OVERVIEW:
Co. reported 3Q21 YoY revenue growth of 15%. 
CORPORATE PARTICIPANTS

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Brad M. Cerepak  Dover Corporation - Senior VP & CFO
Richard Joseph Tobin  Dover Corporation - President, CEO & Director

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PRESENTATION

Operator

Good morning, and welcome to Dover’s Third Quarter 2021 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Andrey Galiuk, Vice President of Corporate Development and Investor Relations.

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

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

Andrey Galiuk  Dover Corporation - VP of Corporate Development & IR

Thank you. Good morning, everyone, and thank you for joining our call. This call will be available on our website for playback through October 26, and the audio portion will be archived for 3 months.

Dover provides non-GAAP information, and reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials, which are available on our website.

Our comments today will include forward-looking statements that are subject to uncertainties and risks. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K and our most recent Form 10-Q for a list of factors that could cause our results to differ from those anticipated in any forward-looking statement. We undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.
With that, I will turn this call over to Rich.

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

Thanks, Andrey. Good morning, everyone. Let's go to page 3. Dover Corporation and its operating companies had a solid quarter. The performance stats indicate that our product strategies, coupled with our ongoing productivity initiatives, continued to deliver top line growth, margin accretion and attractive cash flow to our investors. Our revenue and bookings growth continued to outpace our pre-pandemic levels, and we exit the quarter with a record high and sequentially increased backlog while posting top line growth of 15% over the comparable period. Demand strength was broad-based as each segment posted year-over-year growth in bookings and a book-to-bill above 1.

Revenue growth product -- positive product mix and ongoing productivity initiatives drove comparable operating margins up, resulting in a 31% increase in U.S. GAAP diluted earnings per share. Our free cash flow performance was strong with an 18% year-over-year increase despite significant investments we’ve made in inventory as we begin to reap the benefits of our investments in the centralized financial processing activities.

We continue to enhance and improve our portfolio with several acquisitions completed in the last 3 months and the divestiture of our commercial foodservice business announced last week. Our organic investments and capacity expansions and productivity projects are on track, providing us the building blocks for the future top line growth and margin expansion.

As one of the first multi-industrials to report each quarter and because of our wide end market exposures, we have the pleasure to be the operating environment bellwether, so let's get on the front foot here by providing some color on inflationary inputs, labor and supply chain challenges so that we have time to discuss the constructive demand environment for 2022 in the Q&A.

Let me start by saying that we're particularly concerned that there have been no discernible policy changes, particularly in the U.S., to deal with these headwinds. And in fact, many proposed policies run the risk of extending their delays. We take no satisfaction in the fact that we've been telegraphing these issues all year and incorporating them into our forecast to the businesses that bear the brunt of these challenges, which I'll expand upon during the segment review.

We have taken the appropriate actions to offset these headwinds moving into 2022, and we are comforted by the fact that we have been given the opportunity to demonstrate the resilience of our business model and the strength of the breadth of our product and geographic market exposure that are ultimately reflected in these quarterly results.

To be clear, we are very constructive about 2022 demand for our products and services and remain optimistic that there will be a recognition that protecting the duration of the current strong economic demand environment needs proactive policy decisions.

We are raising our full year EPS guidance as a result of our strong year-to-date performance. Our updated forecast do not incorporate any material improvement nor deterioration of the challenging operating environment in the fourth quarter. Our priorities remain the same, supporting our customers with products and services for the long term and the health and welfare of our employees.

I'll skip to slide 4, which provides a more detailed review of our results for the third quarter. So let's move to slide 5. Engineered Products revenue was up 14% organically with a significant portion of the growth from pricing actions. Vehicle services posted a strong top line quarter, and market indicators remain positive with vehicle miles driven recovering and average vehicle age continuing to increase. Industrial automation demand was up double digits with strong activity in Americas and China.

Environmental Services Group revenue was up year-over-year, and its backlog remained strong moving into 2022. Aerospace and defense posted a decline year-over-year, largely a result to changes in program shipment timing. The margin performance in the quarter was unfortunately what we expected to occur as we progress through the year.

