

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AME - Q2 2018 Ametek Inc Earnings Call

EVENT DATE/TIME: JULY 31, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q18 total sales of \$1.21b, operating income of \$270.1m and diluted EPS of \$0.83. Expects 2018 overall sales to be up low-double digits and diluted EPS to be \$3.16-3.20. Expects 3Q18 overall sales to be up high-single digits and diluted EPS to be \$0.76-0.78.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Andrew Burris Obin BofA Merrill Lynch, Research Division - MD

Bhupender Singh Bohra Wolfe Research, LLC - Research Analyst

Brett Logan Linzey Vertical Research Partners, LLC - VP

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

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

Matt J. Summerville D.A. Davidson & Co., Research Division - Senior Analyst

Robert Scott Graham BMO Capital Markets Equity Research - Analyst

Tristan Margot Cowen and Company, LLC, Research Division - Associate

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2018 AMETEK, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded.

I would like to introduce your host for today's conference, Kevin Coleman, Vice President, Investor Relations. You may begin.

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

Thank you, Glenda good morning, and thank you for joining us for AMETEK's second 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 second 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 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.

Also, please note that during today's call, references will be made to some financial results on an adjusted basis. 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 I'll open it up for questions. I'll now turn the meeting over to Dave.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Thank you, Kevin, and good morning, everyone. AMETEK's results in the second quarter were superb. We reported record sales with very strong organic growth and excellent contributions from recent acquisitions. We ended the quarter with a record level of backlog, following another quarter of strong orders growth. We delivered excellent operating performance, resulting in record-level EBITDA, record operating income, significant margin expansion and sizable growth in diluted earnings per share. We also completed another acquisition in the quarter, continuing to deploy a robust free cash flow on strategic acquisitions.

Given these outstanding results, we have, again, raised our guidance for 2018. So overall, just a fantastic quarter with very high-quality results.

Now on to the financial highlights. Total sales in the second quarter were a record \$1.21 billion, up 14% compared to the second quarter of 2017.

Organic sales were up 7%, acquisitions added 5%, and foreign currency was a 2-point tailwind. We are very pleased with the organic growth as it remains broad-based across our businesses and geographies.

Orders growth was also very solid in the quarter. Overall orders were up 8%, with organic orders up 5%, even with a difficult comparison from the second quarter of 2017. As a result, we finished the second quarter with a record backlog of \$1.6 billion.

EBITDA in the second quarter was a record \$317.6 million, up 17% over the second quarter of 2017, where the EBITDA margins are very strong, 26.3%.

Operating income in the second quarter was a record \$270.1 million, up 18% over the prior year.

Reported operating income margins were up 70 basis points to 22.3%. Excluding the dilutive impact from acquisitions, operating margins were up an impressive 110 basis points over the second quarter of last year. This level of margin expansion speaks to the excellent operating leverage our businesses generate.

Second quarter earnings were \$0.83 per diluted share, up an outstanding 28% compared to the same period last year and above our guidance of \$0.76 to \$0.78 per share.

Now turning to the individual operating groups. First, the Electronic Instruments Group. EIG had an excellent second quarter, with strong sales growth and tremendous operating performance. Sales for EIG in the second quarter were a record \$744.5 million, up 13% over the same quarter of 2017. Organic sales were up 6%, and recent acquisitions also contributed 6%. Foreign currency was a 1% benefit to EIG sales in the quarter. While growth was broad-based across our EIG businesses, we saw a particularly strong organic growth across our Ultra Precision Technologies division.

Second quarter operating income for EIG was \$193.8 million, up 18% over the prior year.

Reported operating income margins were excellent at 26%, up 110 basis points over the second quarter of 2017. Excluding the dilutive impact of acquisitions, EIG margins were up an exceptional 180 basis points over the prior year.

The Electromechanical Group also had a fantastic quarter with record sales and operating results. EMG sales in the quarter were a record \$464.5 million, up 14% over the same period last year. Organic sales growth was excellent at 9%, with solid demand across our Engineered Materials and Thermal Management Systems businesses. The acquisition of FMH Aerospace contributed an additional 3% and foreign currency provided a 2% benefit in the quarter.

