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AME - Q4 2014 Ametek Inc Earnings Call

EVENT DATE/TIME: JANUARY 28, 2015 / 1:30PM GMT

OVERVIEW:

AME reported full-year 2014 diluted EPS of $2.42. 4Q14 sales were $1.02b, net income was $155.2m and diluted EPS was $0.63. Expects 2015 revenue to be up mid-single digits on percentage basis from 2014 and diluted EPS to be $2.58-2.63. Expects 1Q15 sales to be up mid-single digits from 1Q14 and diluted EPS to be approx. $0.61-0.63.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the AMETEK Q4 2014 earnings conference call.

(Operator Instructions)

As a reminder this conference is being recorded Wednesday, January 28, 2015. I would now like to turn the conference over to the Vice President of Investor Relations, Mr. Kevin Coleman. Please go ahead, sir.

Kevin Coleman - *Ametek Inc - VP of IR*

Think you, Frank. Good morning, everyone. Welcome to AMETEK's fourth-quarter earnings conference call. Joining me this morning are Frank Hermance, Chairman and CEO; Bob Mandos, Executive Vice President and Chief Financial Officer; and Dave Zapico, Executive Vice President and Chief Operating Officer.

AMETEK's fourth-quarter results were released earlier this morning. These results are available electronically on Market Systems and on our website at the investors section of www.Ametek.com. A tape of today's call can be accessed until February 11 by calling 800-633-8284 and entering the confirmation code number 21758655. This call is also webcasted. It can be accessed at www.AMETEK.com and www.streetevents.com. The call will be archived on both of these sites.

I will 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 AMETEKs 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 investor section of www.AMETEK.com for a reconciliation of any non-GAAP financial measures used during this conference call.

We will begin with prepared remarks, and then we will open it up for questions. I'll now turn the meeting over to Frank.

Frank Hermance - *Ametek Inc - Chairman & CEO*

Thank you, Kevin, and good morning, everyone. AMETEK had a strong fourth quarter to complete another excellent year. In the quarter on an adjusted basis we established records for operating income, net income, diluted earnings per share and operating cash flow. In the fourth quarter, we incurred additional Zygo integration costs of approximately $0.01 per diluted share.

Including the costs from the third quarter, total Zygo integration costs in 2014 are approximately $0.05 per diluted share. The additional fourth-quarter integration costs increases the expected Zygo synergy benefit from $15 million to $20 million. All financial results and commentary on the call today will be on an adjusted basis excluding these integration costs.

Now, onto the full year and fourth-quarter results. For the full year 2014, we established records for essentially all key financial metrics including orders, sales, operating income, operating margin, net income, diluted earnings per share, and operating cash flow. Sales were up 12% for the year; orders were up 13%; operating income was up 13%; operating margins were 22.8%; and diluted earnings per share ended at $2.42, a 15% increase over 2013's diluted EPS.

In the fourth quarter, sales increased 9% to $1.02 billion. Organic growth was up 2% against a very difficult comparison in the fourth quarter of 2013 while acquisitions added 9% and foreign currency was a 2% headwind.

Organic growth in the fourth quarter was excellent with broad-based strength across our businesses. Overall orders were up 10%, and organic sales were very strong, up 7% on orders.

Operating income for the fourth quarter was very strong. It increased 10% to a record $232.3 million. Operating income margin in the quarter was also very strong at 22.7%, a 40 basis point improvement over the fourth quarter of 2013.

Net income was up 14% to $155.2 million, and diluted earnings per share of $0.63 were up 15% over last year's fourth quarter. Both net income and diluted earnings per share were records.

Operating cash flow was $213.3 million in the fourth quarter. For the full year, cash flow was $726 million, up 10% over 2013. Free cash flow was excellent at 125% of net income in the fourth quarter and 112% of net income for the full year. And working capital was also very good at 17.1% of sales in the quarter.

Included in our fourth-quarter results is approximately $0.02 per diluted share of realignment costs which will contribute an approximate $0.04 per diluted share benefit in 2015 and $0.06 per diluted share benefit in 2016. Considering these of realignment costs, the quality of earnings in the fourth quarter was excellent.

Now turning to the individual operating groups. The Electronic Instruments group had a very strong fourth quarter and an excellent year. For the quarter sales were up 14% to $644.4 million driven by strong growth in our aerospace business plus the contributions from the recent acquisitions. Internal growth was up 1% on a very difficult comparison while acquisitions added 14% and foreign currency was a 2% headwind.

