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AME - Q1 2018 Ametek Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2018 / 12:30PM GMT



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2018 AMETEK Inc. Earnings Conference Call. (Operator Instructions) As a reminder, today's conference may be recorded. I'd now like to turn the call over to Mr. Kevin Coleman, Vice President of Investor Relations. Sir, you may begin.

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

Thank you, Victor. Good morning, and thank you for joining us for AMETEK's first quarter earnings conference call. With me this morning are Dave Zapico, Chairman and 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 start, 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 AMETEK's filings with the SEC. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements.

Please refer to the Investors section of ametek.com for a reconciliation of any non-GAAP financial measures used during this call. We'll begin today 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. - Chairman & CEO

Thank you, Kevin, and good morning, everyone. AMETEK had an outstanding first quarter. We generated record levels of sales and awards backed by strong broad-based organic growth and significant contributions from recent acquisitions. We delivered tremendous operating performance resulting in record level operating income, impressive margin expansion, strong cash flow generation and robust earnings per share growth.



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We announced our second acquisition of 2018 this morning, continuing our -- to successfully deploy capital on strategic acquisitions. And lastly, given our strong first quarter results, and the positive backlog in ordered momentum, we raised our full year 2018 sales and earning guidance. So overall, an excellent high quality quarter.

Now on to the financial highlights of the quarter. Total sales in the first quarter were a record \$1.17 billion, up 16% compared to the first quarter of 2017. Organic sales growth was exceptional, up 8% in the quarter. Recent acquisitions added 5% and foreign currency was a 3% benefit. We continue to see broad-based organic growth across each of our businesses in key geographies. Our businesses are capitalizing on our leading niche positions in attractive markets while also benefiting from our initiatives to improve organic growth.

We also continue to see sustained or robust orders growth. Overall, orders were excellent, up 20% in the quarter, with organic orders up 12%. As a result, we ended the year with a record backlog of \$1.6 billion, providing us with excellent visibility.

Operating income was a record at \$258.2 million in the first quarter, up 19% compared to the first quarter in 2017. Reported operating income margins were 22%, up 40 basis points over last year's first quarter. On a core basis, operating margins were a very strong 80 basis points versus the prior year, reflecting the outstanding operating leverage we generate from strong organic sales growth. Diluted earnings per share in the first quarter were \$0.78, up an impressive 30% compared to the \$0.60 per share reported in the same quarter of 2017.

Now turning to the individual operating groups. First, the Electronic Instruments Group. Our EIG businesses are performing exceptionally well across our key market segments. First quarter sales for EIG were \$716.4 million, up 16% versus the prior year. Organic sales were strong, up 6% and the acquisitions of Rauland, MOCON and Arizona Instrument contributed another 6%. Foreign currency was up 3-point tailwind for the quarter. While organic growth was broad-based, we saw particular strength in our process and analytical instruments and Ultra Precision Technologies divisions during the quarter.

EIG's first quarter operating income was \$183.4 million, up 18% over the first quarter of 2017. And reported operating income margins increased 50 basis points to 25.6%. On a core basis, EIG margins were up 90 basis points over the prior year.

The Electromechanical Group also had a fantastic quarter. EMG sales for the quarter were a record \$456.2 million, up 18% over the same quarter in 2017. Organic sales increased an impressive 11% with continued broad-based strength across our Automation, Engineered Materials and Thermal Management System businesses. Recently acquired FMH Aerospace contributed an additional 2%, and foreign currency provided a 4-point tailwind. EMG's operating income in the quarter was \$91 million, an increase of 16% compared to the same quarter of 2017. Reported operating margins for the quarter were strong at 19.9%, with core margins up 30 basis points versus the first quarter of 2017.

To summarize, first quarter results were superb. Our colleagues continue to drive incredible performance for AMETEK's operating model and the execution of our Four Growth Strategies. We remain focused on investing in our businesses and our people to best position us for sustained long-term success.

Before I discuss our updated outlook for 2018, let me highlight some of the achievements we have experienced from our growth strategies. First, acquisitions. We're off to a good start in 2018 with 2 acquisitions completed so far. In January, we completed the acquisition of FMH Aerospace, a leading provider of highly engineered and differentiated components for use in the aerospace, defense and space markets. We are very excited about the acquisition of FMH as it expands our solution offerings across a wide range of attractive aerospace and defense platforms.

