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# EDITED TRANSCRIPT

AME - Q3 2015 Ametek Inc Earnings Call

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## OVERVIEW:

Co. reported 3Q15 sales of \$998.5m, net income of \$156.4m and diluted EPS of \$0.65. Expects 2015 sales to be down low-single digits on percentage basis from 2014 and adjusted EPS to be approx. \$2.55. Expects 4Q15 diluted EPS to be approx. \$0.63.



## CORPORATE PARTICIPANTS

**Kevin Coleman** *Ametek Inc - VP of IR*

**Frank Hermance** *Ametek Inc - Chairman & CEO*

**Bob Mandos** *Ametek Inc - EVP & CFO*

## CONFERENCE CALL PARTICIPANTS

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

**Matt McConnell** *RBC Capital Markets - Analyst*

**Joe Radigan** *KeyBanc Capital Markets - Analyst*

**Andrew Obin** *BofA Merrill Lynch - Analyst*

**Matt Summerville** *Alembic Global Advisors - Analyst*

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

**Christopher Glynn** *Oppenheimer & Co. - Analyst*

**Nigel Coe** *Morgan Stanley - Analyst*

**Brian Konigsberg** *Vertical Research Partners - Analyst*

**Joe Giordano** *Cowen and Company - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AMETEK Q3 2015 earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded today, Tuesday, October 27, 2015.

I would now like to turn the conference over to Kevin Coleman, Vice President of Investor Relations. Please go ahead, Mr. Coleman.

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### Kevin Coleman - Ametek Inc - VP of IR

Great, thank you, Meladin. Good morning, and welcome to AMETEK's third-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 third-quarter results were released earlier this morning. These results are available electronically on market systems, and on our website at the investor section of AMETEK.com. A tape of today's call may be accessed until November 10 by calling 800-633-8284, and entering the confirmation code, 21777510. This call is also webcasted. It can be accessed at AMETEK.com and Streetevents.com. The conference 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 AMETEK's filings with the Securities and Exchange Commission. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements.

I will also refer you to the investor section of AMETEK.com for a reconciliation of any 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.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Thank you, Kevin, and good morning, everyone. AMETEK had a solid third quarter, with strong operating performance and earnings growth. We delivered a record level of earnings at the high end of our guidance range, despite what remains a challenging and slow-growth global environment. Before covering the financial highlights, please note that any references to 2014 financial results will be on an adjusted basis, excluding the Zygo integration costs from the third and fourth quarter of 2014.

Now, on to the results. Sales in the quarter were \$998.5 million, down 3% from last year's third quarter. Organic sales declined 2%. Foreign currency was a 4-point headwind, and acquisitions added 2%.

Operating income for the third quarter increased 3% to \$237.6 million. Operating income margin in the quarter was excellent at 23.8%, up 130 basis points compared to the third quarter of 2014. Net income increased 3% to a record \$156.4 million. And diluted earnings per share were up 5% over last year's third quarter, to a record \$0.65 per diluted share.

Turning to our individual operating groups, the Electronic Instruments Group had a good quarter, with solid operating performance. Sales were \$598.5 million in the quarter, down 5% from last year's third quarter. The lower sales were driven by a 3% foreign currency headwind. Organic sales declined 2% as a result of the as-expected weakness in our upstream oil and gas business. EIG's operating income was \$162.5 million, up slightly from last year's third quarter. Operating margins were very strong, up 160 basis points to 27.2%.

The Electromechanical Group also had a good quarter, with excellent operating performance. Sales were flat for the quarter at \$400 million, as strong core growth in our Aerospace businesses and the contributions from the acquisition of Global Tubes were offset by foreign currency headwinds, and weakness within our Engineered Materials, Interconnects and Packaging business. Organic sales were down 2%. Foreign currency was a 4% headwind, and acquisitions added 6%. EMG's operating income increased 6% to \$86.7 million. And operating margins were very strong at 21.7%, up 120 basis points from last year's third quarter.

Now turning to our four growth strategies of operational excellence, global and market expansion, new product development, and strategic acquisitions. First, I will touch on new product development. We continue to see great results from our new product development efforts. Our businesses are doing a tremendous job developing new, highly differentiated products to serve both their existing markets and to help penetrate adjacent markets.

We are consistently growing our investment in RD&E to ensure our businesses are effectively and efficiently developing the right products to serve our customers. One example of this investment is within our Indian R&D Center of Excellence, which we developed a number of years ago to help our businesses globalize their R&D efforts and capitalize on the strong engineering talent within India. The success and growth of this effort has been tremendous. We now have over 120 talented engineers in India, with more than half of our business units having local R&D talent there. We expect continued expansion of these R&D efforts. Overall, in 2015, we expect to spend approximately \$210 million, or about 5% of our sales, on RD&E.

