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DOV - Q4 2014 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 4Q14 revenue of $2b and adjusted EPS of $1.01. Expects FY15 total YoverY revenue growth to be 1% positive to 2% negative and FY15 EPS to be $4.70-4.95.

CORPORATE PARTICIPANTS

Paul Goldberg *Dover Corp - VP of IR*

Bob Livingston *Dover Corp - President and CEO*

Brad Cerepak *Dover Corp - SVP and CFO*

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Scott Davis *Barclays Capital - Analyst*

Deane Dray *RBC Capital Markets - Analyst*

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Julian Mitchell *Credit Suisse - Analyst*

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

Stephen Tusa *JPMorgan - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Fourth Quarter 2014 Dover Earnings Conference Call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations. After the speakers' opening remarks, there will be a question and answer period.

(Operator Instructions)

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

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

Paul Goldberg *- Dover Corp - VP of IR*

Thank you, Maria. Good morning, and welcome to Dover's fourth quarter earnings call. Today's call will begin with comments from Bob and Brad on Dover's fourth-quarter and full-year operating and financial performance, and we'll follow with an update on our 2015 outlook.

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

This call will be available for playback through January 30. Any 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: 60883381.

And before we get started, I would like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be 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 would like to turn the call over to Bob.

Bob Livingston - *Dover Corp - President and CEO*

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

We finished the year with a very strong fourth quarter, achieving solid revenue growth and earnings growth that exceeded expectations. We saw robust top line growth at each segment, led by energy and fluids, resulting in overall growth of 11%, including organic growth of 6%.

We also achieved solid volume leverage, as three of our four segments improved margin, excluding restructuring costs. From a geographic perspective, we saw solid growth in the US, Europe, and Asia, whereas Latin America continued to be weak.

Now let me share some specific comments on the quarter. In Energy, revenue growth was strong, as US drilling and production customer activity was as expected. Our recent acquisition accelerated, exceeded our expectations, and the automation and bearings and compression markets were solid.

In Engineered Systems, we achieved solid growth across both platforms. Within Printing & Identification, a recent MS acquisition continued to perform well and more than offset European softness in our core printing and coating markets. The Industrial platform achieved strong broad-based growth led by outstanding results in our auto-related and waste handling businesses.

Our Fluids segment, once again, performed well. We are continuing robust market conditions for fluid transfer products, and improved pump markets resulted in organic growth of 9%.

Refrigeration & Food Equipment generated very strong revenue growth of 8%, where strong refrigeration performance was supported by shipments of Quarter 3 pushouts. Since the end of the third quarter, we have taken actions to strengthen and position our Company for 2015, with a focus on our portfolio and cost reduction.

We made the decision to divest Datamax O'Neil and Sargent, which now have been reported as discontinued operations. While both are strong companies, these actions increased our focus on our core growth markets.

Also, as indicated at our Investor Day in early December, we took decisive actions to adjust our cost and streamline our businesses. We executed well on our restructuring initiatives and completed our planned actions in the fourth quarter. Specific to Energy, though US drilling and production revenue and customer activity has been as strong as expected, we have been proactively reducing costs in anticipation of lower customer activity in 2015.

Our acquisition pipeline continues to rebuild, though no significant deals are eminent. We repurchased 2.7 million shares in the fourth quarter and recently put a new standing authorization in place.

Now let me provide our revenue outlook for 2015, which is unchanged from our Investor Day for Engineered Systems, Fluids, and Refrigeration & Food Equipment. Their markets have remained healthy and we expect them to have solid growth in 2015. As you would expect, the big change to our forecast is in Energy, where the rapid decline in oil prices is significantly impacting energy CapEx spending and US rig counts.

As a result, within Energy, we expect lower revenue in our US-based drilling and production businesses. However, we continue to expect our international oil and gas activity and our bearings and compression businesses to grow.

In Engineered Systems, we anticipate continued growth driven by strong dynamics in our industrial platform and global growth in Printing & Identification. Regarding Fluids, we believe the solid global markets will continue for our pumps and fluid transfer businesses, supported by increased safety and environmental regulations, a positive retail fueling environment, and new product introductions.

And lastly, Refrigeration & Food Equipment is expected to grow, driven by our focus on customer service and best-in-class products. We expect to grow our position with many customers in 2015, driven by innovative products like CO2 systems and heat exchangers, to name just a few.

With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corp - SVP and CFO*

Thanks, Bob. Good morning, everyone.

Let's start on Slide 3 of our presentation deck. Today, we reported fourth quarter revenue of $2 billion, an increase of 11%. Organic revenue grew 6% and growth from acquisitions was 7%, offset by 2% of FX.

Adjusted EPS was $1.01, excluding discreet tax benefits. This result includes $0.17 of restructuring and other costs.

Segment margin for the quarter was 14.8%, 210 basis points below last year. Adjusting for restructuring and normal acquisition purchasing accounting costs, our overall margin was 17.3%.

Bookings increased 4% over the prior year to $1.9 billion, led by Energy and Engineered Systems. Overall, book-to-bill finished at 0.95. Our backlog was essentially flat at $1.2 billion.

Free cash flow was $390 million for the quarter. For the full year, we generated free cash flow of $787 million, 10% of revenue, or 100% conversion of net income.

