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PRESENTATION

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

Hello. Good morning and welcome to Dover's First Quarter 2020 Earnings Conference Call.

Speaking today will be Richard Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and myself, Andrey Galiuk, Vice President of Corporate Development and Investor Relations.

(Operator Instructions) As a reminder, 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. This call will be available for playback through May 12, and the audio portion of this call will be archived on our website for 3 months.

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

With that, I will turn this call over to Rich Tobin.

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

Thanks, Andrey. Good morning, everyone.

We're going to take some sage advice and briskly go through what was a solid first quarter and get straight to where we are from a market demand perspective and what actions we are taking with our operations, cost structure and balance sheet to adapt ourselves to this extremely challenging environment.

I'm not going to read the next slide, but we'll mention that the urgency and magnitude of the present challenge is not lost on us, and we are working through these times with resolve and a sense of responsibility to our employees, customers, partners, shareholders and local communities where we operate. We understand our role as a supplier into many critical societal functions like food packaging and retail, fueling, waste removal and many others. Moreover, our businesses supply directly into projects aimed at fighting the outbreak, such as commercial cleaning, masks, hospital bed and ventilator production as well as biopharmaceutical therapy development.

Let's go to Slide 4 of the quick summary of the first quarter results. We recognize that these results are looking into the rearview mirror. Given the pace of change in the last few weeks, rest assured that despite solid Q1 results, we have 0 complacency given the progressively challenging outlook into Q2. To sum up Q1, our ability to remain largely operational coupled with the work we did in our cost structure and productivity initiatives more than offset the beginning headwinds of COVID-19, which largely impacted our businesses in China and Italy in the quarter.

Let's go to Slide 5 and briefly look at segment performance. Engineered Products organic sales declined 2% as demand in auto-exposed businesses slowed down. The vehicle aftermarket business also experienced operational interruptions in our China- and Europe-based facilities. Waste handling continue to grow off of a strong backlog. Digital sales in the waste business were up nearly 2x on a year-over-year basis. Pricing cost containment, in response to lower volumes as well as productivity actions, result in 100 basis points higher adjusted EBIT margins for the segment.

Moving on to Fueling Solutions saw a robust activity in North America driven by demand for EMV compliant solutions, whereas Europe and Asia declined due to COVID-related production and supply chain interruptions and project deferrals. Additionally, manufacture in our vehicle wash segment in the U.S. was shut down in March due to local government mandates. The segment delivered 500 basis point margin improvement as a result of favorable geographic and product mix, productivity actions and cost controls as well as pricing.

Imaging and ID declined organically 4% in the quarter. Marking and coding was approximately flat on strong demand for consumables due to surge in production volumes of consumer goods in March, which offset the challenging conditions in Asia in Q1.

Our digital textile printing business had a difficult quarter as all of our operations are in the Lombardy region of Italy, which bore the brunt of the COVID-19. This was further exacerbated by the sudden and significant impact of the crisis on the global textile and apparel markets. Margin in the segment declined only 80 basis points as our cost containment actions and favorable mix impact of consumables largely offset the significant volume drop in our digital printing business.

Pumps & Process Solutions top line declined 1% organically. Strong performance in our hygienic and biopharma pumps as well as in plastic and polymer systems and components largely offset slowing market conditions in industrial pumps and downstream oil and gas complex. The segment delivered another quarter of strong margin improvement driven by cost containment and restructuring actions as well as pricing, more than offsetting negative impact of COVID inflation and FX translation.

And finally in Refrigeration & Food Equipment, organic sales declined 4% primarily driven by weaker demand for heat exchangers and foodservice equipment, both as a result of governmental actions to combat the COVID around the world. Core food retail business declined less than 1% as grocers began to postpone remodel projects later in the quarter. Segment margin declined due to COVID-related production curtailments in Asia and in Europe in SWEP as a volume -- and as volume reduction in food equipment.

From there, I'll pass it on to Brad.

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

Thanks, Rich.

(technical difficulty)

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

Try it now.

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

Oh, you guys needed the whole thing. All right. Let me go to Slide 6. On top is the revenue bridge. As you will know, FX was a meaningful headwind in Q1 reducing top line by 1% or $23 million driven primarily by the dollar appreciating against the euro and also Brazilian, Swedish and Chinese currencies. Bookings were up 1% organically and were similarly negatively impacted by FX and positively supported by acquisitions.