And some new product introductions -- I'll start on our EDAX business unit, a leader in microanalysis and micro-XRF systems, has added its state-of-the-art EDS system offering with the introduction of the next-generation Octane Elite Series. The next-gen Octane Elite offers new-to-the-world, differentiated features that benefit our customers, including thermal, corrosion and shock resistance, increased sensitivity to x-rays, and high-speed x-ray data processing capabilities in a much smaller footprint.



Our Programmable Power business, the global leader in programmable AC and DC power test solutions, expanded its line of Standalone Photovoltaic Simulators with their newest product, the Embedded TerraSAS. The TerraSAS was specifically developed to test solar energy microgrids by mimicking the behavior of ground-based solar energy arrays. The new simulator allows for a 50% increase in output power over our existing offering, and now spans a range from 5 kilowatts to 15 kilowatts of power. You can put multiple simulators together, paralleled up to support solar array installations up to 500 kilowatts of power -- so, very high-powered capability.

Lastly, our Reichert Technologies business, a pioneer and leader in the development of vision diagnostic devices, launched its most advanced Ocular Response Analyzer, the G3, during the quarter. The new analyzer is the only tonometer capable of measuring Cornea Hysteresis, which is a strong predictor of glaucoma progression, and also provides a better indication of true eye pressure than other methods of tonometry. The analyzer was designed to provide a more streamlined product and better user experience. From an overall perspective, revenue from products introduced over the last three years was very strong at 24% of sales in the quarter, up from 23% in last year's third quarter.

Now turning to global and market expansion, we will continue to make investments to develop and expand our global sales channel, service infrastructure and manufacturing footprint in emerging markets to capitalize on the attractive long-term growth opportunities. In the third quarter of 2015, international sales represented 51% of our total sales. We saw very strong growth in our Aerospace businesses, in both Europe and Asia, during the quarter. Combined, our Aerospace businesses grew double digits organically in international markets, as a result of strong shipments to support the production ramp-up of the A320neo and A350 commercial aircraft, as well as the Joint Strike Fighter military aircraft.

Now turning to acquisitions, we continue to see great success with our acquisition strategy. Thus far in 2015, we've completed two deals, deploying approximately \$360 million in capital. And we acquired nearly \$180 million in revenue. Over the last 24 months, we have completed nine acquisitions, deployed approximately \$1.2 billion in capital, and acquired approximately \$600 million in revenue.

Our most recent acquisition, Surface Vision, was completed in the third quarter. Surface Vision develops and manufactures software-enabled vision systems to inspect the surfaces of continuously processed materials for flaws and defects. The business's proprietary high-speed, defect-recognition technology detects, classifies and accurately maps specific defects over the entire area of the surface. The business is an excellent strategic acquisition for AMETEK, as it expands our presence in the non-destructive process inspection market. And in addition, Surface Vision will be able to leverage a number of AMETEK's complementary technologies and products within its visions' systems.

Surface Vision is headquartered in Hayward, California. Its annual sales were approximately \$60 million. The integration of this particular deal is going well, and we are very excited to have the Surface Vision team now as part of AMETEK.

Our business unit and M&A teams continue to manage a very active pipeline of attractive opportunities. And acquisitions will continue to be a focus for AMETEK and the primary use of our strong cash flow.

I will touch on our last strategy, operational excellence. Our team continues to deliver excellent operating performance through the use of our various operational excellence tools. In low-growth environments, the success of our operational excellence initiatives takes on even greater importance, so we're able to continue to drive meaningful margin expansion while allowing us to continue to invest in key growth initiatives. Overall, in 2015, we now anticipate approximately \$150 million of operational excellence savings, with the largest contributor to this savings being our global sourcing and strategic procurement initiatives, which we expect approximately \$75 million in savings, in 2015.

Now turning to the outlook for the remainder of 2015, as noted, the global environment remains challenging. We are seeing sluggish conditions across many of our markets and geographies. And we expect the sluggishness to continue for the remainder of the year. Therefore, for all of 2015, we expect both overall and organic sales to be down low-single digits on a percentage basis from 2014.

Adjusted earnings per share are expected to be approximately \$2.55, up 5% over 2014. Fourth-quarter 2015 sales are expected to be let down low-single digits on a percentage basis from last year's fourth quarter, with organic growth down low-single digits. We estimate our earnings to be approximately \$0.63 per diluted share in the fourth quarter.



