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DOV - Q4 2013 Dover Corporation Earnings Conference Call

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OVERVIEW:

DOV reported FY13 pro forma revenue (excluding Knowles) of $7.5b and pro forma diluted EPS (excluding Knowles) of $4.79. 4Q13 revenue of $2.2b and adjusted EPS of $1.28. Expects FY14 pro forma EPS to be $4.60-4.80.

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PRESENTATION

Operator

Good morning, and welcome to the [fourth] (corrected by company after the call) quarter 2013 Dover Corporation earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of 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 will now turn the call over to Mr. Paul Goldberg. Please go ahead, sir.

Paul Goldberg - *Dover Corp - VP IR*

Thank you, Jennifer. Good morning, and welcome to Dover's fourth-quarter earnings call. With me today are Bob Livingston and Brad Cerepak.

Today's call will begin with comments from Bob and Brad on Dover's fourth-quarter and full-year operating and financial performance, and follow with our outlook for 2014. We will then open up the call to questions. As a courtesy, we kindly ask that you limit yourself to one question with a follow-up.

Please note that our current earnings release, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through February 13, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 800-585-8367. When accessing the playback, you will need to supply the following access code: 31028485.

Before we get started, I would like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Forms 10-K and 10-Q for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement.

Also, we undertake no obligation to publicly update or revise any forward-looking statement, except as required by law. We would also direct your attention to our website, where considerably more information can be found.

Also, this presentation contains pro forma financial information that reflects the operations of Knowles as a discontinued operation. Upon completion of this spin, Knowles's results will be reclassified to discontinued operations for reporting purposes in accordance with GAAP. The unaudited pro forma consolidated financial information is presented for informational purposes only, and is subject to a number of estimates, assumptions, and uncertainties. And does not purport to represent what our results of operations would have been if the spin-off of Knowles had occurred as of the dates indicated, what results will be for any future periods, or what the historical results of Dover will be upon classifying Knowles as a discontinued operation as of the effective date of the spin-off of Knowles.

And with that mouthful, I would like to turn the call over to Bob.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call.

I was very pleased with our fourth-quarter results, highlighted by broad-based revenue growth, with all segments contributing. Notably, engineered systems delivered 12% growth, and printing and identification grew 9%. In all, we generated 5% organic revenue growth, and grew adjusted EPS 17%.

From a geographic perspective, our North America markets remain solid. Our European markets continue to show an improvement with double-digit growth driven by our short-cycled business activity, complemented by project shipments. Lastly, our China, as well as our rest-of-world markets, were strong across all segments.

Now let me share some specific comments on our fourth quarter. At communication and technologies, our consumer electronics growth was driven by the continued rollout of a third-quarter OEM product launch, where we delivered high volumes across all our product lines. Our strong position with this OEM allowed us to grow nicely, despite continued headwinds at two other customers. Knowles continues to invest in innovative acoustic solutions, which will position them well for future product launches.

In our energy segment, improving well activity and increased international business drove significant growth in our drilling and downstream businesses. Our modest growth in production reflects continued weak winch markets, and reduced sucker rod activity in North America. We achieved growth of 50% in markets outside the US, Canada, and Europe, on the benefits of our geographic expansion programs. Fundamentals remain solid in our artificial lift markets.

Within our engineered systems segment, we saw strong growth across both platforms. Our refrigeration and industrial results were very solid, driven by improving activity with regional refrigeration accounts, and robust growth in the auto aftermarket and food-service markets. In our fluids platform, solid results were driven by our pump businesses, particularly those serving the plastics and petrochemical verticals. These results were complemented by improved heat exchanger and dispenser activity.

Within our printing and identification segment, solid growth in both our fast-moving consumer goods and industrial markets resulted in outstanding performance. Geographic revenue growth was broad-based, highlighted by Europe, this segment's largest market.

It is encouraging to see the benefits of growth and cost initiatives implemented over the past two years. As we begin 2014, and following the spin of Knowles, you should expect us to align our segment structure to better reflect our future growth plans.

Regarding our business activity, near term we expect continued excellent performance in energy, driven by expanding international activity and the ongoing improvement in drilling; strong results in our refrigeration and food-equipment markets; solid results in our fluid markets on the benefits of our recent acquisitions and generally healthier markets; and normal seasonality in our fast-moving consumer-goods markets. We also expect to close more acquisitions in the first quarter, and complete our $1-billion share repurchase program.

In summary, I am pleased with our execution and results, and feel quite positive about our growth and productivity initiatives. As we begin the year, I feel confident in our ability to deliver excellent performance, driven by improving end markets and the strength of our businesses.

With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corp - SVP and CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of our presentation deck.

Today, we reported fourth-quarter revenue of $2.2 billion, an increase of 10% over the prior year. Organic revenue grew 5%, and growth from acquisitions was also 5%.

Adjusted EPS was $1.28, an increase of 17%. A reconciliation of our adjusted earnings per share is in the appendix deck of our presentation deck.

