

IDEX CORP /DE/
Form 10-Q
October 23, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10235

IDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware 36-3555336
(I.R.S.
(State or other jurisdiction of Employer
incorporation or organization) Identification
No.)

1925 West Field Court, Lake Forest, Illinois 60045
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (847) 498-7070

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No p

Number of shares of common stock of IDEX Corporation outstanding as of October 19, 2017: 76,401,845.

Table of Contents

TABLE OF CONTENTS

Part I. Financial Information

Item 1. <u>Financial Statements.</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statements of Shareholders' Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>24</u>
<u>Cautionary Statement Under the Private Securities Litigation Reform Act</u>	<u>24</u>
<u>Overview and Outlook</u>	<u>25</u>
<u>Results of Operations</u>	<u>26</u>
<u>Liquidity and Capital Resources</u>	<u>31</u>
<u>Non-GAAP Disclosures</u>	<u>33</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>39</u>
Item 4. <u>Controls and Procedures.</u>	<u>39</u>

Part II. Other Information

Item 1. <u>Legal Proceedings.</u>	<u>40</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>40</u>
Item 6. <u>Exhibits.</u>	<u>40</u>
<u>Signatures</u>	<u>41</u>
<u>Exhibit Index</u>	<u>42</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEX CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in thousands except share and per share amounts)
 (unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$303,291	\$235,964
Receivables, less allowance for doubtful accounts of \$8,268 at September 30, 2017 and \$8,078 at December 31, 2016	307,505	272,813
Inventories	266,705	252,859
Other current assets	77,977	61,085
Total current assets	955,478	822,721
Property, plant and equipment — net	250,889	247,816
Goodwill	1,679,768	1,632,592
Intangible assets — net	414,853	435,504
Other noncurrent assets	16,773	16,311
Total assets	\$3,317,761	\$3,154,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$137,917	\$128,933
Accrued expenses	170,223	152,852
Short-term borrowings	347	1,046
Dividends payable	28,364	26,327
Total current liabilities	336,851	309,158
Long-term borrowings	874,853	1,014,235
Deferred income taxes	172,808	166,427
Other noncurrent liabilities	122,937	121,230
Total liabilities	1,507,449	1,611,050
Commitments and contingencies		
Shareholders' equity		
Preferred stock:		
Authorized: 5,000,000 shares, \$.01 per share par value; Issued: None	—	—
Common stock:		
Authorized: 150,000,000 shares, \$.01 per share par value		
Issued: 90,171,307 shares at September 30, 2017 and 90,200,951 shares at December 31, 2016	902	902
Additional paid-in capital	712,091	697,213
Retained earnings	1,992,638	1,834,739
Treasury stock at cost: 13,512,162 shares at September 30, 2017 and 13,760,266 shares at December 31, 2016	(797,857)	(787,307)
Accumulated other comprehensive income (loss)	(97,462)	(201,653)

Total shareholders' equity	1,810,312	1,543,894
Total liabilities and shareholders' equity	\$3,317,761	\$3,154,944
See Notes to Condensed Consolidated Financial Statements		

Table of ContentsIDEX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	\$574,490	\$530,356	\$1,701,408	\$1,582,624
Cost of sales	316,560	299,467	935,612	884,342
Gross profit	257,930	230,889	765,796	698,282
Selling, general and administrative expenses	131,426	119,114	393,691	369,339
Restructuring expenses	—	—	4,797	—
Loss (gain) on sale of businesses - net	—	2,067	—	2,067
Operating income	126,504	109,708	367,308	326,876
Other (income) expense - net	1,653	(1,513)	1,717	(2,496)
Interest expense	11,064	11,913	33,920	33,607
Income before income taxes	113,787	99,308	331,671	295,765
Provision for income taxes	30,019	29,435	88,160	82,003
Net income	\$83,768	\$69,873	\$243,511	\$213,762
Basic earnings per common share	\$1.09	\$0.92	\$3.19	\$2.81
Diluted earnings per common share	\$1.08	\$0.91	\$3.15	\$2.78
Share data:				
Basic weighted average common shares outstanding	76,309	75,819	76,215	75,753
Diluted weighted average common shares outstanding	77,523	76,880	77,246	76,742
See Notes to Condensed Consolidated Financial Statements				

Table of ContentsIDEX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$83,768	\$69,873	\$243,511	\$213,762
Other comprehensive income (loss)				
Reclassification adjustments for derivatives, net of tax	1,054	1,082	3,159	3,272
Pension and other postretirement adjustments, net of tax	1,468	594	3,872	1,856
Cumulative translation adjustment	28,796	353	97,160	(10,473)
Reclassification of foreign currency translation to earnings upon sale of subsidiaries	—	4,258	—	4,258
Other comprehensive income (loss)	31,318	6,287	104,191	(1,087)
Comprehensive income	\$115,086	\$76,160	\$347,702	\$212,675
See Notes to Condensed Consolidated Financial Statements				

Table of ContentsIDEX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands except share amounts)

(unaudited)

	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			Treasury Stock	Total Shareholders' Equity
			Cumulative Translation Adjustment	Retirement Benefits Adjustment	Cumulative Unrealized Gain (Loss) on Derivatives		
Balance, December 31, 2016	\$ 698,115	\$1,834,739	\$(155,544)	\$(27,852)	\$(18,257)	\$(787,307)	\$1,543,894
Net income	—	243,511	—	—	—	—	243,511
Cumulative translation adjustment	—	—	97,160	—	—	—	97,160
Net change in retirement obligations (net of tax of \$1,753)	—	—	—	3,872	—	—	3,872
Net change on derivatives designated as cash flow hedges (net of tax of \$1,845)	—	—	—	—	3,159	—	3,159
Issuance of 470,104 shares of common stock from issuance of unvested shares, performance share units and exercise of stock options (net of tax of \$5,579)	—	—	—	—	—	18,980	18,980
Repurchase of 222,000 shares of common stock	—	—	—	—	—	(23,627)	(23,627)
Unvested shares surrendered for tax withholding	—	—	—	—	—	(5,903)	(5,903)
Share-based compensation	14,878	—	—	—	—	—	14,878
Cash dividends declared - \$1.11 per common share outstanding	—	(85,612)	—	—	—	—	(85,612)
Balance, September 30, 2017	\$ 712,993	\$1,992,638	\$(58,384)	\$(23,980)	\$(15,098)	\$(797,857)	\$1,810,312

See Notes to Condensed Consolidated Financial Statements

Table of ContentsIDEX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2017		2016	
Cash flows from operating activities				
Net income	\$ 243,511		\$ 213,762	
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss (gain) on sale of businesses - net	—		2,067	
Depreciation and amortization	28,425		28,360	
Amortization of intangible assets	35,381		35,964	
Amortization of debt issuance costs	989		1,150	
Share-based compensation expense	18,143		15,325	
Deferred income taxes	1,888		4,880	
Non-cash interest expense associated with forward starting swaps	5,004		5,144	
Changes in (net of effect from acquisitions and divestitures):				
Receivables	(28,407)	(2,178)
Inventories	(4,869)	22,250	
Other current assets	(15,113)	(18,276)
Trade accounts payable	3,681		(16,696)
Accrued expenses	9,912		(2,982)
Other - net	(1,965)	(4,446)
Net cash flows provided by operating activities	296,580		284,324	
Cash flows from investing activities				
Additions of property, plant and equipment	(28,054)	(28,642)
Acquisition of businesses, net of cash	—		(510,001)

acquired			
Proceeds from sale of businesses, net of cash — sold		32,529	
Proceeds from disposal of fixed assets	5,159	—	
Other - net	(337)	(73))
Net cash flows used in investing activities	(23,232)	(506,187))
Cash flows from financing activities			
Borrowings under revolving facilities	33,000	460,524	
Proceeds from 3.20% Senior Notes	—	100,000	
Proceeds from 3.37% Senior Notes	—	100,000	
Payments under revolving facilities	(181,692)	(402,172))
Debt issuance costs	—	(246))
Dividends paid	(82,869)	(77,367))
Proceeds from stock option exercises	18,980	23,154	
Purchase of common stock	(22,650)	(57,272))
Unvested shares surrendered for tax withholding	(5,903)	(4,899))
Settlement of foreign exchange contracts	4,406	—	
Net cash flows (used in) provided by financing activities	(236,728)	141,722)
Effect of exchange rate changes on cash and cash equivalents	30,707	(8,480))
Net increase (decrease) in cash	67,327	(88,621))
Cash and cash equivalents at beginning of year	235,964	328,018	
Cash and cash equivalents at end of period	\$ 303,291	\$ 239,397	
Supplemental cash flow information			
Cash paid for:			
Interest	\$ 19,406	\$ 18,261	
Income taxes - net	78,629	77,250	

See Notes to Condensed Consolidated Financial Statements

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated)

(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The Condensed Consolidated Financial Statements of IDEX Corporation (“IDEX,” “we,” “our,” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) applicable to interim financial information and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The statements are unaudited but include all adjustments, consisting only of recurring items, except as noted, that the Company considers necessary for a fair presentation of the information set forth herein. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire year.

The Condensed Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Adopted Accounting Standards

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for a company’s sponsored defined benefit pension and other postretirement plans. Under this ASU, companies are required to disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. This ASU also requires companies to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. In addition, only the service cost component of periodic net benefit cost is eligible for capitalization. The Company elected to early adopt this standard in the quarter ended March 31, 2017 as presenting the service cost within income from operations is more indicative of our current pension cost. The Company adopted this standard retrospectively and thus \$0.8 million and \$2.4 million were reclassified from Selling, general and administrative expenses to Other (income) expense - net for the three and nine months ended September 30, 2016, respectively, to conform to current period presentation. The Company elected to apply the practical expedient that permits the use of previously disclosed service cost and other costs from the prior year’s pension and other postretirement benefit plan footnote in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the income statement. The Company included the required disclosures and the changes resulting from the adoption of this standard in Note 16.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under this ASU, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to the excess, limited to the total amount of goodwill allocated to the reporting unit. This ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. In addition, companies will be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. The Company early adopted this standard on January 1, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under this guidance, entities utilizing the FIFO or average cost method should measure inventory at the lower of cost or net realizable value, where net realizable value is defined as the estimated selling price in the ordinary course of business, less

reasonably predictable costs of completion, disposal and transportation. The Company adopted this guidance on January 1, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset or group of similar assets, the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods for the

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

Company on January 1, 2018, with early adoption permitted. The Company does not believe the guidance will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard introduces a new lessee model that will require most leases to be recorded on the balance sheet and eliminates the required use of bright line tests in current U.S. GAAP for determining lease classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Companies are permitted to adopt the standard early and a modified retrospective application is required. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a new five-step model for recognizing revenue from contracts with customers. Under ASU 2014-09, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption. The FASB has also issued the following standards which clarify ASU 2014-09 and have the same effective date as the original standard: ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

In 2016, we established an implementation team and analyzed the impact of the standard by surveying business units and reviewing contracts to identify potential differences that may result from applying the requirements of the new standard. We have substantially completed our contract reviews. These contract reviews generally supported the recognition of revenue at a point in time, which is consistent with the current revenue recognition model used by most of our business units. As a result, we expect revenue recognition to remain substantially unchanged under the new standard. For our business units that currently recognize revenue under a percentage of completion model, we also expect revenue recognition to remain substantially unchanged as the contract reviews supported the recognition of revenue over time. The implementation team has reported these findings and the progress of the project to the Audit Committee. The Company has also made progress on evaluating new disclosure requirements as well as the impact on controls and is implementing the appropriate changes to its processes, systems and controls to comply with the new guidance. The Company is still evaluating the impact of the new guidance on its consolidated financial statements but expects to adopt the standard in 2018 using the modified retrospective method.

2. Acquisitions and Divestitures

All of the Company's acquisitions have been accounted for under Accounting Standards Codification ("ASC") 805, Business Combinations. Accordingly, the accounts of the acquired companies, after adjustments to reflect fair values assigned to assets and liabilities, have been included in the Company's consolidated financial statements from their respective dates of acquisition.

The Company incurred \$0.5 million and \$1.6 million of acquisition-related transaction costs in the three months ended September 30, 2017 and 2016, respectively, and \$0.7 million and \$4.0 million in the nine months ended September 30, 2017 and 2016, respectively. These costs were recorded in Selling, general and administrative expenses and were related to completed transactions, pending transactions and potential transactions, including transactions that ultimately were not completed. During the three and nine months ended September 30, 2016, the Company recorded \$4.6 million and \$10.4 million, respectively, of fair value inventory step-up charges in Cost of sales associated with the completed 2016 acquisitions of Akron Brass Holding Corporation ("Akron Brass"), AWG Fittings GmbH ("AWG Fittings"), and SFC Koenig AG ("SFC Koenig").

