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DOV - Q2 2016 Dover Corp Earnings Call

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OVERVIEW:

Management reported 2Q16 revenue of $1.7b and EPS of $0.76. Expects full-year 2016 total revenue to decrease 3-5% and EPS to be $3.35-3.45.

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PRESENTATION

Operator

Good morning, and welcome to the second-quarter 2016 Dover earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations.

(Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you. I would now like to turn the call over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead.

Paul Goldberg - *Dover Corporation - VP of IR*

Thank you, Kristin. Good morning, and welcome to Dover's second-quarter earnings call. With me today are Bob Livingston and Brad Cerepak. Today's call will begin with some comments from Bob and Brad on Dover's second-quarter operating and financial performance and follow with our outlook for the remainder of 2016. We will then open the call up for questions. As a courtesy, we kindly ask that you limit yourself to one question with a follow-up. Please note that our current earnings release Form 10-Q, investor supplement, and associated presentation can be found on our website, Dovercorporation.com. This call will be available for playback through August 4, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 800-585-8367. When accessing the playback, you'll need to supply the following access code, 43614405.

And before we get started, I'd like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Forms 10-K and 10-Q for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website where considerably more information can be found. And with that, I'd like to turn the call over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone. And thank you for joining us for this morning's conference call. Our second-quarter results, excluding deal costs and one-time items, were generally in line with our expectations, disappointing nonetheless. Now let me share some specific comments on the quarter. Within the quarter, our June revenue earnings and bookings were significantly improved from April's results. We expect to see this positive momentum carry into the third quarter and gives us confidence for an improved back half of the year. From a geographic perspective, excluding our energy segment, our US activity remained solid and grew organically low-single digits year over year.

Our European markets were down sequentially and year over year on an organic basis. China improved sequentially but remained down from the prior year. We continue to be challenged by weak energy market dynamics, though we believe the second quarter will mark the low point of our 2016 performance in our energy segment. Our markets improved off a low April as North America recount modestly increased and the price of oil remained in the mid to high $40s. While the recent trend is encouraging, year-over-year rig count and customer CapEx were still down substantially. These factors drove our second-quarter revenue down about 9% sequentially. This result was slightly better than expected as we continued to see the positive impact of our share gain initiatives.

Engineered systems organic growth was 2% as the printing & identification platform had a very strong quarter posting organic growth of 9%. These outstanding results were seen both by our marking & coding and digital textile equipment businesses. In the industrial platform, organic revenue declined 2%. This result was primarily driven by environmental solutions due to some deferred activity and tough comps against a very strong second quarter of 2015. Fluids posted 16% revenue growth driven by several recent acquisitions. On an organic basis, revenue declined 8%. Our businesses with direct oil and gas exposure and those businesses serving integrated energy customers posted declines greater than we anticipated. Our businesses serving the hygienic and food and pharma markets continued to show growth.

Our refrigeration and food equipment segment grew 1% organically, principally driven by increased volume and display in specialty cases with several retail refrigeration customers. In all, retail refrigeration grew 4% organically in the quarter. Our food equipment markets were mixed where very weak results in our food processing business in Europe offset growth in other food equipment end markets. Regarding acquisitions, we have closed three deals this year, including Tokheim and have signed an agreement to acquire Wayne, which we are very excited about. Our teams have been fully engaged planning the integration of Wayne and Tokheim and the market response to the announcement has been positive. We anticipate the transaction will close around the end of the third quarter.

When Wayne closes, we will have a $1.4 billion presence in the fuel distribution and retail fueling market and be able to provide a unique product and service offering to our global customers. This deal, along with others, furthers our strategy to position Dover with a stronger long-term growth profile. Now, looking forward. Within energy, we are maintaining our full-year revenue guidance. We see modest sequential improvement assuming current oil prices in the North America recount stay constructive. Initially, we expect our artificial lift business will benefit from increased MRO activity at the well site. We also believe an increased completion rate for drilled but uncompleted wells will continue, especially in lower-cost basins like the Permian. In all, we expect second-half revenue to be about 2% higher than first-half revenue. In engineered systems, our expectations for organic growth are unchanged. We expect the marking & coding business to grow mid-single digits, and our digital textile businesses to have double-digit growth.

Within our industrial platform, we expect revenue in the second half to be similar to the first half. Fluids decline in organic revenue will be more than offset by growth from acquisitions. In our current forecast, we have lowered the high end of our organic revenue as a result of continued soft markets. We have also reduced our growth rate for Tokheim as China activity and volume in other emerging markets is expected to remain weak in the back half of the year. We expect the solid growth we've seen in our hygienic and pharma markets to continue. Finally, within refrigeration & food equipment, we are trimming the high end of our full-year forecast for organic revenue growth. While our retail refrigeration business remains solid, driven by our leading technology and merchandising solutions, we anticipate can shaping orders and shipments to push out over year end. We have a strong backlog within retail refrigeration, and I am pleased we have made good progress in our productivity and efficiency initiatives.

