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EDITED TRANSCRIPT

DOV - Q3 2014 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 3Q14 revenue of $2.1b and adjusted EPS of $1.35. Expects full-year 2014 revenue growth to be approx. 8% and EPS to be $4.75-4.80.

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Nigel Coe *Morgan Stanley - Analyst*

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Nathan Jones *Stifel Nicolaus - Analyst*

PRESENTATION

Operator

Good morning and welcome to the third-quarter 2014 Dover 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 would now like to turn the call over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - VP of IR*

Thank you, Paula. Good morning and welcome to Dover's third-quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's third quarter operating and financial performance and follow with an update of our 2014 outlook.

We will then open the call up for questions. And as a courtesy, we kindly ask that you limit yourself to one question with a follow-up. Please note that our current earnings release, form 10-Q, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com.

This call will be available for playback through October 30 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'll need to supply the following access code:10369221.

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 guiding 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 forward-looking statement.

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 would like to turn the call over to Bob.

Bob Livingston - *Dover Corporation - President & CEO*

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

I was pleased with our strong finish to the third quarter. As we shared with you a few weeks ago, we did have some pockets of unexpected softness in July and August. However, September business activity was quite strong and exceeded expectations.

The overall result was revenue and bookings growth at each segment. Most notably Fluids delivered 17% growth, while Energy and Engineered Systems each grew 8%.

In all we generated 8% revenue growth and grew EPS 8%. Our 10% bookings growth, coupled with a strong September, sets us up well for the fourth quarter.

From a geographic perspective, the US, Europe, and Asia all had solid organic growth, whereas Canada and Brazil declined year over year. Now let me share some specific comments on the quarter.

In Energy we continued to benefit from strong US well activity and an increased rig count, especially in our core production and drilling markets, namely the Permian, Eagle Ford, and Bakken basins. This activity, along with double-digit Middle East growth, more than offset weakness in bearings and winches.

In Engineered Systems we achieved solid growth across both platforms. Within printing and identification, we saw growth in both our fast-moving consumer goods and industrial markets, especially in the US.

Also our recent MS acquisition, which specializes in digital printing for textiles, is off to a great start with Dover and contributed 9% growth to the platform. The industrial platform also achieves strong growth, led by outstanding results in our auto-related businesses.

Our Fluids segment performed well, where robust market conditions for fluid transfer products, complemented by recent acquisitions, resulted in strong revenue growth. This growth is primarily tied to positive global retail fueling activity, along with tailwinds from emerging fluid transfer safety regulations.

Our Refrigeration and Food Equipment revenue was generally solid in the third quarter, but overall results were below our expectations. Refrigeration revenue, while positive, was impacted by the timing of shipments to a major retailer, specifically in Mexico and small store formats in the US.

We expect to deliver the bulk of these push-outs in the fourth quarter. We have made great strides in strengthening our company in 2014.

We have completed a number of productivity initiatives across the organization, and have enhanced several of our businesses via acquisition, including our recently completed accelerated transaction. Accelerated brings ESP technology, one of the fastest growing product categories in North America Artificial Lift.

In total we have invested roughly $800 million on acquisitions year to date. As a result we've expanded our global footprint in fluid transfer, opened new markets for our printing and identification business, and we have significantly broadened our product offerings in Artificial Lift.

Our acquisition pipeline is rebuilding and our near-term focus is on smaller bolt-on targets. Regarding the fourth quarter, we expect solid organic growth in Energy driven by North America well activity, especially in Texas and the Rockies, and improved conditions in compression, continued organic growth in Engineered Systems driven by strong dynamics in our industrial platform, and global growth in printing and identification, strong results in our fluid markets, primarily driven by regulatory tail winds and fluid transfer, a positive retail fueling environment, and continuing solid global markets for our pump businesses, and a slightly stronger seasonal pattern in Refrigeration and Food Equipment reflecting shipments of a very strong Q3 ending backlog. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP & CFO*

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

Today we reported third-quarter revenue of $2.1 billion, an increase of 8%. Organic revenue grew 4% and growth from acquisitions was also 4%.

Adjusted EPS was $1.35, an increase of 8%. Segment margin for the quarter was 18.5%, 110 basis points below last year.

Adjusting for the impact of acquisitions, our overall margin was 19%. This acquisition impact was most prevalent in our Energy and Fluids segments.

Bookings increased 10% over the prior year to $2 billion. This result represents growth across all segments, led by 14% growth in Fluids and 11% growth in Engineered Systems.

Energy grew 9%, while Refrigeration and Food Equipment posted bookings growth of 6%. Overall book-to-bill finished at a seasonally normal 0.96.

Our backlog increased significantly in the quarter, up 14% to $1.4 billion. Free cash flow was $259 million for the quarter, or 12% of revenue. For the full year we expect free cash flow to be approximately 11% of revenue.

Now, turning to slide 4, all segments showed organic growth in the quarter. Fluids grew 6%, benefiting from solid fluid transfer and pump markets.

Energy, driven by strong core US drilling and production markets, grew 5%. Engineered Systems grew 4%, with broad-based growth across both platforms. Refrigeration and Food Equipment was up 1%.

