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DOV - Q2 2012 Dover Corporation Earnings Conference Call

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OVERVIEW:

Co. announced 2Q12 revenues of $2.2b, resulting in EPS of $1.15. Guidance was given 2012 revenue growth of 8-10%, and 2012 EPS from continuing operations of $4.70-4.85.

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CORPORATE PARTICIPANTS

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Jeff Sprague *Vertical Research Partners - Analyst*

Terry Darling *Goldman Sachs - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the second quarter 2012 Dover Corporation 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 session.

(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 Corp - VP, IR*

Thank you, Jackie. Good morning and welcome to Dover's second quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's second quarter operating and financial performance, and followed with our outlook for the balance of 2012. We will then open up the call 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 August 1, 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, 98721212.

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 Corporation by referring to our Form 10K 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 Corp - President and CEO*

Thanks, Paul. Good morning everyone, and thank you for joining us for this morning's conference call. Before I get to our second quarter results, I'd like to share a few observations on the changes we saw in the macro environment during the quarter. We entered the second quarter knowing we were dealing with some modest challenges in Europe and a slowing economy in China. The decline in Europe was greater than our expectations. These weaker conditions were felt most notably within our Fluids platform and our Printing and Identification segment. With respect to China, we experienced some of the effects of a slowing export market in a few of our businesses. Our US markets held up quite well, namely Refrigeration and Food Equipment, Industrial, Energy, Commercial Aerospace, and Life Sciences.

Now let me provide some comments on our second quarter results. We posted revenue of $2.2 billion in the quarter, an increase of 8%. Our second quarter EPS of $1.15 was a slight improvement over the prior year adjusted EPS. In our Energy segment, we continued to see growth across our end markets, with production and downstream being the strongest. As a result, we posted strong organic revenue growth in the quarter. As I've shared with you before, while rig count has flattened, market dynamics provide a solid environment for our products and services. These dynamics include the ongoing shift from gas to oil, oil prices supporting continued CapEx for production, and a strengthening downstream market. We expect energy results to remain solid for the balance of the year.

At our Communication Technology segment, we saw the continuation of a strong smartphone market, as well as solid commercial Aerospace and Life Science markets. Telecom markets remained weak. The highlight was 25% organic growth in our MEM sales to the handset market in the second quarter, and we expect even stronger MEMS performance in the second half. Although results at Sound Solutions continue to be significantly impacted by further OEM share shifts, I was especially encouraged by increasing order rates on new design wins in the quarter, and expect shipments at Sound Solutions to accelerate through the second half. Within our Engineered Systems segment, Refrigeration and Food Equipment markets were solid, as were most of our US industrial end markets.

Regarding our Fluids platform, the strong start for Maag Pump was offset by a weaker Europe and China. The result for this segment was lower than anticipated revenue in Fluids, largely offset by 8% revenue growth in Refrigeration and Food Equipment. Going forward, we believe second half results in Refrigeration will remain solid on the strength of an active remodeling market, our leading technology, and our customers' continued focus on energy efficiency. Our US Industrial markets, which account for 65% of segment revenue, should be rather stable. Within our Printing and Identification segment, we continue to see a weak but improving market for electronics equipment. Within our Consumer Goods and industrial markets, our focus on new products, channel expansion, and service is making a difference.

For Markem-Imaje, this result in a 5% organic growth, excluding the impact of currency, as strong results in North America and modest growth in China offset a weak Europe. We expect improved results in the back half of the year, driven by new product launches, normal seasonality, and the benefits of our first half restructuring activities. Overall the strength of our businesses enabled Dover to deliver segment margin of 16.7% in the quarter, inclusive of $11 million of restructuring and deal cost. We ended the quarter with a book-to-bill of 0.99. I was pleased with our free cash flow generation in the second quarter, as it improved 30% over the prior year period.

Our teams continue to focus on working capital management and lien activity. Our acquisition pipeline remains active, and we remain highly disciplined on valuation. The opportunities in front of us are all strategic add-ons, highly synergistic, and offer strong integration opportunities. In summary, I believe our second half will be stronger than the first, as revenue in our handset businesses will be up significantly. I also expect solid contribution from our businesses serving the oil production, downstream energy, fast moving consumer goods, and US industrial markets. 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. Today we reported second quarter revenue of $2.2 billion, comprised of 3% organic growth and acquisition growth of 7%, offset in part by a 2% unfavorable impact from foreign exchange. Earnings per share was $1.15. This result was below our expectations, primarily due to a $0.07 impact from a weaker Europe and unfavorable foreign exchange. After adjusting for $0.12 of tax benefits in the second quarter of 2011, EPS improved 1% over the prior year. Segment margin for the quarter was 16.7%, a decline of 140 basis points. This result reflects solid performance in Energy, offset by lower volume in Printing and Identification, volume declines and costs associated with new design wins at Sound Solutions, and mix within Engineered Systems.