In summary, I am pleased with our results this quarter, given the difficult market conditions. We delivered excellent operating performance and record earnings, while continuing to make long-term investments across each of our growth strategies. I would like to take this time to acknowledge the great work by all AMETEK employees in helping drive these strong results, and for their commitment to driving each of AMETEK's growth strategies. Our balance sheet remains strong. We generate significant cash flow that provides us with plenty of liquidity to operate the Business and pursue our acquisition strategy.

Bob will now cover some of the financial details, and then we'll be glad to take your questions.

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**Bob Mandos** - *Ametek Inc - EVP & CFO*

Thank you, Frank. As Frank noted, we had a solid third quarter with good operating results. I will provide some further details. In the quarter, total selling expenses were down more than total sales, on a percentage basis, due to good cost containment. General and administrative expenses were 1.1% of sales in the quarter, down from last year's third-quarter level of 1.2% of sales. Other expense in the quarter was lower in comparison to last year's third quarter, as a result of higher expense due to a one-time insurance write-off in last year's third quarter.

The effective tax rate for the quarter was 26.1%, up from 25.1% in last year's quarter. For 2015, we expect our tax rate to be approximately 27.5%, as a result of our ongoing international and state tax planning. As we have said before, actual quarterly tax rates can differ dramatically, either positively or negatively, from this full-year rate.

On the balance sheet, working capital, defined as receivables plus inventory less payables, was 19.2% of sales in the third quarter. Strong working capital management remains a key priority. Capital expenditures were \$19 million for the quarter. Full-year 2015 capital expenditures are expected to be approximately \$70 million. Depreciation and amortization was \$38 million for the quarter. In 2015, depreciation and amortization is expected to be approximately \$150 million.

Operating cash flow was \$188 million in the third quarter, and free cash flow was \$168 million, or 108% of net income in the quarter. For the full year, we expect free cash flow, excluding the \$50 million pension contribution made in the first quarter, to be approximately 110% of net income. The primary use of our strong cash flow is to support our acquisition strategy. In the third quarter, we deployed approximately \$160 million for the acquisition of Surface Vision. Year to date, we have deployed approximately \$360 million on acquisitions. Over the last 24 months, we have deployed \$1.2 billion in capital. In addition, in the third quarter we repurchased approximately 4.5 million shares of stock for approximately \$250 million.

Total debt was \$1.92 billion at September 30, up \$200 million from the 2014 year end. This amount reflects the third funding from the private-placement agreement we entered into last September. This funding was \$150 million, was received on August 14, and was used to pay down term debt which matured in the quarter. Offsetting this debt was cash and cash equivalents of \$328 million, resulting in a net-debt-to-capital ratio at September 30 of 32.4%. At September 30, we had approximately \$950 million of cash and existing credit facilities to fund our growth initiatives.

In summary, we had a strong third quarter. We are well positioned for future growth, with a strong balance sheet and cash flow.

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**Kevin Coleman** - *Ametek Inc - VP of IR*

Great, thank you, Bob. Operator, we will now open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)



Our first question comes from the line of Allison Poliniak with Wells Fargo. Please go ahead.

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

Hi, guys. Good morning.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Hello, Allison.

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

Could you talk, Frank, a little bit about the deceleration? What was different from even last quarter, that drove this Q4 a little bit weaker than you maybe anticipated?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, sure, Allison. In essence, when you look across the Company, EIG performed in line with our expectations. We saw in EMG that the combination of aerospace, which was very strong, was offset to a larger degree than we had anticipated in our Engineered Materials Interconnects and Packaging business.

And the net of that ended up with, in the third quarter, a minus 2% organic growth for EMG. We believe that that is going to continue in the fourth quarter. We are seeing the results of the, I will call it, industrial recession that's being talked about substantially now. We decided as a result, that the fourth quarter, which also was very strong from the viewpoint of expectation, needed to be lowered a bit.

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

Okay, great. And then, obviously, acquisitions. You have been very active over the last 24 months. Can you give us somewhat of an update of how they are progressing? Obviously the macro environment is certainly a large headwind here. But, in terms of your expectations going into them, both on a revenue and maybe a profit side as well?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, we are pretty bullish on the acquisition environment. We're working on a number of deals. Without giving specifics, I can tell you that in the third quarter, we worked on a very large deal. Actually, it would have been the largest deal that AMETEK has ever done. Unfortunately, or fortunately, depending on how you look at it, we did find a contingent liability in that deal that caused us to, basically, not continue with that deal.

Putting that aside, we are in due diligence right now on other deals. We feel good about it. As we mentioned, it is the primary use of our cash flow. It's difficult to predict when deals will close. But, you are going to be hearing from us either this quarter or, surely, in the first quarter of next year, with additional deals.