Acquisition growth in the quarter was 4%, comprised of 11% Fluids, 4% in Engineered Systems, and 3% in Energy. Turning to slide 5 in our sequential results, revenue increased 2% from the second quarter.

Results were led by 5% growth in Energy and 4% in Fluids. Refrigeration and Food Equipment grew 1% sequentially, while Engineered Systems was essentially flat.

Sequential bookings decreased 4%, representing normal seasonality. Energy, driven by Phase II of Queensland gas project, grew 10%. Refrigeration and Food Equipment declined 15%, as shipments in Refrigeration normally slow down in Q4.

Fluids was down 6% as several large projects were booked in the previous quarter. Engineered Systems declined 4% on normal seasonality.

Now on slide 6, Energy revenue of $507 million increased 8% and earnings of $123 million were up 3% over last year. Energy produced a solid quarter, with strong revenue growth in our drilling and production and compression markets. This strong performance more than offset continued softness in our bearings end markets and construction-related winch markets.

Within drilling and production, growth was driven by strong US well activity. The continued impressive performance of our drilling businesses and our sharply growing US Artificial Lift business more than offset expected tough comps in Australia and a decline in Canada.

The improved compression markets also helped drive solid growth. Overall this segment continues to perform at a high level and the addition of Accelerated will only serve to broaden our market opportunities in key North American basins.

Operating margin was 24.2% and included a 100-basis point impact related to recent acquisitions, primarily those completed in Q2 and Q3. Bookings were $526 million, a 9% increase over the prior year, reflecting broad-based growth across the segment. Book-to-bill was 1.04.

Adjusting for Queensland gas, book-to-bill was a solid 1.0, up 3% over an adjusted prior year. Turning to slide 7, Engineered Systems had another solid quarter, where revenue of $695 million was up 8% and earnings of $119 million increased 7%.

Our printing and identification platform revenue increased 13% to $291 million, driven by organic growth of 4% and recent acquisitions, primarily MS Printing. Of note, US results for Markem Imaje were extremely strong, up double digits.

In the industrial platform, revenue grew 5% to $405 million, all of which was organic. Our auto-related businesses were particularly strong in this platform.

Margin was solid at 17.2%, as the benefits of productivity mostly offset the effect of business mix. Bookings were $667 million, an increase of 11%.

Our printing and identification bookings increased 10% to $281 million, boosted by recent acquisitions and continued solid activity in our core fast-moving consumer goods markets, especially in the US. Industrial bookings increased 12% to $386 million, reflecting broad-based growth.

Book-to-bill for print and identification was 0.97, while industrials was 0.95. Overall, book-to-bill was 0.96.

Now moving to slide 8, Fluids posted a strong quarter, where revenue increased 17% to $362 million and earnings of $68 million were up 7%. Revenue was driven by organic growth of 6% and acquisition growth of 11%.

Our fluid transfer businesses benefited from strong demand in the global retail fueling markets, increasing safety regulations in fluid transfer, and share gains. Pumps was driven by strong North American growth and new product introductions.

Segment margin was 18.7%, a decrease of 170 basis points from the prior year, primarily reflecting the impact of acquisitions. Bookings were $351 million, an increase of 14%, driven by fluid transfer. Book-to-bill was 0.97.

Now, let's turn to slide 9. Refrigeration and Food Equipment generated revenue of $529 million, up 1% over the prior year.

Earnings of $78 million decreased 10%. Solid growth in Refrigeration was partially offset by declines in Food Equipment, particularly at Belvac, where project shipments can vary from quarter to quarter. Refrigeration growth of 3% was dampened by push-outs from a major customer.

Overall Refrigeration is well positioned to finish the year strong. Backlog is up $52 million, or 16% over the prior year, and September was the largest revenue month ever for Hillphoenix.

Operating margin was 14.8%, a 180-basis point decline from last year. This result largely reflects unanticipated supply chain costs, inefficiencies connected with customer push-outs, and customer mix.

Bookings were solid at $459 million, an increase of 6%, principally reflecting solid demand for Refrigeration products. Book-to-bill was a seasonally strong 0.87.

Going to the overview on slide 10, third-quarter net interest expense was $31 million, up $1 million from last year, and in line with our forecast. Corporate expense was $28 million, a decrease of $5 million, and generally consistent with expectations.

Our third-quarter tax rate was 30.8%, excluding $0.03 of discreet benefits. Capital expenditures were $35 million in the quarter. We expect Q4 to be higher as we continue to execute on several projects.

Lastly, we repurchased 1.2 million shares for $100 million since the end of the second quarter. 856,000 of these shares were settled in Q3. Year to date we have repurchased 5.1 million shares for $418 million.

Moving to slide 11, which shows our full-year guidance, we expect organic revenue growth to be approximately 4%. Our forecast for Energy is 4% to 5% growth.

Likewise, we also expect Engineered Systems revenue to grow 4% to 5%. Fluids organic revenue growth is forecast at 5% to 6%, while Refrigeration and Food Equipment is expected to have approximately 1% organic growth.

Completed acquisitions will now add 4%, up one point from our prior expectations, reflecting recent acquisitions, including Accelerated. In total we expect full-year revenue growth to be approximately 8%.