Operating income in the second quarter was a record \$94.3 million, an 11% increase compared to the second quarter of 2017. Operating margins were strong at 20.3% for the quarter.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

In summary, AMETEK delivered another outstanding quarter. Our teams are performing at a very high level and remain focused on delivering high-quality results. We remain committed to investing in our businesses and our people to generate sustained long-term success for our shareholders. We also remain committed to deploying our strong free cash flow on a strategic acquisitions where we can leverage the AMETEK business model to drive meaningful improvements. And we have had a strong first half of the year on the acquisition front, completing 3 deals and deploying approximately \$370 million in capital.

As a quick recap. In January, we expanded the capabilities of our Aerospace and Defense businesses through the acquisition of FMH Aerospace, a leading provider of highly engineered and differentiated components for use in the aerospace, defense and space markets. In April, we announced the acquisition of SoundCom, which designs integrates, and services clinical workflow and communication systems for end users in the health care, government and educational markets. SoundCom was a wonderful addition to our growing health care solutions platform as a value-added reseller for Rauland-Borg, the leading local provider of mission-critical clinical communications and workflow solutions to hospitals, health care systems and educational facilities.

Rauland has experienced a very strong growth since being acquired in the first quarter of 2017, with organic sales up low double digits in the second quarter. Rauland is seeing robust demand for its market-leading communication solutions and has done a fantastic job leveraging AMETEK's business system to improve its profitability.

In addition to FMH and SoundCom, we recently completed the acquisition of Motec, a leading provider of vision systems for the high-growth mobile machine vision market. Headquartered in Germany, Motec provides integrated vision systems that combine ruggedized mobile cameras with advanced software to improve operational efficiency and enhance safety. These applications are used in a variety of end markets, including automation, agriculture, transportation, defense and logistics.

Motec's differentiated solutions nicely complement our Instrumentation and Specialty Controls business and provide Ametek with a leadership position in this very high-growth adjacent market segment. Motec has annual sales of approximately \$35 million, and we deployed approximately \$95 million on the acquisition.

Our acquisition teams are managing a very active acquisition pipeline, and we remain focused on deploying our strong free cash flow on strategic acquisitions. Given our balance sheet strength, plus the additional flexibility resulting from Tax Reform, we are in a strong position to pursue additional acquisition opportunities and are very excited about the opportunities in our pipeline. We are also very excited about the success of our organic growth initiatives, as our businesses are seeing very positive results from these efforts. While our end markets remain strong, our excellent organic sales growth indicates our efforts to enhance our sales and marketing processes, and a continuous focus on new product development are having a positive impact. One example of the success of our efforts can be seen across our Ultra Precision Technologies division. This division includes a tremendous set of highly differentiated businesses with leading-edge technologies and solutions, providing ultra-precise metrology solutions and precision optical products for an attractive set of markets and applications.

As noted earlier, these businesses have delivered tremendous results recently, with robust growth in both sales and orders. This growth reflects the strength of their technology in niche leadership positions across the markets they serve. These businesses are capturing incremental market share as a result of their global and market expansion initiatives and success of their new product development efforts. As an example, Craform, a pioneer in 3D scanning measurement technology, recently unveiled their latest coordinate measuring machine, known as the CUBE-R. The CUBE-R is a complete turnkey solution that provides fast, precise and automated 3D measurement capability for a shop-floor environment. Utilizing Craform's MetraSCAN 3D metrology scanner along with the efficiency and reliability of robotic automated industrial measuring cell, the CUBE-R can measure and inspect parts and components upto 3 meters in length with metrology-grade accuracy. This solution is allowing our customers to enhance their quality control in a reliable, safe, and efficient manner.

New products and solutions like the CUBE-R continue to be a key driver for sustained organic growth in AMETEK's long-term success.

