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DOV.N - Q3 2020 Dover Corp Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2020 / 1:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to Dover's Third Quarter 2020 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; 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 not agree with these terms, please disconnect at this time. Thank you.

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

Andrey Galiuk - *Dover Corporation - VP of Corporate Development & IR*

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

Dover provides non-GAAP information and reconciliations between GAAP and adjusted measures 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, 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 third 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.

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

Thanks, Andrey.

Let's begin with the summary of results on Page 3. As we guided back in September, July, August trends were positive, and we are exceeding our internal forecast. This dynamic continued through September. In addition to the improving demand environment, we were very encouraged by our manufacturing operations and supply chain performance in the quarter. This solid operation execution had 2 tangible benefits in Q3: first, it increased our capacity to deliver higher volume than expected from the backlog in our long-cycle businesses and, as you see, the positive impact to the top line: and second, through a combination of mixed and fixed cost absorption, it drove a robust margin performance for the quarter.

Demand trends continued to improve sequentially across most of the portfolio. The trajectory continues to vary by market, and I'll talk more about that, but our diverse end market and geographic exposure is clearly an asset to us in the downturn.

Revenue declined 5% organically, and bookings were flat, with 1/3 of our operating companies posting positive year-over-year bookings for the quarter and more than half posting positive comparable growth in the month of September. We are not out of the woods yet, but the trajectory is encouraging, and we continue to carry a healthy backlog going into the fourth quarter and into next year.

We delivered strong margin performance in the quarter and year to date. We achieved margin improvement in the quarter, despite lower revenue, driven by our operational multiyear efficiency initiatives, gaining further traction and by improved business mix, some of which we highlighted at our recent Investment Day focused on the Pumps & Process Solutions segment and biopharma business in particular.

With the strong results to date, we expected to over deliver on our full year conversion margin target and are now driving towards achieving a flat consolidated adjusted operating margin for the year.

Cash flow in the quarter was strong at 17% of revenue and 127% of adjusted net earnings. Year-to-date, we have generated $117 million more in free cash flow over the comparable period last year, owing to a robust conversion, management and capital discipline.

As a result of our performance in the first 3 quarters of the year and a solid order backlog, we are raising our annual adjusted EPS guidance to $5.40 to $5.45 per share. We are not in the clear on the macro backdrop, and performance remains uneven between markets, but we believe that our performance to date and the levers we have in our possession will enable us to absorb any possible dislocations in the fourth quarter should they materialize.

Let's move to Slide 4. General industrial capital spending remains subdued in Q3, resulting in a 10% organic decline for Engineered Products driven by softness in CapEx levered industrial automation, industrial winches and waste handling. Additionally, our waste handling business had the largest quarter ever in the comparable period last year, making it a challenging benchmark. On the positive side, aerospace and defense grew double digits on shipments from a strong backlog, and we've seen robust recovery in our vehicle aftermarket business after a difficult couple of quarters. The productivity actions, cost actions and favorable mix minimized margin erosion in the quarter, nearly offsetting the impact of materially lower volumes.

And Fueling Solutions saw continued, albeit sequentially slower growth in aboveground equipment in North America on EMV compliance and regulatory activity, whereas national oil companies in China continued to defer capital spending amidst ongoing uncertainty. Demand for belowground equipment has improved sequentially as construction activity restarted, but remained subdued globally. And in China, we're still weathering the roll-off of the double-wall replacement mandate.

Margin performance in the segment was very good and a testament to operational focus and capability of the management team and was achieved through productivity improvements, cost controls and favorable regional mix, more than offsetting volume underabsorption.

Sales in Imaging & Identification declined 8% organically due to continued weakness in digital textile printing. We've seen improving demand for textile printing consumables, reflecting recovering in printing volumes, however, has been insufficient to prompt fabric printers to invest in new machinery. We expect conditions to remain challenged for the balance of the year.

Marking and coding was flat on strong demand for consumables and overall healthy activity in the U.S. and Asia, despite lingering difficulties with customer site access and service delivery. Despite segment margins being down relative to the comparable quarter driven by digital printing volume and fixed cost absorption, margin improved in marking and coding on flat revenue as a result of the mix of effect on consumables and operational initiatives undertaken in prior periods, which also provide a solid base for incremental margins in 2021 as textiles recover.

Pumps & Process Solutions continued to demonstrate the resilience of its product portfolio, some of which we highlighted in last month's Analyst and Investor Day. Strong growth continued in biopharma, medical and hygienic applications. Plastics and polymers shipped several large orders from its backlog, which were initially slated to ship in Q4, getting it to a slightly positive revenue performance year-to-date.

Compression components and aftermarket continue to be slow on weaker activity in U.S. upstream and midstream. Industrial pumps activity remained below last year's volumes, but has improved sequentially. This was another quarter of exemplary margin performance in this segment, with more than 300 basis points of margin expansion driven by broad-based productivity efforts, cost control in impacted businesses, favorable mix and pricing, which more than offset lower volume in some of the portfolio.

