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# EDITED TRANSCRIPT

DOV - Q3 2015 Dover Corp Earnings Call

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**OVERVIEW:**

DOV reported 3Q15 revenue of $1.8b and EPS of $1.19. Expects 2015 revenue to be down 10-11% and EPS to be $3.73-3.80.





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## CORPORATE PARTICIPANTS

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**Bob Livingston** *Dover Corporation - President & CEO*

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## CONFERENCE CALL PARTICIPANTS

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**Nigel Coe** *Morgan Stanley - Analyst*

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

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**Jonathan Wright** *Nomura Securities - Analyst*

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## PRESENTATION

**Operator**

Good morning, and welcome to the third-quarter 2015 Dover earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, and Vice President of Investor Relations.

(Operator instructions)

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

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**Paul Goldberg** - *Dover Corporation - VP of IR*

Thank you, Lori. Good morning, and welcome to Dover's third-quarter earnings call. With me today are Bob Livingston and Brad Cerepak. Today's call will begin with comments from Bob and Brad on Dover's third-quarter operating and financial performance, and follow with an update of our 2015 outlook. We will then open the call up for questions. As a courtesy, we kindly ask that you limit yourself to one question with one follow-up.

Please note that our current earnings release, Form 10-Q, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through November 3, and the audio portion of this call will be archived on our website for three months.

The replay telephone number is 1-800-585-8367. When accessing the playback, you'll need to supply the following access code, 52317274.

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

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**Bob Livingston** *- Dover Corporation - President & CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. Overall, our third-quarter performance was in line with our expectations. Our team aggressively pursued share gains, cost actions, and productivity initiatives which helped to mitigate weak global macro conditions. I was pleased we were able to sign agreements to acquire two businesses, JK Group and Gala Industries. These acquisitions are in addition to the previously announced Tokheim deal and are expected to close later this quarter. Each of these companies offer industry-leading products and significantly complement and expand our market positions.

Now, let me share some comments on the quarter. We executed well and were able to post solid results. Of note, the sequential rate of decline moderated significantly in our energy segment, while refrigeration and food equipment's results improved sequentially.

Engineered systems and fluids continued to perform well. Overall, engineered systems, fluids, and refrigeration and food equipment all posted the same or improved year-over-year margin on lower volume. From a geographic perspective, excluding our energy exposure and the tough comps in retail refrigeration markets, US industrial activity was solid. Our Asian and European activity slowed on reduced CapEx spending.

Now, some specific segment comments. In energy, markets remained tough. However, I was pleased with our third-quarter results as we posted an adjusted segment margin of over 15%, a 3 point sequential improvement. Our teams executed well on actions to drive sales as well as on broad cost reduction activities. As we enter the fourth quarter, we remain focused on winning new business, maintaining appropriate service levels, and continuing to look for opportunities to reduce our cost structure.

In engineered systems, we achieved modest organic growth. Within printing and identification, our businesses performed well in North America, but were softer in China. European activity slowed, partially due to the timing of order activity. And the industrial platform modest organic growth was led by solid results in our waste handling business.

Our fluids segment had a solid quarter, led by our business serving the polymers and plastics market. Fluids segment margin performance was again excellent at over 21%.

Within our refrigeration and food equipment segment, retail refrigeration results improved sequentially. I am encouraged by some important recent wins for our Hillphoenix business, which should set us up for an improved 2016. Our glass door business again performed well, leveraging the broad customer base and leading technology.

Our acquisition pipeline matured nicely in the quarter and as noted earlier, we have signed agreements for three important acquisitions since our last earnings call, Tokheim, JK, and Gala. While all three companies serve different end markets, they all have commonality in that they each complement and expand our presence in key end markets, are highly synergistic, and position us to be a more important partner with our customers.

In the case of Tokheim, we added leading dispenser and systems business to our strong OPW suite of products. Together, we will have the most complete retail fueling solutions available for our customers. With JK, we add a high growth, market leading, consumable ink business to our already strong digital printing equipment offering. Our customers will benefit from the coordination and technology sharing between JK and MS Solutions.

