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DOV - Q3 2012 Dover Corporation Earnings Conference Call

EVENT DATE/TIME: OCTOBER 17, 2012 / 2:00PM GMT

OVERVIEW:

Co. announced 3Q12 revenue of $2.2b, resulting in EPS of $1.32. Guidance was given for 2012 revenue growth of 7% and EPS from continuing operations of $4.55-4.65.

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PRESENTATION

Operator

Good morning and welcome to the third-quarter 2012 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. After the speakers opening remarks, there will be a question and answer period. (Operator Instructions) I would now like to turn the conference over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - VP IR*

Thank you, Paula. Good morning and welcome to Dover's third-quarter earnings call. Today's call will begin with comments from Bob and Brad on Dover's third-quarter operating and financial performance and follow with our outlook for the remainder of the year. We will then open the call up for 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 October 31, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 1-800-585-8367. When accessing the playback, you'll need to supply the following access code, 37297489.

And before we get started, I'd 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 Corporation by referring to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statements. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website where considerably more information can be found. And with that, I'd like to turn this call over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone. And thank you for joining us for this morning's conference call. Before I get to our third- quarter results, I'd like to share a few observations on the macro environment during the quarter. During our last quarterly call, we discussed the significant decline we had experienced in Europe and moderating activity in China. We also saw North American markets as mostly stable. 90 days later, I would say these trends are generally continuing. Europe has remained at a low level though the weakness is broader-based than last quarter. China has weakened, especially with respect to the electronics markets. The bright spot this quarter again was US industrial activity. In summary, these conditions result in moderately slower global growth rates as we enter the fourth quarter.

Now some comments on our third-quarter results. We posted revenue of $2.2 billion in the quarter, an increase of 3%. Our third- quarter EPS of $1.32 was an 11% improvement over the prior year, largely driven by strong leverage on volume. In our Energy segment, expanding production activity and strong downstream investments in distribution and retail fueling are among the trends that drove excellent business results in the quarter. Our drilling results were impacted by the lower year-over-year North American rig count, though rig count did increase sequentially. Overall, Energy's performance was characterized by continuing growth and strong margins. We expect these trends to continue in the fourth quarter. At our Communication Technologies segment, several handset OEMs launched new products towards the end of the quarter which drove solid sequential results.

Our MEMS activity was very strong reflecting the breadth of our OEM coverage and the benefits of multiple design wins. The challenges at Sound Solutions lead to lower revenue than expected. This, along with normal seasonality in the handset market, will continue to impact results through year-end. While I was disappointed with our performance at Sound Solutions, we continue to work through significant business transitions and are making substantial progress. I firmly believe we will make further progress in this important business in the coming months. Within our Engineered Systems segment, Refrigeration & Food Equipment markets remain quite solid and our business performance was strong.

Regarding our Fluids platform, markets remain much the same as last quarter, highlighted by the excellent results of recent acquisitions. We expect the segment's fourth quarter results to reflect the normal seasonality of our refrigeration markets and slightly moderating macro growth trends. Within our Printing & Identification segment, strong organic growth in our fast moving consumer goods market along with the benefits of our second-quarter restructuring helped drive solid margin performance. The China electronics equipment market weakened through the quarter and was below our prior expectations. We believe this trend will continue and now project this segment's performance to be lower in the fourth quarter.

Overall, the strong market positions of our businesses and productivity initiatives enabled us to deliver third-quarter segment margin of 18%. During the quarter, our acquisition pipeline developed nicely and we have several deals that have matured and are actionable. I remain bullish on our five growth spaces and am enthusiastic with the strategic add-ons in our pipeline.

In summary, the majority of our businesses performed very well. I am quite pleased with our third-quarter results and the responsiveness of our businesses. As we enter the fourth quarter, the softening global economy, especially impacting electronics and lower volumes at Sound Solutions, result in an outlook that is less than we expected at the beginning of the third quarter. We remain focused on our growth initiatives and investments, select restructuring activities, and the pursuit of strategic acquisition opportunities, all of which will help deliver further earnings gains in 2013. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of our presentation deck. Today we reported third-quarter revenue of $2.2 billion, an increase of 3% over the prior year. This was comprised of 1% organic growth, 4% from acquisitions, and an unfavorable impact of 2% from foreign exchange.

EPS was $1.32 which included a small benefit from discrete tax matters settled during the quarter. After adjusting for minor tax benefits realized in the third quarter of both periods, EPS improved 10% over the prior year. Segment margin for the quarter was 18%, an increase of 100 basis points. This result reflects solid performance in all segments in the absence of one-time acquisition related costs incurred in the third quarter of last year. Bookings increased 1% over the prior year to $2.1 billion. These results represent solid 6% growth in Energy and modest increases in both Communications Technologies and Engineered Systems.

In Printing & Identification, bookings decreased 10%, as further weakness in electronics markets impacted the segment. Overall, book-to-bill finished at 0.94, in line with normal seasonality. Backlog grew 6% to $1.5 billion. In the third quarter, we generated $230 million of free cash flow or 10% of revenue. We expect free cash flow for the year to be roughly 10% of revenue.