Segment margin for the quarter was 16.5%, substantially unchanged from last year, whereby improved margin in engineered systems and communication technologies were offset by the anticipated lower margin in energy. This overall result reflects solid execution, and was in line with our expectations.

Bookings increased 9% over the prior year to $2.2 billion. This result represents 16% growth in engineered systems, and 7% growth in printing and identification.

Bookings increased 4% in energy, driven by robust downstream and drilling activity. Communication technologies' bookings increased 3%. Overall, book-to-bill finished at 0.98, which is in line with seasonal trends.

Backlog increased 5% to $1.6 billion. Of note: Absent Knowles, book-to-bill was 1, unchanged from last year, and backlog was $1.3 billion, an increase of 5%.

In the quarter, we generated $376 million of free cash flow, representing 17% of revenue. For the full year, free cash flow was $942 million, representing 11% of revenue.

Turning to slide 4, printing and identification, driven by their fast-moving consumer-goods markets, grew 8% organically. Communication technologies grew 7%, on the strength of new product launches in the consumer electronics market. Energy's growth was 4%, and engineered systems grew 3%.

Overall, organic revenue growth was 5%. Our acquisition growth in the quarter was 5%, comprised of 8% in engineered systems, 5% in energy, and 1% in printing and identification.

Turning to slide 5 and our sequential results, revenue decreased 2% from the third quarter, primarily driven by the normal, seasonal slowdown in the refrigeration market. Fast-moving consumer-goods markets helped drive growth of 8% in printing and identification. The rollout of new smartphone releases resulted in 4% sequential growth in communication technologies. Energy grew 1%, while engineered systems decreased 8% on normal seasonality.

Sequential bookings were essentially flat. Engineered systems bookings increased 7%, and printing and identification's grew 6%, aided by solid growth across most served markets and the impact of acquisitions. Energy bookings declined 4%, where solid order rates in downstream and drilling, and the impact of acquisitions, was offset by softer activity in production. Communication technologies' bookings [decreased] (corrected by company after the call) 12%, largely reflecting normal seasonality in the consumer electronics market.

Now moving to slide 6. Communication technologies posted revenue of $428 million, an increase of 7% over the prior year. This growth principally reflects the ongoing rollout of new product releases in the smartphone market. In all, our consumer electronics business grew 15%. The telecom/other markets continued to exhibit solid growth, and were up 14%.

Aerospace/defense declined 2%, primarily impacted by soft defense spending. The medical technology market decreased 6%, where a solid hearing health market was more than offset by weak audio headset activity.

Earnings increased 12% to $66 million, and segment margin increased 70 basis points to 15.3%. This performance reflects solid conversion on volume, productivity gains, and the benefits related to prior restructuring, offset in part by asset impairment charges of $4 million.

We had significant success in the continued rollout of a key OEM smartphone release during the quarter, as we shipped on all acoustic product lines. Our year-over-year growth with OEMs that are winning market share continues to be partially offset by lower demand from Nokia and BlackBerry.

Bookings were $373 million, up 3% from last year. Book-to-bill finished at a seasonally normal 0.87. More information on Knowles can be found in their Form 10 amendment, which was filed this morning.

Turning to slide 7, energy revenue of $584 million increased 8%, and earnings of $135 million were up 1%. Energy produced another solid quarter, as drilling and downstream achieved strong revenue growth. The increase in well activity, coupled with increased international volume, resulted in 13% revenue growth in our drilling business. Production revenue increased 1%, where the benefits of strong international activity and acquisitions were partially offset by weak winch markets and softer US sucker rod activity. Our downstream markets saw a solid demand from the retail fueling and transportation markets, and benefited from recent acquisitions, resulting in 20% growth.

Operating margin of 23.1% was down 160 basis points from last year. The cost associated with recently completed acquisitions impacted margin roughly 150 basis points in the quarter. Full-year margin was very strong, at 24.1%, and in line with our expectations.

Bookings were $571 million, a 4% increase from the prior year. Strong bookings growth in drilling and downstream was partially offset by production. Book-to-bill was 0.98.

Now on slide 8. Engineered systems had another excellent quarter, where sales increased 12% to $920 million, and earnings of $121 million were up 19%. Our fluid solutions platform revenue increased 18% to $244 million, driven by strong organic growth across the segment, and recent acquisitions. In refrigeration industrial, revenue grew 10% to $677 million, reflecting acquisitions and broad-based organic growth across the platform. Continued strong execution in cost-reduction activities drove operating margin to 13.2%, up 80 basis points, reflecting solid leverage on volume.

Bookings were $950 million, an increase of 16%, driven by solid demand across most end markets, and recent acquisitions. Our fluid solutions platform bookings increased 18% to $248 million, driven by robust activity in the plastics and petrochemical markets, and acquisitions. Refrigeration industrial increased 16% to $702 million, with food equipment and auto aftermarket showing particular strength. Book-to-bill for fluid solutions was 1.02, while refrigeration industrial's book-to-bill was a solid 1.04.