We are also very excited to announce the acquisition of SoundCom Corporation, and we welcome the team to AMETEK. SoundCom, which is headquartered in Cleveland, Ohio, designs, integrates and services clinical workflow and communication systems for end users in the health care, government and educational markets. SoundCom also serves as a value-added reseller for our recently acquired Rauland business in Ohio and Michigan, joining the existing value-added resellers Rauland currently owns in Florida and California.

Rauland, which we acquired in the first quarter of 2017, is a leading global provider of mission-critical clinical communication systems and workflow solutions to hospitals, health care systems and educational facilities. Rauland was the foundation of a new strategic growth platform in the attractive health care solutions market. It was an attractive acquisition for AMETEK, given the strong growth dynamics across the health care market it serves



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as well as the opportunity to expand the Rauland platform through acquisitions. SoundCom is an excellent addition to this platform as it expands Rauland's value-added reseller footprint in the high-density health care and educational markets in Ohio and Michigan. Value-added resellers, such as SoundCom, are key in the delivery and service of complex electronic workflow and communication systems developed by Rauland. SoundCom has annual sales of approximately \$40 million.

With the acquisition of SoundCom, we have now deployed approximately \$275 million on 2 acquisitions thus far in 2018. And since the beginning of 2017, we deployed approximately \$835 million on 5 acquisitions.

Acquisitions remain the top priority for deployment of our free cash flow. Our deal pipeline remains very healthy. And AMETEK's tremendous cash flow generation and balance sheet strength, plus the additional flexibility provided by tax reform, we are very well positioned to strategically pursue attractive acquisition candidates.

We also remain well positioned to invest in organic growth through new products and solutions, front-end sales and service optimization and production efficiencies. Our businesses continue to unveil new products and solutions that are solving our customer's greatest challenges. For example, our Zygo business, part of AMETEK's Ultra Precision Technologies division, launched 2 next-generation 3D optical profilers during the first quarter. The Nexview NX2 and NewView 9000 3D optical profiling instruments provide highly precise noncontact measurement of a surface area across a wide range of markets and applications, including consumer electronics, automotive, semiconductor, medical, nanotechnology and material science. These latest offerings provide significant improvements in both performance and functionality, enabling nondestructive and precise 3D measurement, including (inaudible), roughness, film thickness and surface form on a broad range of sample types. New products such as these are key drivers to sustained organic growth and the long-term success of AMETEK.

One way we measure the success of our new product development efforts is through our vitality index, which measures the level of sales generated from new products and solutions introduced within the last 3 years. In the first quarter, our vitality index was excellent at 25%, reflecting the excellent work of our research, development and engineering teams. In 2018, we expect to increase our RD&E investment by 6% year-over-year to approximately \$235 million.

Additionally, our businesses continue to drive impressive productivity improvements and cost reduction through our operational excellence initiatives. In 2018, we anticipate OpEx savings of approximately \$85 million, with the majority of these savings being generated by global sourcing and strategic procurement activities. Our global sourcing team also does an excellent job helping us manage potential inflationary impacts across our supply chain and through the identification and qualification of alternative sources of supply and through active management of our supplier base. We are closely monitoring these potential inflationary factors and are comfortable we will be able to more than offset inflation with price increases in 2018.

Finally, we're seeing significant expansion into adjacent markets around the globe. International sales were 52% of AMETEK's total sales, with strong organic growth across all key geographical regions. Specifically, we saw excellent broad-based organic growth in Asia as our businesses continue to expand their presence in attractive growth regions.

With that said, let me touch on our updated outlook for 2018. For the full year, we now anticipate overall sales to be up low double digits, with organic sales up mid-single digits. Earnings per share for 2018 are now expected to be in the range of \$3.06 to \$3.12, up 17% to 20% from 2017 adjusted earnings per diluted share of \$2.61. This is an increase from our initial guidance range of \$2.95 to \$3.05.