Now turning to Slide 4. All segments grew organically in the quarter. Fluids grew 9%, benefiting from solid fluid transfer and pump markets.

Refrigeration & Food Equipment, driven in part by shipments of Q3 pushouts, grew 8%. Engineered Systems grew 5%, with strong growth in the industrial platform. Energy was up 1%. Acquisition growth in the quarter was 7%, comprised of 20% in Energy, whereas Engineered Systems grew 4%, and Fluids increased 3%.

Turning to Slide 5 and our sequential results. Revenue decreased 2% from the third quarter, primarily reflecting normal seasonality. Overall, Energy grew 8%, while Fluids increased 4%.

Engineered Systems was down 3%, while Refrigeration & Food Equipment declined 13%. Sequential bookings decreased 3%, principally reflecting anticipated lower orders in Refrigeration and the timing of orders in Food Equipment. In all, Engineered Systems grew 5% and Energy increased 2% on the strength of acquisitions. Fluids declined 2% and Refrigeration & Food Equipment declined 20%.

Now on Slide 6. Energy revenue of $550 million increased 20%, and earnings of $105 million decreased 6% from last year. Excluding the combined $19 million impact of Q4 restructuring and purchase accounting costs, earnings increased 11%. Overall, as we expected, Energy produced a very good quarter.

Strong revenue growth in our drilling and production markets was largely driven by acquisitions, the completion of US shale projects, and solid Middle East activity. Our bearings and compression and automation markets remained modestly positive.

We took restructuring actions in the fourth quarter, as well as additional actions to align our costs to anticipated market conditions. We remain proactive and now expect to incur restructuring costs in Energy of $13 million to $15 million in the first quarter. When the first quarter actions are complete, we will have reduced our Energy head count by approximately 900, or 14% in total.

Excluding the Q4 restructuring and purchase accounting costs, our adjusted operating margin was 22.5%, slightly exceeding our expectations. Bookings were $535 million, a 21% increase over the prior year, largely reflecting acquisitions. Organic bookings grew 2%. Book-to-bill was 0.97.

Turning to Slide 7. Engineered Systems had another solid quarter, where revenue of $592 million was up 6%, and earnings of $93 million increased 7%. Excluding restructuring, earnings improved 11% to $97 million. Our Printing & Identification platform revenue increased 4% to $248 million, primarily driven by strong digital printing results.

Organic revenue grew 1%, where solid equipment sales were partially offset by a softer Europe. FX was a 6% headwind in this platform in the fourth quarter.

In the Industrial platform, revenue grew 8% to $345 million, all of which was organic. Revenue growth was broad-based, with particularly strong performance in our auto-related and waste handling businesses. Adjusted margin was up 70 basis points to 16.4% on volume leverage, excluding restructuring.

Bookings were $623 million, an increase of 11%. Our Printing & Identification bookings increased 6% to $248 million, driven by acquisitions earlier in the year and generally solid market conditions. Industrial bookings increased 15% to $374 million, reflecting strong broad-based growth.

Book-to-bill for Printing & Identification was 1, while Industrials was 1.09. Overall, book-to-bill was 1.05.

Now on Slide 8. Fluids posted a strong quarter, where revenue increased 10% to $377 million, and earnings of $63 million were up 14%. Excluding restructuring, earnings improved 20% to $66 million.

Revenue was driven by organic growth of 9% and acquisition growth of 3%. Our fluid transfer businesses benefited from strong demand in global retail fueling markets, increased safety environmental regulations, and share gains.

Pumps was driven by healthy chemical markets and new product introductions. Excluding restructuring, adjusted margin was 17.4%, an increase of 140 basis points, resulting from strong leverage on volume.

Bookings were $346 million, a decrease of 2%, primarily reflecting the timing of project-related orders within pumps. Book-to-bill was 0.92.

Now let's turn to Slide 9. Refrigeration & Food Equipment generated revenue of $459 million, up 8% over the prior year. Excluding restructuring of $25 million, earnings improved 19% to $56 million.

Revenue growth was primarily driven by strong refrigeration shipments supported by Q3 pushouts. Excluding restructuring, adjusted operating margin was 12.2%, a 130-basis point improvement from last year. This result largely reflects improved performance in volume leverage.

Bookings were $368 million, a decrease of 18%, principally reflecting an anticipated reduction in orders in Refrigeration and the timing of orders in Food Equipment. Book-to-bill was 0.80.

Now going to the overview slide, number 10. Fourth quarter net interest expense was $31 million, up $1 million from last year, and in line with our forecast. Corporate expense was $30 million, consistent with expectations, and included a $3.6 million pension settlement charge.

Our fourth quarter tax rate was 27.3%, excluding $0.02 of discreet benefits. This rate was lower than the previous forecast and principally impacted by the R&D tax credit and tax benefits related to restructuring actions.

Capital expenditures were $57 million in the quarter. For the full year, we invested $166 million, or 2.1% of revenue.

Lastly, in the quarter, we repurchased 2.7 million shares for $208 million. For the full year, we repurchased 7.5 million shares for $601 million.

Now, on Slide 11, which is an update on Energy. As Bob said, a lot has changed in Energy since our Investor Day. As a result, we expect our US drilling and new well production businesses to be significantly impacted by lower commodity costs.