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

Great, thank you.

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**Operator**

Our next question comes from the line of Matt McConnell with RBC Capital Markets. Please go ahead.

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**Matt McConnell** - *RBC Capital Markets - Analyst*

Thank you, good morning.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Hi, Matt.

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**Matt McConnell** - *RBC Capital Markets - Analyst*

Just a quick clarification, there was no M&A contribution in EIG? I thought this Surface Vision deal closed within the first few weeks of the quarter. Could you clarify when that will be hitting your results?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Yes. Actually, what occurred there is that Surface Vision was in the quarter. If you go back a year to when we did the Zygo acquisition in the third quarter of 2014, we actually had a stub period for that business. Because, we acquired it right at the end of Q2 of last year. So that, when you do the comparison between acquisitions this year in Q3, versus last year, you get an abnormality.

In reality, in the quarter, we saw approximately \$15 million of sales from Surface Vision, which was countered by, basically, that stub period. It's a good pick up, Matt.

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**Matt McConnell** - *RBC Capital Markets - Analyst*

Okay, thank you. Great. That helps. Just to follow-up on the end market question. Did you say oil and gas was expected through the quarter? It seems like, just based on the magnitude of deceleration, maybe it was more than just EMIP. Anything besides that in the process side, that's coming in weaker than expected? Or, just this industrial malaise is touching most of your businesses it seems? Any change in oil and gas, specifically?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

No. We had given an estimate in oil and gas back in the first quarter. We said that our total exposure was around \$400 million. And, we expected about a 10% reduction in that, due to the upstream portion, which was around \$40 million. In fact, that is what we are seeing. We called it right. Our people did a really good job of estimating what the impact would be. Therefore, on the EIG side, we have not changed our outlook based on oil and gas. And it really performed, as I said in my opening remarks, in line with expectations.

The difference was, there is obviously a global macro condition, here. That is having impact on a number of businesses. But, when you really isolate the change in EMG, it did come down to our aerospace businesses, which did very well, being offset by weakness in our Engineered Materials and Interconnects and Packaging business.

And, when we look at that Engineered Materials and interconnects and Packaging business, it is really a global macro that is driving that. It's not a specific item, et cetera. It's just a global macro condition. That is the area of the Company that we've seen an impact, due to the industrial recession, for lack of a better set of words. Does that help?



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**Matt McConnell** - *RBC Capital Markets - Analyst*

Yes, it does. Thanks very much.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Alright, Matt.

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**Operator**

Our next question comes from the line of Joe Radigan with KeyBanc. Please go ahead.

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**Joe Radigan** - *KeyBanc Capital Markets - Analyst*

Thanks. Good morning, guys.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Good morning, Joe.

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**Joe Radigan** - *KeyBanc Capital Markets - Analyst*

Frank, coming into the year I think you were expecting, or at least you guided to, about 30 to 40 basis points of margin improvement, which was consistent with what you have seen in the last few years. You are trending, basically, 100 basis points up, year over year, through three quarters. It sounds like that's going to continue into the fourth quarter.

I guess my question is, obviously, you guys know what you are doing in terms of cost management. But, as we look at this slow growth going forward, can you continue to get margin expansion? Or, does the shift focus to more, just sustaining where you are in this industrial recession type environment?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Great question, Joe. We are pretty bullish on margins. And, you are absolutely right that we started the year with a lower number. But you may recall, in the first quarter, we took some specific actions when we realized that the year was going to be weak, as most industrial companies were seeing. As a result, our guidance has been in the 100 basis point arena. That's what we are expecting for the entire year, that we are going to be up about a hundred basis points.

As we go into next year, which really was the key part of your question, we're going to be very aggressive on the cost side of the business. One advantage of our mix strategy is that, there are a lot of actions that we can take to basically improve the operating performance, by putting various manufacturing facilities together, being more aggressive in the materials side of the business, which, as you know, we've put tremendous infrastructure in place, that we can continue to drive good earnings growth there.

We've got value analysis and value engineering, which is picking up steam in the Company. We are in the process right now of putting our budgets together for next year. I am not prepared to give you an exact number. We will do that in January. Or, I guess, maybe early February call. Whenever we are going to have in the beginning of the year. We will give you guidance. I can tell you, margins will be up, no questions asked.





**Joe Radigan** - KeyBanc Capital Markets - Analyst

Okay, great. And then, can you give us a rundown by region, what you saw by region?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, sure. If you look at our performance in the main geographic areas, the US was flat. This is all organic. Asia was down 7%, and Europe was down about 1%.