Performance by geography unfortunately reflects the quarter's coronavirus outbreak around the world. All of Asia declined 19% organically while within Asia, China posted a 36% decline due to significant mid-quarter disruption. Europe was down 7% principally driven by Fueling Solutions and Engineered Products. U.S., our largest market, grew 4% organically with 4 out of 5 segments posting organic growth. We expect Q2 to reflect a year-over-year drop in demand in the U.S. and Europe as COVID expanded into April. Also, we are watching cautiously for relative stabilization in China, although start-up has not -- although start-up has been slow in some markets.

Let's go to the earning bridge on Slide 7. I'll refrain from going into detail on these bridges for the quarter with 3 of 5 segments posting triple-digit-basis margin improvement further helped by reduced corporate expenses. In addition to cost actions, margins were generally supported by mixed pricing and impacted negatively by, first and foremost, lower volumes, inefficiencies associated with operational disruption, FX and inflation. Outside of steel and fabrications, which started to trend positive, we have seen material cost inflation in the quarter.

Now on Slide 8. Cash flow is top of mind as we move into Q2. We are pleased with the first quarter cash generation with free cash flow for the quarter of $36 million, a $48 million improvement over last year. Recall the first quarter is traditionally our lowest cash-generating quarter and typically shows negative cash flow. Our teams have done a good job managing free cash flow more actively in this uncertain environment, and we expect to continue to proactively manage working capital into the second quarter. Capital expenditures were $40 million for the quarter, slightly increased versus comparable period as we continue to execute our in-flight growth and productivity capital projects started in 2019. Most of these projects are slated for completion in the second quarter.

Lastly, let me update you on our financial position on Slide 9. We believe Dover's financial standing is strong and positions us well to navigate the unfolding period of uncertainty. First, we have been targeting a prudent capital structure and our leverage at 2.2x EBITDA places us comfortably in the investment-grade rating with a margin of safety. Second, we don't have long-term debt maturities until 2025, thanks to the refinancing effort we undertook in Q4 last year, which shifted out the maturities and reduced our interest expense. Lastly, we are operating with approximately $1 billion of current liquidity, which consists of about $500 million of cash and another $500 million of unused revolver capacity. We drew $500 million of our revolver in the first quarter out of abundance of caution when commercial paper markets experienced volatility in late March. Proceeds were used to principally pay off maturing commercial paper. We are back in the commercial paper market in April, and we'll use cash on the program to potentially pay the revolver if conditions remain stable.

So in summary, at this time, we expect free cash flow to remain strong for the company as we move into the second quarter.

With that, I'm going to pass it back to Rich.

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

Okay. Let's try not to put each other on mute. Sorry about that, Brad.

Let's go on to Slide 10. Since we suspended full year guidance, we'll dive deeper into current trading conditions and our actions over the next few slides. Slide 10, we will cover the current demand outlook as of mid-April and projected status of our operating footprint for the quarter.

First, Engineered Products. As previewed in our Q1 results, industrial automation and vehicle aftermarket as well as industrial winch markets have slowed and continued trending weak with material deceleration in March after positive January and February. We are taking capacity management actions in Q2 across these businesses to rightsize our cost and working capital.

Waste handling continues to be constructive as our waste municipal fleet customers operate as essential businesses and are seeing large increases in residential volumes, which are more truck intensive.

Fueling Solutions is a bit of a bright spot. Order trends have been robust on U.S. EMV, and the business saw good trends in March with some sequential slowing in April. Customer base is operational as retail fueling is generally considered essential business worldwide and record-high fuel margins on low oil price helped operators offset the reduction in volume and traffic. On the downside, transportation and vehicle wash markets are likely to see delays in capital outlays during this near-term uncertainty. We are largely up and running in the segment, except 1 vehicle wash facility in Michigan and a few smaller dispenser sites in Brazil, Italy and India.

In imaging and ID, digital textile printing will be challenged in 2020 as fashion and apparel markets deal with an unprecedented shutdown of apparel retail globally. Marking and coding has held up in Q1 with strong orders in February and March, and we expect it to be relatively resilient as 40% of sales are driven by consumables tied directly to current production volumes in fast-moving consumer goods, which surged in Q1 and should sustain as consumers shift to home-based consumption of packaged goods. Parts of this business are not immune, notably industrial end markets and printer and service sales as our customers delay planned maintenance due to peak utilization or visitation and/or travel restrictions. We expect to recover such delayed sales at a later time. We are progressing with the integration of Systech, which is responsible for the majority of the backlog increase you can see in the segment.