We also absorbed nearly $11 million of restructuring and deal costs in the quarter. Absent these costs, segment margin would have been 17.2%. Bookings increased 9% over last year to $2.1 billion, reflecting double digit growth in Energy and Communication Technologies and a solid growth in Engineered Systems. In Printing and Identification, bookings decreased 7% where stable order rates in our Consumer Goods markets were offset by tough comps in our Electronics markets. Overall, book-to-bill finished at 0.99. Backlog grew 12% to $1.7 billion. In the second quarter we generated $178 million of free cash flow, or 8% of revenue, an increase of $45 million over the prior year. We expect free cash flow for the year to be around 10% of revenue.

Now turning to Slide 4, which shows our revenue growth. Organic growth remains strong at Energy, achieving 14% in the quarter. Engineered Systems and Communication Technologies both grew by 4%, driven by Refrigeration and Food Equipment, Commercial Aerospace, and Handset markets. Printing and Identification was down 10%. For the quarter, acquisition growth at Communication Technologies was 22%. Energy and Engineered Systems both posted acquisition growth of 6%, lead by our recently completed deals, PCS and Maag respectively.

Turning to Slide 5 and our sequential results. Revenue increased 5% from the first quarter, with all four segments showing sequential growth. Engineered Systems increased 8%, primarily driven by Refrigeration and Food Equipment and acquisitions. Printing and Identification increased 5%, with all markets except the solar portion of Electronics showing sequential improvement. Communication Technologies and Energy both increased 1%. In Energy, production and downstream markets performed well sequentially.

Bookings decreased 2% sequentially from the first quarter. Growth of 7% at Communication Technologies was lead by the Handset market. Sequential bookings growth of 3% at Printing and Identification was broad-based. Engineered Systems bookings declined 3% sequentially, largely impacted by the timing of Refrigeration orders and continued weakness in the refuse vehicle portion of our industrial Markets. Energy bookings declined 9%, primarily driven by moderating North American rig count, Canadian spring thaw, and large international orders in the first quarter.

Now on Slide 6. Communication Technologies posted revenue of $362 million, an increase of 25% over the prior year. These results reflect strong MEMS, Commercial Aerospace, and Life Sciences activities, partially offset by weak Telecom markets. Sound Solutions volume accounted for 22 points of the revenue growth. Earnings of $50 million were down 8%, and segment margin was 13.9%, a decrease of 500 basis points. Adjusting for Sound Solutions, margin would have been 20.8% in the quarter. We continue to expect segment margin to improve in the second half on the anticipated benefits of higher volume. Bookings were $383 million, an increase of 24%. This growth was largely driven by our handset market. Book-to-bill finished at 1.06.

Now turning to Slide 7. Energy revenue increased 19% to $539 million, while earnings increased 21% to $134 million. Energy produced another strong quarter, as the average North American rig count was up 6% from last year and oil prices remained constructive for continued production. Although rig count remained flat sequentially, we continue to benefit from several factors, including approximately 70% of active rigs dedicated to oil, as well as a solid downstream market. As was the case last quarter, we saw year over year growth across all end markets, led by production. Operating margin was 24.9%, a 60 basis point improvement from last year. Bookings were $530 million, a 12% increase over the prior year. Book-to-bill was 0.98.

Now on Slide 8. Engineered Systems sales were $886 million, an increase of 8% year over year. Earnings improved 4% to $134 million. Fluid Solutions grew 19% to $212 million, benefiting from recent acquisitions, while Refrigeration Industrial grew 4% to $675 million. In our Fluids platform, organic revenue was down 4%, due primarily to a weaker Europe. Operating margin was 15.1%, a decrease of 50 basis points from the prior year. This performance included roughly 100 basis points of incremental acquisition amortization costs. Bookings were $870 million, an increase of 9%, resulting in a book-to-bill of 0.98.

Our Fluid Solutions platform bookings increased 16% to $204 million, while Refrigeration Industrial was up 7% to $666 million. Book-to-bill for Fluid Solutions was 0.96 and Refrigeration Industrials was 0.99. Bookings at Fluid Solutions included 21% acquisition growth while Refrigeration Industrial was principally lead by our businesses serving the food, equipment, and US industrial markets.

Now let's turn to Slide 9. Printing and Identification revenue was $370 million, a decrease of 14% from the prior year. Earnings decreased 39% to $42 million. The revenue decline reflects the expected continued weakness in our Electronics markets, as compared to a very strong prior year, a weak Europe, as well as unfavorable foreign exchange. The Solar and Semi exposure of our electronics market, now about 16% of revenue, was down approximately $47 million year over year. That aside, our Consumer Goods and industrial markets continue to perform well. Excluding the impact of foreign currency, organic growth in Consumer Goods and Industrial end markets was 5%.