Refrigeration & Food Equipment posted its first quarterly organic growth since early 2019, which is a welcome sign, in line with what we saw exiting the second quarter. Moreover, the recovery was broad-based. Our food retail business, the largest in the segment, grew organically on restarted remodeling activity in supermarkets. Belvac, our can making business, began shipping against its record backlog, which we believe is in the early innings of a secular growth trend. Heat exchanges were approximately flat, with continued weakness in HVAC, offset by strength in residential and industrial applications, including semiconductor server and medical cooling. Commercial food service improved, but margins remain impacted due to continued weakness in institutional demand from schools and similar venues, while activity in large chains has slowly recovered.

Cost actions taken earlier this year as well as improved efficiency and volume more than offset the demand headwinds in food equipment, resulting in appreciable margin accretion. We expect to continue delivering improved comparable profits in this segment in line with our longer-term turnaround plan.

I'll pass it to Brad from here.

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

Thanks, Rich. Good morning, everyone.

Let's go to Slide 5. On the top is the revenue bridge. As Rich mentioned in his opening remarks, our top line continues its recovery, with each segment posting sequential improvement over Q2. Several of our businesses, including plastic and polymers, beverage can making and food retail, returned to positive organic growth in the third quarter, while biopharma continued its strong growth trajectory from prior quarters.

FX, which had been a net revenue headwind for us since mid-2018, flipped in the quarter and benefited top line by 1% or $12 million driven principally by strengthening of the euro against the dollar. Acquisitions more than offset dispositions in the quarter by $3 million. We expect this number to grow in subsequent quarters.

The revenue breakdown by geographic area reflects sequential improvement in each major geography, but particularly encouraging is the trajectory in North America and Europe. The U.S., our largest market, declined by 4% organically due to softness in waste handling, industrial winches and precision components, partially offset by a strong quarter in our aboveground retail fueling, marking and coding, beverage can making and food retail businesses, among others.

Europe declined by 4% organically, a material improvement, compared to a 19% decline in Q2 driven by constructive activity in our pumps, biopharma and hygienic and plastics and polymer businesses.

All of Asia declined 10% organically, while China, representing approximately half of our business in Asia, posted an 8% year-over-year decline. We continue to face headwinds in China in retail fueling due to the expiration of the underground equipment replacement mandate and slower demand from the local national oil companies. Outside of retail fueling, we saw solid growth in China.

Moving to the bottom of the page. Bookings were nearly flat, down 1% organically year-over-year compared to a 21% decline in Q2, reflecting continued momentum across our businesses.

In the quarter, we saw organic declines across 4 segments, but sequential improvement across all segments, and a particularly strong bookings quarter for our Refrigeration & Food Equipment segment driven primarily by record order intake in our can making business. These orders relate to large projects that are mostly projected to ship in 2021 and 2022.

Overall, our backlog is currently approximately $200 million or 14% higher compared to this time last year, positioning us well for the remainder of the year and into 2021. Note that a material portion of the backlog increase was driven by orders in our can making business, which I mentioned above.

Let's go to the earnings bridges on Slide 6. On the top of the chart, despite a $77 million revenue decline in the quarter, we were able to keep our adjusted segment earnings approximately flat year-over-year, a testament to our proactive cost containment and productivity initiatives that helped drive 100 basis points of adjusted EBITDA margin improvement. Some of the recent initiatives will continue supporting margins into 2021.

Going to the bottom chart. Adjusted net earnings declined by $3 million, principally driven by higher corporate costs related to deal fees and expense accruals, partially offset by lower interest expense and lower taxes on lower earnings. The effective tax rate, excluding discrete tax benefits is approximately 21.5% for the quarter, substantially the same as the prior year. Discrete tax benefits quarter-over-quarter were approximately $2 million lower in 2020. Rightsizing and other costs were $6 million in the quarter, relating to several new permanent cost containment initiatives that we pulled forward into this year.

Now on Slide 7. We are pleased with the cash performance, with year-to-date free cash flow of $563 million, $117 million or 20 (inaudible) over last year. Our teams have done a good job managing capital more actively in this uncertain environment, and with the improving sequential revenue trajectory in the third quarter, we rebuilt some working capital to support the businesses and our customers.

Free cash flow now stands at 11.5% of revenue year-to-date going into the fourth quarter, which is traditionally -- which traditionally has been our strongest cash flow quarter of the year.

With that, let me turn it back to Rich.

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

Thanks, Brad.

I'm on Page 8. Let's go segment by segment. In Engineered Products, we expect similar performance as the third quarter. Vehicle aftermarket had a very good Q3 as the business was able to deliver on pent-up demand. Notably, we have a tough comp in Q4 due to some promotional campaigns, but this is a business which has excellent prospects for 2021.

