarter earnings conference call. With me this morning are Dave Zapico, Chief Executive Officer, and Bill Burke, Executive Vice President and Chief Financial Officer.

AMETEK's fourth quarter results were released earlier this morning, and are available electronically on market systems, and our website at the Investor section of AMETEK.com. This conference call is also webcasted, and can be accessed on our website and at StreetEvents.com. The call will be archived on both of these sites.

Before we get started, I want to 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 the AMETEK's filings with the Securities and Exchange Commission. 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 from Dave and Bill, and then we'll open it up for questions. I'll now turn the meeting over to Dave.

Dave Zapico - *AMETEK, Inc. - CEO*

Thank you, Kevin, and good morning. AMETEK had a solid fourth quarter. We delivered results that were in line with our expectations, with strong operating performance.

Following a challenging start to 2016, that included difficult market conditions, we were able to deliver solid results in the second half of the year that were consistent with our guidance and expectations. As expected, market conditions stabilized in the fourth quarter, and recent order trends reflect this stabilization.

We are encouraged with these trends. I am also encouraged by our continued acquisition activity, as we announced the acquisition of Rauland-Borg this morning. We are very excited to be acquiring Rauland-Borg, given their strong niche position within the healthcare market, and the outstanding leadership team that is joining AMETEK.

I will provide more background on the acquisition in a moment, but first, let me provide the financial highlights for the quarter. Please note that any references on this call to 2016 or 2015 financial results will be on an adjusted basis. I will discuss the fourth quarter 2016 [charges] in a moment.

Sales were in line with our expectations in the fourth quarter at $973 million, down 1.5% versus the fourth quarter of 2015. Organic sales were down 3.5%. Acquisitions added 3%, and foreign currency was a 1% headwind in the quarter. Overall orders in the fourth quarter were up 1%, and organic orders were down 1%, continuing an improving trend in organic orders during 2016. Our operating income in the quarter was $212.7 million, and our operating income margin was [21.9]%.

Diluted earnings per share were $0.58, down 8% over last year's fourth quarter. Operating cash flow was excellent at $247 million in the quarter, up 24% over the prior year. This was a record level of operating cash flow, and it speaks to the strong operating performance across the Company.

For the full year of 2016, sales were $3.8 billion, down 3% versus 2015. Operating income was $841.4 million, and full year operating margin were 21.9%. Diluted earnings per share were $2.30, down 10% versus 2015.

Now turning to the individual operating groups. First, the electronic instruments group. For the quarter, EIG reported sales of $616 million, down 2% versus last year's fourth quarter, and in line with our expectations. Organic sales were down 6%, acquisitions contributed 5%, and foreign currency was a 1% headwind. The solid acquisition growth was driven by the contributions of Brookfield, ESP/SurgeX, Nub Instruments and HSN Foils. We are seeing solid results from these acquisitions, as the teams have done a great job integrating these businesses into AMETEK.

The organic sales decline in EIG was driven in large part by the weakness across our oil and gas markets. Although our oil and gas organic sales were down in the quarter, the year-over-year decline is moderating as conditions stabilize. We continue -- we expect conditions to remain largely stable across our oil and gas businesses in 2017. EEG's operating income in the fourth quarter was $162.6 million, and operating margins were a very strong 26.4%.

The Electromechanical group reported overall sales of $356.9 million, down 1% versus the fourth quarter of 2015, with organic sales roughly flat versus the prior year. Acquisitions contributed 1%, and foreign currency was a 2% headwind for the quarter. We are seeing improved organic growth trends and good order input for these businesses. EMG operating income in the fourth quarter was $63 million, with operating margins of 17.7%.

In order to better align and reposition our cost structure to support sustained sales and earnings growth, we have taken realignment actions in the fourth quarter. These realignment actions totaled approximately $25.6 million. We expect a strong payback on these actions, with annualized savings of $37 million, with an approximate $[16] million benefit in 2017.

We also took a $13.9 million non-cash charge in the fourth quarter related to the impairment of [indefinite lives] and intangibles. This was not a write-off of goodwill, but was driven by the weak global macro environment and its impact on the value of certain product line, trademark and trade names. Combined, the total charge taken in the fourth quarter was $[39.5] million or $0.11 per diluted share.

Now let me touch on some of the highlights from our growth strategies. Our four growth strategies of strategic acquisitions, new product development, global and market expansion, and operational excellence have been and will be the key drivers of our success. They are well-engrained in our business and culture. We view these growth strategies as critical to the long-term success of AMETEK.

First, let me touch on acquisitions. We are very excited with the acquisition of Rauland-Borg. It's a great start to 2017, as we acquired an outstanding company with a strong leadership position in an attractive niche market. I would like to welcome the Rauland-Borg team to the AMETEK family. Rauland is a leading global provider of mission critical clinical communications and workflow solutions for hospitals, healthcare systems and post acute care facilities.

In addition to their presence in the healthcare space, Rauland provides communication solutions to educational facilities. They are a global leader with a premier brand name, and a strong presence in their markets. We expect continued strong growth for Rauland, as the healthcare space continues its shift to value-based care and patient outcome improvement initiatives, both of which are key elements of Raul and-Borg's value proposition to their customers.

We see attractive incremental growth opportunities by increasing its market share in international markets, expanding through additional acquisition opportunities, and through leveraging our operational excellence capabilities. Rauland was privately held, with a distinguished 88 year history. They are headquartered in Mount Prospect, Illinois. Rauland has approximately $[160] million in sales. The purchase price is $340 million, plus a potential contingent payment of $30 million, tied to achievement of certain milestones.

This acquisition is an excellent example of our strategy to expand our footprint into attractive, adjacent market segments. Rauland provides us the opportunity to expand our medical technology exposure into a strong growth segment, while expanding our broader exposure to the medical market. With the acquisition of Rauland, the overall medical market exposure for AMETEK is roughly 13% of sales.

Over the last 12 months, we have deployed approximately $[730] million in capital on six acquisitions, and will acquire approximately $300 million in sales. We remain bullish on our acquisition pipeline, and are excited to continue adding shareholder value through our proven acquisition capabilities.

Now turning to new product development. We remain focused on investing in research development and engineering, in order to support the strong product and technology differentiation across our business. Additionally, we look to RD&E efforts as a key element in our organic growth initiative.