Operating margin declined 450 basis points to 11.3%, reflecting significantly lower volume in Electronics, $5 million of restructuring costs, and continued strategic investments. The restructuring actions taken in the quarter are to better align our global footprint with higher growth geographic markets. Also, our investments in sales and service are yielding benefits in the form of year over year growth in North America and Asia. Bookings were $358 million, a decrease of 7% from last year. In the Consumer Goods and Industrial markets, bookings increased 3%. Book-to-bill ended at 0.97.

Now on Slide 10. First quarter net interest expense and corporate expense were generally in line with expectations. Our second quarter tax rate was 27.5%. This rate was slightly higher than our prior forecast and largely impacted by mix of geographic earnings.

Now turning to Slide 11 and our 2012 revenue guidance. We now expect full year revenue growth of 8% to 10%. Organic growth is estimated to be 3% to 5%, and completed acquisitions adding around 5%. Breaking down revenue growth by segment, we expect Communication Technologies growth to be 17% to 18% for the year, about 5 percentage points lower than our last guidance. This forecast is comprised of 7% to 8% organic growth and 10% from acquisitions. The main drivers of this revision are primarily OEM share shifts and the timing of orders at Sound Solutions.

Energy growth is expected to be in the range of 15% to 16%. Organic growth is largely unchanged at 10% to 11%. Acquisition growth will be around 5%. Engineered Systems is forecasted to grow 9% to 10%. Organic growth is down roughly 1.5 points to 3% to 4% from our prior guidance on a weaker Europe and a slowing China market. Acquisitions add 6%. Lastly, in Printing and Identification, a weak Europe, including unfavorable foreign exchange, and a more conservative outlook on Electronics is driving our organic revenue forecast down 6 points. We now expect revenue to decline 7% to 8.5% as compared to the prior year.

Moving on to Slide 12, which shows our full year guidance. As previously mentioned, we now expect revenue to be in the range of 8% to 10%. Corporate expense, interest expense, and CapEx remains substantially unchanged. We now expect our 2012 tax rate to be around 27%. Based on the above, we expect full year earnings per share from continuing operations to be $4.70 to $4.85. This guidance reflects a $12.5 reduction from our prior forecast at the midpoint. This change primarily reflects a $0.15 reduction related to Europe, China, and unfavorable foreign exchange.

Now let's turn to the earnings bridge on Slide 13. As a reminder, 2011 EPS was $4.26 after adjusting for $0.22 of discrete tax benefits. Volume mix and price will contribute roughly $0.28 to $0.37 for the full year, while net productivity will add $0.22 to $0.32. Investment and compensation is now $0.08 to $0.14, reduced by $0.11 from our last forecast. We expect completed acquisitions to deliver roughly $0.03 to $0.05 for the year, down from our prior forecast. This revision largely reflects the timing of orders and OEM share shifts at Sound Solutions. Interest expense, share count, and our tax rate should yield a $0.01 benefit, down slightly from our prior forecast, largely driven by a slightly higher tax rate. The net result is EPS growth of 12% over our adjusted 2011 EPS at the midpoint.

With that, I'd like to turn the call back over to Bob for some final comments.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Brad. As I mentioned up front, I am convinced that our second half will be stronger than our first half. Our participation in the handset market, our production and downstream energy businesses, and our businesses serving the fast-moving consumer goods and US industrial markets will lead the way. I expect Dover's second half revenue to be up about 7% sequentially, and anticipate solid leverage on the increased volume. As always, our teams are focused on programs and initiatives to reduce cost and increase productivity. As I look beyond 2012, I remain confident in our positions and our five key growth spaces. I'm convinced our play in the Energy, Fluids, Refrigeration and Food Equipment, Product Identification and Communication components offer growth opportunities built on technology leadership, geographic expansion, and commitment to our customers. In closing, I'd like to thank our entire Dover team for their hard work and dedication. Their focus on serving customers and achieving results will continue to drive Dover success. With that, Paul let's take some questions.

Paul Goldberg - *Dover Corp - VP, IR*

Thanks, Bob. Before we take questions I just want to remind everybody if you can limit to yourself with one question with a follow-up we'll be better able to get more questions in. So with that, Jackie can we have our first question?

QUESTIONS AND ANSWERS

Operator

Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Guys, I know this is kind of a tough question to answer, I'm guessing, but when you look at Comtech and your book-to-bill 1.06, I mean, how do you see that kind of -- I'm guessing that's a little bit better than you thought it would be for the quarter, but when you think about 3Q, is this something that ramps up and continues to improve from here, and to what magnitude, do you think?

Bob Livingston - *Dover Corp - President and CEO*

Well, the driver in the second half is going to be very similar to what we saw driving the strong book-to-bill in the second quarter, and is going to be around our handset business, both Knolls and Sound Solutions. Maybe Brad has a number. I can't recall what the book-to-bill is in the second half for our handset business, Scott, but I know it's very positive.

Scott Davis - *Barclays Capital - Analyst*

Okay, and when you think about Sound Solutions, I mean, have we bottomed here? I mean, at what point do you call it fixed, I guess, or how close are we to that?