Activity in waste handling is picking up with private haulers, but orders placed are mostly for 2021. We expect municipal volumes to remain subdued for the balance of the year. Demand is reaccelerating in -- for digital solutions in this space. And overall, we are constructive on the outlook for this business into 2021.

We are seeing some encouraging signs in industrial automation and automotive OEM markets, in particular, in October. Aerospace and defense continues to be steady. Most of what we plan to deliver in the next quarter is in the segment's backlog, so we don't expect material upside and/or downside from our forecast. We expect margins to be modestly impacted by volume and negative mix relative to Q3 largely due to demand seasonality.

Fueling Solutions remain constructive, finishing the year and into '21. As we've been guiding all year, we have a tough comp in Q4 due to record volumes in the comparable period. Despite the top line headwinds, we expect to hold year-over-year absolute adjusted operating profit as a result of our efforts done on product line harmonization, productivity and pricing discipline. We expect 2021 to be a good year, as demand trends remain constructive for our aboveground and software solution businesses, and we turned the corner on belowground fluid transfer and vehicle wash.

Imaging & ID should remain steady. We saw robust activity in marking and coding exiting the third quarter, and the backlog in the business is higher than last year. Activity in serialization software space is also picking up nicely. In digital print, demand for inks has picked up, which is a sign of improving printing volumes. We are seeing a pickup in quotations for new machines, but we expect a few more quarters before we return to normal levels in this market.

In Pumps & Process Solutions, we expect current trends to continue, with biopharma, plastics and processing continuing the robust trajectory and pumps recovering to more normal levels, particularly in defense and select industrial applications. Compression product lines within the precision components exposed to mid- and downstream are likely to see continued weakness in Q4, as projects and maintenance continue to be deferred. Overall, the Pumps & Process Solutions outlook is supported by segment backlog that is in line with what we had at this point last year.

Let's get on to the last segment, Refrigeration & Food Equipment. First, as I said, we were in the early innings of what we believe to be a multiyear secular build-out of can making capacity, as evidenced by our backlog, driven by the transition from plastic to aluminum containers and also the spike in demand for cans at home consumption of food and beverages.

In Food retail, we delivered low teens margin for Q3 converting on our backlog, providing us a baseline to reach our 2021 margin aspirations. Our backlog is beginning to build moving into 2021. As you all know, this is a seasonal business, so Q4 volume and fixed cost absorption declines in Q4. And frankly, it's all about 2021 from here, and Q3 was a sign of good progress.

We have a robust backlog in heat exchanges and are constructive on this market. Our capacity expansion projects are being completed, and we have some interesting new products in the pipe.

Finally, in commercial foodservice, large chains should continue to support activity, but will not fully offset weakness on the institutional side. Overall, for the segment, comparable profits and margins for the segment are forecasted to be up in Q4 to the comparable period.

With strong margin performance to date, we intend to deliver approximately flat year-over-year adjusted margin this year, despite a lower revenue base. As you may recall, we entered the year with a program, entailing $50 million in structural cost reductions as part of a multiyear program highlighted at our 2019 Investor Day. We actioned more structural initiatives, which resulted in approximately $75 million of permanent cost reduction in 2020, leaving a $25 million annualized carryover benefit into 2021.

We view this as a down payment on the 2021 portion of our multiyear margin improvement journey, and we'll update that with more to come on '21 when we report the fourth quarter.

We expect robust cash flow this year on the back of solid year-to-date cash flow generation and target free cash flow margin at the upper end of our guidance between 11% and 12%. Capital expenditures should tally up to approximately $150 million for the year, with most of the larger outlays behind us.

In summation, we are our raising our adjusted EPS guidance to $5.40 to $5.45 per share for the full year, above the top end range of our prior guidance. We remain on the front foot in capital deployment posture. With several bolt-ons closed last quarter, we have multiple opportunities in the hopper, and we hope to report on those soon.

And as usual, before wrapping up, I want to thank everybody at Dover for their work and continued perseverance in these uneasy times.

And with that, Andrey, let's go to the 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*

So just trying to reconcile the kind of 4Q guide here. I mean, I didn't really hear -- when you walk through the segments, there wasn't really anything that suggested that any one of these segments or at least in total are going to be down materially year-over-year. Yet I think your 4Q guide implies a decline in EPS, and I understand tax rate is going to be a little bit higher, maybe that's like $0.07 or $0.08. But is there anything that we're missing there? I mean, refrigeration is usually the most seasonal, and the backlog there was like pretty eye-poppingly strong. So anything we're missing? Or is this just a bit of conservatism?

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

Well, I would have hoped that when we did the Investor Day in the middle of the quarter that we were pretty forthright of what we thought the Q3 was going to be. And we would have hoped that estimates for Q3 would have moved up and that Q4 would have moved down, and we've gotten either. So here comes the Q3 is great, but Q4 is going to be a miss narrative. Look, I think we've gone public.