Let's turn now to slide 9. Printing and identification produced an excellent quarter, where revenue increased 9% to $277 million, and earnings of $44 million increased 8%. Revenue growth was strong, as fast-moving consumer goods grew 10%, and industrial grew 7%. Revenue growth was driven by an improving Europe, and we saw growth in the majority of our product categories, including our project business.

Operating margin decreased 10 basis points to 15.9%. This result included $3 million of costs associated with previously planned restructuring activities and acquisitions. Absent these costs, margins were 17%. Bookings were $271 million, an increase of 7%, reflecting broad-based growth. Book-to-bill ended at 0.98.

Going to the overview on slide 10, fourth-quarter net interest expense was $30 million, down $1 million from last year. Corporate expense increased $14 million, to $45 million, reflecting incurred spin-off costs of about $16 million.

Our fourth-quarter tax rate was 29.4%, excluding discrete tax benefits; slightly higher than our prior forecast. Capital expenditures were $79 million in the quarter.

Lastly, we repurchased 551,000 shares for approximately $15 million in the quarter, all of which were repurchased under the $1-billion program. In total, we have repurchased $707 million, and expect to complete the balance of the program this quarter.

Turning to slide 11, which shows selected pro forma financial data, excluding Knowles, as if the spin-off has been completed. 2013 revenue grew 8% to $7.5 billion, comprised of organic growth of 2%, and acquisition growth of 6%. We saw organic growth accelerate to 4% in the back half of the year, as compared to essentially flat in the first half. Diluted EPS increased 28% to $4.79. Adjusting for discrete tax benefits and other one-time gains, EPS increased 18% to $4.31.

Now moving to slide 12, which shows our full-year pro forma guidance. We expect 2014 organic revenue growth to be broad-based at 3% to 4%, which is in line with our second-half 2013 rate. Completed acquisitions will add 2%. In total, we are forecasting full-year revenue growth of 5% to 6%.

Corporate expense will be about $123 million, primarily reflecting reduced pension expense. Of note: Corporate expense does not include spin-off costs related to Knowles. Interest expense is expected to be about $133 million, $13 million higher than last year, principally driven by our recent bond issuance.

Our full-year tax rate is anticipated to be around 31%, reflecting the mix of geographic earnings after the spin of Knowles, and down about 60 basis points from the 2013 pro forma adjusted rate. CapEx should be about 2.5% of revenue, up 40 basis points from last year on a pro forma basis, and reflective of increased investment in consolidation and productivity projects. We expect our 2014 free cash flow will be approximately 11% of revenue.

Turning to the guidance bridge on slide 13, as detailed earlier, 2013 pro forma EPS was $4.79. From this, we adjust discrete tax benefits and one-time items. Making those adjustments, the result is pro forma adjusted EPS of $4.31.

We expect the full-year benefit of volume and mix to be $0.16 to $0.28. Net productivity, again, is a key contributor, and adds $0.14 to $0.22.

We expect completed acquisitions to add $0.05 to $0.06, as we see the benefits of Finder, KPS, and Fibrelite deals, among others, begin to flow through earnings. Continued investment in global expansion initiatives and compensation will have an $0.18 to $0.22 impact for the year. Reduced corporate spending will provide $0.03 to $0.05 benefit. The combined impact of our ongoing share repurchase program, higher normalized tax rate, and incremental interest expense should have a net benefit of $0.09 to $0.10.

We expect margin to remain steady at approximately 18%. The benefits of volume growth, along with our ongoing productivity initiatives, will be largely offset by 20 to 30 basis points of amortization costs associated with acquisitions we completed in the back half of 2013.

In total, we expect 2014 pro forma EPS to be $4.60 to $4.80. This represents 7% to 11% growth over our 2013 EPS of $4.31, or 9% growth at the midpoint.

With that, I will turn the call back over to Bob for some final comments.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Brad. 2013 was a great year for Dover. We delivered robust revenue and earnings growth, and took major steps to position us for continuing future success.

We continued to invest for growth. We completed 10 acquisitions last year for $323 million, to extend and enhance our market positions. And we invested in internal growth initiatives, especially geographic expansion.

Our OPW business is a great example, and has grown to a $500-million business thanks to internal initiatives and the addition of JUMP, Fibrelite, and KPS acquisitions. Through their expanded product offering, they can now offer a complete fuel management solution to customers around the world.

Our artificial lift business is another case-in-point. Here, we've significantly built our sales and service, and business development resources, in the Middle East, Australia, southeast Asia and South America. All of which have contributed to significant revenue growth in this business over the last two years.

We have also increased our productivity investments, and have numerous consolidation and lean projects either completed or well under way. We extended our long track record of increasing our annual dividend, and continued executing on our $1-billion share repurchase program. From a strategic perspective, the pending spin of Knowles is a key step in positioning Dover as a best-in-class industrial manufacturer.

I am excited about the growth prospects we have across the Company. We have very strong and expanding market positions in refrigeration and food equipment; fluid transfer, including pumps; energy; printing and identification; and other market-leading industrial businesses serving the vehicle service, waste management, and heat exchanger markets, to name a few.