Segment margin is expected to be between 17.5% and 18%, including roughly a 70-basis point impact from completed acquisitions. Corporate expense will now be approximately $120 million, $5 million below our prior forecast, representing cost management activities.

Interest expense should be about $130 million, $3 million below our prior expectations. Our full-year tax rate is estimated to be near 31%.

CapEx should be about 2.3% of revenue, slightly below our prior forecast, and free cash flow is expected to be approximately 11% of revenue. Turning to the bridge on slide 12, we now see volume, price, and mix contributing $0.26 to $0.29.

Productivity will add $0.16 to $0.18, while investment and compensation will have a $0.16 to $0.18 impact. Acquisitions in aggregate will now be essentially neutral for the year.

This includes the current year dilutive impact of deals already closed in the third and fourth quarters. Corporate provides a $0.04 benefit at the high end of our prior forecast, while interest shares and taxes contribute $0.13 to $0.14, $0.04 above our prior expectations.

In total we now expect 2014 EPS to be $4.75 to $4.80, reflecting a $0.05 reduction to the high end of our prior guidance, largely driven by the impact of recent acquisitions. This represents 10% growth at the midpoint. With that, I'll turn it back over to Bob for some final thoughts.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Brad. Overall I am pleased with our performance, especially our strong September. We delivered solid revenue and earnings growth, and also saw strong order activity.

Looking forward I believe we are well positioned for continued success, based on our products, technologies, and competitive positions. Within Energy we expect our US activity to remain solid, given the basins we participate in, and expect our global growth initiatives to continue to yield opportunities.

We are enthusiastic about our recent Accelerated deal. The technology Accelerated brings to our portfolio, combined with our existing rod lift products, allows us to offer customers Artificial Lift solutions earlier and for the complete life of their wells.

All of these factors position us very well with our customers. In Engineered Systems, growing global applications for our printing and identification technology, including the emerging digital textile market and the increasing awareness around food safety, provides ample opportunities for expansion.

Within our industrial markets our customers' desire for productivity solutions, along with a strong market for our auto-related businesses, offer solid growth prospects. Within Fluids, increasing regulations regarding vapor recovery and the safe transport of chemicals and fuels provides a strong business climate for our fluid transfer businesses.

Additionally our pumps business is benefiting from generally solid markets, particularly in North America and the Middle East, as well as the introduction of new products. And finally, in Refrigeration and Food Equipment we continue to focus on the ongoing needs of our customers for productivity and sustainable solutions.

In addition the regulatory environment is providing tailwinds with regard to Energy efficiency standards, which plays to the strength of our product portfolio. In closing I would like to thank our entire Dover team for their continued focus on serving our customers and driving results. With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks, Bob. At this point I would just like to remind everybody if you can limit yourself to one question with a follow-up, we would greatly appreciate it. And with that, Paula, if we can have the first question.

QUESTIONS AND ANSWERS

Operator

Thank you. Our first question comes from Jeff Sprague of Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

Thank you. Good morning, everyone.

Bob Livingston - *Dover Corporation - President & CEO*

Hi, Jeff.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Good morning.

Jeff Sprague - *Vertical Research Partners - Analyst*

Hi, how are you doing? Just on Energy, Bob, there was a little bit of commentary in the queue about margin pressure around cost.

It was unclear to me if that was really just kind of some cost push inflation or there's a negative comment embedded around price as part of that. Could you just kind of give us a little color on what's going on with price and cost in Energy?

Bob Livingston - *Dover Corporation - President & CEO*

Yes, I would say it's a little bit of both, Jeff. And within Energy, it would be specific to Artificial Lift. Our steel costs were up.

I think the incremental cost in the third quarter versus the year-ago, steel costs were up about $5 million. That's it. But it was still up.

With respect to pricing, we've commented on this a couple of times this year. The Canadian market has been soft and we have seen price pressure, especially on rods.

In fact I would probably say exclusive to rods, both in Canada and maybe a little bit even in the Bakken basin. But it is restricted to that.

Jeff Sprague - *Vertical Research Partners - Analyst*

And then just thinking about the pre-announcement, Bob, you guided an $0.08 miss. That was very precise.

It wasn't $0.05 to $0.10. It was $0.08.

What really happened at the end of the quarter? And maybe a little color at how September ended and what you're seeing here in the early part of October, if you have any other color?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. So, Brad. The $0.08 miss I think was split between I would call it three buckets.

We anticipated a $0.03 miss in Refrigeration. We were anticipating a $0.03 shortfall in Energy.

And the balance -- the $0.02 was really around increased deal cost in the third quarter that had not been anticipated as we opened the quarter.

Jeff, we had the $0.02 deal cost, for sure and the $0.03 anticipated miss in Refrigeration, my friend, we delivered that miss. The $0.03 anticipated miss on Energy, I will stand up and give kudos to the, to all of the units and the leadership teams within Energy.

That gap was closed and they did it remarkably so in the final three weeks of the quarter. And I think based upon what we were looking at in mid-month, I think Energy performed a bit better, like $0.02 in September than we had anticipated. Any other color on that, Brad?