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

That's not from me. Just to be clear.

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

No, no, no. That was a general comment. That was not aimed at you at all. So look, we have a bad comp in DFS, which we've been highlighting all year just because of the fact that, if you recall, we had a bunch of orders last year. We had some operational issues in the Q3, so we shipped a ton in Q4. That's always been hanging out there.

We overdelivered to our this year's forecast in Vehicle Services Group, which is a lot of the reason that we did a lot better in Q3. So if you think about automotive aftermarket, we had a couple of really poor quarters. We had a lot of pent-up demand. I think, operationally, we hit the ball out of the park and delivered and overdelivered what we would expect our forecast to be, so that gives us sort of a negative comp going into Q4.

Despite the backlog in refrigeration, I think I would caution you on the segment backlog, while we're building backlog and refrigeration for '21 deliveries, that backlog figure is materially impacted by the backlog that we have at Belvac, which is over $200 million worth of delivery.

So -- and finally, we're still getting COVID reports, particularly in Europe, so I think there is an amount of prudence about are we going to have to take facilities down, are certain regions of Europe going to be impacted from a demand cycle. So I don't think it's bad news at all. Quite frankly, in some of our higher CapEx businesses, like waste management, we're getting orders for '21. Clearly, we could build that product and get the industrial absorption, but I've got absolute confidence in our management team that let's manage our inventory in Q4, and we start up next year with high build rates.

So overall, is there some conservatism in there? Sure, there is, and that's -- until we get on the other side of this COVID issue, we'll continue to operate under that stance. But is there anything going on in terms of any particular market getting worse from the trajectory that it's on now? Absolutely not.

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

Yes. Just a specific follow-up on that. I think you said hold year-over-year absolute profit in your comments at DFS for 4Q. Does that mean that's flat? Or was that just, "Hey, we'll hold it within a range?" And then just to be clear on Belvac, is that still a pretty profitable business?

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

The absolute profit comment was for the full year of DFS, so margin benefit outweighs top line decrease. And on Belvac, it is accretive to the segment margins. We are beginning to do a transition to a higher mix of turnkey projects, so there's some pass-through revenue. So I think I'll be a little bit careful about the assumptions of Belvac, but we'll take it because, quite frankly, it's accretive to the segment, for sure.

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, you didn't talk about M&A markets at all on your prepared remarks. I just wonder if there's any bit of an update on either activity out there that you're seeing or opportunities or valuation or anything that you might share with us.

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

It's not a lot different than it was at the end of Q2, and there are some opportunities out there. Valuation continues to be reflective of the public markets. So despite -- every -- even private companies are trying to see through the downturn of '20 and want to be paid on '21, so it's pricey out there. A lot of competition in terms of private equity.

But having said all that, on some of the more niche-y opportunities that we have, we're feeling good about some of those opportunities there, some of which we highlighted during the Pumps & Process Solutions Day that we did mid-month. So we've got a pretty good list of candidates, but we're not going to overpay. And then I think that some of these deals are taking longer because, as you can imagine, due diligence under pandemic is a bit difficult.

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

I'm sure it is. So just moving on, I'm kind of curious on your opinion on capital spending. There's a lot of uncertainty out there. You've got an election. You've got a pandemic that, obviously, we in the middle of. But at the same time, money is cheap, and no better time to invest ahead of a recovery, I suppose. So are your customers delaying capital spending? Is this kind of a normal down-cycle response, and we'll see a quick recovery? Or do you think there's any sense that things could be a little bit different and people delay a little bit further just given perhaps higher corporate tax rates and other noise that's out there?

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

Look, I guess, my overall comment is there's a bit of seasonality, and I'm just not going to do the project in Q4 because I can do it in Q1 of next year. The general commentary, if I exclude kind of some of our businesses like textile digital print, which has some secular headwinds associated with it, which are particular, what we're hearing from our customers is a desire to spend in 2021 on productivity CapEx, which, generally speaking, is -- makes up about 85% of our portfolio.

So going into '21, as you can imagine, we're beginning to start to do the forecasting and the budget. We feel good about a lot of our businesses. I think -- look, if you take something like waste handling right now, the municipalities are going to sit on their hands now until they see what their budgets are for '21. But on the private sector, we just think that we could build off our backlog now if we want, but I don't think there's any reason to do so. And we'll hold our powder dry, manage our working capital and come out at the beginning of the year with high build rates.

Operator

Your next question comes from Jeff Sprague of Vertical Research.

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

Two things, Rich. First, on pumps, I mean, the margins were extraordinary. You mentioned a little bit of, I think, revenue pull-forward. Was there some kind of additional mix or volume dynamic there? And how should we think about the margins in this segment going forward?