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated)

(unaudited)

2016 Acquisitions

On March 16, 2016, the Company acquired the stock of Akron Brass, a producer of a large array of engineered life–safety products for the safety and emergency response markets, which includes apparatus valves, monitors, nozzles, specialty lighting, electronic vehicle–control systems and firefighting hand tools. The business was acquired to complement and create synergies with our existing Hale, Class 1, and Godiva businesses. Headquartered in Wooster, Ohio, Akron Brass operates in our Fire & Safety/Diversified Products segment. Akron Brass was acquired for cash consideration of \$221.4 million. The purchase price was funded with borrowings under the Company’s revolving facilities. The final goodwill and intangible assets recognized as part of the transaction were \$124.6 million and \$90.4 million, respectively. The goodwill is not deductible for tax purposes.

On July 1, 2016, the Company acquired the stock of AWG Fittings, a producer of engineered products for the safety and emergency response markets, including valves, monitors and nozzles. The business was acquired to complement and create synergies with our existing Hale, Class 1, Godiva and Akron Brass businesses. Headquartered in Ballendorf, Germany, AWG Fittings operates in our Fire & Safety/Diversified Products segment. AWG Fittings was acquired for cash consideration of \$47.5 million (€42.8 million). The purchase price was funded with cash on hand. The final goodwill and intangible assets recognized as part of the transaction were \$22.0 million and \$10.3 million, respectively. The goodwill is not deductible for tax purposes.

On August 31, 2016, the Company acquired the stock of SFC Koenig, a producer of highly engineered expanders and check valves for critical applications across the transportation, hydraulic, aviation and medical markets. Headquartered in Dietikon, Switzerland, SFC Koenig operates in our Health & Science Technologies segment. SFC Koenig was acquired for cash consideration of \$241.1 million (€215.9 million). The purchase price was funded with cash on hand and borrowings under the Company’s revolving facilities. The final goodwill and intangible assets recognized as part of the transaction were \$141.3 million and \$117.0 million, respectively. The goodwill is not deductible for tax purposes.

2016 Divestitures

The Company periodically reviews its operations for businesses which may no longer be aligned with its strategic objectives to focus on core business and customers. Any resulting gain or loss recognized due to divestitures is recorded within Loss (gain) on sale of businesses - net.

On July 29, 2016, the Company completed the sale of its Hydra-Stop product line for \$15.0 million in cash, resulting in a pre-tax gain on the sale of \$5.8 million in the third quarter of 2016. In addition, the Company can earn up to \$2 million based on the achievement of financial objectives for net sales in 2016 and 2017. The Company earned \$1.0 million for the achievement of 2016 net sales objectives, which represents the maximum earn out for 2016. The Company can earn an additional \$1.0 million based on 2017 net sales. The results of Hydra-Stop were reported within the Fluid & Metering Technologies segment and generated \$7.5 million of revenues in 2016 through the date of sale.

On September 9, 2016, the Company completed the sale of its Melles Griot KK (“CVI Japan”) subsidiary for \$17.5 million in cash, resulting in a pre-tax loss on the sale of \$7.9 million in the third quarter of 2016. The results of CVI Japan were reported within the Health & Science Technologies segment and generated \$13.1 million of revenues in 2016 through the date of sale.

On October 10, 2016, the Company completed the sale of its IETG and 40Seven subsidiaries for \$2.7 million in cash, resulting in a pre-tax loss on the sale of \$4.2 million in the fourth quarter of 2016. The results of IETG and 40Seven were reported within the Fluid & Metering Technologies segment and generated \$8.3 million of revenues in 2016 through the date of sale.

On December 30, 2016, the Company completed the sale of its Korea Electro-Optics Co., Ltd. (“CVI Korea”) subsidiary for \$3.8 million in cash, resulting in a pre-tax loss on the sale of \$16.0 million in the fourth quarter of 2016. The results of CVI Korea were reported within the Health & Science Technologies segment and generated \$11.7 million of revenues in 2016 through the date of sale.

3. Business Segments

The Company has three reportable business segments: Fluid & Metering Technologies, Health & Science Technologies and Fire & Safety/Diversified Products.

The Fluid & Metering Technologies segment designs, produces and distributes positive displacement pumps, valves, flow meters, injectors, and other fluid-handling pump modules and systems and provides flow monitoring and other services for the food, chemical, general industrial, water & wastewater, agriculture and energy industries. The Health & Science Technologies

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

segment designs, produces and distributes a wide range of precision fluidics, rotary lobe pumps, centrifugal and positive displacement pumps, roll compaction and drying systems used in beverage, food processing, pharmaceutical and cosmetics, pneumatic components and sealing solutions, including very high precision, low-flow rate pumping solutions required in analytical instrumentation, clinical diagnostics and drug discovery, high performance molded and extruded sealing components, biocompatible medical devices and implantables, air compressors used in medical, dental and industrial applications, optical components and coatings for applications in the fields of scientific research, defense, biotechnology, aerospace, telecommunications and electronics manufacturing, laboratory and commercial equipment used in the production of micro and nano scale materials, precision photonic solutions used in life sciences, research and defense markets, and precision gear and peristaltic pump technologies that meet exacting original equipment manufacturer specifications. The Fire & Safety/Diversified Products segment produces firefighting pumps and controls, apparatus valves, monitors, nozzles, rescue tools, lifting bags and other components and systems for the fire and rescue industry, engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications, and precision equipment for dispensing, metering and mixing colorants and paints used in a variety of retail and commercial businesses around the world.

Information on the Company's business segments is presented below, based on the nature of products and services offered. The Company evaluates performance based on several factors, of which operating income is the primary financial measure. Intersegment sales are accounted for as if the sales were to third parties.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016 ⁽¹⁾	2017	2016 ⁽¹⁾
Net sales				
Fluid & Metering Technologies				
External customers	\$220,897	\$208,164	\$658,675	\$641,508
Intersegment sales	56	171	230	480
Total group sales	220,953	208,335	658,905	641,988
Health & Science Technologies				
External customers	207,018	183,453	610,890	556,157
Intersegment sales	109	111	325	318
Total group sales	207,127	183,564	611,215	556,475
Fire & Safety/Diversified Products				
External customers	146,575	138,739	431,843	384,959
Intersegment sales	24	28	186	37
Total group sales	146,599	138,767	432,029	384,996
Intersegment elimination	(189)	(310)	(741)	(835)
Total net sales	\$574,490	\$530,356	\$1,701,408	\$1,582,624
Operating income				
Fluid & Metering Technologies	\$61,988	\$55,907	\$179,830	\$161,782
Health & Science Technologies	46,073	37,195	134,605	118,985
Fire & Safety/Diversified Products	36,199	32,492	106,022	92,566
Corporate office expense and other ⁽²⁾	(17,756)	(15,886)	(53,149)	(46,457)
Total operating income	126,504	109,708	367,308	326,876
Interest expense	11,064	11,913	33,920	33,607
Other (income) expense - net	1,653	(1,513)	1,717	(2,496)
Income before income taxes	\$113,787	\$99,308	\$331,671	\$295,765

⁽¹⁾ Certain amounts in the prior year income statement have been reclassified to conform to the current presentation due to the early adoption of ASU 2017-07.

⁽²⁾ Corporate office expense for the three and nine months ended September 30, 2016 includes benefits of zero and \$4.7 million, respectively, from the reversal of the contingent consideration related to a 2015 acquisition as well as a \$2.1 million loss on sale of businesses - net.

	September 30,	December 31,
	2017	2016
Assets		
Fluid & Metering Technologies	\$ 1,112,788	\$ 1,065,670
Health & Science Technologies	1,281,823	1,266,036
Fire & Safety/Diversified Products	740,026	705,735
Corporate office	183,124	117,503
Total assets	\$ 3,317,761	\$ 3,154,944

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

4. Earnings Per Common Share

Earnings per common share (“EPS”) are computed by dividing net income by the weighted average number of shares of common stock (basic) plus common stock equivalents outstanding (diluted) during the period. Common stock equivalents consist of stock options, which have been included in the calculation of weighted average shares outstanding using the treasury stock method, restricted stock, and performance share units.

ASC 260, Earnings Per Share, provides that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. If awards are considered participating securities, the Company is required to apply the two-class method of computing basic and diluted earnings per share. The Company has determined that its outstanding shares of restricted stock are participating securities. Accordingly, earnings per common share are computed using the more dilutive of the treasury stock method and the two-class method prescribed by ASC 260.

Basic weighted average shares reconciles to diluted weighted average shares as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic weighted average common shares outstanding	76,309	75,819	76,215	75,753
Dilutive effect of stock options, restricted stock, and performance share units	1,214	1,061	1,031	989
Diluted weighted average common shares outstanding	77,523	76,880	77,246	76,742

Options to purchase approximately zero and 0.1 million shares of common stock for the three months ended September 30, 2017 and 2016, respectively, and 0.4 million and 0.9 million shares of common stock for the nine months ended September 30, 2017 and 2016, respectively, were not included in the computation of diluted EPS because the effect of their inclusion would be antidilutive.

5. Inventories

The components of inventories as of September 30, 2017 and December 31, 2016 were:

	September 30, 2017	December 31, 2016
Raw materials and component parts	\$ 170,677	\$ 154,278
Work in process	38,136	34,832
Finished goods	57,892	63,749
Total	\$ 266,705	\$ 252,859

Inventories are stated at the lower of cost or net realizable value. Cost, which includes material, labor and factory overhead, is determined on a FIFO basis.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2017, by reportable business segment, were as follows:

	Fluid & Metering Technologies	Health & Science Technologies	Fire & Safety/ Diversified Products	Total
Balance at December 31, 2016	\$ 573,437	\$ 699,299	\$ 359,856	\$1,632,592
Foreign currency translation	14,295	19,117	16,185	49,597
Acquisition adjustments	—	(2,421)	—	(2,421)
Balance at September 30, 2017	\$ 587,732	\$ 715,995	\$ 376,041	\$1,679,768

ASC 350, Goodwill and Other Intangible Assets, requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of the reporting unit below its carrying value. In the first nine months of 2017, there were no events or circumstances that would have required an interim impairment test. Annually, on October 31, goodwill and other acquired intangible assets with indefinite lives are tested for impairment. Based on the results of our annual impairment test at October 31, 2016, all reporting units had fair values in excess of their carrying values.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets at September 30, 2017 and December 31, 2016:

	At September 30, 2017			Weighted Average Life	At December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net		Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Patents	\$9,675	\$(7,008)	\$2,667	11	\$9,856	\$(6,635)	\$3,221
Trade names	117,585	(49,474)	68,111	16	113,428	(42,653)	70,775
Customer relationships	309,693	(115,313)	194,380	13	369,087	(161,065)	208,022
Unpatented technology	88,065	(29,559)	58,506	13	106,747	(44,516)	62,231
Other	839	(550)	289	10	6,527	(6,172)	355
Total amortized intangible assets	525,857	(201,904)	323,953		605,645	(261,041)	344,604
Indefinite lived intangible assets:							
Banjo trade name	62,100	—	62,100		62,100	—	62,100
Akron Brass trade name	28,800	—	28,800		28,800	—	28,800
Total intangible assets	\$616,757	\$(201,904)	\$414,853		\$696,545	\$(261,041)	\$435,504

The Banjo trade name is an indefinite-lived intangible asset which is tested for impairment on an annual basis in accordance with ASC 350 or more frequently if events or changes in circumstances indicate that the asset might be impaired. In the first nine months of 2017, there were no events or circumstances that would have required an interim impairment test. Based on the results of our annual impairment test at October 31, 2016, the fair value of the Banjo trade name was greater than 25% in excess of the carrying value.

The Akron Brass trade name is an indefinite-lived intangible asset that was acquired as a result of the Akron Brass acquisition in March 2016 and is tested for impairment on an annual basis in accordance with ASC 350 or more frequently if events or changes in circumstances indicate that the asset might be impaired. In the first nine months of 2017, there were no events or circumstances that would have required an interim impairment test. Based on the results of our annual impairment test at October 31, 2016, the fair value of the Akron Brass trade name was near its carrying value as a result of the acquisition of this business in March 2016.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

Amortization of intangible assets was \$11.5 million and \$35.4 million for the three and nine months ended September 30, 2017. Amortization of intangible assets was \$12.8 million and \$28.4 million for the three and nine months ended September 30, 2016. Based on the intangible asset balances as of September 30, 2017, amortization expense is expected to approximate \$10.7 million for the remaining three months of 2017, \$37.4 million in 2018, \$34.2 million in 2019, \$33.7 million in 2020 and \$32.4 million in 2021.