In 2016, we spent roughly $200 million on RD&E or 5% of sales. In 2017, we expect to increase our investments in RD&E to approximately $215 million.

I'd like to highlight two of our recent new product introductions. First, AMETEK Rotron recently introduced their SemiCool Precision Fans and Custom Cooling Systems for the high reliability cooling of semiconductor processes The SemiCool system offers precise temperature control in a compact package. It was originally designed for critical military and aerospace applications, and has been expanded to serve the critical semiconductor manufacturing processes.

The system consists of compact, high reliability fans and optimized [CD] standards. It is designed to meet the needs of heat-intensive processes in a semiconductor production, and is a departure from the tall industrial blowers commonly used in semiconductor facilities. The SemiCool system is compliant with semiconductor industry traceability and configuration control requirements.

AMETEK Programmable Power, a leader in programmable AC and DC power test solutions introduced a new DC power supply for Sorensen family of DC power supplies. The new Sorensen HPX series offers state-of-the-art features and technology in a smaller footprint than comparable DC power supplies. It delivers unsurpassed performance along with fast, precise programmability.

AMETEK Programmable Power are used for the design and verification, testing, quality assurance, and regulatory compliance of electrical and electronic products by customers in the computer, consumer electronics, industrial controls, and aerospace and defense industries.

These are just two recent examples of the success of our research and development efforts. One way in which we measure the success of our RD&E efforts is through our vitality index. Our vitality index reflects the revenue from products introduced over the last three years. In 2016, our vitality index was 24%, up slightly compared to 2015.

Operational excellence continues to be an important driver of our success, given its focus on cost and asset management, as well as its focus on process improvements impacting all areas of our business. Our teams are making outstanding strides, utilizing our expanded operational excellence tool kit to drive continual operating improvements in their businesses. In 2016, we generated $130 million in our total operational excellence savings.

Our operational excellence activities include lean manufacturing, global sourcing, strategic procurement, value analysis and value engineering, designed for Six Sigma and strategic cost effective manufacturing initiatives. Additionally, our activities include various tools that are focused on the front end of our businesses to support improved organic growth, where our continuing to expand our efforts in this area across all of our businesses, which we believe will yield to improved long-term organic growth.

Now turning to our outlook for 2017. Market conditions are improved from this time last year. The most challenging markets from 2016 have stabilized. We are realigning our cost structure, while continuing to invest appropriately in important growth areas.

Our operational capabilities and cash flow generation remain unquestioned, and we continue to identify and close attractive acquisition opportunities. Although we will be appropriately cautious as we start the year, we are excited to return to sales and earnings growth in 2017. As a result, we are anticipating overall sales to be up mid single-digits on a percentage basis from 2016. Organic sales are expected to be up low single-digits from 2016.

Earnings for 2017 are expected to be in the range of $2.34 to $2.46 per diluted share, up 2% to 7% over 2016. For the first quarter of 2017, we are expecting overall sales to be roughly flat, with organic sales down low single-digits. We are expecting first quarter diluted earnings per share to be in the range of $0.55 to $0.57, flat to down 4% from 2016's first quarter.

In summary, we delivered solid results in the fourth quarter, and our business is stabilized. We continue to aggressively manage our business for success in the short-term, while ensuring we are investing appropriately for the long-term. Our strong balance sheet and significant cash flow generation provides us with plenty of liquidity to operate the business, and pursue our acquisition strategy. We have a talented and experienced management team, and we see tremendous opportunity to drive improved performance through the expansion of our operational excellence tools.

I'm excited for the future of AMETEK, and believe we are well-positioned to drive strong growth. We asked a lot of our teams in 2016, and as usual, they stepped up and delivered. I want to recognize the efforts of all our employees, and thank them for their hard work. I'll now turn it over to Bill Burke, who will cover some of the financial details for the quarter and the year. And then, we'll be glad to take your questions. Bill?

Bill Burke - *AMETEK, Inc. - EVO, CFO*

Thank you, Dave. As Dave noted, we had a solid fourth quarter with results in line with our expectations. I'll now provide some financial highlights.

In the fourth quarter, organic selling expenses were essentially flat versus the prior year. General and administrative expenses were 1.3% of sales in the quarter, slightly above last year's fourth quarter level of 1.2% of sales.

The effective tax rate in the fourth quarter was 27.1% versus last year's fourth quarter adjusted rate of 26.0%. For 2017, we expect our tax rate to be between 27% and 28%. As we have said in the past, actual quarterly tax rates can differ dramatically, either positively or negatively, from this full year rate.

Working capital, defined as receivables plus inventory less payables, was very strong in the fourth quarter at 18.4% of sales, down from 20.8% in the third quarter, reflecting the excellent work of our team in this area. Capital expenditures were $23 million for the quarter, and $[63] million for the full year. 2017 capital expenditures are expected to be approximately $75 million.

Depreciation and amortization was $57 million for the quarter, and $180 million for the full year. We expect a similar level of depreciation and amortization, $180 million for the full year of 2017.

Our cash flow was outstanding in the quarter. Operating cash flow for the fourth quarter was a record at $247 million, up 24% from the fourth quarter of 2015. Free cash flow in the fourth quarter was $225 million, up 28% over the fourth quarter of 2015. Looking forward for 2017, we expect free cash flow to be approximately 115% of net income.

The primary use of our strong free cash flow is to support our acquisition strategy. In 2016, we deployed approximately $390 million on acquisitions, and thus far in 2017, we've deployed $340 million on the acquisition of Rauland-Borg. In addition, in the fourth quarter, we repurchased approximately 2.1 million shares of our stock for $100 million. At year-end, our remaining share repurchase authorization was $376 million.

Total debt was [$2.34 billion] at December 31, up from $1.94 billion at the end of 2015. Offsetting this debt is cash and cash equivalents of $[717] million, resulting in a net debt to capital ratio at December 31 of 33%. These amounts reflect the private placement agreement we entered into on October 31, to sell the equivalent of approximately $825 million in senior notes denominated in euros and sterling, at a weighted average interest rate of [1.82%] with an 11.5 year average maturity.