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

Yes. I think there -- I think we're going to have to be careful about promising margin accretion from here. I guess, we just take it in absolute revenue growth.

But look, my comments on the quarter was on the long cycle side, which is particularly Maag. Timing those revenues is always difficult because of the size of the orders, and you're dealing with letters of credits and a variety of things. But my opening commentary, as a general statement, I think that the operational performance of the group in Q3 was excellent. I think that we're really beginning to get some traction, and this is across the portfolio.

In terms of what we've been working on, on operational efficiency and supply chain and, look, Maag built the product. It was ready to go, and we were paid and out the door it goes. So -- and that, generally speaking, is margin accretive. And you couple that with the fact that the trajectory on the biopharma side continues on, and you get the margin performance that you see here.

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

Interesting. And then maybe a 2-parter on the RFE, if I could, actually. So we're seeing actually very strong results out of some of the food retailers. Albertsons today, actually. Is there any particular unusual issue with access at this point? Obviously, we've got seasonality, but how do you see that playing out?

And then just a little bit more on Belvac. Are you just seeing kind of -- I don't know, kind of conceptually, I guess, the switch being flipped on plastic to aluminum? Does something really dramatically changed in the thinking of your customer base here?

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

Sure. Let's deal with Belvac first. I'll flip the answer. Capacity has been extremely tight. It was tight in 2019, and then COVID flipped it over in terms of the demand function. You think about beer, right? No one's consuming keg beer. It's all flipped into cans, so there's been a surge in terms of can demand.

And if you go look at some of the bottlers, they've been bitching about can pricing for some time. So here comes the capacity wave. These are big projects, so the planning period to get them up and going. We've known about them coming, I would say, for a year now, but I think the COVID really drove the demand. So you've got the COVID issue in terms of the transition to kind of more at home, if you will.

Overarching all that, you have this issue with PET and recyclability and a variety of other things, so that's why you've got a pull forward in terms of this massive capacity expansion being announced, which is driven by the shorter-term demand cycle. But I think that the can makers would tell you that they believe it's secular because they think that they have an advantage from an environmental point of view. So for us, we think that this is 2 to 3 years minimum in terms of the secular trend for us, in particular, on the machinery side.

Back to refrigeration, look, we expected this year to be better. I know it's a low bar in terms of the demand function, and we got negatively impacted by COVID because of access rights and everything else. We ran at capacity in Q3. As I mentioned in my comments, we did low teens margin for the refrigeration piece of the business, which is a good harbinger in terms of what we're capable of doing level loaded.

Q4, it's all about -- there's a seasonality portion of this business. You generally don't do store refurbishments going into the Christmas season because, I think, it's going to be a stay-at-home Christmas, clearly, so they're going to protect their infrastructure. But we are beginning to build a backlog for '21 delivery now, so you'll see some underabsorption in Q4. But as I mentioned in my comments, it's all about '21 for us here.

Operator

Your next question comes from the line of Julian Mitchell of Barclays.

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

You mentioned just now, Rich, it's all about '21, and I fully agree. Maybe on that point, Slide 9, I suppose, you gave a little bit of color on the cost savings and that $25 million carryover into next year. Just clarify perhaps that there will be extra cost saving measures on top of that, that we'll probably hear about at Q4 earnings.

And also, any way to size the return of some of those temporary cost outs that are not semipermanent? Just to try and understand any magnitude on that for next year.

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

To your first question, we said that we were going to -- it was a 3-year program of $50 million a year. We've pulled forward $20 million to $25 million into this year, so you get a calendarized carryover. But the fact of the matter is we've got enough in the pipe that we're confident that we'll get the $50 million. And to the extent that we can work hard on it, we'll get kind of the roll forward of the calendarization carryforward in '21. That's what I can say about in terms of absolute structural cost takeout.

On the temporary side, I think that we need to be careful because a lot of the temporary was based under furlough legislation that was available, okay, and that is going to be dependent on revenue and volumes, so let's kind of put that aside for a moment. The rest of what we can call temporary or controllable is on the SG&A side.

Look, at the end of the day, we would hope to build out -- build back comp, so that's a headwind. But I think that's important for morale around here. But on the other hand, clearly, on T&E and some of the other things, I do not expect us to come back to 2019 levels, no matter what the revenue profile is for '21.

So look, at the end of the day, Julian, it's going to be embedded in whatever guidance we give you for '21, but we don't expect a full snapback to kind of 2019 comp SG&A levels.

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

I understand. And anything, Rich, you could remind us on around kind of normal operating leverage that we should expect at Dover, assuming next year revenues are up, but not dramatically, let's say?

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

Yes, it's -- look, we have a wide range of margin profiles between the businesses. And depending on what the starting point is, then the leverage is going to be different.