Now turning to slide 4 and our revenue growth. Organic growth remains solid at Engineered Systems and Energy achieving 4% and 3% respectively in the quarter, reflecting strong performance in the food equipment, production, and downstream markets. Communication Technologies' organic revenue declined 1% while Printing & Identification decreased 6%. For the quarter, acquisition growth was strong at Energy and Engineered Systems as they both posted 8% and 7% growth respectively.

Turning to slide 5 and our sequential results. Revenue increased 2% from the second quarter with three of our four segments showing sequential growth. Communication Technologies increased 10% primarily driven by the handset market. Energy increased 4% lead by the production in downstream markets. Engineered Systems showed modest sequential growth of 1%. Printing & Identification declined 3%. Bookings decreased 3% sequentially from the second quarter, in line with historical trends. Growth of 8% at Communication Technologies was led by the handset and aerospace markets. Engineered Systems' bookings declined 8% sequentially largely reflecting the normal seasonality of our refrigeration markets. The sequential bookings decline of 4% in Printing & Identification was primarily driven by continued weakness in the electronics markets. Energy bookings declined 1%.

Now on slide 6. Communication Technologies posted revenue of $396 million, a decrease of 2% from the prior year. These results reflect modest revenue decline in all end markets with the exception of aerospace industrial. Within the handset market, very strong MEMS activity was offset by lower volume at Sound Solutions. Earnings increased 19% to $64 million and segment margin improved 290 basis points to 16.1%. This performance reflects strong leverage on MEMS volume, weaker results at Sound Solutions, and the absence of one-time costs associated with acquisitions completed in the third quarter of last year. We expect segment revenue and margin to moderate sequentially in the fourth quarter on anticipated lower volumes primarily due to seasonality and mix. Bookings of $412 million -- bookings were $412 million essentially flat with last year. Book-to-bill finished at 1.04.

Turning to slide 7. Energy revenue increased 10% to $562 million while earnings increased 11% to $139 million. Energy produced another solid quarter as oil prices remain supportive of continued production activity and downstream markets remain strong. Rig count declined year-over-year impacting our drilling business. Our focus on international growth, coupled with the diversity of our end markets, allowed us to post another quarter of strong revenue growth in both production and downstream. Operating margin was 24.7%, a 20 basis point improvement. Bookings were $527 million, a 6% increase over the prior year. Book-to-bill was 0.94.

Now on slide 8. At Engineered Systems, sales were $892 million, an increase of 8% year-over-year. Earnings improved 15% to $144 million. Fluid Solutions' revenue grew 26% to $218 million benefiting from recent acquisitions. Fluid Solutions' organic revenue was flat with solid results in North America and Asia offset by a weak Europe. Refrigeration & Industrial grew 5% organically to $674 million. Revenue gains were broad based with Hill Phoenix posting a quarterly record for revenue.

Operating margin was 16.2%, an increase of 100 basis points from the prior year. This was primarily driven by solid operating performance and our focus on cost improvements. Bookings were $798 million, an increase of 3% resulting in a book-to-bill of 0.89. Our Fluid Solutions platform bookings increased 13% to $198 million. Refrigeration & Industrial was essentially flat with last year at $600 million. Book-to-bill for fluid solutions was 0.91 while Refrigeration Industrials was 0.89. The segment book-to-bill principally reflects the normal seasonality of the refrigeration market and softer European and Asian Markets.

Now let's turn to slide 9. Printing & Identification revenue was $358 million, a decrease of 11% from the prior year. Earnings decreased 14% to $51 million. Gains in our consumer goods markets helped partially mitigate the continued softness in our electronics markets as well as unfavorable foreign exchange. Our electronic markets were down over $30 million year-over-year. Excluding the impact of foreign currency, organic growth in the fast moving consumer goods end market was 6%.

Operating margin declined 40 basis points to 14.4%. The benefits of prior restructuring and continued cost improvements largely offset significantly lower volume in electronics. Looking forward, we do not see a near term recovery in the electronics markets. Bookings were $343 million, a decrease of 10% from last year. In the consumer goods and industrial markets bookings increased 1% excluding the impact of foreign exchange. Book-to-bill ended at 0.96.

Moving to slide 10. Third quarter net interest expense was generally in line with expectations. Corporate expense decreased by $2 million year-over-year. Our third quarter tax rate was 27.9%. This rate was slightly higher than our prior forecast and largely impacted by mix of geographic earnings. This rate also included a $0.02 benefit from the resolution of discrete tax matters. Our CapEx spend for the quarter was $69 million and we repurchased 4.3 million shares since our last call.

Now turning to slide 11 and our 2012 revenue guidance. We now expect full year revenue growth of around 7%. Organic growth is estimated to be about 3% including a negative 2% impact from foreign exchange. Completed acquisitions will add around 4%. Breaking down revenue growth by segment. We expect Communication Technologies' growth to be around 11% for the year about seven percentage points lower than our last guidance. The main drivers of this change are OEM launch delays and lower volumes at Sound Solutions. Energy growth is expected to be approximately 16%, largely unchanged from our prior forecast. Engineered Systems is forecasted to grow around 9%, again in line with our prior expectations. Lastly, within Printing & Identification, a weakening electronics market is driving our revenue forecast down one percentage point. We now expect revenue to decline around 9% for the year, inclusive of a 3% unfavorable impact from foreign exchange.