Bob Livingston - *Dover Corp - President and CEO*

Well, I'm not going to label it fixed until we're performing like we expected this business to perform at the time of the acquisition. I think you're going to see some trends here in the second half of the year with a much stronger fourth quarter than third quarter. It is going to accelerate during the second half. Brad can probably correct me here on my answer, but I think sequentially as we look at Sound Solutions coming out of the second quarter, the revenue expectations in the third quarter are up about 20% to 25%, and another sequential improvement in revenue in the fourth quarter of additional 20% to 25%; and Scott, I think by the time we get to the end of the third quarter and the fourth quarter, we're going to start to see the operating margins of this business set the base for what we'll expect in 2013, which I think will be very reflective of the business performance on this business that we expected when we made the acquisition. So you asked a very important question, have we seen the trough? I think we have.

Scott Davis - *Barclays Capital - Analyst*

Fair enough. Good answer, thanks, guys.

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Operator

Robert McCarthy, Robert W. Baird.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

So I'm just a little bit confused about the components of the change in outlook at Communications Technology, the 11% to 13% that goes down to 7% to 8%. How much of that is a function of more adverse currency translation and how much of that is the change in the actual organic outlook?

Bob Livingston - *Dover Corp - President and CEO*

So I would say, and you're talking about Comtech in particular?

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

It's very negligible, a very small impact in currency in that particular segment. Our segments on currency that get impacted the most are DES and DPI on foreign currency. The whole move down on DCT is really related to Sound Solutions, on revenue.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Okay, as opposed to in terms of its organic contribution, second half of the year?

Bob Livingston - *Dover Corp - President and CEO*

Yes, exactly, because as you know, when we turn the first year of ownership, we put it into organic. So we're seeing now off our last forecast a decline in Sound Solutions of approximately, let's say $80 million in the second half sales loss, and the way to think about that, we've been chasing Nokia and RIM down the whole year. A big share of that, over 50% of that revised forecast, is due to continue what we call these OEM share shifts, where we're seeing losses of volume, continued losses in volume, in Nokia and RIM and some other smaller handset providers, and then again, the other piece of that is really timing related to how we see the launch coming now as we are in launch phase, and how we see that launch progressing from the third quarter into the fourth.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Okay, and thank you. That's very helpful. Then in terms of the actual blocking and tackling, my recollection is that you expected to bring two of the new lines up in the quarter, and it would leave you one more to do in the third. Do I have that right and are we still on that track and is there any change in progress, just in terms of executing the transition of manufacturing?

Bob Livingston - *Dover Corp - President and CEO*

I would label the second quarter as being successful at Sound Solutions with respect to our automation projects. By the time -- and it actually may be signed off today, Rob. By the time we close the month of July, we will have five of our new lines not just turned over to manufacturing, but signed off on by our customers.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Very good.

Bob Livingston - *Dover Corp - President and CEO*

Very positive with the progress we made in the Second Quarter on that activity.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Okay, and then if I can follow-up, just quickly in terms of Printing and ID, I think I got the message that your outlook in fast-moving consumer goods is essentially unchanged. A quarter ago you were talking about expectations for high single digit growth there, excepting any impact from currency. Has that changed in any material way?

Bob Livingston - *Dover Corp - President and CEO*

My answer is no. Brad may have something more definitive, but the impact you're seeing is primarily FX.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

In the shortfalls concentrated in the Electronics sector, I understood that. I just wanted to make sure that your outlook for basic fast-moving consumer good was essentially unchanged.

Bob Livingston - *Dover Corp - President and CEO*

Essentially unchanged.

Robert McCarthy - *Robert W. Baird & Company, Inc. - Analyst*

Okay, very good. Thank you.

Operator

Jeff Sprague, Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

Wondering if we could just put a finer point on a couple things. I appreciate the info so far. So if we think about Nokia and RIM coming down --

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Bob Livingston - *Dover Corp - President and CEO*

Jeff, come a little closer to the phone.

Jeff Sprague - *Vertical Research Partners - Analyst*

Can you hear me a little better now?

Bob Livingston - *Dover Corp - President and CEO*

Yes.

Jeff Sprague - *Vertical Research Partners - Analyst*

Can you give us a sense of where Nokia and RIM are now as a percent of your handset sales?

Bob Livingston - *Dover Corp - President and CEO*

Gosh. No, I can't give you an exact number. I do know that it's less than 20% in the second half. I don't think it's less than 15%, so I'm giving you a range. It's between 15% to 20%, but I actually don't know the exact number, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

That's the second half reflecting--

Bob Livingston - *Dover Corp - President and CEO*

Second half, and then if I had to take a guess, and this, I'm doing some recall here, if I had to take a guess for the second quarter, it was probably high teens.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay, and if it was high teens in Q2, it probably should be a lot lower than 15% to 20% in the second half, right?

Bob Livingston - *Dover Corp - President and CEO*

It may be closer to the 15% number, Jeff. I know it's less than 20%.