In summary, I feel confident that our energy segment will show modest improvement in the back half of the year. We expect our US industrial markets to remain positive and for Europe and China to modestly improve. Our pipeline remains active, and we expect to announce a few additional deals before year end. With respect to guidance, we are adjusting our full-year EPS guidance to $3.35 to $3.45, principally reflecting the impact of our reduced full-year revenue forecast and for deal cost and one-time items. With that, I'll turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of our presentation deck. Today, we reported second-quarter revenue of $1.7 billion, a decrease of 4%. This result included an organic revenue decline of 7%. Growth from acquisitions less dispositions was 3%. EPS was $0.76 including $0.04 of restructuring costs, deal costs of $0.02, and $0.04 of one-time items. Segment margin for the quarter was 13.1%, 250 basis points below last year. Approximately half of the margin reduction was due to higher year-over-year restructuring, deal costs, and one-time items.

Bookings decreased 2% from the prior year to $1.7 billion. Within this result, acquisition growth of 6% was more than offset by the combined impact of reduced oil and gas markets, dispositions, and FX. Organic bookings in our engineered systems and refrigeration & food equipment segments grew 4% each. Overall, book-to-bill finished at 1.01. Our backlog decreased 6% to $1.1 billion and was down 1% when excluding dispositions. Of note, backlog increased 2% sequentially, largely reflecting retail refrigeration activity. Free cash flow was $172 million for the quarter or 10% of revenue. Our cash flow conversion to net income benefited from actions to reduce working capital. We expect to generate free cash flow of roughly 11% of revenue for the year.

Now turning to slide 4. Engineered systems increased organic revenue 2% while refrigeration & food equipment was up 1%. These increases reflect solid growth in printing & identification and in retail refrigeration. Fluids organic decline of 8% was largely driven by oil and gas exposure. Energy organic decline was 28% driven by weak North American oil and gas markets. As seen on the chart, acquisition growth in the quarter was most prevalent at fluids with 24% growth.

Now on slide 5. Energy revenue of $259 million decreased 29%. Earnings were impacted by restructuring costs of $6 million as well as other one-time costs of $5 million from our decision to temporarily suspend production at several plants and $2 million in settlement costs. Adjusting for these items, earnings were $13 million and margin was 5% in the quarter. This margin performance largely reflects significant volume declines and price reductions of approximately 2%. We expect $6 million of restructuring charges in the third quarter, $3 million higher than our prior forecast for this segment. We continue to believe we can exit the year with margin near 10%. Bookings were $246 million and book-to-bill was 0.95.

Turning to slide 6. Engineered systems revenue of $592 million was flat overall and included organic revenue growth of 2%. Earnings of $104 million increased 8%, principally reflecting the benefits of productivity, volume leverage, and a favorable product mix. Our printing & identification platform revenue of $264 million increased 15%. Organic revenue was up 9%, primarily reflecting strong global marking & coding and digital printing equipment activity. Acquisitions added 8% growth, while FX was 2% negative.

In the industrial platform, overall revenue declined 10% to $329 million comprised of an organic decline of 2% and a 7% impact from dispositions. The organic revenue decline primarily reflected activity deferrals and tough comps in our environmental solutions business. Margin was 17.6%, a 130-basis-point improvement. Bookings of $571 million were up 2%, which included organic bookings growth of 4%. Organically, printing & identification bookings increased 14% and industrial bookings decreased 2%. Book-to-bill for printing & identification was 1.01. Industrial's book-to-bill of 0.93 reflects deferred order activity with environmental solutions. Overall book-to-bill was 0.96.

Now moving to slide 7. Within fluids, revenue decreased 16% -- increased 16% to $406 million, while earnings decreased 23% to $54 million. Revenue performance reflects 24% growth from acquisitions, partially offset by an 8% decline in organic revenue. The organic decline was driven by our businesses with direct oil and gas exposure, lower spending in certain integrated energy customers, particularly retail fueling and project timing. This decline was partially offset by continued solid results in our hygienic and pharma markets. Regarding acquisition growth, our retail fueling activity in China was weak as were other emerging markets.

Margin declined 670 basis points in the quarter reflecting lower organic volume, the impact of acquisitions, $4 million in deal costs, and $3 million in incremental restructuring costs. Excluding acquisitions, related deal costs, and restructuring, margin was 19.4%, a decrease of 80 basis points over an adjusted prior year. Bookings were $414 million, an increase of 24%. This result primarily reflects the impact of acquisitions. On an organic basis, bookings declined 1%. Book-to-bill was 1.02%.

Now let's turn to slide 8. Refrigeration & food equipment's revenue of $429 million was down 4% overall and included organic revenue growth of 1%. Earnings of $63 million declined 4% from the prior year. Earnings were flat with last year after adjusting for our recent disposition. Organic revenue growth was largely driven by increased volume with several retail refrigeration customers, especially in the display and specialty case product lines. Within food equipment, results were mixed.

