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CORPORATE PARTICIPANTS

David A. Zapico *AMETEK, Inc. - CEO and Director*

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

William Joseph Burke *AMETEK, Inc. - CFO, EVP and Treasurer*

CONFERENCE CALL PARTICIPANTS

Allison Poliniak-Cusic *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD*

Bhupender Singh Bohra *Jefferies LLC, Research Division - Equity Analyst*

Brett Logan Linzey *Vertical Research Partners, LLC - VP*

Christopher D. Glynn *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

James K. Foung *G. Research, LLC - Research Analyst*

Jeffrey Jacob Reive *RBC Capital Markets, LLC, Research Division - Associate*

Joseph Craig Giordano *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Matt J. Summerville *Alembic Global Advisors - MD and Senior Analyst*

Richard Charles Eastman *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Robert P. McCarthy *Stifel, Nicolaus & Company, Incorporated, Research Division - Senior Analyst*

Robert Scott Graham *BMO Capital Markets Equity Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the AMETEK First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Kevin Coleman, Vice President, Investor Relations. Please begin.

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

Thank you, Latoya. Good morning, and thank you for joining us for AMETEK's First 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 first quarter results were released earlier this morning and are available electronically on market systems and on our website in the Investors section of ametek.com. This call is also being webcasted and can be accessed on our website. The webcast will be archived and made available on our site later today.

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 risks and uncertainties that may affect our future results is contained in AMETEK's filings with the Securities and Exchange Commission. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements. I'll also refer you to the Investors section of ametek.com for a reconciliation of any non-GAAP financial measures used during this call.

We'll begin today's call with prepared remarks by Dave and Bill, and then we'll open it up for questions. I'll now turn the meeting over to Dave.

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Thank you, Kevin, and good morning. AMETEK had an excellent first quarter. We delivered strong sales growth and solid operating results with earnings that were above our guidance range. We continue to generate strong levels of cash flow, which we are successfully deploying on having strategic acquisitions. We are also seeing the benefits of the ongoing growth investments we are making across our businesses and geographies. While these quarterly results reflect the benefits of a modestly improving macro environment, they also reflect the strength of AMETEK's business model and the execution of our growth strategies.

Now on to the financial highlights for the quarter. Please note that any references on this call to full year 2016 financial results will be on an adjusted basis excluding the fourth quarter 2016 adjustments. Sales in the first quarter were $1.01 billion, up 7% versus the first quarter of 2016. Organic sales were up 4%. Acquisitions added 4% and foreign currency was a 1% headwind in the quarter. We are very pleased that we've returned to positive organic growth 1 quarter earlier than we had anticipated, and we are equally encouraged by the broad-based improvements in sales during the quarter.

In addition to the strength in sales, we saw excellent growth in orders in the quarter, with overall orders up 16% and organic orders up 9%. This order strength was also broad-based. Operating income in the quarter was $220.3 million, up 6% from the same period in 2016 and operating income margin was 21.9%. Diluted earnings per share were $0.60, an increase of 5% compared to last year's first quarter of $0.57 per share. Operating cash flow was excellent at $193 million, up 27% over the prior year excluding a pension contribution made in this year's first quarter.

Now turning to the individual operating groups. First, the Electronic Instruments Group. Our Electronic Instruments Group performed very well in the first quarter with strong sales and operating performance. In the quarter, EIG reported sales of $619.8 million, up 9% compared to the same quarter in 2016. Organic sales were up 4%. Acquisitions contributed 6% and foreign currency was a 1% headwind. Organic growth was fairly broad-based with particular strength in many of our process and power businesses. Sales for our oil and gas businesses were roughly flat in the quarter and in line with our expectations. Acquisition growth was also strong as a result of the 5 acquisitions we have completed within EIG over last year including Brookfield, ESP/SurgeX, Nu Instruments, HS Foils and Rauland-Borg. EIG operating income increased 10% to $156.7 million, and operating margins were a very strong 25.3%, up 40 basis points over last year's first quarter.

The Electromechanical Group reported overall sales of $387.9 million, up 3% versus the first quarter of 2016, with organic sales up 4% versus the prior year. The acquisition of Laserage contributed 1% and foreign currency was a 2% headwind for the quarter. We saw solid growth across our Precision Motion Control and Floorcare & Specialty Motors businesses as well stable conditions across our Engineered Materials, Interconnects and Packaging businesses in the quarter. EMG operating margins in the first quarter were $79.4 million with solid operating margins at 20.5%. Overall, we are very pleased with the strong sales, orders and operating results in the first quarter.