In Pumps & Process Solutions, while we are seeing sequential slowdown in the oil and gas markets served primarily by our Precision Components business, trends appear constructive in military, chemicals, food and beverage, power generation and some industrial verticals while biopharma and hygiene are areas of strong growth. Maag plastics and polymer equipment has not seen material project cancellation and continues operating with a solid backlog that equates to nearly half of their annual revenue base. We have a substantial spare parts business in this segment, and large share revenues is derived from consumables or installed base replacement versus first-fit capital construction. These should be supportive factors.

And in Retail and Refrigeration & Food Equipment, this segment is facing the largest near-term demand headwind in our portfolio, and it's spread across several businesses within the segment. In the core food retail business, orders trended positive in February and March. But starting in March, many retailers were forced to postpone remodeling and construction projects due to peak traffic volumes, local restrictions and inability of contractors and technicians to gain site access. The backlog in this business is solid, but the shipment timing remains uncertain. We expect that increased wear and tear of store equipment will result in a surge of volume of frozen and refrigerated products being sold will create substantial pent-up demand and we will be well positioned to capture the rebound when it comes. Overall, we expect several quarters of mix to potentially variable performance in this business.

Our heat exchanger business has faced both operational disruptions in Asia and demand reduction in HVAC industry globally with material sequential slowing in March. Backlog has improved in the quarter, but we do see uncertainty here as we must wait for our customers to come back online. Our commercial foodservice business is facing significant demand challenges in the restaurant segment, only partially offset by opportunities in the institutional market. There's no hiding here. March has seen unprecedented decline in order trends. We will manage capacity aggressively through the year with significant curtailments already began in Q2.

Let's go to the next slide. We have taken a proactive cost containment stance early in Q1. As you can see, our SG&A cost has declined in absolute terms in Q1 mainly driven by travel curtailment and lower incentive compensation costs. The quantum of these actions accelerates in Q2, which I'll cover on the next slide.

We are progressing on our $50 million center-led cost-out program as planned with $13 million achieved in Q1 primarily from IT and a variety of other cost items. For clarity's sake, the charts are not fully additive as both include SG&A, as you can see from the footnote. On the cash flow side, we are cutting CapEx in light of demand environment. Our -- we view $100 million as committed and nondiscretionary spend, which shows you we have additional flex we have should the downturn be deeper and longer than expected. We carry over $1 billion of working capital in the business, which we scaled down with revenue were better primarily driven by inventory management.

After all that, let's get on to the most important slide in the deck, let's not sugarcoat this. QP -- Q2 is going to be tough. Despite a healthy backlog, we will be curtailing or adjusting capacity down across a large proportion of our portfolio companies driven by the following. In some locations, government mandates prevent us from operating. You can see in the business that this impacts the most. In several end markets that I touched on earlier, weak demand warrants curtailed capacity. In food retail, we expect a significant portion of our backlog to shift to H2 as retailers continue facing operational challenges in executing their projects as a result of heavy traffic and inability of contractor access. And Category 4 is driven by proactive working capital management and hedged against weaker demand environment than forecast. We have capacity to catch up that deferred production in the second half.

In addition to the lost margin on lower revenue, these capacity reductions and curtailments will cause year-over-year comparative material fixed cost under absorption of approximately $35 million to $40 million in the quarter. We estimate that our variable cost reduction levels and flow-through on in-flight programs will positively contribute to approximately $65 million in the quarter, which will take you back to the previous slide of the offsets that we had in Q1.

On the cash flow side, we expect inventory management to contribute positively in the quarter. We do intend to pay the dividend as scheduled in June and we'll fund the bolt-on acquisition of Em-Tech in Q2.

So to wrap up, let's put some directional guideposts out there for the year in the absence of formal guidance. The year can unfold in -- with a variety of different scenarios, but it will almost certainly be negative revenue change of yet unknown magnitude. We will focus on what we can control best, our costs. We target full year decremental margin of 25% to 30%, of which we have a variety of actions to offset volume under absorption.