7. Accrued Expenses

The components of accrued expenses as of September 30, 2017 and December 31, 2016 were:

	September 30, 2017	December 31, 2016
Payroll and related items	\$ 68,296	\$ 67,600
Management incentive compensation	20,547	16,339
Income taxes payable	12,332	8,808
Insurance	9,450	9,416
Warranty	6,138	5,628
Deferred revenue	13,055	12,607
Restructuring	662	3,893
Liability for uncertain tax positions	1,350	1,366
Accrued interest	10,184	1,663
Other	28,209	25,532
Total accrued expenses	\$ 170,223	\$ 152,852

8. Other Noncurrent Liabilities

The components of other noncurrent liabilities as of September 30, 2017 and December 31, 2016 were:

	September 30, 2017	December 31, 2016
Pension and retiree medical obligations	\$ 100,356	\$ 93,604
Liability for uncertain tax positions	1,507	2,623
Deferred revenue	2,205	2,442
Other	18,869	22,561
Total other noncurrent liabilities	\$ 122,937	\$ 121,230

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

9. Borrowings

Borrowings at September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, December 31,	
	2017	2016
Revolving Facility	\$ 29,415	\$ 169,579
4.5% Senior Notes, due December 2020	300,000	300,000
4.2% Senior Notes, due December 2021	350,000	350,000
3.2% Senior Notes, due June 2023	100,000	100,000
3.37% Senior Notes, due June 2025	100,000	100,000
Other borrowings	388	1,294
Total borrowings	879,803	1,020,873
Less current portion	347	1,046
Less deferred debt issuance costs	3,602	4,399
Less unaccreted debt discount	1,001	1,193
Total long-term borrowings	\$ 874,853	\$ 1,014,235

On June 13, 2016, the Company completed a private placement of \$100 million aggregate principal amount of 3.20% Senior Notes due June 13, 2023 and \$100 million aggregate principal amount of 3.37% Senior Notes due June 13, 2025 (collectively, the “Notes”) pursuant to a Note Purchase Agreement, dated June 13, 2016 (the “Purchase Agreement”). Each series of Notes bears interest at the stated amount per annum, which is payable semi-annually in arrears on each June 13th and December 13th. The Notes are unsecured obligations of the Company and rank pari passu in right of payment with all of the Company’s other unsecured, unsubordinated debt. The Company may at any time prepay all, or any portion of the Notes; provided that such portion is greater than 5% of the aggregate principal amount of Notes then outstanding. In the event of a prepayment, the Company will pay an amount equal to par plus accrued interest plus a make-whole amount. In addition, the Company may repurchase Notes by making an offer to all holders of the Notes, subject to certain conditions.

The Purchase Agreement contains certain covenants that restrict the Company’s ability to, among other things, transfer or sell assets, incur indebtedness, create liens, transact with affiliates and engage in certain mergers or consolidations or other change of control transactions. In addition, the Company must comply with a leverage ratio and interest coverage ratio, as further described below, and the Purchase Agreement also limits the outstanding principal amount of priority debt that may be incurred by the Company to 15% of consolidated assets. The Purchase Agreement provides for customary events of default. In the case of an event of default arising from specified events of bankruptcy or insolvency, all of the outstanding Notes will become due and payable immediately without further action or notice. In the case of payment event of default, any holder of the Notes affected thereby may declare all the Notes held by it due and payable immediately. In the case of any other event of default, a majority of the holders of Notes may declare all of the Notes to be due and payable immediately.

On June 23, 2015, the Company entered into a credit agreement (the “Credit Agreement”) along with certain of its subsidiaries, as borrowers (the “Borrowers”), Bank of America, N.A., as administrative agent, swing line lender and an issuer of letters of credit, with other agents party thereto. The Credit Agreement replaced the Company’s existing five-year, \$700 million credit agreement, dated as of June 27, 2011, which was due to expire on June 27, 2016. The Credit Agreement consists of a revolving credit facility (the “Revolving Facility”) in an aggregate principal amount of \$700 million, with a final maturity date of June 23, 2020. The maturity date may be extended under certain

conditions for an additional one-year term. Up to \$75 million of the Revolving Facility is available for the issuance of letters of credit. Additionally, up to \$50 million of the Revolving Facility is available to the Company for swing line loans, available on a same-day basis.

Proceeds of the Revolving Facility are available for use by the Borrowers for acquisitions, working capital and other general corporate purposes, including refinancing existing debt of the Company and its subsidiaries. The Company may request increases in the lending commitments under the Credit Agreement, but the aggregate lending commitments pursuant to such increases may not exceed \$350 million. The Company has the right, subject to certain conditions set forth in the Credit Agreement, to designate certain foreign subsidiaries of the Company as borrowers under the Credit Agreement. In connection with any such designation, the Company is required to guarantee the obligations of any such subsidiaries.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated)

(unaudited)

Borrowings under the Credit Agreement bear interest, at either an alternate base rate or an adjusted LIBOR rate plus, in each case, an applicable margin. Such applicable margin is based on the Company's senior, unsecured, long-term debt rating and can range from .005% to 1.50%. Based on the Company's credit rating at September 30, 2017, the applicable margin was 1.10%, resulting in a weighted average interest rate of 1.12% at September 30, 2017. Interest is payable (a) in the case of base rate loans, quarterly, and (b) in the case of LIBOR rate loans, on the maturity date of the borrowing, or quarterly from the effective date for borrowings exceeding three months.

The Credit Agreement requires payment to the lenders of a facility fee based upon (a) the amount of the lenders' commitments under the credit facility from time to time and (b) the applicable corporate credit ratings of the Company. Voluntary prepayments of any loans and voluntary reductions of the unutilized portion of the commitments under the credit facility are permissible without penalty, subject to break funding payments and minimum notice and minimum reduction amount requirements.

The negative covenants include, among other things, limitations (each of which is subject to customary exceptions for financings of this type) on our ability to grant liens; enter into transactions resulting in fundamental changes (such as mergers or sales of all or substantially all of the assets of the Company); restrict subsidiary dividends or other subsidiary distributions; enter into transactions with the Company's affiliates; and incur certain additional subsidiary debt.

The Credit Agreement also contains customary events of default (subject to grace periods, as appropriate) including among others: nonpayment of principal, interest or fees; breach of the representations or warranties in any material respect; breach of the financial, affirmative or negative covenants; payment default on, or acceleration of, other material indebtedness; bankruptcy or insolvency; material judgments entered against the Company or any of its subsidiaries; certain specified events under the Employee Retirement Income Security Act of 1974, as amended; certain changes in control of the Company; and the invalidity or unenforceability of the Credit Agreement or other documents associated with the Credit Agreement.

At September 30, 2017, \$29.4 million was outstanding under the Revolving Facility, with \$8.3 million of outstanding letters of credit, resulting in net available borrowing capacity under the Revolving Facility at September 30, 2017 of approximately \$662.3 million.

There are two key financial covenants that the Company is required to maintain in connection with the Revolving Facility and the Notes, a minimum interest coverage ratio of 3.0 to 1 and a maximum leverage ratio of 3.50 to 1, which is the ratio of the Company's consolidated total debt to its consolidated EBITDA. At September 30, 2017, the Company was in compliance with both of these financial covenants. There are no financial covenants relating to the 4.5% Senior Notes or 4.2% Senior Notes; however, both are subject to cross-default provisions.

10. Derivative Instruments

The Company enters into cash flow hedges from time to time to reduce the exposure to variability in certain expected future cash flows. The type of cash flow hedges the Company enters into includes foreign currency contracts and interest rate exchange contracts that effectively convert a portion of floating-rate debt to fixed-rate debt and are designed to reduce the impact of interest rate changes on future interest expense.

The effective portion of gains or losses on interest rate exchange contracts is reported in Accumulated other comprehensive income (loss) in Shareholders' equity and reclassified into net income in the same period or periods in which the hedged transaction affects net income. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows or the hedged item, if any, is recognized into net income during the period of change. See Note 13 for the amount of loss reclassified into income for interest rate contracts for the nine months

ended September 30, 2017 and 2016. As of September 30, 2017, the Company did not have any interest rate contracts outstanding.

In 2010 and 2011, the Company entered into two separate forward starting interest rate contracts in anticipation of the issuance of the 4.2% Senior Notes and the 4.5% Senior Notes. The Company cash settled these two interest rate contracts in 2010 and 2011 for a total of \$68.9 million, which is being amortized into interest expense over the 10 year term of the debt instruments. Approximately \$6.5 million of the pre-tax amount, included in accumulated other comprehensive income (loss) in shareholders' equity at September 30, 2017, will be recognized into net income over the next 12 months as the underlying hedged transactions are realized.

At September 30, 2017, the Company had outstanding foreign currency exchange contracts with a combined notional value of €180 million that have not been designated as hedges for accounting purposes. These contracts are used to minimize the earnings impact due to foreign currency fluctuations between the Swiss Franc and the Euro associated with certain intercompany loans that

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

were established in conjunction with the SFC Koenig acquisition. The change in the fair value of the foreign currency exchange contracts and the corresponding foreign currency gain or loss on the revaluation of the intercompany loans are both recorded through earnings each period as incurred within other (income) expense in the Condensed Consolidated Statements of Operations.

During the three and nine months ended September 30, 2017, the Company recorded a gain of \$9.3 million and \$14.8 million, respectively, within other (income) expense related to these foreign currency exchange contracts. During the three and nine months ended September 30, 2017, the Company recorded a foreign currency transaction loss of \$10.0 million and \$15.2 million, respectively, within other (income) expense related to these intercompany loans.

The foreign currency exchange contracts are settled in cash approximately every 90 days, with the proceeds recorded within Financing Activities on the Condensed Statement of Cash Flows. The non-cash impact associated with the change in the amount receivable from or payable to the counter parties is recorded within Operating Activities on the Condensed Statement of Cash Flows until such time as the foreign currency exchange contracts are settled in cash. For the three and nine months ended September 30, 2017, the Company received zero and \$4.4 million in settlement of the foreign currency exchange contracts. The Company received \$9.5 million on October 4, 2017 in settlement of the foreign currency exchange contracts outstanding as of September 30, 2017.

Fair values relating to derivative financial instruments reflect the estimated amounts that the Company would receive or pay to sell or buy the contracts based on quoted market prices of comparable contracts at each balance sheet date. The following table sets forth the fair value amounts of derivative instruments held by the Company as of September 30, 2017 and December 31, 2016:

	Fair Value Assets (Liabilities)		
	September 30, 2017	December 31, 2016	Balance Sheet Caption
	(In thousands)		
Foreign currency exchange contracts	\$ 10,351	\$	—Other current assets

11. Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs, other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following table summarizes the basis used to measure the Company's financial assets at fair value on a recurring basis in the balance sheets at September 30, 2017 and December 31, 2016:

Edgar Filing: IDEX CORP /DE/ - Form 10-Q

	Basis of Fair Value Measurements Balance at			
	September 30, 2017	Level 1	Level 2	Level 3
Available for sale securities	\$6,268	\$6,268	\$ —	—
Foreign currency exchange contracts	10,351	—	10,351	—

	Basis of Fair Value Measurements Balance at			
	December 31, 2016	Level 1	Level 2	Level 3
Available for sale securities	\$5,369	\$5,369	\$ —	—

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

There were no transfers of assets or liabilities between Level 1 and Level 2 during the three and nine months ended September 30, 2017 or the year ended December 31, 2016.

The carrying value of our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates their fair values because of the short term nature of these instruments. At September 30, 2017, the fair value of the outstanding indebtedness under our Revolving Facility, 3.2% Senior Notes, 3.37% Senior Notes, 4.5% Senior Notes and 4.2% Senior Notes, based on quoted market prices and current market rates for debt with similar credit risk and maturity, was approximately \$910.8 million compared to the carrying value of \$878.4 million. This fair value measurement is classified as Level 2 within the fair value hierarchy since it is determined based upon significant inputs observable in the market, including interest rates on recent financing transactions to entities with a credit rating similar to ours.

12. Restructuring

During the first quarter of 2017, the Company recorded restructuring costs of \$4.8 million as part of the 2016 restructuring initiatives that support the implementation of key strategic efforts designed to facilitate long-term, sustainable growth through cost reduction actions, primarily consisting of employee reductions and facility rationalization. The restructuring costs included severance benefits for 97 employees. The costs incurred related to these initiatives were included in Restructuring expenses in the Consolidated Statements of Operations while the related accruals were included in Accrued expenses in the Condensed Consolidated Balance Sheets. Severance costs primarily consisted of severance benefits through payroll continuation, COBRA subsidies, outplacement services, conditional separation costs and employer tax liabilities, while exit costs primarily consisted of asset disposals or impairments.