In addition, we continue to be pleased with the successful acquisition efforts. In February, we acquired Rauland-Borg, one of the largest acquisitions. And in April, we announced a definitive agreement to acquire MOCON. I will provide a brief overview on each of these businesses.

First, Rauland-Borgs. Rauland is a leading global provider of mission-critical clinical communications in workflow solutions to hospitals, healthcare systems and post-acute care facilities. Rauland also provides communications solutions to educational facilities. We see attractive incremental growth opportunities for Rauland by increasing their market share in international markets, expanding through additional acquisition opportunities and through leveraging our operational excellence capabilities. Rauland has approximately $160 million in sales. The purchase price was $340 million plus the potential contingent payment of $30 million tied to achievement of certain milestones. Integration is going very well, and the Rauland team has hit the ground running and is delivering strong performance. We are very excited about the excellent growth opportunity Rauland provides AMETEK.

On April 17, we announced the definitive merger agreement to acquire only outstanding common stock of MOCON Inc. at a price of $30 per share. The aggregate enterprise value of the transaction is approximately $182 million. MOCON is a leading provider of laboratory and field gas analysis instrumentation to research laboratories, production facilities and quality control departments in food and beverage, pharmaceutical and industrial applications. This is an excellent acquisition for AMETEK as MOCON's products and technologies nicely complement our existing gas analysis instrumentation business. In addition, they provide us with opportunities to expand our gas analysis instrumentation presence in the growing food and packaging -- food and pharmaceutical packaging test market, where MOCON is the global leader. The company is headquartered in Minneapolis, Minnesota. The closing of the transaction is subject to customer closing conditions including the approval of MOCON's shareholders and applicable regulatory approvals. We expect the transaction to close in the second quarter -- late second quarter or early third quarter.

We are very excited about our recent acquisitions as they provide us the opportunity to expand our businesses into new adjacent market segments with strong growth characteristics. These acquisitions also provide us the opportunity to drive meaningful cost synergy through the integration into our global infrastructure and into our operational excellence program. Lastly, these acquisitions will provide us the opportunity to better target and service customers by leveraging products and technologies across all of AMETEK.

One example of the sales leverage can be found in the recent $24 million, multi-year contract award to AMETEK in support of a large automated test equipment program for a U.S. defense contractor. Two of our businesses, VTI Instruments, which we acquired in 2014; and Programmable Power, successfully partnered to help win the award. Both businesses are part of our broader power systems and instruments business and provide test and measurement solutions for a wide range of critical applications. One of the main drivers for the selection was the combined capability of VTI and Programmable Power. Along with this technical capability, the customer has the advantage of a streamlined interface for service, sales support and program management. This is a great example of the sales synergies we've developed across our businesses through our acquisition integration process.

We're seeing great results from our continued investments in research, development and engineering to support our differentiated products in the niche markets they serve. These R&DE investments play a key role in enhancing organic growth. In 2017, we expect to increase our investments in RD&E to approximately $220 million or roughly 5% of sales. This is an increase of approximately 10% over 2016 RD&E spend levels.

Our vitality index remained very strong at 23% of sales in the first quarter. One new product example this year is the Flex4K-GS model high-speed camera from our Vision Research business. The high-speed 35-millimeter 9.4 megapixel camera includes a custom sensor capable of recording 1,000 frames per second at 4K resolution. This camera was designed for demanding application in the scientific research, defense and aerospace industries. The camera's design is critical to the defense industry as its isolated electronics and thermal design allow the camera to operate in environments that range in temperature from minus 20 degrees C to plus 50 degrees C, all while maintaining excellent image quality.

We are also seeing continued great results from the execution of a broad set of operational excellence initiatives. Through these OPEX initiatives, we expect to drive approximately $100 million in savings in 2017. Equally important to these savings is the positive impact these operational excellence tools have on our working capital and cash flow generation. We delivered excellent working capital and generated strong levels of cash flow in the first quarter. This strong cash flow provides us the opportunity to support growth investments back into our businesses while providing significant capital for us to deploy our strategic acquisitions. In addition, we are making excellent progress on expanding and enhancing our operational excellence tools on the sales and marketing processes within our businesses to support and improve organic growth.

Now turning to the outlook for 2017. Please note that our guidance for 2017 does not include the pending MOCON acquisition. We view the first quarter of results as a positive sign that market conditions are improving, and we are encouraged about the organic growth in sales and orders during the quarter. For all of 2017, we expect overall sales will be up mid-single digits on a percentage basis from 2016, with organic sales up low single digits. We have increased our earnings guidance range for 2017 to $2.40 to $2.48 per diluted share from our prior guidance of $2.34 to $2.46, an increase of $0.04 at the midpoint. Our current guidance range implies earnings growth of 4% to 8% over adjusted 2016 earnings. For the second quarter of 2017, we are expecting overall sales to be up mid-single digits with organic sales up low single digits. We are anticipating second quarter diluted earnings per share will be in the range of $0.60 to $0.62.