You saw a glimpse of the levers in the prior 2 slides, and we prepared a full arsenal of actions for the remainder of the year. On the cash flow side, we will reduce our capital spend with flexibility to defer more. We are targeting cash flow conversion in excess of 100% of adjusted earnings for the year. We have suspended our share repurchases but intend to continue paying a dividend. And lastly, our M&A posture remains opportunistic. We will continue pursuing logical bolt-on acquisitions at rational valuations.

In summation, I want to thank everyone at Dover for their perseverance in these difficult times, and let's open it up to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jeff Sprague with Vertical Research.

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

Rich, I missed the first 15 minutes or so of the call. But I'm just wondering a couple of things, your comments on refrigeration and the difficulty getting jobs done. Are you seeing any other situations where it's the opposite? I mean fueling comes to mind where there's less traffic at the gas station, perhaps it makes sense to actually accelerate and get some of this work done if the capital has already been budgeted. That's the first question. I just have a follow-up.

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

Okay. Well, on the first question, you -- I can't answer it any better than the way you stated it. I mean the fact of the matter is that on the retail fueling side, that's outdoor work so there's more flexibility. And it is an industry that is -- I forget what they describe them as is important I guess or essential. So we've seen obviously no slowdown or any real material issues in terms on the retail fueling side.

On the refrigeration side, it's more indoor work. And because of traffic restrictions and everything you see in the supermarkets going on, I think it's understandable what's happening there.

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

And then just to be clear on what you're saying on restructuring. So you're not increasing kind of the $50 million bucket, so to speak, but you're doing these other actions on variable costs, G&A and the like. Is that correct? Or are you actually stepping up restructuring? And what's your scope to pull forward actions you may have had on the table for '21 and beyond?

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

Okay. Well, the $50 million is solid. So you saw the benefit. I think it was $13 million in Q1. We expect that to be relatively even through the 4 quarters of the year, if you want to do the mathematics behind. The balance of it is not restructuring, it's cost containment actions of variable costs and unfortunately, the direct labor costs of when we're furloughing and then curtailing our operations. So I wouldn't put in the restructuring bucket because it's more volume-related as opposed to permanent cost takeout.

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

And then maybe along those lines, are there things that are not going to come back with volume recovery, there's other things you're doing in corporate or your view on travel in the future, those sorts of things? Or should we expect all those kind of volume-related savings to also swing the other way when we do get on the good side of this thing?

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

Hard to say I think what happens with travel going forward from here, but I would expect that '21 will probably be lower than '19. If we give -- if you want an opinion on it. We are, as we mentioned, that we -- when we established the $50 million for this year, that we're building up plans for another $50 million for next year. We'll see how we progress on that because the fact of the matter is with everybody at home, working on some of our productivity plans has become a little bit difficult, and we've really had to turn the tarp here to deal with immediate cost actions as opposed to longer-term ones. So I understand your question. I think let's get further into the year, and I think that we can probably put some brackets around that.

Operator

Your next question comes from the line of John Inch with Gordon Haskett.

Ivana Delevska - *Gordon Haskett Research Advisors - Research Associate of Industrials*

This is Ivana on for John. So I just wanted to clarify. So the 6% SG&A cut, that would be incremental to the $50 million of cost cut. And could you give us a sense of how much would that be in Q2 and Q3? And how are you thinking about it versus the volume decline?

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

I would turn your attention to Slide 12 in the bottom left-hand corner of the presentation that we posted where it gives you our cost actions for Q2. We're not going to comment on Q3 yet. Let's see how Q2 progresses. Other than the fact that the $50 million of structural cost takeout, you can divide by 4, if you want to model it into quarters.

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

And just for clarity, as we said on the chart, the $50 million is inclusive in the 6% down.

Ivana Delevska - *Gordon Haskett Research Advisors - Research Associate of Industrials*

The $50 million -- okay. I get it. Okay. And then one follow-up. Could you give us a breakdown of your fixed versus variable cost structure ideally for both (inaudible) and SG&A?

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

It's not a meaningful metric in consolidation. If there's follow-up -- because the operating companies are so different in their profile, I think I'd recommend that you get back with Andrey for some follow-up questions there.

Operator

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

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

I know it's early, but is it impossible to think about -- start thinking about M&A here and particularly perhaps if there's the stressed assets like food equipment, stuff like that?

