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DOV - Q1 2019 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 1Q19 revenue of $1.7b, adjusted earnings of $182m, and GAAP EPS of $0.72.

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PRESENTATION

Operator

Good morning, and welcome to Dover's First Quarter 2019 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Andrey Galiuk, Vice President of Corporate Development and Investor Relations. (Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

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

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

Thank you, Laurie. Good morning, and welcome to Dover's first quarter 2019 earnings call. We'll begin with comments from Rich and Brad, and we'll then open the call for questions. This call will be available for playback through May 9, and the audio portion of this call will be archived on our website for 3 months. The replay telephone number is (800) 585-8367. When accessing the playback, you'll need to supply the following access code, 5806368.

Dover provides non-GAAP information such as adjusted EPS results and guidance. Reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials which are available on our website, dovercorporation.com.

Our comments today may contain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K 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.

With that, I would like to turn this call over to Rich.

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

Thanks, Andrey. Good morning, everyone, and thanks for joining us at this morning's conference call. Let's get started on Slide 3.

Q1 organic revenue was up 8.3% for the quarter driven by very strong performance in our Fluids segment, solid trading conditions in engineering systems and moderate improvement in Refrigeration & Food Equipment markets with food retail business posting top line growth for the first time in 6 quarters. Adjusted segment earnings increased 24% to $251 million, a 230 basis point improvement over the comparable period driven by cost action carryforwards, good performance on price realization versus input cost headwinds and volume leverage across the portfolio. Adjusted Q1 earnings were up 29% to $182 million, and adjusted EPS of $1.24 per share was up 38%. Discrete tax items added $0.06 of favorable EPS impact.

As announced, we completed the divestiture of Finder, a pump manufacturer, serving the upstream oil and gas industry. This asset is still reflected in our Q1 results, and we recorded a loss on sale of $47 million, which reflects the write-off of intangible assets and the elimination of accumulated foreign exchange translation adjustment or CTA as required by accounting standards.

Overall, we're pleased to get off to a good start in 2019. Demand remains robust across much of the portfolio. We're delivering on our cost programs, incremental margins on volume for the most part solid, and we are pleased with the bookings increase in Refrigeration & Food Equipment segment. There remains much to do to deliver on our full year objectives, but it's encouraging to get out of the blocks with positive momentum.

I'll hand it over to Brad from here.

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

Thanks, Rich. Good morning, everyone. Let's go through the details starting on Slide 4. Revenue grew 5% to $1.7 billion and, as mentioned, was driven by strong demand in Engineered Systems and Fluids and improvement in refrigeration. GAAP EPS increased 3% to $0.72.

Moving to non-GAAP results. As mentioned, adjusted EPS -- adjusted EBIT and margin all increased substantially, reflecting solid margin conversion on growth and cost actions. Adjusted segment EBITDA was $317 million or 18.4%.

Key adjustments for non-GAAP results this quarter were acquisition-related amortization, loss on assets held for sale related to Finder, and restructuring and other expenses. The EPS increase was supported by $0.06 or $8.4 million of discrete tax benefits versus $0.03 in the first quarter of the prior year.

Turning to Slide 5. Let's get into a little more detail on our revenue and bookings results in the quarter. As mentioned in our summary, organic growth was strong at 8.3% with all 3 segments seeing positive organic top line momentum. The impact from FX was a 3.4% headwind. From a segment perspective, Engineered Systems grew $39 million or approximately 6% organically, and Fluids grew $95 million or 15% organically on broad-based activity across both segments. Refrigeration & Food Equipment's revenue increased $2 million, which represents 0.7% organic growth. Organic bookings were essentially flat year-over-year. All in, bookings declined $42 million or 2% versus the first quarter of the prior year primarily due to FX headwinds. Backlog increased 5% compared to the end of Q4, most notably in Refrigeration & Food Equipment.

Organic bookings for Engineered Systems declined $33 million or approximately 4% driven by expected reduction in new order inflow in our industrial businesses, particularly Environmental Solutions Group, which had a large backlog increase last quarter. Organic bookings in Fluids increased $29 million or 4% with strong order activity in pumps and process solutions, while retail fueling and transport continued to work through the backlog from last year.

Bookings in Refrigeration & Food Equipment grew $6 million organically. Rich will provide additional color on performance in some of the individual businesses later.