To summarize, we delivered a very strong quarter with a high quality of earnings and are well positioned for solid earnings growth in 2017. We continue managing our businesses prudently in the short term while also making appropriate investments to support long-term growth. Our talented and experienced management team will continue to leverage our growth strategies to drive growth across our businesses. The company's balance sheet is strong supported by our outstanding cash flow generation. We will use this financial capacity to future performance through niche differentiated acquisitions, which we can significantly improve. We're excited for the year ahead.

Before I turn the call over to Bill, I would like to thank all of our AMETEK employees for their continued exceptional work. We have a tremendously talented and dedicated team and greatly appreciate all their efforts in delivering strong results in the quarter while working to properly position AMETEK for a strong long-term growth.

I will now turn it over to Bill Burke, who will cover some of the financial details for the quarter and the year. Then we'll be glad to take your questions. Bill?

William Joseph Burke - *AMETEK, Inc. - CFO, EVP and Treasurer*

Thank you, Dave. As Dave noted, we had a very strong first quarter with results that exceeded our expectations. Let me provide some financial highlights.

In the first quarter, organic selling expenses were up in line with organic sales growth. General and administrative expenses were up over last year's first quarter due largely to higher compensation expense. The effective tax rate in the first quarter was 27.4% versus last year's first quarter rate of 26.7%, and in line with our expectations. For 2017, we expect our tax rate to be between 27% and 28%. As we have said before, 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 18.4% of sales in the quarter, down from 20.8% in last year's first quarter. Capital expenditures were $13 million for the quarter, and we expect full year capital expenditures to be approximately $75 million. Depreciation and amortization was $43 million in the quarter. For the full year 2017, depreciation and amortization expense is expected to be approximately $180 million.

In the first quarter, we made a $50 million contribution to our U.S. and international-defined benefit pension plans. Excluding this contribution, operating cash flow in the first quarter was excellent at $193 million, up 27% from the first quarter of 2016 and free cash flow was $179 million or 129% of net income. For the full year, excluding the $50 million pension contribution, we expect free cash flow to be approximately 125% of net income.

The primary use of our excellent free cash flow was to support our acquisition strategy, and as Dave mentioned, we have been very active on this front. Following a strong year for acquisitions in 2016, we deployed $340 million on the acquisition of Rauland-Borg in the first quarter, and in April, we announced the merger agreement to acquire MOCON.

Total debt in March 31 was $2.41 billion, up from $2.34 billion at December 31, 2016. Offsetting this debt is cash and cash equivalents of $570 million, resulting in a net debt-to-capital ratio at March 31 of 35%. At the end of the quarter, we had approximately $1.6 billion of cash in existing credit lines to support our growth initiatives.

In summary, we delivered excellent results in the first quarter with a high quality of earnings. We are well positioned to support our growth initiatives with our strong balance sheet and excellent cash flows. Kevin?

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

Great. Thanks, Bill. Latoya, we'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Bhupender Bohra of Jefferies.

Bhupender Singh Bohra - *Jefferies LLC, Research Division - Equity Analyst*

Yes, just wanted to get a sense of as you kept your 2017 organic sales guidance up low single digits, which is kind of unchanged, how are you thinking about the oil and gas and metals businesses here? If you -- the previous expedition was kind of flat for the year, any change to that guidance or expectations as we go into the remainder of the year?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right, the oil and gas market played out as expected. It was roughly flat in the first quarter. The interesting point and the positive point is orders inflected up mid-single digits. So while we were flat, orders inflected up to mid-single digits and that was driven by upstream and some project business in the Middle East. So we continue to expect roughly flat sales for oil and gas for the year. We really like the trends we're seeing, but we want to remain a bit conservative at this point. And we realized we're about 20% exposed to the upstream and 80% to the mid and downstream. So we're expecting the mid and upstream -- the mid and downstream to inflect up later in the year or next year, but we did see positive order results in the first quarter related to the project business in the Middle East. So that played out as expected and flat in the first quarter, but we're positive on the orders inflecting up to mid-single digits. The metals story is pretty much the same, played out as expected in the first quarter. Like oil and gas, orders were up mid-single digits, so that's positive. We continue to expect roughly flat sales for our EMIP business for the year. But we like the trends we're seeing, but we want to maintain a bit of conservatism at this point.