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

It's not impossible to think about it. Distressed assets is really -- I don't know if that's our bailiwick. I'm not taking it off the table, but if we were to go kind of what the time line is in situations like these, the first things that come available are distressed assets. Everybody is going to hold on for a V-shaped recovery to see if what happens to asset values of some of the things that we were looking at last year. So our expectation is what we will see early on are going to be distressed. It's going to have to be really attractive for us to pursue something like that, Scott.

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

Yes. And just -- and if you said it, I apologize, I didn't hear it, but how much down are the food equipment business orders? Is it magnitude like 90% or some...

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

We didn't size...

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

Extraordinarily high number like that or...

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

Yes. We didn't size it during the comments, but it's very material.

Operator

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

Ronny Paul Scardino - *Goldman Sachs Group Inc., Research Division - Associate*

This is Ronny Scardino on for Joe Ritchie. So just first on restructuring, we're curious, does the backdrop we're in make it easier for you to execute on rolling out Dover business services faster to your operating companies? And just one follow-up.

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

Well, I think that anytime that you go into a situation like this that it heightens everybody's focus on cost structure, for sure. But having said that, implementation becomes more difficult with this stay at home. So it's a little bit more difficult, as I mentioned in my comments, about deploying some of the people around to our businesses to start working on that. But having said that, in part of our year-over-year cost savings, DBS is a foundational pillar. So we don't expect it to slow down at all going into the -- going through this year. What's your next question?

Ronny Paul Scardino - *Goldman Sachs Group Inc., Research Division - Associate*

Got it. That's fair. And then where across your portfolio do you think there could be more resilience in this downturn?

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

Well, I think if you go back and you look at the slide that we prepared on Slide 10, it gives you the best window of how the business is performing both from a demand point of view and what our operational stance is. I think that should answer your question. That's more granular than, generally speaking, we give in inter-year comments.

Operator

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

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

Maybe just help us understand what's happening in Fueling Solutions, the extent to which that Q1 bookings number, the strength was maybe something of a blip. Have you seen much in the way of pushouts or cancellations around U.S. EMV investments? Or are you expecting those to occur?

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

We have not. And right now, we don't expect -- we expect some slowing in Q2 because we had to curtail our U.S. operations at the beginning of April mostly due to a COVID issue where we had to shut the plant down. Otherwise, we would be up and running on the above ground side based on the backlog that you can see.

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

I see. So on the demand front, you haven't seen too much disruption in the U.S. even with miles driven collapsing and so forth.

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

No. I mean, I think that again, as we mentioned at the close of last year, we said that there was 1 area with potential upside. It would be that EMV adoption has actually been accelerating into Q4 and that it continued into Q1. Unless that stance changes, we don't have any reason to believe for a material slowdown. Now it's not going to be absolutely the same quarter-by-quarter. It's going to move based on orders -- order intake and everything else. But right now, we go into the quarter with a robust backlog. I think that we'll have less production performance in Q2, but that's on us only because we've had to take the sites down, as I mentioned.

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

And then my second topic would be around the DII segment. There is a very large amount of European demand exposure in that business. Maybe just help us understand how the short-cycle trends in European DII or that segment globally. How have those been trending in the very recent past?

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

Well, I think that we need to split that business between the printing and ID and then the textile side. The textile side is under enormous pressure so much so that I would expect that, that is going to have a difficult full year, just what's going on in retail operations on textile demand. On the printing and ID side, it had a good quarter, including Europe. Because of fast-moving consumer goods production and the amount of consumables that we are shipping, it's difficult in terms of the actual printers themselves and on the maintenance side. But as you recall -- you may recall, that was a businesses -- a business that we expected to have a significant improvement in year-over-year productivity because of management cost actions taken in Q4.

Operator

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

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

This is David Ridley-Lane on for Andrew Obin. What's been your experience on sort of the recovery in the supply chain and then in the early demand recovery in China?

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

We have, I would say, not material issues in our own supply chain side. I think that, that had manifested itself earlier in Q1 when China was down. It took a little bit for the freight side of it to unlock. We have some challenges, but they're not insurmountable in our comment. And China is recovering, but it's a slow recovery in terms of the demand function.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

And then on the potential for other curtailments during this quarter, just sort of trying to understand how large or meaningful that could be in terms of the margin impact as you think about it.