Pre-tax restructuring expenses by segment for the nine months ended September 30, 2017 are as follows:

	Severance Costs	Exit Costs	Total
	(In thousands)		
Fluid & Metering Technologies	\$ 1,566	\$ —	\$ 1,566
Health & Science Technologies	2,470	558	3,028
Fire & Safety/Diversified Products	73	—	73
Corporate/Other	130	—	130
Total restructuring costs	\$ 4,239	\$ 558	\$ 4,797

Restructuring accruals of \$0.7 million and \$3.9 million at September 30, 2017 and December 31, 2016, respectively, are recorded in Accrued expenses in the Consolidated Balance Sheets. Severance benefits are expected to be paid by the end of the year using cash from operations. The changes in the restructuring accrual for the nine months ended September 30, 2017 are as follows:

	Restructuring (In thousands)
Balance at January 1, 2017	\$ 3,893
Restructuring expenses	4,797
Payments, utilization and other	(8,028)
Balance at September 30, 2017	\$ 662

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

13. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) are as follows:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Cumulative translation adjustment	\$28,796	\$—	\$ 28,796	\$4,611	\$—	\$ 4,611
Pension and other postretirement adjustments	2,075	(607)	1,468	915	(321)	594
Reclassification adjustments for derivatives	1,681	(627)	1,054	1,701	(619)	1,082
Total other comprehensive income (loss)	\$32,552	\$(1,234)	\$ 31,318	\$7,227	\$(940)	\$ 6,287
	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Cumulative translation adjustment	\$97,160	\$—	\$97,160	\$(6,215)	\$—	\$(6,215)
Pension and other postretirement adjustments	5,625	(1,753)	3,872	2,820	(964)	1,856
Reclassification adjustments for derivatives	5,004	(1,845)	3,159	5,144	(1,872)	3,272
Total other comprehensive income (loss)	\$107,789	\$(3,598)	\$104,191	\$1,749	\$(2,836)	\$(1,087)

The following table summarizes the amounts reclassified from accumulated other comprehensive income to net income during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Pension and other postretirement plans				
Amortization of service cost	\$2,075	\$915	\$5,625	\$2,820
Total before tax	2,075	915	5,625	2,820
Provision for income taxes	(607)	(321)	(1,753)	(964)
Total net of tax	\$1,468	\$594	\$3,872	\$1,856
Derivatives				
Reclassification adjustments	\$1,681	\$1,701	\$5,004	\$5,144
Total before tax	1,681	1,701	5,004	5,144
Provision for income taxes	(627)	(619)	(1,845)	(1,872)
Total net of tax	\$1,054	\$1,082	\$3,159	\$3,272

The Company recognizes the service cost component in both Selling, general and administrative expenses and Cost of sales, depending on the functional area of the underlying employees included in the plans.

14. Common and Preferred Stock

On December 1, 2015, the Company's Board of Directors approved a \$300.0 million increase in the authorized level for repurchases of common stock. Repurchases will be funded with future cash flow generation or borrowings

available under the Revolving Facility. During the nine months ended September 30, 2017, the Company purchased a total of 222 thousand shares at a cost of \$23.6 million, of which \$1.0 million was settled in October 2017. During the nine months ended September 30, 2016, the Company purchased a total of 739 thousand shares at a cost of \$55.0 million. As of September 30, 2017, the amount of share repurchase authorization remaining is \$556.4 million. At September 30, 2017 and December 31, 2016, the Company had 150 million shares of authorized common stock, with a par value of \$.01 per share, and 5 million shares of authorized preferred stock, with a par value of \$.01 per share. No preferred stock was outstanding at September 30, 2017 or December 31, 2016.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

15. Share-Based Compensation

Stock Options

Weighted average option fair values and assumptions for the periods specified are disclosed below. The fair value of each option grant was estimated on the date of the grant using the Binomial lattice option pricing model.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Weighted average fair value of option grants	\$30.46	\$21.88	\$24.17	\$18.47
Dividend yield	1.27%	1.53%	1.45%	1.69%
Volatility	29.35%	29.60%	29.41%	29.71%
Risk-free forward interest rate	1.24% - 2.80%	0.51% - 2.01%	0.83% - 3.04%	0.53% - 2.50%
Expected life (in years)	5.83	5.91	5.83	5.91

Total compensation cost for stock options is as follows:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of goods sold	\$67	\$92	\$341	\$354
Selling, general and administrative expenses	1,721	1,278	5,604	5,084
Total expense before income taxes	1,788	1,370	5,945	5,438
Income tax benefit	(593)	(441)	(1,887)	(1,727)
Total expense after income taxes	\$1,195	\$929	\$4,058	\$3,711

A summary of the Company's stock option activity as of September 30, 2017, and changes during the nine months ended September 30, 2017, are presented in the following table:

Stock Options	Shares	Weighted Average Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2017	1,987,946	\$ 61.83	6.84	\$56,144,876
Granted	440,825	93.40		
Exercised	(360,986)	52.58		
Forfeited	(47,046)	78.67		
Outstanding at September 30, 2017	2,020,739	\$ 69.98	6.99	\$104,045,261
Vested and expected to vest as of September 30, 2017	1,897,772	\$ 69.00	6.88	\$99,579,316
Exercisable at September 30, 2017	968,929	\$ 55.72	5.35	\$63,709,269

Restricted Stock

Restricted stock awards generally cliff vest after three years for employees and non-employee directors. Unvested restricted stock carries dividend and voting rights and the sale of the shares is restricted prior to the date of vesting. A summary of the Company's restricted stock activity as of September 30, 2017, and changes during the nine months ended September 30, 2017, are presented as follows:

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

Restricted Stock	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2017	217,898	\$ 76.19
Granted	59,010	93.59
Vested	(75,099)	72.15
Forfeited	(10,280)	79.19
Unvested at September 30, 2017	191,529	\$ 82.97

Dividends are paid on restricted stock awards, whose fair value is equal to the market price of the Company's stock at the date of the grant.

Total compensation cost for restricted shares is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of goods sold	\$46	\$64	\$265	\$325
Selling, general and administrative expenses	1,163	751	3,722	3,249
Total expense before income taxes	1,209	815	3,987	3,574
Income tax benefit	(370)	(216)	(1,295)	(1,053)
Total expense after income taxes	\$839	\$599	\$2,692	\$2,521

Cash-Settled Restricted Stock

The Company also maintains a cash-settled share based compensation plan for certain employees. Cash-settled restricted stock awards generally cliff vest after three years. A summary of the Company's unvested cash-settled restricted stock activity as of September 30, 2017, and changes during the nine months ended September 30, 2017, are presented in the following table:

Cash-Settled Restricted Stock	Shares	Weighted-Average Fair Value
Unvested at January 1, 2017	103,790	\$ 90.06
Granted	34,290	93.68
Vested	(27,050)	92.44
Forfeited	(15,220)	121.47
Unvested at September 30, 2017	95,810	\$ 121.47

Dividend equivalents are paid on certain cash-settled restricted stock awards. Total compensation cost for cash-settled restricted stock is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,

Edgar Filing: IDEX CORP /DE/ - Form 10-Q

	2017	2016	2017	2016
Cost of goods sold	\$327	\$307	\$963	\$627
Selling, general and administrative expenses	696	881	2,203	1,842
Total expense before income taxes	1,023	1,188	3,166	2,469
Income tax benefit	(175)	(170)	(557)	(354)
Total expense after income taxes	\$848	\$1,018	\$2,609	\$2,115

20

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

Performance Share Units

Weighted average performance share unit fair values and assumptions for the period specified are disclosed below. The performance share units are market condition awards and have been assessed at fair value on the date of grant using a Monte Carlo simulation model.

	Nine months ended September 30,	
	2017	2016
Weighted average fair value of performance share units	\$115.74	\$111.42
Dividend yield	—%	—%
Volatility	17.36%	17.99%
Risk-free forward interest rate	1.45%	0.89%
Expected life (in years)	2.85	2.86

A summary of the Company's performance share unit activity as of September 30, 2017, and changes during the nine months ended September 30, 2017, are presented in the following table:

Performance Share Units	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2017	137,055	\$ 104.18
Granted	65,530	115.74
Vested	—	95.07
Forfeited and other	(5,625)	109.75
Unvested at September 30, 2017	196,960	\$ 108.33

The Company granted 63,325 performance share units in February 2014, which vested on December 31, 2016. Based on the Company's relative total shareholder return rank during the three year period ended December 31, 2016, the Company achieved a 141% payout that resulted in 89,288 shares issued in February 2017.

Total compensation cost for performance share units is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of goods sold	\$—	\$—	\$—	\$—
Selling, general and administrative expenses	1,725	348	5,045	3,844
Total expense before income taxes	1,725	348	5,045	3,844
Income tax benefit	(597)	(98)	(1,690)	(1,266)
Total expense after income taxes	\$1,128	\$250	\$3,355	\$2,578

The Company's policy is to recognize compensation cost on a straight-line basis, assuming forfeitures, over the requisite service period for the entire award. Classification of stock compensation cost within the Consolidated Statements of Operations is consistent with classification of cash compensation for the same employees.

As of September 30, 2017, there was \$13.9 million of total unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.4 years, \$5.9 million of total unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted-average period of 1.1 years, \$4.3 million of total unrecognized compensation cost related to cash-settled restricted shares that is expected to be recognized over a weighted-average period of 1.0 years, and \$8.0 million of total unrecognized compensation cost related to performance share units that is expected to be recognized over a weighted-average period of 1.0 years.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands except share data and where otherwise indicated)
 (unaudited)

16. Retirement Benefits

The Company sponsors several qualified and nonqualified defined benefit and defined contribution pension plans and other postretirement plans for its employees. The following tables provide the components of net periodic benefit cost for its major defined benefit plans and its other postretirement plans. As disclosed in Note 1, the Company elected to early adopt ASU 2017-07 during the quarter ended March 31, 2017. As a result, the Company recorded Interest cost, Expected return on plan assets, and Net amortization within Other (income) expense - net. The Company adopted this standard retrospectively and \$0.8 million and \$2.4 million, respectively, were reclassified from Selling, general and administrative expenses to Other (income) expense - net for the three and nine months ended September 30, 2016 to conform to current period presentation.

	Pension Benefits			
	Three Months Ended September 30,			
	2017		2016	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$224	\$ 520	\$181	\$ 331
Interest cost	687	332	788	344
Expected return on plan assets	(986)	(277)	(1,233)	(203)
Net amortization	641	418	766	241
Net periodic benefit cost	\$566	\$ 993	\$502	\$ 713
	Pension Benefits			
	Nine Months Ended September 30,			
	2017		2016	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$732	\$ 1,496	\$769	\$ 934
Interest cost	2,008	957	2,282	1,049
Expected return on plan assets	(2,874)	(811)	(3,583)	(642)
Net amortization	1,924	1,195	2,420	722
Net periodic benefit cost	\$1,790	\$ 2,837	\$1,888	\$ 2,063

	Other Postretirement Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Service cost	\$152	\$181	\$456	\$494
Interest cost	203	224	611	622
Net amortization	(198)	(154)	(595)	(462)
Net periodic benefit cost	\$157	\$251	\$472	\$654

The Company previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to contribute approximately \$5.8 million to its defined benefit plans and \$0.1 million to its other postretirement benefit plans in 2017. As of September 30, 2017, the Company expects to contribute approximately \$4.8 million to its defined

benefit plans and \$0.6 million to its other postretirement benefit plans in 2017. The Company contributed a total of \$4.2 million during the first nine months of 2017 to fund these plans.

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

17. Legal Proceedings

The Company and certain of its subsidiaries are party to various pending or threatened legal proceedings arising in the ordinary course of business. These proceedings may pertain to matters such as product liability or contract disputes, and may also involve governmental inquiries, inspections, audits or investigations relating to issues such as tax matters, intellectual property, environmental, health and safety issues, governmental regulations, employment and other matters. Although the results of such legal proceedings cannot be predicted with certainty, the Company believes that the ultimate disposition of these matters will not have a material adverse effect, individually or in the aggregate, on the Company's business, financial condition, results of operations or cash flows.

18. Income Taxes

The Company's provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes increased to \$30.0 million in the third quarter of 2017 from \$29.4 million in the same period of 2016. The effective tax rate decreased to 26.4% for the third quarter of 2017 compared to 29.6% in the same period of 2016 due to the partial release of the capital loss valuation allowance, higher excess tax benefit recognized in the current period, the mix of global pre-tax income among jurisdictions and the prior year incurrence of an additional \$5.2 million of foreign withholding taxes as a result of global cash used to fund the SFC Koenig acquisition.

The provision for income taxes increased to \$88.2 million in the nine months ended September 30, 2017 from \$82.0 million in the same period of 2016. The effective tax rate decreased to 26.6% for the nine months ended September 30, 2017 compared to 27.7% in the same period of 2016 due to foreign tax credits, the partial release of the capital loss valuation allowance and the mix of global pre-tax income among jurisdictions.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible that the Company's gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$1.4 million.