Finally, overall book-to-bill finished at 1.03, reflecting healthy orders across our segments.

From a geographic perspective, the U.S., our largest market, grew 7% organically where we saw strong growth in Engineered Systems and Fluids. Europe was up 14% organically with strong performance across all segments, and Asia was up 5%. Within Asia, China grew 1% organically driven by growth in our Fluids segment, offset by a slight decline in Engineered Systems. The rest of Asia, which represents a revenue base about the size of China for us, grew at 9% primarily driven by Fluids.

Let's go to the earnings bridge on Slide 6. Starting on the top. Engineered Systems adjusted segment EBITDA improved $19 million, largely driven by strong conversion on broad-based revenue growth across the segment more than offsetting headwinds from FX. Fluids EBITDA growth of $32 million reflects a combination of robust growth, continued margin improvement in retail fueling as well as strong conversion on volume and other businesses. The $3 million decline at Refrigeration & Food Equipment reflects lower volume in Belvac as well as unfavorable shift in business mix. Additionally, our broad-based rightsizing initiatives have been delivering savings as expected and improved margins across all segments.

Going to the bottom chart. Adjusted earnings from continuing operations improved $41 million or 29%, primarily driven by higher segment earnings offset by higher taxes. Interest expense was lower in the quarter.

Now going to Slide 7. Free cash flow for the quarter was a seasonally expected negative $13 million, which is an improvement over last year. The first quarter is traditionally our lowest cash flow quarter. In the quarter, strong top line growth was supported by working capital investment of $138 million with over 2/3 of the year-over-year change driven by increased accounts receivable. Capital expenditures was $37 million.

With that, I'll hand it back to Rich.

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

All right. Thanks, Brad. I'm on Slide 9. Engineered Systems had a solid broad-based quarter with top line organic growth of 5.8%. Incremental margin conversion in the quarter was very strong driven by volume leverage, productivity improvements and cost actions. Our Printing & ID business delivered strong organic growth with double-digit growth in digital printing. Despite the weak GD prints in Europe, demand in the region was robust during the quarter for this platform.

The industrial platform performed well with most businesses posting mid- to high single-digit growth rates. Our ESG business continued to deliver strong growth on unit deliveries. But more importantly, we're very pleased with the traction the business is getting in its systems and software products. TWG and MPG contributed mid-single-digit growth and margin expansion supported by constructive demand in their respective end markets. Trading conditions in our vehicle services and industrial clamps businesses were more challenging largely as a result of input cost headwinds and exposure towards European markets. Going into Q2, bookings for engineering systems remained solid. The segment posted book-to-bill above 1.

In Fluids, the segment posted organic growth of 15% for the quarter with the majority of the portfolio posting double-digit growth rates. Incremental margin was 43% as volume leverage increased productivity and cost controls more than offset the impact of unfavorable product and geographic mix and inflation. Our pumps and process solutions business had an excellent quarter with organic growth rate of 10%.

Volume conversion was significantly accretive to platform margins as a result of good price and productivity versus cost ratio and improved mix of products and services delivered.

Fueling and transport posted exceptional top line growth of 20% as demand remained robust and production performance in our operations gained traction. Margin conversion on volume was improved quarter-to-quarter, and we expect that trend to continue through the balance of the year as we track towards meeting our margin objectives that we had targeted in September.

Moving onto Refrigeration & Food Equipment. Organic revenue was up 1%. Improved bookings in the fourth quarter translated into Q1 organic revenue growth of 1.9% in food retail, which was the first positive revenue reading in the last 6 quarters.

Quotation and booking activity in [Fooding] Retail remained constructive with a book-to-bill of 1.15, particularly in core -- for refrigerated case product line and was in line with expectations in the first quarter.

Unified Brands faced slower demand at the beginning of the year in the institutional market, but the environment has been progressively improving and the business has posted single-digit growth in Q1.

Margin performance for the quarter was negatively impacted by volume at Belvac, customer mix translation from SWEP and transitory product redesign costs in Food Retail as we prepare for a large automation project.

If current trends continue, we remain cautiously optimistic for improved revenue performance in 2019 for the segment, in line with expectations we've included in our annual guidance.

