OVERVIEW:
Co. reported 1Q21 YoY total revenue growth of 13%. Expects 2021 adjusted EPS to be $6.75-6.85 and all-in revenue growth to be 10-12%.
Good morning, and welcome to Dover’s First Quarter 2021 Earnings Conference Call.

Speaking today are Richard J. Tobin, President and Chief Executive Officer; and Brad Cerepak, Senior Vice President and Chief Financial Officer; and Andrey Galiuk, Vice President of Corporate Development and Investor Relations. (Operator Instructions) As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do no agree with these terms, please disconnect at this time.

I would now like to turn the call over to Mr. Andrey Galiuk. Please go ahead, sir.

Thank you, Laurie. Good morning, everyone, and thank you for joining our call. This call will be available for playback through May 4, and the audio portion of this call will be archived in our website for 3 months.

Dover provides non-GAAP information and reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials, which are available on our website.

We want to remind everyone that our comments today may contain forward-looking statements that are subject to uncertainties and risks, including the impact of COVID-19 on the global economy and in our customers, suppliers, employees, operations, business, liquidity and cash flow. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K and Form 10-Q for the first quarter for a list of factors that could cause our results to differ from those anticipated in any forward-looking statement. We undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

With that, I will turn this call over to Rich.
Thank you, Andrey. Good morning, everyone. We simply have a big group this morning so we're going to have a robust Q&A session.

So let's move to Page 3. The business challenge moving into Q1 was twofold for Dover. First, we exited 2020 with a healthy backlog of business which we needed to operationally deliver against. Second, we had -- we're closely with our distributors and customers to seize opportunities in the marketplace despite a complex set of challenges with raw materials, components, logistics and labor availability. We are pleased with our first quarter performance on both counts, which is reflected in our robust revenue growth and the increase in our order backlog as we move into Q2.

Let's take a look at the metrics. Total revenue was up 13%, 9% organic to the comparable period. Clearly, the quarter benefited from a good order backlog position and the willingness of the channels to receive product deliveries as market demand accelerated, resulting in the highest volume quarter since 2014 and largest first quarter volume since 2012 for the company. This performance is a clear indication that our product portfolio is attractive and often underappreciated growth avenues and that the work that we have done on operational excellence is gaining traction.

Order rates outpaced revenue in the quarter, posting bookings of $2.3 billion, a 27% comparable organic increase. The growth was broad-based with all 5 segments contributing to the increase. This resulted in a seasonally high backlog of $2.2 billion, an increase of 39%. Since our earnings are issued among the first in the industrial sector, I suppose it is upon -- it's on us to explain the drivers of growth and their impact on seasonality and full year demand. I'm going to try to be careful with my choice of terms and comments not to cast unwarranted shade on a clearly positive market demand environment. There are several factors driving healthy customer activity. including pent-up demand from last year as a result of low-starting channel inventories in certain sectors. As I also mentioned in my opening remarks, this was further influenced by tight supply chains and materials inflation, positively contributing to seasonal demand and backlog build as our customers and channels position themselves to meet their forecasted demand.

Importantly, before we get all wound up trying to quantify the impact of channel inventory stocking and inflationary prebuy and how it impacts quarterly demand, let's not lose sight of the fact that total marketplace demand is robust, which is reflected in our backlog and which also leads us to revise our revenue growth guidance upward for the full year to 10% to 12%.

So put succinctly, it's not prebuy if we don't remove it from the full year revenue estimates. Still early in the year, we will continue to produce to meet customer demand and watch our backlog and order patterns carefully. We have more color on the drivers of demand and our revenue performance, including contribution of market share gains as we progress through the year. For now, we are focused on executing operationally in demanding conditions to win in the marketplace, but we clearly believe that favorable demand conditions remain durable through the year.

Let's move to profitability. Q1 was solid with consolidated adjusted segment margin at 19.1%, 320 basis points higher versus the comparable quarter. This was supported by strong volumes, favorable mix of products delivered, positive pricing for continued operational discipline and efficiency initiatives, which more than offset input cost headwinds.

Strong profitability and continued focus on working capital management resulted in seasonally strong free cash flow, which was up $110 million compared to last year's first quarter or the comparable period.

With a solid Q1 under our belt, we look at the remainder of 2021 with constructive optimism. Strong order trends and a record backlog portend a robust top line outlook, and we have confidence in our team's ability to navigate the supply chain challenges.

With that, we are raising our guidance for the year to 10% to 12% all-in revenue growth and adjusted EPS of $6.75 to $6.85 per share, a substantial step-up compared to our prior guidance.

I will skip Slide 4, which provides a more detailed overview of our results for the first quarter, so let's move to Slide 5. Engineered Products revenue was up 2% organically as demand conditions improved modestly during the comparable period. Vehicle services entered the year with a strong order book and faced solid demand across all geographies and product lines. Industrial automation grew on automotive recovery and channel restocking, and aerospace and defense shipments were solid. The business remains booked well into the second half of the year. As expected,
waste hauling was down year-over-year given a lower starting backlog entering Q1, which was further impacted by component availability issues that constrained shipments in the quarter.