Now on slide 12 which shows our full year guidance. As previously mentioned, we now expect revenue growth to be around 7%. Corporate expense decreased slightly while interest expense and CapEx remained substantially unchanged. We now expect our 2012 tax rate to be 27.9%, reflecting changes in the mix of geographic earnings. Based on the above, we expect our full year earnings per share from continuing operations to be $4.55 to $4.65.

Now let's go to the earnings bridge on slide 13. As a reminder, 2011 EPS was $4.26 after adjusting for $0.22 of discrete tax benefits. Volume mix and price will contribute roughly $0.24 to $0.30 for the full year, down about $0.06 from our last forecast. Net productivity will add $0.20 to $0.24. Investment in compensation is now about $0.05, a $0.06 adjustment from our last forecast. We expect completed acquisitions to be about $0.14 dilutive for the year, down from our prior forecast. This revision largely reflects the impact of Sound Solutions. On a net basis, the impact of corporate expense, interest expense, share count, and our tax rate is largely unchanged from our prior forecast. The net result is full year EPS of $4.55 to $4.65. With that, I'll turn the call back over to Bob for some final comments.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. As I mentioned earlier, I am very pleased with our third-quarter performance. We delivered strong earnings growth in a tough environment. This is a testament to the strength of our businesses and the responsiveness of our leadership teams across the Company. As Brad just mentioned, our fourth-quarter outlook has been reduced. I expect a few of our highlights for the quarter to be-- further progress at Sound Solutions; continuing strong gains in our MEMS business; continued strength in Energy; and the continuation of our focus on cost reduction versus via select restructuring activities.

Our reduced guidance does not change my conviction on the long term growth opportunities before us. Looking ahead to 2013, I remain confident in the positions we hold in our five key growth spaces. Our focus in Energy, Fluids, Refrigeration & Food Equipment, Product Identification, and Communication components offer us substantial growth opportunities. I look forward to sharing specific details regarding 2013 at our Investor Day Conference in New York on December 10. In closing, I'd like to thank our entire Dover team for their hard work and dedication. Your focus on serving customers and achieving results will continue to drive Dover's success. With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corporation - VP IR*

Thanks, Bob. At this point I'd like to remind the callers we would kindly ask you limit yourself to one question and a follow-up so we can get more callers on the call. Paula, can we have our first question please?

QUESTIONS AND ANSWERS

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

So Bob, we'll start with surprise Sound Solutions. Can you explain, take another crack maybe a little more detail, you know you've got the Vienna facility at Sound Solutions that's very good at high throughput automation, you've got Knowles people who know how to do high flex automation very successfully, and I know it's slightly different what you're trying in Beijing Sound Solutions but can you explain a little more detail why you think you've had such trouble with that and why you can't better leverage the knowledge base of those other parts of the Company to get the yields up?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, wow that's about four questions, Shannon.

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

It's all one topic.

Bob Livingston - *Dover Corporation - President and CEO*

So let me back up to about 15 months ago and just highlight what I would label as the three primary objectives we had as we entered the third quarter right after the acquisition of Sound Solutions. We knew we were dealing with the significant change in the marketplace with Nokia and a couple of other OEMs but objective number one was aggressively pursue design wins with new OEMs. I would say objective number two sort of goes to the heart of your question which was a significant manufacturing transition in the Beijing operation with a focus on the high flex automation. And the third objective would be to work the designs quickly to drive yield improvements and volume brand.

Shannon, the execution on all three of these objectives has been slower than I expected, slower than we expected, and it has been disappointing. Your question about the capability we have both in Vienna as well as the Knowles team is true. In fact, as we exited the second quarter, early part of the third quarter, we did start to make some management transitions in Beijing. In fact, the general manager of Beijing now, the operations manager, I think the quality manager and probably about five other key leadership positions have been changed since the end of the second quarter with Knowles, China personnel taking over responsibility for these positions.

So now let's comment on the third quarter. I think we learned a lot in the first six months of this year. I think those learnings along with the management transitions that we started to make at the end of the second quarter and into the early part of the third quarter. We have seen some progress on the high flex lines. We like what we have and we feel we made the right decision. We've had lots of learning between line one and where we are today but I would also enable that this high flex automation objective as no longer a challenge. Our yields continue to improve.

We had significant improvements during the third quarter, more in the latter part of the third quarter than we did in the early part and we will continue to make more progress in the fourth quarter. The volume has been lower than expected but I also expect it to continue to increase. Shannon, I'd share one further comment, and it has less to do about performance and more to do with sort of the outlook for this business. As focused as we have been in the last six months on bringing up the high flex automation and improving our yields, we are already working on several new designs for 2013 OEM product launches. And actually a couple of the key designs are actually scheduled for first quarter qualification test and we're on schedule.