Solid results in commercial food service and can shaping equipment were offset by weak European food processing equipment results. Margin was 14.7%, unchanged from last year. Bookings were $469 million, down 4%. This result includes 4% organic growth offset by dispositions and FX. Organic growth was primarily driven by strong retail refrigeration bookings. Book-to-bill was a seasonally strong 1.09. Of note, book-to-bill for retail refrigeration was 1.13 as compared to 1.06 last year.

Going to the overview on slide 9, let me cover some highlights. Corporate expense was $25 million and net interest expense was $32 million, both largely in line with our expectations. Our second-quarter tax rate was 27.3%, excluding discrete tax costs, slightly lower than our prior forecasted rate. CapEx was $35 million in the quarter.

Now moving to slide 10, which shows our full-year guidance. As Bob mentioned, our 2016 revenue guidance has been adjusted on the high end to reflect reduced forecast for fluids and refrigeration & food equipment. We now expect total revenue to decrease 3% to 5%. Within this estimate, organic revenue is expected to decline 6% to 8% as compared to our prior forecast of down 5% to 8%. Recent acquisitions will add approximately 7% growth, partially offset by dispositions and FX. At the midpoint of our guidance, adjusted segment margin is expected to be around 15% excluding restructuring and deal costs on one-time items. Corporate expense is now anticipated to be $108 million for the year, $12 million below our prior forecast on reduced spending.

Our full-year forecast for interest expense is unchanged, and the pre-discrete tax rate has been slightly lowered to be in the range of 27.5% to 28%. From a segment perspective, energy and engineered systems full-year organic revenue forecasts are unchanged from our prior guidance. Fluids organic revenue has been reduced 2 points on the high end and now is forecasted to decline 4% to 5%. Refrigeration & food equipment organic revenue has been lowered 1 point at the high end and now stands at 2% to 3%. The impact of acquisitions, dispositions, and FX remains unchanged.

Turning to the 2016 bridge on slide 11. Let's start with 2015 adjusted EPS of $3.63. We continue to expect the year-over-year impact of lower restructuring costs in 2016 to be $0.07. Performance including volume productivity, pricing, and restructuring benefits will impact earnings $0.37 to $0.31. This is reduced $0.20 from our prior forecast and now includes $0.05 of deal costs and $0.04 of one-time costs. Increases in investment in compensation will impact earnings $0.20 to $0.17, reflecting roughly $0.02 lower spend from our prior forecast. Acquisitions less dispositions will be about $0.12 accretive in total, $0.04 lower than our prior forecast, primarily driven by slower activity in China retail fueling markets and other emerging markets.

The combined impact of interest, corporate expense, and the tax rate is about $0.06 better than our prior forecast driven by reduced corporate expense and a slightly lower tax rate. Lastly, discrete tax benefits of $0.04 are included in our forecast. In total, we expect 2016 EPS to be $3.35 to $3.45, down about $0.19 at the midpoint from our prior guidance. Approximately $0.09 of this reduction is attributable to deal costs and one-time costs and the remainder is driven by lower revenue forecast in fluids and refrigeration & food equipment, offset in part by lower corporate expense and a reduced tax rate. With that, I'm going to turn it back over to Bob for some final comments. comments.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. Let me share some summary comments as we move into the back half of our year. We saw strong organic bookings growth in engineered systems and refrigeration & food equipment, which sets them up well for their second-half revenue plan. In energy, we expect improved sequential performance driven by modestly improving markets, share gain initiatives, and a reduced cost basis. We also see a renewed focus on land-based drilling and production, especially in lower-cost basins. Within fluids, second-half revenues will be up to seasonality in our retail fueling business and continued strength in our pharma and hygienic applications.

We are excited about our growth and margin expansion opportunities in the retail fueling market, especially with the addition of Wayne. I am pleased with the many positive changes we've made to our business profile over the last few years. We now have several large businesses with global scale, and you should expect us to continue this strategy of creating great businesses across our growth markets. In all, I believe we'll demonstrate much stronger performance in the second half. We remain focused on improving our financial performance and increasing shareholder value. With that, I'd like to thank our entire Dover team for staying focused on our customers. Now, Paul, let's take some questions.

QUESTIONS AND ANSWERS

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks, Bob. Before we take the first question, I'd just like to remind you as a courtesy, we have several people in queue, so if you can limit yourself to one question with a follow-up, we'll be able to take more questions. And with that, Kristin, if we can have the first question.

Operator

Certainly. Our first question comes from Andrew Obin with Bank of America.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Andrew.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a question. We've been getting a lot of questions from investors this morning on energy. Can you just give us more color as to what gives you reassurance? I mean, the book-to-bill is still below 1 in energy. What gives you reassurance that things are in fact improving and when do you think we're going to start seeing improved bookings? And just to follow-up, I'll do the follow-up right now. On fluids, on pumps, how bad is the weakness and how long do you think it will last? These are my questions. Thank you.