We have forecasted this business to be levered towards H2, and order trends and backlog reflect that. Same dynamic for industrial winches with revenue down in the quarter, but recovery in order rates, we expect a continued gradual recovery in this business over the year. Margin performance in the quarter was flat year-over-year as volume leverage and pricing offset the negative fixed cost absorption in the capital goods portion of the portfolio.

And Fueling Solutions was up 3% organically in the quarter on the strength of North American retail fueling, as well as our software and systems business in Europe. Activity in China remains subdued. Order backlogs are up 13%, and we expect our hanging hardware, vehicle wash and compliance-driven underground product offerings to contribute positively due to an increase in miles driven and construction seasonality as we make our way through the year. The segment posted another quarter of strong margin performance on higher volumes, productivity actions and mix, which is a continuation of the trajectory that we exited in 2020.

Sales in Imaging & Identification improved 4% organically. The core marking and coding business grew well on strong printer and services demand in North America and Asia. It was partially offset by a decline in consumables against the comparable quarter where customers stocked up on inks at the onset of the pandemic. We also saw a nice pickup in serialization software sales. Textile printer sales remained soft as global apparel and retail remains impacted by COVID. Ink consumable volumes were up as we significantly improved ink attachment rates, and we saw encouraging improvement in the pipeline in new printer sales as the quarter progressed. Margins improved slightly in the segment on higher volumes, and we were able to offset material cost inflation with strategic pricing during the quarter.

Pumps & Process Solutions posted 18% organic growth in the quarter on improved volumes across all businesses, except precision components. Order rates and shipments for biopharma connectors and pumps continued to be strong. Industrial pumps had a solid quarter driven by improved end market conditions and distributor demand. And polymer processing shipments grew year-over-year on robust demand in Asia and the U.S. Precision components was down in the quarter, though demand conditions stabilized in hydrodynamic bearings and compression parts as well as broadly in China through new OEM builds remain impacted. Adjusted operating margin in the quarter expanded by 890 basis points on strong volume, favorable mix and pricing. This team has moved the segment to best-in-class top line and bottom line metrics through a dedication to operational excellence, robust product development and innovation management and proactive and purposeful inorganic actions. It’s a world-class collection of assets that we will continue to invest behind.

Refrigeration & Food Equipment continued its solid momentum from the second half of last year, posting 18% organic growth. Revenue and new orders in beverage can making more than doubled year-over-year. Food retail saw broad-based increases across its product lines as key retailers resumed capital investment in programs, plus we’ve seen good demand for some of our new product introductions and customer wins. Our natural refrigerant systems business, in particular, experienced robust demand in Europe and the U.S. as customers are adopting more environmentally friendly solutions. The heat exchanger business grew on robust demand in Asia and Europe across all end markets. Foodservice equipment was down in the quarter but saw stabilization in chain restaurant demand. Despite operational challenges in food retail due to availability issues with insulation raw materials, adjusted margin performance improved by 450 basis points supported by stronger volumes, productivity initiatives and cost actions we took in the middle of 2020, partially offset by input cost inflation.

I’ll pass it to Brad from here.

Brad M. Cerepak - Dover Corporation - Senior VP & CFO

Thanks, Rich. Good morning, everyone. I'm on Slide 6. On the top is the revenue bridge. Our top line benefited from organic growth across all 5 segments with particular strength in Pumps & Process Solutions and Refrigeration & Food Equipment segments. FX benefited top line by 3% or $51 million. Acquisitions more than offset dispossession in the quarter by $15 million. We expect this number to grow in subsequent quarters.

The revenue breakdown by geography reflects strong growth in North America, Europe and Asia, our 3 largest geographic regions. The U.S., our largest market, posted 7% organic growth in the quarter on solid order rates in retail fueling, marking and coding, biopharma connectors, food
retail and can making, among others, and was partially offset by delayed shipments in waste hauling. Europe grew by 13% in the quarter on strong shipments in vehicle aftermarket, biopharma industrial pumps and heat exchangers. All of Asia returned to growth and was up 20% organically driven by China, which was up 60% against a COVID-impacted comparable quarter in the prior year.

Moving to the bottom of the page. Bookings were up 27% organically, reflecting the continued broad-based momentum we are seeing across the portfolio. In the quarter, we saw organic bookings growth across all 5 segments. Overall, our backlog is currently up $626 million or 39% versus this time last year. positioning us well for the remainder of the year.

Let’s go to the earnings bridges on Slide 7. On the top of the chart, adjusted segment EBIT was up nearly $100 million on margin improvement – but margin improved several hundred basis points as improved volumes, continued productivity initiatives and strategic pricing offset input cost inflation.

Going to the bottom of the chart. Adjusted net earnings improved by $60 million as higher segment EBIT more than offset higher taxes as well as higher corporate expenses, primarily related to compensation accruals and deal expenses. The effective tax rate, excluding discrete tax benefits, was approximately $21.7 million for the quarter compared to 21.5% in the prior year. Discrete tax benefits were $6 million in the quarter or approximately $3 million lower than in 2020. Rightsizing and other costs were $4 million in the quarter or $3 million after tax.