Bhupender Singh Bohra - *Jefferies LLC, Research Division - Equity Analyst*

Okay, got it. Just one more follow-up on here on -- if I'm looking at the PMI, the export indexes, that's been pretty strong over the last few months here despite the strength in the U.S. dollar. Now can you talk about like AMETEK exports market like where are you seeing strengths, especially region-wise, and maybe some color from product-wise perspective?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes, 52% of our sales are international, and we saw a strong international growth in the quarter. Europe was up 7% organically, so a definite improvement from the recent trends. The Process businesses and our Dunkermotoren business were particularly strong, and Asia was up double digits organically driven by strength in our analytical instruments businesses while China was up high-single digits in sales and Japan was also strong. It was up 30% tied to the Japanese government fiscal year-end. So we saw a really strong growth in Asia, a strong growth in Europe. So we're seeing a broad-based international growth.

Bhupender Singh Bohra - *Jefferies LLC, Research Division - Equity Analyst*

Okay, and can you point to like what was the growth in the U.S. here or North America?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. Sure. In the U.S., we saw a continued improvement from prior quarters. You remember, we were -- saw sequential improvement in the U.S., and in Q1, it was flat on sales. So U.S. was flat, but the orders growth was solid in the U.S. It was up mid-single digits. So across the board in all geographies, recent trends in all regions were up, and we feel really good about it.

Operator

The next question is from Matt Summerville of Alembic Global.

Matt J. Summerville - *Alembic Global Advisors - MD and Senior Analyst*

Just a question about mix. Can you talk about why, if I'm calculating it correctly, incremental margins on a 4% organic increase were only 19% in the quarter. I would imagine there are some acquisition-related items, whether it'd be inventory step-up for Rauland-Borg, some of the diligence cost for MOCON. So can you flesh that all out?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. Right, Matt. If you look at Q1, actually, our operating income margins were up 20 basis points on a core basis. And we had 40 basis points of margin dilution from the acquisitions. So actually, the year-over-year Q1 incrementals were a healthy 32%. So we feel real good about that.

Matt J. Summerville - *Alembic Global Advisors - MD and Senior Analyst*

Got it. And then you mentioned I think, Dave, in your prepared remarks, you anticipate yielding $100 million worth of cost savings this year. Can you maybe break that down into the various buckets to get you there? And where you could see upside to that number as you progress throughout the remainder of the year?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right. Yes. We're off to a good start in our cost savings around plan. $60 million of that cost savings come from material cost reductions and $40 million comes from other than material cost reductions and about $16 million of that comes from the realignment charges that we took in Q4, and we feel that we had an excellent plan to take costs out of the business, to make the business more efficient, and we're right on plan in executing it.

Operator

The next question is from Brett Linzey of Vertical Research Partners.

Brett Logan Linzey - *Vertical Research Partners, LLC - VP*

Just wanted to touch on price cost. Could you maybe just talk about price specifically in the quarter? And if you could maybe just separate the metals business for some of the core industrial businesses? And then on the cost side, did you see any incentive comp accrual or anything moving against that in the quarter? And then what are the expectations for the full year?

William Joseph Burke - *AMETEK, Inc. - CFO, EVP and Treasurer*

Yes, great questions. In the -- we saw incentive comp accrual or G&A was up a bit in the quarter. And you recall that in the last call, we highlighted lower incentive comp payouts in 2016 related to our performance, and we reset that for the year's plan. But now we're a bit ahead of our plan, so we have some additional headwinds there. So it was a $0.05 headwind prior -- for the year prior to the quarter, and now it's a bit more and you see that working through the G&A line with the increase in G&A was majority -- vast majority was driven by compensation expense. And the other question was related to price. Price was about 1% in the quarter, and that's across all of AMETEK. And our cost -- our total inflation was about 1%.

So we offset total inflation with price. And for the year, we're expecting to increase the price a little bit, we have about 1.5 points of price in our plan. And we think inflation may increase a bit through the year, so we want to stay ahead of that but we're not seeing it right now. And in the first quarter, price was 1 point and then offset inflation.

Brett Logan Linzey - *Vertical Research Partners, LLC - VP*

Okay, great. And then if we just aggregate the 2017 acquisitions you've made and as well as the 2016 deals with the stub contribution this year, what's the net EPS accretion you're assuming for this year? And then I guess as we look into 2018 and some of the onetime PP&E dates, what's the run rate accretion for 2018 or the first full year?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. I think working in the number for 2017 is a $0.04 or $0.05 number. And then 2018, it'll be a bit more than that, but we're not in 2018 yet.

Operator

The next question is from Robert McCarthy of Stifel.

