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AME - Q1 2015 Ametek Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 sales of $984.1m, adjusted net income of $152.9m and adjusted diluted EPS of $0.63. Expects 2015 revenue to be down slightly on percentage basis from 2014 and adjusted diluted EPS to be $2.58-2.63. Expects 2Q15 sales to be flat vs. 2Q14 and diluted EPS to be approx. $0.63-0.64.

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Frank Hermance *AMETEK, Inc. - Chairman and CEO*

Bob Mandos *AMETEK, Inc. - EVP and CFO*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AMETEK first quarter 2015 earnings conference call.

(Operator instructions)

As reminder this conference is being recorded, Wednesday, April 29, 2015. I would now like to turn the conference over to Kevin Coleman, Vice President Investor Relations. Please go ahead, sir.

Chris Coleman - *AMETEK, Inc. - VP of IR*

Great. Thank you, Suzy. Good morning, everyone. Welcome to AMETEK's first 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 first 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.

The tape of today's call can be accessed until May 13 by calling 800-633-8284 and entering the confirmation code number 21766195. This call is also webcasted, it can be accessed at www.ametek.com and www.streetevents.com. The call of the archived them 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 effect our future results is contained in AMETEK's filings with the Securities and Exchange Commission. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements.

I'll also refer you to the investor section of www.ametek.com for a reconciliation of non-GAAP financial measures used during this conference call.

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

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Thank you, Kevin, and good morning, everyone. AMETEK at a very good start to 2015 with double-digit earnings growth and excellent operating performance. Since we are seeing the effects of the continued strong US dollar, and a sluggish global economy, we proactively took actions in the first quarter to mitigate these facts. These actions position us to deliver earnings in line with our initial guidance.

The realignment costs in the quarter totaled $15.9 million or approximately $0.04 per diluted share. The savings resulting from this realignment is about $40 million in 2015 and $55 million on annualized basis.

We were very selective in these actions so our future growth will not be impacted. All financial results and commentary on the call today will be on an adjusted basis excluding these realignment costs.

Now onto the financial results. In the first quarter, sales increased 1% to $984.1 million. Organic growth was also up 1% while acquisitions added 4% and foreign currency was a larger than anticipated 4% headwind in the quarter.

Operating income for the first quarter increased 7% to a record $236.9 million. Operating income margin in the quarter was superb at a record 24.1%, 140 basis point improvement over the first quarter of 2014.

Net income was at 9% to $152.9 million and diluted earnings per share of $0.63 were up 11% over last year's first quarter and at the high end of our guidance range. Operating working capital was 18.2% of sales in the quarter.

Now turning to the individual operating groups. Electronic instruments group had a very good first quarter. For the quarter sales, were up 4% to $593.8 million driven by solid organic growth in our aerospace, power and industrial businesses. Plus the contributions from the recent acquisitions of Zygo and Amptech. Internal growth was flat. While acquisitions added 7% and foreign currency was a 3% headwinds.

EIG's operating income increased 7% to $160.5 million and operating margins were 27% in the quarter up 70 basis points from last year's first quarter. The electro-mechanical group also performed extremely well in the quarter.

Overall sales were down 3% to $390.3 million as a result of a 5% foreign currency headwind. Organic sales were up 2%. EMG's operating income increased 6% to $88.5 million and operating margins were superb at a record 22.7% in the quarter, up 190 basis points from the previous year.

Now turning to our four growth strategies of operational excellence, global and market expansion, new product development, and strategic acquisitions. The solid and balanced execution of these growth strategies by our employees is a principal reason for our ongoing success. Each of these strategies will continue to play a key role in driving our growth.

First I will touch on operational excellence. Operational excellence is the cornerstone strategy for AMETEK. We continue to focus on operational improvements and help drive both our competitive in financials success.

Our results this quarter reflect the tremendous impact of our operational excellence initiatives as we're able to expand operating margins 140 basis points to a record 24.1%. Our management teams and employees continue to do an excellent job driving continual operation improvements and efficiencies through their businesses by leveraging the operational excellence tools we have put in place throughout the company.