For the second quarter, overall sales are projected to be up approximately 10%, with organic sales up mid-single digits compared to the second quarter of 2017. Diluted earnings per share in the second quarter are expected to be in the range of \$0.76 to \$0.78, up 17% to 20% compared to the second quarter of 2017.

In summary, AMETEK started off the year with outstanding performance. Our world-class teams and their businesses have positioned the company for another record year. AMETEK's foundation is strong, and we are focused on delivering long-term success through the execution of our Four Growth Strategies.



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

William Joseph Burke - AMETEK, Inc. - Executive VP & CFO

Thank you, Dave. As Dave noted, AMETEK started the year with an outstanding quarter, generating record results and a high quality of earnings. Let me provide some additional financial highlights.

In the first quarter, core selling expenses were up in line with core sales growth. General and administrative expenses in the first quarter were flat compared to 2017 and as a percentage of sales were 1.4% down from last year's first quarter level of 1.6% of sales.

The effective tax rate for the first quarter was 23.1% versus last year's rate of 27.4% and in line with our expectations. The year-over-year reduction in our effective tax rate was due to the benefits of tax reform. We continue to estimate our 2018 tax rate to be approximately 23%. And as we've stated in the past, actual quarterly rates can differ dramatically, either positively or negatively, from this full year rate.

Working capital was excellent at 16.8% of sales in the first quarter, reflecting the outstanding performance of our businesses. Capital expenditures were \$12 million for the quarter and we expect full year capital expenditures to be approximately \$85 million or 1.8% of sales.

Depreciation and amortization for the quarter was \$49 million, and for the full year, we expect D&A to be approximately \$200 million.

First quarter operating cash flow was \$177 million, up 25% compared to the first quarter of 2017 and free cash flow in the quarter was \$165 million, up 28% over the prior year. Free cash flow conversion was 91% in the quarter, slightly better than our expectations, and we continue to expect full -- excellent full year free cash flow conversion of 120% of net income.

As Dave mentioned, we've been very active on the acquisition front, deploying approximately \$275 million on the acquisitions of FMH Aerospace and SoundCom thus far in 2018.

Total debt at March 31 was \$2.21 billion, up from \$2.17 billion at the end of 2017. Offsetting this debt is cash and cash equivalents of \$557 million, resulting in a net debt-to-capital ratio at March 31, up 28.2%.

Following the acquisitions of FMH Aerospace and SoundCom, we have more than \$1.5 billion of cash in existing credit facilities to support our growth initiatives.

In summary our businesses performed exceptionally well in the first quarter, delivering record level results and high quality of earnings. We remain 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. Thank you, Bill. Victor, could we please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Scott Graham from BMO Capital Markets.



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Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

I wanted to -- I know you said, Dave, that you expect price cost to be positive on a full year basis. Could you maybe be specific with us for at least the quarter and sort of what price was versus what inflation was?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Sure, Scott. In Q1, we achieved price of about 1.4% and total inflation was about 1.2%. We were able to more than offset inflationary cost with increased pricing. And I think the results speak to our difference -- the differentiated nature of our product portfolio, our leadership position, our niche markets and our outstanding supply chain capability, and we expect that to continue for the year and we'll be able to offset inflation with price.

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

Got you. However, those numbers should both drift up a little bit after what we saw with commodities inflation in the first quarter?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. I think you could see them both going up through the course of the year.