And with Gala, we will broaden our position serving the polymers and plastics markets. The combination of Maag and Gala will allow us to participate in more applications in the plastics manufacturing process and thus become an even stronger partner with our customers.

In total, we are spending about $1 billion on these three businesses and acquiring about $500 million in 2016 revenue. Excluding acquisition related costs, we expect about $0.38 accretion in 2016 from these deals on an operating basis.

Now, looking to the remainder of the year. Within energy, we remain cautious and have further adjusted our full-year forecast to reflect the recent decline in recount, as well as softer bearings and compression markets driven by slower OEM build rates.

In engineered systems, we anticipate modest growth in both platforms in the fourth quarter, led by strong results in waste handling and digital printing equipment. Regarding fluids, though we anticipate growth to slow in the fourth quarter, we expect fluid transfer to remained solid. Overall, we expect to finish the year with segment margin of around 20%, driven by the strong focus on cost management and productivity.

And finally, within refrigeration and food equipment, we expect normal fourth-quarter seasonality off our lower base. However, we do anticipate our glass door, commercial food, and can-shaping equipment businesses to perform well. With that, let me turn it over to Brad.

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**Brad Cerepak** - *Dover Corporation - SVP & CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of the presentation deck. Today, we reported third-quarter revenue of $1.8 billion, a decrease of 11%. This result was comprised of organic revenue declines of 10%, growth from acquisitions of 3%, and an FX impact of 4%. EPS was $1.19 and includes $0.05 of discrete tax benefits.

Segment margin for the quarter was 17%, 180 basis points below last year. Adjusting for third-quarter restructuring of $12 million, margin was 17.6%. Restructuring activities were broad-based and came in toward the high end of our prior range.

Bookings decreased 12% over the prior year to $1.7 billion, largely reflecting tough oil and gas markets. Overall, book-to-bill finished at 0.95. Our backlog decreased 20% to $1 billion.

Free cash flow was strong at $243 million for the quarter or 14% of revenue. For the full year, we now expect to generate free cash flow of approximately 12% of revenue, up 1 point from our prior estimate.

Now, turning to slide 4. Fluids and engineered systems both had organic revenue growth of 1%. Fluids benefited from strong project-related shipments. Engineered systems' growth was driven by solid waste handling markets.

Refrigeration and food equipment's organic revenue declined 6%, primarily on reduced volume from a key retail refrigeration customer. Weak macros in energy drove organic revenue down 37%. As seen on the chart, acquisition growth in the quarter was 3% while FX had a negative 4% impact.

Now, turning to slide 5 and our sequential results. Revenue increased 2% from the second quarter, largely driven by expected higher volume in our retail refrigeration markets. Overall, refrigeration and food equipment increased 10%. Fluids was flat while engineered systems declined 2%.

Energy decreased 1% sequentially, reflecting moderation in the rate of decline following sequential declines of 15% in Q2 and 22% in Q1. Sequential bookings decreased 1%, principally driven by normal seasonality of refrigeration and food equipment partially offset by strong fluid orders. Overall, fluids grew 7% resulting from solid fluid transfer activity and robust project-related pump orders. Energy grew 2% and engineered systems was up 1%, while refrigeration and food equipment declined 12%.

Now on slide 6. Energy revenue of $364 million decreased 28%, driving earnings down from the prior year to $49 million. Energy's results continued to be impacted by challenging North American oil and gas markets. Of note, Middle East activities held up well in the quarter, and international expansion continues to be an area of opportunity.

We incurred an additional $6 million in restructuring costs in the third quarter and are evaluating additional cost actions as we finish the year. Excluding the Q3 restructuring costs, our operating margin was over 15%, reflecting volume and price declines partially offset by the benefits of productivity in previously completed restructuring. Bookings were $352 million, a 33% decrease from the prior year. Book-to-bill was 0.97.

Turning to slide 7. Engineered systems revenue of $579 million declined 5% overall reflecting organic revenue growth of 1%, offset by an FX impact of 6%. Earnings of $103 million decreased 5%, reflecting principally the impact of FX. Our printing and identification platform revenue of $228 million decreased 11% due to FX. Organic revenue was flat, reflecting North American growth offset by softer China and deferred digital equipment order activity in Europe.