The proceeds of the debt offering were used to pay down our revolver balance, and to repay an existing British pound note. Overall, the private placement offering provides us with larger financing capacity, and increased flexibility to support our growth initiatives. After the acquisition of Rauland-Borg, we have approximately $1.5 billion of cash and existing credit facilities to support our growth initiatives.

In summary, we've delivered solid results in the fourth quarter. We're excited as we look ahead to 2017, given our proven growth strategies, and the strength of our balance sheet and cash flows to supports these growth initiatives. Kevin?

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

Great. Thank you, Bill. Brandy, we'd like to open it up for questions now?

QUESTIONS AND ANSWERS

Operator

Certainly.

(Operator Instructions)

Your first question comes from the line of Brett Linzey with Vertical Research Partners.

Brett Linzey - *Vertical Research Partners - Analyst*

Hi. Good morning, all.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning.

Brett Linzey - *Vertical Research Partners - Analyst*

I thought I'd start with the market commentary, and specifically your mention of stabilization in the business. I know historically you've pointed to some different shorter cycle or quick ship businesses that are really a guidepost for those cycle turns. I mean, could you just talk about orders in some of those proxy businesses, and maybe just the trend, as you move through the quarter and into January?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, the stabilization comment was really related to 2016, and we had real weakness in our oil and gas and our metals business. And as we spoke the last couple of quarters, we saw them stabilizing, and it is turning out just as we had predicted. So we're feeling -- this time last year, we were feeling a lot of uncertainty about those two markets, but we're feeling significantly different this year. We're feeling more positive, because we think our footing is on solid ground, and those businesses sequentially have stabilized.

We also feel good about the continuing organic orders growth in the business. I mean, when you look at the organic orders, they've slowly improved each quarter throughout 2016. And then, the fourth quarter of 2016, our organic orders were minus 1%, and our total orders were plus 1%. So we're feeling really good about that also. So those are a couple of the factors, looking at orders, and looking at our markets that make us feel much more positive going into 2017, than we were going into 2016.

Brett Linzey - *Vertical Research Partners - Analyst*

Okay. Great. And then, if I could just shift back to the Rauland deal. Could you just talk about the competitive standing in those served markets? And then, it seems like somewhat of a new adjacency for AMETEK. I mean, obviously it is an [interesting] expansion of sort of the medical play. But could you just give us any color on strategic fit, as well as profitability, or return economics for the deal you announced this morning?

Bill Burke - *AMETEK, Inc. - EVO, CFO*

Right. This is -- we think we have a solid return for the deal. We're very excited to acquire Rauland as I mentioned. The market has strong growth characteristics. It's a mid to high single-digit grower. It's a regulatory-driven market, but it is also benefiting from some demographics and an aging population, and a perpetual shortage of nurses.

So they have some great demographics driving their business. There's a high barriers to entry. There's high switching costs. A key driver is value-based healthcare. Rauland products helped their customers reduce cost, and improve the nurse productivity and efficiency. That's the core product offering that they have.

They're a leading provider of mission critical communication systems. Their product mix is about 80% hardware, 20% software. Their primary product in healthcare is called the Responder Series. It has extremely high market share in the United States, with a -- in a good product cycle.

It's really a good product cycle, in terms of the new business, and also the retrofit business they can win. They're a leader in the niche. Their competition is companies like Ascom, but that's mainly international. They're a strong leader in the US market.

We think, when we think about the Company, we think we can help them grow internationally. They have about 10% of their sales outside the US, and there's also some acquisitions that they wanted to acquire. And being privately owned by a family, they really didn't want to have that risk tolerance.

So we think it's a great opportunity for AMETEK to fund the business, to grow internationally, and also book an additional acquisition. So we did a lot of market work on the business, and it came -- the market study that came back for this business had some of the highest scores that we ever saw on customer satisfaction. So the people do a great job at Rauland, running their business, and we think that we can add a lot of value to it, and it will be a great deal for our shareholders.

Brett Linzey - *Vertical Research Partners - Analyst*

That's good color. And then, anything you can provide on profitability, maybe relative to the corporate structure of AMETEK today?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, sure. It's less profitable than AMETEK, obviously. It will be a mid-teens EBIT kind of number, would be a good number to look at.

Brett Linzey - *Vertical Research Partners - Analyst*

Okay. Great. Thanks a lot, guys.

Dave Zapico - *AMETEK, Inc. - CEO*

Sure.

Operator

Your next question comes from the line of Nigel Coe with Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks. Good morning, gents.

Dave Zapico - *AMETEK, Inc. - CEO*

Hello, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Yes so, David, you mentioned oil and gas stabilized. So does your outlook for 2017, does that bake in a flat outlook for your oil and gas (inaudible) markets in general?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, it really does. We expect the 2017 sales will be flattish, but we think the upstream business will be up a little bit, and the mid and downstream businesses will be down slightly to flat. So we expect a little bit of sales improvement throughout the year. Similar to when we went into the oil and gas downturn, the upstream goes down first.

Well, we're coming out of it, and the upstream is starting to pick up. But we'll expect the mid and downstream markets to improve later in the year, and maybe even next year. So it's -- be flat to down slightly for mid and downstream, and up for the upstream.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's helpful. And then on the 1Q guide, I'm sorry if I missed this. What organic sales estimate are you assuming for 1Q? And any commentary on January trends would be helpful too?

Dave Zapico - *AMETEK, Inc. - CEO*

January came in line with what we thought, and our organic growth for Q1 is down low single-digits. We're feeling better, but we're really calling a transition from negative organic growth to positive organic growth. So we don't want to get ahead of ourselves. We think the trend will improve for the year. Our Q1 is down low single-digits.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great. And then just one more. Can you make just a comment on EMG margins? They were a little bit lighter than we were looking for, [down by 2] points.

Bill Burke - *AMETEK, Inc. - EVO, CFO*

EIG had a great quarter and EMG was down a bit, and the EMG margins were driven by mix and our [EMIP] business. That business has a little higher fixed costs than the average AMETEK. So when the orders are lower, they're going to -- margins are going to drop a bit.

But the positive thing is we saw positive orders growth. Actually EMG, orders turned positive be in Q4. And when you look at it sequentially from Q4 to Q3, we had 50% contribution on the incremental volumes. So we had a great quarter. EIG did a little better, and EMG did a little worse.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's helpful. Thank you very much.