We expect this impact to be less, but still present in our businesses within US recurring production and automation exposure. Finally, we expect our bearings and compression and international oil and gas activity to remain very solid. We now expect full-year revenue for Energy to decline 6% to 9%, a reduction of about 15 points from our prior forecast, or about $300 million in revenue, with organic revenue declining 11% to 14%.

The biggest change is in our drilling and production markets, primarily driven by the anticipated reduction in US shale activity. Our automation forecast has changed slightly, whereas bearings and compression remains unchanged from our prior forecast.

Now moving to Slide 12, which shows our full-year guidance. We now expect year-over-year revenue to be positive 1% to negative 2%, principally reflecting our current forecast for Energy, as our other three segments remain unchanged.

Completed acquisitions will now add 2%, down 1 point from our prior expectations. We now expect the total impact of FX to be a 2% headwind, a point higher than our prior forecast.

In summary, we expect total year-over-year revenue to be 1% positive to 2% negative. Segment margin is expected to be between 17.6% and 17.9%, excluding restructuring charges.

Corporate expense will be approximately $125 million and interest expense should be around $130 million. We expect the full-year normalized tax rate to be approximately 30%. CapEx should be about 2.3% of revenue and our full-year free cash flow will be approximately 11% of revenue.

Now turning to the bridge on Slide 13. Note that in the appendix is information that provides the basis of our 2015 guide.

In 2015, we expect net restructuring, essentially the non-repeat of Q4 costs netted against Q1 expected costs, and other one-time items to add $0.09 to $0.10. Performance, which includes volume and price, productivity, compensation investment, and restructuring benefits, will be in the range of a $0.10 benefit to a $0.06 decline, largely depending on volume.

The impact of acquisitions already completed will be $0.01 to $0.03. Shares will provide $0.27 to $0.29, based on an estimate of $600 million in repurchases in 2015 and carry-over benefit of our 2014 repurchases. Our share repurchase activity will more than offset the $0.18 dilutive impact of discontinued operations.

Interest, corporate, and tax rate will have a combined $0.07 to $0.11 impact. In total, we now expect 2015 EPS to be $4.70 to $4.95, reflecting a $0.35 reduction to our prior guidance.

One last note, as we move sequentially into 2015, our first quarter EPS will be impacted by approximately $17 million to $20 million in Q1 restructuring charges, as well as remaining purchase accounting costs. Combined, these items will impact Q1 EPS by $0.13 to $0.14.

With that, I'll turn the call back over to Bob for some final thoughts.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Brad. Overall, I am pleased with our fourth quarter and full-year performance. We grew revenue 8% and delivered 10% EPS growth. We focused on lean and productivity initiatives across the organization, and in the fourth quarter, restructured many of our businesses to be better-positioned for continued growth and margin expansion.

In 2015, we will continue to execute a strategy that has served us well. This includes investing and geographic expansion, product innovation, and providing solutions that increase our customers' cash flow and reduce their costs through productivity.

Across all four segments, our business leaders are focused on executing these initiatives and I'm confident we'll deliver a solid 2015. We remain focused on growth.

With that, I would like to thank our entire Dover team for their continued focus on serving our customers and driving results. Now, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - VP of IR*

Thanks, Bob. At this point, I would like to remind all the callers that we have a lot of people in queue so if you can limit yourself to one question with a follow-up, we'll be able to take a lot more questions. And with that, Maria, if we can have the first question.

QUESTIONS AND ANSWERS

Operator

Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Can you give us a sense of how much you've stress tested this new forecast in drilling and production and negative 17% to negative 19% core growth? And just give us a sense of how you came to that number.

Was that based on bookings or bottoms-up from your customers? Just a little bit more granularity there would be helpful.

Bob Livingston - *Dover Corp - President and CEO*

Okay. Gosh, Scott, I can't tell you how many different models we've run with respect to the drilling and production activity for 2015. So how was this number -- how do we provide this number? What are the underlying assumptions and the work we've done?

Yes, it does -- it does reflect a lot of conversations with our customers over the last few weeks. I would tell you that one of the data points that everyone does look at and can continue to track is rig count deployment, and this range we provide for 2015 assumes a rig count decrease year-over-year average of 25% to 30%.

Scott Davis - *Barclays Capital - Analyst*

Okay. That seems fair.

Bob Livingston - *Dover Corp - President and CEO*

I will also tell you that we will -- we do expect to see a little bit of the anticipated decline show up in the first quarter, but Scott, this is going to be a modest impact in the first quarter. We do expect the second and third quarters to bear the brunt of this downturn. We do expect the rig count decline to be rather steep and reflective of what we're seeing here in the last few weeks.

Scott Davis - *Barclays Capital - Analyst*

Makes sense. And, you know, you gave a number of $300 million revenue hit. I know this is hard to do, but given all the restructuring and the cost outs you plan to do, what kind of a drop-through to profits do you see that?

Bob Livingston - *Dover Corp - President and CEO*

Okay. Let's see, what -- repeat that question.

Scott Davis - *Barclays Capital - Analyst*

So if you had taken a $300 million hit--

Bob Livingston - *Dover Corp - President and CEO*

What's the decremental margin?