Now on Slide 8. We are pleased with the cash flow performance in the first quarter with free cash flow of $146 million or $110 million increase over last year. Free cash flow conversion stands at 8% of revenue in the first quarter, which is historically our lowest cash flow quarter due to seasonality of our production.

Let me turn it back to Rich.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Thanks, Brad. Let’s go to Slide 9. We expect demand in Engineered Products to improve sequentially through the remainder of the year, which is supported by a robust backlog. We continue to see strong results -- strong bookings trends in vehicle services and industrial automation. Aerospace and defense has a significant revenue visibility through its government programs and is booked well into the second half of the year. Order rates in waste handling improved significantly during the first quarter, though the shipment schedule will be levered towards the second half, and we are watching the supply chain here closely, which is -- have stabilized and expect gradual recovery through the second half of the year.

As communicated at our investor meeting in November, we expect Fueling Solutions to post modern organic growth for the year. There was a known headwind from EMV roll-off in the U.S., but order trends support a number of positives offsetting it, including growth in systems and software, recovery in underground businesses and growth in vehicle wash. We also expect that Asia, China, in particular, should stabilize and become a net positive for us in the second half. The ICS acquisition, which we closed at the end of last year, is off to a very good start as vehicle wash market is recovering healthily.

Imaging & ID is expected to perform well this year. Our core marking and coding business, our stalwarts in 2020, is expected to continue to deliver low- to mid-single-digit growth with services and serialization products positively impacting performance. Digital textile printing remained slow, although we saw a year-over-year improvement in ink tonnage sales in Q1 as we continue executing our strategy to attach consumables to machine sales. We expect recovery here in the second half.

Pumps & Process Solutions should have another solid year. Demand for biopharma and hygienic applications remains robust, and trading conditions in industrial pumps rebounded quickly in the first quarter, and momentum should continue. Our recent investments in biopharma capacity were prescient, and we are well positioned to continue capitalizing on the secular growth story. Plastics and polymers is expected to deliver steady performance as the global shortage of plastic and rubber as well as petrochemical investments are driving increased investment in processing plants. precision Components have stabilized, and we expect it to contribute to year-over-year growth beginning in the second half of the year.
If with large backlog and high order rates, Refrigeration & Food Equipment is expected to have a strong year. New orders in the core food retail businesses have been healthy in the last few quarters as retailers that had paused their remodel programs last year amidst the pandemic are restarting these strategic initiatives.

Additionally, we are capitalizing on our leadership position in natural refrigerant systems, both in Europe and also in the U.S., where we believe the recent mandate in California will foretell a trend among the other 49 states to mandate the transition to more environmentally friendly solutions. We also see good growth in our specialty product line and small-format customer segment. Belvac continues to work through a record backlog and had another significant bookings quarter in Q1. They are booked for the year.

Our heat exchanger business is seeing strong order rates across all verticals and geographies. We are investing in capacity and new capabilities in these 2 businesses and are well positioned to capture growth. Demand has stabilized in foodservice equipment at restaurant chains, and we expect the institutional business to recover in the second half as students return to schools and traffic in brews at stadiums and hotels.

Our revised annual guidance is on Page 10. We covered the most pertinent of these items in the slides, and we summarized them here for your reference.

And finally, on Slide 11 puts expected 2021 performance in a multiyear perspective. In our 2019 investor presentation, we highlighted how the changes to Dover’s portfolio over the prior decade shaped a less cyclical business and provided attractive through-cycle returns. 2020 was proof of lower top line cyclicality in a demanding environment and our ability to protect profitability. Operational excellence and operating margin expansion has been our priority over the last couple of years and that we are on track to deliver more than 100 basis points of average margin expansion over that period, and we have the playbook and tools for this to continue. Dover is positioned to deliver attractive double-digit EPS growth in line with our long-term corporate targets communicated in 2019.

Before wrapping up, I’d like to thank everyone at Dover for their hard work delivering these results and continued perseverance. And that’s the end of the presentation. So Andrey, we can open it up for Q&A.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from the line of Steve Tusa of JPMorgan.

**Charles Stephen Tusa - JPMorgan Chase & Co, Research Division - MD**

Rich, this is the most excited I've heard you in a while, way to jump out of your shoes there. The kind of rest of the year guidance, I just wanted to kind of get an idea of -- you mentioned there are these kind of like -- I think there were bookings tailwinds this quarter but not necessarily revenue tailwinds. But when I look at kind of the rest of the year, and I just kind of simply divide the rest of the year guide quarterly, just to get to a quarterly number. And keeping in mind the first quarter is usually like a pretty low number seasonally, it seems like sequentially through the rest of the year quarterly that you have EPS, EBIT kind of softening and actually down sequentially and sales basically kind of flattish for the rest of the year, just on a quarterly kind of simple quarterly divide it by 3 -- rest of the year divide it by 3. So what's -- is there something like -- a fundamental that will drop off, other than EMV? I mean you mentioned a lot of these businesses have a second half that actually looks pretty good. And anything we're missing on this front?