So you heard the question before about Pumps & Process Solutions. I think it's fair to say that you're not going to get a lot of fixed cost absorption out of that particular segment, but any revenue that we get at current gross margins is going to be highly accretive. So we look at it that way for that particular business as opposed to digital textile printing, where you've had a very difficult time this year. We think that the operational leverage when that comes back is going to be in excess of gross margin level. So it's a bit of a mixed bag, depending on the current trajectory between '20 and '21.

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

That makes sense. And maybe just on the revenue line then for next year. DFS, I think you'd mentioned a good outlook for next year. I suppose that the bookings have been tough for 2 quarters, probably tough again in Q4, and you have those question marks around U.S. EMV that always get brought up. So maybe don't focus too much on that specific piece, but maybe help remind us why you feel good about the DFS top line next year.

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

I'm glad you asked that question because, as we mentioned, we did -- when we did the Investor Day for Pumps & Process Solutions, that we were going to do another one this year, we'll be announcing shortly another virtual Investor Day, which we will concentrate on the Fueling Solutions business and hopefully answer all your questions about '21 trajectory and what we think the strength of that business is.

Operator

Your next question comes from Andy Kaplowitz of Citigroup.

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

Rich, can you give us more color into the progress you've been making in refrigeration in terms of margin? At one point before the pandemic, you talked about hitting that 15%. You did have double-digit margin in the quarter for the first time in over a year.

But looking out into 2021, have you seen enough from them in terms of execution in that segment and what you have in backlog? You talked about Belvac, so you get continued sort of nice margin improvement, and you can hit those goals that you set for yourself.

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

We're not all the way there yet. We're not getting the benefits of the automation in terms of the labor content, so we actually got to low teens margin in the quarter without that. So everything is pointing up. I think it is purely going to be a function of the demand profile of the business in '21.

What we can see right now, what we hear from our customer, I think it's going to be proactive for '21. So meaning it looks like, barring another wave of COVID, that revenue should rise for refrigeration next year, and we'll get the benefit of both the productivity and the operational leverage.

So we're not -- it's not all in the bag yet, but we're cautiously optimistic based on what we've seen in Q3. And I would not panic about Q4 just because of the negative leverage that we're always going to get in that segment. Like I said, it's all about '21 from here.

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

Got it. And then, Rich, you mentioned you're going to have that DFS Analyst Day. But if you step back, I mean, you have 14% backlog growth, as you mentioned. You sound pretty constructive about 2021. So as you look out, are there any businesses other than DFS that you're more worried about? Or do you actually have pretty good backlog visibility at this point, maybe even better than average, toward growth in most of your segments in 2021?

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

We worry about them all, but I think I mentioned a few. I think that we've been proactively prudent in ESG by cutting capacity early just because of this municipal issue, so we would expect to carry some negative leverage from '20 into positive leverage in '21.

We feel really good about Vehicle Services Group for '21 based on mostly the amount of miles driven, the amount of used cars that are out in the fleet, and I think that management has got a lot of really great productivity initiatives in the pipe coming there.

Let's see. I mean, I don't want to go through them all one by one. Refrigeration, we talked about. We'll be cautious on digital printing. That's probably going to be a second half of '21 in terms of the upturn. And look, and if Pumps & Process Solutions just can continue the trajectory that they're on, that is absolutely satisfactory.

So we're not out of the woods. We've got some business in terms that are highly leveraged towards CapEx. It's a little bit of a wait and see, but our -- we're in the process of doing '21 forecast, and we feel good about the demand function, and we feel good about the rollover of our productivity initiatives going into next year.

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, picking up on the answer on refrigeration. So I kind of went back over some notes here. I think originally, you had said the food retail automation project was going to reduce labor hours by 50%. You're going to cut SKUs from 400 to less than 100. You're talking about dramatic declines in base permutations. Have those objectives been realized?

And you mentioned that the 50% labor wasn't really necessarily in that. So does that mean that, that's on the comp because it's a matter of timing? Or perhaps the parameters for expectations or cost out or whatever changed? Just any kind of more color on that automation project would be helpful.

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

Sure. I mean, we are slightly behind in terms of the automation just because we couldn't get contractor access for a period of time into our sites, so that kind of gummed up the process a little bit. We're making good progress in terms of SKU management, but that is also a function of the demand cycle and somewhat a function of us getting the automation up because you need to kind of sell the benefits of the automation to your customer because those are the ones that you're convincing to change their SKUs at the end of the day.

So look, I think that we're probably -- taking Q3 into account, we're halfway where we would expect it to have been under a more normal '20 conditions. I guess I can answer it that way.

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

No, that makes sense. Do you -- assuming that the demand trajectory continues, where do you get to the point where you say, "All right. Automation is done," and now you're getting the full bore of the cost benefit or the productivity drivers towards, say, variable contribution from future volume uplift? Is that sometime mid next year or perhaps a little earlier?

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

Yes. It would be -- this is -- it's a bit of a reverse barbell, so it would be Q2 and Q3 of '21 where we would expect to see the tangible benefits.