Without exception, all our businesses have meaningful opportunities to broaden their revenue base and push into new markets. We will continue to build our acquisition pipeline and pursue those opportunities that strengthen our market position, with a particular emphasis on geographic market expansion.

In addition to our growth initiatives, we will more aggressively invest in productivity and lean activities. I believe we can achieve higher margin and deliver more consistent performance while continuing to be a very strong generator of cash. In all, I believe the future is very bright for Dover, and I am more confident than ever about our positioning and long-term prospects.

In closing, I would like to thank our entire Dover team for their continued focus on serving our customers and driving results. And I look forward to a great 2014.

With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - VP IR*

Thanks, Bob. I'd just like to remind everybody -- we have a lot of people in queue. So, if you can limit yourself to one question and a follow-up, we'll be able to get to more questions.

Jennifer, can we have the first questions?

QUESTIONS AND ANSWERS

Operator

Deane Dray with Citi Research.

Deane Dray - *Citi Research - Analyst*

Good morning, everyone.

I know that the 2014 guidance versus consensus is not applicable, because we all haven't had the ability yet to restate our models. And in looking at -- in listening to your guidance here -- one of the things I'm not sure I caught was whether the electronic assembly disposition proceeds as well as the dividend from Knowles -- are they included in your 2014 guidance? And can you calibrate both of those items, if you could?

Brad Cerepak - *Dover Corp - SVP and CFO*

They're not included in our guidance, with respect to having an impact on EPS. The proceeds from the remaining business within electronic assembly and test deck is expected to be about $170 million. And the dividend from the Knowles spin is expected to be $400 million. We had that cash to play with for the balance of the year, Deane.

Deane Dray - *Citi Research - Analyst*

Okay, good. That's what I was looking for.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes.

Deane Dray - *Citi Research - Analyst*

And then Bob, did I hear correctly? You said in the first quarter you expect to announce some new deals? And is the EPS reflected in your earnings bridge under the acquisitions? (Multiple speakers)

Bob Livingston - *Dover Corp - President and CEO*

No. The guidance for 2014 and what you see on the bridges that Brad and Paul presented are only including acquisitions that have been closed.

Deane Dray - *Citi Research - Analyst*

Okay.

Last one for me, on that point for acquisitions. Talk a bit about what you are seeing that gives you the confidence that you will be able to complete some deals this quarter -- in the first quarter -- and maybe size for us what we should be thinking about?

Bob Livingston - *Dover Corp - President and CEO*

Our confidence is the fact that we're sitting here in the first quarter, and we're sitting on top of these deals. And actually, our guidance for 2014 does include a small acquisition that was completed January 3, or January 5, or whatever.

But Deane, you'll see the emphasis in our pipeline execution here in the first quarter continue to be around energy and our fluids businesses, as well as some interest we have in continuing to expand our refrigeration business.

Deane Dray - *Citi Research - Analyst*

Great, thank you.

Operator

Shannon O'Callaghan with Nomura Securities.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Good morning, guys.

Bob, maybe a follow-up to that. How would you size your acquisition firepower at this point? You've got $800 million on the balance sheet; you talked about the deck proceeds, the $400 million from Knowles which is -- I think -- a little more than the initial expectation, and now you're telling us 11% of revenue from free cash for the [remainder]. I mean, that adds up to a good chunk.

Is all that -- other than dividend -- are you biased to acquisitions on that? And how are you thinking about the repurchase?

Bob Livingston - *Dover Corp - President and CEO*

Shannon, if you look at the last two years, 2012 and 2013, I think you see a fairly balanced allocation of capital from Dover. The capital has been allocated to dividends and to share repurchase activity as well as acquisitions. I happen to like that balance. And I think that without telling you what we are going to do yet -- we'll talk more about that after the Knowles spin -- but I think you should expect to see us have that balanced capital allocation going forward.

Brad Cerepak - *Dover Corp - SVP and CFO*

Just to reiterate, our forecast does include completion of the $1 billion, as I said in the first quarter. So that's approximately $300 million or so of buyback to be completed.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

But it doesn't sound like, going forward, this pace of buyback you have been under is related to that $1 billion plan. Which is somewhat unusual for you guys. But it sounds like maybe that's not an unusual pace, going forward.

Bob Livingston - *Dover Corp - President and CEO*

I'm not going to define a number. I'm going to repeat what I said. I happen to like the balanced capital allocation approach we have had for the last two years. And we'll give you a little bit more insight into that after the spin is complete.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay, thanks.

And then, on the outlook for Energy -- drilling went through a soft patch, and now it's rebounding strongly. Now production is in its soft patch. When you think about the pieces -- and, of course, downstream is really strong -- as you think about those pieces going forward, do you expect production rebound and the others to slow? Maybe a little color on that?

Brad Cerepak - *Dover Corp - SVP and CFO*

We actually look for a fairly well-balanced contribution from all three sectors in our Energy segment for 2014.