**Richard Joseph Tobin - Dover Corporation - President, CEO & Director**

No. Look, I mean, at the end of the day, Q1 was stronger than we expected. So I think that we're quite pleased in our ability to pivot operationally to get the product out the door. I think that we're probably being arguably conservative to get another quarter under our belt to see how much
of that backlog and demand is being influenced by channel restocking and trying to get in front of raw material perceived price increases in the future. So -- and I'm not entirely clear right now how much of Q1 over performance was taken from Q2, which is seasonally when we kind of ramp, so it's usually a low Q1, big move in Q2, Q3 and then kind of run for cash in Q4. Whether we were that -- you just can't do the math and say, "Well, historically, it's been this percentage of revenue and operating profit, and this is what the seasonality is. And if I take Q1 as a proxy and I run my spreadsheet, it kicks out an extraordinarily high number, both on the revenue side and the operating margin side."

So from the revenue side, I think, fair enough, we may be a little conservative. We'd like to see our bookings go through Q2. I'll tell you, sitting here in April that it's not deteriorating, which is a good news. So that portends a pretty decent Q3 that we've got coming up, but we'd like to see how that develops over time because, make no mistake, there's a couple of things here.

Operationally, it is getting kind of difficult out there in terms of sourcing raw materials, labor availability, a variety of different things out there. We had some headwinds in the first quarter, but I'd tell you that, operationally, we plowed through. We're not out of the woods yet. Right now, we missed shipments in both ESG and into -- in retail refrigeration because of component availability. I don't really know yet whether that's going to get better or worse.

My final comment, and I know this is a long answer, but you're at the head of the line, and this is going to be the question we knew we were going to get, is from a margin point of view, and I think that I discussed this at the end of '20, the incremental margin expectation for Q2 because the comp is so good has been overstated on margin because of our ability to use furlough mechanisms that were subsidized by the government, meaning we could take production people off of our payroll because we had subsidies in place to account for it. So you actually have a snapback of costs. Now we're in pretty good shape because our revenue is up so much, so we should be able to absorb it. But I think, by and large, what I've seen that there's an expectation in industrial world where the incremental in Q2 margin performance is a lot higher than we'd expect.

The second answer on the margin performance of the balance of the year is we really expect to accelerate in refrigeration over the balance of the year, so we've got this big backlog. It's up to us to get it out. So the -- out of the growth that we expect in the balance of the year, a lot more of that growth is going to -- from refrigeration than it was in Q1. And as you know, that is diluted to margins as we go forward. So I would caution you not to take Q1 incremental margins and just multiply it by 3.

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**Charles Stephen Tusa** - JPMorgan Chase & Co, Research Division - MD

All right. One last question. Is Q2 -- are Q2 EPS, will they actually grow sequentially, Q2 EPS?

**Richard Joseph Tobin** - Dover Corporation - President, CEO & Director

Yes, yes, yes, without question.

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**Operator**

Your next question comes from the line of Andy Kaplowitz of Citigroup.

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**Andrew Alec Kaplowitz** - Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head

Rich, maybe following up on margin. You've been asked before about achieving a 20% adjusted segment operating margin many times. You did just record over 19%. Obviously, a strong quarter there, and we know 1 quarter doesn't dictate a trend. But is 20%, as a long-term target, may be too low at this point given how well you're operating in the businesses?
Yes. Well, I didn’t expect that one today, Andy. Look, I’ll put it this way. We’re pleased with the operational performance, and we’re pleased with the mix impact on the operating margin, clearly reaching 19% at the segment level. In Q1 of ’21, the 20%, I guess, is earlier in reach than even we had been modeling it in the past. Now that is going to be -- I’m not going to do this big mix discussion again. I guess over the balance of the year -- so number one, the answer is we’re going to get to 20% earlier than we thought based on current trajectory. So what that means, I’m not putting a target out there yet. We’ll give you one maybe in Q3.

What we are going to fight against between now and the end of the year, we’ve discussed the mix impact on margins is inflationary input costs between raw materials, labor and price/cost. We – as we discussed at the end of 2020, we were on the front foot in terms of getting price out there. So think about it in terms of inventory change. The inflation on the raw materials was not in our inventory, so you get positive price/cost early in the transition as long as you stay on the front foot. Now we’re going to be really closely watching price/cost over the balance of the year in terms of net realization, so we would have expected to get the biggest benefit in Q1. And by and large, that’s where we expect it. I mean the way it’s looking, we may have to intervene on price again in certain of the businesses over the balance of the year. So – and that’s going to – and that will impact the margin performance.

So yes. I mean, look, 2020 when we put the target out there was 400 basis points improvement, I think, from the time period we put it out there. Clearly, I think we’ll be revisiting those longer-term targets sometime this year.

Very helpful, Rich. And then just following up on sort of the confidence level in DRFE in the sense that you've got now a couple of quarters of revenue in backlog. I did notice you talked about increasing capacity at Belvac and heat exchangers. So you've said before, Rich, that could be a multiyear cycle in this business. Does the confidence level go up around that sort of comment in the past? Do you see potential for double-digit growth, mid-teens margins? Is the confidence level around that higher now?

Well, it’s getting higher with every passing month of the backlog build. So if you go back and look at the comments, refrigeration gets a lot of the color. It’s the biggest piece of the segment. Their backlog continued to build. That’s the one that we said that we’re relatively confident that we are in kind of a secular growth period for, we would say, 36 months from where we can see it. I think it’s being augmented now by transition to CO2, which should be somewhat of a tailwind that we didn’t really recognize maybe even 6 months ago. So I think that’s helpful.