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

Okay, that's really helpful. Thanks. And then just one more for me. Just on balance sheet, I mean nice to see the little over 4 million of share repurchase in the quarter, sounds like you're also feeling good about the acquisition pipeline. You have the free cash flow and the balance sheet to kind of do them both. How are you thinking about those into the end of the year and next year?

Brad Cerepak - *Dover Corporation - SVP and CFO*

I'll take that question. Again, I think at the price in the multiple on our stock right now, we find it very attractive and therefore in the quarter, we did go ahead as we've been saying and buyback ahead of dilution more so than we did even last year. That's obvious at 4.3 million shares purchased. I would say we continue to make an assessment of what's in our deal pipeline all the time and the price of our stock. At this time though, I would say we would expect to continue with some modest share repurchases into the fourth quarter. We like what we've done in the second quarter and we think we will continue to do that.

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

Okay, thanks a lot guys.

Operator

Charley Brady, BMO Capital.

Charley Brady - *BMO Capital Markets - Analyst*

Hi, thanks, good morning guys. Just to go back to Sound Solutions for a minute and I guess specifically on the OEM launch and some of the yields and some of the products going into that, I guess I'm trying to get a sense of I know you aren't giving 2013 guidance but at what -- how much -- at what point does that problem linger into 2013? What point are you anticipating the yields getting up to a level that the product is acceptable to the customer and you can start shipping that product into that OEM?

Bob Livingston - *Dover Corporation - President and CEO*

We are there now, Charley. The yields on the new designs that we've been focused on bringing into production and the ramp over the last three or four months are being delivered to the customer. The customer is accepting them and is pleased with the yields though I would also tell you we have further room for improvement on the yields.

Charley Brady - *BMO Capital Markets - Analyst*

Okay, that's great. That's helpful, thanks. And just quickly on the Energy business on the bookings. Can you just kind of break it down by the three end markets? I'm assuming the bookings on the drilling were not as strong but maybe just give a sense of the three end markets there?

Bob Livingston - *Dover Corporation - President and CEO*

No, I actually don't have the bookings data here for recall, Charley. I think you go back to the comments that Brad shared with you and his comments on the three sectors with respect to revenue. My guess is that the bookings followed pretty closely to the revenue pattern.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. Thanks.

Bob Livingston - *Dover Corporation - President and CEO*

We didn't have a lot of distortion between -- in book-to-bill between the three sectors.

Charley Brady - *BMO Capital Markets - Analyst*

That's helpful, thank you.

Operator

Jeff Sprague, Vertical.

Jeff Sprague - *Vertical Research Partners - Analyst*

Thank you, good morning everyone. Hi Bob. Just to follow-up on that last point, so yields are now acceptable on speakers and receivers and you're shipping into the new customer. Is that something that happened in the quarter? Is that an October event?

Bob Livingston - *Dover Corporation - President and CEO*

No, let's see. Part of the product activity would have -- I'm going to say late August. Late August we had product going into the customers I call it hub, late August. Everything that we have been able to manufacture, full capacity, what we've been able to manufacture and ship into the hub since the end of August on speakers has been pulled and placed into product.

Jeff Sprague - *Vertical Research Partners - Analyst*

But not receivers?

Bob Livingston - *Dover Corporation - President and CEO*

Pardon?

Jeff Sprague - *Vertical Research Partners - Analyst*

But not receivers?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, on receivers we're probably 30 days beyond that.

Jeff Sprague - *Vertical Research Partners - Analyst*

But you're now shipping?

Bob Livingston - *Dover Corporation - President and CEO*

We're now shipping.

Jeff Sprague - *Vertical Research Partners - Analyst*

So just thinking then about the guide reduction, the guide reduction is no longer about your inability to deliver I presume. It's solely on OE volumes or do you think your share was somewhat impaired for awhile because of the initial disruptions with the business?

Bob Livingston - *Dover Corporation - President and CEO*

Okay. So let me in case, well there may be a misconception here, on our guidance down, Jeff, we're actually -- included in our guidance we actually have a modest revenue increase in the fourth quarter for Sound Solutions sequentially.

Jeff Sprague - *Vertical Research Partners - Analyst*

You do, okay.

Bob Livingston - *Dover Corporation - President and CEO*

It's not a decline. We've got a modest increase in revenue in the fourth quarter and an increase in operating earnings. Or more importantly, I would say less of a loss. The concern we have in this handset business for the fourth quarter is that December is always such a wild card, and we truly do not have visibility into the month of December on what, we know what the production forecast looks like right now. Our experience has been that December can have some wild movements.

Brad Cerepak - *Dover Corporation - SVP and CFO*

I would just add the sequential growth that we originally talked about in the last call.

Bob Livingston - *Dover Corporation - President and CEO*

This is modest.

Brad Cerepak - *Dover Corporation - SVP and CFO*

This is modest now. This is mid single digits growth sequentially and again I would say where we were 90 days ago to where we are today we are shipping, as Bob has indicated, we are booking revenue and we have line of sight now on where we are in sound solutions. There's room for improvement.

Bob Livingston - *Dover Corporation - President and CEO*

Yes, still a lot of room for improvement but if I could add any color to that with respect to I'll label it as risk assessment, I actually, when we look at what we have in our guidance for Sound Solutions in the fourth quarter, sitting here now, I would tell you that there is, we feel there's very, very little downside.