EIG's operating income increased 11% to $168.1 million, and operating margins were 26.1% in the quarter. Excluding the dilutive impact of recent acquisitions, EIG operating margins were up 70 basis points over last year's fourth quarter.

The Electromechanical group also had a very good quarter. Sales were up 1% to $379.8 million on strong growth in our precision motion control and engineered materials interconnect and packaging businesses.

Organic sales were up 3%, and foreign currency was a 2% headwind. EMG's operating income increased 9% to $77 million, and operating margins were very strong at 20.3% in the quarter, up 150 basis points from the previous year.

Now turning to our four growth strategies of operational excellence, global and market expansion, new product developments, and strategic acquisitions. First I will touch on acquisitions.

We had a very active the year acquiring five businesses including Teseq, VTI Instruments, Luphos, Zygo, and AMPTEK. We deployed approximately $575 million in capital and acquired roughly $285 million in revenue in 2014. Over the last 18 months we acquired eight businesses, deployed nearly $1 billion in capital and acquired approximately $460 million in annual revenue.

The integration of these acquired this is going very well. In addition to driving operational improvements and efficiencies through leveraging our global capabilities we are focused on achieving sales, market, and technology synergies between the acquired businesses and our existing businesses. Acquisitions will continue to be a key focus for us during 2015 as we see this strategy as a key driver to the creation of shareholder value.

We have the financial and managerial capacity and disciplined approach to support this acquisition focus. Our balance sheet, cash flow and financing facilities provide us with ample liquidity also to pursue this strategy.

Now turning to global and market expansion. Global and market expansion continues to be an important contributor to our growth as we are increasingly expanding our presence in attractive, higher growth market segments and geographies. International sales represented 54% of our total sales in the fourth quarter and 55% of our total sales for the full year.

We continue to make investments globally to develop and expand our sales channels, service capabilities, and manufacturing footprint in order to position our businesses to capitalize on the attractive growth opportunities in these international markets. Providing customers with high-quality service capabilities is increasingly being viewed as a key differentiator for our product sales especially in China, India, and Southeast Asia.

These investments are yielding strong results. In 2014 we saw excellence growth across the brick regions with overall growth of 17% and organic growth up 10%. China was a key driver of this growth up 13% organically in 2014.

Now moving to new products. New product development is a key internal growth driver and critical to our long-term health and growth. We have consistently grown our investment in RD&E to ensure our businesses are developing the right products to serve our customers and markets.

In 2014 we spent approximately $210 million on RD&E which was up 17% from 2013, and in 2015 we expect to spend approximately $220 million. I'll now talk about some new product introductions that we've recently done. AMETEK process instruments business recently launched our latest sulfur recovery analyzer the model 888 tail gas analyzer. AMETEK is the clear market leader in sulfur recovery analysis with over 1000 analyzers installed worldwide with more than 100 million hours of run time.

With the introduction of the new model 888 analyzer we have taken sulfur recovery analysis to the next level. Our third generation analyzer offers advanced predictive diagnostics, remote PC Web-enabled interface, and enhanced safety features. In addition, it automatically detects and takes immediate corrective action in response to commonly encountered external failure modes in the sulfur recovery process.

AMETEK's vision research business introduced its new Phantom Miro C series high speed digital video cameras at the North American automotive testing Expo in late 2014. These compact video cameras feature a ruggedized design with the ability to withstand shocks up to 170 G's. This makes it the ideal choice for any number of extreme applications including onboard automotive crash testing. Digital high-speed video serves one of the most valuable tools researchers have in conducting crash test analysis, and the new Miro C series offers performance and image quality unsurpassed by our competition.

Lastly, AMETEK EDAX recently launched their first product incorporating key technology acquired as part of the recent AMPTEK acquisition. AMPTEK, which we acquired in 2014, provides x-ray and gamma ray detectors used to identify the composition of materials.

Utilizing AMPTEK's fast silicon drift detector technology, this new elemental analysis system delivers a compact and lightweight product that provides a level of measurement performance including resolution and output count rates that aligns extremely well with many industry applications.

This new product is targeted at the industrial energy dispersive spectral analysis market and the tabletop scanning electron microscope market, both target markets for EDAX expansion.

From an overall perspective, revenue from products introduced over the last three years was excellent at 25% of sales in the quarter and 23% for the full year. This reflects the tremendous work of our businesses in developing the right products to serve their customers.

Lastly, I will touch on operational excellence. Operational excellence is the cornerstone strategy for AMETEK. Our focus on cost and asset management remains a key driver to both our competitive and financial success We continue to see tremendous results from our operational excellence initiatives as is evidenced by our record operating performance, strong operating margins and excellent working capital levels.