Our vitality index, which measures the level of sales generated from new products and solutions introduced within the last 3 years, is one way to measure the success of our research, development and engineering efforts. Through the first half of the year, our vitality index was excellent at 23%, reflecting the tremendous work of our teams to design and implement these new products and solutions.

JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

In 2018, we expect to increase our RD&E investment by 6% year-over-year to approximately \$235 million.

Before providing our updated outlook for 2018, I wanted to provide a few comments on the global trade situation. While tariffs have had a minimal effect on our business thus far, we do expect that incremental headwinds will need to be managed, as tariffs are implemented and supply chain adjust. We are confident in our ability to largely mitigate these headwinds, given our ability to capture incremental pricing due to the highly differentiated nature of our businesses, plus the strength and flexibility of our global supply chain. The situation remains fluid and uncertain, but what we know now at this point, we expect a net impact of tariffs to be only a modest headwind for the balance of 2018, and this headwind is reflected in our guidance.

Now onto the outlook. Given our outstanding performance in the first half of the year and our positive outlook for the back half of 2018, we now expect earnings to be in the range of \$3.16 to \$3.20 per diluted share, up 21% to 23% from 2017's adjusted earnings per diluted share of \$2.61. This is an increase from our previous guidance range of \$3.06 to \$3.12. We continue to expect AMETEK overall sales to be up low double digits, with organic sales up mid-single digits for all of 2018, with EIG organic sales also up mid-single digits and EMG organic sales up high single digits.

For the third quarter, overall sales are projected to be up high single digits, with organic sales up mid-single digits compared to the same quarter of 2017.

Third quarter diluted earnings per share are expected to be in the range of \$0.76 to \$0.78, up 15% to 18% over the prior year period.

To summarize, AMETEK's performance through the first 6 months of the year was outstanding. We are firmly positioned to deliver record results in 2018 and continued success in the long term, backed by our world-class teams and focused on executing our Four Growth Strategies.

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 highlighted, AMETEK had an excellent second quarter with record results and a high quality of earnings. Let me provide some additional financial details. In the second quarter, core selling expenses were up in line with core sales growth. Our second quarter general and administrative expenses were down modestly compared to 2017, and as a percentage of sales, were 1.5%, down from last year's level of 1.8% of sales.

The effective tax rate for the second quarter was 21.9% versus last year's rate of 26%. The year-over-year reduction in our effective tax rate was due to the benefits of Tax Reform. We expect our 2018 tax rate to be in the range of 22.5% to 23%. And as we've stated in the past, actual quarterly tax rates can differ dramatically, either positively or negatively from this full year estimated rate.

Working capital was very solid at 17.2% of sale from the second quarter, down from 17.9% of sales a year ago.

Capital expenditures were \$16 million for the quarter and for the full year, we expect 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 depreciation and amortization to be approximately \$200 million.

Second quarter operating cash flow was \$203 million, and free cash flow was \$187 million. For the first 6 months of 2018, free cash flow was up 12% over the prior year period. And for the full year, we expect free cash flow conversion of approximately 110% of net income.

As Dave mentioned, we've been very active on the acquisition front, deploying approximately \$370 million on the acquisitions of FMH Aerospace, SoundCom and Motec thus far in 2018. Total debt at June 30 was \$2.15 billion, down slightly from the end of 2017. Offsetting this debt is cash and cash equivalents of \$558 million, resulting in a net debt to EBITDA ratio, as of June 30, of approximately 1.3x.

JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

Following the 3 acquisitions we completed this year, we have more than \$1.5 billion of cash in existing credit facilities to support our growth initiatives.

In summary, the performance from our businesses during the second quarter was outstanding. We delivered record level results with a high quality of earnings, and 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. Glenda, could we please open the line for questions?

QUESTIONS AND ANSWERS

Operator

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

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

Can you hear me okay?

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

Yes Scott, you are coming in clear.