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

Great. Also, could you sort of do your typical by-division synopsis of what's happening and what you expect?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Sure, Scott. I'll start with the Process business. Our Process businesses had an outstanding start to the year. Overall, sales were up 20%. High-single digit organic growth, and contributions from the Rauland and MOCON acquisition were the key drivers. Continuing to trend from last year, we saw strong broad-based organic growth in the quarter but particularly solid growth across our Zygo, Creaform, TMC, Precitech and energy in process instrumentation businesses. And for all of 2018, we continue to expect broad-based trend with our organic sales up mid-single digits. Overall, Aerospace sales were up low teens in the quarter, driven by organic -- driven by contributions from recently acquired FMH and mid-single digit organic growth. Growth remains strong across our military businesses as we are seeing solid demand both in the U.S. and internationally and we're also seeing continued solid growth across our commercial aerospace and aftermarket businesses. They had a very good quarter. For all of 2018, we continue to expect organic sales growth for Aerospace businesses to be up mid-single digits plus solid growth across each market segments. Our Power & Industrial businesses saw strong growth in the first quarter with overall sales up 10% driven by mid-single digit organic growth and contributions from recently acquired Arizona Instrument. Growth was solid in both our Power & Industrial segments with notable strength across our power test and measurement business including Programmable Power and VTI. And for 2018, we now expect Power & Industrial organic sales to be up mid-single digits. And finally, our automated and engineered solutions business had an excellent start to the year with low double-digit organic sales growth in the first quarter. We continue to see strong sales and orders trends across both our automation businesses and our engineered solutions businesses. In 2018, we now expect mid- to high single digit organic sales growth for all of our automated and engineered solutions businesses. That's around the horn, Scott.

Operator

And our next question comes on the line of Christopher Glynn from Oppenheimer.



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

So SoundCom sounds interesting. Sounds like more of a services businesses than we're used to. So just curious how much of that is tied to Rauland and maybe a little deeper dive on how you feel the bolt-on runway in the communication systems arena.

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

Right. Right. SoundCom is a value-added reseller for Rauland and they actually represent about 5% of Rauland sales and they're in high density health care markets of Ohio and Michigan, and Rauland -- are very important to the Rauland model. So they've had a long-term business relationship and Rauland has bars in some regions that they owned. I mentioned Florida and California, and this was a natural, logical adjacency. So you get -- they have customers that included large health care systems like the Cleveland Clinic, Mercy Health; educational facilities like Ohio State, Michigan State. And they're really key to Rauland because they provide a deep technical expertise in designing and integrating the advanced solutions that Rauland delivered. They have integrated solutions that move Rauland closer to the end customer. So positions really the value-added reseller -- Rauland is a natural acquirer for those type of companies in high density population areas. And they also make Rauland as a natural acquirer for attractive adjacent markets because the bars also represent those products. So we see that as a very attractive way for Rauland to expand because Rauland has their own bars. They have optimized the processes. So there's a lot of synergies in these regional bars. And then in addition to that, it provides closer customer contact and growth opportunities. This particular business has grown low double digits average compounded annually over the last 5 years. So it's a very good grower. EBITDA is in -- low double-digit, EBITDAs, and it's a nice opportunity for Rauland to expand their footprint and get closer to the customers. In less dense parts of the country, parts of the world, value-added resellers still make sense. But in some places, it makes sense for Rauland to get closer to the customer.

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

Great. And then on the organic 8%, it's very good, obviously. I just want to know you're kind of measuring and gauging your progress on channel and new product introduction and execution into the addressable market versus what's the cyclical lift here.

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

Yes. With 8% organic growth and 12% organic growth in orders, we're certainly seeing some tangible success from our organic growth initiatives. Our focus on improving the front end of our business and continuing success from new product development efforts is driving market share gains. Now we've talked before about our growth kaizens. Our very -- we're seeing very tangible benefits from specific actions. And we're very optimistic with this effort, and there's more to come. But also, the general economic improvements is certainly a key driver, and it's really difficult to distinguish between the 2. But what I can say, we see no slowdown at all in the way we're looking at the world right now. We see strong growth across all of our product groups. We're growing in all geographies, and we're feeling really good.

Operator

And our next question comes from the line of Robert McCarthy from Stifel.

Robert Paul McCarthy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Maybe we can talk about price on 2 spectrum. One is just pricing overall over the next couple of years because you affirmed that, definitely, just the nature of your business, the market structure, the value add should be garnering a pretty nice price benefit, and particularly in the context of a price spread. So would you expect price cost to be positive going forward for the full year? And how should we think about just conceptually into '19? Because your company, historically, I think is -- part of your incremental margin lift has come from kind of structurally strong pricing. Could you talk about that a little bit?