Operator

Your next question comes from the line of Deane Dray with RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

Thank you. Good morning, everyone.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning, Deane.

Deane Dray - *RBC Capital Markets - Analyst*

Just to follow up on the Rauland acquisition, just a couple data points. How much is aftermarket, as a typical in the mix? And then, are there any concerns with the Affordable Care Act, and how some of the funding for products and services like Rauland that might be impacted?

Dave Zapico - *AMETEK, Inc. - CEO*

Great question, Deane. About 10% to 20% of the business is aftermarket, and the aftermarket is evolving, because software is becoming a more important product offering for the business, and software updates -- software upgrades will increase that in the future.

The repeal of the ACA, we did a lot of work on that, and it really in the middle and long-term does not impact the value proposition of Rauland. There are strong demand drivers and minimal risk in the near-term. The fundamental issue is that they help nurses work more efficiently. They're in a sweet spot of driving value-based healthcare, and we got very comfortable with it.

However, we had the same concern. And we were concerned that the potential market uncertainty could cause spending delays in the near-term, if the market paused with all the changes. So we expect it to be minimal, but to be prudent, we structured the deal as a earnout tied to revenue levels within the first two years.

So we feel we acquired an excellent business, and we have protected, we've added a degree of protection to our shareholders. And we feel confident that we'll earn our return on capital in both outcomes, either outcome. But we think we're going to pay the earnout. We think the business is going to perform.

Deane Dray - *RBC Capital Markets - Analyst*

Is that earnout, is that a year from now, where that gets trued up?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, it's a couple of years, and it's tied to revenue.

Deane Dray - *RBC Capital Markets - Analyst*

Got it. And I was on the website this morning, it's real helpful. Did you say what that split was between healthcare and education markets?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, the healthcare part is 90%, and the education market is 10%. The education market is growing quite nicely. They have new product called the Telecenter U, and it does -- it's really involved in mission critical communications. So it, along with connecting classrooms and facilities across school districts, it helps manage emergency communications for school districts. So it's seeing a good demand in the current environment.

Deane Dray - *RBC Capital Markets - Analyst*

Got it. And then, just on the quarter, and I might have missed this, but what's the -- how did it play out in terms of typical seasonality for a typical fourth quarter? Did you see any budget flush? Did you see any kind of year-end ordering? How did that play out this quarter?

Dave Zapico - *AMETEK, Inc. - CEO*

When we were in Q3, we had a bit of a ramp projected for Q4, and we talked about we see some kind of year-end spending, a little bit less than typical, but we expected it to occur, and it occurred just like we thought. There's a little bit of year-end money, returning to more typical patterns, but not like it was a few years ago.

Deane Dray - *RBC Capital Markets - Analyst*

Got it. Thank you.

Dave Zapico - *AMETEK, Inc. - CEO*

You're welcome.

Operator

Your next question comes from the line of Andrew Obin with Bank of America.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Hi, good morning.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning, Andrew.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a question on free cash flow. What do you think is a good run rate for AMETEK, in terms of free cash flow conversion to net income going forward?

Bill Burke - *AMETEK, Inc. - EVO, CFO*

I think in the 115% to 120% on a go forward basis is a reasonable place for AMETEK to be.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Got you. And then, can you just talk about environment, M&A environment after the election, how does that -- how does tax uncertainty and the deductibility of interest, and but probably more regulatory visibility interplay when you talk to people?

Dave Zapico - *AMETEK, Inc. - CEO*

It really hasn't affected our business that much. I mean, our acquisition pipeline is strong. We mentioned with the Rauland deal, we had some additional market work to do there.

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But for most of our businesses, it seems that our pipeline work is going strong, and there are ample people trying to sell their business and ample buyers. So the market is still running at elevated pricing. There's still more money chasing deals. And we haven't seen any change in that in the last days since the election.

Andrew Obin - *BofA Merrill Lynch - Analyst*

If I could just squeeze one more in. On your oil and gas upstream business, how much of it is domestic versus international?

Dave Zapico - *AMETEK, Inc. - CEO*

About one-third is domestic, and two-thirds is international.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And what's the region? Is it Middle East?

Dave Zapico - *AMETEK, Inc. - CEO*

It's distributed throughout the globe, but the Middle East is a strong area for us.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Thank you very much.

Dave Zapico - *AMETEK, Inc. - CEO*

Thanks, Andrew.

Operator

Your next question comes from the line of Robert McCarthy with Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Good morning, everyone.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning.

Robert McCarthy - *Stifel Nicolaus - Analyst*

I think I'll just go ahead and steal Scott Graham's question (laughter) and steal the state of the organic growth and the orders. Sorry, Scott. So if you could go around and do that.

Dave Zapico - *AMETEK, Inc. - CEO*

You want me to go around the sub segments?

Robert McCarthy - *Stifel Nicolaus - Analyst*

Yes.

Dave Zapico - *AMETEK, Inc. - CEO*

I'll start with the aerospace. The overall sales were -- for our aerospace business were down mid single-digits in the quarter. Fourth quarter results were similar to the full year, as solid organic growth across our commercial business was more than offset by continued weak markets in business jet and regional jets. Looking ahead to 2017, we expect our aerospace business to be up organically low to mid single-digits, with growth across each of our aerospace segments.

Our process segment, organic sales were down mid single-digits in the quarter, driven largely by our oil and gas businesses. We talked about that. As expected, conditions stabilized in the quarter. Our ultra precision technology business had another very solid quarter to cap an excellent year, with notably strong growth in both our [preform] and TMC [press] tech businesses. We are encouraged with the stabilization we're seeing on the process segment, and expect this will continue into 2017. And for all of 2017, we expect organic sales for our process businesses to be up low single-digits, with organic growth for oil and gas businesses roughly flat.

In our power and industrial segment overall sales were up 10%, driven by the contribution of the Brookfield Engineering acquisition. Organic sales were down mid single-digits in the quarter, and in line with expectations. The weakness was largely a result of softness in the heavy truck market. Switching to 2017, we expect organic sales for power and industrial to be roughly flat, with modest growth in power offset by weakness in our industrial.