In our industrial platform, overall revenue declined 1% to $351 million. Where Organic growth was 1%, offset by FX of 2%. Organic growth was led by our waste handling and microwave component businesses.

We incurred $4 million of restructuring costs in the third quarter for actions that will further improve our cost structure. Excluding the Q3 restructuring costs, our operating margin was a strong 18.5%, reflecting the benefits of productivity and completed restructuring and a positive business mix. Bookings were $565 million, a decrease of 4% reflecting organic bookings growth of 2%, offset by a 6% impact from FX. Organically, printing and identification bookings were up 2%, and industrial bookings increased 1%. Book-to-bill for printing and identification was 0.99 while industrial was 0.96. Overall, book-to-bill was 0.98.

Now on slide 8. Within fluids, revenue decreased 3% to $352 million while earnings increased 11% to $75 million. Revenue performance was driven by organic and acquisition growth of 1% respectively, offset by a 5% FX impact.

Our fluid transfer businesses remained solid, while our pumps results reflect strong shipments of plastics-related project orders. Segment margin was 21.3%, an increase of 260 basis points, largely reflecting favorable product mix and leverage on volume. Of note, deal costs related to recent acquisition activity were approximately $2 million in the quarter. Bookings were $357 million, an increase of 2% overall or 4% organically. This result primarily reflects strong project orders. Book-to-bill was 1.01.

Now, let's turn to slide 9. Refrigeration and food equipment's revenue of $492 million declined 7% from the prior year and earnings decreased 2% to $77 million. As expected, revenue was largely impacted by reduced volume from a key retail refrigeration customer. Our glass door business remains solid and our can-shaping equipment results were improved but were impacted by a delayed shipment at quarter end, which will ship in Q4.

Operating margin was 15.6%, an 80 basis point improvement from last year. This result largely reflects reduced manufacturing supply chain costs as compared to last year and the benefits of restructuring. Bookings were $431 million, a decrease of 6% principally reflecting slow order activity from our core refrigeration customers. Book-to-bill was 0.87 reflecting normal seasonality.

Now going to the overview slide, number 10. Third-quarter net interest expense was $32 million. Corporate expense was $26 million, down $2 million reflecting ongoing cost management initiatives. Excluding discrete tax benefits, our third-quarter tax rate was 27.3%, reflecting the benefits from restructuring international operations.

Capital expenditures were $40 million in the quarter. Lastly in the quarter, we repurchased 1.5 million shares for $100 million and have repurchased $600 million year to date, completing our repurchase plans for the year.

Moving on to slide 11, which shows our full-year guidance. We now expect year-over-year revenue to be down 10% to 11%. Within this estimate, organic revenue has been reduced 2 points and is now expected to be down 9% to 10% for the year. We continue to expect completed acquisitions will add approximately 3%, and the impact of FX to be approximately 4%.

Of note, segment margin is expected to be around 16%, excluding restructuring costs. Our full-year corporate expense forecast is coming down $9 million to $107 million, reflecting flow-through of the third-quarter reductions and a lower run rate. Interest expense remains at around $127 million.

We now expect the full-year tax rate to be approximately 28.5%, a 0.5 point lower than our prior forecast. CapEx remains at approximately 2.3% of revenue, and our full-year free cash flow will now be around 12% of revenue. From a segment perspective, energy's full-year organic revenue forecast is now expected to decline 33% to 34%, a 2 point reduction from our prior guidance. Engineered systems' organic growth is now expected to be around 3%, within our prior forecast range.

Refrigeration and food equipment's organic revenue forecast is expected to be down 7% to 8%, essentially unchanged from our prior forecast. Lastly, fluids growth rate has been reduced 3 points to 2% to 3%, driven principally by weak oil and gas markets.

Turning to the 2015 bridge on slide 12. We now expect the year-over-year impact of restructuring costs to be $0.02 higher than our prior forecast and be negative $0.02 to $0.04. Performance largely driven by volume declines and also including $0.02 of deal costs partially offset by productivity and restructuring benefits will reduce earnings from $1.11 to $1.15. Within this estimate are restructuring benefits of $0.45 to $0.50.