Asia, if you look at the change when you go back in time, we were growing our Asia business in the double-digit positive arena. Now we are seeing, obviously, the effects of what's going on. Principally, in China. The organic growth in China, in Q3, was actually a negative 12%. That compared with last year's 3rd quarter when we were up 17%. Very significant change in China.

And then, a slower growth in the other parts of the world. Europe is hanging in there. Probably a little bit better than we had expected.

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**Joe Radigan** - KeyBanc Capital Markets - Analyst

Great. Thanks, Frank.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Alright, Joe.

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**Operator**

Our next question comes from the line of Andrew Obin with Merrill Lynch. Please go ahead.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

Yes, good morning.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Hello, Andrew.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

Just a question on growth. With the latest guidance, EPS growth is now likely to come in mid-single digits. This is, even if we exclude 2009, this is the lowest level in a decade. From your perspective, what can get EPS growth to accelerate in the near-term?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, first of all, if you go back a decade. If you go back to 2008 and 2009 when we were in the recession, we certainly had -- our earnings growth that was negative.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

Right, excluding that.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

The key part of how we are going to get the numbers up is, it's basically going to come down to doing more deals, using that strong cash flow to acquire companies. Obviously, we look at that on a return-on-invested-capital viewpoint, but that will also drive EPS growth. And then, we've been very careful as we have made the cost reductions in the Company, to focus on the operations side of the business, not on our engineering and sales and distribution side of the business. And, you heard me in my opening remarks talk substantially to that.

So we're going to continue and, with those engineering efforts, we are hoping that we will be able to offset some of the FX of the global macro. The basic answer to your question is to get better organic growth and do deals. That's the key. We will continue as we always have, as the hallmark of AMETEK, to continue to do cost improvements across the business. Those are the drivers and that's why, as I mentioned to Joe's question, that I think we are going to see margin improvement. You're not seeing many industrial companies right now showing double-digit EPS growth.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

No. And, you guys seem -- just a follow-up question. If I understood you correctly, high R&D and investment's ability to take share in this tough environment? Is that what I've heard?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, that's what you heard.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

Just a follow-up question. Are you guys seeing any headwinds or changes in demand in aerospace, in particularly in biz jets?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

No. We have a very good story in biz jets. It's not because of the market. The market is kind of bouncing along bottom, maybe you're hearing a little bit of uptick in the market. We have been very successful in putting new content on a number of the new airplanes. The HondaJet, for example, we do a lot of helicopters which we put in this business jet arena. Actually, orders for our business jets in the third quarter were up 30%. Again, it's not because of the market.

The commercial side of the business, it's a different story. Where we are seeing a market tailwind, to use a pun, where those market conditions are definitely better than business and regional Jet. At some point, we think the business and regional jet market will turn. It always does. People have been predicting that upturn for a number of years and it hasn't happened. We decided to get very aggressive, in terms of new products on the newer aircraft. Our team has done a good job, and that's what we are growing so well.

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**Andrew Obin** - BofA Merrill Lynch - Analyst

Terrific. Thank you very much.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Okay, Andrew.

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**Operator**

Our next question comes from the line of Matt Summerville with Alembic Global Advisors. Please go ahead.

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**Matt Summerville** - Alembic Global Advisors - Analyst

Hey, Frank, a couple of questions. First, just to put this into context, can you talk about, first, what your organic order number looked like in the quarter? And, what the organic book-to-bill would have been? And then, talk about the linearity you experienced. I'm trying to put this in the context.

I've, obviously, been familiar with AMETEK for a while now. Typically, the fourth quarter is your best EPS quarter of the year. Are you really just trying to de-risk that going to \$0.63? It's been quite a while since you've had a Q4 less than what you have earned, really, throughout the prior part of the year. I'm just trying to put all of this together.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Matt, you asked a number of questions there. Let me see if I can answer each of those. Yes, I'll say we definitely de-risked the fourth quarter. We felt, with the global macro that we're seeing and the changes that I have already talked about, that we just decided to essentially de-risk it. And, we're going to obviously concentrate in Q4 on getting good results for the following year. As you say, you have known us for many, many years. We definitely did de-risk it.

The order numbers, overall orders were down about 2% in the quarter. Organically, they were actually down 5%. But, that number is not a fair representation of the business. The reason is that last year, in that quarter, we had some very large one-off orders. I think if you normalized that out, the organic growth was in line with, or lack thereof, was in line with the sales growth. I think, you put that whole picture together, you see a slowing macro. We just decided that we were going to de-risk Q4.