Our differentiated EMG businesses, they were down low single-digits in the quarter, with weakness driven by our engineered materials, interconnect, and packaging businesses. As expected, conditions have stabilized across our EMIP businesses. And for 2017, we expect organic growth for all of differentiated EMG to be up low single-digits versus 2016, with our EMIP business expected to be flat. And finally, our floorcare and specialty motors business, organic sales in our floorcare and specialty motors business were up 10% in the quarter, and we expect sales for this business to be down low single-digits organically.

So to summarize, for the full year, we expect overall AMETEK sales to be up mid single-digits, and for organic sales to be up low single-digits. For EIG, we expect overall sales to be up mid single-digits and organic sales to be up low single-digits. And for EMG, we expect overall sales to be up low single-digits, and organic sales to be up low single-digits.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Thanks very much for that. As a follow-up, maybe -- and you might have spoken to this before, either in your prepared remarks or questioning, and I might have missed it, so I do apologize. But have you talked about the EPS accretion for 2017 and 2018 for the existing deal? And then, could you give us an update of your M&A balance sheet, fire power capacity, now that this deal's been closed?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, now that the deal's closed, we have about $1.5 billion fire power. So we're very active, and we like to do more deals, and use some of that capacity this year.

In terms of the Rauland deal impact on 2017, I think what you'll see is -- when you buy a business, there's a lot of accounting and one-time things that go on. And you'll see some benefit in the second half of the year, not much benefit in the first half of the year, and you put that benefit in the $0.03, $0.04 range in the second half.

Robert McCarthy - *Stifel Nicolaus - Analyst*

$0.03, $0.04, so embedded in your guidance this year is probably $0.03 to $0.04 of earnings accretion from this deal?

Bill Burke - *AMETEK, Inc. - EVO, CFO*

Yes.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Okay. Great. I'll leave it there. Thank you.

Operator

Your next question comes from the line of Matt Summerville with Alembic Global Advisors.

Matt Summerville - *Alembic Global Advisors - Analyst*

Good morning. Just kind of a follow-up to the oil and gas and specialty metals business. Can you remind us sort of, if we call 2014, 2015 the peak, and we call 2016 kind of the trough, how much revenue have you lost in both of those businesses, to try and size that up for me a bit?

Dave Zapico - *AMETEK, Inc. - CEO*

Right. So if you go back to the peak on oil and gas, it was about $400 million in revenue, and entering 2017, it will be about $240 million of revenue. So we lost $[160] million in revenue. So it was down about 40% from the peak. The upstream was down about 70%, and the mid and downstream was down about 23%, 24%. And if you look at the EMIP business in metals, at the peak, that business was about $500 million, and we lost about 25% or $125 million. So that's about $375 million now going into 2017.

Matt Summerville - *Alembic Global Advisors - Analyst*

Got it. Thank you. And then, just with respect to the aerospace side of the business, can you provide a little bit more granularity around kind of what transpired in 2016? And what the expectations are for 2017, with large commercial being a bucket, business regional, and then military? And maybe if you can just talk a little about what you're seeing on the aftermarket side, including third-party MRO, that would be helpful? Thank you.

Dave Zapico - *AMETEK, Inc. - CEO*

Sure. As I said, we're expecting low to mid single-digits for our aerospace segment in 2017. As you think about the commercial market, we expect that to continue strong.

I think Boeing and Airbus are projected to increase build rates this year in the low to mid single-digit range, and we have new additional content that we want on aircraft. So we expect to be up mid single-digits due to the ramp in new aircraft in the commercial area. In regard to the third-party

MRO business, we expect to be up mid single-digits, just real solid growth, as revenue passenger miles expand, and we're well-positioned in a couple of niche areas to grow our services.

The military market, which is about 35% of our total aerospace exposure, we expect that to be up low single-digits in 2017. And in 2016, there was a -- we had some -- we were down mid single-digits, and we expect that can be positive for us, going up low single-digits in 2017. In terms of the biz jet market, that's a smaller part of our aerospace business. We expect modest sales growth off of a reduced sales level. And the market, we're expecting to be flat, but we do have some new program wins driving the growth.

Matt Summerville - *Alembic Global Advisors - Analyst*

Great. Thanks, Dave.

Operator

Your next question comes from the line of Richard Eastman with Robert W. Baird.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Yes, good morning.

Dave Zapico - *AMETEK, Inc. - CEO*

Hi, Rick.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Dave, and maybe Bill, I wanted to just maybe explore, if I look at the guidance for 2017 from an EPS perspective, and walk up the P&L, it looks like the incremental margin assumption for 2017 is something on the order of 0% to maybe 18% at the EBIT line, and that's kind of adjusted. And I'm curious, there is -- it looks like maybe your RD&E is going up. There should, however, maybe be some restructuring save in there. And also, is there any -- what are you kind of burying in the numbers for operational excellence costs? Maybe you could just walk me through the incremental margin assumption that underlies your EPS guide?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, sure, I'll try to do that. I mean, first of all, OpEx, we have about $100 million of OpEx working in the numbers. As I said before, we got some acquisition growth, about $0.03 or $0.04, [total[acquisition growth. RD&E is up about [5%], 7% to $215 million.

We do have some discrete incremental headwinds. FX will be about 1 point of sales, and a [couple or $0.03] of headwind. Tax and interest will be about a $0.05 of headwind.

The other thing is we have some incentive comp resets. We were down substantially off our targets, and well, you have that as a headwind next year.

Think about pricing, we were about 1% in 2016. We think it will be a slightly better pricing environment, that maybe 1.5% range, but inflation will also be slightly higher. So we have price less inflation only slightly positive in 2016. Our CapEx is budgeted to be $75 million.

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Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay.

Dave Zapico - *AMETEK, Inc. - CEO*

And our cash flow will be 115% of net income. Our core operating margins for 2017 are expected to be up 20 to 60 basis points.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay, 20 to 60.

Bill Burke - *AMETEK, Inc. - EVO, CFO*

Did you touch on the growth investments, Dave?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, the --

Bill Burke - *AMETEK, Inc. - EVO, CFO*

We have growth investments in sales, marketing and engineering, and that's offsetting some of the savings you'd see from our typical material sourcing efforts, as well as other cost reductions which would include the realignment activities that Dave talked about earlier.