I mean how long the transition from expanding capacity and can making in the transition from PET to aluminum, how long that goes remains to be seen. But we -- as Brad mentioned, I think, in his comments, we’re booking well into ‘22 now.

On the heat exchanger side, I don’t -- I think that we are outgrowing the market, quite frankly. I think that we’ve got some unique positioning, especially in heat pumps. We are expanding capacity now. So based on new product launches and expanded capacity, I think that we can outgrow the market. But generally speaking, that’s a low single-digit growing market over time. We’d like to see if we can push through and kind of outperform.

Your next question comes from the line of Jeff Sprague of Vertical Research.
Jeffrey Todd Sprague - Vertical Research Partners, LLC - Founder & Managing Partner

Rich, thanks for all that great color. On the supply chain stuff, it doesn't sound like it's the stuff that's front and center in everybody's mind, i.e., semiconductors. It sounds like it might be kind of more basic sort of stuff. Could you actually elaborate a little bit on the types of pressures you're seeing and how widespread they are?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Sure. I think most -- look, we have some exposure on electronic components. It's not huge, but it does impact a few of our businesses. And that is more not chip-base. That is logistic supply chain base. So you can go take a look at what's going on in the Port of Los Angeles right now, and we're hoping that, that will unbundle now that COVID seems to be passing, but a lot of that is just moving the materials that are sourced out of Asia. But the whole freight logistics chain is kind of -- I guess it's tight right now, and it's tight. And it's reflected in the cost of those -- the logistics costs that we've had to bear, and it's tight in terms of getting the deliveries we want.

So -- but then like anything else at Dover becomes very anecdotal because we're not vertically integrated, industrial, making one product. So we've had issues with hydraulic components in ESG. We had issue with lighting systems in refrigeration. So I mean, there's a laundry list of things. But for the most part, it's -- let's call it supply chain logistics constraints that are impacting us.

Jeffrey Todd Sprague - Vertical Research Partners, LLC - Founder & Managing Partner

Great. Understood. And then Pumps & Process margins did look -- I guess I could say awesome. I would assume there's an unusually rich mix in the quarter, but maybe you could just provide a little bit of color on what you think kind of normalized margin rates are in that business.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. It is a very good mix in the quarter. I mean we made that presentation last year about our biopharma and single-use pumps business. I talked to kind of tried to give everybody idea of what that business is capable of delivering at. So that was a business because of its capacity utilization is running -- is converting at gross margin level right now, which is very healthy. We're watching it closely. Right now, it is actually a short-cycle business. We're trying to build our backlog, but we really don't have a lot of visibility. So I think that we're being prudent in terms of our second half estimates in terms of how long that goes.

On the industrial pump side, it's actually been quite robust also, but that's more channel inventory. Interestingly, we had a very good performance in China in the pump business in Q1, and it's been some time since we've seen that. And the margins were quite healthy. And you have to recall that management had been very proactive in taking costs out in '20, and so we have the roll-forward benefit on the industrial pump side on the margin moving into '21. So that was quite healthy.

I think on pumps and polymers, this is a business that I think that the management team has effectively doubled the margin in the last 3 years. So gross margins in that business are healthy again. So overall, it's -- what's going to impact the margin the most is going to be mix. Even when precision components does come back in the second half, it's not overtly dilutive to it, slightly so. The bigger issue is going to be, how does demand hold up on single-use pumps in the second half of the year.

Operator

Your next question comes from the line of Julian Mitchell of Barclays.
Julian C.H. Mitchell - Barclays Bank PLC, Research Division - Research Analyst

Maybe just a first question around just the organic sales outlook. So I heard you loud and clear on DRFE getting better as you go through the year. I just wondered if you could revisit perhaps the organic growth outlook by segment. You gave numbers on the Q4 call for each one. Just wondered in the context of your higher organic growth guide, it looks like about 2 points maybe firm-wide, which were the divisions that really led that organic growth increase for the company overall?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, it looks like -- let's start at the top. If our capital group businesses return in the second half, as we expect, that would meet our original forecast. I think it's -- vehicle services group looks to be poised to get a probably a full point of organic growth that we did not expect at the beginning of the year.

The Printing & ID business is performing, as expected. Clearly, the upside is if textile comes back in a robust fashion in the second half. Right now, we don't have the backlog that would support that thesis. But if it turns, we'll probably have a lot more color on that one at the end of the second quarter. DFS looks like it may have a point, if not 2. One of those points is based on the acquisition that we've made, so you get a point of growth there. When that rolls into organic or not, I have to look in the calendarization of blah, blah, blah. But just in terms of total -- that's why we gave out total growth early on here and didn't try to parse it between organic and inorganic, but we may get a point of growth. We'd like to take a real close look on OPW or the underground portion of it and see if we can develop some hanging hardware, but we'd expect that to get better over the year, offsetting what's likely to be the negative EMV headwind that we have on the aboveground side in the second half.