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Statement Under the Private Securities Litigation Reform Act

This quarterly report on Form 10-Q, including the “Overview and Outlook” and the “Liquidity and Capital Resources” sections of this Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements may relate to, among other things, capital expenditures, acquisitions, cost reductions, cash flow, revenues, earnings, market conditions, global economies and operating improvements, and are indicated by words or phrases such as “anticipates,” “estimates,” “plans,” “expects,” “projects,” “forecasts,” “should,” “could,” “will,” “management believes,” “the Company believes,” “the Company intends,” and similar words or phrases. These statements are subject to inherent uncertainties and risks that could cause actual results to differ materially from those anticipated at the date of this report. The risks and uncertainties include, but are not limited to, the following: economic and political consequences resulting from terrorist attacks and wars; levels of industrial activity and economic conditions in the U.S. and other countries around the world; pricing pressures and other competitive factors, and levels of capital spending in certain industries, all of which could have a material impact on order rates and IDEX Corporation’s results, particularly in light of the low levels of order backlogs it typically maintains; its ability to make acquisitions and to integrate and operate acquired businesses on a profitable basis; the relationship of the U.S. dollar to other currencies and its impact on pricing and cost competitiveness; political and economic conditions in foreign countries in which the company operates; interest rates; capacity utilization and the effect this has on costs; labor markets; market conditions and material costs; and developments with respect to contingencies, such as litigation and environmental matters. The forward-looking statements included here are only made as of the date of this report, and management undertakes no obligation to publicly update them to reflect subsequent events or circumstances, except as may be required by law. Investors are cautioned not to rely unduly on forward-looking statements when evaluating the information presented here.

Table of Contents

Overview and Outlook

IDEX is an applied solutions company specializing in fluid and metering technologies, health and science technologies, and fire, safety and other diversified products built to customers' specifications. IDEX's products are sold in niche markets to a wide range of industries throughout the world. Accordingly, IDEX's businesses are affected by levels of industrial activity and economic conditions in the U.S. and in other countries where it does business and by the relationship of the U.S. Dollar to other currencies. Levels of capacity utilization and capital spending in certain industries and overall industrial activity are important factors that influence the demand for IDEX's products.

The Company has three reportable business segments: Fluid & Metering Technologies ("FMT"), Health & Science Technologies ("HST") and Fire & Safety/Diversified Products ("FSDP"). Within our three reportable segments, the Company maintains thirteen platforms, where we focus on organic growth and strategic acquisitions. Each of our thirteen platforms is also a reporting unit, where we annually test goodwill for impairment.

The Fluid & Metering Technologies segment contains the Energy platform (comprised of Corken, Faure Herman, Liquid Controls, SAMPI, and Toptech), the Valves platform (comprised of Alfa Valvole, Richter, and Aegis), the Water platform (comprised of Pulsafeeder, OBL, Knight, ADS, Trebor, and iPEK), the Pumps platform (comprised of Viking and Warren Rupp), and the Agriculture platform (comprised of Banjo). The Health & Science Technologies segment contains the Scientific Fluidics & Optics platform (comprised of Eastern Plastics, Rheodyne, Sapphire Engineering, Upchurch Scientific, ERC, CiDRA Precision Services, CVI Melles Griot, Semrock, and AT Films), the Sealing Solutions platform (comprised of Precision Polymer Engineering, FTL Seals Technology, Novotema, and SFC Koenig), the Gast platform, the Micropump platform, and the Material Processing Technologies platform (comprised of Quadro, Fitzpatrick, Microfluidics, and Matcon). The Fire & Safety/Diversified Products segment is comprised of the Fire & Safety platform (comprised of Class 1, Hale, Akron Brass, AWG Fittings, Godiva, Dinglee, Hurst Jaws of Life, Lukas, and Vetter), the Band-It platform, and the Dispensing platform.

The Fluid & Metering Technologies segment designs, produces and distributes positive displacement pumps, flow meters, valves, injectors, and other fluid-handling pump modules and systems and provides flow monitoring and other services for the food, chemical, general industrial, water & wastewater, agriculture and energy industries.

The Health & Science Technologies segment designs, produces and distributes a wide range of precision fluidics, rotary lobe pumps, centrifugal and positive displacement pumps, roll compaction and drying systems used in beverage, food processing, pharmaceutical and cosmetics, pneumatic components and sealing solutions, including very high precision, low-flow rate pumping solutions required in analytical instrumentation, clinical diagnostics and drug discovery, high performance molded and extruded sealing components, biocompatible medical devices and implantables, air compressors used in medical, dental and industrial applications, optical components and coatings for applications in the fields of scientific research, defense, biotechnology, life sciences, aerospace, telecommunications and electronics manufacturing, laboratory and commercial equipment used in the production of micro and nano scale materials, precision photonic solutions used in life sciences, research and defense markets, and precision gear and peristaltic pump technologies that meet exacting original equipment manufacturer specifications.

The Fire & Safety/Diversified Products segment produces firefighting pumps and controls, valves, monitors, nozzles, rescue tools, lifting bags and other components and systems for the fire and rescue industry, engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications, and precision equipment for dispensing, metering and mixing colorants and paints used in a variety of retail and commercial businesses around the world.

Management's primary measurements of segment performance are sales, operating income, and operating margin. In addition, due to the highly acquisitive nature of the Company, the determination of operating income includes amortization of acquired intangible assets and, as a result, management reviews depreciation and amortization as a percentage of sales. These measures are monitored by management and significant changes in operating results versus current trends in end markets and variances from forecasts are analyzed with segment management.

This report references organic sales, a non-GAAP measure, that refers to sales calculated according to U.S. GAAP but excluding amounts from acquired or divested businesses during the first twelve months after acquisition or divestiture and the impact of foreign currency translation. The portion of sales attributable to foreign currency translation is

calculated as the difference between (a) the period-to-period change in organic sales and (b) the period-to-period change in organic sales after applying prior period foreign exchange rates to the current year period. Management believes that reporting organic sales provides useful information to investors by helping identify underlying growth trends in our business and facilitating easier comparisons of our revenue performance with prior and future periods and to our peers. The Company excludes the effect of foreign currency translation from organic sales because foreign currency translation is not under management's control, is subject to volatility and can obscure underlying business trends. The Company excludes the effect of acquisitions and divestitures because the nature, size, and number can vary dramatically from period to period and between the Company and its peers and can also obscure underlying business trends and make comparisons of long-term performance difficult.

Table of Contents

EBITDA means earnings before interest, income taxes, depreciation and amortization. Given the acquisitive nature of the Company, which results in a higher level of amortization expense at recently acquired businesses, management uses EBITDA as an internal operating metric to provide another representation of the businesses' performance across our three segments and for enterprise valuation purposes. Management believes that EBITDA is useful to investors as an indicator of the strength and performance of the Company and a way to evaluate and compare operating performance and value companies within our industry. Management believes EBITDA margin is useful for the same reason as EBITDA. EBITDA is also used to calculate certain financial covenants, as discussed in Note 9 of the Notes to Consolidated Financial Statements in Part I, Item 1, "Financial Statements."

Organic sales have been reconciled to net sales and EBITDA has been reconciled to net income in Item 2 under the heading "Non-GAAP Disclosures." The reconciliation of segment EBITDA to net income was performed on a consolidated basis due to the fact that we do not allocate consolidated interest expense or the consolidated provision for income taxes to our segments.

Management uses Adjusted operating income, Adjusted net income, Adjusted EBITDA, and Adjusted EPS as metrics by which to measure performance of the Company since they exclude items that are not reflective of ongoing operations, such as restructuring expenses or gains and losses on sales of businesses.

The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures prepared in accordance with U.S. GAAP, and the financial results prepared in accordance with U.S. GAAP and the reconciliations from these results should be carefully evaluated.

Some of our key financial results for the three months ended September 30, 2017 when compared to the same period from the prior year were as follows:

• Sales of \$574 million increased 8%; organic sales (which excludes acquisitions, divestitures and foreign currency translation) were up 7%.

• Operating income of \$127 million increased 15%. Excluding the \$2 million net loss on divestitures from the prior year results, operating income increased 13%.

• Net income increased 20% to \$84 million. Excluding the \$1 million net loss on divestitures, net of tax benefit from the prior year results, net income increased 19%.

• EBITDA of \$146 million was 25% of sales and covered interest expense by more than 13 times.

• Diluted EPS of \$1.08 increased 17 cents, or 19%. Excluding the net loss on divestitures from the prior year results, EPS increased 16 cents, or 17%.

Some of our key financial results for the nine months ended September 30, 2017 when compared to the same period from the prior year were as follows:

• Sales of \$1.7 billion increased 8%; organic sales (which excludes acquisitions, divestitures and foreign currency translation) were up 5%.

• Operating income of \$367 million increased 12%. Adjusted operating income of \$372 million, adjusted for \$5 million of restructuring charges in the first quarter of 2017 and the \$2 million net loss on divestitures in the prior year, increased 13%.

• Net income increased 14% to \$244 million. Adjusted net income of \$247 million, adjusted for \$3 million of restructuring charges, net of tax benefit, in the first quarter of 2017 and the \$1 million net loss on divestitures, net of the tax benefit, in the prior year, increased 15%.

• EBITDA of \$429 million was 25% of sales and covered interest expense by nearly 13 times. Adjusted EBITDA of \$434 million was 26% of sales and covered interest expense by nearly 13 times.

• Diluted EPS of \$3.15 increased 37 cents, or 13%. Adjusted EPS of \$3.19 increased 40 cents, or 14%.

Given the Company's current outlook, we are projecting fourth quarter 2017 EPS in the range of \$1.06 to \$1.08 with full year 2017 adjusted EPS of \$4.25 to \$4.27. We are also projecting full year organic revenue growth expectations of 5%, with 6% growth expected in the fourth quarter.

Results of Operations

The following is a discussion and analysis of our results of operations for the three and nine month periods ended September 30, 2017 and 2016. Segment operating income and EBITDA exclude unallocated corporate operating expenses of \$17.8 million and \$15.9 million, respectively, for the three months ended September 30, 2017 and 2016 and \$53.1 million and \$46.5 million, respectively, for the nine months ended September 30, 2017 and 2016. Corporate office expense for the three and nine months ended September 30, 2016 includes a \$2.1 million loss on sale of businesses - net.

Table of Contents

Consolidated Results for the Three Months Ended September 30, 2017 Compared with the Same Period of 2016

(In thousands)	Three Months Ended	
	September 30,	
	2017	2016
Net sales	\$574,490	\$530,356
Operating income	126,504	109,708
Operating margin	22.0	% 20.7

For the third quarter of 2017, Fluid & Metering Technologies contributed 38% of sales, 43% of operating income and 41% of EBITDA; Health & Science Technologies accounted for 36% of sales, 32% of operating income and 35% of EBITDA; and Fire & Safety/Diversified Products represented 26% of sales, 25% of operating income and 24% of EBITDA. These percentages are calculated on the basis of total segment (not total Company) sales, operating income and EBITDA.

Sales in the three months ended September 30, 2017 were \$574.5 million, an 8% increase from the comparable period last year. This increase reflects a 7% increase in organic sales and a 1% favorable foreign currency translation. Sales to customers outside the U.S. represented approximately 50% of total sales in the third quarter of 2017 compared to 48% during the same period in 2016.

Gross profit of \$257.9 million in the third quarter of 2017 increased \$27.0 million, or 12%, from the same period in 2016. Gross margin of 44.9% in the third quarter of 2017 increased 140 basis points from 43.5% during the same period in 2016. The increase in gross profit and gross margin is primarily due to \$4.6 million of fair value inventory step-up charges related to the AWG Fittings and SFC Koenig acquisitions in the prior year period and increased sales volume, partially offset by pockets of operating inefficiencies associated with growth.

Selling, general and administrative expenses increased to \$131.4 million in the third quarter of 2017 from \$119.1 million during the same period of 2016. The increase is primarily related to \$3.8 million of higher variable compensation, \$2.0 million of higher stock compensation expense, \$1.3 million of net incremental costs from acquisitions and divestitures and an increase in volume related expenses, partially offset by the benefits from prior year restructuring initiatives and cost controls. As a percentage of sales, selling, general and administrative expenses were 22.9% for the third quarter of 2017, up 50 basis points from the 22.4% for the same period of 2016.

Operating income of \$126.5 million and operating margin of 22.0% in the third quarter of 2017 were up from the \$109.7 million and 20.7%, respectively, recorded during the same period in 2016. These increases are primarily due to volume leverage and benefits from prior year restructuring initiatives as well as the inclusion in the prior year of \$4.6 million of fair value inventory step-up charges related to the AWG and SFC Koenig acquisitions and a \$2.1 million loss on sale of businesses - net.

Other (income) expense - net was \$1.7 million in the third quarter of 2017 compared with \$(1.5) million recorded in the same period in 2016, primarily due to higher foreign currency translation gains in 2016.

Interest expense of \$11.1 million in the third quarter of 2017 was down from \$11.9 million in 2016 as a result of lower outstanding borrowings on revolving facilities.

The provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes of \$30.0 million for the third quarter of 2017 increased compared to \$29.4 million recorded in the same period of 2016. The effective tax rate decreased to 26.4% for the third quarter of 2017 compared to 29.6% in the same period of 2016 due to the partial release of the capital loss valuation allowance, higher excess tax benefit recognized in the current period, the mix of global pre-tax income among jurisdictions and the prior year incurrence of an additional \$5.2 million of foreign withholding taxes as a result of global cash used to fund the SFC Koenig acquisition.