Bob Livingston - *Dover Corporation - President and CEO*

All right, good. Energy. I think we started to see the change in energy in the second quarter, Andrew. There was -- I actually in my prepared comments, I made the comment that June was much stronger than April and that comment was across the board within Dover, but it was noticeably so within energy. Our upstream order activity in energy in June was up 18% over April.

And our expectation for the third quarter and energy order rates here in the first two, three weeks of July were actually running slightly ahead of our third-quarter forecast especially in what we would label as the early cycle business activity around our rods and our ESP pumps. We see the turn, and we feel fairly confident with our forecast for the second half of the year. In fact, I would -- I think another two or three weeks of order activity like we've seen in the past three weeks, maybe I would label the revenue and earnings forecast for energy as having a little bit of upside for the year.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And on fluids?

Bob Livingston - *Dover Corporation - President and CEO*

On fluids, the oil and gas hit is in our pumps business, and it's not just standard. For the most part, we've been dealing with declines in our standard pumps through distribution. We continue to see a little bit of that here in the second quarter. It was a bit more than we expected, but the most significant thing in the second quarter was the loss of a -- I will label it as an oil and gas project. We lost it on price, and it was within our engineer pumps business group, not our standard pumps. It was a one-off order.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And do you have a sense how long you think -- when do you think orders there start turning positive?

Bob Livingston - *Dover Corporation - President and CEO*

Within the oil and gas piece of our fluids, that one is tough to call. If you look back as our energy cycle or as the energy cycle started, we probably didn't see a measurable downturn in our pumps business for probably at least three months after we started to see the downturn in our energy segment. If we truly are at a turning point here in the energy cycle, Andrew, my best guess is we're not going to see much of a change in order activity within our pumps business related to oil and gas into early next year.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Terrific. Thank you very much.

Bob Livingston - *Dover Corporation - President and CEO*

We're not forecasting anything -- any pickup in our pumps business related to oil and gas in the second half, that's for sure.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Our next question comes from Shannon O'Callaghan with UBS.

Shannon O'Callaghan - *UBS - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Shannon.

Shannon O'Callaghan - *UBS - Analyst*

Hey, Bob, maybe just a little more explanation on the thought process around the plant shutdowns you decided to do in energy during the quarter. And then, I think Brad said you were ramping up the restructuring more for the third quarter. That's sort of in the same mix with you sounding a lot more positive on the markets, so it seems like you're doing shutdowns or more restructuring but believing in the turn so maybe reconcile those.

Bob Livingston - *Dover Corporation - President and CEO*

As we entered the second quarter, we did have additional restructuring planned, especially in our rods and our pump businesses around artificial lift. And as April unfolded, even though it was as bad as we expected, Shannon, we were sort of firming our opinion that we would see a turn here in the rig count before the end of the second quarter, and we made a decision to hold the workforce intact in May and June instead of having employee separations. We shut -- I don't even know the count. I think it was at least four factories down for two weeks in the second quarter instead of employee separations.

It did cause some P&L charges to the quarter that we did not have in our initial forecast or planning. But I will tell you now recognizing the change in the order rate activity during June, I'm glad we made that decision. The restructuring that we have scheduled for the third quarter and I think it's primarily end of third quarter, isn't it, for energy?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes, in the third quarter. It's incrementally up $3 million in energy.

Bob Livingston - *Dover Corporation - President and CEO*

In energy, but not in artificial lift.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Just in total for the Company, we're still forecasting the same level of total restructuring, but energy is up.

Bob Livingston - *Dover Corporation - President and CEO*

And the restructuring activity in the third quarter is not an artificial lift; it's in a couple of the other businesses. And, Shannon, I would -- Brad, correct me if I'm wrong, but I think the charges we have in the third quarter we do expect the benefits in the second half of 2016 to equal or be even better than the charges we take.

Shannon O'Callaghan - *UBS - Analyst*

Okay. Great. Thanks. And then just on fluid margins, as we work up from kind of a 2Q level on fluid margins to the back half, where do you see them going? I know the elimination of, I guess, the Wayne deal costs will be part of the lift. But what else do we have going on and what do you think fluid margins look like for the year now?

Bob Livingston - *Dover Corporation - President and CEO*

So reported fluid margins in the quarter were a little better than 13%, but if you adjust for restructuring and some of our one-time costs, especially our deal costs that we had in the second quarter, it's 19%. It is interesting to still note, Shannon, that if we look at our core business, and now I'm excluding our acquisitions that we've added here over the past several months, our core business excluding restructuring and one-time costs was

19.4%, and our forecast for the year in this segment on the same basis just looking at the core -- the margins on our core business, excluding deal costs, 19.9%, almost 20%.

Shannon O'Callaghan - *UBS - Analyst*

And then what do you think they're going to look like kind of on a reported forward basis at this point?

Bob Livingston - *Dover Corporation - President and CEO*

All costs in, 16%, 15.5% to 16%.