I think that I just -- I answered Jeff Sprague's question about Pumps & Process Solutions, so I've gone through that one.

And look, our backlog in DRFE, Belvac adding to its backlog doesn't do anything with the revenue. I mean they're going to -- it's purely execution now. How much of that backlog they can realize and we just expanded capacity there to help them do it. I think the outlier is going to be refrigeration. So we've got a real robust backlog that is a short-cycle business. So we don't have -- I think we may be eating into the beginning of Q3 right now in terms of orders. So we don't have anything for Q4. I think we probably need another quarter to kind of get that tightened down.

Julian C.H. Mitchell - Barclays Bank PLC, Research Division - Research Analyst

And then definitely, the operating margin, you sound very confident in that 30%-ish conversion range of a higher sales number. The free cash flow margin guide is similar to before, higher free cash flow, I suppose, in dollars because of the revenue guide increase. The CapEx guide is unchanged. So are you just kind of dialing in maybe, look, it's a very complicated operating environment that may put some extra strain on working capital over the next 6 months? Maybe just help us understand what impact do we see in the cash flow from these constraints on components and so forth, not so much the P&L.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Okay. A couple of things. We are giving latitude to our businesses to build working capital to compete for market share at this point, number one. And number two, I think that we mentioned at the end of the year, we've given some latitude on working capital to prebuy their own raw materials to get in front of what we expected to be inflationary environment.

The fact of the matter is, in Q1, the performance is based on a couple of things. Number one, we did not -- Our payables balance exiting '20 was not as high as it had been in previous quarters, so there wasn't a snapback in terms of making those payables in Q1 that we've seen in the past. And quite frankly, our conversion or velocity of working capital in Q1, because the revenue was what it was, was a lot higher than we would normally see.
So look, and -- you hit the nail on the head, in absolute terms, if we're guiding the revenue up and the margin looks like it's proactive than in absolute dollars, then free cash flow should move at the same. We're working really hard on it, and I think that it'd be probably like a quarter or 2 when we visit the metric as a percent of revenue. But for right now, I think that we're confident that absolute dollar cash flow would be quite healthy.

Operator

Your next question comes from the line of Andrew Obin of Bank of America.

Andrew Burris Obin - BofA Securities, Research Division - MD

Yes. Just a follow-up question on sustainability of margin in Pumps & Process Solutions. Do you guys have a sense on dynamic between -- particularly in biopharma, between the base business, diagnostics and other COVID-related stuff? Just sort of thinking, if you look at life science companies, right, some companies are more exposed to tests, so those may turn negative next year. But then other companies say, "Hey, going into '22, there is enough base here building that it's going to be sort of sustainable growth into '22." So how should we think about that business?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I mean, you basically have the Q&A that we give to the person that runs that business for us, and we try to unpack that. The only recent data that we do have is that development for follow-on vaccines looks like it's quite robust, number one, and that there was a view, at some point, that you were going to move from skid development to much larger incubators over time, and that transition with -- is negative to single use, and we don't see it right now.

Now does that change between now and the end of the year, our view? I'm sure it will change every quarter as we work through it. So -- and that's why we're being a bit cautious in terms of the duration of the demand that we have in that particular sector because if it goes to large incubation, then the volume or the demand -- this is a business that's been growing in the high teens for 24 months now when that begins to roll over. Right now, we don't see it. I can tell you that, right now, we're expanding at capacity again in the case that it's durable, but it's hard to say right now.

Andrew Burris Obin - BofA Securities, Research Division - MD

Great answer. And just sort of thinking about refrigeration. Just sort of, a, what I'm trying to get at, sort of thinking about normalized margins for refrigeration. When do you think we will hit normalized volumes? And how should we think about incrementals in refrigeration? You did say it's going to be negative for the mix. But given all the restructuring, could these guys have high incrementals than corporate average for the rest of the year? So 2 questions.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

I don't know. I'd have to go do the sums for corporate average, but our expectation that they will be a larger contributor to year-over-year profits, at minimum, Q2 and Q3.

Operator

Your next question comes from the line of John Inch of Gordon Haskett.
John George Inch - Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials

Rich, I'm wondering if we could just maybe provide a little bit more context around your strategic pricing, whatever you'd like to offer. So sort of what businesses are you raising prices? What businesses do you still have to raise prices for? And what's the channel reception? I mean is everybody else doing it, too? And just any kind of context you could provide us. Is this also going to get worse as we go throughout the year? Do you think it's going to be -- kind of hold where things are?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Can I say hard to say, John? Look, we're raising prices -- look, this all started with raw materials. So you can go through our portfolio, clearly, that the capital goods side has got the biggest exposure to the raw materials, and they were on the front foot at the beginning. And from what we can see, so far, it looks like the entire complex is following along. Now it takes 90 to 180 days to see what real realization is because you get pricing out there, then you got inventory turns and blah, blah, blah. So that's where it started.

But the fact of the matter is I get it that the fed doesn't want to recognize inflation, but there is inflation. And it's not just the raw materials because raw materials are in the subcomponents that we buy from our vendors who are trying to pass along the same kind of price increases that goes into our bill of materials and everything else. And clearly, at the assembly level on labor, availability is becoming a problem, and that is beginning to start to move up labor costs over time.