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, so the growth investments will be about $[65] million on incremental sales, marketing and engineering.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then, just what is the procurement, operational excellence procurement and sourcing savings that you're targeting out of the blocks for -- ?

Dave Zapico - *AMETEK, Inc. - CEO*

It was $130 million in 2016, and out of the blocks, we're saying it will be $100 million in 2017.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay. So down -- okay. I get you. And then, just -- here's one last question. You did give a little bit of a description around the metals businesses. And we enter at $375 million of revenue, and I'm curious, what was the -- is that kind of captured in the EMIP growth rate? Are you expecting the $375 million to be flattish?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then, what is the margin look like there? I mean, we've talked about that being a pass-through contribution, and we are seeing metals prices starting to ratchet up a little bit. I mean, is flat revenue associated with maybe a lower margin, relative to where metals prices are going in 2017?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, the EMIP business is about at the AMETEK average profitability. And in terms of metals prices, I think it's a little bit of a mix for the key commodity trends for our business. For our business, [vanadium] is a key metal, that's plus 30%. But titanium sponge and moly and nickel are flat to down, and titanium scrap is down about 15%. So it's a mixed environment for the metals that most -- matter most to EMIP.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

And this is to -- and isn't that business pretty heavily weighted towards aerospace, and just the driver being, maybe GE on the Leap engine side there? But should that business perform a little bit better than flat in 2017?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, but we're being conservative, calling that business.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

Okay.

Dave Zapico - *AMETEK, Inc. - CEO*

We talked extensively, and in some of our past meetings about, where multiple levels were moved from the end customer, and the inventory levels are difficult to estimate. And we're seeing better buying patterns from customers, but there's still some inconsistency. So we may be a bit conservative there, but we'd rather be that, than aggressive on the projection.

Richard Eastman - *Robert W. Baird & Company, Inc. - Analyst*

I understand. Okay. Thank you again for the questions.

Dave Zapico - *AMETEK, Inc. - CEO*

Okay.

Operator

Your next question comes from the line of Bhupender Bohra with Jefferies.

Bhupender Bohra - *Jefferies LLC - Analyst*

Hi. Good morning, guys. Can you hear me?

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

Yes, Bhupender, we can hear you. Go ahead.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. Yes, just can you talk about Rauland-Borg acquisition? You did mention -- I think you gave the mix in terms of equipment versus software. Could you give us a sense, how the software part of the businesses has grown historically? I think Dave you gave a number in terms of -- I don't remember that, but perhaps you could just give us how the software is going, and where would the investment from AMETEK come into the business, in terms of on the equipment side or the software side? Thanks.

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, it's -- the history of the business is this predominantly hardware, but software is becoming an increasingly important part of the future software offering. And as you try to extend the [nurse call] platform to multiple hospitals, you get an enterprise-wide platform, and that's more software-intensive. And that's a part of the business that's very attractive and growing.

Bhupender Bohra - *Jefferies LLC - Analyst*

And I'm sure you guys have done some market studies. Could you give us a sense of how big the market is here for -- in terms of international, any particular geographies you plan to extend sales from this acquisition?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, as I mentioned earlier, because it's a family-owned business, they ran the business exceptionally well, but they saw risk in acquisitions and international expansion. And only about 10% of the business is international, and we think the market's about half international. So we think we can help them with that, and we think there's considerable runway to improve the business.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. And lastly, I just wanted to get a sense of in terms of BRICs, how did that do actually in the fourth quarter, and thinking about the markets like in terms of 2017, especially China?

Dave Zapico - *AMETEK, Inc. - CEO*

Right. Yes, we had 52% of our sales were international in the quarter. And from my view, the two highlights in the quarter were the US market was much stronger than prior quarters. We were down about 10% for several quarters in a row in the US, and it was down only 2% organically, and that was strength in our process businesses, really across the board.

So US was improving, and Asia was about flat organically, and China was up 5%. So the fact that China was up 5%, and the US was improving, we're encouraged by that. Europe was down low, mid single-digits, in line with recent trends.

When you look at the BRIC countries in total, they were plus 1[%] organically in sales in Q4, again with China dominating that. India was flat. So overall, with the US improving, and with China now stabilized and starting to grow, we feel pretty good about what we're seeing geographically in our end markets.

Bhupender Bohra - *Jefferies LLC - Analyst*

Thanks a lot.

Dave Zapico - *AMETEK, Inc. - CEO*

Yes.

Operator

Your next question comes from the line of Jim Foung with Gabelli & Company.

Jim Foung - *Gabelli & Co. - Analyst*

Hi, good morning.

Dave Zapico - *AMETEK, Inc. - CEO*

Hello.

Jim Foung - *Gabelli & Co. - Analyst*

So just getting back to Rauland-Borg, maybe just kind of highlight some of the key products they make on the hardware side, since 80% of their business is there? And then, who are your competitors there, in both your hardware and software?

Dave Zapico - *AMETEK, Inc. - CEO*

Right. I'll talk about the product in the healthcare space. The primary product is called the Responder Series, and it connects all the nurse call stations in the hospital. It's really an indispensable tool for nurses.

It provides multiple levels of functionality, provides a virtual white board status for each patient, so they know the patient status of, a nurse at the nurse station can know the patient status for each patient. It provides voice communication between the nurse and patient, and it also manages the patient and hospital alarm systems. So the alarms in the hospital are controlled by the Rauland system. So it's an indispensable tool for hospitals, and indispensable tool for nurses, and as I mentioned earlier, is a fantastic tool for hospitals to manage and efficiently utilize their nurses -- nursing capability.

As we know, there's been a perpetual shortage of nurses. So they're right at the sweet spot of demographic trends, a perpetual shortage of nurses, and there's a high degree of regulation in the market -- the switching costs are very high. So they're ripe for the product upgrade cycles, and we're bringing new capabilities.

We feel real good about the product offering. As I mentioned, the big competitor will be Ascom internationally. Hill-Rom also has some product in the market, but Rauland-Borg in the US is the market share leader by far.

Jim Foung - *Gabelli & Co. - Analyst*

Okay. And then, what's the CapEx in that business?