Jeff Sprague - *Vertical Research Partners - Analyst*

I'll just call it a second and a half question, I'm sorry, as a follow-up. But you did speak to kind of the improvements late in the quarter. Is there just to your very point you made there, Bob, is there something kind of like in the monthly book-to-bills or something that can give us a little more comfort on that to the extent you can share any additional color and I'll move on? Thanks.

Bob Livingston - *Dover Corporation - President and CEO*

I don't have monthly book-to-bills. I'm not sure I could share anything else on the order rates. We did have a positive book-to-bill for Sound Solutions in the third quarter. That would be expected and I would label it as normal, and as I said, we are shipping what we can produce and the customer's pulling it from the hub and it's going into product.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great. Thank you very much.

Operator

John Inch, Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

I want to ask about, Brad or Bob, the guide on the acquisition line so the minus $0.14, it was 3% to 5% so I think this is sort of a down $40 million to $50 million of OP if you just run the basic math. Bob, I think you'd commented before that Sound Solutions had lost maybe $12 million to $16 million pretax in the first half. If it's actually sequentially getting better it doesn't seem to bridge the down $0.14 and I appreciate your comments around December. I'm just trying to understand, Brad you implied the bulk of it was Sound Solutions. What am I missing? How do you get to the down $0.14?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Okay, no I think it is bulk of it is Sound Solutions. It has a lot to do with this change in the revenue line. You'll recall coming out of the second quarter we were looking at sequential growth in Sound Solutions of between 20% and 25%. Our sequential growth going out of the second quarter into the third on Sound Solutions was very modest at around 6%. We see modest again into the fourth quarter. That volume reduction is very, very significant, especially with respect to the cost structure of Sound Solutions. They incrementally convert very, very high on the upside and likewise on the downside, and so that impact is entirely related to our expectations going out of the second quarter, in the second quarter what we expected in the second half for Sound Solutions.

John Inch - *Deutsche Bank - Analyst*

So there's, I think I get it. It's high fixed costs, so if the trajectory based on what you are describing holds and I kind of get the sense that Sound Solutions progression will be sort of linear, right? It's going to progressively continue to improve. What kind of a run rate does this imply in terms of revenue and contribution on profits for 2013? And you don't have to be specific but just in general what kind of a trajectory?

Bob Livingston - *Dover Corporation - President and CEO*

Well, it will continue to improve, John. Our operating results and including our top end guidance at the high end of the range for Sound Solutions in the Fourth Quarter is essentially breakeven.

John Inch - *Deutsche Bank - Analyst*

Okay, so post that, that means Sound Solutions makes money each of the following four quarters? That would be your expectation?

Bob Livingston - *Dover Corporation - President and CEO*

That would be our expectation.

John Inch - *Deutsche Bank - Analyst*

And just lastly, you guys commendably repurchased your shares. Is sort of a 2% net reduction kind of a decent placeholder to think about throughout next year recognizing that there's some dilutionary impact and obviously you want to be opportunistic with M&A, but is that your thinking at this point or is it just more of a you just want it to be a little more opportunistic this quarter based on who knows, cash flow timing or something else?

Brad Cerepak - *Dover Corporation - SVP and CFO*

You're asking about '13?

John Inch - *Deutsche Bank - Analyst*

Yes.

Bob Livingston - *Dover Corporation - President and CEO*

I would look back to what we did in '11 to be maybe as a baseline for '13 which means we would continue to stay above dilution. I think we were a little over 2 million shares in '11 above dilution. I think that would be a best guess at this point.

Jeff Sprague - *Vertical Research Partners - Analyst*

Kind of 2% then?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well, 1% to 2%.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay, thanks guys, appreciate it.

Operator

Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

This is the first time in a couple quarters you really talked about M&A picking up and I guess that things have been kind of shut down since Sound Solutions. Is there a sense of kind of the size range and the type of deals that you're looking at, meaning are we focused mostly on kind of non-comtech stuff or is there a continued build-out of your technology capabilities? Just give us a little bit of sense, but obviously I know you can't name names but give us a sense of the type of stuff you are looking at.

Bob Livingston - *Dover Corporation - President and CEO*

We can't name names, but let me correct a misstatement. You say we've been shut down since Sound Solutions.

Scott Davis - *Barclays Capital - Analyst*

Well, you've been quiet. More quiet.

Bob Livingston - *Dover Corporation - President and CEO*

Since Sound Solutions, I don't know what the spend has been but it's probably $600 million, $500 million - $600 million. And with the two largest ones being Maag Pump that we closed on in March and PCS that we closed on in April and I guess Oil Lift was, what last November or December, something like that, Paul. But to bring the comment forward, the types, the profile of the properties that -- businesses that are in the pipeline today, none are as large as Sound Solutions. The bulk of them would probably be in the $50 million to $150 million range on evaluation, and let's see, I'm doing a quick sort of nose count here as we go through this. None of them are in Communication Technologies. We've got a couple of smaller ones that we're looking at within Energy but it's mostly to continue our efforts to broaden and complete our artificial lift product portfolio. And I think you'll see more of a focus over the next year or so around capital allocation within Engineered Systems and our printing business. And we'll give you more color on that at Dover Day.