So it's now gone from -- it's the capital good side that are buying a lot of raw materials. Now it's moving into the assembled component portions of the business that is going to have to accommodate that over the balance of the year.

On top of that, as I mentioned before, logistics costs. We ship a lot of product that's FOB, so we're not -- it's more inbound logistics costs than it is outbound logistics costs, but freight costs are going up because you're going to -- I mean, God forbid, you have to air freight anything right now. It's a bit of a negative.

So we are going to be on it in terms of price/cost, and it's hard for us because of the disparity of the SKUs that we have in this portfolio. It's not like we're making cars. So we're going to be on it. And it's a trailing number, and we're going to have to do it as a combination of as the numbers come out and our intuition going in. But at worst, it's going to have to be a scenario of net neutral.

John George Inch - Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials

At worst. Okay. Does this -- interestingly enough, does this provide a framework or opportunity for Dover, if these -- this tentacle of inflation or these tentacles of inflation really kind of proliferate to start to raise prices perhaps not on so much a surgical basis? So in -- sort of implied in your answer is the channel is not really resisting. People aren't saying, "Excuse me, you can't raise prices. In this regard, we'll go to competitor b or whatever." I mean none of us want to see rampant inflation. But if there's mild inflation that's across the board, can Dover start to raise pricing in other areas that maybe aren't quite as affected but still help your profitability, particularly if the channel is kind of more willing to accept because of general inflation, blah, blah, blah?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I guess the answer is yes, but let me give you an example. We have raised prices in refrigeration and lost volume because of it because we're more interested in that particular business to raising the operating margin. And as a material component of the market structure, it's up to us to lead the market and stop complaining about the fact that there's no pricing power in it. So that's an example there.

We've got certain other businesses where our gross margins are significantly higher. And there, we may waive it off because if we've got an opportunity to grab share, now is the time to do it. So we don't manage the portfolio and giving a -- here's the 3 bullet points and everybody go execute. I mean we do it based on market structure, competitive environment and a variety of other things, so it's a combination of a variety of
things, whether it's price that falls to -- whether it's price/cost positive that falls to the bottom line or market share gains and gross margins that fall to the bottom line, we'll take it either way.

Operator

Your next question comes from the line of Scott Davis of Melius Research.

Scott Reed Davis - Melius Research LLC - Founding partner, Chairman, CEO & Research Analyst of Multi-Industry Research

Rich, I don't think you mentioned in your prepared remarks anything about the M&A pipeline. Is there any light at the end of the tunnel with the higher valuations that you're seeing out there or availability of assets?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, the -- I guess the good news, Scott, is that as our margins move up, we can be more expansive in terms of what the multiple is willing to pay. Because if we wound the clock back a couple of years ago, a lot of what we looked at was trading at a much higher multiple that we're trading at, and we've gone a long way of fixing it.

So yes, I mean, we're looking at some interesting things in the pipeline. Look at the cash flow this year is proactive. So as I mentioned at the end of last year that we're going to make some quicker decisions probably this year in terms of capital deployment or capital return. So yes, I think that -- look, the management team here was challenged to deliver margin accretion over time on the base portfolio. And the trade-off was, if you do so, then we're going to reinvest in your businesses. We've done that on an organic basis in a meaningful way. I think that we've got certain portions of the portfolio that have earned the right now to be a little bit more expansive inorganically. So we're more -- we're probably more on the front foot today than we've been in my tenure here.

Scott Reed Davis - Melius Research LLC - Founding partner, Chairman, CEO & Research Analyst of Multi-Industry Research

Okay. Good. And then you had mentioned I think at one of the conferences a couple of new automation projects that you guys are doing, I think, in vehicle and waste. But can you give us a little bit of color on those projects? And any sense of -- how do you cadence stuff like that into an up cycle when you're trying to manage high demand, but also you might have some downtime and such to implement projects?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. I mean you got to be careful. I mean I think that we've done a few of them here now, so I think that we're getting better at them in terms of how much inventory do we have to prebuild to accommodate for execution risk. I'm confident that I think the 2 bigger ones that we have going on right now, we've got just like we did in refrigeration, the floor space to accommodate kind of the CapEx portion of the project to run on the installed base. So you've got a transitory period, but it's not as if you have to shut down to redo the plant and do it that way. It's kind of you build it on the side, and you just open it up over time.

A lot of what else we're doing now is we're doing a lot of work on the machining centers, and that's productivity related that we're spending pretty heavily in right now. And that's some of our lower gross margin businesses. We're trying to kind of bring those up over time. And we've got some real interesting ones going on in some of our higher volume throughput businesses on inspection technology that is allowing us to increase capacity without expanding the physical footprint, and that's the one I referenced before on the biopharma side.
Operator

Your next question comes from the line of Joe Ritchie of Goldman Sachs.