Our Engineered Products segment, as we've discussed previously, has the largest exposure to raw materials, assembly labor as a percentage of cost of goods and supply chain complexity. As such, it is more than just a price/cost issue where even an equilibrium drives negative margin
performance. It is exasperated by numerous component supply issues that necessitated us to intermittently curtail production to stabilize the manufacturing system in the quarter. Our management team is doing exactly what we’d expect of them to protect profitability in the short term while managing the relationships with our strategically important customers. I have absolute confidence that the profit margin in the segment will bounce back as we move into ‘22 as a result of actions already taken in price and as raw materials and supply chain constraints moderate as can be seen in the raw materials futures and stabilizing container shipping rates.

Fueling Solutions was up 3% organically in the quarter on solid demand in North America for above-ground and below-ground retail fueling. We believe our production schedule and delivery times are driving share gains, particularly in the above-ground category. Vehicle wash posted another strong quarter with some encouraging customer conversion and cross-selling benefits from our recent ICS acquisition. Activity in China remained subdued driven by the lasting impacts of COVID and near-term uncertainty related to energy supply. Fuel transport components were negative for the quarter, but we believe that this is expected to improve moving forward. Margins in the segment declined 150 basis points in the quarter as productivity headwinds from supply chain constraints and subcomponents and negative mix more than offset higher volumes and pricing. We have taken the appropriate actions on pricing to counter these headwinds going forward.

Sales in Imaging & Identification grew 7% organically. The core marking and coating business grew well on good demand for printers and consumables. Serialization software also grew ahead of expectations, and we are working to add additional resources here as we integrate the recently acquired Blue Bite brand management software into our solutions. The digital textile printing business was up significantly year-over-year against a low bar comparable quarter and is continuing its gradual recovery. Margins in Imaging & ID improved by 250 basis points as volume leverage, pricing and productivity initiatives more than offset input cost inflation.

Pumps & Process Solutions posted another solid quarter at 25% organic growth. Demand for biopharma connectors and pumps continued to be strong. We continue to expand clean room capacity for our biopharma connectors and single-use pumps in the period, and we are encouraged by specification wins in Em-tec biopharma flow meters, which we acquired last year. Industrial pumps were up based on broad-based end customer demand with particular strength in China.

Precision Components was up year-over-year as compression OEM and aftermarket businesses continued their recovery. Polymer processing was down in the quarter due to a combination of shipment timing and a very strong third quarter from the prior year, though new order rates remained strong and outlook is positive moving into 2022. Margins in the quarter expanded by a robust 630 basis points on strong volume, fixed cost absorption, favorable product mix and pricing.

Top line results in Refrigeration & Food Equipment remained strong, posting 16% organic growth. Revenue in beverage can-making equipment doubled in the quarter. The business is booked into late ‘22 and is taking orders for ‘23. The heat exchanger business grew on robust demand in all geographies, led by residential heating and industrial end markets, and a recovery in the global commercial HVAC demand. Order intakes continue to exceed our ability to ship, so we are adding additional capacity in 2 geographies to ensure that we can meet forecasted demand in 2022.

Demand in Food Retail remains robust with elevated bookings and backlogs across all our product lines. However, much like our Engineered Products business, we have a difficult time with labor constraints, and in particular, subcomponent supply, which has necessitated significant operational cost in logistics intermittent production curtailments, and in one case, a deferment of a delivery into 2022. Again, management is straddling cost recovery actions and meeting demands of our customers, but it clearly comes with a cost. Margins were largely flat in the quarter as excellent operating performance in SWEP and Belvac offset refrigeration headwinds despite the smaller revenue base.

I’ll pass it to Brad here.

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

Thanks, Rich. Good morning, everyone. Let’s go to Slide 6. On the top is the revenue bridge. Our top line organic revenue increased by 13% in the quarter with all 5 segments posting growth with strong demand in our Engineered Products, Pumps & Process Solutions and Refrigeration & Food
Equipment segments. FX benefited the top line by about 1% or $21 million. Acquisitions added $18 million of revenue in the quarter. There was no year-over-year impact from dispositions.

The revenue breakdown by geography reflects strong growth in North America and Europe, our 2 largest regions, and modest growth across Asia and the rest of the world. The U.S., our largest market, posted 16% organic growth in the quarter on solid trading conditions in retail fueling, industrial automation, biopharma and can-making. Europe grew by 16% in the quarter on strong shipments in marking, coating, biopharma and industrial pumps, can-making and heat exchangers. All of Asia was up 5% organic on growth of biopharma and industrial pumps and heat exchangers, partially offset by year-over-year declines in polymer processing, below-ground retail fueling and fuel transport. China, which represents approximately half of our business in Asia, was up 8% organically in the quarter.