Net income in the third quarter of 2017 of \$83.8 million increased from \$69.9 million during the same period of 2016. Diluted earnings per share in the third quarter of 2017 of \$1.08 increased \$0.17, or 19%, compared with the same period in 2016.

Table of Contents

Fluid & Metering Technologies Segment

(In thousands)	Three Months Ended	
	September 30,	
	2017	2016
Net sales	\$220,953	\$208,335
Operating income	61,988	55,907
Operating margin	28.1	% 26.8

Sales of \$221.0 million increased \$12.6 million, or 6%, in the third quarter of 2017 compared with the same period of 2016. This reflects a 7% increase in organic sales, a 2% decrease from divestitures (Hydra-Stop - July 2016 and IETG - October 2016) and a 1% favorable foreign currency translation. In the third quarter of 2017, sales increased 8% domestically and 4% internationally compared to the same period in 2016. Sales to customers outside the U.S. were approximately 43% of total segment sales during the third quarter of 2017 and 2016.

Sales within our Pumps platform increased compared to the third quarter of 2016 due to strength in the oil and gas upstream markets and the North American industrial distribution market. Sales within the Agriculture platform increased compared to the third quarter of 2016 due to broad based demand across both OEM and distribution channels. Sales within the Valves platform increased slightly compared to the third quarter of 2016 as a result of overall stability in the chemical and oil and gas end markets. Sales within the Water platform increased compared to the third quarter of 2016 due to strong U.S. distribution, new product development and project wins in Asia, partially offset by the impact of the Hydra-Stop and IETG divestitures. Sales within our Energy platform increased slightly in the third quarter of 2017 compared to the same period of 2016, primarily due to strength in U.S. distribution and LPG truck builds, partially offset by a few non-recurring aviation projects in the prior year.

Operating income and operating margin of \$62.0 million and 28.1%, respectively, were higher than the \$55.9 million and 26.8% recorded in the third quarter of 2016, primarily due to volume leverage on organic growth, cost savings from prior year restructuring initiatives and lower amortization.

Health & Science Technologies Segment

(In thousands)	Three Months Ended	
	September 30,	
	2017	2016
Net sales	\$207,127	\$183,564
Operating income	46,073	37,195
Operating margin	22.2	% 20.3

Sales of \$207.1 million increased \$23.6 million, or 13%, in the third quarter of 2017 compared with the same period in 2016. This reflects a 10% increase in organic sales and a 3% net increase from an acquisition (SFC Koenig - September 2016) offset by divestitures (CVI Japan - September 2016 and CVI Korea - December 2016). In the third quarter of 2017, sales increased 6% domestically and 19% internationally. Sales to customers outside the U.S. were approximately 56% of total segment sales in the third quarter of 2017 compared with 53% during the same period in 2016.

Sales within our Material Processing Technologies platform increased compared to the third quarter of 2016, primarily due to global strength in the pharma and food end markets partially offset by the impact of strategic changes in product focus which resulted in discontinued products. Sales within our Scientific Fluidics & Optics platform increased compared to the third quarter of 2016 due to new products, market share wins and strong demand in all primary end markets, including analytical instrumentation, IVD and biotechnology, semiconductor and defense, partially offset by the impact of the CVI Japan and CVI Korea divestitures in 2016. Sales within our Sealing Solutions platform increased compared to the third quarter of 2016 as a result of the SFC Koenig acquisition as well as continued strength within the semiconductor end market. Sales within our Gast platform increased compared to the third quarter of 2016 primarily due to strength in North American distribution as well as strong demand from OEM markets within agriculture, medical and dental. Sales within the Micropump platform increased compared to the third quarter of 2016 due to strength in the core printing and hemodialysis markets.

Operating income and operating margin of \$46.1 million and 22.2%, respectively, in the third quarter of 2017 were up from the \$37.2 million and 20.3% recorded in the same period of 2016. Operating income was up due to the SFC Koenig acquisition, higher volume and productivity improvements. Operating margin was up primarily due to higher volume, the net impact of prior year acquisitions and divestitures, cost savings from prior year restructuring initiatives and the inclusion of a \$2.9 million fair value inventory charge related to the SFC Koenig acquisition in the prior year period.

Table of Contents

Fire & Safety/Diversified Products Segment

(In thousands)	Three Months Ended	
	September 30,	
	2017	2016
Net sales	\$146,599	\$138,767
Operating income	36,199	32,492
Operating margin	24.7	% 23.4

Sales of \$146.6 million increased \$7.8 million, or 6%, in the third quarter of 2017 compared with the same period in 2016. This reflects a 4% increase in organic sales and a 2% favorable foreign currency translation. In the third quarter of 2017, sales decreased 5% domestically and increased 17% internationally. Sales to customers outside the U.S. were approximately 53% of total segment sales in the third quarter of 2017 compared to 48% in the same period of 2016. Sales within our Dispensing platform decreased compared to the third quarter of 2016 primarily due to timing of shipments to U.S. retailers, partially offset by stability in our core markets in Europe and Asia. Sales within our Band-It platform increased compared to the third quarter of 2016 due to a continued rebound in the energy markets as well as growth in the automotive and industrial end markets. Sales within our Fire & Safety platform increased due to OEM and municipal spending strength and strong project activity.

Operating income of \$36.2 million in the third quarter of 2017 was higher than \$32.5 million in the third quarter of 2016 due to an increase in organic sales. Operating margin of 24.7% in the third quarter of 2017 was higher than the 23.4% recorded in the third quarter of 2016, primarily due to increased volume and a \$1.7 million fair value inventory step-up charge related to the AWG Fittings acquisition in the prior year.

Consolidated Results for the Nine Months Ended September 30, 2017 Compared with the Same Period of 2016

(In thousands)	Nine Months Ended	
	September 30,	
	2017	2016
Net sales	\$1,701,408	\$1,582,624
Operating income	367,308	326,876
Operating margin	21.6	% 20.7

For the nine months ended September 30, 2017, Fluid & Metering Technologies contributed 39% of sales, 43% of operating income and 41% of EBITDA; Health & Science Technologies contributed 36% of sales, 32% of operating income and 35% of EBITDA; and Fire & Safety/Diversified Products contributed 25% of sales, 25% of operating income and 24% of EBITDA. These percentages are calculated on the basis of total segment (not total Company) sales, operating income and EBITDA.

Sales in the nine months ended September 30, 2017 were \$1,701.4 million, which was an 8% increase compared to the same period last year. This reflects a 5% increase in organic sales, a 4% net increase from acquisitions (Akron Brass - March 2016, AWG Fittings - July 2016 and SFC Koenig - September 2016) net of divestitures (Hydra-Stop - July 2016, CVI Japan - September 2016, IETG - October 2016, and CVI Korea - December 2016) and a 1% unfavorable foreign currency translation. Sales to customers outside the U.S. represented approximately 49% of total sales in the first nine months of 2017 compared with 50% during the same period in 2016.

Gross profit of \$765.8 million in the first nine months of 2017 increased \$67.5 million, or 10%, from the same period in 2016. Gross margin of 45.0% in the first nine months of 2017 increased 90 basis points from 44.1% during the same period in 2016, primarily due to increased productivity, volume leverage and \$10.4 million of fair value inventory step-up charges in the prior year period related to 2016 acquisitions. Gross profit increased compared to 2016 as a result of a full nine months of prior year acquisitions, net of divestitures as well as increased sales volume. Selling, general and administrative expenses increased to \$393.7 million in the first nine months of 2017 from \$369.3 million during the same period of 2016. The change is due to \$16.2 million of net incremental costs from acquisitions and divestitures, an increase in volume related expenses and a \$4.7 million benefit in the prior year period from the reversal of contingent consideration related to a 2015 acquisition, partially offset by benefits from prior period

restructuring. As a percentage of sales, selling, general and administrative expenses were 23.1% for the first nine months of 2017, down 20 basis points compared to 23.3% during the same period of 2016.

Table of Contents

Operating income of \$367.3 million in the first nine months of 2017 was up from the \$326.9 million recorded during the same period in 2016 and operating margin of 21.6% was up from 20.7% recorded in the same period of 2016. The increase in operating income and margin is primarily due to volume, cost savings from prior period restructuring activities as well as \$10.4 million of fair value inventory step-up charges and a \$2.1 million net loss on sale of businesses in the prior year period.

Other (income) expense - net was \$1.7 million in the first nine months of 2017 compared with \$(2.5) million in the same period in 2016, primarily due to higher foreign currency translation gains in 2016.

Interest expense of \$33.9 million in the first nine months of 2017 was up from \$33.6 million in 2016, primarily as a result of the Notes issued in June 2016, partially offset by strong cash flows in 2017 used to reduce the borrowings on the revolving facilities.

The provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes of \$88.2 million for the first nine months of 2017 increased compared to \$82.0 million recorded in the same period of 2016. The effective tax rate decreased to 26.6% for the first nine months of 2017 compared to 27.7% in the same period of 2016 due to foreign tax credits, the partial release of the capital loss valuation allowance and the mix of global pre-tax income among jurisdictions.

Net income in the first nine months of 2017 of \$243.5 million increased from \$213.8 million during the same period of 2016. Diluted earnings per share in the first nine months of 2017 of \$3.15 increased \$0.37, or 13%, compared with the same period in 2016.

Fluid & Metering Technologies Segment

(In thousands)	Nine Months Ended	
	September 30,	
	2017	2016
Net sales	\$658,905	\$641,988
Operating income	179,830	161,782
Operating margin	27.3	25.2
	%	%

Sales of \$658.9 million increased \$16.9 million, or 3%, in the first nine months of 2017 compared with the same period of 2016. This reflects a 5% increase in organic sales and a 2% decrease from divestitures (Hydra-Stop - July 2016 and IETG - October 2016). In the first nine months of 2017, sales increased 8% domestically and decreased 4% internationally compared to the same period in 2016. Sales to customers outside the U.S. were approximately 42% of total segment sales during the first nine months of 2017 compared with 44% during the same period in 2016.

Sales within our Pumps platform increased compared to the first nine months of 2016 due to strength in the oil & gas upstream markets and the North American industrial distribution market. Sales within our Agriculture platform increased in the first nine months of 2017 compared to the same period of 2016 due to broad based demand across both OEM and distribution channels. Sales in the Valves platform were up in the first nine months of 2017 compared to the prior year period as a result of overall stability in the chemical and oil and gas end markets. Sales within the Water platform decreased in the first nine months of 2017 compared to the same period in 2016 due to the Hydra-Stop and IETG divestitures, partially offset by an increase in municipal spending and strength in U.S. distribution. Sales within our Energy platform decreased in the first nine months of 2017 compared to the same period of 2016 primarily as a result of weakness in the North American LPG mobile end market and non-recurring aviation projects in the prior year, partially offset by strong oil & gas projects.

Operating income and operating margin of \$179.8 million and 27.3%, respectively, in the first nine months of 2017 were higher than the \$161.8 million and 25.2%, respectively, recorded in the first nine months of 2016, primarily due to productivity, volume leverage on organic growth and the benefit from prior period restructuring initiatives, partially offset by current period restructuring expenses.

Health & Science Technologies Segment

(In thousands)	Nine Months Ended	
	September 30,	
	2017	2016

Net sales	\$611,215	\$556,475
Operating income	134,605	118,985
Operating margin	22.0 %	21.4 %

30

Table of Contents

Sales of \$611.2 million increased \$54.7 million, or 10%, in the first nine months of 2017 compared with the same period in 2016. This reflects a 7% increase in organic sales, a 4% net increase from acquisitions (SFC Koenig - September 2016) offset by divestitures (CVI Japan - September 2016 and CVI Korea - December 2016) and a 1% unfavorable foreign currency translation. In the first nine months of 2017, sales increased 10% both domestically and internationally. Sales to customers outside the U.S. were approximately 55% of total segment sales in the first nine months of 2017 and 2016.

Sales within our Material Processing Technologies platform decreased in the first nine months of 2017 compared to the same period in 2016 primarily due to the impact of strategic changes in product focus which resulted in discontinued products and several large projects in the prior year period, partially offset by global strength in the pharma and food end markets. Sales within our Scientific Fluidics & Optics platform increased compared to the first nine months of 2016 due to new products, market share wins and strong demand in all primary end markets, including analytical instrumentation, IVD, and biotechnology, semiconductor and defense, partially offset by the impact of the CVI Japan and CVI Korea divestitures in 2016. Sales within our Sealing Solutions platform increased compared to the first nine months of 2016 due to the inclusion of the SFC Koenig acquisition as well as continued strength in the semiconductor end market. Sales within our Gast platform decreased compared to the first nine months of 2016 primarily due to the impact of OEM headwinds during the first half of 2017. Sales within our Micropump platform increased compared to the first nine months of 2016 due to increasing demand in North American industrial distribution markets as well as the core printing and hemodialysis end markets.