Shannon O'Callaghan - *UBS - Analyst*

So, sorry to just belabor this, but the deal costs go away versus 2Q when you're at 13.3%. What else lifts you from 13% up to say, like, high teens in the back half all in?

Bob Livingston - *Dover Corporation - President and CEO*

Shannon, a big change in the second half with respect to fluids is volume improvement. I -- you're going to have to help me here, Brad, with the number, but I think the volume increase in the second half over the first half, and I don't have it compared to the second quarter, but I'm just doing second half versus first half. I think the volume improvement is about $100 million, maybe even slightly more than that, but rough number $100 million, and that's driven by the normal seasonality we're expecting in our retail fueling business and continued strength in our hygienic and pharma markets, and we do have a change here in the second half. We feel like we've got the benefit of some favorable product mix in the second half. We're going to have very good [virgin] on this volume in the second half.

Shannon O'Callaghan - *UBS - Analyst*

Okay. Great. Thanks, guys.

Operator

Our next question comes from Julian Mitchell with Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Hi, thank you.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning.

Julian Mitchell - *Credit Suisse - Analyst*

Hi. Just a question on overall organic sales growth. So, organic sales fell about 7% in the first half. The year as a whole implies down 7% for the second half, but you talked about a big -- or a meaningful sort of delta across the board in June relative to April, so I'm just trying to understand why there's no improvement in sales given an easier comp in the back half.

Bob Livingston - *Dover Corporation - President and CEO*

Well, that answer maybe starts and ends with a comment on energy. Even though we -- sequentially, we are forecasting a very modest improvement in energy, our organic revenue in the second half within our energy segment is still down 19% versus last year.

Julian Mitchell - *Credit Suisse - Analyst*

Okay. And then secondly, within fluids, on the bookings side, bookings have been sort of flattish organically the last six months, the organic sales worse than that. So maybe just give us a little bit of insight into how much of fluids is sort of book and ship and how much visibility the recent bookings give you on the three to six month sales looking out.

Bob Livingston - *Dover Corporation - President and CEO*

Yes. So, if I define book and ship, let's say bookings that ship within 90 days, not necessarily within 30 days, my guess would be, Julian, that 75% of fluids bookings would fall into the book and ship category, book and ship within 90 days. We did see a significant increase in bookings within this segment as we moved through the quarter. In fact, the -- we started to see -- it was a bit late. We actually started -- we actually expected to see this in May, and it didn't happen. But the June order rates within fluids were up 13% or 14% versus April, and this is the start of our seasonal period within retail fueling, and we expect to see that continue. I'd add a little bit of extra color. If we look at the order rates for the first two to three weeks of July, across the board our order rates are very supportive of our third-quarter forecast. We will see a significant increase in retail fueling business activity in the second half.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thanks.

Operator

Our next question comes from Joe Ritchie with Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

Thank you. Maybe --

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Joe.

Joe Ritchie - *Goldman Sachs - Analyst*

Hello, good morning. Maybe just following up on that last point, on the expectation for the big increase in the second half of the year. You took down your Tokheim forecast for the year. I'm just curious, give maybe a little bit more color on Tokheim. Does that have negative implications for Wayne, and what is -- why do you believe that we're going to see a pickup in the second half in retail fueling?

Bob Livingston - *Dover Corporation - President and CEO*

Well, number one on Tokheim, the reduction in our revenue forecast for Tokheim for the year is almost exclusively China. I think it's, what was it? $14 million is our reduction in the Tokheim revenue forecast, and, Joe, I think we've got $12 million of that is China. We expect Europe to exhibit the normal seasonality that historically has been seen in this market, and our second quarter order activity reflects that. In fact, I think our European dispenser order rates in the second quarter, especially in June, were quite strong with Tokheim, and I think even for the entire second quarter, dispenser bookings -- dispenser book-to-bill I think was 1.2 for the second quarter. We are at the front end of that build in the seasonal ramp in the retail fueling business.

Joe Ritchie - *Goldman Sachs - Analyst*

Got it. Okay. That's helpful. And maybe, I guess, switching gears, my second question on energy. The expectation that we could do double-digit -- exit the year with double-digit margins, maybe kind of talk me through some of the puts and takes on the restructuring side because it seems like you're implying some pretty low decrementals to exit the year at that rate even if organic growth is slightly better, so I'm just kind of curious on how we're getting there.

Bob Livingston - *Dover Corporation - President and CEO*

You want to help me with this one, Brad? The plan -- what is in our plan and our guidance rate now are operating margins within the energy segment I think of 9.7% or 9.8% for the fourth quarter. Am I correct?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes.

Bob Livingston - *Dover Corporation - President and CEO*

Okay. Almost 10% as I shared in my comments. And we are -- I think we're actually being cautious with this. We're not baking into our expectations, our forecast the -- I would say the traditional incremental margins that we see on increased revenue within energy. We have some businesses that have traditionally incrementaled up, converted up very, very strongly. I think our conversion that we're using in the second half of the year, I think it's in the low 30%s, 32% or 34%. Traditionally, that would have been 40% if not a bit higher.