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David A. Zapico - AMETEK, Inc. - Chairman & CEO

Right. Great question, Rob. We expect to maintain a positive price inflation spread for the whole year, and we're talking about price inflation. We're just talking about inflation. We're not talking about productivity. That's just the pure total inflation number. And with our differentiated businesses and are -- closest to the customer, we have right mark -- wide moat around our businesses, we can pass on the increase cost for inflation. So we really expect a positive price inflation spread in the 20 bps or 30 bps range, and we expect to hold that this year. And there's no reason that, that won't continue into '19.

Robert Paul McCarthy - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst

Great. And then maybe switching to price in terms on the acquisition front because, clearly, you've deployed some capital nicely. We would like to see probably more size and scale, but you can't have everything. But could you just talk about the state of your balance sheet, your firepower? And then -- and maybe just comment on -- it's an interesting environment because you probably see the pullback in the public environment, but sellers' expectations still probably remain elevated here. Do you think you could reach kind of a bid-ask issue in terms of people thinking of their company as still very dear and being able to transact is going to be tough? Or do you think you could shake some pretty big deals this year?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Those are all great questions, Rob. I mean, the current M&A environment is very similar to what we've been experiencing the past couple of years. Pricing is elevated. There is plenty of cash-chasing deals. Now with the public market coming back again, that will eventually flow into the private market. But despite this market, we've been successful in deploying our free cash flow on acquisitions. I mean, since the -- I mentioned in my prepared remarks, since the beginning of 2017, we acquired 5 companies. We've deployed nearly \$835 million of capital, and we're off to a great start in 2018. And our pipeline remains very active. You'll never know if something's going to transact in the short term, but I expect you'll be hearing from us again this year on M&A. Our strong pipeline, along with M&A processes, gives me confidence. And you mentioned that larger deals are the size deals that we've been doing. We're going to execute our -- we can do either one to execute our strategy. We can -- we've opened up our pipeline to slightly larger deals in the \$200 million to \$300 million revenue range. There will be deployments of capital of \$1 billion. But we just keep doing the smaller deals, and we can still get the earnings growth because of the way we restructure the business and our acquisition process. So I'm feeling really good about it. And you mentioned, finally, our firepower. I think Bill mentioned our existing cash and credit facility was about -- we have about \$1.5 billion in firepower. And most importantly, we'll generate another \$865 million, \$870 million of free cash flow in 2018. So we really have the firepower. Our net debt-to-EBITDA is about 1.35. Our gross debt to EBITDA is 1.85. So we could deploy \$2-plus billion in capital this year. And really, the strategy is not capital-limited. It's finding those key acquisitions that we can add value to so we could maintain a return on invested capital of 10% in year 3. That's the key hurdle for us. That gives you the return on total capital for the whole business. And AMETEK has extremely strong return on total capital for an acquisitive company. And we maintain that discipline, and that discipline is the (inaudible) right now. But we are clearly looking at things, and our pipeline's full. And we'll be clear to select the deals that we can make the most -- that we can improve the most. But I think the -- I'm very optimistic about what I see in our pipeline right now.

Robert Paul McCarthy - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst

If I could sneak one more in, just amortization. Any update? I'm looking at that and studying that, whether you want to make a move to cash earnings.

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. Our EBITDA was a record \$306 million this quarter. So it was up -- it was 26% of sales, so a very good number. Our D&A was about \$49 million. And as I said in the -- our last call that we looked at that at the beginning of the year, and we decided not to do it. And we'll look at it again next year, but that's the decision we made for 2018.



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Operator

And our next question comes from the line of Allison Poliniak from Wells Fargo.

Allison Ann Marie Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

So could you talk a little bit about your conversations with customers broadly across the group? I know you said the outlook's pretty strong. But are there any areas where customers are maybe becoming more cautious or even maybe accelerating orders of the -- accelerating the orders ahead of the likely price increases? Any thoughts there?

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

It's pretty much bullish across our whole portfolio. We're -- it's -- we were in Asia this quarter. The executive office went for our annual regional review in Asia, and that region was incredibly bullish. And we're seeing strength in the U.S., continuing strength in Europe. And all of our product groups are very positive, and we're even seeing the -- some of the longer-cycle elements of our portfolio, like the mid- and downstream oil and gas, the military parts of our business. They're very bullish about the bigger projects breaking later in the year and into '19. So our automation businesses are firing on all cylinders. So we're not seeing any slowdown, and we feel really good about the year. We feel really good about how the year's playing out.