Scott Davis - *Barclays Capital - Analyst*

Yes.

Brad Cerepak - *Dover Corp - SVP and CFO*

Well, if I just look at -- okay, so the way we're thinking about that and the way we forecasted is that $300 million net of the benefits we see in 2015 of restructuring, offset by some costs as we talked about, would drop through at about 30%.

Scott Davis - *Barclays Capital - Analyst*

Okay.

Brad Cerepak - *Dover Corp - SVP and CFO*

That's basically what we're assuming, Scott.

Scott Davis - *Barclays Capital - Analyst*

Okay, fair enough. And just last, and I'll pass it on, can you just update us on close-the-case, it didn't seem all that encouraging, the comments you made on Refrigeration & Food Equipment with a book-to-bill that -- is close-the-case something that still is a legitimate, or is that getting pushed out?

Bob Livingston - *Dover Corp - President and CEO*

No, close-the-case is continuing to perform quite well. You're referring to the bookings number in the fourth quarter?

Scott Davis - *Barclays Capital - Analyst*

Yes, down 18%.

Bob Livingston - *Dover Corp - President and CEO*

First off, I would tell you that I think Brad commented on this in his prepared remarks. Part of that's due to the timing of orders and our Food Equipment platform. We've got one business in the Food Equipment group that does have very choppy order rates; it's very much of a project business, that's Belvac.

And I think that almost half of that 20%, or 18%, year-over-year decline is just associated to the timing of orders at Belvac, and there's nothing wrong with the Belvac business. It will continue to perform quite well. It's just the timing of orders.

With respect to Hillphoenix, Scott, I would tell you we had another record year in revenue at Hillphoenix. I think they had 2% or 3% organic growth in 2014. We had a year where book-to-bill, again, was 1.0 for Hillphoenix, like it was in 2013.

But you see between the two years a very, very different waterfall of quarterly order rates at Hillphoenix. And part of what you see in the fourth quarter is an anticipated product mix change. I call it a slight product mix change as we go into 2015, and we will, we will expect in 2015 a little bit higher weighting in our business mix towards doors, doors with -- cases with doors, and a little bit of a reduced weighting on systems.

And part of that is showing up in the fourth quarter order rates. System orders tend to show up anywhere from one to three months before orders for case is due. And we're -- the fourth quarter order rates reflect that and it was anticipated.

Scott Davis - *Barclays Capital - Analyst*

Okay. Thanks for the granularity, guys. Good presentation. Thank you and good luck.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

If we go back to the December outlook meeting when you announced the restructuring, I think most people, myself included, were surprised that you weren't doing more restructuring on the Energy piece, which everyone knew was in the middle of this downturn and actually early stages. Most of the restructuring was in Refrigeration.

So now we're seeing restructuring actions. Are you behind the curve in this? And the decrementals of 30% kind of means -- would suggest that you're right on pace with where you should be. So maybe you can just reconcile expectations on the pace of restructuring for starters.

Bob Livingston - *Dover Corp - President and CEO*

Okay. I would -- everything being equal, maybe we could have done a little bit more in the fourth quarter. And yes, I would even label that as a little bit of Monday morning quarterbacking with respect to my comment.

Don't lose sight of the fact that as we went through the fourth quarter, Scott, we were -- Dean, we were still in a growth mode within this Energy segment and a lot of the, a lot of the costs we're taking out are variable costs related to being able to serve the customer with respect to shipments.

It was a bit difficult to take more costs, especially variable costs, out in the fourth quarter when we were still expanding our US production rates here to satisfy customers. We are responding, I think, fairly aggressively here in the early part of the first quarter.

I think between, between the actions that we took in the fourth quarter and the actions that we're pulling the trigger on here in the first quarter, those actions will generate annualized benefits for our Energy segment in the range of $55 million to $60 million. Is that the right number, Brad?

Brad Cerepak - *Dover Corp - SVP and CFO*

That's right.

Bob Livingston - *Dover Corp - President and CEO*

And I think we'll end up picking up about $45 million to $50 million of that in 2015. Or am I bit high on that number?

Brad Cerepak - *Dover Corp - SVP and CFO*

No, that's what the forecast shows.

Bob Livingston - *Dover Corp - President and CEO*

And Dean, all I can tell you is that we have -- we continue to model and look at different scenarios as we have opportunities or as we think the market activity would dictate, we're going to take costs out, especially related to US production and drilling activity. But I would also point out, there's -- these guys have -- are also dealing with an initiative from me on growth.

We are continuing to expand our activity outside of the US. We're continuing to spend a fair amount of money on product development and product innovation, and you'll see us continue to work the growth initiatives within automation and within bearings and compression. And I think those initiatives may even provide a little bit of upside to this segment in 2015.

Deane Dray - *RBC Capital Markets - Analyst*

So just as my follow-up, let's just stay right there, Bob, if we could. Maybe just expand on your expectations for growth in the international oil and gas and in the compression business. Just degree of confidence, earnings visibility, length of contracts and so forth.

Bob Livingston - *Dover Corp - President and CEO*

Well, it's -- probably the one that's most fun to talk about, and perhaps the easiest to talk about, Dean, is the activity that we have been pushing, pursuing, and growing over the last three years around our geographic expansion, especially around our Artificial Lift activity. We've been fairly successful with that over the last three or four years. We continue to see an increasing number of tenders that we can participate in with each quarter as we go through this activity outside of the US.