On Slide 12, reconciles the key components of the comparable 38% increase in adjusted EPS. As we had forecasted, key contributors are delivering on our cost programs and margin conversion on growth and, to a lesser extent, of rebasing of share count and tax benefits. As we noted, we've indicated the discrete tax impact on the EPS and consider our -- that'll put us at the low end of our ETR, our expected tax rate for the full year.

Reflecting solid demand conditions that we see in our markets, we've increased our organic growth guidance by 1% in Fluids and engineering systems and reiterate our prior guidance for Refrigeration & Food Equipment. Despite the negative 300 basis point foreign exchange translation headwind to revenue in the first quarter, our full year estimate is 100, 200 basis points.

Dover has delivered on a solid start for the year, which allows us to reiterate our full year guidance of $5.65 to $5.85 per share.

To wrap up, Dover is maintaining solid momentum as represented by our Q1 organic growth rate, solid bookings and backlogs across most of our portfolio, and margin expansion driven by volume, productivity and cost initiatives. We continue delivering on our commitments for improved performance, reinvestment in our growth platforms and disciplined portfolio management and capital deployment.

With that, let's move on to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Andrew Obin of Bank of America Merrill Lynch.

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

Can you hear me?

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

We hear you, yes.

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

One of the questions we've been getting from investors this morning is that a very nice beat in Q1. You raised organic growth number for the year, yet you kept the EPS. What are the headwinds? Do you have more concerns about second half? Just if you could give us more color about the modeling process here for 2019.

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

All right, a couple of things. We're clearly tracking towards the top end of the range at this point. I think that we're pleased with Q1's results, and it's always off to -- it's always good to get off to a good start because we don't want to be in a position of chasing the comparative fourth quarter that we had last year. So to the extent that we're getting in front and we are in front from last year because of the fact of production performance in DFS by our ability to -- a couple things.

If you look at the backlogs, there's some concern about the backlogs going down. But I would tell you that in ESG, that particular business grew by 11% in the first quarter. So the conversion and the availability of chassis was there, so we were able to convert on the revenue side. And then you've got the backlogs going down in engineering systems, but we don't find that problematic because order coverage in that particular segment goes well into the third quarter.

In DFS, as you know, we've been struggling in terms of output. We had a high backlog exit in Q4. Production performance in DFS was excellent, so it's another business that grew in the high -- grew 17% in the first quarter. So backlogs are going to come down because of production performance. I think the good news on the ESG conversion was the margin conversion rate was satisfactory. I think that we have work to do because we would have expected for the accretive margins in DFS to be higher. I think we've got a plan to track that through the balance of the year. So overall, it's not a question of us being overly concerned about the metrics of backlogs, it's just purely a question of we've got a range up to $5.85 a share. We're tracking towards that. We'd like to get another quarter under our belt so we get some visibility into Q4. And I'm sure we'll give an update at that point.

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

And just a follow-up question. How has your thinking -- your stock is up, everybody else stock is up. How do you think, a, about cash in 2019 and within your previous range? And also, how do you think about cash deployment in 2019? And has your thinking evolved given that the world is changing?

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

We don't necessarily make decisions on share place as it relates to cash deployment. I think that we've clearly got a bias for inorganic growth, and we've got some things in the pipeline. So to the extent that we can use our available cash there, we will. If we are unable to find inorganic opportunities, then clearly we would average in, in terms of share buyback. So overall, I think our thinking is consistent on that matter.

Operator

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

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

In terms of, I guess the Refrigeration & Food Equipment business, margins slightly down there despite the encouraging organic top line performance. How should we think about margins in that division for the year as a whole? And how quickly should we expect those margins to start to grow year-on-year when looking at the balance of 2019?

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

Okay, Julian. Well, it's moving parts here, right? So part of the margin decline is on translation from our SWEP business, which is levered mostly towards Europe and Asia. So you've got some translation decline there. Belvac, I think that we went through that in some detail end of Q4. We said as part of our guidance for 2019 that we didn't have a lot of visibility for Belvac, so the comps in the first half of the year were probably going to be poor, and we'll see what happens in the second half of the year. That view has not changed. So that is dilutive to comparable margins year-over-year.