Brad Cerepak - *Dover Corporation - SVP & CFO*

And I guess the other $0.01, which is missing in that reconciliation is a little bit better corporate based on our costs, our cost controls, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

Yes. And then just a quick one and I'll move on. Brad, can you give us the organic bookings in general and Energy specifically?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Oh, boy. I don't think I have that data handy right now. I'll ask Paul to follow up with you on that.

Paul Goldberg - *Dover Corporation - VP of IR*

Yes, I'll give it to the entire group.

Jeff Sprague - *Vertical Research Partners - Analyst*

All right, great. Thank you.

Paul Goldberg - *Dover Corporation - VP of IR*

Yes.

Operator

Your next question comes from Steven Winoker of Bernstein Research.

Steven Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Thanks, and good morning all.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning.

Steven Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

It would be helpful to continue to get a little more color on the Energy business, just in light of the overall macro concerns that are out there and your particular exposure at the basin level and what you're hearing from customers. Typically these are, a lot of these customers are folks who spend what they make. And just how you're looking at that business over the short term anyway, short to medium term.

Bob Livingston - *Dover Corporation - President & CEO*

Well, my comment, Steve, would be restricted to what we're seeing right now in our anticipation for the fourth quarter. There is enough noise and uncertainty right now that I think I would reserve any comments to the beginning of the year or 2015 to perhaps our Dover day conference.

The -- if you want to know where our primary activity is in the basins, Permian by far is the largest basin for us. The second largest basin would be Eagle Ford. And the third would be the Bakken.

And I would say that in a relationship comparison, Permian may be five times the activity versus what we see in the Bakken. With respect to what we're hearing for customers, the guys are talking to them weekly.

The last couple of weeks I would tell you they're talking to them almost every day. Their customers are really engaged in looking at their capital budgeting and planning for 2015.

We're not hearing any input from them right now other than they are looking at it. With respect to the fourth quarter here in 2014, we have been watching our order rates every day for the past, I would say three weeks if not four weeks.

The -- if we were to see a bit of a pullback or an early sign, it would be in our drilling businesses. We haven't seen it at all.

In fact the order rates, the average daily order rates in the first couple of weeks in the first couple of weeks in October were at or slightly above the third-quarter average daily rate. We've seen no cancellations, no deferrals, and we feel pretty confident sitting here today about our expectations for the fourth quarter in Energy.

Steven Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

And that team, the Energy team that was able to close the gap in the last few weeks that you commended, was that gap closing just on -- was it on operating expense? How did they actually do it?

Bob Livingston - *Dover Corporation - President & CEO*

No, I would say it was primarily driven by revenue and volume. And it wasn't one business. It was across the board.

We had a little bit better volume as order rates picked up in the last couple of weeks of the month, we had a little bit better volume in our drilling business, and we continue to see strong activity in the US market for Artificial Lift. Artificial Lift in the US finished stronger in September than we had anticipated even at the middle of the month.

Steven Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay, great. Thanks. I'll pass it on. Appreciate it.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks.

Operator

Your next question comes from Nigel Coe of Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks. Good morning, guys.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Nigel.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Good morning.

Nigel Coe - *Morgan Stanley - Analyst*

Bob, just wanted your perspective. You called out July-August as soft enough to preannounce on the quarter, despite the fact you don't actually give quarter guidance.

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You've upped the Energy and Refrigeration were the two primary drivers. I was wondering why do you think we saw that unusual pattern?

Because quite honestly the macro data would suggest it would be the other way around, that maybe July-August would have been okay, September would be the weakest. Any perspective on that?

Bob Livingston - *Dover Corporation - President & CEO*

It's two different responses. In Refrigeration, Nigel, to be quite direct about it, the problem in Refrigeration, number one I'll tell you the number was about $8 million in Refrigeration and I would label it primarily -- well, I'll take the blame for this. It was primarily self-inflicted.

It was around some unanticipated hiccups and costs we had with some supply chain changes we were making as we exited the second quarter. Within Energy there was, as we were looking at booking rates, especially in August, there was a growing concern that month of September would not have the growth in the US Artificial Lift activity that we ended up seeing.

Now, let me tell you what the growth was for the third quarter. I mean we had a fairly healthy expectation for Artificial Lift in the third quarter, but I think Artificial Lift in the third quarter year-over-year I think we were up 16%.

We came into September and felt that that growth rate was probably going to fall a couple points shy of that. As it turns out the gap was closed pretty quickly.

Nigel Coe - *Morgan Stanley - Analyst*

That's helpful, thanks. And then the pace of buybacks has picked up in early 4Q and I'm just wondering, Bob and Brad, how you -- the dynamic and math between buybacks at $72 as opposed to $90 compares to M&A right now?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. I'd rather back at $72 than $93. (laughter) I'm not sure that -- okay. Nigel, we completed the billion dollar share buyback program as we exited and completed the first quarter.

I think in the second quarter and third quarter it was a total of about $100 million of share repurchase activity with the bulk of that in quarter three. We had, as we sat and discussed and looked at share repurchase activity in July for the second half of the year, we knew we had some M&A activity that we were very hopeful on closing on in the second half. And we did.

I would also tell you we walked away from a couple of deals here recently where the pricing sort of got beyond our comfort range. I sit here today at $72. It sure deserves another topic, round of discussion with Brad and myself.