Acquisitions already completed will be about $0.04 accretive. Note that this does not include Tokheim, JK, or Gala. Share reduction will add approximately $0.21. Interest, corporate, and a lower tax rate will be in the range of $0.08 to $0.09 benefit.

In total, we now expect 2015 EPS to be $3.73 to $3.80 as compared to our prior forecast of $3.75 to $3.90. This range includes approximately $0.20 of restructuring charges, a $0.02 increase from our last forecast and now also includes $0.02 of deal costs and $0.05 related to discrete tax benefits. With that, I'll turn the call back over to Bob.

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**Bob Livingston** - *Dover Corporation - President & CEO*

Thanks, Brad. Although we have clearly been impacted by difficult market conditions, I am pleased with the way our teams have responded and executed in this environment. We have done an excellent job pursuing revenue opportunities and winning new customers, and we have positioned our Company well through aggressive cost management and productivity projects.

As I look beyond 2015, I am very excited by the breadth of opportunities across Dover. For example within energy, our aggressive pursuit of share gains and expanding our international presence is ongoing as we are currently participating in many foreign tenders. The cost and productivity efforts we have taken throughout the year have permanently reduced the cost structure of the business. Engineered systems should significantly benefit from their continued focus on productivity, especially the shared service initiative and by their addition of JK.

I also believe our waste handling business will continue to post strong order rates. In fluids, I anticipate continued strong performance, largely driven by solid results for our businesses serving the retail fueling and polymers and plastics markets. The results will be nicely complemented by the addition of Tokheim and Gala respectively.

And lastly, within refrigeration and food equipment, expected improved performance for Hill Phoenix will be driven by retail refrigeration customer wins and share gains, and continued strong performance by Anthony. Our food equipment businesses should also be solid, boosted by the rollout of new products.

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

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## QUESTIONS AND ANSWERS

**Paul Goldberg** - *Dover Corporation - VP of IR*

Yes, before we have the first question I'd like to remind everybody, if you can limit yourself to one question with one follow-up, we will get more questions in and we have several people in queue right now. So Lori, can we please have our first question?

**Operator**

(Operator Instructions)

Julian Mitchell, Credit Suisse.

**Julian Mitchell** - *Credit Suisse - Analyst*

Hi, thank you.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning, Julian.

**Julian Mitchell** - *Credit Suisse - Analyst*

Just a question around capital allocation. Obviously, the buyback spend has tailed off in the second half I guess in line with the initial plan for the year. M&A now stepped up, so is that just a sort of the vagaries of short-term timing, or is there a more fundamental shift in approach on how you are using the cash?

**Bob Livingston** - *Dover Corporation - President & CEO*

Oh, don't read into this any fundamental shifts. Oh gosh, Julian, I think if you look at maybe the last three or maybe even four years, you'll see our capital allocation has been pretty evenly split between acquisitions and spending on dividends, as well as share repurchases. In fact, I think it's been about 50/50. I'm not going to comment on guidance for 2016, but I would tell you if you look at the next couple or three years, I would not expect the capital allocation profile to be much different than it has been for the last three or four.

**Julian Mitchell** - *Credit Suisse - Analyst*

Thanks. My follow-up is around the restructuring plans. I think you said you had increased it by a couple of cents for this year. I was just wondered if there was a possibility you might have pushed that out more given maybe extra weakness on CapEx outside of the energy business and what sort of assumptions you have for organic growth behind that extra $0.02 increase on restructuring.

**Bob Livingston** - *Dover Corporation - President & CEO*

Okay, so we have increased our restructuring activity here in the second half. You see it in the fourth-quarter forecast. I would also add that even with the restructuring that we have included in our forecast, we continue to look for opportunities to restructure and to reduce our cost base, especially within energy but it's not restricted to energy. If you look beyond 2015, sitting here today, I would tell you that I do expect our restructuring activity in 2016 to be diminished from what you have seen us tackle in 2015 and even in the latter part of 2014. It won't be zero, but I do not expect it to be at the levels we had last year and this year.

**Julian Mitchell** - *Credit Suisse - Analyst*

That's great, thank you.

**Operator**

Nigel Coe, Morgan Stanley.