The refrigeration business, it's a bit of a tale of 2 cities. We're happy with the volume being up modestly, so that's going to be helpful to us. But we are doing a lot of work on that business in preparation for a large capital project that we're going to be initiating this year. So we had some transitory costs on product redesign to allow that transition to happen. I think that we're well beyond that. So we're thinking that we're probably going to get margin accretion going forward in the refrigeration platform.

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

And then secondly, when we're thinking about the Fluids business, you did take up the organic growth guide slightly. You've got a very tough comp in the fourth quarter coming up. Maybe just talk about how you see fueling and transport playing out over the balance of the year in that context. And any updated thoughts around the EMV build-out within the U.S., specifically?

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

Sure. Well, I think you've put your finger on it to a certain extent. We have a tough comp coming in Q4, and we don't have a lot of visibility into Q4. So depending on how this business develops and how EMV develops over the year, there is an opportunity for us to raise our revenue in that particular segment. But we'd like to see some visibility there and be cautious only because the math works against us in Q4.

Comments on EMV. The only thing that's been different for us so far is we're shipping more full dispenser units than kits. So we're getting more revenue, but that's actually dilutive to margin. So we'll take it as it comes. I don't think the total value is about where we'd expected it to be, but I think that the mix of that value is slightly different.

Operator

Your next question comes from the line of Andrew Kaplowitz of Citigroup.

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

Rich, Europe up 14%. I think it was up 10% last quarter. You mentioned the strength in marking and coding, digital printing in particular. But how are you able to maintain this type of momentum despite the weaker backdrop? Is it just really led by stricter regulation? And from what you could tell, does the growth seem sustainable here?

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

Yes. Look, I mean that's why I put it in the prepared remarks because that's the way that we look at it here, too. We're getting weak GDP prints out of Europe, and we're taking that into account of our own forecast. But I think we just need to recognize that Europe is levered towards auto and machinery, and those markets are under pressure, and that -- not necessarily is linked in any way to marking and coding. So to a certain extent, marking and coding is not part of the process that's giving kind of pressure to European GDP prints. Look, we'll take it where we -- as long as we can get it. It ends up being a business like digital printing. All of its revenue is European despite the fact that it ships globally. So it ends up being recognized as European revenue. So it's a bit of a misnomer to a certain extent.

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

Okay. May I ask you the opposite question then around China? It seems like China has been decelerating for you a little. Fluids up, Engineered Systems down. Can you give us some more color on marking and coding in China? Is there anything concerning going on there? And would you still expect China to be up for the year for Dover on the strength in Fluids?

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

Look, the environment has clearly slowed. We are up, what was it, 1% for the quarter?

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

Yes, 1%.

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

Right now, I would expect to be up for the year in consolidation, whether it's slightly down in certain segments and slightly up in others. It's hard to say right now because we're working at 100 basis points. But overall, we'd expect it to be up for the year. I don't really have a view on Printing & ID at this point.

Operator

Your next question comes from the line of Jeffrey Sprague of Vertical Research.

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

Rich, on the automation project in refrigeration in particular, is this something you're going live on now as we speak? I think you said the preparation is behind you, and I'm just wondering about kind of managing through that on kind of the peak season, as it were, for refrigeration.

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

Yes. We are not going to become operational until Q1 of '20. What we're doing now is intervening on the configuration of the product itself to accommodate that change, so which is part of the question of we've incurred some cost to allow for that transition. In terms of if the volume goes up, are we going to get caught with our pants down to a certain extent? I think that we're lucky that we have adequate footprint to initiate this project not at the same -- in the same physical location that we make the product at this time. So we're reasonably comfortable that we're going to be able to accommodate any shift in demand during '19 if it comes that we're not going to get caught sideways here.

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

Right. And on the factory issues in fueling, are those completely behind you at this point? Or are there still some -- you're always going to be looking for efficiencies. But kind of the big obvious problems, are those largely fixed now?

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

Well, I think that the management deserves a lot of credit in terms of being able to get the throughput out. So part of the reason that the revenue was higher than we had forecasted in Q1 is that we're being cautious in our ability to get the throughput out of the 2 main principal factories, and they got them out. So that's the good news. The not so good news is the margin conversion on that volume is not entirely satisfactory. I think that we've got a plan to increase margins throughout the rest of the year. But look, we're able to get the units out and that's important. Now we need to kind of grind down on efficiency on top of that volume leverage.