I would also tell you that the balance of the fourth quarter, and I would even say our visibility into the first quarter of 2015, M&A activity is going to be very, very light. If we do anything they're going to be rather small deals and the cash flow that we'll generate here in the fourth quarter, coupled with our existing share price, this is going to get some serious discussion with Brad and myself over the next couple of weeks.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. So sounds like you are pretty much done on the M&A for the rest of this year?

Bob Livingston - *Dover Corporation - President & CEO*

I would say that if we do anything it will be too small to even announce.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Well thanks, Bob.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks.

Operator

Your next question comes from John Inch of Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

Good morning, everyone.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, John.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Good morning, John.

John Inch - *Deutsche Bank - Analyst*

Bob, you've been through these Energy downturns or swings before and I think your performance is really, I mean, it really stands out. What I'm trying to understand is sort of connecting the dots between low price of oil, what appears to be pretty meaningful rising competition in North America, perhaps for some of your own businesses.

What is the playbook here in terms of the steps you would take in anticipating and then reacting to perhaps a meaningful scale back from your customers, who if I understand are already sort of planning CapEx for next year now, so they are sort of doing that against a backdrop of pretty low oil prices? Any color you could have based on your experience would be helpful and how you're thinking about those.

Bob Livingston - *Dover Corporation - President & CEO*

Well we'll refer back, as you mentioned, we've been through this before. It seems like a long time ago, but it was in the first half of 2009 and the business leaders, the segment leadership team has the ability to take cost out just about as quickly as we did in the first part of 2009.

We, especially in our Artificial Lift business as well as in our drilling businesses, we have a -- I would label it from a cost takeout point we have an attractive relationship between variable cost and fixed cost. And we can pull the trigger pretty quickly in that area.

John, for you and for the others, let me sort of put this in perspective for you. So the Energy segment, rough number it's a $2 billion revenue segment.

We've got about $500 million in revenue and what I would label as our bearings and compression part of the business, not directly connected to rig count or the drilling activity per se. Within drilling our -- which is, and we recognize this. Our drilling activity is highly correlated to rig count.

I would say it's $450 million to $500 million in revenue. And then that would leave our Artificial Lift business activity, which is roughly $1 billion.

And of that $1 billion about 20% of it is non-North American activity. About 20% of it we will label it as automation.

And it has much less to do with drilling activity and much more around offering productivity solutions and tool sets for our customers to optimize the cash flow and the profitability of individual wells and fields. So that leaves about 60%, or about $600 million of this $1 billion Artificial Lift business around what I call pure Artificial Lift tools and equipment.

In that 60% rough number, rough split, about 50% of it is after market. More so on pumps than it is on rods. But about a 50% split to after-market and about 50% to new installations.

So if we were to continue to see a precipitous decline in the price of oil, I think where we're going to see it first, we're going to be watching rig counts. We see a decline in rig counts, we're going to see it pretty quickly in our drilling business.

And I'm talking global numbers here. We're going to watch it pretty closely. We have not seen that yet, John.

With respect to new installation on Artificial Lift, yes, a decrease in deployed rig counts will eventually show up in Artificial Lift numbers. We are still of the opinion, and we've seen this in the past, you know, in 2009, that that decline would start to be measured and felt five, six, eight months after you see the beginning decline in rig counts. Now I hope that gives you a little bit of detail in how we're looking at it.

John Inch - *Deutsche Bank - Analyst*

No, that's actually really helpful. Bob, you mentioned the 20% automation.

Maybe given the construct of declining oil prices, clearly one of the ways you keep these wells flowing is to make them more productive. Does this perhaps advance your own --

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Bob Livingston - *Dover Corporation - President & CEO*

Yes, that -- John, that has been the clear strategic decision we've made over the last five years since the last downturn, is the -- is to recognize that the automation capability that we could offer and we have grown that offering, both organically, as well as M&A over the last three or four years, that automation as well as our decision to expand and grow outside of North America we think mitigates against the sharp decline that we saw in 2009 in this segment.

John Inch - *Deutsche Bank - Analyst*

I was wondering if maybe you could even make a bigger splash through say some software control automation, M&A other than in the US, Canada, or overseas? Just in responding to the environment, perhaps.

Bob Livingston - *Dover Corporation - President & CEO*

Okay. I would tell you that there's nothing of size that we have in our near-term pipeline, but the two or three that we have some interest in that we would look at and hope to close maybe in the next few months are in that area, John.

John Inch - *Deutsche Bank - Analyst*

Thank you very much.

Operator

Your next question comes from Scott Davis of Barclays.

Scott Davis - *Barclays Capital - Analyst*

Hi. Good morning, guys.

Paul Goldberg - *Dover Corporation - VP of IR*

Hi, Scott.

Scott Davis - *Barclays Capital - Analyst*

This Accelerated deal, I mean, this is a great asset, people who know in the industry speak very highly of it. Is there any risk that you guys top-ticked this thing? If indeed we do see a major breakdown in oil prices and Artificial Lift comes out of favor for a bit, is there any sort of MAC clause in this that would allow you to adjust price down or at least protect yourselves if things do get ugly out there?