Allison Ann Marie Poliniak-Cusic - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Great. And then just not to beat the sort of price inflation issue up a little bit, but are there any specific businesses, and could you remind us, that are maybe more susceptible to the inflation? And your thoughts on passing that through in terms of pricing.

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

Yes. I think we've had a strategy for a long period of time to acquire businesses that are really leaders in niche markets, and that puts us in a position. We're providing more value. These are markets that are sticky customer relationships, and we're providing a lot of value to these customers. And when we get in situations like this, we view it as only fair that we can pass those prices on to customers. So we feel really good about our portfolio, and we feel really good about achieving price ahead of inflation in 2018 and 2019.

Operator

And our next question comes from the line of Deane Dray from RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

I'd like to follow that train of thought on customer dialogue. And do you have any color on whether tax reform and CapEx incentives are playing through in any of the demand that you're seeing?

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

Deane, we were seeing -- we saw an uptick in our business in 2017 in the second half. It was pretty measurable. But into 2018, we have not seen an incremental increase from tax reform. It's just remains strong. So I can't say that we've seen an increase specifically tied to tax reform and what specific customers with regard to tax reform. It's just really good, and it's staying that way.



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Deane Michael Dray - RBC Capital Markets, LLC, Research Division - Analyst

And then just other color on the price cost dynamic. You didn't mention tariffs. Do you feel as though that's an impact including what could be on the horizon here?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. That's a great question, Deane. We don't see -- we do not import much steel and aluminum. So really, a minimal impact from that. We are watching the entire situation closely, as you can imagine, including secondary impacts. We have very good supply chain capability and flexibility, and we're doing some planning on the supply chain side if we need to react quickly. And the same point that goes to pricing, we have -- we're leaders in niche markets, and we have sticky customer relationships and have the ability to pass on cost increases to customers. So we're examining numerous countermeasures should something be enacted. Right now, we don't really see a measurable impact to our business. But it's uncertain, and we're closely monitoring it.

Deane Michael Dray - RBC Capital Markets, LLC, Research Division - Analyst

Got it. And just last question for me. Can you -- and were there any growth investments in the quarter that you would highlight along either digital marketing or sales force investments? Anything along those lines?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. It's all of the above. We're investing about \$75 million this year in growth investments and heavy investments in digital marketing, heavy investments in a lot of selling tools and also heavy investments in product development. So we're feeling really good about the investments. We think we're getting a great return, and we're optimistic about that in the future.

Deane Michael Dray - RBC Capital Markets, LLC, Research Division - Analyst

Do you have a sense of how much in this quarter? And would that be spread across the segments? Is any of that in corporate?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Most of that is in the segments, and it's spread out through the year.

Operator

And our next question comes from the line of Brett Linzey from Vertical Research.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Just want to come back to EMG and specifically on incremental margins. Given the strong volume, I would've thought incrementals would have been a little bit better in the quarter. And I realized FX dropped -- the drop is their difference to incrementals. But anything else in terms of mix or excess cost and the deliveries, price cost that have impacted you during the quarter within EMG?



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David A. Zapico - AMETEK, Inc. - Chairman & CEO

Brett, EMG had a great quarter. I mean sequentially the margins were up 170 basis points, and on a core basis, they were up 30 bps. So we're pretty pleased with the performance.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Okay. And I guess how should think about incremental margins within EMG for the balance of the year?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. I think we've guided to the incrementals in the low 30, 35%. And I think in general, our -- our -- the instrument side of our business has a little bit higher incrementals. So I was saying 35% to 40% range, and EMG is a little bit lower, in the 25% to 30% range.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Okay, great. And then just shifting back to your comment on long cycle. I guess in the context to visibility, obviously, you've been deploying a lot of deals here. If you were to look at the pro forma construct of portfolio including some of these recent deals, how would you size what you would characterize as long -- longer-cycle nature as a percent of the total portfolio today?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

I would characterize the bulk of the portfolio in mid and longer-cycle businesses. We don't have many short-cycle businesses but the vast majority of our portfolio is the mid- and longer-cycle businesses.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Okay. And then maybe just one more. In terms of recent acquisitions, so FMH, Arizona, SoundCom, how are we thinking about incremental earnings accretion as we look into 2019 and some of the -- starts to abate. Any framework you could give us there?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

We haven't done the work for '19 yet but I can tell you that in our plan for 2018, we saw a net benefit of M&A of about \$0.06.