Robert P. McCarthy - *Stifel, Nicolaus & Company, Incorporated, Research Division - Senior Analyst*

Maybe we can just first just talk about the kind of the state of play of the balance sheet, the capital deployment environment. I mean there has been some articles that would suggest given kind of this looming kind of regulatory and political uncertainty, that actually M&A slowed. And obviously, valuations don't help that because valuations continue to go up and up. And in an uncertain environment, the bid-ask can be distorted. But could you talk about your ability over the next 12 to 18 months, 12 to 24 months to kind of live up to your potential in terms of capital deployment and then talk about some of the opportunities you see?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. Our balance sheet remains strong. We currently have $1 billion-plus in firepower after MOCON, and the pipeline remains very strong and active. And as you know, with our niche strategy, we have a dedicated team of M&A and deal sourcing professionals, who work closely with our businesses to manage and cultivate the deal pipeline. So at AMETEK, we buy in up cycles, we buy in down cycles, we buy in uncertain environments and we're very active. And right now, our pipeline remains very strong and like to deploy more capital this year. We're off to a great start with the Rauland deal and MOCON. If that deal closes as we expect, we'll deploy $522 million in the first 2 quarters of the year, so we're well on our way in our plan of deploying our free cash flow on value-enhancing acquisitions.

Robert P. McCarthy - *Stifel, Nicolaus & Company, Incorporated, Research Division - Senior Analyst*

Great. And then as most people saw my work now that I just steal, so I'm going to steal Scott Graham's kind of state of the end markets and segments from him, all right? Can you go through that?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Sure. I'll start with Aerospace. Our overall Aerospace sales were down slightly in the quarter as we had expected. Strength in our commercial OEM business and business to regional jet businesses were offset by a lower sales in our military businesses due to the timing of program shipments. For all of 2017, we continue to expect overall Aerospace business to be up low single to mid-single digits with growth across each of our segments. Moving to process. Our Process businesses performed very well in the quarter with strong sales and orders growth. Overall, sales were up midteens driven by mid-single-digit organic growth and the contributions from the acquisitions of Rauland-Borg and Nu Instruments. Both sales and orders growth in the quarter were broad-based across most of our Process businesses. Sales for our oil and gas business, as we already mentioned, were flat in the quarter with solid mid-single-digit orders growth. While we're encouraged by the solid growth in the quarter, we continue to expect organic sales for process to be up low single digits for the full year. Moving to Power & Industrial, overall sales for our Power & Industrial businesses were up mid-single digits in the quarter, driven by contributions from the acquisitions of Brookfield Engineering, ESP/SurgeX and from low single-digit organic growth. Overall organic growth in the Power business was offset by weaker conditions across our heavy truck business, and for all of 2017, we now expect organic sales for Power & Industrial to be at low single digits. Differentiating EMG businesses, organic sales were up low single digits in the quarter, driven by solid growth in our Precision Motion Control business. Sales for our EMIP business, as we mentioned prior, were flat but we had solid mid-single-digit order growth. For all of 2017, we continue to expect organic sales for all of differentiated EMG to be up low single digits versus 2016. And finally, our Floorcare & Specialty Motors business, organic sales in Floorcare & Specialty Motors were up mid-single digits in the quarter, and for 2017, we now expect sales for this business to be up low to mid-single digits organically.

Operator

The next question is from Deane Dray of RBC Capital Markets.

Jeffrey Jacob Reive - *RBC Capital Markets, LLC, Research Division - Associate*

This is Jeffrey Reive on for Deane Dray. I just had a question on your Rauland-Borg acquisition, I know it's still pretty early, but what kind of strides have been made for international growth? I know that was one of the big thesis behind adding value at AMETEK.

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right. We've made a lot of progress at Rauland in integrating the business into AMETEK. They came out of the gate strong, very active in the integration processes. We have teams working on international growth. We have some Kaizen events scheduled later this quarter to get after some of it. So everything that we see here, we're confident than ever that we're going to be able to increase international sales as part of our investment thesis in Rauland.

Jeffrey Jacob Reive - *RBC Capital Markets, LLC, Research Division - Associate*

Okay, that's great. And then just a quick update on just the trend of order flow. Can you just kind of discuss how it progressed through the quarter? And now that we're into May, kind of what's the trend has been across AMETEK as a whole?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

In Q1, January started off much as we anticipated. And then in February and March, it trended upward, and it was stronger than we anticipated and it was broad-based, as I mentioned before. And we just finished April, and April orders are right in line with what we thought it'd be to deliver our Q2 plan.