One such initiative is our global sourcing and strategic procurement activities where we continue to deliver exceptional results. For all of 2015 we anticipate approximately $70 million in savings from our global sourcing and strategic procurement initiatives.

Overall, we now anticipate approximately $145 million of total operational excellence savings in 2015 up from our initial estimate of $105 million of total savings. This $40 million increase in operational excellence savings is driven by the realignment actions we started in the first quarter.

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 increased our investment in our RD&E to ensure our businesses are developing the right products to serve our customers and markets.

In 2015, we expect to spend about $210 million on RD&E approximately 5% of total sales. We are excited about some reason new product introductions.

The new TalySurf I-Series Surface and Contour measurement tool from our Taylor Hobson business has been very well received since his recent launch. This high-resolution device offers automated, simultaneous surface and contour inspection. It features powerful software capabilities for the analysis of surface, finish and form and a unique temperature compensation system that ensures consistent performance regardless of the operating environment.

Our TMC business recently introduced their latest new product the Stage-Base 450. This product represents the latest generation of vibration and motion cancellation technology from TMC. The Stage-Base 450 was designed specifically to be the primary vibration cancellation system for high-precision semiconductor tools, an attractive high-growth market. It incorporates technical advances to compensate for building floor vibration while increasing semiconductor wafer processing throughput.

Lastly, our electronic components and packaging business a leading provider of electronic and electro-mechanical packages for harsh environment applications, unveiled its most recent design breakthrough from micro-electronic packaging. This design is a patent-pending S-Bend feed through that provides high fidelity for radio frequency signals.

The innovative design satisfies the need for higher frequencies and greater bandwidth an optical communications with capability greater than 80 GHz. The market feedback on this new design has been very strong. From an overall perspective revenue from products introduced over the last three years was strong at 22% of sales in the quarter and that is up from 20% of sales in last year's first quarter.

Now turning to global and market expansion. Global and market expansion remains an important part of our long-term growth as we look to expand our presence in attractive higher growth market segments and geographies. We are making 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.

International sales represent 52% of our total sales in the quarter and we continue to see strong growth in China where first quarter organic growth was up mid-teens. Also, as part of our acquisition integration process, we identify opportunities for acquired businesses to leverage AMETEK global infrastructure to help them quickly and efficiently expand globally. Acquired businesses have had tremendous success in expanding their global manufacturing, sales, and service capabilities to penetrate new markets.

One recent example is Amptech which we acquired last August. Amptek is opening up a new service center in our ACES facility in Shanghai. This expanded capability has already led to three large orders for their x-ray fluorescent detectors from Chinese OEMs.

Lastly, let me touch on acquisitions. Over the last 21 months, we have completed eight acquisitions, deployed nearly $1 billion in capital and acquired approximately $460 million in sales. Acquisitions will continue to be a key focus for us during 2015 as we see this strategy as a key driver for the creation of shareholder value. It remains the primary focus of our strong cash flow.

Our pipeline remains strong, we have the managerial and financial capacity and disciplined approach to support this acquisition focus. Our balance sheet, cash flow and financing facilities provide us with ample liquidity to pursue this strategy. We will continue to capitalize on our strong core competency of acquiring and integrating high-quality businesses that allows us to expand our presence in attractive market segments.

Turning to the outlook now for 2015. As a result of the strength of the US dollar and a continued slow macro growth environment, we now anticipate overall 2015 revenue to be down slightly on a percentage basis from 2014. We expect organic growth to increase low single digits on a percentage basis, which is at the low end of our initial guidance range. Currency is expected to be approximately a 4% headwind.

We continue to expect to earnings for 2015 to be in the range of $2.58 to $2.63 per diluted share up 7% to 9% over last year's adjusted earnings per share. Overall second quarter 2015 sales are expected to be flat versus the second quarter of 2014.

We expect our earnings to be approximately $0.63 to $0.64 per diluted share in the quarter up 3% to 5% over last year's second quarter. Our solid backlog strong portfolio businesses, proven operational excellence capabilities and a successful focus on strategic acquisitions should enable us to perform well in 2015.

So in summary, I am very pleased with our overall performance in the first quarter. Despite a number of macro headwinds, we are very confident in our ability to execute our growth strategies and continue to deliver strong earnings growth.