I think we're being cautious with respect to anticipating continuing price pressures and perhaps a little bit of uncertainty as to which product lines actually see the uptick in revenue in the second half. It is worth noting that here early in July, and I'm repeating myself, we're seeing some -- we're seeing the order rates in our rods business and our ESP pump business come in a bit stronger than our third quarter forecast.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes. And, Joe, I guess what I would add to that is first half restructuring in DE is about $12 million of cost. Second half we're looking at half of that, most of that being in the third quarter. With respect to benefits, though, benefits are also doubling themselves into the back half of the year, so the first half benefits on restructurings moving into the back half give us strength into the fourth quarter, and that's also helping us in our view that we can get to 10% margins.

Joe Ritchie - *Goldman Sachs - Analyst*

Got it. So basically you're going to hold -- you're going to try to hold margins year over year. I mean, organic growth is still going to be negative in the fourth quarter, but the restructuring benefit should help offset.

Brad Cerepak - *Dover Corporation - SVP and CFO*

That's correct.

Joe Ritchie - *Goldman Sachs - Analyst*

Is that fair?

Brad Cerepak - *Dover Corporation - SVP and CFO*

That's correct.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Great. Thanks, guys.

Operator

Our next question comes from Jeffrey Sprague with Vertical Research.

Bob Livingston - *Dover Corporation - President and CEO*

Hello, Jeff.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Good morning. Hey, hello. Could we just touch on price a little bit more? I think the down 2% that you mentioned, Bob, is in the zone relative to what you were expecting for the year, a little bit of erosion from Q1. You know, your comment in Q1 was interesting that you thought price wasn't worse because there's not enough demand for people to see any elasticity and therefore why cut price. I just wonder now if you are seeing this little pulse of activity, how people are behaving on price. Perhaps, it's too early to really know.

Bob Livingston - *Dover Corporation - President and CEO*

It's too early to answer that one because I would say the pulse in activity is about six weeks old, Jeff. I'll give you two -- I'll give you a comp. I think our negative price in the first quarter with energy for the segment was just a hair under 1%. In the second quarter, it's a full 2%. But it wasn't -- I don't think it was any different in June than it was in April. If that's getting to the heart of your question.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Yes. And I think you were saying much -- that minus 1 or 90 basis points, whatever it was in Q1, reflected I think high-single-digits declines in rods and maybe parts of the ESP business, is that --

Bob Livingston - *Dover Corporation - President and CEO*

And our diamond inserts.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Diamond inserts.

Bob Livingston - *Dover Corporation - President and CEO*

Yes.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

I'm sure you had a chance to look or listen to Halliburton yesterday. Their comment that 900 is the new 2,000 as it relates to absorbing horsepower in the rig count. Some of what they said may not be totally analogous to you. I'm not sure if you're familiar with what they said, but how do you respond to that? Obviously, part of what they're saying is longer depths and the like which would apply to you. Some of it's pumping more sand, which probably doesn't. But is there anything you could share with us in terms of Dover value per rig or any changes in kind of the mix of your business that may kind of soften that direct correlation to the rig count that we've seen historically?

Bob Livingston - *Dover Corporation - President and CEO*

Near term, I don't think there is, Jeff. I think for the next couple or three quarters, you're going to see, especially again, especially within our upstream business activity, you're going to continue to see a pretty high correlation with rig count. The longer laterals do benefit us with respect to rods, and the pricing around some of our pumps, and I think it will also benefit us. We may not see it right away, but I think it will benefit us with respect to our automation business.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

And then just one last one. You probably have a little more real-time data than I do, but kind of the commentary around the decks. What I've heard is there really not any major change in kind of the uncompleteds out there. Are you, in fact, starting to see that? Perhaps it's more in the data in the last month or so.

Bob Livingston - *Dover Corporation - President and CEO*

Yes. You are correct. I would say it's all within the last month. The change in June wasn't stark, but there was a rate change in June, and I think -- I commented on this in my prepared comments. I think we will see increased activity around well completions in the second half.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

All right. Thank you very much, guys.

Operator

(Operator Instructions)

Our next question comes from Steve Winoker with Bernstein.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Good morning.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Steve.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

I just wanted to follow up one of those earlier points. You've got, I recall $95 million or so projected savings in 2016 from restructuring. How far through are you and do you still see that as the number?

Bob Livingston - *Dover Corporation - President and CEO*

You going to help me on this one, Brad? I would say, okay. So, $95 million. That $95 million has increased since our last discussion on this topic, so I would say at this point we're about $10 million higher and remember, in the $95 million there is carryover in that number, but which completed from 2015. But in terms of our restructuring, we expect to have the 2016 action substantially complete here early in the third quarter, and the benefits flowing through in our P&L this year.