Operator

The next question is from Christopher Glynn of Oppenheimer.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

The free cash flow guidance, 125% conversion, excluding the contribution, that's a little bit of a higher conversion rate than you've guided in the past, particularly at this time of year. Just wondering what's behind that, if that's a timing thing for this year? Or is that kind of the steady-state go forward after the past year or 2 of incremental deal flow?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes, I think a steady-state over multiple years, we still guided to $0.120 -- 120%. But you really have a couple of things. One, the working capital performance was absolutely outstanding in the business and our free cash flow conversion was nearly 130% in Q1. So with that, the confidence of that progress we were able to increase the 2017 expectations to 125% conversion. And again, the operations are executing perfectly. They're converting the orders of sales and they're executing on the working capital management, so we're really pleased with that.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And just looking for a little disaggregation of orders in terms of by segment growth and the overall book-to-bill.

William Joseph Burke - *AMETEK, Inc. - CFO, EVP and Treasurer*

Sure. EIG organic in Q1 was 10%. EMG organic in Q1 was 9% and Q1 book-to-bill was 1.11%.

Operator

The next question is from Allison Poliniak of Wells Fargo.

Allison Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Just want to get back to the orders. Just trying to reconcile -- and I understand you want to be a conservative. Is there a timing in the orders? Are they more for the back half of the year? Do some of them get pushed into '18? Is there something that's giving you some concern on those trends that you didn't want to raise organic yet?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Great question. There are some of the orders that are multi-year orders. The $24 million order with a government defense contractor will ship in 2017 and 2018. So we have a little bit of that in the quarter. But fundamentally, we definitely performed better than we expected in Q1. We saw stronger sales, orders and earnings. We're very pleased with the performance and I'm confident for the rest of the year, but it was one good quarter. And remember, we're just coming out of a 2-year industrial recession. So it feels prudent to be a bit conservative at this point of the year just so we can make sure that our great start is sustainable, and we don't get ahead of ourselves.

Allison Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

That's great. And then just touching on incrementals, 32% in Q1. Is that a sustainable level? Should we look to and inflect upwards in the back half of the year? How should we think about those?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. Great. We gave guidance, that core incrementals would be up 20 basis points to 60 basis points for 2017. So we're still very comfortable with that range.

Operator

The next question is from Scott Graham of BMO Capital.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Rob, thank you for asking my question. One less thing to worry about. The 2 questions that I have are as you exited 2015, you were really on a bit of an acquisition tear, I guess a little bit like you are now. But if my tally is correct, I think over a 4-year period, you added a substantial amount of new sales. And further, if my tally is correct, I think 40% of the company was kind of new at the end of, let's call it, '15, And the businesses that you added were all slightly higher organic growth and AMETEK-proper at the time of acquisitions. So that didn't really show up in the industrial recession, I think, very little for many companies showed up. But I guess my question is a sort of dovetail into what is now a 5% RD&E level. Are those expenditures going more toward those faster growth acquisitions to kind of reinvigorate them?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Our process here and the way we manage our business, the R&D investments are done by the business units and they'll flow up to the corporate office and we'll review them at our budgets and our strat plans and we do that quite often. And there's certainly a filter to apply those into higher growth opportunities that we have. But in general, we've been a very consistent spender over many, many years and we plan to do that because we think it's key to our differentiation, it's key to keep our margins and we think we have excellent product portfolios, fresh, updated product portfolios. And as we talked about earlier, our vitality index was very solid in the quarter. So the R&D investments are strong. We're going up 10% this year and I do think they're going to contribute to stronger organic growth.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

So would it be appropriate to sort of paraphrase what you just said as saying that the faster growth acquisitions through the end of '15 that they're not getting extra funds per se, but in fact, you expect those businesses to return to their prior growth rates naturally?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. I believe that they will return to their natural growth rate as we exit the industrial recession. So I think what we saw in Q1, with the 4% organic growth, the 9% orders growth is one thing that we can look at to get some confidence on that end. But yes, I'm really confident in our portfolio. I'm confident in the way we're managing our portfolio, and we're focused on improving organic growth. As you know, we have an initiative to improve our organic growth, and part of that focus is to improve our customer-facing capability, really make it as strong as our operational capability. So we're rolling out best practices across the company. We're working on a lot of tools. So that, combined with our R&D investments, is going to take some time but it gives me confidence that we have the potential to grow at an organic rate that's a point or 2 higher than we've grown in the past cycle.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Here's my follow-up, Dave. The Power business is certainly one of your larger platforms now. Could you kind of unbundle for us how Power did by business, let's say, generation versus TND versus UPS?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Sure. The UPS business is the biggest part of the business. It had strong orders growth globally. The test and measurement part of it is -- had the substantial growth that we talked about because it was the business that booked the $24 million order that I mentioned, and our generation business was in line with what we expected to be. So in this quarter, we saw solid results from our UPS business, our uninterruptible Power business, but the outperformer in orders was really the test and measurement business.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Your TND business was up as well or no?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Our TND business was up, yes. But the Power & Industrial segment is the one place that we raised -- one of the places we raised the organic growth of below single digits and it was because of the orders' performance in Q1.