Bob will now cover some of the financial details and then we will be very glad to answer your questions. Bob?

Bob Mandos - *AMETEK, Inc. - EVP and CFO*

Thank you, Frank. As Frank noted, we had a good first quarter with very strong operating performance. I'll provide some further details.

In the quarter selling expenses were down slightly versus last year's first quarter. General administrative expenses were 1.2% of sales in the quarter, down from last year's first-quarter level of 1.3%.

Effective tax rate for the quarter was 28.1%. Down from last year's first quarter rate of 29.3% and in line with our expectations. The lower tax rate in the quarter was a result of an ongoing international tax planning activities.

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 the full-year rate.

On the balance sheet, working capital defined as receivables plus inventory less payables, was 18.2% of sales in the first quarter. Strong working capital management remains a key priority. Capital expenditures were $14 million for the quarter. The full-year 2015 capital expenditures are expected to be approximately $75 million.

Depreciation and amortization was $35 million for the quarter. 2015 depreciation and amortization is expected to be approximately $145 million.

In the first quarter we made a $50 million contribution to our US-defined benefit pension plan to offset lower discount rates and a change in the mortality payments. Excluding this contribution operating cash flow was $172 million in the quarter, up 7% over last year's first quarter.

Free cash flow was $158 million or 111% of net income. For the full year we expect free cash flow to be approximately 115% of net income.

Total debt was $1.67 billion at March 31. Down slightly from the 2014 year-end.

Offsetting this debt is cash and cash equivalents up $407 million. Resulting in a net debt to capital rent ratio at March 31 of 27.9%. At March 31 we had approximately $1.2 billion of cash and existing credit facilities to fund our growth initiatives. Our highest priorities for capital deployment remains acquisitions.

In summary, we had a very good first quarter and we are well positioned for 2015. Our ample financing capabilities and strong cash flows will continue to support our growth investments both organically and through acquisitions.

Chris Coleman - *AMETEK, Inc. - VP of IR*

Great, thank you, Bob. Suzy, we are now happy to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Allison Poliniak, Wells Fargo.

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

Hi, guys, good morning. So we've been hearing a lot the past two weeks sort of this pervasiveness of this oil and gas decline is where the tentacles reaching out into the industrial US, and, obviously, you talked about the export impact the foreign currency headwinds. What's the greatest impact in your minds to AMETEK right now? I guess facing a limited disability what can you see as we move to FY15 here.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Well in terms of oil and gas, we have given you an estimate at the beginning of the year that we thought we were going to be impacted about $40 million in our overall sales as a result of the oil and gas downturn. And in fact, that estimate is holding, that's roughly what we are seeing from the oil and gas downturn. The effect is obviously significant on the upstream part of our business. But it's offset by really better performance, or good performance, in the midstream and downstream sector.

Interesting this morning that BP and Total introduced their earnings. Their oil and gas businesses were down sizable a but less than what estimates -- analysts had expected and the reason was the same thing, that there midstream and downstream businesses were very strong. So I think were paralleling the market.

It shows the diversification of AMETEK's portfolio where any single part of the portfolio when it goes in decline is not going to have that significant an impact on the overall business. So that's how I would characterize the oil and gas segment for us.

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

Okay. And then just on investment growth in this environment, it seems like you've pulled your RD&E down a little bit. Any other areas you feel you need to pull down near-term just given for the uncertainty?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes. It's a great question on RD&E because, in essence, you're right that we had given a little bit higher number. It's actually the result of the translation because of the change in currencies. So the actual amounts of activity worldwide in the Company in terms of people working in the RD&E environment has not been substantially impacted. We have been very selective in our realignments, as I mentioned in my opening remarks, not to impact our long term growth. So that question is a great one.

If you look at the realignment that we did, we focused it on the operating side of the Company. I mean our factories and those parts of the business that will be impacted by a bit of a slower growth environment than what we had originally intended. So we have done some employment reductions, we have done some belt-tightening, we have done and will be doing some additional facility consolidations. But again very selective, not to impact our overall growth.

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

Great, thanks so much.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Okay, Allison.