Moving to the bottom of the page. Bookings were up 25% organically, reflecting the continued broad-based momentum across the portfolio. In the quarter, we saw organic growth across all 5 segments.

Let’s go to the earnings bridges on Slide 7. On the top of the chart, adjusted segment EBIT was up $64 million, and adjusted EBIT margin improved 80 basis points as improved volumes, continued productivity initiatives and strategic pricing offset cost inflation and production stoppages.

Going to the bottom chart. Adjusted net earnings improved by $57 million as higher segment EBIT and lower corporate expenses more than offset higher taxes. Deal expense in the quarter were $3 million.

The effective tax rate for the third quarter, excluding tax discrete benefits, was approximately 21.8% compared to 21.5% in the prior year. And our effective tax rate estimate pre-discrete for Q4 in the full year remains unchanged at 21% to 22%. Discrete tax benefits were $8 million for the quarter or $4 million higher than in 2020 for approximately $0.03 of year-over-year EPS impact.

Rightsizing and other costs were a $2 million reduction to adjusted earnings in the quarter as a onetime recovery related to a cancellation settlement more than offset our ongoing productivity and rightsizing initiatives.

Now on Slide 8. We are pleased with the cash performance thus far this year with cash -- with free cash flow of $667 million, a $104 million increase over last year. Free cash flow conversion stands at 11% of revenue year-to-date despite a nearly $250 million investment in working capital.

As we discussed last quarter, we remain focused on delivering against our customers’ strong order rates, and we are carrying high inventory levels to ensure we can meet current demand for the rest of the year and into next year.

Let me turn it back to Rich.

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

Thanks, Brad. I’m on Slide 9, which is a familiar format we used during the Investor Day in 2019 to describe our inorganic growth priorities. I’m pleased to report that our activity since then has aligned well with those priorities, and we remain busy adding logical and logistic bolt-ons that will support the long-term growth of our core businesses as you can see that we are investing in the highest priority platforms with an emphasis on high growth, high gross margin products and solutions.

We remain disciplined in our approach to acquisitions. And despite the challenging asset prices in today’s environment, we have acquired 7 bolt-on acquisitions year-to-date that meet our investment return criteria, including 2 in the third quarter and 1 that closed last week. The most recent deals highlighted in green were CDS, an industrial 3D visualization software, which we expect to grow in third-party revenues and also adopt across the Dover portfolio in our journey towards digitizing the front end of our businesses, lowering our transaction costs; SP, which complements our aerospace and defense business, a software-driven signal intelligence solutions; and LIQAL, which is an emerging leader in LNG and hydrogen dispensing solutions. Each transaction is modest addition to our aggregate portfolio, but we are very excited about scaling up these innovative and strategic technologies over time and the positive impact to EPS as these investments mature. We remain on the hunt for acquisitions and have a solid M&A pipeline that aligns well with our portfolio priorities.
We also took advantage of recent market activity in the food equipment sector to sell Unified Brands, our professional cooking equipment business for commercial foodservice operators. The deal was announced in early October and is expected to close in the fourth quarter. Unified Brands represents less than 2% of our overall revenue, and its sale will have negligible impact on our '21 adjusted EPS. I would like to thank the management and employees of Unified Brands for the many years of service in the Dover family.

As we look to the end of the year, demand outlook remains favorable across the majority of the portfolio. Backlogs and bookings remain robust, and we expect to post strong organic growth in Q4.

Overall, we remain on track to deliver strong returns this year through a combination of robust growth in revenue, operating profit and cash flow, coupled with disciplined capital allocation. We also look forward to closing out this year and laying the foundation for what we believe to be a positive demand environment in 2022.

We have clarity about the nature of the inflationary input and supply disruption costs that we have incurred in Q3 and expect to queue in Q4 due to the challenging operating environment, and we have conviction that we can turn them into profitability tailwinds as conditions improve and the calendar progresses from here.

Before wrapping up, I would like to thank Dover for all their perseverance and accomplishments executing in today’s environment.

And with that, let’s turn it to Q&A.

**QUESTIONS AND ANSWERS**

**Operator**
(Operator Instructions)

We'll take our first question from Jeff Sprague with Vertical Research.