Jeff Sprague - *Vertical Research Partners - Analyst*

Then if we think about what you expect for ongoing profitability for Sound Solutions, I think the margins were 20%-ish in 2011. Clearly you would have expected the margins to come down on investment spending, purchase accounting, and all those sorts of things, but just remind us of where you do think Sound Solutions margins can kind of normalize once you get on the other side of this investment spend, and this remixing of the portfolio is behind you.

Bob Livingston - *Dover Corp - President and CEO*

We are still convinced that once we get into a steady state with this business that our operating margin should be in the mid-20%s. I think -- help me here, Brad. I think as we look at the second half of 2012, the outlook we have now for the fourth quarter, the operating margins are probably going to be in the mid- to high-teens.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great, and then just finally, unrelated--

Bob Livingston - *Dover Corp - President and CEO*

Wait a minute, Jeff. I think Brad wants to clarify something.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, mid-teens in the second half, and I just want to clarify that when Bob says operating EBIT, that's pre-AD&A, the step-ups.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay, and then finally, what are you thinking on share repurchase? Obviously, unfortunately, the stock has not been great this year. You've got a lot of liquidity. It doesn't look like you did anything in Q2, unless it was late in the quarter. What's your thought process there?

Bob Livingston - *Dover Corp - President and CEO*

It's a discussion topic, but I have nothing to announce, Jeff.

Operator

Terry Darling, Goldman Sachs.

Terry Darling - *Goldman Sachs - Analyst*

Bob or Brad, wonder if you'd talk about the second half organic revenue growth outlook for the Energy Division. I think the guidance might imply 4% or 5% year over year growth. Wondering if you can give us a little color by drilling production and downstream on that assumption, and then also given the book-to-bill as sub-1, why do you think we can get some positive organic growth in the second half?

Bob Livingston - *Dover Corp - President and CEO*

Brad may have the year over year comps for the second half. What's forefront in my thinking right now is sequentially, so let me respond sequentially.

Terry Darling - *Goldman Sachs - Analyst*

Okay.

Bob Livingston - *Dover Corp - President and CEO*

With the three sectors, drilling, production and downstream, drilling we've actually, I hope we're being conservative, but we're actually putting into the guidance that our drilling activity will be down in the second half versus the first half modestly. I think 2% or 3%. Production remains fairly strong, Terry. I don't remember now what the number is, but I think it's about 8% second half over the first half in production. Some of that is to the benefit of the acquisition we made in what was it, I guess April of PCS, and some of the -- a big chunk of the growth in the second half is actually from our international activity. Downstream, I think that's also about 8% or 9% sequential growth in the second half. Strong activity in downstream right now.

Terry Darling - *Goldman Sachs - Analyst*

Why doesn't the book-to-bill sub-one, worry you a little bit with regards to the overall total organic outlook in the second half? Is there more production in downstream business that just doesn't run through the orders in the backlog, or is it something else?

Bob Livingston - *Dover Corp - President and CEO*

I would say that the negative in the second quarter on book-to-bill at Energy, we always deal with the Canadian spring thaw. Some years that gets highlighted and some years it doesn't, but it was very real here in the second quarter. I think in the drilling activity we did see some moderation of orders in the early part of the quarter, especially April. A little bit better order rates in June, but I think the whole decline in orders from what the expectation would have been in the second quarter would be labeled to the spring thaw and some moderation activity in drilling.

Terry Darling - *Goldman Sachs - Analyst*

Okay, and then in the cue you mentioned some signs of life in the Telecom piece within Communication Technologies, Wondering if you can elaborate on that.

Bob Livingston - *Dover Corp - President and CEO*

Help me again here, Brad. I think that comment may deal with booking activity. Our bookings in the first, I'm going to say two-thirds of the quarter, April and May, were actually fairly positive and gave us some positive comps year over year in bookings. I can't say the same about June. June was soft again. For the quarter, the activity was up in Telecon. It's not reflected in our revenue in the second quarter. We are expecting a little bit better second half out of Telecom than we had in revenue in the second quarter.

Terry Darling - *Goldman Sachs - Analyst*

Okay, and then just jumping back over to PID and the outlook for margin improvement in the second half, obviously the second quarter you called out the $5.5 million or so restructuring impact there, but second half guidance has still got, I think, margins moving into what, the mid-teens or something like that?

Bob Livingston - *Dover Corp - President and CEO*

Yes, that's right.

Terry Darling - *Goldman Sachs - Analyst*

Is that new product effect, and how should we think about the risk/reward around that assumption, given the uncertainty in Europe?

Bob Livingston - *Dover Corp - President and CEO*

Well, I'd like to think we have discounted Europe appropriately here as we look at product ID. You've got two, I'll label them as structural items, in the second half that are providing some windage to the margins, and that is the restructuring activity we've taken in the first half. We'll capture some of the benefits of that in the second half of the year. We've been sharing with you for, goodness, maybe the past year our increased investment activity in sales and customer service activity. That continued to expand during the first half. I would label the second half as being rather flat with that spend activity.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Bob, could you maybe switch gears and talk about the US. It looked like we saw some weakening from a macro level in June. Could you maybe talk about what you saw in June and going into July?