Operator

The next question is from Andrew Obin of Bank of America.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Just a question. We've been getting a lot of questions from investors on Aerospace. Widebody build is slowing and people are getting concerned maybe about narrowbody. Could you just tell us, a, just to remind us what the exposure is in your commercial Aerospace business? And what kind of visibility you guys have a head on? And what are you seeing?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right, I feel really good about our Aerospace business, and we've called that up low to mid-single digits for the year. And if you remember, 35% of AMETEK's business is in the military market. So that's not really exposed to the widebody dynamic that's going on right now. And in the military market, we're quoting a lot of things and we have some program and timing issues because we're not sure when the U.S. government's going to spend money, but we think there's definitely more upside than downside on that part of Aerospace, and we think that's definitely will be up for the year. When you think about our promotional business, that's about 25% of our Aerospace business. So military, 35%; commercial, 25%. About half of that is aftermarket, proprietary parts that we sell directly to airlines and the other half of that is OEM, commercial OEM. Now the commercial OEM market is we're benefiting from the fact that over the past 10 years, we won substantial content on Airbus platforms. So with the A350, with the A320neo, those programs are allowing us to grow faster than the market and that's going to continue for a while. Then you go to the next segment, 30% of Aerospace is our third-party MRO business. That will be up mid-single digits for the year. Feel really good about what's going on with that business, and the smallest part of our business, our business and regional jet markets, that's about 10% of our Aerospace exposure. That had a bad year last year. We were down substantially but we won some new programs, and we had an uptick in Q1. So all of our Aerospace segments, we're saying they're going to grow this year, and we feel real good about that segment.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

This is very useful. And just on energy, you did highlight that things are getting better. Can you give us a little bit more color by region? And also, if you have any view, if you've seen any signs of improvement in offshore?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right. By region, we saw the North American MRO business strong and the upstream business strong. And the one thing that stood out, for me, in the quarter was the Middle East was also strong for mid and downstream businesses. But as you know, this is a global business for us, about 1/3 of it in the U.S., 2/3 of it international, but those will be the things that stood out, North America for upstream, really MRO across the board and the strong performance in the Middle East where we've made investments over the past couple of years and now we're benefiting from those investments.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

And just to follow-up. First on just follow-up on Middle East and my understanding is that pretty much everything -- Saudi is still maybe weak but everything outside of Saudi is getting better. Is that a fair description?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

We are seeing regions outside of Saudi getting better but some of our projects are within Saudi so that's not (inaudible).

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Sorry for taking time but just a follow-up on offshore, any signs of life there?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Quotations. We're quoting some things in the offshore market, but that's more longer cycle.

Operator

The next question is from Jim Foung of Gabelli and Company.

James K. Foung - *G. Research, LLC - Research Analyst*

Dave, maybe you could just talk a little bit about MOCON, where you are in terms of meeting the regulatory issues and maybe you could just talk a little bit about also the market opportunities, how big the market is for MOCON and the tangent markets you'd like to get into.

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Right, we're very pleased to sign a definitive agreement to acquire MOCON. It's an outstanding company with an excellent management team and they have a very strong niche position in gas analysis instrumentation that served the food and beverage and pharma market. The company is a leader in a couple of niches, the permeation testing niche and the food and pharma package testing. They have strong growth profile with mid-single-digit grower. It's typically been a noncyclical market. There's a solid mix of aftermarket sales at about 35% of the business, diverse blue-chip customer base, smaller competitors. They're the leader in their niche markets. It's an ideal company that checks a lot of the acquisition criteria that we have, and so we're very comfortable with the deal and it's going to be a win-win for both companies' shareholders. We signed the agreement on April 16. We expect to close in late Q2 and early Q3, and we'll need -- the closing is conditional on MOCON shareholder approval, antitrust approval and all of the filings for those have occurred. So we're right on schedule there and we're very pleased and we think it's beneficial to both companies' shareholders.