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**Matt Summerville** - Alembic Global Advisors - Analyst

And then, just to revisit the China question. I think you said you were up 17% last year, down 12% this year. While I get the comp could give you those quotes, that's actually a pretty surprising number to me. Can you talk about, from an end market standpoint, more of what you're seeing there? And, I realize it's not a gigantic part of your sales. I'm just trying to get a bigger picture of what is going on there. That's a big decline.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Well, yes. You were breaking up there. I think I got your question. Actually, this is not a change. Last quarter, I don't remember the exact number but it was in that -- It was negative 5%, one of the guys is telling me. There really hasn't been a major change in our outlook there. Basically, you are looking at a situation in China that is a basic change.

You look at the PMI in China. I was just reading a report last night, the latest PMI came out at 47% for China. When it was running at close to 60%. There just has been a change in the industrial environment in China.



I don't think it's a major change, sequentially, in Asia. Clearly, it is a major driver in our organic growth. The other thing, I said minus 7% and minus 5%. Those numbers were for all of Asia. The minus 12% in China was offset by strong performance in Japan, last quarter and this quarter. Also, some of the other parts of Asia are doing much better. The drag is definitely China.

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**Matt Summerville** - *Alembic Global Advisors - Analyst*

Thank you.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

You bet, Matt.

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**Operator**

Our next question comes from the line of Richard Eastman with Robert W. Baird. Please go ahead.

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

Frank, you had mentioned the EIG business with core growth was down about 2%. You had suggested that that was at plan? Is that --

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Not our original plan but at our forecast. If you look -- let's just take EIG and segment this, so you have a flavor as to what is actually going on here. Our aerospace businesses in EIG were very good. They were up mid-single digits in the quarter, on sales and orders, actually. That part of EIG performed as we had anticipated. You look at the power and industrial piece of EIG, that was up low-single digits, which was our expectation.

The drag was in process, where that was down low-single digits. And because process is a larger part of EIG, that drove that negative 2% overall organic growth. And yes, that's basically what we said last quarter when we provided the outlook. We said that the organic growth for EIG for the entire year was going to be a basically flat. And, that is what we are predicting now. There hasn't been, what I would call, a major change in EIG. It's been pretty much as we anticipated, and the issue is very simple there. It's oil and gas. That's what's driving it and it's the upstream piece.

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

Okay.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Does that help?

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

Yes. So, fourth quarter core growth should be flattish, or so?



**Frank Hermance** - Ametek Inc - Chairman & CEO

We are saying low-single digits, negative.

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

For EIG as well?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes.

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

And then, can I also -- I don't understand the comment that you made about Zygo's stub period impacting the revenue contribution from SISD. If you closed SISD in early July, the acquisition contribution in revenue should be reflected there. I don't understand the Zygo offset comment. Was there a deferred revenue issue with SISD?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

No, no. Bob, why don't you explain.

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**Bob Mandos** - Ametek Inc - EVP & CFO

No, the issue was that we closed Zygo the very end of the second quarter of last year. Therefore, some of the sales were reflected in the third quarter of 2014. The first period of reporting for Zygo, really, was the third quarter of last year. And, it had the last 10 days or so of the second quarter sales. After acquisition, it showed up in the third quarter.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

So, when you do the comparison, Rick, what basically happens is, we got as you indicated a \$12 million to \$15 million of revenue from Surface Vision. But what we were talking about is, when you compare it to Q3 of last year, we had the same amount from that stub period. So, you end up with, quarter over quarter, no acquisition growth. But if you just look at it on an absolute basis, you are absolutely right. We saw the roughly \$15 million of volume from Surface Vision in Q3 of this year. Does that all make sense now?

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

No, it doesn't. I will follow-up with Kevin.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, why don't you follow-up with Kevin.

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

If there's revenue coming in, there's revenue coming in. The other question that I had, Frank, in the past we've looked at the EMIP business as somewhat of a leading indicator for global macro and for your overall businesses. I think, if I'm not mistaken, EMIP has some exposure to the aerospace markets as well. How do you reconcile the drastic slowdown in EMIP with your forecast going forward?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

I think, first, let me comment on what's the early indicator. The early indicator is actually our Floorcare and Specialty Motors business. We have always used that as an indicator of the global macro. In fact, that did slow as well. But EMIP, because it's a larger part of the organization, it had a more significant impact.

Yes, there is some aerospace in there, which actually did quite well. But, it's a small part of that overall operation. So that, when you see the reduction and put that across the entire EMG, it's basically all of aerospace, not just an EMIP. But, all of the aerospace in that differentiated part of EMG. It was basically more than compensated for by the shortfall in EMIP. Therefore, the total organic growth was down this 1% or 2%.

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

Okay. Thank you.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Alright.

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**Operator**

Our next question comes from the line of Christopher Glynn with Oppenheimer. Please go ahead.