Operating income of \$134.6 million in the first nine months of 2017 was up from the \$119.0 million recorded in the same period of 2016, primarily due to the SFC acquisition, higher volume and productivity improvements, partially offset by 2017 restructuring expenses related to site consolidations within the Material Processing Technologies platform, as well as a \$2.9 million fair value inventory step-up charge related to the SFC Koenig acquisition in the prior year period. Operating margin of 22.0% in the first nine months of 2017 was up from the 21.4% recorded for the same period of 2016 primarily due to volume and productivity, partially offset by site consolidation related restructuring expenses, as well as a \$2.9 million fair value inventory step-up charge related to the SFC Koenig acquisition in the prior year period.

Fire & Safety/Diversified Products Segment

(In thousands)	Nine Months Ended	
	September 30,	
	2017	2016
Net sales	\$432,029	\$384,996
Operating income	106,022	92,566
Operating margin	24.5	% 24.0

Sales of \$432.0 million increased \$47.0 million, or 12%, in the first nine months of 2017 compared with the same period in 2016. This reflects a 1% increase in organic revenue, a 12% increase from acquisitions (Akron Brass - March 2016 and AWG Fittings - July 2016) and a 1% unfavorable impact from foreign currency translation. In the first nine months of 2017, sales increased 8% domestically and 16% internationally compared with the same period in 2016. Sales to customers outside the U.S. were approximately 52% of total segment sales in the first nine months of 2017 and 51% during the same period of 2016.

Sales within our Dispensing platform decreased compared to the first nine months of 2016 primarily due to timing of shipments to U.S. retailers, partially offset by stability in our core markets in Europe and Asia. Sales within our Band-It platform increased compared to the first nine months of 2016 due to rebounding energy markets and solid growth in the automotive and industrial end markets, partially offset by a lack of project funding in Asia. Sales within our Fire & Safety platform increased compared to the first nine months of 2016 primarily due to a full nine months of the Akron Brass and AWG Fittings acquisitions as well as OEM and municipal spending strength.

Operating income of \$106.0 million in the first nine months of 2017 was higher than the \$92.6 million recorded in the same period of 2016 and operating margin of 24.5% recorded in the first nine months of 2017 was higher than the 24.0% recorded for the same period of 2016 due to a full nine months of the Akron Brass and AWG fittings

acquisitions included in the 2017 results, partially offset by \$7.5 million of fair value inventory step-up charges related to the Akron Brass and AWG Fittings acquisitions in the prior year period.

Liquidity and Capital Resources

Operating Activities

At September 30, 2017, the Company's cash and cash equivalents totaled \$303.3 million, of which \$209.3 million was held outside of the United States. At September 30, 2017, working capital was \$618.6 million and the current ratio was 2.8 to 1. Cash

Table of Contents

flows from operating activities for the first nine months of 2017 increased \$12.3 million, or 4%, to \$296.6 million compared to the first nine months of 2016, due to higher net income, partially offset by higher use of working capital to fund growth and a use of cash within Other current assets associated with the foreign currency exchange contracts.

Investing Activities

Cash flows used in investing activities for the first nine months of 2017 decreased \$483.0 million to \$23.2 million compared to the same period in 2016, primarily due to \$510.0 million spent on acquisitions in 2016, partially offset by \$32.5 million of proceeds received from the sale of businesses in 2016 and proceeds received from the sale of a facility in Elmhurst, IL associated with the site consolidation within our Material Processing Technologies platform. Cash flows provided by operating activities were more than adequate to fund capital expenditures of \$28.1 million and \$28.6 million in the first nine months of 2017 and 2016, respectively. Capital expenditures were generally for machinery and equipment that improved productivity, tooling, business system technology, replacement of equipment and investments in new facilities. Management believes the Company has sufficient capacity in its plants and equipment to meet expected needs for future growth.

Financing Activities

Cash flows used in financing activities for the first nine months of 2017 were \$236.7 million compared to cash flows provided by financing activities of \$141.7 million in the same period of 2016, primarily as a result of borrowings to fund the Akron Brass and SFC Koenig acquisitions, partially offset by lower stock repurchases and higher repayments, net of borrowings, under revolving facilities in 2017 compared to the same period in 2016.

On June 13, 2016, the Company completed a private placement of \$100 million aggregate principal amount of 3.20% Senior Notes due June 13, 2023 and \$100 million aggregate principal amount of 3.37% Senior Notes due June 13, 2025 (collectively, the “Notes”) pursuant to a Note Purchase Agreement, dated June 13, 2016 (the “Purchase Agreement”). Each series of Notes bears interest at the stated amount per annum, which is payable semi-annually in arrears on each June 13th and December 13th. The Notes are unsecured obligations of the Company and rank pari passu in right of payment with all of the Company’s other unsecured, unsubordinated debt. The Company may at any time prepay all, or any portion of the Notes; provided that such portion is greater than 5% of the aggregate principal amount of Notes then outstanding. In the event of a prepayment, the Company will pay an amount equal to par plus accrued interest plus a make-whole amount. In addition, the Company may repurchase Notes by making an offer to all holders of the Notes, subject to certain conditions.

The Credit Agreement consists of the Revolving Facility, which is a \$700.0 million unsecured, multi-currency bank credit facility expiring on June 23, 2020. At September 30, 2017, there were \$29.4 million of outstanding borrowings under the Revolving Facility and outstanding letters of credit totaled approximately \$8.3 million. The net available borrowing capacity under the Revolving Facility at September 30, 2017, was approximately \$662.3 million.

Borrowings under the Revolving Facility bear interest, at either an alternate base rate or an adjusted LIBOR rate plus, in each case, an applicable margin. Such applicable margin is based on the Company’s senior, unsecured, long-term debt rating and can range from .005% to 1.50%. Based on the Company’s credit rating at September 30, 2017, the applicable margin was 1.10%, resulting in a weighted average interest rate of 1.12% at September 30, 2017. Interest is payable (a) in the case of base rate loans, quarterly, and (b) in the case of LIBOR rate loans, on the maturity date of the borrowing, or quarterly from the effective date for borrowings exceeding three months. An annual Revolving Facility fee, also based on the Company’s credit rating, is currently 15 basis points and is payable quarterly.

There are two key financial covenants that the Company is required to maintain in connection with the Revolving Facility and the Notes, which require a minimum interest coverage ratio of 3.0 to 1 and a maximum leverage ratio of 3.50 to 1. At September 30, 2017, the Company was in compliance with both of these financial covenants, as the Company’s interest coverage ratio was 12.46 to 1 and the leverage ratio was 1.58 to 1. There are no financial covenants relating to the 4.5% Senior Notes or 4.2% Senior Notes; however, both are subject to cross-default provisions.

On December 1, 2015, the Company’s Board of Directors approved a \$300.0 million increase in the authorized level for repurchases of common stock. Repurchases under the program will be funded with future cash flow generation or borrowings available under the Revolving Facility. During the first nine months of 2017, the Company purchased a

total of 222 thousand shares at a cost of \$23.6 million. During the nine months ended September 30, 2016, the Company purchased a total of 739 thousand shares at a cost of \$55.0 million. As of September 30, 2017, the amount of share repurchase authorization remaining is \$556.4 million.

The Company believes current cash, cash from operations and cash available under the Revolving Facility will be sufficient to meet its operating cash requirements, planned capital expenditures, interest on all borrowings, pension and postretirement funding requirements, expected share repurchases and annual dividend payments to holders of the Company's stock for the

Table of Contents

remainder of 2017. Additionally, in the event that suitable businesses are available for acquisition upon acceptable terms, the Company may obtain all or a portion of the financing for these acquisitions through the incurrence of additional borrowings.

Non-GAAP Disclosures

Set forth below are reconciliations of Adjusted operating income, Adjusted net income, Adjusted EPS, and EBITDA to the comparable measures of net income and operating income, as determined in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”). We have reconciled Adjusted operating income to Operating income; Adjusted net income to Net income; Adjusted EPS to EPS; consolidated EBITDA and segment EBITDA to net income and EBITDA to Adjusted EBITDA. The reconciliation of segment EBITDA to net income was performed on a consolidated basis due to the fact that we do not allocate consolidated interest expense or the consolidated provision for income taxes to our segments.

EBITDA means earnings before interest, income taxes, depreciation and amortization. Given the acquisitive nature of the Company, which results in a higher level of amortization expense at recently acquired businesses, management uses EBITDA as an internal operating metric to provide another representation of the businesses’ performance across our three segments and for enterprise valuation purposes. Management believes that EBITDA is useful to investors as an indicator of the strength and performance of the Company and a way to evaluate and compare operating performance and value companies within our industry. Management believes EBITDA margin is useful for the same reason as EBITDA. EBITDA is also used to calculate certain financial covenants, as discussed in Note 9 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, “Financial Statements.”

This report references organic sales, a non-GAAP measure, that refers to sales calculated according to U.S. GAAP but excluding amounts from acquired or divested businesses during the first twelve months after acquisition or divestiture and the impact of foreign currency translation. The portion of sales attributable to foreign currency translation is calculated as the difference between (a) the period-to-period change in organic sales and (b) the period-to-period change in organic sales after applying prior period foreign exchange rates to the current year period. Management believes that reporting organic sales provides useful information to investors by helping identify underlying growth trends in our business and facilitating easier comparisons of our revenue performance with prior and future periods and to our peers. The Company excludes the effect of foreign currency translation from organic sales because foreign currency translation is not under management’s control, is subject to volatility and can obscure underlying business trends. The Company excludes the effect of acquisitions and divestitures because they can obscure underlying business trends and make comparisons of long term performance difficult due to the varying nature, size and number of transactions from period to period and between the Company and its peers.

Management uses Adjusted operating income, Adjusted net income, and Adjusted EPS as metrics by which to measure performance of the Company since they exclude items that are not reflective of ongoing operations, such as restructuring expenses. Management also supplements its U.S. GAAP financial statements with adjusted information to provide investors with greater insight, transparency, and a more comprehensive understanding of the information used by management in its financial and operational decision making.

In addition to measuring our cash flow generation and usage based upon the operating, investing and financing classifications included in the Condensed Consolidated Statements of Cash Flows, we also measure free cash flow (a non-GAAP measure) which represents net cash provided by operating activities minus capital expenditures. We believe that free cash flow is an important measure of operating performance because it provides management a measurement of cash generated from operations that is available for mandatory payment obligations and investment opportunities, such as funding acquisitions, paying dividends, repaying debt and repurchasing our common stock.

The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures prepared in accordance with U.S. GAAP. The financial results prepared in accordance with U.S. GAAP and the reconciliations from these results should be carefully evaluated.

Table of Contents

Reconciliations of Reported-to-Adjusted Net Income

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Reported net income	\$83,768	\$69,873	\$243,511	\$213,762
+ Restructuring expenses	—	—	4,797	—
+ Tax impact on restructuring expenses	—	—	(1,529)	—
+ Loss (gain) on sale of businesses - net	—	2,067	—	2,067
+ Tax impact on loss (gain) on sales of businesses - net	—	(1,467)	—	(1,467)
Adjusted net income	\$83,768	\$70,473	\$246,779	\$214,362

Reconciliations of Reported-to-Adjusted EPS

(shares in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Reported EPS	\$1.08	\$0.91	\$3.15	\$2.78
+ Restructuring expenses	—	—	0.06	—
+ Tax impact on restructuring expenses	—	—	(0.02)	—
+ Loss (gain) on sale of businesses - net	—	0.03	—	0.03
+ Tax impact on loss (gain) on sale of businesses - net	—	(0.02)	—	(0.02)
Adjusted EPS	\$1.08	\$0.92	\$3.19	\$2.79
Diluted weighted average shares	77,523	76,880	77,246	76,742

Reconciliations of Reported-to-Adjusted Operating Income and Margin

(dollars in thousands)	Three Months Ended September 30, 2017					
	FMT	HST	FSDP	Corporate	IDEX	
Reported operating income (loss)	\$61,988	\$46,073	\$36,199	\$(17,756)	\$126,504	
+ Loss (gain) on sale of businesses - net	—	—	—	—	—	
Adjusted operating income (loss)	\$61,988	\$46,073	\$36,199	\$(17,756)	\$126,504	
Net sales (eliminations)	\$220,953	\$207,127	\$146,599	\$(189)	\$574,490	
Operating margin	28.1	% 22.2	% 24.7	% n/m	22.0	%
Adjusted operating margin	28.1	% 22.2	% 24.7	% n/m	22.0	%

	Three Months Ended September 30, 2016					
	FMT	HST	FSDP	Corporate	IDEX	
Reported operating income (loss)	\$55,907	\$37,195	\$32,492	\$(15,886)	\$109,708	
+ Loss (gain) on sale of businesses - net	—	—	—	2,067	2,067	
Adjusted operating income (loss)	\$55,907	\$37,195	\$32,492	\$(13,819)	\$111,775	
Net sales (eliminations)	\$208,335	\$183,564	\$138,767	\$(310)	\$530,356	