Scott Davis - *Barclays Capital - Analyst*

Sure, I understand. This is my follow-up question is on Printing & ID. When you think about electronics, obviously slowdown markedly for you guys. Is it share changes kind of stopped here or have you lost -- you know accentuating kind of that decline as maybe some shared shift?

Bob Livingston - *Dover Corporation - President and CEO*

You're asking about electronics?

Scott Davis - *Barclays Capital - Analyst*

Printing & ID, and specifically electronics since that's the one that bled the most. (multiple speakers)

Bob Livingston - *Dover Corporation - President and CEO*

I do not believe we are dealing with any share loss at Markem-Imaje I would say in the last three quarters. The last two quarters for sure.

Scott Davis - *Barclays Capital - Analyst*

So down 20% --

Bob Livingston - *Dover Corporation - President and CEO*

At Markem-Imaje, we feel like we've got our stride back at Markem-Imaje.

Scott Davis - *Barclays Capital - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President and CEO*

Not only would the products and the service rates but I would also tell you our margins if they're not back to their historical levels of the past two or three years, they are within just a few basis points of being there.

Scott Davis - *Barclays Capital - Analyst*

So down 20% just to follow-up I apologize but down 20% is a much bigger number than we've seen historically in any of these kind of subsegments. Is there some sort of inventory de-stock that's occurred or something that kind of explains this? I'm having a tough time picturing that end market at the OE side being -- production being down a full 20%.

Bob Livingston - *Dover Corporation - President and CEO*

Talking about electronics, Scott?

Scott Davis - *Barclays Capital - Analyst*

Yes, I am.

Bob Livingston - *Dover Corporation - President and CEO*

Well again, I'd say it's all electronics and even to be more specific it's probably much, much more weighted towards the semi and the solar part of the portfolio than it is our electronic assembly piece.

Scott Davis - *Barclays Capital - Analyst*

Okay. Fair enough. Okay, I'll follow-up with you guys off line. Thank you.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Oh, thanks, good morning. I hate to be so predictable but I want to go back to Sound Solutions. Just -- taking your comments --

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Bob Livingston - *Dover Corporation - President and CEO*

You're very predictable, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Oh, always. So if I take your comments, Bob, about your Sound Solutions with the year over year growth in Q4, that's -- at least based on my numbers, that implies about $100 million of revenue.

Bob Livingston - *Dover Corporation - President and CEO*

No, no, no. Sequential growth.

Nigel Coe - *Morgan Stanley - Analyst*

Sequential growth. Okay, I took that as a year over year. Okay.

Bob Livingston - *Dover Corporation - President and CEO*

No, no, no. Sequential.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, and is that then a good run rate for 2013 or would you expect sequentials to improve again into '13?

Brad Cerepak - *Dover Corporation - SVP and CFO*

No, if you're asking a question would I take fourth quarter times four and accept that as a good number for '13 the answer is no.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, that's very clear. And then if we just switch to the energy business. Obviously, we've seen a big divergence between production and drilling trends and you make very good margins in drilling. Does that create a mix issue as we go into 4Q and beyond?

Bob Livingston - *Dover Corporation - President and CEO*

Yes. I think we have shared this with the investor community in the past and you look at our three sectors in drilling and production and downstream that we do have higher margins in our drilling activity than we do in production and downstream. Interestingly enough, Nigel, as we enter the fourth quarter, we actually see a bit of a sequential increase in drilling activity over the third quarter. It's not significant, but we do see a bit of an increase. The third quarter, we did deal with year over year declines in the -- in rig count deployment but we also think that what we were experiencing in the third quarter was a little bit of a squeeze out of inventory with our customers and within the channel. We happen to think that's behind us right now.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. So the crux of the question really is you had this huge mix issue in 3Q yet you still show 20 bps of margin expansion.

Bob Livingston - *Dover Corporation - President and CEO*

Don't label it as huge. There is a mix issue but don't label it as huge.

Nigel Coe - *Morgan Stanley - Analyst*

I think drilling was down materially, wasn't it? Down 10%?

Bob Livingston - *Dover Corporation - President and CEO*

Yes, that sounds about right.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. So therefore we shouldn't be thinking about margins down in Energy going forward.

Bob Livingston - *Dover Corporation - President and CEO*

Not meaningfully.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, thanks guys.

Operator

Deane Dray, Citi Research.

Deane Dray - *Citi Research - Analyst*

Thank you, good morning everyone. I wanted to dig into a couple of the discretionary spending parts of your guidance, and it looks like you're pulling back on some investment in compensation versus previous guidance as well as corporate expense is less of a head wind. Maybe give us some color on what you're pulling back in terms of discretionary spending.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well I would say it's really two things. It is tightening up a little bit around what I call pure discretionary spend, you know, the normal things you would expect in that bucket called travel and other types of consultant type expenses but fundamentally, the downward adjustment in our investment and compensation is compensation. It's reflective of what our current guidance is now at versus where we were just 90 days ago.