Shannon, you comment about the lower activity and production. Let me be more specific. If you look at our production activity -- let's label it our artificial lift business -- we've got two main products or applications -- it's the sucker rod and then the pump application at the bottom of the well. Where we have seen some softness in activity in the final -- I would say -- three or four months of the year, has been specific with sucker rods. And even more specific, Shannon, it's been very specific to Texas activity.

Our pump business has continued to be strong, and has expanded throughout the year. And I would -- not to be defensive -- but I truly do see that a lot of the softness that we saw in Texas in the fourth quarter around sucker rods was around the initial installation of new artificial lift systems in a couple of the key basins. And primarily related to weather.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay, great. Thanks, that helps. See you, guys.

Operator

Scott Davis with Barclays.

Scott Davis - *Barclays Capital - Analyst*

Good morning, guys.

I don't want to spend too much time on this M&A thing, but can you just give us a sense of a range of revenues you think is realistic to add in 2014? Even if the range is wide, give us a sense of what you think you might be able to get done.

Bob Livingston - *Dover Corp - President and CEO*

Oh, gosh. That's hard to do until we actually sign the deal and close it. I would -- clearly, north of $100 million and south of $500 million. That's a pretty wide range.

Brad Cerepak - *Dover Corp - SVP and CFO*

You know, I think another way to think about it is, we have 2% that carries over for completed deals. We did 5% in 2013. I would think it's not a specific target or goal, but that around about that 5% range would be something that makes sense, perhaps.

Bob Livingston - *Dover Corp - President and CEO*

I agree.

Scott Davis - *Barclays Capital - Analyst*

Okay. That's exactly what I was looking for.

As far as the ten deals you did in 2013, I don't think EBITDA multiples were disclosed on any of them, really. But can you give us a sense, either in multiple price of sales or multiple of EBITDA of what that average was?

Brad Cerepak - *Dover Corp - SVP and CFO*

I'm not sure I can give you a specific number on what I call the class of 2013, but the EBITDA multiple was -- I can tell you, the class for 2013 was less than 10.

Scott Davis - *Barclays Capital - Analyst*

Okay, that's fine. Just a brief follow-up here.

Knowles -- are there costs of preparing for a spin that are impacting Knowles' margins at all? Are there anything -- or even on the top line -- is there a distractions and such that may explain some weakness there?

Bob Livingston - *Dover Corp - President and CEO*

No. I don't think the spin preparation process has impacted the revenue. There is probably some very minor spending that's included in their earnings and reflected in their margins that's related to the spin. But I'm going to tell you again -- it would be rather minor.

Brad Cerepak - *Dover Corp - SVP and CFO*

And there's some minor overhead add as well, as they get prepared to spin, in terms of resources and adding headcount. That's normal for preparing for a spin. That's in their fourth quarter. But, again, not a big number at this stage.

Scott Davis - *Barclays Capital - Analyst*

Okay, very helpful. Thanks, guys, I will move on.

Bob Livingston - *Dover Corp - President and CEO*

Thank you.

Operator

Jeff Sprague with Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

Thank you. Good morning, fellows. Just a couple things.

First, in terms of your guidance for 2014, can you give us a sense of how the segments fall within the band of that organic outlook? Is there any particular outlier to the upside or down?

Bob Livingston - *Dover Corp - President and CEO*

If you look at our guidance of 3% to 4% organic, I would tell you that Energy is slightly higher than that range. And the others are centered in the range.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay. Brad, I was wondered on tax rate --

Bob Livingston - *Dover Corp - President and CEO*

Not a wide disparity between the segments, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

Right, thank you.

Brad, I was wondering on tax rate. Obviously, you knew this step up was coming with the mix shift from the spin-off. And you've been working on things. How do you view that 31% for 2014 in the context of what a couple more years of tax planning might allow you to do? Is there a clear downside?

Brad Cerepak - *Dover Corp - SVP and CFO*

Great question. I just want to say that -- first of all, we are seeing -- I want to just go back to -- we are seeing a lower pro forma rate as we move into 2014 by about 60 basis points or so. That's really driven by the things we're doing to drive that rate, as we go forward, to a lower result.

I think I mentioned at one point that we were looking to do things in Europe with our businesses to make them more of a principal agent-type structure. We got that completed; that was part of this Markem-Imaje restructuring we were talking about. So that's been helpful to us.

Our rate also, as you know, does not include at this stage any R&D credits. So that would help that to 30 to 40 bps] lower, if that gets reinstated.

As I think about it, going forward, right now you hear us talk a lot about our international investment and international increase in revenue streams. Over the next -- say, the midterm, I am confident to say that I would see that rate drop-down below 30%. High 20%s. That is our target.

Jeff Sprague - *Vertical Research Partners - Analyst*

So it's a two- or three-year type of thing?

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes. It's a two- or three-year type of thing.

Jeff Sprague - *Vertical Research Partners - Analyst*

Finally, back to Bob.

Margins in Energy -- there are some [impacts] that you called out obviously. There's some mix impact in there. How do you feel about margins from here? Are they defensible at this run rate? Is there still a little bit of downward bias, do you think?