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

Great color here. First, just on inflation, Rich, it sounds like supply disruptions and kind of the -- what it did in your factories was much more of a challenge than getting price to overcome cost. Can you just address that a little bit more? And were you relatively price/cost neutral in the quarter?

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

We were not price/cost neutral in the quarter in the segments where you can see the dilution at the operating margin. So it's a little bit of a twofold story. Where we're getting the most price is where we're getting impacted the most because not only you driving -- with price increases driving the top line, even in equilibrium, that's dilutive to operating margins. So when you're in a negative position, you get kind of a 300-point dilution. So the bad news is we're not in equilibrium in Q3. From here, we begin to squeeze that down in Q4 and, if conditions don't deteriorate, go positive moving into '22.

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

And then unrelated but the backlogs and what you're kind of pointing to here in Q4. Looks like, at the midpoint, your Q4 revenue has guided down about 9% sequentially, which would be more than normal and certainly seems high, especially relative to the backlog. So could you just address that? And give us a little more color on how you might be able to uncork these backlogs and the visibility and maybe what a normal backlog situation would look like.
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. I think that we're hopeful that we can get out what we're projecting in our guidance. Clearly, not in the -- not only in the revenue but the EPS. We're driving towards the top end here. But it's a normal Q4 despite -- and Brad went over cash flow. We will run for cash somewhat at the end of the year. We have certain businesses that are seasonal that don't deliver much in December, and then we lose production days, just because of Thanksgiving and Christmas. So we're talking about double-digit growth quarter-over-quarter into Q4, and we're going to endeavor to get it out, Jeff.

Operator

And we'll take our next question from Steve Tusa with JPMorgan.

Charles Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

Just to clarify on that last one, you said price/cost neutral. So pricing was, I think, 3.5% or something like that, so roughly $60 million of kind of favorability. Do you mean on kind of an absolute basis that you had more cost inflation than that in the quarter?

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

Yes. I mean there's 3 buckets, right? There is raw materials. There's logistics and supply chain, and then there's business interruption costs that we incurred during the quarter. The vast majority of the negative impact is reflected in the segments that you can see, and a conservative view of what that cost was in the quarter is somewhere in the order of $25 million to $30 million in EBIT lost. That compresses in Q4 on a lower revenue line.

Charles Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

Right. That's from the disruption, you said, like kind of like disruption?

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

That's all 3.

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

That's all it.

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

That's all 3.

Charles Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

Okay. So then why wouldn't that be -- so then why wouldn't it be positive price/cost, if that's the case?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Because a lot of it is still in inventory. So you've got that role based on -- you've got the raw materials and inventory, and you've got the orders in backlog and depending on when you took the orders and when they cycle through. So in the 2 most effective businesses that we have, the price/cost in total, including all 3 categories, narrows from the number that I just gave you, but it does not get positive. Without getting granular here, it may get positive on raw materials but not pick up logistics on the logistics side. From a total portfolio point of view, I think that we are in neutrality in Q4.

Charles Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

Got it. And then are these supply constraints like -- is there anything that really stands out? Are there like onesies and twosies of components? Or is there something that really stands out? And ultimately, could you give any visibility on kind of -- I guess the million-dollar question is timing of resolution on these things. I mean are we going to be going into the second quarter of next year still kind of dealing with this stuff in your view?

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

Well, look, I mean, as Brad mentioned, we're carrying the inventory, so we won't liquidate all of that in Q4. So to a certain extent, we are over ordering on the component side, just because of -- it's a little bit of a whack-a-mole. I mean it was hydraulics back in Q2, and to a certain extent, at the beginning of Q3. That's lightening up, and now it's electronic components. So it's a myriad of stuff. But unfortunately, all it takes is one missing piece here.

It seems like it's getting -- it's not getting worse, I guess, is what I'm saying. I'm a bit concerned about policy decisions making it worse. I don't have a lot of faith in announcements about port activity having a demonstrable impact in the short run, quite frankly. But I think that, because of the fact that we've been over ordering to a certain extent ourselves, I think it should modulate. But I'm not ready to prognosticate about how much better it gets in Q1, other than to say that we believe that we've got positive pricing roll forward into Q1 and based on raw materials that the forward curves are constructive.

Operator

And we'll take our next question from Andrew Kaplowitz with Citigroup.