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

Okay. And then I did want to ask you about Wayne, Tokheim. Vontier just went public and they talked about 2020 is the peak year for EMV. You talked about EMV being strong this quarter as they did. I'm curious if you would concur with that.

So 2021 is an absolute revenue drop-off. And strategically, is Wayne considering, say, branching into electric vehicle infrastructure to diversify the petroleum footprint to a greater extent? I know you've got this alliance with ChargePoint. It doesn't look like there's a revenue or profit sharing mechanism with that. But what are your thoughts, Rich, just strategically on -- and I realize EMV is very far out, but markets discount the stuff and worry about it sooner versus later? Like how are you thinking about it?

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

John, I don't want to take away from all of the effort that the management team is undertaking right now to prepare for this Investor Day in November, which should answer all of the questions that you just asked.

I think that the only thing that I will say that there was some talk about sizing the headwind for '21. I would caution you that EMV is a North American phenomenon, and our exposure in terms of the North American market is different than -- so I think you have to size that appropriately, and that our product mix between aboveground and belowground is significantly different.

We've been carrying around a pretty weak belowground market this year, right? We had talked about the headwind of double wall for China when we give the guidance of this year, but then you ran into COVID with access rights and construction and everything else.

So at the end of the day, sure, margins are up. Some of that is driven by EMV demand for sure, but I don't want to take away from the productivity improvement that the management has done here that has driven margin accretion, despite the top line.

So what our thoughts are in '21, and I'll leave it to November when we get to it, is that the EMV headwind is manageable to the extent that the belowground business returns to growth in '21.

Operator

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

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Just a question, man, it's sort of been asked in different format. But how do you think of the businesses that are doing well? How much will be sustainable in 2021? But just trying to see, as things normalize, do you think businesses mean revert, i.e., things that have been doing well during COVID sort of get a little bit weaker, and things that were weak get stronger? Or do you see structural changes in longer-term growth rates within your portfolio post COVID?

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

Let's see here. Look, the only business that we have that is tangibly benefiting from COVID today would be biopharma, but that is a business, I think, we sized it up for you. I mean, look, it's great. It's growing fantastically. The margins are terrific, but it's not overly materially weighted in the portfolio, and that's the one that's benefiting.

I mean, all this -- Belvac is going to benefit, but we believe that, that is more structural than COVID-related just because of this issue of recyclability and moving away from PET. So we don't think that we have a COVID tailwind embedded anywhere on our business, so it's purely a question of the ones that are suffering -- the portions of the portfolio suffering, which ones are coming back.

I think it's fair to say that the one that we're taking a close look at is that our compression business, which is the one that's levered most to midstream and downstream, whether that demand in terms of CapEx and maintenance remains subdued in '21 or not. But again, that is not overly significant to the portfolio. We can weather the storm.

So our expectation is the parts of the portfolio that are doing reasonably well will continue to do so, and the ones that have been under more pressure will come back on different trajectories based on their end markets.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

And just a follow-up question, and I apologize if it's been asked. I've been getting disconnected. On textile printing, on printing and ID, textile printing CapEx, you highlighted, it -- digital printing had sort of weakness. Given the strength in consumer spending, just a little bit surprised that this business would be weak. Can you just provide more detail as to what's happening there?

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

I wouldn't consider it to be weak. I mean, revenues were flat, and margin was up. I mean, yes, the consumable business is tracking right with consumer goods, which is great. I mean, the printer business and the service business is still a bit choppy because that still requires access rights by customer locations and everything else.

Operator

Your next question comes from Joe Ritchie of Goldman Sachs.

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

Rich, how do we think about the backlog conversion in Refrigeration & Food Equipment? And the reason I ask the question is, if you go back to like the -- a few years ago, I don't know, 2015, 2018, it's a pretty one-for-one type relationship between your orders and your revenue. And so clearly, in '19 and then '20, orders are much better than what your revenue run rate, and I know part of that is the automation project. But like how do I think about like the length of the backlog and how that converts over the next couple of years?

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

Yes. Let me think about this. We are -- look, we give segmental backlogs, and I think that we've sized the portion, the Belvac that's in there, which distorts that backlog because -- somewhat.

The refrigeration business, in particular, is relatively short cycle, so to the extent that we're getting orders for 2021 is actually early. Now well, it would have been early, let's call it a month ago, which is a good sign because it's -- generally speaking, food retailers don't kind of secure capacity. They just believe that, that markets have been overcapacitized forever, so they just place the orders, and you run through hoops to deliver it to them. So I think the good news is, based on what our customers are saying about their own CapEx and maintenance programs, that we expected to be up in '21.

And the other good data point is, is that we're getting orders for '21 now, which is technically early -- a little bit early. So that's the good news, but I would try to disaggregate our segmental backlog because you've got Belvac in there, and it's very material.