Our management teams and employees continue to do an excellent job driving continual operational improvements through their businesses by leveraging the operational excellence tools we have in place throughout the Company. OpEx includes lean manufacturing, six sigma in our factories and back-office operations, design for six sigma in our new product development efforts, global sourcing and strategic procurement initiatives, movement of production to low cost locales, and value engineering.

Overall, we realized approximately $100 million in savings in 2014 through our various operational excellence initiatives. The largest contributor to this was our global sourcing office and strategic procurement activities where we recognized $19 million in savings in the fourth quarter and over $70 million in savings for all of 2014.

For 2015, we expect approximately $110 million in total savings through our operational excellence initiatives including $70 million in savings through our global sourcing office and strategic procurement initiatives. Included in this over 2000 -- overall 2015 savings amounts is approximately $13.5 million of savings from the realignment costs included in our fourth-quarter results.

Turning now to the outlook for 2015, we expect our businesses overall to show solid growth during 2015 with balanced organic growth across both operating groups. We anticipate 2015 revenue to be up mid-single digits on a percentage basis from 2014. Organic growth is expected to be up low- to mid-single digits for all of AMETEK and for both operating groups.

Earnings for 2015 are expected to be in the range of $2.58 to $2.63 per diluted share, up 7% to 9% over 2014 reflecting the leveraged impact of core growth, our operational excellence initiatives and the benefit of contributions from recent acquisitions. First-quarter 2015 sales are expected to be up mid-single digits from last year's first-quarter. We estimate our earnings to be approximately $0.61 to $0.63 per diluted share, up 7% to 11% over last year's first quarter.

Our solid backlog, strong portfolio of businesses, proven operational excellence capabilities and a successful focus on strategic acquisitions should enable us to perform well in 2015. So in summary, our overall businesses performed very well in the fourth quarter and in 2014 producing records for essentially all key financial metrics on an adjusted basis.

Our team did an excellent job navigating the modest worldwide growth environment. We were able to deliver exceptional operating results through a focus on executing our growth strategies.

Our balance sheet remains strong, and our significant cash flow generation provides us with plenty of liquidity to operate the business and pursue our acquisition strategy. We remain committed to making sizable investments in new product development as well as global and market expansion to position ourselves for future growth.

We really look forward to another successful year in 2015. Bob will now cover some of the financial details, and then we will be very glad to answer your questions.

Bob Mandos - *Ametek Inc - EVP & CFO*

Thank you, Frank. As Frank noted, we had an excellent fourth quarter with strong operating performance and an excellent quality of earnings. I will provide some further details.

In the quarter, organic selling expenses were up less than organic sales on a percentage basis. General and administrative expenses were up 8% over last year's fourth quarter driven by a contribution to the AMETEK charitable foundation in the fourth quarter.

As a percentage of sales, general and administrative expenses were 1.2% of sales in line with last year's fourth quarter. In the fourth quarter, total other expenses were down approximately $4.5 million versus the fourth quarter of 2013. This $0.01 per diluted share benefit was more than offset by realignment costs of $0.02 per diluted share taken in the fourth quarter, resulting in a high quality of earnings.

The effective tax rate for the quarter was 27.1% essentially in line with last year's fourth quarter of 27.2%. We are very pleased with the success of our ongoing international and state tax planning initiatives. For 2015 we estimate our tax rate to be between 28% and 29%. As we have said before, actual quarterly tax rates can differ dramatically either positively or negatively from this full-year rate.

Overall, our quality of earnings was excellent in the quarter. On the balance sheet, working capital, defined as receivables plus inventory less payables, was a very strong 17.1% of sales in the fourth quarter and 17.6% for the full year. We remain one of the top performers in our peer group, and our working capital performance is a direct reflection of the tremendous strides our business units have taken in driving towards operating excellence.

Strong working capital management will remain a key priority. Capital spending was $24 million for the quarter and $71 million for the full year. Full year 2014 capital expenditures were 1.8% of sales. 2015 capital expenditures are expected to be approximately $75 million.

Depreciation and amortization was $36 million for the quarter and $139 million for the full year. 2015 depreciation and amortization is expected to be approximately $150 million.

Our cash flow was excellent in the quarter and for the full year. Operating cash flow for the quarter and full year were records. In the fourth quarter, operating cash flow was $213 million, and free cash flow was $189 million, representing 125% of net income.

Full-year operating cash flow was $726 million, up 10% over 2013, and full-year free cash flow was $65 million or 112% of net income. Our strong cash flow was deployed to support our acquisition strategy where we expended approximately $575 million on transactions in 2014.