**Nigel Coe** - *Morgan Stanley - Analyst*

Thanks, good morning, guys.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning.

**Nigel Coe** - *Morgan Stanley - Analyst*

Congratulations on the deal close. You have been pretty active for sure. Can you maybe just give us some color around the -- .

**Bob Livingston** - *Dover Corporation - President & CEO*

I have been signaling this for the last 3 or 4 months.

**Nigel Coe** - *Morgan Stanley - Analyst*

I know, but you know, sell side is cynical, as you know. If you can just of us some color around JK and Gala in terms of growth rates and margin profile, that would be helpful.

**Bob Livingston** - *Dover Corporation - President & CEO*

Okay. Gosh. Of the three, Tokheim, JK, and Gala, Tokheim and Gala will both be add-ons to existing businesses within Dover. Tokheim will become part of OPW, and Gala will obviously will become part of our Maag business. JK will actually be a standalone within our printing and identification platform within engineered systems. The margins within JK, gosh, Brad, are they -- they may be the highest operating margins of any standalone business we have in Dover. Is that a true statement?

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

I think that would be true. It's a consumable business, so naturally we have consumables in our Markem-Imaje business and I would say it's not significantly different than what we see in our other -- (multiple speakers).

**Bob Livingston** - *Dover Corporation - President & CEO*

Nigel, the margins will be north of 45%, operating margins at JK. At Gala, low teens, and I am not even sure they are at low teens right now. They are very close to it, 12%, but we are pretty excited about this opportunity. It's really easy to remind myself that even three-and-a-half years ago when we acquired Maag, their margins were pretty similar to what we see at Gala today. And the margins at Maag this year, I think we've -- my goodness, Brad, I think we've improved margins over the last three years by about 600 basis points, that's a rough number. Don't expect that to happen in 2016, but you should expect us to start that journey in 2016, Nigel, and I fully expect those margins to be reflective if not accretive to Maag over the next three or four years.

**Nigel Coe** - *Morgan Stanley - Analyst*

Okay. Okay. That's helpful. And then on the accretion numbers for 2016, I noticed in the PR you mentioned they don't include interest expense, and I'm just wondering is that because of the phantom mix is still pretty fluid, no pun intended there, but are you still to decide on the phantom mix? I mean, how should we think about for modeling purposes the mix between cash and debt and then the mix on the debt between term and CP?

**Bob Livingston** - *Dover Corporation - President & CEO*

Go ahead, Brad.

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

Let me take that one. Let me just start with the deals that we expect to close in Q4. As we sit here today, we will execute those deals with existing cash and then cash that we generate in the fourth quarter, which will be a very healthy normal fourth quarter that we see -- .

**Bob Livingston** - *Dover Corporation - President & CEO*

Brad, the two deals we do expect to close in the fourth quarter are JK and Gala.

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

Right.

**Bob Livingston** - *Dover Corporation - President & CEO*

We are not -- sitting here today, we still don't anticipate closing Tokheim until early in 2016.

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

So for next year, specifically, the two deals we close this year, we'll close with cash and cash generated. As for next year, specifically the Tokheim deal, it depends a lot on the timing, but we expect funding this deal now part cash on hand and some incremental debt, most likely to your question using CP. And I would say today sitting here we would size that at a range of somewhere -- less than the purchase price but somewhere in the range of $300 million to $400 million.

**Nigel Coe** - *Morgan Stanley - Analyst*

Okay, that's really helpful. Thank you, guys.

**Operator**

Steven Winoker, Bernstein.

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

Thanks and good morning. Just maybe talk about pricing pressure in energy and across the other segments, what are you seeing now? You have talked about it in prior calls, a little bit about your expectations. How has it been coming through and what are your expectations going forward?

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**Bob Livingston** - *Dover Corporation - President & CEO*

It's really two different topics. It's energy and then it's the rest Dover. In the other three segments, Steve, I would say the pricing has been rather neutral this year. We saw that again in the third quarter. We don't anticipate anything different than that in the fourth quarter. In 2016, though we haven't completed our planning process yet, I would say that our early look on pricing for 2016 would be more of the same. We would expect it to be neutral.