Again, I was talking energy before between first half, second half, but as I look at the total Company, incremental new benefits over the carryover, that number, again, in the first half doubles itself into the back half. So we had -- think about it this way, we probably had $20 million of savings in the first half. You'll see -- we'll see $40-plus million in the back half of savings, plus the incremental piece gets you the -- let's call it $105 million roughly speaking benefit.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. That's helpful. And then could you maybe talk a little bit more about, I guess we'll say something positive here around Wayne. You laid out some high-level expectations earlier when you announced the transaction, dilutive in 2016, modestly accretive in 2017, and more accretive in 2018, I guess with EBITDA in the 130 range, including run rate synergies. Do you have any more clarity around what you're expecting there, early view, maybe even down to EPS, any thoughts? I gotta try.

Bob Livingston - *Dover Corporation - President and CEO*

Before Brad answers you, I think he's prepared to, let me tell you that even though we believe right now we can close this in the third quarter, that's not entirely under our control. And it is possible that this moves into the early fourth quarter as a close and that will have, depending upon the quarter, even though it may only be a three or four-weeks difference, that will have a bit of an impact -- the impact it has on our results in 2016. Now with that qualifier --.

Brad Cerepak - *Dover Corporation - SVP and CFO*

There's lots of qualifiers here, Steve. Let me just start by saying that when we talked about -- let me just clarify the P&L that we have, the forecast that we currently give you here in this update. It includes deal costs in the second and third quarter in our fluids business, which we highlighted. That's all related to Wayne. What we don't have in our forecast is any contingent upon completion costs, which will come at the time we complete the deal. If we complete the deal at the end of the third quarter here going into the fourth quarter, we feel pretty confident with the numbers that we have previously stated about the amount of sales that they expect for 2016, annual -- we said, you know, 550. I think they are actually right on that number to doing quite well, quite frankly.

So, without giving a lot of details around seasonality, if you took 1/4 of that number and then you looked at deal costs and amortization step-ups and the like, our view is it will be in the fourth quarter incremental to the forecast we just gave you, dilutive because of, again, finalization of deal costs, amortization, step-ups hitting the P&L. Positive operationally, but after those costs, dilutive and then, of course, you would have the funding costs or the interest costs associated with the purchase price of $780 million. That would also hit the P&L in the fourth quarter.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. And, Bob, your comments, are you saying -- you aren't saying it's more likely it's going to hit the fourth quarter, you're just saying possible.

Bob Livingston - *Dover Corporation - President and CEO*

Right now, our opinion is, is that it could close in the third quarter, but we don't -- I'm just repeating myself, we don't control that.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. Thank you, guys.

Bob Livingston - *Dover Corporation - President and CEO*

We are fully prepared for it to move into the fourth quarter.

Operator

Our next question comes from Steve Tusa with JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Hi, good morning.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Steve.

Steve Tusa - *JPMorgan - Analyst*

So just to be clear on what you're saying on this fluids stuff, to get to a 15%, close to a 16% margin, that implies something in kind of the -- I don't know. What's kind of the second half total profit number? I mean, I have $100 million to start with here in the first half. Typically over the last three years, pretty consistently you've been up half over half around high-single digit. This would seem to be a more dramatic type of increase, I mean, almost like -- I don't know, $60 million to almost $6.50 million to $60 million, maybe $70 million. I mean, I'm just kind of struggling with why you have this kind of confidence.

Bob Livingston - *Dover Corporation - President and CEO*

All cost in. You're using all cost in as opposed to adjusted numbers. So our revenue, we're looking at about $100 million revenue increase in the second half, and, yes, you are correct. The earnings increase in the second half is just about $60 million.

Steve Tusa - *JPMorgan - Analyst*

Okay. And you're saying that is for a Tokheim business that is underperforming, you're saying that's kind of an organic basis, that's the retail fueling business?

Bob Livingston - *Dover Corporation - President and CEO*

That's the Tokheim European activity that we expect to be much stronger in the second half, and a significant increase in the OPW business with respect to retail fueling in the second half, and the absence of some charges that we had in the first half that aren't repeating.

Steve Tusa - *JPMorgan - Analyst*

But you do have some deal charges in Wayne. Aren't you taking more deal charges in Wayne in the second half as well?

Bob Livingston - *Dover Corporation - President and CEO*

I think we have $3 million, $4 million? We are, Steve, but we did have from the original Tokheim deal, we had the rollover of these inventory step-ups.

Brad Cerepak - *Dover Corporation - SVP and CFO*

From all the acquisitions.

Bob Livingston - *Dover Corporation - President and CEO*

And all the acquisitions gave [a res] all that in the first half that don't repeat itself. So the standard amortization stays in place in the second half, but that big inventory rollover is gone, as is restructuring in the second half is less than the first half. But you're right. Deal costs for Wayne first half to second half in the forecast is basically the same number.

Steve Tusa - *JPMorgan - Analyst*

Okay. Is Tokheim on a kind of a run rate basis? Is Tokheim making money on a common all-in, including the amortization, that kind of stuff?