In addition, in the fourth quarter, we repurchased approximately 4.7 million shares of stock for approximately $243 million. These repurchases were in line with our stated strategy to offset the dilutive impact of our benefit plans with optimistic share repurchases.

Total debt was $1.71 billion at December 31, up approximately $300 million from 2013 year end driven largely by acquisitions and share repurchases. Offsetting this debt is cash and cash equivalents of $378 million resulting in a net debt to capital ratio at December 31 of 29.2%. At December 31, we had approximately $1.2 billion of cash in existing credit facilities to fund our growth initiatives. Our highest priority for capital deployment remains acquisitions.

In summary, we had an outstanding 2014 establishing records for essentially all the key financial metrics. We are well positioned for further growth both organically and through acquisitions with a strong balance sheet and cash flow.

Frank Hermance - *Ametek Inc - Chairman & CEO*

Great. Thank you, Bob. Frank, we will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Alison Poliniak, Wells Fargo.

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

Obviously we can't let this call get away without talking about energy. Frank, can you give us a sense of what you're seeing out there today and how we should think about 2015 in the parameters of what you talked about with guidance?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Sure, Alison. In essence, we have included in our estimates what we believe is going to be the impact of oil prices falling to the levels that they're at which is obviously a very depressed level. If you look at our business, we have about $125 million of our business that is focused on upstream oil and gas.

And in total if you look at the amount of business when you include the downstream and the midstream piece, it's about $400 million. We've done a roll up. We estimate that the impact on our business is going to be about $40 million in sales. As I mentioned, that's included in our estimates. The majority of that is in that $125 million upstream part of the business.

So we believe we have the impacts covered. There will be a counter effect that's positive that is difficult to predict in terms of exactly what the magnitude will be, but there should obviously be a positive impact on the US economy that should result from this reduction in oil prices. But we haven't assumed any of that in our estimates.

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

That's great. Just touching on your EBIT expectations for 2015. We continue to hit new highs. How should we think about 2015 just given the mix of your business now?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Another great question, Alison. We have rolled up, in a very detailed manner, the budget for 2015, and although our margins are very good and very high, we do expect that we can continue to expand margins, and we are estimating a 30 to 40 basis point improvement in margins for 2015 over 2013 or 2014. And the drivers for that are really two things. One, is the fact that we expect organic growth in 2015 to basically have a very high contribution margin going to the bottom line.

As you've heard us speak before, our contribution margins are very good. In 2014, the actual contribution margin for the Company was actually greater than 40%. We have told you to estimate 35% for our contribution margins, but we tend to outperform that, so you take that organic growth and that will go to the bottom line through that contribution margin and thus that will be a lift on the margin performance of the Company. The second thing is our very aggressive cost reduction activities.

You heard in my opening comments that we're, I would say, conservatively expecting $110 million of cost improvements going through the P&L in 2014. We've been aggressive on the cost side. You heard the $0.02 of realignment costs that we put in the fourth quarter. As we saw the price of oil go down and we saw some of the FX impacts, we decided to take a bit aggressive stance in terms of additional cost reductions. So we're pretty confident in that $110 million of savings, and you sum those two and that leads to basically the 30 to 40 basis points of margin improvement.

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

Perfect. Thanks so much.

Operator

John Baliotti, Janney Capital Markets

John Baliotti - *Janney Montgomery Scott - Analyst*

Frank, obviously a lot of the strategic M&A activity over the years has been in EIG, but EMG's performance in 2014 was very solid. I'm sure you're aware of that. You've always been -- the Company's always been very consistent with the outlook for the year, so I was just wondering how does that -- the operational focus and the benefits that you've gotten this year -- how does that position in terms of manageability of the operations in this environment? It's obviously a tougher year I think than we expected.

Frank Hermance - *Ametek Inc - Chairman & CEO*

I think that's right. I think everybody looking at 2015 now versus just a few months ago are seeing headwinds if you're in the general industrial space as we are. And we feel this positions us in a very, very positive way. We are very, very good at cost and asset management. You just heard me talk to Alison about the basic improvements we're going to put through the P&L which helps when the economic environment is not as strong as we would all like on a worldwide basis.

And we view it as a great time to be aggressive in the acquisition front. We've got plenty of cash flow as Bob mentioned in his opening remarks. We're going to focus on acquisitions, and we believe there are good targets out there that we can buy at reasonable multiples, add value to, and continue the growth of the Company through both organic and acquisition type of activities.