Joseph Alfred Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Rich, so you talked a little bit about inventory levels being low and the demand environment remaining robust. So clearly, like not a pull forward in demand. I'm just wondering like when you think about raw material availability in 1Q and some of the supply chain disruption that you saw, was there a certain amount of like revenues that you couldn't book in 1Q that got pushed out into 2Q? Maybe some color around that would be helpful.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

No. I mean, overall, as a corporation, we over delivered what I would have expected that we could have forced through the funnel. I mean I told you about the meetings we were having around here in early January about our Q1 forecast. We were yelling at everybody about moving them up. And then we've got a lot of demand, and I would have expected that we would have had -- we had anecdotal issues that I referenced. But the fact of the matter is, in total, we over-delivered. So what went on in Pumps & Process Solutions, as a whole, their ability to get that amount of product out in an intra-quarter period where they actually didn't even have all those orders, I think it was impressive.

So we did lose some volume in ESG. We lost some volume in refrigeration. But overall, we over delivered than what I would have expected if I looked at kind of backlog conversion expectation going into the year.

Joseph Alfred Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Got it. No. That's helpful. And I guess maybe just kind of following on that conversation with John on price/cost, like -- so it looks like you've got about 80 basis points of price this quarter, and you made some comments around not all the costs or inflationary costs really being in your inventory. so I'm just curious whether it's discussing the price/cost impact in 1Q or how you see that playing out for the rest of the year, I'm just curious to hear how you're thinking this is going to -- the trajectory is going to look like going forward.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I think that we would have expected to be positive in Q1, just because of the timing of our -- the action that we took on pricing, which actually started in Q4 of last year. And then between what's stuck in inventory and then what is preannounced kind of these -- the price increases effective April 1 and how does that drive backlog and whether you can reprice that backlog, it's -- I think that we're vigilant about it.

I think of -- but bottom line is the only way we're really going to know is over time. So I don't know Q2 right now whether we're going to be price/cost, whether it's going to be a credit or debit. I think it's going to be a credit, right? But between announced price increases and price realization and all of the noise around the subcomponents because you can't measure inflation and you can do it for raw materials and castings because it's kind of bulk orders and you only have a few suppliers. But when you talk about subcomponents, across this portfolio, it's quite difficult to measure. So Brad and I were discussing it this morning. I mean it's the one thing that we've got to really keep our eyes on. And look, we'll have more color on it by the time we close Q2.

Operator

Our final question will come from the line of Josh Pokrzywinski of Morgan Stanley.
Joshua Charles Pokrzywinski - Morgan Stanley, Research Division - Equity Analyst

So just taking a step back on kind of the recovery as a whole here, Rich, you guys are going to be back to pre-COVID levels pretty soon and certainly before year-end, it looks like. Where are you seeing evidence that this is maybe a stronger recovery versus line I think you used earlier that you had some pent-up demand from 2020? Like is this a stronger cycle? Or is this sort of catch-up on stuff that really should have gotten done last year?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

All of the above, Josh, I guess. Look, if we go back to '19, we've introduced a lot of new products, believe it or not, between our '19 base and our '21 trajectory. We've also been, I want to say, overly active in M&A, but we did some inorganic investments from '19 through '21. So those end up being top line credits. Forget what the total aggregate demand environment is. Look, the recovery looks like it's broad-based at the end of the day. I mean there are trade-offs where in '19, certain geographies are stronger, and now they're weaker, but they have their own reasons why.

I think that the only one that we can really point to where there's an inflection of the demand environment is refrigeration, but we talked about that leading into '21, where we went through a 3- to 4-year period where the capital base was under invested by big-box retail. And now we're going into a cycle, we're calling it a 3-year cycle. Let's hope it's 4. And then you've got some interesting changes in -- structural changes like that are impacting things like Belvac, where this transition to aluminum cans is kind of cyclical, where that business hasn't grown in a very long time, and now it's making a pretty sweeping transition for COVID reasons and environmental reasons. So the '19 base is important, but we would have expected that if we rebase '19 for new product launches and acquisitions, that base would have been higher anyway at the end of the day, if that answers your question.

Joshua Charles Pokrzywinski - Morgan Stanley, Research Division - Equity Analyst

It does. That's helpful. And then we've sort of beaten some of the backlog discussion to death, but maybe just one more for good measure. You mentioned that you were able to get a lot of product out the door in the first quarter. It wasn't really a lot of bottlenecks on your side, but a lot of the commentary about backlog seems kind of second half focused. Is there a point at which lead times sort of temper the order intake that folks say, "Hey, I'm not going to get this for a while. So I'm going to hold off and see what life's like."? Or is it the inverse because it just seems like there's an awful lot of backlog pretty early in the year?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. It depends on the business at the end of the day and the market structure. I mean we tend to compete in some pretty concentrated market structures where, unless there's a disparity between us and an individual competitor, that's who we're competing with. I think it remains to be seen whether the distribution demand begins to -- that rate of increase slows down because if it's not liquidating at a distribution inventory at the same pace that it's coming in, then obviously it's going to slow down. It's a bit too early to tell, quite frankly. So the long lead time items where markets are concentrated, I don't think it's going to have a negative impact on the short-cycle side. What we're trying to do on the short-cycle side is forcefully build the backlog because, generally speaking, the bigger backlog that we are, the more efficient we are as producers. But that is going to be tied up on the competitive environment and product availability and everything else that we'll see.

Operator

That concludes our question-and-answer period and Dover's First Quarter 2021 Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.