Bob Livingston - *Dover Corporation - President and CEO*

Let me be more specific. It's variable comp being adjusted.

Deane Dray - *Citi Research - Analyst*

So how much of that would be over on the investment side? You're suggesting it's not a big pullback there?

Bob Livingston - *Dover Corporation - President and CEO*

Negligible.

Deane Dray - *Citi Research - Analyst*

Okay, and then given the rally in the euro, you're not big exposure there but for the fourth quarter what are you expecting FX and what's the currency impact that you're baking in?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well our current view is it's about 2% impact for total Dover for the whole year and I think we were at 2% or so in the third quarter. I don't see any really change of trajectory on that.

Deane Dray - *Citi Research - Analyst*

Okay, thank you.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks a lot. My first question was just around the net productivity benefits. When you did the call in July, you talked about around $0.27 of tail wind for the year. Now it's $0.22 and I guess I would have thought that with the book-to-bill being down year-on-year with the second guidance cut, the productivity savings should be going up as you're taking out costs, so maybe just a question around that.

Bob Livingston - *Dover Corporation - President and CEO*

Well before Brad gets into a number or two, I would tell you that probably the thing for my perspective that affects it the most is lower volume.

Brad Cerepak - *Dover Corporation - SVP and CFO*

And that really is it. It's really lower absorption on lower volume. That's the only thing driving it. Our productivity efforts inside Dover actually have continued to accelerate in terms of the actual project work we're doing in productivity to take cost out, and as Bob indicated, we continue to do what I would call very selective incremental restructurings which are a little bit more broad-based in the third quarter. What I mean by that is it's across all of our segments including DCT and others and we continue to look for opportunities to take cost out. Those costs actually -- we put those costs -- we characterize those costs included in that number as well. So it's a little bit of that but mostly absorption on lower volume.

Julian Mitchell - *Credit Suisse - Analyst*

Okay, got it, thanks. And then just the follow-up would be within Printing & ID, the industrial business was down I think mid single digits at stripping out currency in Q3. That is worse than what you had in Q2. You call out Europe, was Asia getting worse as well as we went through Q3 or is it really just a European problem?

Bob Livingston - *Dover Corporation - President and CEO*

It would be mostly Europe, though let's not ignore this. We are seeing some, well, call it weakening of the growth rate in China. And it is showing up in some of our businesses and it does affect this industrial piece.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. Thank you very much.

Operator

Mike Wherley, Janney Capital Markets.

Mike Wherley - *Janney Capital Markets - Analyst*

Good morning, guys. First off, I wanted to ask how big a portion of Sound Solution sales are still Nokia in the third quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Oh my -- I'm looking at Brad. I don't know that exact number but I can take a guess and I want to say it's between 25% and 30%.

THOMSON REUTERS

Mike Wherley - *Janney Capital Markets - Analyst*

Okay, and that's down from like almost 40% or so at the start coming into the year?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, coming into the year? No, I think it still may have been close to 50% at the beginning of the year, if not a little higher.

Mike Wherley - *Janney Capital Markets - Analyst*

Okay, and then follow-up on the wide range of guidance with just one quarter to go. Is that all, is most of that just the volatility from the handset market that you talked about in December or what's the biggest reason for such a wide range with one quarter to go?

Bob Livingston - *Dover Corporation - President and CEO*

Well, number one I'll agree with you, it is a wide range and we spend a lot of time talking about this and debating this. As you would normally expect us to narrow that to $0.05. Let me give you some color. I will tell you that as we sit here today, we clearly are focused on achieving and hitting the top end of the range with respect to EPS. That is our target and that is our goal. As we came through the third quarter, September bookings were the lightest month of the quarter and I don't think it was an aberration. September bookings was the lightest month of the quarter and that statement is true for three of our four segments, the one exception being communication technologies. That gives us a little bit of a pause in sort of I call it increases the uncertainty level as we come into the fourth quarter. I've got a very short data point for you and that's after the first two weeks of this quarter, after the first two weeks of October, the order rates and activity would have us comfortable with a minimum of the mid range of our revenue guidance.

So why do we have this sort of someone could say conservative safety net at the bottom end of the range? Part of that is the uncertainty we have around the month of December with respect to our handset business. Couple of other points I would share with you is we exited the third quarter. If not with a regard backlog, pretty darn close to it at Hill Phoenix, and the interesting characteristic on that backlog is a much higher percentage of their third quarter ending backlog is actually scheduled for first quarter delivery, enough so that it actually appears odd, and we have a little bit of a concern that there could be some further push outs from the fourth quarter into the first quarter. Nothing has been signaled in the last two weeks. We just have a little bit of an elevated concern and the third one, I would just say some uneasiness and uncertainty around the macro environment in the fourth quarter.

Mike Wherley - *Janney Capital Markets - Analyst*

Okay, thanks for that color. That helps a lot.

Bob Livingston - *Dover Corporation - President and CEO*

Don't lose track of my first two comments, from an earnings perspective we are clearly targeted and focused on delivering the top end of the range.

Paul Goldberg - *Dover Corporation - VP IR*

Next question please?