John Baliotti - *Janney Montgomery Scott - Analyst*

So to that point, I know you've done a number of the deals especially in the aerospace area have been complementary where they fit in nicely. The are nice tuck ins with their current operations. Does the environment -- does that strengthen the conversation you have with other companies where they might be more focused might, be more concentrated in an area? Does that open up the conversation a little bit more now given this environment than maybe a year ago?

Frank Hermance - *Ametek Inc - Chairman & CEO*

I think in general I would say if I look back in history, obviously we've been doing deals for many, many years and what tends to happen when the global economic environment is sort of difficult, many companies decide it's a good time to buy -- or sell. So it's a great time for us to look at buying those companies. We continually and think you know, John, we've got a team here that nourishes deals, works with companies over an extended period of time and on occasion they will just come to us and say -- hey, now we are ready. And I think the global economic environment will foster some of that.

John Baliotti - *Janney Montgomery Scott - Analyst*

Great. Thanks very much.

Operator

Matt McConnell, RBC Capital Markets.

Matt McConnell - *RBC Capital Markets - Analyst*

The 4.7 million shares that you repurchased in the quarter, is that more than you would need to offset dilution? And I wonder if based on the cash flow and the balance sheet, could you enter a period where you do both buybacks and acquisitions? I know obviously acquisitions are the primary use of capital, but do you have enough flexibility to do both going forward or is this more of a one-time repurchase?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Yes, if you look with the amount of shares that we bought back, the 4.7 million shares, and you look back over the last few years, we have not bought back any shares. As Bob mentioned in his opening remarks, we do that opportunistically. We felt that the stock price actually didn't move as well as one would expect in 2014 given our truly superlative performance. So we took advantage of that.

And in essence, that 4.7 million shares does offset the dilution if you look back over a number of years. We're not changing our strategy. We are basically going to focus on acquisitions as you said. Would it be possible in the future that we take some of the capital and buyback more shares? I never want to say no, but that's really not our thrust. We think that we can create the most value for shareholders by basically buying companies and making them better and getting the synergies with our present operating units.

So there is no present intent to do some type of major buyback. Also implied in your question is, do we have the flexibility if we wanted to do some buybacks along with doing acquisitions? Absolutely. The cash flow of the Company is superlative as Bob mentioned. There's a significant amount of capital that we have available to us.

So we are not capital constrained. And if we got to a point where there weren't as many deals on the table as we would like, we would surely consider it. But it's not our present thought process.

Matt McConnell - *RBC Capital Markets - Analyst*

Since we have Dave on the call, maybe I can touch on a business which I think you should know well, just a status update on Zygo. So maybe give us a sense of what kind of margin improvement has been driven there over your six or seven months owning it. And I know that this probably has margin potential above the AMETEK average, so there are probably some big initiatives left on the integration front. So can you walk us through what the priorities are and maybe the timeframe for reaching what you think is the margin potential at Zygo?

Dave Zapico - *Ametek Inc - EVP & COO*

Sure. As Frank mentioned earlier, we took an additional $5 million of costs to get -- increase our benefits that we're going to get from Zygo at about $20 million in cost synergy. And we are very pleased with the progress and integration we've had so far. When we bought the business, the margins were in the low teens, and we ended the year in the mid-teens and at the end of 2015 we expect to be in the high teens. And as you said, we expect it to be above the AMETEK average when we are done. We are really seeing efficiency in all areas that we can improve the business.

The most -- the biggest change that you see right now is we have put a new management team in place. There's an AMETEK P&L leader and an AMETEK finance leader at the business. And they've gone through and put a new work structure in place that brings P&L accountability to the business. I think that long-term, we're very bullish with the Zygo technology and the AMETEK financial discipline and OpEx we're going to have a great return for shareholders.

Operator

(Operator Instructions)

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Just wanted to dive into the current state of the pipe line, Frank if you could, talk a little bit about the relative degree of actionability across the size ranges and then in particular if any of the deals over the past couple of years are really supporting their own active pipeline.

Frank Hermance - *Ametek Inc - Chairman & CEO*

Yes, actually hat's a great question, Chris. The pipeline remains good in terms of size of deals. We are looking at deals that spread all the way from technology deals where the revenue is not all that significant to what I would say are the typical sized deals for AMETEK which would be in that sort of $100 million revenue category. And our pipeline also includes larger deals.