Operator

Nigel Coe, Morgan Stanley.

Mike Sang - *Morgan Stanley - Analyst*

Hi, good morning. It's actually Mike Sang in for Nigel.

I had a quick question on the restructuring. The realignment that you guys announced. Could you give a sense on how that phases through. So the $40 million that you alluded to, Frank, how much of that came in Q1 and how much of that do you expect in Q2.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Virtually none in the first quarter. Fairly evenly split through the year, a little bit lighter in the second quarter, but definitely gaining full steam in the third and fourth quarters of this year.

Mike Coe - *Morgan Stanley - Analyst*

Great. And just to piggyback a little bit on Allison's question. She mentioned pressure that's pervasive in export demand out of the US? Is that something that you're seeing accelerate through the quarter and if you can quantify that, that'd be great.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

I wouldn't say accelerate through the quarter. When you look at the European economy, in particular with the dramatic change in the Euro, obviously, anything that you are exporting into that environment is going to be less competitive with respect to local suppliers than it was. We are very fortunate in that our portfolio is extremely differentiated and we have not had to make significant concessions, but there is no question the competitive issue does have an impact. It's just impossible to quantify. And I noticed that many other companies are not even talking about it, but I would clearly say it's having an impact on us but it is not that significant.

Mike Sang - *Morgan Stanley - Analyst*

Awesome. Thank you.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Sure.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Thanks. Good morning, everybody.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Good morning, Chris.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

I was just wondering if you could describe the linearity through the quarter into April?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes. Actually when you look at the linearity, it actually improved during the quarter. Looking at order input, order input did go up as we went through the quarter. So we feel relatively good about that, but still when you consider the global macros, that's why we decided to take a very conservative view on our organic growth for the year and why we decided to do the realignment that I've talked about.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. It sounds like the improvement was sort of gentle rather than a horrific January and a killer March so to speak.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes, I think that's fair. I'd love to use the word killer, but it's not appropriate.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Right. Any surprising divergences among end markets or geographies?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

No. I would say there's not amazing change. It's just that when you look outside the United States, you look in Europe, obviously that economy remains weak, Asia is still good but it's not as good as it has been. And that's being offset by a stronger US economy.

Our organic growth was actually up nicely in the United States. The issues we are seeing are largely offshore and largely focused in, really, Asia and Europe.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. On the restructuring, a couple angles I wanted to ask about. One as we move into the year is the thought that the restructuring payback sort of take the baton from belt-tightening in the earlier part of the year. And the second would be given all the acquisitions you've done over the past several years, is there maybe an opportunity to take a larger realignment position this year?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes. I don't feel the necessity to do any larger realignment. With what we've done, I've got significant confidence in the earnings in the guidance that we provided to you. I feel we had taken a conservative view of the top line and that has led to this restructuring. Something would have to radically change in the global environment in order for us to be required to do more.

In terms of opportunity, absolutely. There is significant opportunities that we see given the global environment so you might just as well take advantage of it. We are looking at a number of acquisitions. Several of them have high European content and you just take advantage of the global situations as they develop.

We're not going to change our strategy at all in terms of continuing a focus on the international environments, it's just that there a bit weak right now. But that will change over time.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Great. Sounds pretty good, Frank, thank you.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

You bet.

Operator

Matt McConnell, RBC.

Matt McConnell - *RBC Capital Markets - Analyst*

Thank you. Good morning, guys.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Hello, Matt.

Matt McConnell - *RBC Capital Markets - Analyst*

So the commentary about the strength across geographies was definitely helpful. I wonder if you can do something similar about end markets because I know the organic revenue outlook isn't down dramatically but you're towards a low end of the range and it sounds like oil and gas might not be the culprit there. Anything you can point to on the end market side that has the organic growth coming in towards a low end?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes. I mean if you look across our businesses and take a look at EIG's for instance, our aerospace and power and industrial businesses performed very well in the quarter, but our process businesses were the ones that weakened and what caused us to take a more conservative view on the organic growth. Obviously, the oil and gas impact that I talked about is in that process segment.