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

Got it. Okay. That makes sense. And then I guess, maybe just kind of the one follow-on question would be just around like capital deployment. I know that you guys reinstituted the buyback last quarter. It didn't seem like you guys did much this quarter. How are you guys thinking about that versus you mentioned $200 million to $500 million type deals? Like where are you kind of like prioritizing your investment right now?

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

We're still prioritizing on the inorganic. We had to walk away from one in the quarter because of -- for particular issues that would have been an outlay in excess of $300 million, so that has changed plans a little bit.

Look, at the end of the day, it's a wait and see. We've got a decent pipeline. We'd like to convert that free cash into inorganic investment, but we're not just going to do deals to deploy the capital, right? They have to be smart and they have to be within the parameters that we've laid out. And if not, then we'll revisit capital return, and I'm sure that will be a discussion when we have the Board meeting next week.

Operator

Your next question comes from the line of Josh Pokrzywinski of Morgan Stanley.

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

So we've covered a lot of ground already, but Rich, I want to come back to another comment earlier on the backlog and kind of the visibility into the first quarter, first half relative to normal. How would you size that? I mean, clearly, I think you're trying to focus people on the comfort with 2021 over 4Q. I totally get that. Any way to put some guidelines around proportional visibility this time of year versus what you would normally have?

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

I think that we talked about refrigeration at length, and we've talked about Belvac that we've seen there. On our longer-cycle businesses, Maag comes to mind; DPC, to a certain extent. We would expect to deplete backlog in the second half of the year as bigger projects roll off and then you build it up.

We shipped heavily off of that backlog in Maag, and it's not as if we're falling into a hole. So I think the good news about Maag is that, despite heavy shipments in Q3, that backlog is not depleting at a high rate, which is -- and that's all '21 just because of the delivery times in those particular businesses.

The balance of the portfolio outside of digital printing is, generally speaking, short cycle. I mentioned Vehicle Service Group, who had an excellent quarter in terms of shipments and operational performance. They've got a little bit of a bad comp in Q4 just because they are running some promotional things last year prior to price increases. But what we're seeing in terms of dealer communication there is very good for '21. So I think it's anecdotal, so there's no real general comment for our portfolio that's wide. But -- and I think that we're -- the signaling we're getting for 2021 overall is prospective.

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

Got it. So it's not just a phenomenon where, hey, 4Q is a little weaker and January is awesome, but we don't know anything else about '21?

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

As I mentioned before, I mean, you think about like a business like ESG, right, if they've got backlog for '21 deliveries, we could make the product in Q4, right, which positive absorption, negative working capital. I've got confidence in that business to build that product in 2021 and meet the delivery dates. So to us, as we've always done around here, Q4 is about cash generation and setting ourselves up for '21.

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

Got it. And then I noticed another automation project announced in Precision Components. Any more, I guess, kind of spread of automation or kind of evangelizing some of the technology out there across the portfolio that we should expect beyond Precision Components and, I guess, refrigeration? Is that something that could be kind of the next wave of cost reduction?

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

There's a few of our businesses that lend themselves to increase automation. As we mentioned during the Pumps & Process Solutions Virtual Investor Day that our expectation is to get on a cadence of doing more of those, rather than the tour de force on the portfolio.

So one of the things that we're discussing is we have 2 or -- 2 big projects, one of which is completed in Vehicle Services Group and one that is under construction around that, that we would expect is a candidate to do some more investor outreach in Q1 of '21.

Operator

Your final question today will come from the line of Nigel Coe of Wolfe Research.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Yes. There's not a whole lot to run through here. But just go back to Belvac. Is the strength we've seen in can manufacturing, is the flip side of that, that we faced some structural headwinds in chemicals, plastics, polymers going forward, so therefore, some of the weakness we're seeing in backlog builders is more structural than just typical?

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

Nigel, I'm sure when I talk about Belvac, the guys at Belvac listen and chuckle to themselves how little I know about can making. So for me to bridge that over into the chemical world on PET, I think you're going to have to ask somebody else.

Based on what we hear from our customers, both the can makers on the machinery and from the bottlers in terms of the design portion of the can making, we believe that it's -- there is a structural change underway. How that impacts PET demand, I'll leave it up to the chemical producers to answer that.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Fair enough. That's a good answer. And then just quickly on heat exchangers. I think you sell into both commercial and industrial markets. I think you called out a couple of times you've seen an uptick in heat exchangers. Where specifically are you seeing that strength in the end markets?

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

More on the heat pump side than anything else. That's where our particular strength is, and that is where we are in the midst of completing some material capacity expansions. If you know anything about that market, the size of these heat exchangers is getting very large because these are pretty huge systems that are being installed, especially on the back of European legislation. So that's really where the demand function for us is coming from.

Operator

That concludes our question-and-answer period and Dover's Third Quarter 2020 Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.