Deals that are up in the $500 million kind of range in terms of sales. As you know and what I've said many times, we are not looking to do a merger of equals. So we're not looking at companies that are sort of multi-billion dollars in size. But we've got a good range of deals. There are actionable deals and you never can tell when a deal is going to close or if it's going to close, but we are remaining very, very active, and it's a top priority of our management team to focus on deals and bring them home.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay and then a bit of a bookkeeping question. Given the magnitude of FX changes that was seen is there a rule of thumb how translation impacts incremental margins in overall dropthrough to the bottom line?

Frank Hermance - *Ametek Inc - Chairman & CEO*

No we really don't have the kind of rule of thumb. But I can tell you to give you a flavor of that, if we looked at 2015, we looked at currency rates that are pretty close to where they are today, and the impact was about 2% on the top line maybe a little bit greater than 2% on the top line. And on the bottom line it was about $0.05 per share.

So that sort of gives you a calibration point, and we have included that in our estimates so that we are assuming that kind of currency impact. We're relatively balanced in terms of cost and sales in currencies so that the impact on us is there. Wish it weren't, but it's not all that sizable.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

So just to be clear, your guidance isn't tethered to like a 12/31/2014 exchange rates?

Frank Hermance - *Ametek Inc - Chairman & CEO*

No it isn't that close. It's probably the average over the last four to eight weeks. Something like that.

Operator

Scott Graham, Jefferies.

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Scott Graham - *Jefferies & Company - Analyst*

I'm going to, of course, Frank, ask you to unbundle the business units if you don't mind. But I had a couple of -- for the organic growth that is -- I had a couple of other housekeepers I wanted to maybe piggyback on Chris's question. What was the impact of FX EPS-wise in the quarter?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Virtually nothing. Virtually nothing on the bottom line in terms of EPS.

Scott Graham - *Jefferies & Company - Analyst*

Roght. What are the Company realize in pricing for the fourth quarter?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Another good question. We're up about 1.6% in pricing. Just to follow on the inflation was about 0.8%. So the net of those two was about 0.8% to the bottom line.

Scott Graham - *Jefferies & Company - Analyst*

And that's exactly where this question was going. Do you expect to be sort of price-cost positive in 2015?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Absolutely, Scott. We focus on that ratio like a hawk is probably the best way to describe it. And our estimates -- and it's somewhat difficult to estimate exactly, but our estimates right now are between 1.5% and 2% on pricing, and inflation running a little bit higher this year. Probably closer to 0.8%, 0.9%, 1%, something in that region. So that's essentially what's baked into our budget.

Scott Graham - *Jefferies & Company - Analyst*

And my last question, again before you unbundle things for us, Frank, again if you would. The productivity number as expected, as I expected at least, $100 million-plus. Typically however you get there without the need for any realignment, because you kind of take your second and third pass through acquisitions and what have you. I guess my question is, is there upside to that $110 million for 2015?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Absolutely. It's a conservative number. You know our history, Scott. We typically come out with a number and then as our operating units perform and we have confidence that they're going to do more, we will raise that as the year goes on. So I personally would be disappointed if we didn't end up well above that $110 million number. But we'll update you in each quarter.

Scott Graham - *Jefferies & Company - Analyst*

That would be great. Thank you.

Frank Hermance - *Ametek Inc - Chairman & CEO*

I will give you an update on the various businesses as Scott asked. I'll start with EIG. EIG aerospace had really a super fourth quarter with organic sales and orders both up low double digits reflecting excellent growth in our regional and business-to-business and a continued strong growth in our commercial aerospace business.

As we look ahead to 2015, we expect EIG aerospace sales to be up in the mid-single-digit region, and that's going to be driven by the continued ramp up of our key commercial OEM platforms and solid growth in business and regional jets. Our process businesses had a solid fourth quarter to complete really an excellent year. In the fourth quarter overall sales were up low double digits on a percentage basis. Organic sales were flat, but it was against a very difficult comparison from the prior year.

Overall growth was driven by contributions from the recent acquisitions which were Creaform, VTI instruments, Luphos, Zygo, and AMPTEK. We are already seeing the benefits, as I mentioned in my opening talk, from the AMPTEK acquisition with the introduction of a new product at EDAX using AMPTEK's detector technology. Also, the introduction of a number of new products at Creaform has been very well received by their customers.

So in mid-2015, we're optimistic. We expect our process businesses to grow mid- to high-single digits overall with mid-single digit organic growth. And the third part of EIG is power and industrial. Power and industrial businesses had a strong fourth quarter. Overall sales were up approximately 24% with the growth driven by the contributions from Teseq and Powervar.