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

I have 2 questions for you. I know you positioned the organic orders of up 5 as facing a tough comp and certainly, we know that orders tend to be lumpy. You've had larger -- you've had double-digit in the past and all this. Is there anything at all, Dave, that we should be reading into the plus 5%, the slower?

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

No. I think Q2 orders were strong, Scott. We had a positive book-to-bill in the quarter of 1.02, up mid-single digits, some tough comps. You remember that in Q2 '17, we had 12% organic growth. And the mid-single digit growth was broad-based. Both our EIG and our EMG businesses were both balanced and up in orders. And if you recall, in our EMG business in Q1, there's a little bit of a seasonality factor, with the nature of that business being OEM customers will replace the order for the balance of the year. So that was really -- that strongly happened in Q1. And we also saw some military orders a strong ones -- in Q1 related to our TMS business. And as you know, those can be very lumpy. So there's nothing at all to worry about. There is a very strong orders growth, broad-based, positive book-to-bill and is balanced across the business.

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

Got it. My follow-up is essentially on the tariffs. So we have a strategy of moving production to low-cost facilities, low-cost areas. So I guess, I was a little bit surprised to hear you say, nominal impact and all of that when you do a fair amount of manufacturing in China for markets that are not in China. Could you, kind of, maybe, go through how you get to only a small -- a nominal impact in the second half?



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Right. It's a great question. And our executive office has been actually involved in managing the situation from our -- with our business teams. So we start from a great position because of our business model and the capabilities we have. As you know, we have niche differentiated businesses with low CapEx requirements by design. So our model provides pricing power combined with a flexible operating structure. And capability wise, we have one of the best supply chain organizations in the business. So we're really well positioned from capability. And we've currently been working on several work streams. There's resourcing activities ongoing. Obviously, supplier negotiations. There's a few relocation of production locations. We're also -- if you export from the U.S., which you know we do, and you import components that have a tariff, you can go through the duty drawback process and recollect just about the entire tariff. We've also built a bit of inventory ahead of the tariffs to avoid paying the tariffs that were implemented in July. And based on everything we know, we have less than \$0.01 impact in both Q3 and Q4. And that includes not only the tariffs on steel and aluminum, but Section 301, and that even includes the proposed \$200 billion that was proposed at 10% on a bunch of different items. So now that can change, but we've also factored that into. So with our capability and our capability of price and our capability in our supply chain, I feel very comfortable. We're ideally situated to manage the tariff situation, and it's a process, and we now have a great process in place.

Robert Scott Graham - BMO Capital Markets Equity Research - Analyst

And the productivity savings, I think, last quarter, you said about \$85 million. Is that intact?

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

No, we're still going to get \$85 million. We're having a strong year, and we're still going to get \$85 million. Our supply chain teams have this additional load. But we're still going to get the \$85 million.

Operator

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

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

Question on Motec. I'm just reading the description of it, wondering if that is somewhat of a direct play on the electrical vehicle market and also, given the high-growth profile of it, just wondering if you measure the trend line in terms of expanding pipeline of opportunities, given probably some longer spec cycles there?

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

Yes, Motec's a great business, Chris. And it's not so much on electrical vehicles, but it is on the embedded mobile machine market. It's a leading provider of vision systems. So their products improve operational efficiency and enhance safety. They have integrated vision systems, combined with ruggedized cameras for harsh environments, electronic hardware and software for high-speed video processing and unique proprietary algorithms for applications that automate and make mobile machine safer. So when you put those 3 factors together, the ruggedized cameras, the video processing and the software and the algorithms, they're really in a unique position in an emerging market that has good, long-term growth drivers. And the business has been growing at 20-plus percent a year for the last 3 years. Their end markets are balanced across transportation, Ag, logistics, construction, military vehicles. They're very unique applications where they're helping their customers improve the quality and safety of their operations. Very strong capability and engineering. The company's headquartered in Germany. The majority of their sales are in Europe. And it fits very well with our ISC business. So the sales channel opportunities for both businesses are really good. So we're really optimistic. We



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

bought it from 2 private founders. The competitors are relatively small. They're well positioned, and we're really optimistic with what we're going to be able to do with the business.