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

Rich, nice quarter. So you ended up recording mid-20% incrementals in Q3, and you're projecting something close to that in Q4. It's still kind of in your range or close to your range of that 25% to 35%. So you talked about price versus cost starting to turn. As you look out into '22, how much confidence does it give you that you could deliver incrementals at or above 25% to 35%, given all of the ongoing projects you have? You've got productivity projects in DP. You've got that structural cost that you always talk about. So do you have more confidence given how well you've performed with these headwinds this quarter?

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

I think that we are -- I think that what we believe that is structural in nature in terms of the inflation is the labor. So if we're constructive about raw mats coming down somewhat and we're constructive about the lagging effect of price increases and inventory turns that we believe, as I mentioned in my comments, that we can bring back the margin profile of the biggest impacted business that we have. In any given year, we expect to offset inflationary inputs at the factory level with productivity. Now we've got to do a little bit more of that, just because of the labor inflation, but I think that, that's doable.
Andrew Alec Kaplowitz - Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head

Got it. And then maybe I can ask you specifically about DPPS. We know you’ve been building out capacity in biopharma. You’ve talked about that. I think you’ve got some cyclical improvement in Precision Components, but this segment is up over 20% versus 2019 with a backlog that’s up 90%. So I think people -- some people are worried about DPPS eventually running into more difficult comps. So based on your own organic investments, does DPPS stay one of your fastest growing segments? And how would you say now that you -- can you maintain the recent margin performance that you’ve had?

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

Well, we get asked this every quarter, and the answer is yes. As we talked about in the call, we're expanding capacity, and we wouldn't be doing that if we weren't proactive about the demand environment going into '22. Do we get a little bit of margin fade due to mix? Maybe. But is it going to be material? No.

So we look at it this way. We understand that this has been material in terms of the year-over-year profitability of the group. Would we rely on that level of profitability change moving forward from here? No. But I think that we’ve got a lot of ammunition, back to your other question about what we think that we can roll forward in the portfolio next year. So we don’t need that kind of pickup next year, just relative to the size of the change in earnings this year.

Operator

And we'll take our next question from Scott Davis with Melius Research.

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

Rich, you talked a little bit about how you’re kind of strategically building inventory. Are your customers strategically building inventory, too? Is there a chance that some of the channel's getting a little fat in certain SKUs?

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

Not in inventory. I mean, it’s a big question. Look, the thing we’ve been discussing all year is the backlogs are so large by -- is that being influenced? Sure, it’s being influenced because the supply chain constraints are becoming so difficult. No one wants to live with that next year, so lead times are stretching out, and that’s reflected in the backlog to a certain extent. I’m not aware, and based on the yelling and screaming that goes on around here about getting the product out the door, that we’ve got any channels that are carrying excess inventory. Pretty much, right now, everything that we can get out the door, our customers and distributors will take.

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

Okay. And Rich, can you just help understand? You talked about curtailing some production. Are you talking about -- I mean, logistically, help us understand what that means. Did you shut something down for a week and give everybody paid time off? Is it just a shift here and there? I mean what’s kind of the extent of when you do a shutdown like this? And are you eating full labor costs and such in that time period? Or are there adjustments that are made with -- in that regard?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. It's a mixed bag. We have -- at a certain point, you can't have half-built or 3/4-built units. You just -- the logistics, if you think about refrigeration units, you think about ESG truck bodies, you think about vehicle lifts, you just get to the point where the cost of reworking those goods, putting in those last pieces of component parts as they arrive, the math doesn't make sense. And it gets really complicated, and then you just say we need to stop. Sometimes, you stop for 2 or 3 days. Sometimes, you stop for a shift, depending on inventory deliveries and everything else. But I would tell you that it would -- a lot of it is driven by the size of the goods, if you think about it that way. I mean if you're thinking about it like a pump, you can -- we've got enough warehousing space to take that. If you're thinking about truck bodies and you're thinking about refrigeration units, you get to the point where you're just better off taking the whole machine down for 2 or 3 days. And when you do so, you don't carry all the labor, but you carry most of it. So the negative absorption is what you would expect.

Operator

And we'll take our next question from Julian Mitchell with Barclays.

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

Maybe just wanted to circle back, unfortunately, to this sort of price net of cost topic. Stepping back from the sort of quarterly back and forth, so for full year '21, what is that net dollar price/cost headwind? Is it sort of $10 million, that type of range? And then when we think about next year, do you think Dover should benefit from a lag as we see those forward cost curves come down? Maybe that's reflected in the real costs coming in. What's the ability of your pricing to kind of hang in there relative to that cost normalization next year if we see it?