Bob Livingston - *Dover Corporation - President & CEO*

Even if things get ugly, I don't think it would qualify as a MAC clause, Scott. The real answer is we now own it and there is no price adjustment.

Scott Davis - *Barclays Capital - Analyst*

Okay. Fair enough. I was a little bit surprised --

Bob Livingston - *Dover Corporation - President & CEO*

By the way, Scott, I was actually happy and pleased with the price we were able to deliver to Dover and to our shareholders on the acquisition of Accelerated.

Scott Davis - *Barclays Capital - Analyst*

It's not expensive. It's expensive if EBITDA gets cut in half, but it's not expensive on current numbers. (laughter)

Bob Livingston - *Dover Corporation - President & CEO*

I would agree with that.

Scott Davis - *Barclays Capital - Analyst*

So my follow-on is I was a little bit surprised to hear you say, Bob, that you're more focused on smaller deals. I only really raise that just because when you do see I think many companies like yours have been waiting for a pullback like this to shake assets free and get sellers off the sidelines and such. I mean, isn't this the exact type of opportunity where companies like Dover really can step in and provide liquidity into a market that starts to need it?

Bob Livingston - *Dover Corporation - President & CEO*

No. You're exactly right. But don't overlook the comment I shared earlier. I said near term.

When you look at what's in our pipeline that we could conceivably close on here in the fourth quarter or in the first quarter of next year, I'm labeling those deals that we have touched points on today as being small bolt-ons. The comment you make, Scott, is very, very appropriate and it's something that we talk about a lot even here in the -- especially here in the last two or three weeks as we see a correction like this that we believe this does give us an opportunity. But Scott, for privately owned businesses, I would tell you that there probably is a, at least a six-month lag on valuation set points and expectations of privately owned businesses relative to a turning point in the public market.

Brad Cerepak - *Dover Corporation - SVP & CFO*

And I think that gets back to Bob's point that we walked away from in the third quarter two what I would characterize as midsize deals.

Bob Livingston - *Dover Corporation - President & CEO*

Similar to the size of Accelerated.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes, due specifically to valuations.

Scott Davis - *Barclays Capital - Analyst*

Right. And were those assets bought by somebody else or were they tabled?

Bob Livingston - *Dover Corporation - President & CEO*

No, I think -- one specifically that was the size of or if not a bit larger than Accelerated, we believe that there was an agreement signed, but we don't know -- we don't have any of the details.

Scott Davis - *Barclays Capital - Analyst*

Okay. Yes, I would just imagine --

Bob Livingston - *Dover Corporation - President & CEO*

It currently hasn't closed yet.

Scott Davis - *Barclays Capital - Analyst*

I was going to say there might be some private buyers who thought they could get financing three weeks ago may have a little bit of a tougher time now.

Bob Livingston - *Dover Corporation - President & CEO*

Yes.

Scott Davis - *Barclays Capital - Analyst*

Okay. That's great color. Thanks, guys, good luck.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks.

Operator

(Operator Instructions)

Your next question comes from the line of Julian Mitchell of Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Hi. Thanks.

Bob Livingston - *Dover Corporation - President & CEO*

Hi, Julian.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Good morning, Julian.

Julian Mitchell - *Credit Suisse - Analyst*

Good morning. Just on the Fluids business, within pumps you had just on the 3% organic sales growth, one or two other companies have been out there even today talking about weak pump bookings. So just wondered how you're seeing that market right now?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. The -- it's interesting. First off I would -- with specific response to your question on bookings, we have not seen a slowdown in order rates.

In what I would label the core business, which we look at every, sort of look at weekly and track it pretty tightly, for us the noise and I'll call it our up and down activity around order rates as well as revenue has been more around the project business that we have seen here with the Maag acquisition we made a couple years ago and the Fender acquisition that we closed on about this time last year. But if you look at our core business, the -- what I call the core pumps, the pump solutions group business, it's actually been pretty steady.

And even if you back out Fender and Maag for this year, the growth has been much more consistent than we would have shown on the top line for our pump solutions group business in total. The North America business has continued to be quite solid. In fact, our, I think our sales through distributors in North America has been up double digits this year.

We have seen that continuing in the second half. We think we're in a very good product and competitive position here.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks. And then within Refrigeration and Food Equipment, you kind of split out the three different factors behind the 180-basis point margin decline in Q3.

How do you see those three factors kind of changing into Q4? How quickly should we think that margin can come back?

Bob Livingston - *Dover Corporation - President & CEO*

Well, if I had the same revenue level in Q4 as we had in Q3, you'd see the margin come back. The biggest -- I would call it almost an embarrassment that we dealt with in Refrigeration in the third quarter were the issues around supply chain and logistics. And as I commented earlier I sort of do a mea culpa here and that was sort of self-inflicted.

I would also tell you that issue is behind us. As we went through the month of September we feel like that problem was corrected and, by the way it was corrected well enough that we had a record revenue month at Hillphoenix in the month of September.

Part of the issue, as I commented earlier, was some push-outs. I would just call it noise around scheduling that wasn't self-inflicted that we were having to deal with. And that created quite a bit of labor inefficiency and scheduling inefficiencies in July and August, particularly July and August.