In addition, when we look at the weekends US economy, excuse me, Europe economy and the weakened, or slowing, Asia economy, that has across our businesses the most significant effect on our process businesses. So that was the key factor in why our organic growth in the EIG part of the business was a bit down from where we thought it was going to be at the end of the first quarter.

So I think if you focus on the process businesses, you focus on the global part of the process businesses because a major part of those businesses in terms of percentage is higher than our other businesses outside the US. That is a predominant area and the Company that took the impact.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. Thanks, that's helpful. And switching gears a little bit to M&A pipeline, it's been a few quarters since the deal and I know it's always lumpy. You have plenty balance sheet capacity, obviously. Anything on just seller expectations or the marketplace or what you're able to uncover? Just any update on what you're seeing on the M&A space would be helpful. Thanks.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes. I see our strategy of continuing to do acquisitions, as Bob and I both mentioned in our opening remarks. It is the prime use of our cash flow. And I'm quite optimistic about being able to do additional deals and deploy a significant amount of capital in this fiscal year. I can tell you we are actively working on deals as we speak. It is hard to predict when and if a deal is going to close, but I would be surprised if you didn't hear from us throughout the year.

Matt McConnell - *RBC Capital Markets - Analyst*

Okay. Sounds good. Thank you very much.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

You bet.

Operator

Robert McCarthy, Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Good morning, everyone. How's everybody doing?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Good.

Robert McCarthy - *Stifel Nicolaus - Analyst*

So I guess on the M&A question may be come at it from a slightly different direction, part of the problem or the opportunity for you on the M&A front is presumably you're looking at the properties that have a lot of European exposure and also probably a lot of them implied petrochemical exposure. Maybe not directly but there's going to be a sizable part of their end markets that are going to serve those end markets of those businesses.

So how does that inform your bid ask around what you're trying to do in terms of acquiring some of these companies? Because clearly even if you think your own core oil and gas exposure is manageable, you are going -- in terms of the rhetoric and terms of getting deals on the goal line, you're going to be fairly adamant about giving companies with oil and gas exposure a bit of a haircut in terms of evaluation. How do you see that playing out in terms of your opportunity set and your ability to close on some of these properties.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

If you specifically take the question on oil and gas, again as I mentioned the oil and gas exposure for AMETEK is not that significant, so when we look at our portfolio of deals, many of the deals were looking at do not have oil and gas exposure.

Having said that, I view it as an opportunity with companies that have oil and gas exposure. We're going to pay a multiple based on their earnings and the expectations that we see and we are very good at actually putting cycles in our models. We don't assume wherever a business is that that's going to be exactly what's going to happen in the future.

In oil and gas we value these, take into account their cyclicality and some companies need to sell. They're going to sell at a point that maybe isn't desirable for them, since the pricing could be a bit lower, but obviously is an opportunity for us. So I'm not shy about doing an acquisition in oil and gas. You just have to be clear in terms of what the projected earnings of that company is going to be.

But I would say just to reiterate looking at our portfolio of acquisitions and some of the ones we're working on now, one of them there is no oil and gas exposure, the other ones there's a little bit. So that's maybe the best way that I can characterize your question.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Yes, to be clear, just to close the loop here. I think you would argue with my premise that a lot of your M&A pipeline is tied to oil and gas related properties.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Exactly.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Okay. Fair enough. In terms of the restructuring, you've given a lot of detail around the benefits you expect to see. Have you talk specifically about a payback in association with the restructuring?

And maybe you could just give a little bit of complexion about the cash, non-cash in association with it. And where you're spending on the terms of logistics procurement or plan or people. How should we think about some of the complexion of the restructuring.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

You look at the amount of cost that we are taking. It's basically $16 million in one time costs, which is roughly $0.04 a share. And as I said, the annualize benefit from this is $55 million.

So you look at the payback and it's extremely good. That is because of the type of realignment, I really don't use the word restructuring because this isn't what I would call a major restructuring. It's a realignment. The return on this investment is absolutely incredible. We just felt it was necessary to do. In terms of your question on cash versus non cash, Bob, can you answer that?