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

Sounds cool. And my next one is, have you seen any platforms that are starting to feel choppy or tapering off in terms of business units, markets or geographies as you look around, just given you have pretty widespread breadth?

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

Yes, it's a great question, Chris. I mean, when you look at our business, both our EIG and EMG businesses are up mid-single digits or better. If you look at all of our market areas, and Scott didn't ask that question, but if you look at all of our market areas in the process, Aerospace, Power & Industrial and Automated and Engineering, all those businesses are up mid-single digits or better. If you go around the world, all the geographies are up mid-single digits or better. So we're feeling really optimistic, and we're not seeing any sign of slowdown.

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*

Just like to circle back on the price costs and tariffs, it sounds like that's all being well managed. Just a couple of -- real specifics is, because you have such leadership in these niche-differentiated markets, we typically associate that with good pricing power. Can you share with us any pricing actions that you've taken? What kind of schedule, feedback or acceptance from customers? But color from -- on that would be really helpful.

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

Sure, Dean. In Q2, we achieved price of 1.9%. So that was up from 1.4% in Q2. So we had mentioned that we were to get ahead of this, and our business teams did a great job of getting price in the quarter. Total inflation was about 1.2%, so we had a positive spread there. And we were able to more than offset the increasing inflationary costs with increased pricing. And the results speak to the differentiated nature of our portfolio. So in terms of the environment, I think with the tariffs and a little bit of inflation, it's becoming a bit easier to pass on pricing right now. And I think for the full year, we expect inflation to pick up a bit. We can see that in the channel building. So we have 1.2% inflation in Q2, in Q1, we can see that picking up a bit in the balance of the year. But we think our pricing is going to remain strong, and we'll maintain a positive spread for the full year.

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

Got that. That's real helpful. And how serious are you looking at potential relocation of production? We've heard companies like Danaher called that out explicitly that, that's part of their potential game plan. And just talk to you that you move forward on, or is it just in terms of -- if things escalate?

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

Right. We have a very flexible manufacturing setup, what we have in low-cost regions. So there are certain product lines, and by no means our entire portfolio, but certain product lines, we're looking at relocating, because we already have capabilities to manufacture in the region. So we have manufacturing capability in a couple of regions, and we'll move into a place that's not impacted by tariffs. But there are really a couple of selected areas where we're looking at that and that will likely happen.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Got it. And if I just squeeze one more in, please, on oil and gas. How is that in the quarter? And then there was some news this week about additional pipeline investments coming, and would you be in a position to participate in that?

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

Yes. Great question, Deane. Our oil and gas business performed well in Q2. It was up mid-single digits. And we saw a good strength in our upstream business. It was up mid-teens. And our mid and downstream business that would be more tied to your pipelines, and the downstream refinery was up low single digits. That was for the quarter. For the full year, we expect sales to be up mid- to high-single digits where the upstream stay strong, but the mid and downstream get a little bit better as we progress through the year. And with \$70 oil, we're seeing a solid business activity. Our capital spending budgets are increasing. We're seeing a global pickup in activity. And there's been a lack of investments over the past few years. So we're viewing the outlook on the oil and gas business over the next few years as very positive.

Operator

And our next question comes from the line of Matt Summerville from D.A. Davidson.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - Senior Analyst*

Couple of questions. First, if you look at just your incremental margins, ex currency and acquisitions, what would they have been for the whole company? And then at the segment level, if you don't mind, please.

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

Okay. For EIG, we had 26% operating margins. We were up 110 basis points, and excluding acquisition, we are 180 basis points, and the incrementals were about 50%. For EMG, the incrementals were around 20%. So that includes the FX and M&A effect.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - Senior Analyst*

Got it. And then...

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

total, up 35.