Upside activity, or upside opportunities in 2015, Deane, I will tell you that we have nothing in our revenue plan for 2015 on non-US tender activity other than what's in our backlog. And we do know that we've got opportunities in front of us on tender orders that will be awarded here in the first quarter and the second quarter and in the Middle East, notably Oman, and some activity in, I'll call it broader Asia. And there we're looking at some interesting activity in India.

But those tenders, if we are successful, and whatever impact they have on 2015 will be an upside for this segment.

Deane Dray - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Charley Brady, BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Just on the Refrigeration business, are you guys seeing -- you've seen Target's pulling out of Canada, obviously the Walmart rollout issue is going on. Any change in the Target, Walmart, Dollar Store kind of segment as far as what they're doing on cap spending and how that's impacting that segment?

Bob Livingston - *Dover Corp - President and CEO*

You're asking me to look back or look forward?

Charley Brady - *BMO Capital Markets - Analyst*

Look forward.

Bob Livingston - *Dover Corp - President and CEO*

Look forward, fine. Well, first off, I would tell you that if we use 2015 as -- or 2014 as a reference point, our revenue activity with Target, my goodness, in the second half of the year, Charley, was probably less than $10 million. So even, even with the continued activity that's going on at Target, for them to sort of reposition their business, that's -- even if it went to zero, that's not going to have much of an impact on our business in 2015.

Year-over-year and 2014, Walmart and Target together, we probably saw a decline of -- approaching $30 million, year-over-year, 2014 over 2013. We do include in our forecast for 2015 another year-over-year decline on the combination of Walmart and Target.

I don't -- I actually don't remember the exact number, but I think it may be even a little bit higher than the $30 million we had in 2014. But it's not three times that size. But I think we do expect a decline.

Where we are seeing the growth in this business is all of the other customers outside of these two. I think we ended up with 5% or 6% or 7% growth in all of the other customers within this Refrigeration business in 2014, and we're expecting something like that number again in 2015.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. So essentially sounds like from the larger size retailers, almost a nonevent, and being well more than offset by companies outside those guys.

Bob Livingston - *Dover Corp - President and CEO*

Correct.

Charley Brady - *BMO Capital Markets - Analyst*

Okay, and just one more follow-up, just on the Energy business, the outlook -- the revised outlook from acquisition growth, which I guess is all accelerated, it looks as though your forecast for that has accelerated down about 35% relative to what I guess their 2014 revenue is estimated to be when you bottom. Is that about right?

Bob Livingston - *Dover Corp - President and CEO*

Okay, I'm not sure I can do the quick math on the percent. I think maybe when we provided our initial outlook at Dover Day in early December -- Brad, you're going to have to help me here. But I think the revenue outlook for accelerated may have been in the $240 million to $250 million range. Am I close?

Brad Cerepak - *Dover Corp - SVP and CFO*

That's right.

Bob Livingston - *Dover Corp - President and CEO*

And for 2015 revised outlook, we've got it slightly below $200 million. Correct me if I'm wrong.

Brad Cerepak - *Dover Corp - SVP and CFO*

It's a little bit lower than that, but that's directionally right.

Bob Livingston - *Dover Corp - President and CEO*

Okay. And I -- Charley, I will tell you, I would love to sit here, I would love to sit here a year from now and tell you I was really conservative with that outlook. I will tell you that the accelerated team outperformed in the fourth quarter, goodness, I think their revenue in the fourth quarter was about 15% higher than what we had modeled.

Brad Cerepak - *Dover Corp - SVP and CFO*

Higher than our expectation.

Bob Livingston - *Dover Corp - President and CEO*

I know they are holding up quite well here in January. I was actually down to see the guys, I guess about a week ago or two weeks ago, and it just absolutely amazes me how many different opportunities they are finding to satisfy customers, to help customers with productivity and cash flow projects that, that we didn't -- we just don't account for and forecast when we put together our acquisition model. It is possible that this is one of our business units in 2015 that even if we're right on nailing the rig count decline of 28%, 25% to 30%, even with that, here's one business within Artificial Lift that could actually outperform our expectations.

Charley Brady - *BMO Capital Markets - Analyst*

That's great. That's very helpful. Thanks for the color on that.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

So my first question, just going back to Energy for a minute, clearly things have changed since early December when we met. But I'm just wondering, did you guys see a significant deceleration in your order trends in December and then to start January?

Because right now looks like we've got -- orders are up [21%], but that was really based on the accelerated acquisition. So I'm just trying to really get a sense for the trends in your organic orders for the Energy business.

Bob Livingston - *Dover Corp - President and CEO*

Brad may have the details on some of the order trends. But are you asking -- was the question sequentially from third quarter to fourth quarter?

Brad Cerepak - *Dover Corp - SVP and CFO*

And then into January, yes.

Bob Livingston - *Dover Corp - President and CEO*

Organically in the fourth quarter, I don't have the detail. I can't -- I can't even remember what the difference was in order rates between October and December. So I'm, I am sitting here a little bit uncomfortable trying to take a guess at direction.