Bob Mandos - *AMETEK, Inc. - EVP and CFO*

Essentially the entire $15.9 million is cash on the little bit of non-cash and there. Again this is focused on reduction in force, as well as the kinds of operating opportunities that we can get costs out of the business. So it's not in the concept of asset breakdown, this is true cost benefit that were going to see immediately and that's why it did a payback showing up so quickly.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Great. I guess I'll see you guys soon enough. Good luck with the rest of today.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Thank you.

Operator

Scott Graham, Jefferies.

Scott Graham - *Jefferies LLC - Analyst*

Good morning.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Hello, Scott.

Scott Graham - *Jefferies LLC - Analyst*

Okay, so I wanted to, and Bob gave me some of the answers to the questions I was looking for, the RIFs and the operating cost focus. Could you talk about which businesses these are may be more focused on because this is a realignment is not typical AMETEK. It's a little bit different than what we've seen for quite some time and go back to last downturn.

Maybe tell us, Frank, how you were thinking of this. How you conceived it because it is a little bit different than what you usually do. What business is most affected and, importantly, does this hurt the prospect of that $100 million productivity in out years from here?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Okay, Scott. I think what I will say is that when we looked at all of the macro environment issues that are going on right now that most companies are reporting, most companies took down their guidance. I look at this that when I give our guidance range there is a commitment from us to make those estimates and that is really embodied in the culture and the approach that AMETEK's taken for many, many years.

So as we saw the growth prospects coming down by a few points, we just didn't wait around. We're going to take actions and we're going to realign and I can sit here with confidence tell you that our earnings are going to occur within the range that I talked about and hopefully above that range. So I mean that sort of the top line premise.

We looked at our businesses in light of where we were seeing the change in organic growth from our initial estimates. Obviously, we've already talked about the process businesses so we took some actions there. We took some actions in EMG but the way we look at it is where are the businesses that are looking at a lower growth than what they originally had talked about.

So your comment about this is different, I guess from the viewpoint that we haven't done it since 2008 or 2009 is probably correct. But if you look at the Zygo acquisition we did, and are doing, a lot of realignment there and if you go back in history, we just have a very strong commitment to making the earnings numbers.

When we see an issue we deal with it. You just don't let the issue get behind you and essence. You get in front of it and that's what we did. I hope that helps with your question.

Scott Graham - *Jefferies LLC - Analyst*

It does indeed. The simple follow-up I would have is, I guess is not so simple. If you can do your thing, Frank, with the businesses and how the sales rolled out and expectations roll out from here.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes, sure. I'd be glad to do that.

So as we start with EIG's in aerospace. EIG's aerospace had a very good first quarter with organic sales up mid-single digits reflecting strong growth in our regional and business jet business and a continued solid growth in our commercial OEM business. Organic orders were also very strong in the quarter up low double digits and we are very pleased with the continued strong performance in EIG's aerospace. T

his business is well positioned to continue to drive strong growth given key wins on a number of next-generation commercial aircraft including the A-350, the 787, and the C-919, as well as a number of business and regional jet platforms including Honda Jet, Global Express, and Agusta. For all of 2015 we expect EIG's aerospace sales to be up mid-single digits driven by the continued ramp up of these key commercial OEM platforms and solid growth and business and regional Jets.

We've already talked to bit about our process businesses. Organic sales in the process businesses were down low single digits in the quarter. That was against the difficult prior-year comparison. In 2015 we expect organic sales to be up low single digits over 2014. And as I mentioned, we reduced our full-year growth estimates for the process businesses as a result of the impacts of a stronger US dollar and slow global macro environment.

Power and industrial had a good first quarter, organic sales were mid-single digits was solid growth of across both our power and industrial businesses. For 2015 we expect organic sales for power and industrial to be up low single-digits. So if you look at all of EIG then, we expect organic sales for the year to be up low single digits on a percentage basis.

Scott, moving to the other part of AMETEK EMG are differentiated EMG businesses had a good first quarter. Organic sales were up low single digits driven by solid growth in our precision motion control and engineered materials interconnect and packaging businesses. For 2015 we expect our differentiated EMG businesses to be up low single digits organically.