These two acquisitions that we did recently, and we're very pleased with the success of those acquisitions both of those businesses are performing quite well and are actually exceeding the models we put in place for them. And for 2015, we expect both overall and organic sales for power and industrial to be up low- to mid-single digits. So if you sum those three parts of EIG, for all of EIG for 2015, we're expecting overall sales to be up mid-single digits on a percentage basis with organic growth up low- to mid-single digits.

Moving on to EMG. Our differentiated businesses had a great fourth quarter with strong sales and order performance. Sales were up mid-single digits driven by strong growth in our precision motion control and our engineered materials interconnect and packaging businesses. Orders were really strong. They were up 10% organically. For 2015, we expect our differentiated EMG businesses to be up mid-single digits overall and organically.

And the last part of the Company, our floor care and specialty motors business. The sales in that business were down mid-single digits organically in the quarter, and that was against a very difficult comparison from the prior-year, and for 2015, we expect sales for this business to be up low-single digits organically. And if you sum those two parts of EMG, for all of EMG, we expect both overall an organic growth of low- to mid-single digits on a percentage basis.

And that's how we then roll up the Company so that as a whole we are expecting mid-single digit sales growth overall with organic growth up in this low- to mid-single digit region.

Operator

Joe Radigan, KeyBanc.

Joseph Radigan - *KeyBanc Capital Markets - Analyst*

Frank, on the cost reduction targets, last year you came in expecting 90 cost savings [60] sourcing, obviously you did better than that as you do every year. Can you maybe just explain the process you go through to identify that number going into a year and then how you flex it up as necessary? I'm sure it's not just an arbitrary number out there, but maybe give a little bit more granular detail on how you derive that number?

Frank Hermance - *Ametek Inc - Chairman & CEO*

There's chuckling going on in the room, because it's really not arbitrary. We do a very extensive process as we go through the budgets for 2015. And for every one of our operations, we ask them to identify growth projects in terms of how they're going to grow the top line. We ask them to look at pricing.

We look very intently at inflation, and then we look at cost improvements that they need to put in the business so that they get a good return for shareholders. It's a very detailed analysis in each of those parts of the business. So every business has a cost improvement target that they are not only focused on, but there is also an element of their compensation which is related to it.

And what Bob does is rolls that up from throughout the entire Company, and that provides a number to us and quite frankly we gave that a bit of a haircut, because not every business unit is going to make their exact target as some are going to over perform some are going to under perform. And therefore when we first come out and talk with you, we give you a conservative number, and then as we go through the year, we will look to see how the overall Company is doing, and we tend to raise it.

And there will also be dynamics in businesses where they'll get into the year, and they'll say -- some businesses will say, the year looks a little tougher and we're going to do a little bit more in this area. And then there number goes up. So it's a flexible type thing. We look at it very closely and it's not just a swag. It's analytically driven.

Joseph Radigan - *KeyBanc Capital Markets - Analyst*

On the revenue side, book-to-bill has been below one for the last couple of quarters. I know you guys, a lot of your businesses are long cycle so orders can be lumpy. You can't really look at it necessarily on a quarterly basis, but in this kind of choppy organic growth environment, are there any growth accelerators that are within your control. I mean you're calling for low- to mid-single digit organic growth. How much of that do you think is within your control in this sort of environment?

Frank Hermance - *Ametek Inc - Chairman & CEO*

I think a fair amount of it is in our control. We are putting hefty investments in RD&E that we talked about. And obviously they're going to have an impact on the organic growth. And the products that come out and are produced the better they are the more market penetration we're going to get.

We're going to continue the investments in international regions. You heard some of the data that I provided with the strong growth that we are seeing in international. So we're going to continue to put those investments in and focus on the distribution system both outside the US and inside the US. And actually that book-to-bill that you're talking about it was 0.99 in the fourth quarter, but actually it was driven by the FX effect on backlog.

So if you take that out the book-to-bill was actually pretty much in line. So it's hard, as you mentioned, with the type of businesses we have to focus on that backlog number. But we feel pretty good about it. It's $1.2 billion. It's up a nice amount from the end of the previous year so -- and very importantly, the organic growth in orders in Q4 was very strong as I mentioned in my opening remarks.

It was up 7% so a very very good number. Actually the organic growth in orders for all of 2014 was up 4%, a fairly healthy number in this environment.

Joseph Radigan - *KeyBanc Capital Markets - Analyst*

Last one on the aerospace side. You talked about what you're seeing in EIG. Can you maybe talk about what you saw on the EMG side the third-party MRO and the military and what your expectations are for 2015 there?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Okay I'll take that. If you look at the MRO business, those markets for 2015 are going up 3% to 4%. That's the general market growth. We're calling for mid-single digits in that part of the business so we expect it to be reasonably good. The surprise is military.