Edgar Filing: IDEX CORP /DE/ - Form 10-Q

Operating margin	26.8	%	20.3	%	23.4	%	n/m	20.7	%
Adjusted operating margin	26.8	%	20.3	%	23.4	%	n/m	21.1	%

34

Table of Contents

	Nine Months Ended September 30, 2017					
	FMT	HST	FSDP	Corporate	IDEX	
Reported operating income (loss)	\$179,830	\$134,605	\$106,022	\$(53,149)	\$367,308	
+ Restructuring expenses	1,566	3,028	73	130	4,797	
+ Loss (gain) on sale of businesses - net	—	—	—	—	—	
Adjusted operating income (loss)	\$181,396	\$137,633	\$106,095	\$(53,019)	\$372,105	
Net sales (eliminations)	\$658,905	\$611,215	\$432,029	\$(741)	\$1,701,408	
Operating margin	27.3	% 22.0	% 24.5	% n/m	21.6	%
Adjusted operating margin	27.5	% 22.5	% 24.6	% n/m	21.9	%

	Nine Months Ended September 30, 2016					
	FMT	HST	FSDP	Corporate	IDEX	
Reported operating income (loss)	\$161,782	\$118,985	\$92,566	\$(46,457)	\$326,876	
+ Restructuring expenses	—	—	—	—	—	
+ Loss (gain) on sale of businesses - net	—	—	—	2,067	2,067	
Adjusted operating income (loss)	\$161,782	\$118,985	\$92,566	\$(44,390)	\$328,943	
Net sales (eliminations)	\$641,988	\$556,475	\$384,996	\$(835)	\$1,582,624	
Operating margin	25.2	% 21.4	% 24.0	% n/m	20.7	%
Adjusted operating margin	25.2	% 21.4	% 24.0	% n/m	20.8	%

Reconciliation of EBITDA to Net Income
(in thousands)

	Three Months Ended September 30, 2017					
	FMT	HST	FSDP	Corporate Office	Total IDEX	
Operating income (loss)	\$61,988	\$46,073	\$36,199	\$(17,756)	\$126,504	
- Other (income) expense - net	230	(970)	1,044	1,349	1,653	
+ Depreciation & amortization	6,192	11,189	3,709	190	21,280	
EBITDA	67,950	58,232	38,864	(18,915)	146,131	
- Interest expense					11,064	
- Provision for income taxes					30,019	
- Depreciation and amortization					21,280	
Net income					\$83,768	
Net sales (eliminations)	\$220,953	\$207,127	\$146,599	\$(189)	\$574,490	
Operating margin	28.1	% 22.2	% 24.7	% n/m	22.0	%
EBITDA margin	30.8	% 28.1	% 26.5	% n/m	25.4	%

Table of Contents

	Three Months Ended September 30, 2016					
	FMT	HST	FSDP	Corporate Office	Total IDEX	
Operating income (loss)	\$55,907	\$37,195	\$32,492	\$(15,886)	\$109,708	
- Other (income) expense - net	171	(384)	(195)	(1,105)	(1,513)	
+ Depreciation & amortization	7,168	11,163	3,584	277	22,192	
EBITDA	62,904	48,742	36,271	(14,504)	133,413	
- Interest expense					11,913	
- Provision for income taxes					29,435	
- Depreciation and amortization					22,192	
Net income					\$69,873	
Net sales (eliminations)	\$208,335	\$183,564	\$138,767	\$(310)	\$530,356	
Operating margin	26.8	% 20.3	% 23.4	% n/m	20.7	%
EBITDA margin	30.2	% 26.6	% 26.1	% n/m	25.2	%
	Nine Months Ended September 30, 2017					
	FMT	HST	FSDP	Corporate	IDEX	
Operating income (loss)	\$179,830	\$134,605	\$106,022	\$(53,149)	\$367,308	
- Other (income) expense - net	707	97	1,663	(750)	1,717	
+ Depreciation and amortization	17,823	34,447	10,938	598	63,806	
EBITDA	196,946	168,955	115,297	(51,801)	429,397	
- Interest expense					33,920	
- Provision for income taxes					88,160	
- Depreciation and amortization					63,806	
Net income					\$243,511	
Net sales (eliminations)	\$658,905	\$611,215	\$432,029	\$(741)	\$1,701,408	
Operating margin	27.3	% 22.0	% 24.5	% n/m	21.6	%
EBITDA margin	29.9	% 27.6	% 26.7	% n/m	25.2	%
	Nine Months Ended September 30, 2016					
	FMT	HST	FSDP	Corporate	IDEX	
Operating income (loss)	\$161,782	\$118,985	\$92,566	\$(46,457)	\$326,876	
- Other (income) expense - net	566	(1,548)	(485)	(1,029)	(2,496)	
+ Depreciation and amortization	22,011	33,044	8,316	953	64,324	
EBITDA	183,227	153,577	101,367	(44,475)	393,696	
- Interest expense					33,607	
- Provision for income taxes					82,003	
- Depreciation and amortization					64,324	
Net income					\$213,762	
Net sales (eliminations)	\$641,988	\$556,475	\$384,996	\$(835)	\$1,582,624	
Operating margin	25.2	% 21.4	% 24.0	% n/m	20.7	%

EBITDA margin	28.5	%	27.6	%	26.3	%	n/m	24.9	%
---------------	------	---	------	---	------	---	-----	------	---

Table of Contents

Reconciliation of EBITDA to Adjusted EBITDA

(in thousands)

Three Months Ended September 30, 2017

	FMT	HST	FSDP	Corporate	IDEX	
EBITDA	\$67,950	\$58,232	\$38,864	\$(18,915)	\$146,131	
+ Restructuring expenses	—	—	—	—	—	
+ Loss (gain) on sale of businesses - net	—	—	—	—	—	
Adjusted EBITDA	\$67,950	\$58,232	\$38,864	\$(18,915)	\$146,131	
Adjusted EBITDA margin	30.8	% 28.1	% 26.5	% n/m	25.4	%

Three Months Ended September 30, 2016

	FMT	HST	FSDP	Corporate	IDEX	
EBITDA	\$62,904	\$48,742	\$36,271	\$(14,504)	\$133,413	
+ Restructuring expenses	—	—	—	—	—	
+ Loss (gain) on sale of businesses - net	—	—	—	2,067	2,067	
Adjusted EBITDA	\$62,904	\$48,742	\$36,271	\$(12,437)	\$135,480	
Adjusted EBITDA margin	30.2	% 26.6	% 26.1	% n/m	25.5	%

Nine Months Ended September 30, 2017

	FMT	HST	FSDP	Corporate	IDEX	
EBITDA	\$196,946	\$168,955	\$115,297	\$(51,801)	\$429,397	
+ Restructuring expenses	1,566	3,028	73	130	4,797	
+ Loss (gain) on sale of businesses - net	—	—	—	—	—	
Adjusted EBITDA	\$198,512	\$171,983	\$115,370	\$(51,671)	\$434,194	
Adjusted EBITDA margin	30.1	% 28.1	% 26.7	% n/m	25.5	%

Nine Months Ended September 30, 2016

	FMT	HST	FSDP	Corporate	IDEX	
EBITDA	\$183,227	\$153,577	\$101,367	\$(44,475)	\$393,696	
+ Restructuring expenses	—	—	—	—	—	
+ Loss (gain) on sale of businesses - net	—	—	—	2,067	2,067	
Adjusted EBITDA	\$183,227	\$153,577	\$101,367	\$(42,408)	\$395,763	
Adjusted EBITDA margin	28.5	% 27.6	% 26.3	% n/m	25.0	%

Reconciliation of Net Sales to Net Organic Sales

Three Months Ended
September 30, 2017
FMT HST FSDP IDEX

Change in net sales	6	% 13%	6	% 8
- Net impact from acquisitions/divestitures	(2)	% 3	% —	% —
- Impact from foreign currency	1	% —	2	% 1
Change in net organic sales	7	% 10%	4	% 7

Table of Contents

	Nine Months Ended September 30, 2017			
	FMT	HST	FSDP	IDEX
Change in net sales	3 %	10 %	12 %	8 %
- Impact from acquisitions/divestitures	(2)%	4 %	12 %	4 %
- Impact from foreign currency	— %	(1)%	(1)%	(1)%
Change in net organic sales	5 %	7 %	1 %	5 %
Reconciliations of Free Cash Flow				
(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cash flow from operating activities	\$124,000	\$125,480	\$296,580	\$284,324
- Capital expenditures	8,515	11,590	28,054	28,642
Free cash flow	\$115,485	\$113,890	\$268,526	\$255,682

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is subject to market risk associated with changes in foreign currency exchange rates and interest rates. The Company may, from time to time, enter into foreign currency forward contracts and interest rate swaps on its debt when it believes there is a financial advantage in doing so. A treasury risk management policy, adopted by the Board of Directors, provides for procedures and controls over derivative financial and commodity instruments, including foreign currency forward contracts and interest rate swaps. Under the policy, the Company does not use derivative financial or commodity instruments for trading purposes, and the use of these instruments is subject to strict approvals by senior officers. Typically, the use of derivative instruments is limited to foreign currency forward contracts and interest rate swaps on the Company's outstanding long-term debt.

Foreign Currency Exchange Rates

The Company's foreign currency exchange rate risk is limited principally to the Euro, British Pound, Canadian Dollar, Swiss Franc, Indian Rupee and Chinese Renminbi. The Company manages its foreign exchange risk principally through invoicing customers in the same currency as the cost incurred to produce our products. The effect of transaction gains and losses is reported within Other (income) expense-net on the Condensed Consolidated Statements of Operations.

Interest Rate Fluctuation

The Company's interest rate exposure is primarily related to the \$879.8 million of total debt outstanding at September 30, 2017. Approximately 3% of the debt, representing the amount drawn on the Revolving Facility at September 30, 2017, is priced at interest rates that float with the market. A 50 basis point movement in the interest rate on the floating rate debt would result in an approximate \$0.1 million annualized increase or decrease in interest expense and cash flows. The remaining debt is fixed rate debt.

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) promulgated under the Securities Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2017, that the Company's disclosure controls and procedures were effective.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and six of its subsidiaries are presently named as defendants in a number of lawsuits claiming various asbestos-related personal injuries, allegedly as a result of exposure to products manufactured with components that contained asbestos. These components were acquired from third party suppliers, and were not manufactured by the Company or any of the defendant subsidiaries. To date, the majority of the Company's settlements and legal costs, except for costs of coordination, administration, insurance investigation and a portion of defense costs, have been covered in full by insurance, subject to applicable deductibles. However, the Company cannot predict whether and to what extent insurance will be available to continue to cover these settlements and legal costs, or how insurers may respond to claims that are tendered to them. Claims have been filed in jurisdictions throughout the United States. Most of the claims resolved to date have been dismissed without payment. The balance have been settled for various insignificant amounts. Only one case has been tried, resulting in a verdict for the Company's business unit. No provision has been made in the financial statements of the Company, other than for insurance deductibles in the ordinary course, and the Company does not currently believe the asbestos-related claims will have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

The Company and certain of its subsidiaries are also party to various other pending or threatened legal proceedings arising in the ordinary course of business. These proceedings may pertain to matters such as product liability or contract disputes, and may also involve governmental inquiries, inspections, audits or investigations relating to issues such as tax matters, intellectual property, environmental, health and safety issues, governmental regulations, employment and other matters. Although the results of such legal proceedings cannot be predicted with certainty, the Company believes that the ultimate disposition of these matters will not have a material adverse effect, individually or in the aggregate, on the Company's business, financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information about the Company's purchases of its common stock during the quarter ended September 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Dollar Value that May Yet be Purchased Under the Plans or Programs ⁽¹⁾
July 1, 2017 to July 31, 2017	—	\$ —	—	\$ 570,211,110
August 1, 2017 to August 31, 2017	36,000	114.75	36,000	566,080,109
September 1, 2017 to September 30, 2017	80,000	121.22	80,000	556,382,861
Total	116,000	\$ 119.21	116,000	\$ 556,382,861

On December 1, 2015, the Company announced that its Board of Directors had increased the authorized level for repurchases of its common stock by \$300.0 million. This followed the prior Board of Directors repurchase authorization of \$400.0 million, announced by the Company on November 6, 2014. These authorizations have no expiration date.

Item 6. Exhibits.

The exhibits listed in the accompanying "Exhibit Index" are filed or furnished as part of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IDEX Corporation

By: /s/ WILLIAM K. GROGAN

William K. Grogan

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

By: /s/ MICHAEL J. YATES

Michael J. Yates

Vice President and Chief Accounting Officer (Principal Accounting Officer)

Date: October 23, 2017

Table of Contents

EXHIBIT INDEX

Exhibit
Number Description

*31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes Oxley Act of 2002

*31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes Oxley Act of 2002

*32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

*32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

*101 The following financial information from IDEX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statement of Shareholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

* Filed herewith