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

Well, I can't give you more information than we gave on Slide 12, right? The curtailments are going to cost us between $35 million and -- estimated between $35 million and $40 million of fixed cost absorption alone. So that should give you an idea of the significance of the capacity curtailments we're going to take out in Q2. So I'm not going to size it more than that, but we are going to manage this business not hoping for -- we're not burning down relative strength in backlog in Q2. We're going to make some bets on the linearity of the demand and in certain cases, actually proactively cut production to manage the working capital impact.

Operator

Your next question comes from the line of Nigel Coe with Wolfe Research.

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

Can you hear me guys?

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

We can.

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

Look, I apologize if some of these questions have been asked before, trying to manage 2 calls here. What's -- have you addressed free cash flow, Rich, in terms of expectations for the full year and sources of cash from working capital and how that plays out through the year? Just wondering, obviously, no earnings going right now, but how do you expect cash to perform versus earnings?

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

If you go and take a look at the deck that we posted on 13, we expect free cash conversion to be 100% of adjusted net earnings for the full year of 2020, and that is going to be influenced by, depending on market conditions, a liquidation of the balance sheet.

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

Okay. And would you expect that to be a bit more back-end loaded to liquidate that balance sheet? Or do you think that can be a bit more in 2Q onwards?

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

Not as -- well, you know what, let's think positive for a moment. Not as back-end loaded as in previous years because, hopefully, we're beginning to ramp up production in the second half of the year. So it may be a little bit more inverted because we're cutting production midyear, which we generally are not, that's usually what our highest capacity utilization is. So we expect it to be more cash-generative from a working capital point of view in the middle 2 quarters. And let's think positive about Q4 and hopefully, we're ramping up production in Q4.

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

And if you missed it earlier, we did take down our CapEx spending expectation for this year. And as it says here on Page 13, there's further flex there as well. So in our prepared comments, we talked about our ability to continue to manage our free cash flow through this year with an expectation that we're going to deliver 100% against adjusted earnings. So how that falls out will depend on how fast we liquidate across the balance sheet.

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

Right. I did see the CapEx, so I'm not completely blind. But the -- in terms of pricing, you did 0.7% pricing this quarter. Just wondering if you could maybe just give a little bit color in terms of what you've seen across the portfolio on pricing. And if you have any concerns on maybe pricing can shift deflationary towards the back half of the year.

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

I think that we are concerned about it, but we haven't seen any kind of crazy pricing in the marketplace as a general comment.

Operator

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

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

Rich, just like following up on RF&E and just sort of the progress you've made there with the automation project and talking about the second half of the year and what to expect. I think sort of talking about the comments you made, you expect some mix results in the business but obviously, stronger demand. So how does that over time? You've got a good backlog, how does it all sort of go together here as you go into the second half of the year? I think you saw a strong Belvac, which is good margin. So I guess instead of continuing to ramble, can you still do that mid-teens margin in this business? Or is it just tougher because of the mix and demand environment?

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

The answer is, Andy, I don't know yet, right? At the end of the day, we've got a backlog in the refrigeration business that we could run out in Q2 and get all the production performance and do decently on margins in advance of the automation benefit, which is in the second half of the year. But based on the signals that we're getting from the marketplace and the inability for our customers to actually do these projects, we are proactively taking down production. It's down now, as a matter of fact, in our principal sites because it just doesn't make sense to get the production performance and build all the inventory, right? So we'll see in the back half of the year. We believe that there's pent-up demand in this business. It's unfortunate because this was the year where we were hoping to kind of turn the corner, and this COVID-ness has really put a nail through it.

So over the longer term, we're going to continue to work on the automation. So that doesn't stop. It's very difficult for me to say, we're sitting here today, what happens with the demand function. Meaning, did we just lose a quarter here and that volume is going to bleed over into '21? It's hard to say at this point. But I think it's better than even bet. On the balance of the portfolio, sure, Belvac was we said was going to be second half loaded, and we believe that to be the case. The ones that are more difficult to predict right now is SWEP, which is -- there's been some earnings releases out of HVAC already, so you know what's going on there. The industrial footprint of HVAC in Europe has been largely down during the months of

March and into April. So we need that to come back so we can resume deliveries. And in food equipment, I think that we are just going to have to retrench for a period of time until all of this lockdown goes away because of the detrimental impact on the restaurant business.