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

Just one last one for me. In terms of like cleaning out the closet from an asset standpoint, I mean, this Finder was a particularly bad deal legacy item, obviously. But is there much more of that, that you're kind of raking through kind of the smaller assets?

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

Nothing that looks like Finder.

Operator

Your next question comes from the line of Steve Tusa of JPMorgan.

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

Good execution so far. On kind of the free cash flow, actually, better than last year seasonally. How do we -- how should we kind of think about the seasonality of that free cash relative to prior years with everything that's going on? Should it be kind of roughly in line with what happened last year? Just kind of wanted to get some color on how 2Q and 3Q are going to play out.

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

One would hope that we don't wait till Q4 to get it all like last year, and we kind of progressively -- look, if I look at Q1, the inventory change relative to last year is a lot smaller, so -- which is a reflection of our ability to convert -- and I just answered the question about what we are doing in DFS and ESG. So that's a function of not having industrial inventory because our conversion rates are going up. That, I would expect, should improve through the year. On the receivables balance side, I guess it's a question of what do we think about revenues for the year and what do we think about fourth quarter. Right now I like where we are right now with a strong Q1. I would have -- the fear around here was to kind of get through it and be forced into a position to get to the top end of our guidance of having another massive Q4. Now we've bought some room there, so we've got an opportunity to look at how demand and backlogs develop over the year. Quite frankly, if we get caught out a little bit on our receivables because our volume's way up, I'll take the trade-off between earnings and receivables. But I think that the core improvement that we can expect here is on the inventory side.

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

Got it. And then just looking back to the fourth quarter and the strong orders, was there anything -- any kind of prebuy dynamics that you noticed there based on the tariffs and price increases, just broadly?

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

Yes. It's really hard to say. I think there's probably a little bit of an element of that because we've been trying to get price. So as we're announcing price increases, that drives -- let's get in front of that to a certain extent. In DFS in particular, I think it's known we've been pretty forthright that we are having issues about getting the throughput out of our factories. So that was building up a backlog for us. And that's a lot of what cleared in Q1.

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

That normalizes...

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

Yes. So that kind of normalizes backlogs, if you will.

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

Yes.

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

It's hard to say. I mean I think by the end of this next quarter, we'll probably have a really clear idea of where we are. But right now, we're never comfortable, but we feel good about the backlogs that we have across the portfolio.

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

Okay. One last one on EMV. Any update on kind of the trajectory there accelerating, decelerating in the back part of the year? Any updates on the EMV transition?

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

I -- if you listened to the comment before about dispensers versus kits, it looks like it's decelerating because the last guys in are going to be kit only, and kind of our kit-only shipments right now are relatively low. So it seems to be stretching out further.

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

So you're already kind of seeing deceleration, but it's a -- like you said before, it's kind of an elongated cycle. So that's pretty different than what I think was the original assumption 6 months ago, which was very strong kind of '19 and then a drop-off, right?

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

Yes. I think -- but you've got to -- it's a mix and revenue question. Right now revenue looks great because we're doing the entire systems, right?

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

Yes.

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

The margins around the kits -- and I think it's pretty intuitive that says the last guys in aren't going to do a complete refurb, they're just going to do the kits. So I think that in our estimates -- and it's a funny one, right, because the revenue was less and the margin's up. So it's accretive to margins but dilutive to trajectory and revenue.

Operator

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

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Rich, was hoping you could give us the update progress report Phase 1, Phase 2. And then on the benefits, we see they're lumped into corporate. How would they be spread over the segments for this quarter?

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

Okay. I think I understood the first question. I'm going to need some clarification on the second one. Where we are -- you're talking about footprint?

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes.

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

Right. We are -- look, what we've announced, let's consider that Phase 1. Phase 2, we need to deploy some capital, which we're doing now in order to move onto that particular portion of it. So we're in a little bit of a transition period. And I think if you go back and look at our disclosures from Q4 about how we called out the capital investments that we're making, those were to accommodate further actions into the future. Other than that, that's really all I can say until we're ready to call one of them off. But we're making reasonably good progress. But some of the bigger moves that we need to make require initial capital.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

So the moves that you've made so far and the payback on those, are we seeing that today in the results today? Because it looked like it was all being carried in corporate as opposed to...