Bob Livingston - *Dover Corp - President and CEO*

Jeff, I was -- I think we closed the year 2013 with margins and Energy at 24.1%. And that's been the target we've had for the guys for 2013. And I think I responded to a question either on the October call or the July call about margins for Energy for 2013. And I think we ended up right where we thought they would be.

As we move into 2014, I expect margins for Energy to be just about where they are right now. We'll see a little bit of noise throughout the year, but I would still expect margins for the year to center on that 24% number.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great. Thank you very much.

Operator

(Operator Instructions)

Steve Tusa with JPMorgan.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Good morning.

On the margins for the other main segments -- the Engineered business -- how do we feel about next year for those guys? Or 2014, sorry.

Bob Livingston - *Dover Corp - President and CEO*

Maybe a 10 to 15 bp improvement.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay. So if they are up, that means that the product ID margins are down? Or no?

Bob Livingston - *Dover Corp - President and CEO*

I would say they're flat. They are about the same.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay.

And then, there's a few companies that have come out and talked about a little bit of volatility in the revenues and earnings fourth quarter to first quarter for a lot of companies. I guess that's what you get when a choppy economy here. But any dynamics in the first quarter? Or as the growth sequences over the next -- seasonally over the next four quarters -- that we need to think about? The organic growth rate to start the year?

Bob Livingston - *Dover Corp - President and CEO*

Good question.

Let me give you the comment on the year first. If you look at the absolute numbers on revenue, the first half is actually fairly equal to the second half. They were very similar in revenue for both halves of the year.

And, Steve, you would continue to see the same type of seasonality in our profile that you've seen in the past. Where the second quarter and the third quarter are the higher quarters, and the seasonal impact is seen in the first quarter and fourth quarter. But you just wouldn't see anything different in our profile from what you have seen in the past.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

So the year-over-year of 3% to 4% -- that's what you'd expect -- organically in the first quarter?

Bob Livingston - *Dover Corp - President and CEO*

Yes. On an organic response, I think the first half -- rate it -- it's in the 3% to 4% range in the first half. And it's in the 3% to 4% range, maybe pushing towards the higher end of the 4%, in the second half.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay. Great, thanks.

Operator

John Inch with Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

Thank you. Good morning, everyone.

Bob, last quarter, you called out Comm Tech -- I think you said there was about $25 million that was really related to delayed product launches. Did you get that back in the fourth quarter? You called it out as a deferral. I'm just wondering if you got it back in the fourth quarter.

Bob Livingston - *Dover Corp - President and CEO*

In essence, you don't. But by the time we hit -- by the time we were exiting the third quarter and entering the fourth quarter, John, we were at -- I call it -- full production rates on all three of the acoustic product lines.

John Inch - *Deutsche Bank - Analyst*

Okay. Bob, is there anything you can actually say --

Bob Livingston - *Dover Corp - President and CEO*

The fourth quarter revenue came in just about on top of what we expected.

John Inch - *Deutsche Bank - Analyst*

Okay. That's what I was looking for.

Bob, is there anything you can actually say about the first quarter in terms of the environment? How it's trending for Knowles? Not specifically, but clearly we're all watching these negative pre-announcements on smart phone volumes from Samsung and Apple. I'm just curious -- you guys seem to have a bit of a better mouse trap, right? Than just the smart phone industry. So is there anything you can say about the cadence of business thus far?

Bob Livingston - *Dover Corp - President and CEO*

I am not going to say too much, John. I will remind you that the team at Knowles has scheduled their own Investor Day. I think it's for the 19th of February. And I'm almost certain that, that's going to be webcast. But the first quarter profile for Knowles will show the -- I call it -- the normal seasonality that you would see post a product launch and preceding the next product launch.

John Inch - *Deutsche Bank - Analyst*

Right, okay. That make sense.

And a technical question. Post the spin of Knowles -- [I will] have three segments. But you're still going to have some Comm Tech assets. Is your plan, Bob and Brad, to have still three segments and you put some of the Comm Tech stuff in the other businesses? Or are you going to create a fourth segment and, I don't know, maybe take some of your Energy business assets and put them in that? Because Energy doesn't look as big, or something.

Bob Livingston - *Dover Corp - President and CEO*

We'll share a little bit more detail around this post-spin, but you're asking about numbers. I happen to like the number 4, John.

John Inch - *Deutsche Bank - Analyst*

That's what I was going. Thank you very much.

Operator

Nigel Coe with Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Good morning, guys.

You provided some good detail on the remain-co. Obviously, Knowles -- we haven't had any guidance for Knowles. Anything you can say at this stage, or do we have to wait until the 19th for the guidance?

Bob Livingston - *Dover Corp - President and CEO*

I think I've said just about everything I'm going to say on Knowles. It's a great story. The guys are getting prepared for their Investor Day on the 19th. And I think they're going to have an interesting and exciting and enthusiastic message for their investor base on the 19th.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's what I suspected.