Operator

And our next question comes from the line of Richard Eastman from Baird.

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

Could you just speak for a minute, Dave, perhaps, to the order strength? I think you've mentioned core orders were plus 12%. Could you just talk to maybe a couple end markets that might be driving order growth above that kind of average core number? And I'm thinking specifically to some of the more cyclical -- maybe speak to oil and gas. And then also on the Aerospace side, I mean are you seeing outsized order growth there, maybe regional biz jet, or just maybe just a little color around the 12%.



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David A. Zapico - AMETEK, Inc. - Chairman & CEO

Sure. I mean regarding oil and gas, our -- in the first quarter, our sales were up low double-digits and orders outpaced a bit. And in terms of the Aerospace business, we saw very strong performance in our commercial business. So it was up low double-digits in the first quarter, both OE and aftermarket. And also the military business stands out. There was a very strong orders performance in military and our automation business stands out. There was very strong order in automation and across all regions of the globe. So it was a really good quarter from the viewpoint of orders.

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

Does your oil and gas given how the first quarter started out, I think there was an expectation for oil and gas to be up kind of mid-single digits this year kind of led by I think it was upstream. Does that number drift higher now with your comments around downstream orders, and also maybe how the first quarter shook out?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

Yes. The first quarter performance, our upstream business was up. Downstream is only 25% of our oil and gas presence, and that's about \$280 million exposure. It was up very strongly. It was up about 30% in the first quarter. And the mid, downstream was up in the mid- high-single digit range. So we haven't changed the year guidance yet for that. It's still mid-single digits for the year. But what we're seeing now is the planning work for some orders in the second half of the year that will ship in '19 for the bigger projects and the mid, downstream markets.

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

Okay, understood. And then just the last question, around the acquisition, SoundCom, I'm a little bit curious. Is the service element of Rauland-Borg's business, does the service element flow through the bars? In other words, a big service component to SoundCom Systems, and hence, the advantage of owning a few of the bars in key markets, does that bring the recurring revenue stream to Rauland?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

It does bring some. I mean the recurring revenue stream is from spare parts, from software upgrades and also from the direct service of the clients. So the acquisitions of the bars does augment the recurring revenue business for Rauland.

Operator

And our next question comes from Joe Giordano from Cowen.

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

Curious on the components for your parts. You're not really seeing in inventory levels you got on your balance sheet. But are you seeing a little tightness in that market and there's been some commentary about people trying to buy ahead of that and kind of keep some safety stock increased level of that? Are you seeing that in the market? Are you doing some of that yourself?

David A. Zapico - AMETEK, Inc. - Chairman & CEO

We're not doing much of it but there is some tightness. We're seeing some tightness in the electronic supply chain and we're also seeing some increased inflationary cost in the transportation that we've talked about last quarter. But there is some tightness out there and -- but we're managing through it and we have excellent supply chain capabilities but there is some tightness.



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

Okay. And then your business has exposed on the specialty metal side. Have they been tracking pretty closely with price movements in those markets? And is that kind of a consistent -- something that's progressing throughout the quarter like kind of higher run rate right now versus maybe in the beginning of the quarter.

David A. Zapico - *AMETEK, Inc. - Chairman & CEO*

Yes. That business that you recall the way we have that business structured is we pass the material prices on to the customers. So it's a -- we're adding value to the material. But it is progressing and that business is doing very well.

Operator

And I'm actually showing no further questions at this time. I would like to turn the callback to Mr. Kevin Coleman for closing remarks.

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

Great. Thank you, Victor. Thank you, everyone, for joining us today as a reminder, a replay of today's webcast may be accessed in the Investors section of ametek.com. Have a great day.

Operator

Ladies and gentlemen, thank you for participating today's conference. This does conclude the program and you may now disconnect. Everyone have a great day.

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