We've got a very strong -- I'm not sure if it's a record backlog or not. It very well may be, but we've got a very strong backlog at Hillphoenix as we exit quarter three.

And the bulk of a significant amount of our activity for Hillphoenix for the fourth quarter is actually being delivered and earned in October. And as we sit here a little past mid-month, the push-outs from October to the early part of November have been minimal.

Julian Mitchell - *Credit Suisse - Analyst*

Great.

Bob Livingston - *Dover Corporation - President & CEO*

Let me just add a thought here because you're asking about margins and moving into Q4. One thing I do want to point out as we mentioned before, is that our Energy -- I know we're talking Refrigeration right now, but our Energy margins in Q4 will be impacted quite significantly by the Accelerated deal.

And so while you see very solid margins in Q3, that core margin expectation remains. What we will see is an impact of almost let's say 450 to 500 basis points impact to Energy in the fourth quarter due to purchase accounting and the rollover in essence of the inventory through the P&L.

Julian Mitchell - *Credit Suisse - Analyst*

Right. Thank you.

Operator

Your next question comes from Steve Tusa of JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Hi, Steve.

Steve Tusa - *JPMorgan - Analyst*

Can you maybe just talk about the price/cost dynamics that you've seen over the last couple years in Energy? What's kind of the annual pricing that you're getting in that business? Or that you've gotten historically in that business in the last several years?

Bob Livingston - *Dover Corporation - President & CEO*

Gosh, Brad. Help me on this one.

Steve Tusa - *JPMorgan - Analyst*

I mean, is it material or is it -- ?

Bob Livingston - *Dover Corporation - President & CEO*

It was -- I would say it was more material in 2010 and 2011, Steve, than it was in 2012, 2013, and 2014. Now, we've had a little bit.

We see this, not just in Energy. We see this across the board in Dover.

We do always look for opportunities to be a little bit more smart or strategic in our pricing. The -- I would say that the pricing contribution for Dover in total has been close to, but perhaps a bit less in 2014 than it was in 2012 and 2013, but it has still been positive.

Steve Tusa - *JPMorgan - Analyst*

So kind of like low, around flat, but up a little bit, 10, 20 bps, something like that?

Brad Cerepak - *Dover Corporation - SVP & CFO*

I would say 20 bps, yes.

Bob Livingston - *Dover Corporation - President & CEO*

I would use 10 to 20 bps. But you started off by asking about Energy. I'm going to repeat myself, if you don't mind.

We have -- we've been dealing with this now for almost a year. It has been -- it's been something I think I pointed out in the April call.

I know I did in the July call. And I did again today, that in Canada and to a lesser degree in the Bakken basin, we have dealt with price pressure, especially around rods.

Steve Tusa - *JPMorgan - Analyst*

And what kind? Is that double-digit or is it not that much?

Bob Livingston - *Dover Corporation - President & CEO*

No, I would say low- to mid-single digit.

Steve Tusa - *JPMorgan - Analyst*

Okay. And then just on Refrigeration, the fourth quarter's pretty self-explanatory, I guess. Wal-Mart was out at their investor day talking about shifting their priorities to spend more on eCommerce and kind of limit the spending on their stores.

Is there -- how does the business look beyond kind of this catch-up in the fourth quarter? How are you guys feeling about just the trends in Refrigeration spend into 2015?

Bob Livingston - *Dover Corporation - President & CEO*

We saw the announcement. In fact, I would tell you that it wasn't news to us. We've seen that in some of the discussions we've had with Wal-Mart in the last 30 to 60 days.

I think their comments that they shared, Steve, with respect to store activity, number one was new store construction, and number two it was new store construction in the US. They -- we fully expect Wal-Mart to continue with a pretty healthy remodel program in 2015. And based upon everything we're seeing and hearing, seeing, but we've actually got some orders on the books and we've been told there are more coming, that there are new store construction and remodel activity outside of the US continues to be pretty healthy next year.

Steve Tusa - *JPMorgan - Analyst*

Okay, great. Thanks a lot.

Bob Livingston - *Dover Corporation - President & CEO*

Okay.

Operator

Your next question comes from Andrew Obin of Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Yes, good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Andrew.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a couple of questions. Can you clarify the weakness in bearings? Because given your comments on the strength of the Energy cycle so far, it's just a little bit surprising to reconcile it.

Bob Livingston - *Dover Corporation - President & CEO*

Yes. It's all around compression activity. And I would have to start with a little bit of a revisit perhaps even into some data we shared and some announcements we saw from some of our customers, as well as some CapEx announcements that were made early in the year by some of the larger EEMP operators, that with -- I guess we started to see this late in the first quarter and going into the second quarter, where there was much more of a focus by the big guys in the oil patch to improve their cash flow.

And there was some deferment and perhaps even some cancellation of projects. Not that we saw the cancellations. We actually saw some customer canceling projects in areas outside of North America.

And for us it's around -- that bearing activity was around the gas turbine for pipeline and transmission activity. We do believe that we've passed the bottom on that.

We'll see how this one unfolds over the next quarter or two. But we saw in all three, maybe even four of the OEMs that we support with our bearing business, especially GE and Siemens.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And can you also comment on printing IT, because one of your competitors also made positive comments about it? I'm just surprised by the organic growth, given all the headlines.