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**Christopher Glynn** - *Oppenheimer & Co. - Analyst*

Thanks, good morning. Frank, I had a question about how things trended from earlier in the quarter through September, and into October. I guess there is a quantitative aspect to the question. But, on the qualitative side, do you feel like the reset on the macro's in? Or, is that a question for another day?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Say that again?

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**Christopher Glynn** - *Oppenheimer & Co. - Analyst*

Yes, just wondering how things tailed off during the quarter? If you compare the early part of the quarter to September, and into October? Do you feel like the reset in the macro is in place, or is that a question for another day?



**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes. I feel it is in place. Actually, if you look at the order trend in the quarter, it was actually up from the beginning of Q3 to the end of Q3. But, the absolute levels were lower than we had anticipated. And, yes, I think we have taken the global macro now into account. And, we've dealt with it through the costs and we're looking at now what next year's going to look like.

I'm not looking at further deterioration. I don't feel that. But I do feel like, as I said before, the target for the fourth quarter was a very high one. You look at numbers that were up in the \$0.68 to \$0.69 region. And with this global macro, you just couldn't make that ramp. It's just to big a ramp.

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**Christopher Glynn** - Oppenheimer & Co. - Analyst

Okay, so you don't see any further unraveling in the macro? Do you feel like there's a good read on the macro, from where you sit right now?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

I feel there's a good read on the macro now, yes. Absolutely.

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**Christopher Glynn** - Oppenheimer & Co. - Analyst

Thanks.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

You bet.

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**Operator**

Our next question comes from the line of Nigel Coe with Morgan Stanley. Please go ahead.

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**Nigel Coe** - Morgan Stanley - Analyst

Thanks, good morning.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Good morning.

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**Nigel Coe** - Morgan Stanley - Analyst

Frank, no more questions on Zygo. I think I get it.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Okay, we're good.

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**Nigel Coe** - *Morgan Stanley - Analyst*

I thought your four key comments were interesting, in terms of, you've de-risked the Q4 guidance. I want to clarify that. So, based on prior years, there should be what, \$0.02 or \$0.03 of contingency, based on your plan?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

There is contingency. There is definitely contingency. I'm not going to speak to the amount. But, if things go well, we will beat that number.

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**Nigel Coe** - *Morgan Stanley - Analyst*

Okay. Clearly, your oil and gas is starting to take a toll on the process performance. You said in the past, upstream very weak. But midstream and downstream, I wouldn't say good, but holding the line. What is your current commentary on midstream and downstream? And, how do you think about (multiple speakers)?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Great question, Nigel. There has been no change. What we said at the beginning of the year is the upstream piece was going to be down about 25%. The mid- and downstream piece would be down slightly, low-single digits. And that is, in fact, what we're seeing. The mid- and downstream is holding in there. And, we have not seen a deceleration in that piece of the business.

I know there was some concern a quarter or two ago, whether we were going to see that. In fact, we have not seen it. The impact on us is largely the upstream part of the business. And, it is down about what we had expected.

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**Nigel Coe** - *Morgan Stanley - Analyst*

Okay. Finally, Frank, your pricing's been pretty strong year to date. Have you seen any deterioration in pricing, given the weakening macro?

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Just a little bit. We have been talking numbers on pricing. I think the first few quarters of the year had about 1.5%. When we rolled up Q3, it came in at about 1.3%. But, that's sort of a normal variation. I don't think there's been a deceleration. But, it's not the 2% that we were seeing a number of years ago. And, very few industrial companies are seeing a 2% number. We are, actually, fairly happy with staying around that 1.5% level.

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**Nigel Coe** - *Morgan Stanley - Analyst*

Great. Thank you very much, Frank.

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**Frank Hermance** - *Ametek Inc - Chairman & CEO*

Okay, Nigel.

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**Operator**

The next question comes from the line of Brian Konigsberg with Vertical Research Partners. Please go ahead.





**Brian Konigsberg** - Vertical Research Partners - Analyst

Hello, good morning.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Hi.

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**Brian Konigsberg** - Vertical Research Partners - Analyst

Nigel might get it. Actually, I'm still pretty confused about the M&A. But, I'll take it offline. It seems to me like, maybe organic is being overstated the way its been discussed.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Not at all. I think the stub period is what's confusing you. If you are just looking at absolute numbers, there was a \$15 million of acquisition growth. If you look at it that's way. It's only when you compare it to the third quarter of last year, does it cause the confusion. That's the way we typically talk about acquisition growth, is on a comparison basis. It really depends how you look at it. There is nothing strange going on here, it's just the way you look at it.