Bob Livingston - *Dover Corp - President and CEO*

Just with the US?

Nigel Coe - *Morgan Stanley - Analyst*

Within the US, yes.

Bob Livingston - *Dover Corp - President and CEO*

Gosh, Nigel, and I think we've called this out. I think Brad called it out in his prepared comments. Our US industrial activity has held up quite well in the first half, maybe with the exception, and this is where I think Brad called it out in our refuse market, but if you look at, goodness, go across the board from auto lifts to the refrigeration and food equipment business activity, the activity continued to be strong during the quarter, as we ended the quarter. The early read in July is order activities continue to be fairly healthy here in July.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. So sounds like nothing surprised you to the downside.

Bob Livingston - *Dover Corp - President and CEO*

Nothing surprised us at the second quarter at Engineered Systems, and as I had in my prepared comments, we're expecting our US markets to be stable in the second half.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, and then you talked about the Sound Solutions vision to the forecast in the second half of the year. You referenced some OEM share mixes, but then you also referenced as well timing on shipments, which I'm assuming is timing on some of these new platforms. Has something happened in terms of the supply chain or (inaudible) you've had from your customers suggest that those new platform will now be later in the year than you had expected?

Bob Livingston - *Dover Corp - President and CEO*

Well, you've got two questions there, supply chain and then the launch of the platforms. The launch of the platforms are probably at least a month or six weeks later than we were expecting three or four months ago. We also have heard some of the noise in the chatter about supply chain constraints with some of the product platforms that are being launched, but it's hard to point to anything specific, Nigel. We hear the same chatter that I'm sure you do.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, and then just finally, FX. Can you just tell us what you're using for planning in the second half of the year, and maybe if you just call out Brad, what the guidance looks like by segment ex-FX?

Brad Cerepak - *Dover Corp - SVP and CFO*

Okay, well first on FX, we're using, in our previous guide we were about a EURO 1.34. We're about a EURO 1.22 in this particular forecast, and it cost us, in terms of our growth rate total, total Dover at about 0.6 or 0.7 of a point FX impact. To put that in dollar terms, point to point at the midpoint, just to clarify the things we've been talking about, we're down about $180 million or so at the midpoint of our revenue guidance range. A piece of that, or let's say $50 million of that, give or take a few dollars is FX, call $50 million of it is the Europe and slowing China, and the rest remaining to be Sound Solutions.

Bob Livingston - *Dover Corp - President and CEO*

About $80 million.

Brad Cerepak - *Dover Corp - SVP and CFO*

About $80 million. As it relates by segment, most of the FX is in DPI. DPI was negative 2 to start in our earlier guide in the year, now negative 4, and then a little bit in DES where you get about 0.5 a point impact on FX related to their European-based business, mainly in pumps by the way, and the SWEP business.

Nigel Coe - *Morgan Stanley - Analyst*

Okay and then just a clarification. So 3% to 5% organic if we take out FX, that's more like what, 5% to 7%?

Bob Livingston - *Dover Corp - President and CEO*

If we take out FX, FX is 2% for the year.

Operator

Steve Tusa, JP Morgan.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Just curious on the dynamics of the third and the fourth quarter. You've been giving a lot of good detail on first half to second half, but your bookings were, I guess, $2.14 billion in the second quarter and your sales have somewhat tracked your bookings. I mean, you're not that long cycle in nature. So maybe its got a two- to three-month lead time. So I'm just curious, usually you have a decent performance from 2Q to 3Q but the bookings are kind of down sequentially. Is the difference there, can you just maybe talk about that walk, and I guess will everything kind of perform normal seasonally, with the exception of this ramp in Comtech, and I guess on the ramp in Comtech it sounds like that's a little more fourth quarter weighted than third quarter?

Bob Livingston - *Dover Corp - President and CEO*

Okay, well let's see you've got three or four questions there. So let's, maybe I'll start backwards, Steve. For Sound Solutions the answer is a definite yes. The fourth quarter is heavier than the third quarter on revenue and contribution margin, obviously. That's not true in our MEMS business. I think we've got a fairly even spread in the second half between the third quarter and fourth quarter with the total Knowles business. The other part of your question was around seasonality?

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

The only difference in the second half of this year with respect to seasonality would be around the Comtech part of the business, and it is interesting. Just because of the timing of these product launches, Steve, historically we've always looked at the Knowles/MEMS business as being 45% in the first half and 55% in the second half, and historically that's where you've sort of lay the revenue waterfall during the year because of the strong product launches in the second half. It's probably closer to 40%/60%, and that's a significant change. Beyond that you're not going to see any other differences in our seasonality. We still look at a seasonably weaker quarter from Hill PHOENIX in the fourth quarter than we do the proceeding three quarters, and I'm not sure there's any other business in Dover that has such a strong seasonal trend as HP.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Right, right. So we basically take the bookings for this quarter and then add on what we kind of figure out for the ramp at the Comtech business, everything else should be kind of track the bookings pretty closely?