But there weren't any surprises, Joe, in the order rates in the fourth quarter. As we move from the fourth quarter, as we move from December into January, one of the things that sort of seems to incur every single year, though it's always difficult to predict when we'll deal with it, is a little bit of restocking with some customers, especially around our drilling customers, drill bit customers, and sometimes with our sucker rod customers. It is not unusual for us to see that little bit of, I call it two- to three-week of inventory management period occur in the fourth quarter. It didn't occur this year.

What we did see was it occurring in the first two weeks of January. There was some choppiness in the order rates, both with our drill bit customers in the first couple weeks of January, as well as with our sucker rod customers. We get beyond those first two weeks of what we call the restocking management activity, and order rates have returned to the levels that we have expected here for the first quarter.

Joe Ritchie - *Goldman Sachs - Analyst*

So it sounds like the change in your organic growth guidance for the drilling and production business is really driven by customer conversations on what you expect to come as opposed to what you're actually seeing in your business today, is that a fair comment?

Bob Livingston - *Dover Corp - President and CEO*

That's a fair comment that I would like to strongly support. It's -- the guide down from Dover Day on our Energy business is what we anticipate to see here in the second, third, and fourth quarters. That guide down is not reflective of the activity we're seeing here in the early part of the first quarter.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay, that's fair, and I guess the follow-on to that is really relating to the restructuring spend on the Energy side of the business. It seems like you took that up by about $0.05 in the first quarter versus your additional expectations in the early part of December, which I guess the question is, you know, how confident do you feel that you've ring-fenced the issue, or if you do start to see the, you know, the order trends decline as significantly as you anticipate as we progress through the year, can we presume that there's going to be more restructuring in Energy? I'm just trying to get my head around that.

Bob Livingston - *Dover Corp - President and CEO*

Okay, so I think, I actually think the business teams and business leaders have been quite responsive. I would even say contrary, or even though I may sit here and play Monday morning quarterback, as an earlier caller used the phrase, the guys have actually been quite proactive in taking costs out ahead of customer reduction in their activity.

Is there more we can do if customer activity slips even deeper or even further from what we've planned? The answer is yes. And even -- we've got a fairly aggressive -- we've got a fairly aggressive cost plan takeout for the first quarter if, by the time we get into the March and April timeframe, if we believe then that the customer activity, either being driven by even lower rig count deployment in 2015 beyond the 25% to 30% decline, or for whatever reason, we are fully prepared to take additional costs out and the trigger points have been identified.

Brad Cerepak - *Dover Corp - SVP and CFO*

I guess I would only add to that, and reiterate what you said earlier, Bob, is that while we're taking a lot of costs out and we're proactively, I believe, ahead of the curve of the downturn from rig counts and the commodity impact, one thing we're -- here's what we're not doing, we're not backing off our investment or growth initiatives within Energy. And I think Bob said that earlier. We continue to invest in innovation, in new product development, geo reach --

Bob Livingston - *Dover Corp - President and CEO*

Across the board.

Brad Cerepak - *Dover Corp - SVP and CFO*

Across the board. And so that's what our forecast reflects.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Thanks, guys. I'll get back in queue.

Operator

(Operator Instructions)

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - *UBS - Analyst*

So in terms of the drilling and production decline of 17% to 19%, can you give us a split of the drilling versus the production piece? And also, within production, what pieces of that do you expect to kind of hold up better than others?

Bob Livingston - *Dover Corp - President and CEO*

Well, I've left that book in my office. (Laughter) I wasn't prepared to deal with that kind of detail.

Shannon O'Callaghan - *UBS - Analyst*

Take a shot.

Bob Livingston - *Dover Corp - President and CEO*

Okay, so I would tell you that we'll see a little bit of a steeper decline in revenue at our drilling business and that shouldn't be a surprise to anyone. It was not a surprise to us. We sort of saw that in the last downturn in 2008 and 2009, and they saw the sharpest decline, but also the quickest recovery once we hit the trough.

To a lesser degree, we see it in US -- we use the phrase production, but I'm going to be more specific here, in US Artificial Lift applications. It will start later with Artificial Lift than we'll see with drilling activity. And it will not be uniform across our Artificial Lift product portfolio.

I think you'll see -- I think we anticipate more of a decline in our rod business than we do our pump business, simply because a much, much higher percentage of our pump activity is after-market and repair and service, as opposed to new well completion. I'm -- to sit here and give you actual percentages, Shannon, I would be guessing and then Paul would spend the rest of the day correcting my guesses.

Shannon O'Callaghan - *UBS - Analyst*

No, no, just the dynamics, that's helpful in terms of the different product lines. And then as you think about restructuring and sort of trying to defend margins in this downturn, you did it very successful in the last downturn. Is there anything different about the nature of the business now or the nature of the downturn, or is it pretty much the same playbook you feel like you have to execute?

Bob Livingston - *Dover Corp - President and CEO*

Well, I would say we start with the same playbook. The business is a little bit larger today than it was in 2008 and 2009. And we're a bit more geographic -- we're a bit more geographic than we were in 2008 and 2009.