Bob Livingston - *Dover Corporation - President & CEO*

Organic growth where?

Andrew Obin - *BofA Merrill Lynch - Analyst*

Printing IT, Markem Imaje specifically and in North America. Particularly you highlighted consumer strength in the US. Could you just comment where that is coming from?

Bob Livingston - *Dover Corporation - President & CEO*

Well, you're right. We did have pretty strong growth in the US in the third quarter.

But I would also point out that it probably stood alone in the third quarter with respect to regional growth rates at MI. But the growth -- we've actually been experiencing good growth in the US market for, gosh Brad, 18 months now?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes.

Bob Livingston - *Dover Corporation - President & CEO*

At least 18 months. We commented on that here in our script because it sort of stood alone. Europe was fairly solid, but not like we saw here in the US.

China, I sort of labeled as okay. But again, not like we saw here in the US.

It was fairly broad-based in the US, of both consumables as well as equipment. And I would also say we were pleased with capturing a couple of new customers in the third quarter.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Would you attribute most of the strong performance to Dover specific events or do you think it's just broader markets are just chugging along quite nicely?

Bob Livingston - *Dover Corporation - President & CEO*

Well, I think the market is performing quite nicely. But I would like to think we overperform the market.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Terrific. Thank you very much.

Operator

We have time for one more question. Your final question comes from Nathan Jones of Stifel.

Nathan Jones - *Stifel Nicolaus - Analyst*

Good morning, Bob, Brad, Paul.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning.

Nathan Jones - *Stifel Nicolaus - Analyst*

Just want to follow up on a couple things Julian was asking about earlier on. You talked about within the pump business some noise, I think you called it, on project activity at Maag and Fender. Can you maybe give some more color on that, what you're seeing out there in the market at the moment and what demand trends look like for you?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. Well, Maag and -- two different businesses and two different applications and I'll call it verticals.

Maag is mostly -- most of their play is in the chemical and plastics vertical and Fender is mostly in the oil and gas vertical. And even there I would tell you that most of -- almost all of Fender's activity is outside of the US market. That still remains an opportunity for us.

The -- I don't have the detail by quarter on how each of those two businesses have shown on their bookings, their bookings trajectory, just because of the nature of the business and it's probably a little bit more lumpy at Fender than it is at Maag, but just the nature of their business does include a fair amount of project activity and a project award. And second quarter may result in organic bookings growth, or bookings growth of 20% over the previous year. And the lack of that project award in the third quarter may result in negative bookings growth when you compare it year over year.

When you look at it over longer periods of time, the growth at Fender, my goodness, has been -- is the business up 50% since we acquired the business two years ago? I mean, that may be the magnitude of the growth we've seen at Maag in the -- let's call it two and a half years that we've owned the business.

And Fender, we've owned for a little less than a year and the -- this year has been a year of consolidation and onboarding of Fender. I think you'll see some growth in Fender next year.

Nathan Jones - *Stifel Nicolaus - Analyst*

But in terms of maybe --

Bob Livingston - *Dover Corporation - President & CEO*

It is a ramp project activity.

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Nathan Jones - *Stifel Nicolaus - Analyst*

Yes. In terms of maybe RFPs or something like that, you haven't seen any meaningful change in activity?

Bob Livingston - *Dover Corporation - President & CEO*

Well, I'm not sure I can even answer that with respect to Fender. It is one of the smaller businesses within PSG.

And quite frankly, I probably don't pay as much attention to those order rates as I should. I do pay much more attention to Maag just because of its size and the RFP activity, in fact I was just speaking last week to the gentleman who runs the business, and that customer activity, the RFP activity is quite strong.

Nathan Jones - *Stifel Nicolaus - Analyst*

Great, thanks. And you also mentioned that Brazil was pretty weak in the quarter. Any color you can give on that?

Bob Livingston - *Dover Corporation - President & CEO*

Yes, Brazil was ugly. (laughter)

Nathan Jones - *Stifel Nicolaus - Analyst*

Any outlook for when that might change?

Bob Livingston - *Dover Corporation - President & CEO*

No, it's ugly and --

Brad Cerepak - *Dover Corporation - SVP & CFO*

It's very small, though, for us.

Bob Livingston - *Dover Corporation - President & CEO*

It's small. I'm not even sure what our revenue base -- it's less than $100 million for Dover. But I know sitting here today it's going to be difficult for us to anticipate or project any growth in Brazil for next year, or at least I don't want to.

But in third quarter our decline in revenue in the third quarter I think was 12% or 14% in Brazil. Again, I'll use the phrase, it was ugly. I think Paul is about ready to choke me and tell me we're out of time.

Nathan Jones - *Stifel Nicolaus - Analyst*

All right. Thanks a lot for your time.

Bob Livingston - *Dover Corporation - President & CEO*

Thank you.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Thank you.

Operator

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

Paul Goldberg - *Dover Corporation - VP of IR*

Thank you, Paula. This concludes our conference call.

We thank you, as always, for your continued interest in Dover. And we look forward to speaking to you in January to go over the full-year results. Have a good day.

Operator

Thank you. That concludes today's third quarter 2014 conference call.