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

I -- now I got your question. The -- you don't see anything in Q1. That's why it's not there. It's 0 in Q1. It's coming.

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

For the footprint.

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

For the footprint.

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

The SG&A is there. You were asking about the SG&A.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

I was asking both.

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

So it's not like we moved the footprint pennies into another block. It's just 0.

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

Right.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. What about SG&A then?

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

SG&A, beating a dead horse, we're clearly on track in delivering the objective. Because of the fact that we started in the second half of the year, you're going to get real good comps in Q1, Q2, then it will dilute in the second half of the year.

Operator

Your next question comes from the line of Mig Dobre of Baird.

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

Just want to go back to price cost. I think I heard you mention good price cost in Fluids. Maybe have you comment on the other segments, and how do you think about this dynamic through the year? And your costs, specifically, how do you think those are going to progress through the year?

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

I'd love to have Brad correct me, but I think that in consolidation, we're slightly negative in price cost in Q1. We would expect to make progress on that through the year as price increases gain traction throughout -- as we go throughout. In engineering systems specifically we had done well on price cost, but in consolidation, it's slightly negative.

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

So but you said that price cost was positive in Fluids as well. So was it a drag in basically the remaining segment here?

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

Yes. I think it's by platform. So we're parsing now between individual platforms within the segments. I think the headwinds are in the industrial side, pieces of the industrial side of engineering systems, headwinds in refrigeration and Food Retail, doing this off the top of my head, and in Fluids, I think that we're positive overall.

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

Okay. And then lastly, as you think about the full year, do you expect to be positive from a price cost standpoint?

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

That's our expectation.

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

It widens out a little bit to the back half.

Operator

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

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

Rich, ESG, so it was a big slug of the organic. You said you have enough backlog to work through the third quarter and you were excited, I guess you said about systems and software. Do you expect the bookings to pick back up again? Just I call it out, I realize it's a small business, but it was an outsized impact, right, to the booking trend this Q. So what's going on? Do you expect the business to pick back up?

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

Yes. No, it's not that small of a business. Look, we don't have any visibility into Q4 at this point. So despite grinding down some of the backlog that we had because of chassis availability and good production performance, the number -- that's why it was called out in the presentation, it flexes the whole segment because of the total value of that business and its weight within the sector. We've got a really good backlog. I think that in any other year, we'd be super happy about what we've got. Let's get another quarter under our belt, and we can probably say where we are for the full year. But we're into Q3 now, which is pretty good.

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

Yes. I'm just trying to understand. You're not expecting an extended air pocket in future bookings based on what you're working on.

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

I have no indication that, that is going to happen.

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

No reason to believe that.

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

Okay. Great. The SG&A saves for the year, I think $72 million. I thought they were going to be -- we just made the assumption they'd be maybe kind of linear, which suggested maybe $0.10 of benefit this Q, but it was $0.15. I don't want to split hairs, but did you pull some of that forward, which is not a bad problem to have or issue to have, right, [at this point]?

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

Yes. I think that our estimate -- I think that we knew from a comp point of view it's going to be weighted towards the first half because we had 30-plus in the second half of last year. Getting it down to the millions of dollars. I mean we'll take it as it comes to a certain extent, right?

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

But there is -- let me just articulate here, there's just a slight difference in presentation, just so you're aware. The $0.15 is pure SG&A, not reinvestment, whereas before we were netting reinvestment in there, so just to clarify. So the $0.15 -- we had reinvestment in the first quarter. I'd call it roughly $0.02, $0.03 of reinvestment. Reinvestment will ramp, as we said before, in this year. So we're not changing our views on reinvestment. But you're looking at $0.15 in the quarter, which is -- we peg at $28 million. So you got to think about that as pre-reinvestment.

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

And Brad, does the 70...

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

And that'll track to the back half pretty solidly except when you get the year-over-year impact. Remember, we did $8 million in the third quarter, $22 million in the fourth quarter. So again, I think we're right on track where we expected to be, maybe even a little bit higher based on the first quarter $0.15 print.

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

Yes. I was going to ask, the $72 million, has it changed? And it sounds like it may have gone up a little bit.

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

Yes, slightly, a little bit better.