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**Brian Konigsberg** - Vertical Research Partners - Analyst

Okay. I will talk with Kevin afterwards. Separately, most of my questions have been answered. But, maybe just talk to free cash flow conversion. I see you took it down a little bit. I think you are previously 115%, now you're 110%. CapEx was taken down a little bit. Maybe just talk about the puts and takes there. Is it maybe a little bit on working capital, you're not getting out as what you thought?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Right, you hit it, Nigel. Excuse me, Brian. I'm sorry

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**Brian Konigsberg** - Vertical Research Partners - Analyst

Brian.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

When you see a slowing macro, we did have some working capital buildup. It was not substantial, but it did go up. That was a driver. We are giving you rough estimates here. I think the 110% is actually conservative. It's going to be better than that. But, we did want to be fair in saying that it probably is not going to reach the 115% level.

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**Brian Konigsberg** - Vertical Research Partners - Analyst

Okay. And you think the \$70 million is -- I'm sorry, go ahead. I apologize.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

I didn't say anything.

**Brian Konigsberg** - Vertical Research Partners - Analyst

There is some feedback. It would just be the CapEx at \$70 million, so you're confident that will still be spent? It still assumes a decent pick up in the fourth quarter? Flat with last year but, obviously, you have been trending below.

**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, it's definitely possible we will spend less than that. We dropped it from \$75 million to \$70 million. It would not surprise me if we ended up at a \$65 million number there.

**Brian Konigsberg** - Vertical Research Partners - Analyst

Okay, all right. Great, thank you.

**Frank Hermance** - Ametek Inc - Chairman & CEO

You bet.

**Operator**

(Operator Instructions)

Our next question comes from the line of Joe Giordano with Cowen and Company.

**Frank Hermance** - Ametek Inc - Chairman & CEO

Hi, Joe.

**Joe Giordano** - Cowen and Company - Analyst

Thank you for taking my questions. You mentioned, Frank, that the Engineering Materials and Packaging is the biggest variance from when you last gave guidance. I'm wondering if there was anything specific on the cost side, incremental to what you had already planned or what you typically do as part of your continuous improvement, that you have identified over that period you were going to put through?

**Frank Hermance** - Ametek Inc - Chairman & CEO

That's a great question, Joe. What we decided, and I think I mentioned this on my last call, was that the total cost improvements through the whole Company that we talked about last quarter was \$145 million. And what we have done is increase that to, I would call it a conservative number, which is \$150 million. Definitely, we are active on the cost side of the business. And, we put additional measures in place. Not all in EMIP. But, obviously, that would be a place where some of this would occur.



Yes, the answer to your question is, we have taken additional cost actions in the business. That's why, if I could add a comment. That's why, when we are asked the question about Q3 and de-risking it, we really did de-risk it, given that fact as well.

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**Joe Giordano** - Cowen and Company - Analyst

That's a realized \$150 million for 2015?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes, for all of 2015. A realized number.

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**Joe Giordano** - Cowen and Company - Analyst

Got it. And then, you seemed to tee up a question, and then it didn't get asked. You said that the best read was Floorcare & Specialty Motor. But, what's going on there? What are you seeing?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Basically, organic growth down low-single digits.

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**Joe Giordano** - Cowen and Company - Analyst

Down low, okay. Last for me. You mentioned the Joint Strike Fighter ramp. I'm just curious as to any commentary overall, on military across the segments?

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Yes. Military has been a phenomenally good story for us. When you look across the whole Company and look at the military part of the business, basically, it was up mid-single digits.

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**Joe Giordano** - Cowen and Company - Analyst

Wow.

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**Frank Hermance** - Ametek Inc - Chairman & CEO

Exactly. Some of that is, obviously, driven by the Joint Strike Fighter. But, there is also great international military business that we are capitalizing on. That, when you look at the aerospace segment, has been a very positive story for us. And a surprise, I would say, in the other direction.

For the full-year, we're saying we expect military to be up low-single digits. Because, some of the first quarter's weren't as strong as this third quarter in military. But it's doing well. It's just doing well. I guess Congress has come to a budget agreement, which could further help this. We will see what happens.

**Joe Giordano** - Cowen and Company - Analyst

Good. Thanks for that color.

**Frank Hermance** - Ametek Inc - Chairman & CEO

Sure.

**Operator**

Gentlemen, there are no further questions at this time.

**Kevin Coleman** - Ametek Inc - VP of IR

Great. Thank you, Meladin. Thanks everyone, for joining our call today. As a reminder, a replay may be accessed at AMETEK.com and Streetevents.com. As always, I'm available for further questions at 610-889-5247. Thanks again.

**Operator**

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

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