Dave Zapico - *AMETEK, Inc. - CEO*

It's about at the AMETEK average. It's 2% or less CapEx.

Jim Foung - *Gabelli & Co. - Analyst*

Okay. Terrific. And then just getting back to the energy and the metals business, I guess, you're forecasting flat sales. You say that's kind of conservative. But what has to happen for you to be more optimistic, that you can reach some growth in that market, and maybe climb back up to that peak level in a couple of years?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, I think the trends that are -- we're working through a long cycle, and it's predictable cycle, and past cycles have been very similar, although not as deep. And it's going to start with the upstream business picking up. And then it's going to flow through to the mid and downstreams, and it will probably be a year or two years before the market totally gets returns. As at current price of oil, it's a lot lower than what it was, but it's enough for positive business to take place.

Rig counts are up, and that's key for our upstream business. What customers are telling us is they actually got capital to spend this year. Last year, they really didn't. The authority to spend is back in the business units, instead of the C Suite. The C suite, they were all purchase orders had to go to the C Suite before they'd buy anything.

And for our equipment, there's some excess capacity out there, and it needs to be utilized, but we're seeing increased activity in the upstream space now, especially in the US. And for the mid and downstream business, we think that's going to be flat to down a bit this year, but we're seeing some good project business in the Middle East. So we're feeling much better this year than we were last year at this time.

Jim Foung - *Gabelli & Co. - Analyst*

Okay. Great. Look forward to seeing you in a couple of weeks. Thank you.

Dave Zapico - *AMETEK, Inc. - CEO*

Okay. Thank you.

Operator

Your next question comes from the line of Joe Giordano with Cowen and Company.

Tristan Margot - *Cowen and Company - Analyst*

Hey, guys, good morning. This is Tristan in for Joe today. I just wanted to talk about the size of your M&A. You've talked before about doing a larger deal, and by the way, congrats on the one this morning. But what drove that change in mind set, and why the change now? Is it because -- do you see perhaps a distortion in pricing between small companies and larger ones?

Dave Zapico - *AMETEK, Inc. - CEO*

No, as I said before, our bread and butter acquisition is still the $50 million, [$100 million, $150 million] deal, and that's going to stay that way, and we add tremendous value to those kind of businesses. But we've been successful in slightly larger deals, so about nine months ago, we expanded our pipeline to include a revenue size one notch higher, between $200 million to $500 million.

And really we did that, because as the business scales, and we want to continue our track record of doubling earnings of the Company, we felt that though, we had to add those larger businesses to our candidate list. And we also felt that we've been very successful doing larger deals.

I mean, the bigger deals that we've done, we bought Zygo a couple years ago. The business is performing extremely well for AMETEK. We bought [Dunkermotoren] a few years ago, the business is performing extremely well for AMETEK. We acquired Haydon Kerk, the business is performing extremely well.

So we're getting comfortable doing larger deals. But at the same time, we have not stopped doing the bread and butter deals. So we just think, as we grow, and we continue to generate more cash flow, we wanted to expand our opportunity set.

Tristan Margot - *Cowen and Company - Analyst*

Great. Thanks. And then just a second quick one here. Do you feel like you have maintained your market share throughout the cycle, or this cycle?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, I do, yes. Just finished our strategic planning process about three months ago. We went into that in detail, and we're very comfortable with that.

Tristan Margot - *Cowen and Company - Analyst*

All right. Thank you.

Operator

Your next question comes from the line of Christopher Glynn with Oppenheimer.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Thanks. Good morning, guys.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning, Chris.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Just with Rauland being less of an immediate adjacency, you talked about evolving your process for deal sourcing. Could you describe the process for sourcing, Rauland, how it exemplifies some of your expanded look on cultivating the pipeline?

Dave Zapico - *AMETEK, Inc. - CEO*

Sure. I mean, in situations with private companies who are looking to sell their business, they're looking for a credible seller that has the business model that's flexible enough to deal with a private company, and AMETEK has shown that capability. We have the reputation of being able to do that.

And I think Rauland approached a banker, and they approached very few companies because of the uniqueness of the situation, and we were lucky enough to work with the family, and get the deal done, and they're now a part of AMETEK. So I think it's really the reputation of AMETEK, and the work we're doing in the medical space, that kind of combined, that brought that business to AMETEK.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. Thanks. And I just wanted to try a little more succinctly, sync up the 1Q bridge to the full year. It looks like a little bit of a slow start, that's maybe a little inconsistent with the full year expectation. So just maybe a comment on the -- ?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes. I mentioned earlier, we're calling a transition from negative organic growth to positive organic growth. And in our business, with the very high contribution margins, when you get positive organic growth, it's very accretive to profit. But on the converse, when you have negative organic growth, it's difficult to call that turn over.

And we called low single-digits for the first quarter. We think that's the right call. And we think that some markets, talked about oil and gas, are going to grow slowly throughout the year. We're going to see that continuing trend of slight improvement.

The benefits, so also -- first, the benefits of our realignment are a bit back-end loaded. We talked about the realignment, and we talked about the benefits of $[16] million, and those are going to more favorably impact Q3 and Q4, than Q1 and Q2. And as we mentioned earlier, Rauland really impacts Q3 and Q4, more than Q1 and Q2, because of some of the acquisition accounting. So those are three things I'd point you to, to look at a little bit of a ramp in the earning for the year.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Thanks for summarizing.

Dave Zapico - *AMETEK, Inc. - CEO*

Yes.

Operator

Your next question comes from the line of Allison Poliniak with Wells Fargo.

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

Hi, guys. Good morning.

Dave Zapico - *AMETEK, Inc. - CEO*

Good morning, Allison.

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

Dave, you've talked about the medical end market being 13% of sales today, now with the Rauland acquisition. What's your comfort level, in terms of weighting there? I know you mentioned a number of potential opportunities in the pipeline on that side?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, AMETEK's strategy is to be in a bunch of diverse end markets, and run businesses very effectively, and have niche positions. So even in the medical space, that same limitation occurs. So we don't have a fixed percentage, but any time a product or a market area gets 20% of the Company, then we start to think about our diversification. And but, we still have room to go, and we're still actively looking at the medical space.