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

Last question, Rich. So selling Finder, and we're working toward this portfolio, I guess you're going to have a bit of a portfolio coming out party in September. Maybe talk a little bit about just your process, how you're working toward that? Like, in other words, presumably, there's got to be a lot of steps that occur to then be able to say, look, here's how I'm thinking about the portfolio. We've done this cleanup. But how do you go from sort of where you've been to where we're going to be to be able to talk to that? Because I'm really curious how you're working through those.

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

It's a really long answer. We're looking at future projections on return on invested capital by operating company, right? That's a -- and then where they are performance relative to their peers and then relative to the market structure? Clearly, Finder comes out like a bit of a sore thumb, so it needed to be actioned quickly. I don't think that there's anything in the remaining portion of the portfolio that's got remotely the same dynamics that, that does. So I mean, we're looking at it holistically, meaning that it's not a question of portfolio purity, it's purely a question of future returns by operating company relative to their participation in their market structure. That's how we look at it.

Operator

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

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

We've covered a lot of ground already, so just a few follow-ons here. I mean obviously, great progress on the SG&A initiatives. I'm just curious, Phase 2 is obviously more COGS-focused. But your SG&A is still going to be relatively high compared to your peers. I'm just wondering if there's a Phase 2 in the SG&A beyond this year, Rich.

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

Look, nothing of the quantum that we've done, right? But understand that in the background, there's a lot of what we're doing about these digital initiatives that enhance our ability to consolidate back offices. So but those are longer-running programs that were running in the background as opposed to kind of just core let's kind of revisit what we've got. So I think that there is opportunity, but I don't expect that there's a Phase 2 of SG&A takeout kind of low-hanging fruit. I think we're just going to have to -- it's more SG&A goes into the total productivity equation now as opposed to on a stand-alone. And to be fair, SG&A at Dover has got R&D in it. And I think once we split R&D out of SG&A, we're going to comp better also.

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

Yes. Okay. That's helpful. And then there was a bit of friction around the 1Q setup for consensus, especially as it relates to the Fluids seasonality. So I'm just curious if you've got any -- I recognize you don't give quarterly guidance, but any commentary around 2Q in particular with regards to how you see Fluids ramping up seasonally? And then maybe refrigeration margins, how those look relative to the 1Q? Would you expect those to step up in a similar vein to what we see normally?

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

Yes. I mean I think that the 2 businesses we've identified, both have a good dynamic in terms of their top line, which is helpful to us improving the margins in those 2 segments. So I think progressively through the year, we expect to make progress in both of those particular segments.

Operator

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

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

Yes. I think to those -- to the point of the last question, we've covered a lot of ground. But maybe just to stick with SG&A for a second, Rich, I think the initial progress there was pretty immediate once you guys announced it. And I would imagine that there were problem areas since then that you've found maybe a bit more opportunity or perhaps on the other side where there was maybe some indiscriminate cuts. Should we see the shape of SG&A start to look a little different as you refine the program? Or are you pretty satisfied with kind of the initial phasing of how that went across the organization?

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

I'm satisfied with the organization's ability to undertake what is a difficult exercise and the speed of which it was done. It's never going to end, but this was a particular program that we thought was important to identify and execute on. Once we reach that program limit relative to the restructuring charge that we took, you can foresee that these EPS bridges won't have that SG&A. Any other ancillary benefit will roll over into conversion at the end of the day. So at a certain point, we're just going to stop reporting on it once we reach conclusion because then it becomes relatively discrete, and it's not part of a program, right? What we said back in September is if we take a charge for it, we're going to report back on our delivery for that charge. Once we go beyond that phase, it's just going to go back into conversion.

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

Got it. And then just a follow-up on refrigeration. I guess similar to what you guys have talked about in Fluids, how should we think about the phasing of the year there? I think orders have been positive for a couple quarters. You've built some nice backlog. Do we start to see revenue growth move closer in lockstep with orders from here? Is there still going to be kind of another lag in that execution or those shipments?

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

I don't know is the answer to that. I think that we can see it in the backlog. We can see that from a production point of view, we're doing a decent job in terms of getting into that backlog. Now we're really not seeing it yet in terms of the margin conversion, but I think that we had some transitory costs. I prefer to wait till the end of Q2 to kind of get more granular. Look, we're -- it's a positive thing. For the first time in 6 quarters, the backlog is up, and our revenue went up. I think that we've still got a lot of work to do to see what that means in terms of kind of pre-industrialization margin performance.