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

Okay, okay. The 3 components that we're talking -- when we -- I don't want to rewind the clock here, but we started in Q4 and Q1 of last year, talking about raw material price/cost, where we said at the time we would be in neutrality, right? Then when we went from there to a labor inflationary environment and even more problematic supply chain and logistics. Labor inflation, I'm not even going to get into it. It's up to us to offset that, just in terms of raw productivity.

So where we are, and I think that I gave you the number, it was $25 million to $30 million of negativity in the 2 segments that you see dilution in the quarter. We expect that to compress some in Q4 which is driven by 2 things. One is the revenue in Q4 relative to Q3 and the fact that you've got a roll forward and the catch-up on pricing as you work off older-dated backlog.

So as I was -- back to the question I was asked before, all things being equal, as that older-dated backlog reprices itself because of pricing actions taken through the year, that it becomes a negative -- it becomes a positive moving into Q1 under the assumption that things don't get worse from here and under the assumption that the market structure, the pricing in the market structure remains as it is today, which we believe it's going to, by the way.

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

Got it. And so -- to next year where you do get that spread? Or do you think the market is sort of too efficient for that?

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

Well, we're going to have to fight it out, Julian. And we've taken the pain to make deliveries to our customers, and we've been having discussions with them that we're not repricing backlog in a lot of instances. So we are taking it through the P&L, which also means that as future prices of
metals come down, we’re also not replacing the -- repricing the backlog that we have. And so our backlogs are actually up sequentially despite the fact having 15% growth. So it’s not going to be easy, but that’s kind of the way that we’re managing the process.

Julian C.H. Mitchell  -  Barclays Bank PLC, Research Division  -  Research Analyst
That’s very helpful. And just a last one on this point. So your gross margin was up a lot in the first half, down slightly year-on-year in the third quarter. Should we assume by first quarter next year, as things look today, that it’s up year-on-year again?

Richard Joseph Tobin  -  Dover Corporation  -  President, CEO & Director
Year-on-year again. You know what? I don’t have the gross margin for Q1 in my head, but I would assume that our projections for the majority of the portfolio are to grow the top line next year. I’m not aware of negative mix, segmental negative mix. So on absorption alone, we would expect that.

Operator
And we’ll take our next question from Andrew Obin with Bank of America.

Andrew Burris Obin  -  BofA Securities, Research Division  -  MD
Just in terms of supply chain disruption, and folks talked about it. But could you quantify the magnitude of delayed shipments on third quarter revenue? And if supply chain issues remained the same in fourth quarter, I mean, should we think about these showing up in 2022? I mean what happens with all these delayed shipments?

Richard Joseph Tobin  -  Dover Corporation  -  President, CEO & Director
Well, first and foremost, our guidance incorporates our view of what happens going forward, number one. Number two, could we have shipped more in Q3? Clearly, we could have. I think that this argument about lost revenue is an interesting one because everybody, I suppose, all market participants claimed lost revenue because demand is high, and supply constraints are tight. So monetizing that as lost is a little bit of a fool’s game. We could have shipped out more in Q3. It would have reduced our backlog slightly is my presumption, and I don’t believe that it would allow us to ship more in Q4 materially.

Andrew Burris Obin  -  BofA Securities, Research Division  -  MD
Got you. And can you just touch on cadence of bookings as you went through the third quarter? And any early feel for changes here in the fourth quarter? I mean, clearly, the end market looks robust but maybe a little bit more color.

Richard Joseph Tobin  -  Dover Corporation  -  President, CEO & Director
I think that the last time we did this was August, and we said that it was -- August is always a choppy month for bookings, so we’d have more clarity as we went through the quarter. Clearly, they’ve got better in September and October based on the results that we’ve posted. My expectation that they will slow on a run rate basis going into Q4 because, essentially, Q4 is already in backlog for the most part.
And we will take our next question from Joe Ritchie with Goldman Sachs.