And, obviously, you put out a fairly -- I'd say -- cautious look at margins for 2014. And, obviously, you've got a pretty significant investment headwind in your bridge. I'm wondering -- if we switch this back to Energy -- you've got the M&A [dilution] coming through in Q4. I'm assuming that's still going to be a factor in the first half of the year. So I'm wondering, number one -- how dilutive will the margins be? So the acquisitions [being] to Energy margins in [terms of] 2014, particularly in the first half of the year? And the second part of that point is -- how much of that investment headwind is coming through in Energy versus the other segments?

Bob Livingston - *Dover Corp - President and CEO*

I don't have the detail here on margins by quarter for 2014. Let me go back to my earlier comment about the revenue balance between first half and second half. Even though the revenue is fairly balanced between first half and second half, I think you're going to see our margins a little bit better in the second half than they are in the first half. Partly because -- and here's two or three key points here. Number one -- we will continue to see a little bit of margin pressure here in the first two or three months of the year from some of the acquisitions that have been completed, or that were completed -- especially in the fourth quarter of last year.

We've got some consolidation projects underway, Nigel. Both here in the States as well as in Europe. Some of them related to acquisitions that were completed last year. Others are -- I call it -- more normal productivity type of consolidation projects. Some of the costs we're going to incur on those consolidation projects will be borne and reported here on the first half results. The benefits that we'll receive from those projects will start to flow through in the second half.

So even though the revenue is pretty evenly split, you are going to see a little bit better performance in the second half on margins than the first half.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Just to clarify -- the consolidation activity -- this is a normal structuring type of activity?

Bob Livingston - *Dover Corp - President and CEO*

I think a couple of these, we've even already talked about. We've got a significant project underway at Hill Phoenix with the new facility coming online. And that new facility replaces three rooftop spreads -- three or four rooftops. Again, the cost we're going to incur on that consolidation is first half, and the benefits we'll see are in the second half.

Within Energy, we've got a new facility coming online down in Houston actually as we speak. It will be here in the first quarter. And that new facility, I think again replaces -- four? Three or four rooftops. And the cost, again, of -- I call it -- the move and the consolidation is a first half expense. And we'll start to see the benefits show up in the second half. We have a couple of other projects similar to that, that will be in Europe this year.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Very helpful, thanks.

Operator

Julian Mitchell with Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

I wanted to follow-up on the EPS bridge. And the volume mix and price line. If you take $0.22 at the middle of that, it implies maybe a 20% incremental margin for the year as a whole -- of about 3.5% core growth. I just wondered if that's is factoring in some kind of hit or impact from FX -- because it sounds a fairly low number. I understand you have some facilities and so on in the first half, but if there is anything abnormal, or anything in FX, that's weighing on the incrementals?

Bob Livingston - *Dover Corp - President and CEO*

No. I would say your calculation is pretty good. I'd say the conversion somewhere between 23% and 25% -- the way we think about it on organic growth -- which is pretty consistent with what we saw in 2013.

Keep in mind that we do put into that line item not only volume conversion but mix and material -- plus material spread. I would say, while materials are behaving fairly well going into the first part of 2014, right now we view that in our forecast to be a slight drag. Not that large, but a slight drag on that conversion rate.

Julian Mitchell - *Credit Suisse - Analyst*

Got it, thanks.

And my follow-up -- in terms of the geographic color -- you called out Europe was up over 10% in Q4. When you're thinking about 2014 and the 3% to 4% core growth globally, what main assumption is there? Is it 3%-ish in Europe and the US, and a bit more in rest of world? Or how quickly do you think that Europe number normalizes?

Bob Livingston - *Dover Corp - President and CEO*

I think your guess is pretty close for modeling. 3% to a little bit lower in Europe and the US, and a little bit higher in the emerging markets. We continue to see good and interesting opportunities for growth in China and other parts of Asia.

You will see us do a little bit more in South America in 2014. Maybe even a bit more than we've done in the last couple of years. But we do look at the US and Europe to be -- I would call it low, single-digit contributors to organic growth in 2014.

Julian Mitchell - *Credit Suisse - Analyst*

Great, thank you.

Operator

Nathan Jones with Stifel Nicolaus.

Nathan Jones - *Stifel Nicolaus - Analyst*

Good morning, Bob, Brad, Paul.

I wonder if I could start with a refrigeration question, and talking specifically about Anthony. You've got some pretty nice bookings there, and I know you are expecting to see some revenue synergies from Anthony. Have you started to realize those? And how meaningful are they to the business at this point?

Bob Livingston - *Dover Corp - President and CEO*

We have been realizing some of those revenue synergies throughout the year. I would say it's been building, especially as we got beyond the first quarter. I cannot give you a number on that. I just don't have that.

We had a very solid second half in our refrigeration business. The profile was a bit different between the third quarter and the fourth quarter. I would call it the core refrigeration business -- our case and systems business actually was fairly strong in the third and the fourth quarter. And our Anthony business actually was performing very much on plan on our acquisition model through the first -- not only three quarters -- maybe even through the first 10 or 10 1/2 months.

We did see some deferrals late in the fourth quarter that would move into 2014. And it's not in the core grocery business. We see it more in -- I call it the smaller-format stores, like the convenience stores; and perhaps even saw it more outside of North America than we did here in the US.