And the last part of our Company, our legacy businesses of floor care and specialty motors, organic sales in our floor care and specialty motors businesses were flat in the first quarter. For all of 2015 we expect this business to be up low single digits organically. I would like to mention that the management team in particular in floor care and specialty motors is really doing an excellent job in this business.

So if you sum those two parts of EMG, Scott, for all of 2015 for EMG, we expect organic growth of low single digits on a percentage basis. Lastly, if you take EIG and EMG, as I mentioned to my opening comments, for all of AMETEK we expect low single digit organic growth for the year, conservatively, I would say.

Scott Graham - *Jefferies LLC - Analyst*

Frank, thank you.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

You bet.

Operator

Joe Radigan, KeyBanc.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

Thank you, good morning guys.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Good morning, Joe.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

In terms of the second-quarter revenue guidance, flat overall, how does that break out by segment on an organic basis, Frank?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

It's going to be roughly the same for each of the segments in the second quarter. I don't see a significant difference between the two segments.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

Okay. The margins in EMG, record performance there, is that how we should think about that segment going forward and in the second quarter? Kind of assuming the revenue growth environment or was there some favorable mix there or some other dynamic that doesn't necessarily repeat?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes, I'll let Dave take that question.

Dave Zapico - *AMETEK, Inc. - EVP and COO*

I don't think it's a mix issue that won't repeat. There's been really strong cost management and EMG in the margin that you see are more indicative of the future. So we expect to expand margins and EMG more so than EIG, but it will continue.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Just to expand, Joe. I think if you look at all of AMETEK now, we're going to see really superb margin performance this year. We're going to be year-over-year, I would say, well above 100 basis points of operating income margin improvement. So Dave and his team have done just a phenomenal job on the performance of both of these businesses both EIG and EMG. The margin performance is truly superb.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

And then lastly for me. You mentioned China organically, your revenue was up mid-teens but you also talk about, obviously, the slowing economy there. And you touch on this little bit in your prepared comments. Can you talk more about what's driving that? Is it just the growth initiatives a year instituting there? What is your outlook for China going forward for this year and beyond?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Okay, that's great question. If you look at the first quarter there was a bit of an anomaly in our results in that when you look at last year we had huge benefits from [abotnomics] in Japan. So, therefore, the results in China, which were very good, were offset by the results in Japan in essence.

We still consider the Far East, and in particular China, very good regions of the world in terms of investment. We are not changing our investment strategy at all. We're going to continue to put manufacturing capability and sales and service capability in that part of the world. The difference is that this year we have reporting overall for Asia growth numbers that were extremely high for the last couple of years and now they are going to be more modest.

You look at the GDP in China at points was running 10%, 11%. Now they're forecasting 7%. You compare that 7% GDP with the US and Europe, it is still the fastest growing part of the world, but it's not growing at the same rate. That is the way that we are viewing that part of the world. It's still a great place to invest, but it's not growing at the rate that it was.

Joe Radigan - *KeyBanc Capital Markets - Analyst*

Okay. Thanks, Frank.

Operator

Mark Douglass, Longbow Research.

Mark Douglass - *Longbow Research - Analyst*

Good morning, gentlemen.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Hello, Mark.

Mark Douglass - *Longbow Research - Analyst*

What were payables in the quarter?

Bob Mandos - *AMETEK, Inc. - EVP and CFO*

$381 million.

Mark Douglass - *Longbow Research - Analyst*

$381 million. Thank you. What were orders and backlog?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Orders were $944 million. They were overall down 5.5%, organically they are actually up in low single digits and the currency impact here was huge. It was 8%. The reason is that you, obviously, have to readjust the backlog as the currencies have so dramatically changed. If you look at the total backlog it is now $1.2 billion, essentially flat with where it was at the beginning of the year.

Mark Douglass - *Longbow Research - Analyst*

How much of that backlog was due to currency?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

8%. Well, of the backlog that's a different percent. I have to do 8% of $1.2 billion. No. (multiple speakers) Instead of us guessing here, why don't we get you that answer. It's 8% of the part of the backlog that obviously is international and we don't have that right here at our fingertips.