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

So Rich, just maybe going back to just supply chain discussion for a little bit, maybe a bigger-picture question here. You have had some announcements from the government that they're trying to ease the supply chain issues by going to like a 24/7 model at the ports. What I'm hearing from you is that like you're not really seeing much of an improvement at this point, but I want to make sure that like I'm getting that correctly on the latest data point. And then just very curious, like what would you do if you had to do like proactively change policy decisions? What would you do to try to ease some of this burden?

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

Going and just announcing 24/7 operations as if you have all the employees and all of the moving parts to make that happen overnight is naive. I think the intent is there, but if there's -- we don't believe there's going to be any demonstrable change in performance between now and the end of the year. It's just too complex of an ecosystem.

I'm not an economist. We've been having -- if you go back and look at our comments all year long, this notion of transitory inflation and blaming used car prices has been naive at best. It's been manageable for corporates as corporates have priced inflation, but that is a how long is a piece of string argument. So coupled with a lot of other proposed agenda items that one conceivably could say would cause additional inflation and port congestion, I'm not entirely sure that that's a strategy that's well-thought-out.

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

Got it. Okay. That's super helpful. And I guess, maybe just kind of thinking about this pricing, the backlog. Clearly, backlog is in great shape going into next year, maybe even beyond. I guess the concern in the market is your ability to make sure you can get pricing or reprice portions of the backlog to meet what the cost environment looks like. And so as you kind of look at your backlog and your portfolio, are there any areas where there's maybe a little bit more concern on potentially repricing the backlog? Or should we feel good going into 2022 that the margin on that backlog is in good shape?

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

We are not repricing backlog materially in any portion of the group. We're actually doing quite the opposite. We're holding pricing in the backlog to the detriment of margins as we push the product out the door because we believe that preserving our customer -- our strategic customer relationships and not forcing demand destruction is a more favorable equation than having fights about repricing backlog when we're actually repricing all new orders as we progress through the year. So the only negative scenario, that ends up being a rolling credit, unless one wants to make an assumption about inflationary inputs getting worse going into '22 from where the baseline is right now.

And we'll take our next question from Josh Pokrzywinski with Morgan Stanley.

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

Rich, just maybe first on some of these kind of bottlenecks that you guys are seeing. At what point, just based on what you can see in terms of what comes up next in the backlog or some sort of business mix, do you think you can get past that 2Q high watermark for what is able to get out the
door? I imagine seasonality plays a role as well. But is that something that you have line of sight to right now and the way you guys are thinking about the next couple of quarters?

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

I guess I'm allowed to make one positive comment since we're going to deconstruct all this. Remember that our margins are up quarter-over-quarter for the minutes here. Yes. Look, I mean, at the end of the day, Q3 was tough, I mean, for -- we still had COVID Delta going on at the time with absenteeism driven by that, which we're largely behind. There's nothing that's fundamentally changed in our ability to manage output. It's been a little bit of a struggle. I think that we were, I guess, a little bit disappointed on the labor equation. We had projected it to get materially better in Q3, and it got a little bit better as we exited Q3, but the first couple of months were quite difficult. So I'm not overly concerned on our ability to get to high watermarks. And we've got some relatively robust projections for revenue growth for 2022, and we've got the footprint to deliver it.

So again, unless we want to make an assumption that supply constraints deteriorate from here, which we don't believe, then I think that we're positioned appropriately just by the fact that we've over ordered on the inventory side, at least we start off on the front foot.

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

Got it. And then just specifically on Pumps & Process Solutions. I mean you guys have a mountain of backlog there. It doesn't seem like the order intake is really slowing. I mean, just if you get down that backlog to a normal level, and I don't know what normal is anymore, but it seems like that business sort of has to grow double digits next year. I mean, a little early on '22, but like that isn't a long-cycle business, and you got more backlog than maybe you know what to deal with. Like what's missing in that equation?

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

Well, I think we mentioned it before, we're going to get into '22. And if we're all positive about input costs and logistics and supply chain, backlogs are going to drop, right, because lead times are going to shrink. And everybody is going to panic, and you shouldn't. So I think that the bottom line is because of these constraints, backlog is good. It gives us a lot of visibility going into the year. And our expectation that backlog -- that total backlog will fade proportionally, but that's actually a good sign. I'm not going to give out growth rates by segment for '22, as I mentioned in my comments. I think that we've done our early looks at what '22 is setting up to be. And I think from a top line point of view, which is portfolio-wide, we're constructive.

Operator

And we'll take our next question from Nigel Coe with Wolfe Research.