We all expected that military was going to be a real drag on the business. And in fact, in the fourth quarter our military business was up mid-single digits, and we really scrubbed this number, but for 2015, we're expecting it to be up mid-single digits as well. That's being driven by a couple of things. It's not as much driven by the US military market as it is the international business.

We've got a good amount of content in military in Europe, and that business is doing quite well. So there's a fair amount of confidence. And actually when you look across all of aerospace for the Company for next year, we're looking at mid-single digit growth in essentially all the parts of aerospace. It might end up a little bit stronger in commercial than what we're calling for right now, because obviously there's some key drivers going on there with new platforms, but overall aerospace is a good picture for us right now.

Operator

(Operator Instructions)

Brian Konigsberg, Vertical Research Partners.

Brian Konigsberg - *Vertical Research Partners - Analyst*

A quick question, and I apologize if you discuss this already. The other income line you had a positive impact in the quarter. Typically that has seen some costs accrue into that line. Can you just spell out what that is and what -- is there any assumptions in 2015 that we should be aware of?

Bob Mandos - *Ametek Inc - EVP & CFO*

This is Bob. The answer to the question there is we had a settlement to the gain on some old insurance policies that relate to environmental policies that actually just benefit from in the fourth quarter and that's really what's lowing through.

Frank Hermance - *Ametek Inc - Chairman & CEO*

If I could just add to what Bob said. If you look below the operating income line, obviously we picked up a benefit there that was offset to some degree by the increase in interest expense that was due to the private placement we did, so we picked up sort of a penny below the line. But as we mentioned several times during the call, we actually took a couple of cents of realignment costs above the line and as a result, our earnings were really a very high quality, so we felt very good about that.

Brian Konigsberg - *Vertical Research Partners - Analyst*

And then your interest expense for 2015. You expect that to be mid-80s?

Bob Mandos - *Ametek Inc - EVP & CFO*

We expect that it's going to be an incremental increase of about $0.03 per share as we go into 2015.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Nothing in the other line?

Bob Mandos - *Ametek Inc - EVP & CFO*

No, I think the other line will kind of normalize as we expect 2015 to progress.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Understood. And then just one other question. The guidance on the process of business. You kind of spelled out for kind of I guess gave us a more detail on the exposures to up mid-and down. You are seeing the main exposure on the upstream was $125 million. You're saying -- I think you're saying there's about a $40 million sales impact expected in 2015 which would expect a 10% drop. I guess if you just layer that in, and I think that's about 25% of the process business, it suggests the remainder of the business are expected to do really, really well.

Frank Hermance - *Ametek Inc - Chairman & CEO*

Yes, absolutely.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Maybe can you just give a little -- is that really -- is that how we should be looking at it?

Frank Hermance - *Ametek Inc - Chairman & CEO*

Yes, I'll let Dave take that question.

Dave Zapico - *Ametek Inc - EVP & COO*

The ultra precision technology business and the materials analysis division are now much bigger parts of the process, and they are tied to the general industrial market and the research market that's about 80% of the process business now. And those businesses are going very well. We are seeing organic growth related to new product introduction and global expansion. Those two businesses while the oil and gas business was growing very nicely through our acquisition strategy have become a much bigger part of process and that's where the growth is coming from.

Brian Konigsberg - *Vertical Research Partners - Analyst*

And then just mid and downstream. So you don't anticipate any impact those markets at all. We have started to see some cracks in a couple of downstream projects a couple refineries were canceled or pushed out last week. We saw a gas to liquids project pushed out. What is your expectation? Is that holding it firm in 2015, or are you baking in some potential weakness in numbers?

Dave Zapico - *Ametek Inc - EVP & COO*

We are baking in some potential weakness. It's not nearly like the upstream, but we are baking in some weakness. Basically we are balanced geographically in that part of the business, and we are seeing the larger international projects moving along. There is a big aftermarket component in that part of the business. About a quarter to a third of the business is aftermarket, and there's some demand drivers and environmental regulations that are impacting the business positively. So we see a slight decline but nothing like the upstream, and that's all factored into that $40 million.

Operator

Mr. Coleman, there are no further questions at this time. Please continue with your presentation or closing remarks.

Kevin Coleman - *Ametek Inc - VP of IR*

Great. Thank you very much. Thanks, everyone, for joining the call. A replay of the call will be available on www.AMETEK.com and www.streetevents.com, and as always I am available for further questions and can be reached at 610-889-5247. Thanks again.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day, everyone.