Operator

Rob McCarthy, Robert W. Baird.

THOMSON REUTERS

Mick Dolbray - *Robert W. Baird & Co. - Analyst*

Hello. This is Mick Dolbray sitting in for Rob McCarthy. Good morning. I'd like to sort of stick with Hill Phoenix here. Can you provide a little more color about the drivers of that business and apparently it's performing quite well? How do you think about it going forward and then as a follow-up there, what is the impact of Hill Phoenix for engineer systems' margins and as that mix changes, would Hill Phoenix continuing to hopefully do well? How should we think about incremental margin going forward?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so while the first one is a fairly broad question with Hill Phoenix, so let me try to give you some color on 2012 activity. We are seeing market growth in the North America served market in 2012. The data we would have, the latest data we would have would be through, I guess through August. I don't think we've seen September data yet but the year-to-date August data would tell you that in the case business, the market's up maybe 3 to 4 percentage points over last year. Our business has expanded this year greater than the market growth rate and through August, we think we've added maybe three or four points of market share. We continue to do quite well in our systems business as well as the case business. This is always -- this business is very much project driven and we can see some interesting changes from year to year when you look at first half versus second half in any given year, and if you look at this year and our first half, revenue at HP, at Hill Phoenix, was up 14%, 13%-14%, is that right Brad?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes.

Bob Livingston - *Dover Corporation - President and CEO*

13% or 14%. In the second half of 2012, it's actually going to be down slightly versus the second half of 2011 and when I say down slightly, 1%, 2%, but we are coming in pretty darn close if not a bit better than what our plan was for the year, and that's just all project driven. You look at our prospects for 2013 and without jumping the gun because the guys at Hill Phoenix haven't shared with us their annual operating plan for '13, but they expect and we do too that they would have another good solid growth year in 2013, and a lot of things going on in the market they are participating in and winning. I guess your last question was on margins and Brad you're going to have to help me here. I would say that the Hill Phoenix margins are probably around the average for the segment.

Mick Dolbray - *Robert W. Baird & Co. - Analyst*

Okay, and then if I may another follow-up. It's more clarification on Print & Identification. If I'm looking at your guidance right, I guess it would imply flat revenue on a sequential basis in the fourth quarter and if I'm right about that I guess I'm wondering how should we think about margin, is roughly the 14% range still applicable on relatively flat revenue for the fourth quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so help me here, Brad. I think at the top end of our range, what we have in for that segment is actually a little bit better than flat. I think it's 1% growth in the fourth quarter year over year. And I don't know, I actually don't know, I can't recall what the margin trend actually was.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well I would just add-on the margin trends for that segment in our other segments is that they're going to follow pretty much the historical pattern for three of the four. DCT will be different but I would expect DPI to come down slightly in the margin in Q4 based really on just mix of the business.

Paul Goldberg - *Dover Corporation - VP IR*

Let's take our final question now because I think an hour is just about up so, can we have the final question, Paula?

Operator

Nathan Jones, Stifel Nicolaus.

Nathan Jones - *Stifel Nicolaus - Analyst*

So if we could just go back to the order trends that you saw in September there, would September normally be the softest month for orders in the quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Well, you have to look at some of the parts. It is not unusual for Hill Phoenix to see September as their weakest order month of the quarter simply because their business activity tends to soften a bit in the latter part of the year versus the first part of the year, but when you pull Hill Phoenix out of the order book and look at everything else, you typically don't see a decline in September order rates versus July and August, and we did, as I said before, we did in three of the four segments. And I'm not talking about a large number but it was enough of a pattern there that it was noticeable.

Nathan Jones - *Stifel Nicolaus - Analyst*

Is there some overarching theme in why you think September was softer ex-Hill Phoenix or is it discrete related to each individual business?

Bob Livingston - *Dover Corporation - President and CEO*

No, I'm labeling it more as a reflection of the macro environment.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay, and if I could just get one more in on the balance sheet. Your accounts payable was up a good bit and inventory was pretty flat sequentially despite heading into a seasonally slower revenue quarter. Can you talk about what's driving that and if there's any actions you're taking to address that?

Bob Livingston - *Dover Corporation - President and CEO*

Yes. I would say our working capital generally speaking was a little bit higher than we normally would have expected at this time of the year. I think it came in roughly our calculation comes in at about 20% and normally we're in between 18% and 19% at this stage so a lot of that is just timing -- timing on collections of receivables and timing of some of the payables. The payables are linked to our CapEx spend so you will see a little bit of an abnormal type move in payables but nothing significant there. Our focus is to continue to execute on working capital in the fourth quarter and our expectations are we'll bring that back to our historical 18% to 19% level.

Nathan Jones - *Stifel Nicolaus - Analyst*

All right, perfect. Thanks guys.

Paul Goldberg - *Dover Corporation - VP IR*

Thanks, everyone. This concludes our conference call. With that, we want to thank you for your continued interest in Dover and we definitely look forward to speaking to you again next quarter. Have a good day. Bye.

Operator

Thank you. This does conclude today's conference call. You may now disconnect. Thank you for your participation and have a great day.