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

So obviously, the backlogs -- not so much the backlogs, the book-to-bill ratios have been off the scale. So I understand the lead time is impacting backlogs, but book-to-book has been very strong now for the last 3 or 4 quarters. I really want you to address the question of what’s changed, what’s different about this recovery versus the last couple, which have been pretty anemic. So what do you think is driving such strength here? And then maybe just address -- you talked about how you’re preordering or maybe buffering some of these components. To what extent do you think your customers are doing the same thing as well?
Okay, Nigel, I think I answered the question before that we do channel checks right now, and we are not aware of inventory of our products being elevated in any of our end markets. Clearly, order rates are a reflection of backlog build. And that's why order rates continue to be elevated, and backlog has not come down despite the fact that the top line growth has been good. It will -- backlog will fade over time. I don't want to repeat myself over and over again here.

So what's driving the recovery? I think a couple of things. From a Dover point of view, I think that the portfolio is a lot different than it was in the past. I think that, clearly, it looks like we're moving into a CapEx cycle in a lot of our end markets. We discussed refrigeration before, but that seems -- we are getting quite proactive about the energy complex, for example. And I think that we've got some market exposures with the biopharma platform that we've had in the past that you can't compare.

So overall, I think it's a combination of we've expanded capacity in markets that are growing. So we've got available product and the profile of the end markets at Dover has changed meaningfully over the last 5 years.

Right. But the CapEx cycle is what I was trying to get at. You sound pretty confident we are in a CapEx cycle, that's great.

And then the portfolio slide was really helpful because your M&A has been -- maybe each deal flies below the radar a little bit. But when you add them together, they're meaningful. I mean are you happy to maintain this kind of cadence with smaller bolt-on type deals but additive in aggregate? So do you think that there could be 1 or 2 larger opportunities down the road?

We look at larger opportunities all the time. The problem with larger opportunities, the bigger the opportunity, the more it attracts in terms of interest because of just scale, and so pricing becomes difficult. If we look at where value has been created for Dover, historically, it's these bolt-ons that use the network effect of Dover that have been high-value returners. So I don't think we'll ever stop doing the small ones because I think that we've got a lot of conviction behind that process. But would we like to do some bigger ones? Sure, we would. We just need to find the appropriate-priced deals out there.

We evaluate annually market structure participation by all of our operating companies. The fact of the matter is over the last 3 to 4 years, the market structure in foodservice equipment has changed for a variety of reasons. And we just did not believe that Unified Brands within the Dover family was going to be able to extract the value and that it was more appropriately owned by someone that has the scale to participate in that structure.

Maybe we should stick with M&A but on the divestiture side. And maybe just put in context the Unified Brands divestiture. Is it truly a one-off opportunistic divestiture? Or might it be the start of a pivot away from selectively in Refrigeration & Food Equipment?

We evaluate annually market structure participation by all of our operating companies. The fact of the matter is over the last 3 to 4 years, the market structure in foodservice equipment has changed for a variety of reasons. And we just did not believe that Unified Brands within the Dover family was going to be able to extract the value and that it was more appropriately owned by someone that has the scale to participate in that structure.
Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst

That’s helpful. Could maybe -- you’re not going to give specifics, I understand. But just how does that pipeline of potential divestitures, the pruning that you’re doing, where does that stand?

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

There’s not a lot, right? Like I said, we evaluate it annually. We’ve got a view of the value creation that’s embedded in each piece of the portfolio. But as a multi-industrial, if we were to get an inbound request where the value paid is in excess or equal to the value that we think that we could create, then we’d have to take a look at it. But right now, it’s not the only table that we’re actively looking at.

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

Got it. And then just last one, to go back on pricing, Rich, you talked about this during the quarter that you felt that a fourth price increase could actually start to result in some pushback demand destruction. You answered the question, not repricing backlog. But just broadly within the businesses, are you seeing that sort of price elasticity coming through where a fourth price increase might be problematic?

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

It depends, Deane. We have not been aggressive on repricing a backlog because we take seriously our commitment when we accept an order that we accept to deliver against those commercial terms. But having said that, we have been sequentially moving on price, primarily because of raw materials, not so much due to labor and supply chain.

Operator

Thank you. And that concludes our question-and-answer period and Dover’s Third Quarter 2021 Earnings Conference Call. You may now disconnect your line at this time, and have a wonderful day.