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

Rich, that's helpful. And then I didn't hear your comments on Engineered Products, but maybe you can sort of talk about, obviously, a lot of businesses in there. So how is the, for instance, VSG doing in the sense that it seems like a more difficult business in this kind of environment, COVID impacted. So you've got about half of that business that's auto focused in some way. So maybe talk about the difference between that business versus waste handling and how the overall do you see that business is doing?

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

Look, VSG, being objective, had a significant portion of the production shut in Q1 in Italy. So the performance in Q1, from a margin point of view, was excellent. But having said that, it is not -- those repair shops and everything else are not critical industries for the most part and are dealing with this whole stay-at-home phenomenon. So I think the management is proactively taking down production in VSG in Q2 to manage its working capital itself.

But having said that, that's aftermarket business. It's basically miles driven and everything else so we would expect that to not be bad in the second half. That's our expectations right now. Some of the smaller businesses like winches, as far as winches and things like that, that's going to -- that's more tied to capital goods and that's going to go through a tough year.

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

Got it. And on the waste handling side, relatively -- I mean you still have good backlog there.

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

Backlog's good. I think that we're going to manage our capacity down in Q2. As I mentioned about burning down backlog until you get a line of sight, I expect that business to perform well this year, but I think we're going to take production performance down comparatively a little bit in Q2.

Operator

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

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

Or maybe not.

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

Josh, we can't hear you on the line.

Operator

Your next question comes from the line of Patrick Baumann with JPMorgan.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

Real quickly on the curtailments for the second quarter, the 10-Q mentioned that 7% of your major global facilities are shut completely as of April 17 and 11% are partially closed or at lower capacity. And I know it's tough, but is that a reasonable way to think about second quarter organic sales down maybe low double digit? Or could it be much worse than that for any reason? Like is there a big destock in the channel that would impact you kind of more than what we're seeing in industrial production? Like -- just curious, any color you could provide on that.

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

Yes. That's a good college try to get Q2 revenue. Look, clearly, the deteriorating conditions at the end of Q1 would say that the -- and the fact that we came out and said I think on one of the first bullet points that we expect Q2 to be the most difficult quarter of the year would imply that revenue is going to be down, exacerbated by the fact that we're going to cut production so significantly. But I'm not going to size it for you.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And on the free cash flow maybe. Could you mention -- I mean we talked about CapEx coming down and you're managing working capital in a few different areas. And then the filings also indicate something about tax payments being pushed out. Maybe if you could address sustainability of the actions you're taking and how we should expect some of this to revert on the other side when things get better. Like is the CapEx cut just a deferral of certain things that ultimately come back?

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

I think that the demand environment would have to change in excess of our forecast for the second half of the year for the CapEx to come back. So in a certain way, I hope that we have to reforecast CapEx back up at some point during the year. But unless the demand environment changes more than our forecast on a positive, I would expect it not to come up.

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

Yes. And the cash flow on the deferrals, I mean I think every company is going to see that type of activity related around the act. So it's not a major number. It's not a big number, but it is something we take advantage of, so to speak. There's also -- even on your personal taxes, there's deferral of timing, but it's still within the year. So there's going to be some aberration on that, but nothing that changes our view on free cash flow for the year.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then just -- sorry to follow up that first question since I didn't really get an answer. The scheduled curtailments, you said $35 million to $40 million of reduction in fixed cost absorption. And then underneath that, on Slide 12, it says $50 million of offset actions on controllable costs. So is the net number then a $15 million -- am I taking the $50 million minus that $35 million to $40 million to think about the year-over-year impact? Like so you're fully offsetting those curtailment hits...

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

At the end of the day, what's the revs down? You still got to come up with -- that's the number you're missing there.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

So the fixed cost absorption below that.

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

Yes. But you lose income on the revs down, obviously, right?

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

Yes. Understood. Okay.

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

And [you know our backup plan.] So that's a point in time. That changes every day. So you're trying to interpolate something there. I mean, I think if we update that a week from now, it will be a different number, either up or down, depending on what the situations, in fact, are in any geo around the globe.

Operator

Your next question comes from the line of Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment*

Rich, I know it's still early, but I was hoping you could look ahead and talk about what you think might be some of the secular changes from the pandemic on how it would impact Dover's businesses. Any specifics come to mind? We've heard some general commentary about more reshoring. I'm not sure that makes sense, maybe carrying more buffer inventory. But how do you think this changes the structure of the organization and some of the emphasis on working capital and so forth?