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

And overall for the total business 35, it was about 35. Good point, Bill.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - Senior Analyst*

Got it. And then just into your prepared remarks, Dave, maybe if you could dig in a little bit more into what you're seeing in your UPT business, what end markets are driving that strength? How much backlog visibility you have there? Maybe some more color on that. And then might as well go ahead and just do the run around the various end markets as well please.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Right. Sure. I mean, UPT businesses is just a fantastic story. It was a -- Bruce Wilson is the Vice President and General Manager of the division. And he was acquired in the first acquisition I did as a group President. And we have acquired other niche technology businesses all on the nanotechnology space. We're measuring very small things, and we're doing it very well. And we acquired Zygo, we acquired Creaform. And their broad end markets were precision manufacturing, and you want to measure things that are very small with nanometric measurements. So it's in the optics market. There's a little bit of consumer market. There's precision manufacturing. So it's a broad-based -- military is broad-based. They're firing in all cylinders with good new products, Creaform, in particular, is benefiting from a secular growth driver with their laser-scanning 3D measurement. And it's just a well-managed business, and it's growing very nicely for us. And with the -- I'll go around the horn, start with our Process businesses, go around the businesses. Our Process business had a great quarter with overall sales up mid-teens. This growth was driven by high single-digit organic sales growth and the contributions from the recent MOCON and SoundCom acquisitions. Organic growth remains broad-based across our Process businesses and reflects the strength of the positions -- niche leadership positions. We mentioned our UPT business. It did really well, growing low double digits in the quarter. Another business that grew low double digits was our Rauland business, our Rauland-Borg business has done really well. And for all of 2018, we continue to expect organic sales for Process to be up mid-single digits.

Overall, Aerospace sales were up mid-teens, driven by contributions from recently acquired FMH and mid-single-digit organic growth. We continue to see excellent commercial OEM and aftermarket growth, as we have solid demand across our military business also. Our overall Aerospace and Defense businesses are well positioned. They're balanced. Exposure across key market segments, commercial, business jets, military, aftermarket and also, diverse exposure across a wide range of legacy and next-generation platforms. So we're feeling great about that business for all of 2018, and we continue to expect organic sales for our Aerospace businesses to be up mid-single digits, with growth across each market segment. Our overall sales for our Power & Industrial businesses were up 10% in the second quarter, with mid-single digit organic growth and the contributions from recent acquisitions. We saw broad-based growth across each of our Power and Industrial businesses, continued strong growth across our Programmable Power and VTI, Test and Measurement businesses. For all of 2018, we continue to expect organic sales for Power and Industrial to be up mid-single digits. And finally, our Automation and Engineered Solutions had another excellent quarter, solid organic growth, up 10% organically. The excellent orders growth that we experienced across these businesses in recent quarters is translating into a very strong organic growth. And demand remains solid in both our Automation & Engineered Solutions businesses and for all of 2018, we now expect high single-digit organic growth for our Automated and Engineered Solutions businesses, so we increased that to high single digits for organic growth for the year. That's around the company.

Operator

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

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

Can we touch on the execution? Very strong in EIG. Is there anything to be mindful of in terms of mix? It sounds like UPT still going very strong and that would diminish that at this point? Anything that you are thinking about?

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

I think EIG is just powering forward. I mean, it's a strong business. It's executing well. The orders ticked up a little bit sequentially. So it's a positive outlook for the balance of the year. And our EMG business is executing well. So on the execution side, I'm feeling really good, and our management teams are executing very well.

JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Perfect. And then just trying to reconcile the revenue outlook. It sounds like everything is going strong. You kept in the quarter somewhat of a range that you provide. Any reason, sort of, keeping that in? Is it just conservatism as we enter the back half of the year and a lot of them being uncertainty here?