Bob Livingston - *Dover Corp - President and CEO*

Yes. Now let's see. Maybe I can give you a little bit more detail on that. I'll comment, I shared with you in my prepared comments that the second half revenue, we see it being up about 7% sequentially. Those 7 points, Steve, about 1.5 points of that is coming from acquisitions that were made in the first half of the year. That's primarily Maag and PCS, but that's 1.5 of the 7.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay, and then you're not going to give us--

Bob Livingston - *Dover Corp - President and CEO*

50% of the seven points.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Then you're not going to give us the 2Q to 3Q just so we can -- it just seems like it's pretty fourth quarter, just to make sure our models are right, because there's a lot of moving parts heavy in the fourth quarter.

Bob Livingston - *Dover Corp - President and CEO*

Steve, I don't have that data in front of me.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay, no problem.

Bob Livingston - *Dover Corp - President and CEO*

I will comment again on the seven point sequential growth in the second half, 50% of that is coming from our handset business.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

I just wanted to follow up on the Printing and ID business in terms of the, obviously the decremental margins in the first half, very strong sort of 40% or 50%. It sounds like those should get a little bit better in the second half because of the absence of the year-on-year effective increased spending, but could you just clarify a little bit how you expect the margins to trend in the second half when you take the combination of less investment spending and some cost savings starting to come back?

Bob Livingston - *Dover Corp - President and CEO*

Well, I know the number I have in memory. Brad is looking at me to make sure I give you the right number, but I think sequentially, second half over the first half, you asked about the segment or you ask about MI?

Julian Mitchell - *Credit Suisse - Analyst*

The segment Printing and ID [of rule], yes.

Bob Livingston - *Dover Corp - President and CEO*

Okay, what is it about 350 basis points, Brad, second half versus first half?

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, it's about that. On average, yes.

Bob Livingston - *Dover Corp - President and CEO*

Yes, about 350 basis points improvement in the second half. Most of that is coming from Markem-Imaje. We are seeing a little bit of an increase in margins in the second half from our electronics businesses, but it's very modest.

Julian Mitchell - *Credit Suisse - Analyst*

Okay, thanks, and then on Markem-Imaje specifically, could you talk a little bit about what trends your seeing in different regions there? I think back in early June you talked about Northern Europe slowing a little bit for that business, China was still good. How are things looking there now?

Bob Livingston - *Dover Corp - President and CEO*

You referring to the second quarter?

Julian Mitchell - *Credit Suisse - Analyst*

Yes, so just the trends you're seeing in recent weeks or months, and how you think about second half by region for Markem-Imaje?

Bob Livingston - *Dover Corp - President and CEO*

Second quarter, we had our strongest growth region in the second quarter was actually North America. Actually to be more specific, it was actually US. I think our second strongest growth region -- and it was high single digit growth in the US. Our second growth area in the second quarter was China. Brad, I want to say it was mid-single digit.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

5% or 6% in China. Europe was down. Gosh, I don't remember, how do I pull that FX from this? I think organically, MI was probably down a couple points, maybe one point in Europe in the second quarter and--

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Brad Cerepak - *Dover Corp - SVP and CFO*

All the rest down.

Bob Livingston - *Dover Corp - President and CEO*

All the rest were about as expected, or as you would expect. Second half, I don't think the growth rates are any different in the second half than what we were experiencing in the second quarter.

Julian Mitchell - *Credit Suisse - Analyst*

Okay thanks, and then finally just on your China business overall, I mean, you've referenced the slowing there a couple of times on this call. Are you seeing any change in demand conditions? I mean, yes, some people are getting excited because certain companies are calling a turn and so on. Just what are you seeing in China?

Bob Livingston - *Dover Corp - President and CEO*

Well, we talk about it internally and it's really the tale of two different industries in China. For the business activity we have in China, that is in support of what I call the China export machine, it has been weak in the second quarter and it weakened during the quarter. You would see a little bit of that impact at Markem-Imaje, and some of the verticals that they support and service, really geared towards the export activity. You would see some of that lower activity in our pumps business, and some of the verticals they support. You would see this in our electronics equipment business. The parts of our business, and in the verticals we serve that I would label as domestic consumption, the activity held up fairly well during the second quarter. As far as your other comment, some people calling it a turn now in the second quarter. I'm not willing to do that yet. I think we've taken a rather cautious outlook for China in the second half.

Operator

Shannon O'Callaghan, Nomura.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

So just on Sound Solutions in terms of this timing and share shift stuff, I mean, does that mean, obviously the second half is now $80 million lower. Does that mean the exit rate for the year is lower? Do we ramp further into first half of '13 to get to where you thought you were going to be, or is the whole number just reset lower now?