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

Great. And then, just to touch on that, just management capacity in that specific business line or end market space, are you comfortable to continue there, even with the latest two acquisitions there?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, we are. The one thing I mentioned in my opening remarks was, we're getting a very good management team with Rauland. The sales and marketing capability is outstanding. We spent time with the management team. We feel really good, that it's going to be a good cultural fit, and we feel really good that we're going to bring what we do well to them. So feel really good about the future and the management capability with Rauland.

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

Great. And then, just R&D, you stepped it up. Is there a specific weighting towards the allocation? Is it broad? Any changes there relative to 2016?

Dave Zapico - *AMETEK, Inc. - CEO*

No, no, I think that -- you know our system. I mean, it comes from the bottom up in terms of R&D, and the business managers have to tell us what they want to work on, and show us that it's a good project to fund, and then they'll get funding. But the only thing is, we really focused on taking our R&D dollars, and spending it in growth areas.

So there's a little bit of that, but really it was the same process. It's distributed. It's across all of our businesses. It's a low risk approach. And as I mentioned, we have 24% of sales from new products. So we think that's a healthy level, and we have really good engineering capability throughout the Company.

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

Great. Thanks so much, guys.

Dave Zapico - *AMETEK, Inc. - CEO*

Thank you, Allison.

Operator

Your next question comes from the line of Scott Graham with AO Smith Corporation.

Dave Zapico - *AMETEK, Inc. - CEO*

Scott, did you join AO Smith?

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

Brandy, I think you might have the -- Scott's not on the line.

Operator

Scott, your line is open.

Scott Graham - *Jefferies LLC - Analyst*

Yes, I'm speaking. Can you hear me?

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

Now we can.

Scott Graham - *Jefferies LLC - Analyst*

I have no idea how I'm identified with AO Smith. I'm going to blame it on Rob McCarthy though. (laughter)

Dave Zapico - *AMETEK, Inc. - CEO*

He took all your questions. (laughter)

Scott Graham - *Jefferies LLC - Analyst*

In any case, wow, that was odd. Okay. So two questions for you. The one is on $100 million of cost saves. That's a number that is a little bit higher than what I was thinking. Could you tell me what the procurement piece specifically was in that, and then also give us the 2016 final number there?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, the procurement number was $[60] million for 2017. So $[60] million out of the $100 million. And in --

Scott Graham - *Jefferies LLC - Analyst*

Okay.

Dave Zapico - *AMETEK, Inc. - CEO*

In 2016, the procurement was $60 million also.

Scott Graham - *Jefferies LLC - Analyst*

Great. Now to this same end, Dave, you enter the year with a better organic growth view, with the incremental margins from the last restructuring higher on the upside. We have an accretive acquisition, and you have guidance that captures the expectations. So I'm sitting there wondering, is the $100 million of savings, are we going to see a larger percentage of those savings now being reinvested under Dave Zapico, than in the past those savings were reinvested?

Dave Zapico - *AMETEK, Inc. - CEO*

No, I don't think that's necessarily true. We talked about $[65] million of growth investments, and we feel it's important to properly fund our sales and marketing expenses, and our engineering, but we had a similar amount last year. So I don't think there's a meaningful change in that area. We're going to make sure that we invest for the future, but it's in line with the past.

Scott Graham - *Jefferies LLC - Analyst*

Okay. Is there anything specifically about the spending, however, going forward, that you're changing under sort of under your watch here? Is it maybe a little bit more focused on areas where there has historically been more growth? What type of shifting in that spending, do you envision?

Dave Zapico - *AMETEK, Inc. - CEO*

That's a great question, Scott. I mean, if you want to look at it at the overall level, I think there will be incrementally more spending in sales and marketing expenses, but the same amount of expenditures will be put back in each year. I mean, we'll have healthy cost reductions offsetting the investments, but there's some opportunities in sales and marketing, and we're funding some of them this year, that we think are going to add great returns for AMETEK over the long term, start to benefit from them later this year.

Scott Graham - *Jefferies LLC - Analyst*

And sort of the last add-on to this, is there -- do you envision more spending, perhaps to build out channels in the BRICs countries, perhaps in Europe? Is there anything that you see that you may have an opportunity to put some money down, and to generate sales growth off that?

Dave Zapico - *AMETEK, Inc. - CEO*

That's a great question, Scott. I mean, one of our investments that we're making this year is an expansion in southeast Asia. So that's exactly what we're thinking. We see some opportunities in our UPT business, our ultra precision technology business, our materials analysis division in southeast Asia, and one of the key investments that we're making is expansion in sales and marketing channels in that area.

Scott Graham - *Jefferies LLC - Analyst*

Very good. That's all I had. Thanks.

Dave Zapico - *AMETEK, Inc. - CEO*

Okay. Thank you.

Operator

Your next question comes from the line of Steve Barger with KeyBanc.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Hi. Thanks for getting me in. Just two quick ones on Rauland. Do you see -- are there adjacent products that you're developing to sell onto that platform, or do you see the opportunity as more getting the platform into more facilities?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, it's both. I mean, there are adjacent product areas in the non-acute care facilities. There are adjacent product areas in the existing customer base, and there are adjacent opportunities internationally. So we feel really good about all the avenues of growth.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Are some of those products already under development, or is this something that you've looked at the platform, and you see the opportunity, and now the work starts?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, now Rauland has some of these products under development, and some of the other product areas are more driven by acquisitions than organic development.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Got it. And you said, half the market opportunity could be international, which they haven't really pursued. But do you have a dollar amount of what you see as the total addressable market, for both the healthcare and the educational side?

Dave Zapico - *AMETEK, Inc. - CEO*

Yes, we did the market work, and the existing SAM, the served addressable market was about $500 million. And the TAM, the total addressable market was about $1 billion. We didn't include a lot of the TAM in our discussion, but those are the kind of -- it's a niche market. It's a $500 million served market. They don't participate much internationally, and we feel good about the potential growth opportunities.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Very good. Thank you.

Operator

I would now like to turn the call back over to the speakers for further or closing remarks.

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

Great, thank you. Thanks everyone for joining. And as a reminder, a replay of the call will be available shortly at AMETEK.com and StreetEvents.com. And certainly, I'm available if there's any further questions. Thank you very much.

Operator

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