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

Yes. I think the mid-single digit growth, we had for the whole company, organically, in Q1, we got it mid-single. And we got it Q2 in mid-single. So it doesn't pick up the fact that we move to the high -- the very high end of mid-single digit. So there was an increase in the guidance, and that was driven largely by what happened in our Automation & Engineered Solutions business and also, what happened in the Process side of our ELG business. So it was guided toward the high end of mid-single digit, but you don't see that. And in terms of -- we're feeling really good at how the year is playing out. We have terrific momentum. Our margins are expanding. Pricing is running well ahead of inflation. We have solid plan to minimize the impact of our tariffs. And all that said, it's a bit prudent for the second half to be cautious with some of the trade-related matter. So -- but to be clear, Allison, we're seeing strong underlying demand, and we're confident in our outlook.

Operator

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

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Can you guys hear me okay?

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

Yes, we can hear you, Brett.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Yes, okay. Yes, so just back to the Aerospace and Defense. So if we were to include FMH, how large from a revenue standpoint is that total business today? And then, I guess, separately, if you just go platform-by-platform, what's in backlog, how much visibility do you have on those deliverables, whether it be months or years here in the coming quarters or so?

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

Brett, our total Aerospace business is between \$600 million and \$700 million of revenue. And it has the best visibility in terms of backlog. That's the business we can look out. We have a lot of military business there, and has firm backlog. Then you get into the Process business, where there's a mix of -- it's really mid-cycle, automated and engineered solutions is mid-cycle. So it's a combination mid-cycle and long cycle. And our Aerospace and Power businesses really give us the best visibility looking into the future.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Okay. And then, I guess, just back to just M&A and some of the accretion from deals announced this year. I guess, as you look at synergies and projections into next year, what, sort of, the net accretion rollover we should be thinking about in 2019 from some of these stub deals you closed in 2018?

JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

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

Yes. It's about -- well, in entering 2018, it was a net of about \$0.06. And we haven't finished our planning for 2019, but it's going to be similar kind of number for 2019, it is the best estimate at this point. But we'll firm that up as we get closer to the end of the year and when we put out our guidance for 2019.

Brett Logan Linzey - Vertical Research Partners, LLC - VP

Okay, great. And then just one last one on Motec. Any color you can give in terms of profitability, price paid, multiple? Any detail there?

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

Yes. Sure, sure. The profitability of the business is -- pretty profitable business, low 20s EBITDA margins. It was about 2.5x sales. It was up about 11x year 1 EBITDA.

Operator

And our next question comes from the line of Bhupender Bohra from Wolfe Research.

Bhupender Singh Bohra - Wolfe Research, LLC - Research Analyst

Filling in for Nigel here at Wolfe, and just had a question, I think it was asked earlier, basically, in the second half of your organic sales guidance. But Dave, you did say, there's some conservative built in the second half. With orders up like mid-single digit here, I don't know how -- going into July, you kind of, entering all this now, have you -- if you can talk about the trends you've seen? Any slowdown from the traffic -- tariff stuff or anything on that sort?

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

No, it's a good question, Nigel (sic) [Bhupender]. We have not seen any demand impact from the -- no demand impact, nothing. And we're almost through July, and July looks really strong in terms of orders. So right in line with our plan and no slowdown at all. So we're feeling really about the orders and the outlook, and the outlook we haven't seen a demand impact at this point.

Bhupender Singh Bohra - Wolfe Research, LLC - Research Analyst

Okay. And looks like with the Motec, you have a new platform here. If you can just give us some sense of where do you want to grow in this particular machine-vision robotics space here?

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

Yes. We have a business in the U.S. called ISE. And it's a natural fit with the ISE. And it's complementary and adjacent market. So ISE has customers in the U.S. that Motec doesn't have, and Motec has customers in Europe that ISE doesn't have. And the demand ramp that Motec's going through is very, very extreme, and AMETEK is well positioned to help them do that. So it's really a great business and a secular growth market. And as I said, the combination of the cameras for harsh environments, the video processing and moving the video around a vehicle or a transportation platform, and also, the specific algorithms that let them improve processes and increase safety is really unique. And we're really optimistic about it.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

Bhupender Singh Bohra - *Wolfe Research, LLC - Research Analyst*

Okay, yes. Dave, I remember, when you acquired Rauland last year, you gave some market snapshot, the market growth in the health care business. Is there something, kind of, on a separate platform basis, or is there a market size, which you are looking at?