Nathan Jones - *Stifel Nicolaus - Analyst*

Great. That is helpful, thanks. And my follow-up is --

Bob Livingston - *Dover Corp - President and CEO*

So we're looking for another great year for those guys next year.

Nathan Jones - *Stifel Nicolaus - Analyst*

Wonderful. My follow-up is on the international expansion in Energy. Can you talk about -- and I mean, outside US, Canada, and Europe -- 50% growth in 2013? And I know it's been a strategic goal for you to --

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Bob Livingston - *Dover Corp - President and CEO*

No, I actually think it was 50% in the fourth quarter.

Nathan Jones - *Stifel Nicolaus - Analyst*

50% in the fourth quarter?

Bob Livingston - *Dover Corp - President and CEO*

For 2013, I think it was 42% or 43% for the year.

Nathan Jones - *Stifel Nicolaus - Analyst*

I know that's been a strategic goal for you to expend that business. How meaningful is that to the business now, and what kind of growth rates do you think you can do over the next two or three years? Outside of those typical -- Canada, US, and Europe?

Bob Livingston - *Dover Corp - President and CEO*

Okay. So, when I talk about the geographic expansion, and I give you this number of 40% -- 42% and 50%, what I'm referring to is the growth in what I would label as new markets for Energy. So, I'm excluding -- or including as the core, not just North America, but I'm including as the core, Europe. I want to make that point first.

Nathan Jones - *Stifel Nicolaus - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

As a percentage of the total, these new geo-expansion initiatives perhaps now account for about 18% of the Energy segment's revenue. So it's rather significant. Gosh, I think we don't have to roll the clock back much beyond three years and we'd only see that number to be 5% or 6% of the segment's revenue.

We are continuing to add resources -- people resources -- around the world for the Energy segment, as I commented in my opening comments. I would love to sit here and tell you that you'll see 40% growth every year for the next five years. The math starts to work against us a little bit. We will continue to see significant growth opportunities for Energy, especially around artificial lift, during the next 2 to 3 years. But you should expect that growth to come -- the growth rate to moderate significantly.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay, thanks for much.

Bob Livingston - *Dover Corp - President and CEO*

Again, it's representing 18% of the revenue today.

Nathan Jones - *Stifel Nicolaus - Analyst*

Yes. I understand how the math works there, Bob. That's great color, thank you.

Operator

Jamie Sullivan with RBC capital.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Good morning.

You talked pretty positively about the Energy trajectory in 2014, and pretty balanced throughout the end markets. Maybe you can talk a little bit about some of the underpinnings of the assumptions there -- whether there's some visibility in international markets or projects? And maybe you could provide a little more color on the Energy growth.

Bob Livingston - *Dover Corp - President and CEO*

Okay. The key assumption, or the underpinning, behind our guidance and forecast for Energy for 2014 would be our take on what we're going to see in recount activity here in North America. That's always where we start. Our assumption is that recount, in both US as well as in North America for 2014, is actually flat with 2013. I know there's some reports out there that show recount activity to be -- forecasted to be -- up modestly, but our assumption is that it will be flat.

That said, even with the flat recount, we continue to see and expect increased well activity in 2014. I would call it mid-single-digit increase in well activity. Outside of North America, we continue to see more and more -- I call it -- tender projects that we feel that we should be participants in. That's been a significant part of the growth we've had in our Energy business over the last couple of years, and we see that continuing in 2014 and beyond.

Jamie Sullivan - *RBC Capital Markets - Analyst*

That's really helpful.

And then just a follow-up. There has been a fair amount of talk of FX on the earnings call thus far. What's baked into the guidance? And maybe what the impact is in 2014?

Bob Livingston - *Dover Corp - President and CEO*

I'm sorry. You were fading a bit. You're asking -- what is the impact of FX in our 2014 guidance?

Jamie Sullivan - *RBC Capital Markets - Analyst*

Yes. I was saying FX has been a topic of your conversations through the earnings call. I was wondering -- what's in the guidance for 2014?

Bob Livingston - *Dover Corp - President and CEO*

Yes. Sorry.

Our guidance would be pretty neutral for Dover. Keep in mind that some of these markets that have seen quite a bit of activity or change in the valuation of their currencies -- we're not a big player in some of those markets. So at this point, our forecast is built on a pretty steady assumption around FX.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Okay. Thanks very much.

Bob Livingston - *Dover Corp - President and CEO*

Thank you.

Operator

Thank you. That does conclude our question-and-answer period. I would now like to turn the call over to Mr. Goldberg for closing remarks.

Paul Goldberg - *Dover Corp - VP IR*

Thanks, Jennifer.

This concludes our conference call. As usual, we are very happy that you joined us this morning, and we look forward to talking to you again next quarter. Have a good day.

Operator

Thank you, ladies and gentlemen. That concludes today's fourth-quarter 2013 Dover Corporation earnings conference call. You may now disconnect your lines at this time, and have a wonderful day.