That said, I would say that the playbook in our drilling business is essentially the same today as it was in 2009. Where you'll see some differences will be in our Artificial Lift business and product portfolio, simply because in 2008 the bulk of that was sucker rods, and today, it is probably 60% pumps and service activity and 40% sucker rods and I'm probably still being heavy on the rod business. But the playbook is very much the same. The guys know how to execute this, we know how to take care of our customers as we go through this downturn, we know how to time the takeout of variable costs, and we know how to time to take out of overhead and when it's appropriate.

And we are trying to hold margins, that is one of the objectives. But don't get hung up on that thinking that that's our primary objective. The primary objective is actually to take care of the customers and to continue with our product development and innovation activity. The result of all of this is we do believe we'll end up with margins within the energy segment of about 20%.

Shannon O'Callaghan - *UBS - Analyst*

Okay. Very helpful. Thanks, Bob.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Just firstly on Energy, just talk a little bit about what price degradation you assume in the business this year. And also on automation, you made the very, very small adjustment to organic growth, a very large adjustment to the assumption for drilling and production. So why do you feel confident that automation can hold up at around flat?

Bob Livingston - *Dover Corp - President and CEO*

Okay, there is part of the automation product portfolio that actually deals with drilling and with some downhole monitoring. We do anticipate a decline in that part of the automation portfolio. When you move beyond that specific product area in our automation portfolio, we actually don't anticipate much of a decline in automation.

In fact, there is a lot of work going on internally right now within the segment and within that business to figure out how we actually grow automation beyond what we have in our guidance in 2015, and we think we've got some opportunities to do so. But to be quite transparent, there is part of that automation portfolio, I'm repeating myself, that does have some downhole applications. In our bearings and compression activity, that -- we've got fairly aggressive growth plans, as well as cost containment activity within both of those businesses as we grow it in 2015 and we don't see those businesses being directly impacted by the drop in rig count in 2015.

Price? We do have some modest price declines in our plan for 2015. When I say modest -- but some of these discussions are still underway, so I would like -- I would give the nod to the customer, let us finish these discussions before I get too specific and responding to an open question like that, but I would tell you for planning purposes, we have low to mid single digit price declines planned for some of the products and for some of the products, nothing, no price declines. And I would say that the activity we've encountered here over the last few weeks with our customers gives us some confidence that we've pegged that number correctly.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks. And then just quickly on fluids, it's hard from the outside to get a sense of the different end markets in that. Anything you're seeing that sort of changed or is interesting versus what you had said at Dover Day?

Bob Livingston - *Dover Corp - President and CEO*

No. In fact, I think I commented, made that comment as I had my prepared remarks, within Fluids, within Engineered Systems and within Refrigeration. We've made no changes and need to make no changes to our growth plans for 2015 beyond what we shared with you at Dover Day.

Fluids -- amazing year they had in 2015 with a 9% -- 8% organic growth for the entire segment, and it wasn't an unbalanced year for that segment. Both fluid transfer as well as our pump businesses did quite well in 2014 and we're expecting both of them to continue with growth initiatives and growth results in 2015.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Steve Winoker, Bernstein.

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

Just a question on the flipside here. So you're taking headcount down 14% in Energy, it sounded like. What happens if and when oil prices go back up and, you know, if that were to happen in six months or nine months, how long does it take you to cycle through this between, you know, you've got the impact which you haven't even said, you mentioned that you're just starting to see barely now, you're anticipating that.

And this could be a little shorter lived than people think. So how are you dealing with that with your scenario planning, how does it compare to what you did last time? Your ability to -- on positive side of this there's probably [a nice thing] to think about, what would happen on the other end, your ability to make your commitments?

Bob Livingston - *Dover Corp - President and CEO*

I take it by the tone of your question that you are long on oil and your bet is short.

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

No, let's not make that presumption (multiple speakers) scenario planning here.

Bob Livingston - *Dover Corp - President and CEO*

Look, it's interesting--

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

There's a bottom for everything, right?

Bob Livingston - *Dover Corp - President and CEO*

I know it. It's interesting that you asked the question that way, because in all honesty we talk about that quite a bit when we go through our planning scenarios. I would just remind you that someone, one of the earlier questions was, are we using the same playbook from the 2008-2009 timeframe and in many instances, we are. That's sort of where we start.

And we had a pretty quick bounce in 2009, both on the oil price after it hit its bottom, and then a pretty rapid increase in rig count deployment as we went through 2009 and 2010. And I would tell you that we were able to bring employees back quick enough, we were able to bring on new employees quick enough and to get them trained, that our customer service activity, which is always the thing we want to pay attention to, our customer service activity levels were quite high and we did not disappoint customers. And at the end of the day, that's sort of what guides our decisions.

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

And Bob, you guys take advantage of M&A in these kind of environments. Usually this is your prime time to sort of have a longer view of the cycle.

I guess in that same vain, you'd still -- it's hard to get comfortable right now, right? But how are you starting to think about that trade-off in buybacks versus M&A? You totally just lifted your buybacks, maybe just give us (multiple speakers)

Bob Livingston - *Dover Corp - President and CEO*

Okay, so -- and we -- let me deal first with the M&A question and then you tie it into share repurchases. M&A in Energy, gosh, I would tell you that I'm not speaking for anyone other than Brad and I. M&A activity in the Energy sector in the next three or four months, I'm going to use your phrase, could be a bit uncomfortable, simply because of the uncertainty as to timing, the uncertainty as to depth, and then even after the price of oil does recover and start to find a new normal that's higher than where it is today, is what's going to happen with investment activity in the US shale fields and I think, to me, that's the more larger question.