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

Yes. I think, Deane, that Dover is made up by a collection of medium-sized companies that don't really have the longest supply chains. So I think that some of the anecdotal comments about what's going to happen from bigger vertical industrials really don't apply to us. To the extent that there is reshoring in a certain way, I hope so because that's to our benefit in a lot of cases for some of our components businesses.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment*

But then on Dover specifics, do you see any longer-term changes in retail fueling on like commuter behavior as well as the supermarkets maybe shifting to more warehouse-type operations for food delivery, anything along those lines?

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

Not anything different than we would have thought going into this crisis, no. I think that -- I don't think there's anything secular other than what we've been always watching at the end of the day. And I would argue that on the -- at least on the food retail, we would think that we're turning the corner here, that it's more in our favor going into the future, but we'll see.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment*

Got it. And just last one from me. No surprise that you're maintaining the dividend. And maybe if you could just expand on the buyback decision on -- stopping for now. How much of that is in consideration of a liquidity preservation? Are you influenced at all at some of the political backlash that's associated with buybacks here?

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

It's all liquidity. And when we get to these next few quarters, you know what, hopefully, that everything is fine and then we can go back to a capital return.

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

We just think it's the smart thing to do, right?

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

Right.

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

Right.

Operator

The last question comes from the line of Mig Dobre with Baird.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Rich, I want to go back to the disclosure you provided on Slide 6 where you talked about the geographic detail. And just sort of big picture wondering here, I mean this whole COVID issue started in Asia, started moving westward from there hitting Europe, impacting the U.S. now. When you sort of look at your business, is it fair to expect that the U.S. could be following a pattern similar to Europe or maybe even down the line, your Asia business in terms of growth? Or do you think that there is some particular offsets in your business mix or operations that would make U.S. look different than the other geographies?

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

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I would think that it will follow the same pattern, but I'd be careful about using the quantum of the percents only because of our participation in different regions, like the law of small numbers, but without question. We were talking about when we put the slide together, it's like you can almost watch this COVID-19 travel the world, and we would expect that with the lockdowns that we had late in Q1 that are in exist today that, that same pattern would come to the U.S. or North America.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

So sorry to press you on this, but I'm trying to understand if Europe right now is a better benchmark, affected by the U.S. business, maybe Asia not.

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

You can't only because the numerator and the denominators are all different. So you have to be careful about just using the percentages and saying, well, which one should I pick, the 19% or the 7%.

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

It's -- as we talked about, even the fueling business in the U.S. has shown strength and continues to show strength. So it's not the same in every geo in terms of stats.

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

But I'll go back to the comment I made before. Make no mistake, Q2 is going to be tough.

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

Right.

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

Right? And that's why we are intervening on the production base. So whatever number you want to put on it, you could put on it, but it's going to be a different number.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

We all understand that. We're just trying to do our best from the outside to try to get the numbers as close as we can. And sticking with fueling here, your orders were up nicely, your backlog is up nicely. As you sort of think about your business versus the initial expectations that you set up for the year of being up 0% to 2%, I'm just sort of wondering what has worked out different than your expectations. And where do you think we are right now in terms of the EMV upgrade cycle in terms of penetration?

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

You know what, we haven't had the time to run those penetration numbers. I think when we put the forecast together for '20, we said if there was 1 segment that we thought had some upside, it was going to be Fueling Solutions because of the order trends that we saw in Q4 about EMV adoption. Clearly, that has held in Q1. So it's better than we would expected, but it was within the window of our forecast. But as you know, we've always been -- we spent a year trying to push this adoption rate out. And now it seems to be accelerating. Whether that holds through the year, I hope so, but we'll see. But that's what's driving the backlog.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

No. I understand that part. I'm just wondering if we're in the third, the fifth or the seventh inning of this adoption cycle.

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

I don't know. I don't know. Like I said, we haven't had time to -- with everything that's going on, we haven't had time to size it from a total market. And as we've said numerous times, from a revenue point of view, it's all over the map, depending on whether you're doing full dispenser units or just kits.

Operator

That concludes our question-and-answer period for Dover's first quarter 2020 earnings conference call. You may now disconnect your lines at this time and have a wonderful day.