Bob Livingston - *Dover Corp - President and CEO*

So the question is our fourth quarter outlook lower than it was 90 days ago for Sound Solutions? The answer is yes. Gosh, Brad commented earlier that our outlook for Sound Solutions, we've taken $80 million of revenue out of the second half forecast. I'm not sitting here doing a recall on how that split between the third and the fourth quarter, but I do believe the bulk of it was in the third quarter, but not all of it. So the fourth quarter is a little bit lower. We're looking at an exit rate here in the year, fourth quarter revenue forecast for Sound Solutions somewhere around $110 million. If you want to annualize that, Shannon, I would expect that to be what I call the absolute baseline for 2013, and I will tell you our expectations are going to be a little bit higher.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay, and then maybe just a question on M&A. I mean, you did really actually significantly ramp the buyback in the quarter I think, right? I mean, it was around 3.5 times what you did in the first quarter, a lot more than you guys have done in a while. So I'm just--

Brad Cerepak - *Dover Corp - SVP and CFO*

But recall that 1.6 million shares or so related to the shares we issued in connection with the PCS acquisition. So we went right back into the market and bought those shares back. Think about that as really an acquisition cost.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay. So as you think about the, I guess the M&A pipeline out there, I'm just, in terms of what could be out there relative to the attractiveness of buying back our own stock here, I'm just wondering how you're thinking about that tradeoff.

Bob Livingston - *Dover Corp - President and CEO*

There is a tradeoff, Shannon. As I commented earlier, it is, the share repurchase topic is getting a lot of discussion, but I have no announcement to share with you.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay.

Brad Cerepak - *Dover Corp - SVP and CFO*

But I think I would just add to that, as Bob put in his commentary, maybe our focus has shifted a little bit, Shannon, to highly integrative bolt-on deals, and price discipline and that's key I think. That's a key thought process.

Bob Livingston - *Dover Corp - President and CEO*

Okay, well yes. Now, any further color on that I guess would be, don't expect us in the second half of this year to announce a large acquisition.

Shannon O'Callaghan - *Nomura Securities Intl - Analyst*

Okay. So any deals would be fairly small, easily integrated bolt-ons?

Bob Livingston - *Dover Corp - President and CEO*

Gosh, I don't think we have anything in our pipeline that has any likelihood of closing in the second half of the year. Help me here, Brad, that would be greater than $250 million.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, Roughly speaking, yes.

Operator

Nathan Jones, Stifel Nicolaus.

Nathan Jones - *Stifel Nicolaus - Analyst*

Still a pretty strong quarter for bookings in Refrigeration and Industrial, but it was probably below the normal seasonal increase in those businesses. Can you talk about the drivers, what impact, with the benefit of hindsight, you think good weather in the first quarter might have had in pulling demand forward, what impact the economic uncertainty is having, and what your expectations are for the back half of the year?

Bob Livingston - *Dover Corp - President and CEO*

Gosh, I'm not sure I can label any activity in the first quarter as a full-forward related to weather, with maybe one possible exception, and it's just hard to know, I mean it's all supposition, We had a very, very strong start to the year at Hill PHOENIX, and I don't remember the comps from the first quarter, but goodness, I think bookings in the first quarter were up 16%, 17%, 18% over the first quarter of last year. Again, we had a very, very strong start. Second quarter revenue at Hill PHOENIX is probably what, Brad, up 9% or 10%?

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, year over year.

Bob Livingston - *Dover Corp - President and CEO*

Over the second quarter of last year. I would label that the Hill PHOENIX market activity and the Hill PHOENIX business activity as being quite strong in the first half.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay, if I could just--

Bob Livingston - *Dover Corp - President and CEO*

I'm not sure any of us could point to anything else within Engineered Systems that could even be remotely labeled as a pull-forward of activity into the first quarter.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay, and then just jumping over the balance sheet, inventory seems to be getting up to a reasonably high level. Can you talk about what's driving that build, whether it's primarily related to Comtech, or if there's other areas where inventory's building to satisfy back half demand, or maybe if the downturn in Europe caught you with too much inventory and if you're satisfied with where the inventory levels are?

Bob Livingston - *Dover Corp - President and CEO*

I would say it's more normal seasonality, a little bit related to acquisitions, but there's nothing unusual about the working capital nor the inventory in the quarter based upon what we normally see. So in other words, I think our working capital as a percent of sales is roughly around 17.9%, 18% of sales, and that's historically about where we would expect to be. So we don't sit here today with a feeling that we have excess inventories in any particular area of any significance.

Operator

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

Paul Goldberg - *Dover Corp - VP, IR*

Thank you, Jackie. 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. Thank you very much for your participation. Have a good day.

Operator

Thank you. That concludes today's second quarter 2012 Dover Corporation earnings conference call. You may now disconnect your lines, and have a wonderful day.