But I think as we get through, perhaps, not the first quarter, that first quarter's probably not going to give us enough information. I think as we get through the second quarter, or into and through the second quarter, I guess that not only us, but others in this sector may have a comfort level that's being developed that would allow us to make a decision or two on M&A. And if the opportunity is right for us, I'm going to tell you, we're going to look at it, but the comfort level's pretty high for the next three to four months.

On share repurchase activity, don't think that our share repurchase activity in 2015 is a diminishment of our ability to execute on M&A. And Brad can give you a lot more detail on this than I will or I could, but in real simplistic way to look at this, our share repurchase activity in 2015 is going to be funded by divestitures. Said and done.

It's not -- we're not increasing anything, any debt on our balance sheet to fund share repurchase activity, we're not using operating cash flow to fund share repurchase activity. Our -- I closed my prepared comments with our plan is to grow. Well, that's part of our growth agenda and as opportunities come forward, we will execute.

Operator

Stephen Tusa, JPMorgan.

Stephen Tusa - *JPMorgan - Analyst*

Just a question on the -- what degree of pricing -- you said low to mid in some of your business, flat in other part and Energy. What's kind of the total? Does that all mix into kind of just 50 basis points of price pressure that you're assuming?

Bob Livingston - *Dover Corp - President and CEO*

Well, again, I'm going to repeat myself on two points. One, we're still in discussions with customers, so I'm going to treat some of this as confidential discussions with customers right now until we complete some of these dialogues. I'm saying that in our plan, in our plan where we do anticipate price reduction discussions with customers, that the mid -- the low to mid, I'm talking 2% to 5% --

Brad Cerepak - *Dover Corp - SVP and CFO*

Part of the portfolio.

Bob Livingston - *Dover Corp - President and CEO*

Part of the portfolio is included in our guidance.

Stephen Tusa - *JPMorgan - Analyst*

Okay. What's--

Bob Livingston - *Dover Corp - President and CEO*

But I would also tell you, Steve, there is just as much activity going on by us to offset that with input costs.

Stephen Tusa - *JPMorgan - Analyst*

Sure. In the gross margin of Energy --

Bob Livingston - *Dover Corp - President and CEO*

I have, I have a suggestion for everyone that's listening. I don't think this is going to be a big item in 2015.

Stephen Tusa - *JPMorgan - Analyst*

What's going to be? The pricing?

Bob Livingston - *Dover Corp - President and CEO*

The pricing is not going to be a significant item for Dover in 2015.

Stephen Tusa - *JPMorgan - Analyst*

What about 2016?

Brad Cerepak - *Dover Corp - SVP and CFO*

I can't -- we're not giving guidance on 2016.

Bob Livingston - *Dover Corp - President and CEO*

I'm not giving guidance on 2016.

Stephen Tusa - *JPMorgan - Analyst*

Okay. Is the gross margin of Energy, I would assume it's above the Company average?

Bob Livingston - *Dover Corp - President and CEO*

Yes.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, that's true.

Stephen Tusa - *JPMorgan - Analyst*

And is it meaningfully above the Company average?

Bob Livingston - *Dover Corp - President and CEO*

300 basis points? 250 basis points.

Stephen Tusa - *JPMorgan - Analyst*

Okay. So basically we should think about it as, you're going to convert it, convert there at kind of less than gross margin given the cost takeout with, you know, kind of pricing a TBD around that? Which you think is going to be kind of flat this year?

Brad Cerepak - *Dover Corp - SVP and CFO*

Well, I don't know it's TBD, but I would say your first assumption is correct, that we will convert. And I said earlier I think 30% decrementals is the way we think about it. So therefore, we are converting on the downside at less than the gross margin because of cost takeout.

Stephen Tusa - *JPMorgan - Analyst*

Okay. That makes sense.

Bob Livingston - *Dover Corp - President and CEO*

That's all in there, Steve.

Stephen Tusa - *JPMorgan - Analyst*

What are the, so you guys -- one more question, just on the cash flow stuff. You announced Datamax O'Neil, I think it's $180 million, $190 million cash inflow. Is there any tax impact on that? What's the after-tax?

And then what are the -- are there any other divestitures that you're planning on bringing cash in for? To fund the entire $600 million in buyback?

Brad Cerepak - *Dover Corp - SVP and CFO*

No others. I would just say generally, on both of those, that it's not a lot of tax leakage. Let's just say that.

Stephen Tusa - *JPMorgan - Analyst*

Okay. So in total, those are going to bring in $600 million?

Brad Cerepak - *Dover Corp - SVP and CFO*

Pretty close to that, yes, Steve. That's our expectation at this point.

Stephen Tusa - *JPMorgan - Analyst*

Okay. Great. Thanks a lot.

Operator

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

Paul Goldberg - *Dover Corp - VP of IR*

Thanks, Maria. This concludes our conference call. With that, we thank you for your continued interest in Dover and we look forward to speaking to you again next quarter.

Have a good day. Thanks. Bye.

Operator

Thank you. That concludes today's Fourth Quarter 2014 Dover Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.