Mark Douglass - *Longbow Research - Analyst*

Okay you can follow-up. Frank, on the realignment. Spending $16 million and getting $5 million benefits is pretty huge. It's a hard number to fathom on $16 million you spent, it begs the question why wouldn't you have done it sooner up the returns were this strong.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

That's a great question. First of all the return is as good as it is predominantly because it is related to severance costs. And therefore the return, as Bob said, is immediate and is quick. You get an excellent return on that.

And in terms of your other question, basically as you know every year we try to balance the cost reductions with other things that we are doing. We always have a large number, if you look historically over the last few years, we talked about $100 million of improvements and, again as we saw the macro situation, we decided to get more aggressive.

We always have a list of things that we can do and we balance that based on the environment. In this case, as we saw the slowing sales as just about every industrial company is seeing, we recognize that we were going to be shipping as much from our operating facility, so therefore we took action. It's pretty straightforward and pretty simple. If we were going to be shipping at a higher level than we wouldn't have done it.

Mark Douglass - *Longbow Research - Analyst*

Even with the lower guidance it's still a pretty big number. You already run pretty lean so it's just surprising that you're able to find so much. That's a good number.

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

We're good at this.

Mark Douglass - *Longbow Research - Analyst*

All right. Thank you for taking my questions.

Operator

(Operator instructions)

Richard Eastman, Robert W. Baird.

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

Yes. A couple things. Frank, the reduction in the core growth for FY15 in the EMG business kind of comes in a technical motor space. It looks like cost driven businesses kind of intact in terms of what their expectation was. Is the technical motor piece, is that being influenced by that $100 million of revenue that is sprinkled throughout technical motor from the energy business? Is that where you're able to identify some softness there?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Yes, no question, Rick. If you look at those businesses in the differentiated part of EMG, they also have global market exposure and what we're seeing is as those economies are weaker, Europe, weak, Asia not quite as strong as it was, there's an impact there as well. So, yes, we have indeed looked at our thoughts around the differentiated segment and it's also lower by a couple of points.

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

And just a backup a little bit, there was a reference earlier about exports and, obviously, I think most appreciate the competitiveness or lack of when the dollar strengthens like it has. But can I ask you, what percentage of your sales are exports from US to Europe?

And then secondly, is there a price component there or is it, again, your products or so differentiated I can't imagine that switching costs are awfully high. Do you have to price more competitively there just because of the strength of the dollar?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

In general not, I would say in terms of the pricing impact. We have made in some of our, I would call it less differentiated products, we have made some minor adjustments in pricing. In general, the differentiated part of our portfolio is definitely strong enough that we don't have to do substantial reductions in price.

Having said that you look at Europe, the economy is not good, it's the weakest of the three general major economies in the world. It's impossible to distinguish between whether or not what the impact of the competitive issue is from the fact that is just the slowing economy.

So we can't put a number on it. I don't think anybody can really put a number on it. But to say it's not there would be naive. We know there is some of that. I don't think it's substantial and we're really talking about a couple points change here, it's not like were talking about a 10% change.

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

Just price capture overall in the first quarter?

Frank Hermance - *AMETEK, Inc. - Chairman and CEO*

Good question. It was 1.5% price capture. When we rolled up all inflation costs to our best ability, it's not a perfect rollup, but if you take that rollout and you look at price minus inflation, it's about 0.6%. So we continue to get good pricing and we continue to bring it to the bottom line at a rate higher than inflation. That's a key thing that we look at and manage.

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

Okay. Just one last question. Was Zygo's revenue in the quarter where you expected or at plan? The total acquisition contribution looked somewhat light to us. Could you just address that?

Bob Mandos - *AMETEK, Inc. - EVP and CFO*

Yes. Rick, you can't really peanut butter the revenue across borders. It's a lumpy business and it met our expectation for the first quarter.

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

Okay. Thank you.

Operator

Thank you. Mr. Coleman, there are no further questions at this time. I will now turn the call back to you. Please continue with your presentation or closing remarks.

Chris Coleman - *AMETEK, Inc. - VP of IR*

Thank you, Suzy. Thanks, everyone, for joining our call today. As a reminder a replay of the call can be accessed at www.ametek.com and www.streetevents.com. And as always I'm available for further questions today. Thanks again.