James K. Foung - *G. Research, LLC - Research Analyst*

Great. And then you talked a little bit about Rauland-Borg a little bit and then you have some growth opportunities there. Will we see more cost first as you embark on the growth opportunity before we see the benefits from those initiatives?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

I think our operational excellence will certainly occur soon in regard to Rauland. We're already working on that. And we saw with the family-owned business, they weren't really focused on acquisitions and international expansion. So we already started the deal pipeline for Rauland, and with international expansion, that's going to take some time. So you could see a scenario we get the benefits from OPEX initially. We get to grow the international business and then we can fill in what Rauland needs with some acquisitions. So it's a lot of value enhancer for -- in AMETEK and we're very, very pleased on the business. The team hit the ground running, and we're very pleased with the performance of the team.

Operator

The next question is from Joe Giordano of Cowen.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Just wanted to ask quick on you mentioned heavy truck earlier is still weak. Are you seeing any inflection in your businesses, the data from some of those market has start to look decently better again?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. Heavy trucks is a small part of our Power & Industrial business. It's only about 2% of AMETEK. And we went into the year with a pretty negative view on the market, and we were down in sales in Q1. But the recent data shows the heavy truck market inflecting up and what was the substantial decline in the market, now the market is predicting an order rate that's closer to flat or down just a bit. So we're optimistic that, that's going to be better than as we have planned, but we're keeping our current thoughts in the market or forecast on the market unchanged.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

And then when I look at your total, your organic outlook and your cost-out outlook, it just feels like the guide is -- is it fair to say it's pretty modest in light of what you're seeing incrementally better on the top line and on orders in $100 million in cost-out. Is that a fair assessment?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

I wouldn't say it's modest. It's a bit conservative but there's some -- we have to execute to make those numbers. I mean we're coming out of a 2-year industrial recession. You've got to make that $100 million of cost-out to happen. We're good at that, but they've got to happen. We had 1 quarter of organic growth. So we're pleased with stronger sales, orders and EPS and we're a bit conservative. We don't want to get ahead of ourselves, but we have to work to get the number.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

I feel like one of the things that people are a bit maybe, and this is not an AMETEK-specific thing, you mentioned core incrementals are about 30%, which is nice. I think some are concerned on a lot of the cost-out measures we've seen companies take over the last couple of years mainly to some cost having to come back as you start to see volume, so maybe a little bit less fixed cost pickup than people initially thought. How would you respond to something like that?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes. I think we're going to get core incremental growth, and we're also going to invest in our businesses for the long term. I think the AMETEK model of our strong operational excellence capabilities and our pricing power allows us to do both. So I really don't see a lack of cost reduction opportunities and I see us being able to execute our cost reduction while also investing in our business and growing. So I don't really see a situation where we have to put a bunch of costs back into the business to execute the plan. I mean we already communicated that we have a healthy investment level this year, $65 million of growth investments. So we're doing the right things for the business in the long term, but the cost-out in our model is something that's built into our culture. It's built into our strong operating managers and I don't -- I see that going off for some time.

Operator

And the next question is from Richard Eastman of Robert W. Baird.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Still a quick question, Dave. When I look at the second quarter guide, just back to the incrementals here. The second quarter guide kind of implies 0 incremental, in other words, kind of at the corporate average EBIT. And is that -- are we picking up there the maybe conservatism on the sales side, not driving a lot of EPS?

David A. Zapico - *AMETEK, Inc. - CEO and Director*

I think when you look at Q2, the one thing that stood out to me, a lot of the growth is coming from acquisitions. So we had Rauland for 7 weeks and in Q1, you have a full quarter of Rauland. And if you look at from Q1 to Q2, the core sales are -- they're roughly flattish, and we had a little bit of a more difficult organic growth comp in Q2. They weren't good last year, but it was a little bit better in Q2 than Q1. So it's a bit conservative but when we worked through the numbers, it's a good number.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, all right. Fair enough. And then also, I may not have caught this correctly, but did you mention that the cost-driven motors business in EMG now look like it might be up low-single digits? Is that...

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes, I did. We changed that to be up low to mid-single digits organically, so that was a change from the prior guidance and that business is just performing well. And we had a good first quarter, so I was prudent to take that one up because we have very strong backlog and visibility.

Richard Charles Eastman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And any big share gain there, or just large order, anything that gives you that visibility? Because that business can be a little tough to predict as the year goes on but...

David A. Zapico - *AMETEK, Inc. - CEO and Director*

Yes, it can be tough to predict. And we've done a good job of migrating to better opportunities, and we have a solid backlog.

Operator

There are no further questions at this time. I'd like to turn the call back over to Kevin Coleman for closing remarks.

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

Great. Thank you, Latoya. Thanks, everyone, for joining us today. As a reminder, a replay of the webcast can be accessed on our website at ametek.com. Thank you so much.

Operator

Ladies and gentlemen. This concludes today's conference. You may now disconnect. Good day.