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

Right now, this is -- it's small enough that it'll be with one of our existing businesses. But I could see this expanding into something bigger. And there's certainly more acquisitions that we're looking in this space because we think it's a high-growth space.

Operator

And our next question comes from the line of Joe Giordano from Cowen.

Tristan Margot - *Cowen and Company, LLC, Research Division - Associate*

This is Tristan in for Joe. Just a quick question on military spending. I don't know if you're seeing any acceleration there as it pertains to the platforms. And I don't know if you can highlight anything on F-35 specifically.

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

Yes, with military spending, as we had mentioned on some prior calls, Tristan, it's really picked up, and we're on a lot of legacy platforms, and we're on a lot of new platforms. And in fact, the F-35 is the largest single platform that AMETEK has won to-date. So we're very bullish on the F-35. So we're seeing continuing spending there and looking forward to satisfying the customer demands. And it's also not just the U.S. Military, but we have a business in the U.K. that serves the international markets. So we're seeing a strong growth there also. So we're bullish on the military market. We have outlook for mid-single-digit growth for this year. And it's still a largest part of our Aerospace business. It's about 35% of it. So it's substantial for us.

Operator

And our next question comes from the line of Daniel Loughran from Bank of America Merrill Lynch.

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

It's actually Andrew Obin for Danny. Just a question, a broader question. As you guys think about CapEx trends, we've had the Tax Reform, we've had the tariffs. When you talk to your customers, do you think people are more likely to spend on CapEx going into '19? Less likely? Do you think your customers would be thinking how they're going to spend in CapEx in the U.S.? Just, what are you seeing?

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

We're seeing good global growth. I mean, the U.S. market for us was the strongest of our geographies. It was up 9% in Q2. And clearly, Tax Reform has an impact, but customers aren't talking to us about Tax Reform. They're just talking about meeting demand. And we also saw strong growth in China. China was up 14% for us in the quarter. And high single digits and great in all of Asia, and we had mid-single digits in Europe. So we're not seeing any impact on the demand side, and most of the customers in the U.S. are benefiting from Tax Reform. And I think there are -- with all



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

the tariff discussions, I think most people are monitoring those, but it's not stopping them from going forward with business activity because the demand environment is so strong.

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

Got you. So if you were to guess what inning we are in terms of, sort of, CapEx cycle, once again, talking to your customers, what would you guys guess?

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

Yes. I would guess -- my feeling is, we went through an industrial recession in '15 and '16, and we're coming out of that, and I think we're in the fourth inning.

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

Got you. And -- yes, sorry. Just a follow-up question. I think, Fortive announced a series of deals, sort of, shifting their model, sounds like on the margin more toward Roper has been doing. How do you guys think about, sort of, adding software longer term to your portfolio? And I apologize if the question has been asked. I've been a little bit late.

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

Could you repeat the question, Andrew? The last part.

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

Just the question, Fortive has announced software-as-a-service acquisition and other software-as-a-service acquisition. It seems more industrial as sort of doing software deals. How do you guys think about software acquisitions going forward?

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

Yes. I mean, software is an important part of AMETEK's portfolio. A lot of our EIG businesses, our niche leaders and softwares are critical components. So we're certainly exploring opportunities and the business that we announced today, Motec, software is critical to that business. Our Rauland-Borg business that we purchased in Q1 of '17, that business has a barging enterprise software business. So software is important to us, and we are looking at the businesses that could help us that help our existing businesses in that area.

Operator

And that concludes our question-and-answer session for today. I'd like to turn the call back over to Kevin Coleman for closing remarks.

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

Thank you so much, Glenda. Thanks, everyone, for joining our call today. And as a reminder, replay of today's webcast may be accessed in the Investors section of ametek.com. Thank you, and have a great day.



JULY 31, 2018 / 12:30PM, AME - Q2 2018 Ametek Inc Earnings Call

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.