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Bob Livingston - *Dover Corporation - President and CEO*

Including amortization in the first half, I think it was slightly better than break even and the losses we took, the charges we took in China. In the second quarter, I don't have -- the second quarter was when we made the transition and we started to see the improved activity at Tokheim. I think it was in May. Steve, Tokheim, I think 80% of our earnings for Tokheim are actually in the second half of the year.

Brad Cerepak - *Dover Corporation - SVP and CFO*

But after amortization, the answer is yes, it is possible. It is accretive.

Steve Tusa - *JPMorgan - Analyst*

Okay. One last question just on energy. What do you see the third quarter being there, from a margin perspective?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, goodness. I don't have that. It's less than the -- it's less than our forecast for the fourth quarter.

Brad Cerepak - *Dover Corporation - SVP and CFO*

It's kind of linear. It's linear coming out of -- (multiple speakers).

Bob Livingston - *Dover Corporation - President and CEO*

You've got to back into that.

Brad Cerepak - *Dover Corporation - SVP and CFO*

It's linear coming out of the second quarter.

Bob Livingston - *Dover Corporation - President and CEO*

5% to 7%.

Steve Tusa - *JPMorgan - Analyst*

Okay. That makes sense. Thanks.

Operator

Our next question comes from Nigel Coe with Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Good morning, hi.

Bob Livingston - *Dover Corporation - President and CEO*

Hi, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

So just wanted to -- I mean, we covered obviously a lot of the major topics, just wanted to dig into engineered systems. The strength in P&I, that's going to be a pretty steady business, so the strength you called out, it's a bit surprising especially given the underlying production backdrop, so just maybe, Bob, Brad, if you could just address that, maybe throw in kind of new products, market share gains, et cetera.

Bob Livingston - *Dover Corporation - President and CEO*

Product ID had a -- made a very strong quarter, Nigel. Thank you. The core business, the business we've owned for a long time, our marking & coding business -- help me here with my recall. I think organic growth for the quarter was 6%.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes. 5%, 6%.

Bob Livingston - *Dover Corporation - President and CEO*

That was strong, but we've been working a lot of issues there over the last year or so, and we've seen a lot of improvements in the business. I'll give you a little bit of color on the marking & coding business beyond that. Sequentially, the business was up I think 8% or 9% coming out of the first quarter, Nigel. It's around the world with the exception of China. It's around the world with the exception of China. In fact, organic growth for the marking & coding business may have actually been higher in Europe in the second quarter than it was here in the states, which is a bit of a change, but our -- we had very strong organic growth here in North America. I think organic growth in Europe may have been 7% or 8%, and we saw it in both increased sales of equipment as well as consumables, and I would also say it continued to build through the quarter.

Nigel Coe - *Morgan Stanley - Analyst*

But I'm assuming the underlying market is not growing --.

Bob Livingston - *Dover Corporation - President and CEO*

Pardon?

Nigel Coe - *Morgan Stanley - Analyst*

So I'm assuming the underlying market is not growing at those kinds of levels, so I'm just wondering what drove the up [movement]. (multiple speakers)

Bob Livingston - *Dover Corporation - President and CEO*

We view the underlying market that this business is serving with a growth of about 3%.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Okay. Then you mentioned the environmental solutions business down, some deferrals there, Waste Management of the world, and Republic of the world are doing quite well right now, so I'm just wondering if you have any context on why there might be some deferrals and maybe just remind us, how does this business cycle with the broader truck cycle?

Bob Livingston - *Dover Corporation - President and CEO*

I'm not sure I have a correlation for you with respect to the broader truck cycle. My opinion would be that it's not very highly correlated, Nigel. In fact, I would tell you that when the truck cycle is up, it creates -- it does create some challenges for our business in just getting customer deliveries on time. The second quarter, we expect to see growth in this business for the year. We expect to see growth in the industrial platform in the year. I think we have it scheduled or planned at 2%. We saw some projects slips outs from the second quarter into the balance of the year. I wouldn't label it as slips or deferrals with the two major haulers, but the -- but more with municipalities and a recent acquisition with two of the smaller players, a recent merger of two of the smaller players.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. I'll leave it there. I must admit, I kind of agree with the second half on fluids, we can't get the $100 million of sales ramped up, but we'll follow up offline. Thanks, guys.

Operator

Ladies and gentlemen, we have now exceeded our allotted time for Q&A. It is my pleasure to hand our program back over to Mr. Goldberg for closing remarks.

Paul Goldberg - *Dover Corporation - VP of IR*

Yes. Thank you very much for joining us for the second-quarter earnings call. In advance, I'll apologize for any people who didn't get on. We tried to get more calls on, but they kind of dragged on a little bit, so I will follow up with you later in the quarter, and we look forward to talking to you in the third quarter. Thanks a lot. Bye.

Operator

Thank you. That concludes today's second-quarter 2016 Dover earnings conference call. You may now disconnect your lines at this time and have a wonderful day.