Operator

Your next question comes from the line of Scott Graham of BMO Capital Markets.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Obviously, a lot asked, so minor kind of piggybacks on maybe some clarifications. Is it possible, Brad, on the ES bookings, the organic, if we were to pull out the ESG, what that number -- what that minus $33 million would look like?

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

You know what, I think we can give you that as a follow-up. We're going to have to calculate it. We can give you that one offline.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Okay. Secondly, on price cost, I know there was a question asked earlier, but kind of where you stand today with some price -- some commodity prices going down and you're pricing in, would you expect at December 31 to be, on a full year basis, price cost neutral or sort of at December 31 price cost neutral?

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

I think that we'll work our way there. We are slightly negative now. It is highly dependent on price realization. Our expectation is to be positive. I can't give you the quantum at the end of Q1.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

That's fair. Last question relates to the refrigeration business. I know that there's only so much you can say about that. But all of your customers have set their budgets for '19. Is there anything there that they're telling you that is of concern moving toward more digital spending? It doesn't sound like it. Or are you just maybe a little bit guarded on saying anything right now? Or are they saying anything negative about spending on your product on merchandising?

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

No. Not negative, I think, which is reflected in the backlogs. So I just think that we're cautious on -- we've got 1% growth embedded in our forecast. Would we like to take that up based on backlog? Yes, but I think that we're cautious because we don't have a lot of visibility into the second half.

Operator

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

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

So just focused on the refrigeration business for a second and the full commentary around price cost. I saw that pricing this quarter was pretty de minimis, and you guys put through some price last year effectively. I'm just wondering, like are you expecting to get more price in that business this year? And then specifically on margins, is your expectation at this point that margins in the business will be up year-over-year?

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

I think that we are cautious about price realization in this business, and our expectation is for margins to increase in the refrigeration segment of the business. In this segment, I think that we're going to have to wait and see because of Belvac's ability to swing margins.

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

Okay. That's fair. And then I guess just my one follow-up and just -- again, just kind of focused on margins for a second in the Fluids segment. Can you give us an update on Wayne specifically and how that business is doing? And what impact at all that's having potentially to margins, as we saw it pretty much flat this past quarter?

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

Wayne North America is doing very well in terms of production performance and margin.

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

Okay. So Wayne North America okay, international not as good.

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

Right. I think that we've been pretty upfront that our -- the margin performance between our North American and European operations is quite wide. So part of the area of focus for us of meeting our objectives in that particular segment is to deal with a relative underperformance in margins in Europe.

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

Got it. And Rich, are you starting to see any of that turn not all? Or is this like a longer process? And just maybe any color around that would be helpful.

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

I think to their credit that the European operations have fixed their throughput challenges, so that's a big step in getting there. But we got a long way to go.

Operator

Your next question comes from the line of Charley Brady of SunTrust Robinson Humphrey.

Charles Damien Brady - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

On Refrigeration & Food Equipment, on the transitory costs, can you quantify what the margin impact is on that in the quarter? And if I've heard you correctly, it sounds like those are essentially done so that pressure isn't on the remainder of the year. Is that correct?

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

No. I can, but I won't quantify them. Our expectation is that their impact going forward will be less than it had been in Q1.

Charles Damien Brady - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And on the pumps business, obviously, pretty strong growth in bookings there. Can you just get a little more granular on where you're seeing that? I think in the Q, you talked about large OEMs. Just what's driving that strong growth in pumps?

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

It is across the platform. So it's not any particular business out of the few that are in there. I think that it's just across the entire platform. I think that market demand remains robust, and I think that our businesses are winning in the marketplace also.

Charles Damien Brady - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Last one for me. Just on labor and freight costs, can you just comment what you're seeing there trend-wise? Is freight getting any better? Are you seeing a tick down in some of the rates, or is there still tough sledding?

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

I think we would have expected it to come down, but it's being offset by fuel surcharges. Now the fuel has gone back up to $4 a gallon diesel. So net neutral.

Operator

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

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

Thank you. This concludes our conference call. We thank you for your interest in Dover and look forward to speaking to you next quarter.

Operator

Thank you. That concludes today's First Quarter 2019 Dover Earnings Conference Call. You may now disconnect your lines, and have a wonderful day.