We have seen pricing pressure in energy this year. I think we opened -- help me here Brad. We opened early in the year or on our first-quarter call guiding price down, expectations of 3% to 5%, I think it was. I think we'll end the year closer to the low end of that range than the high end, Steve, and it truly is -- you truly do see quite a mix on pricing pressure across the various product lines. It's not much different here in the third quarter or what we expect in the fourth quarter than what I have shared before on calls. In our rod business, I think price down activity in the third quarter was about 10% or 11%, which was fairly consistent with the second quarter. In a couple of other product areas, it's mid-single digits. But overall, not much of a change since our second-quarter call.

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

Okay. And then on the implied fourth-quarter guidance, it looks like your revenue -- sequential revenue is declining about 1%. I think that compares to about maybe 2.5% to 3.5% over the last couple of years. Obviously, always different dynamics here, but as you are looking at the sequential behavior across energy particularly in the other businesses, is that indicative of your believing that you are pretty close to bottoming out or how are you thinking about that?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Look, let me give you an opening comment in response to your question and Brad can perhaps add some detail. If I use the top end of our guidance range that existed, that we shared with you on the July call and look at where we are today, you would see that revenue is coming down. What is the number? About $150 million or $160 million on the guide, Brad? For the second half.

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**Brad Cerepak** - *Dover Corporation - SVP & CFO*

$100 million in the fourth.

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**Bob Livingston** - *Dover Corporation - President & CEO*

I would tell you that if it's $160 million, $60 million of it was in the third quarter. $100 million of it is in the fourth quarter. In broad strokes, it's three areas. It's energy, it's Europe, and it's China. Europe and China touch all three segments. The $50 million to $60 million in the third quarter was fairly modest in energy. We were probably down maybe $9 million or $10 million below our expectations. But up on earnings. And feel like we were about $50 million short of our expectations in the third quarter in the other segments, almost all attributable to slowdown in Europe and China. In the fourth quarter, I would peg that number at $100 million, and I think we are recognizing the recent activity, recent trend here in recounts as we went through the second half of the third quarter. But our every revenue forecast for the fourth quarter is down about $40 million or $45 million from where we were looking at it in July. And about $100 million across the other segments, again, mostly attributable to some slowness we are seeing or anticipating in Europe and China. So I hope that provide some top-line cover maybe.

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

It does. Yes. Absolutely. Thanks.

**Operator**

Shannon O'Callaghan, UBS.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning.

**Shannon O'Callaghan** - *UBS - Analyst*

Good morning, guys.

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

Hi, Shannon.

**Shannon O'Callaghan** - *UBS - Analyst*

So Bob, a follow-up to that one. It looks like the energy revenues will be down sequentially another $30 million or so in the fourth quarter. Do you expect that would be the bottom or will it depend -- ?

**Bob Livingston** - *Dover Corporation - President & CEO*

About $25 million.

**Shannon O'Callaghan** - *UBS - Analyst*

$25 million, okay. Will it depend on, you know, will that you think mark a sequential bottom for the business or will it depend on rig count? Where are you with the stocking, et cetera? Do think that will be the bottom or not?

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

I think it's going to be dependent upon energy trends. I think we are -- there may be a pocket here or a customer somewhere who still has some inventory that they want to burn off but I would tell you that the destocking of inventory we think is essentially done. We saw a little bit of that in the third quarter. We expected a little bit of that to continue in the third quarter, we did see that, but I think that's behind us. Again, the best leading indicator that we have been sharing with you here for near-term activity in our energy business is the rig count.

**Shannon O'Callaghan** - *UBS - Analyst*

Okay.

**Bob Livingston** - *Dover Corporation - President & CEO*

And you see that almost as quickly as we do. (laughter)

**Shannon O'Callaghan** - *UBS - Analyst*

Right, no, you've had some other dynamics, too, so at this point it's pretty much down to that. So when you think about next year, just in terms of cost out opportunities across the Company, is that still the biggest thing that you could potentially go after if rig counts are worse, you would take more cost out of energy or will that not be the primary restructuring area next year?

**Bob Livingston** - *Dover Corporation - President & CEO*

If rig counts -- if we continue to get pressured in our energy fundamentals, we still believe we've got opportunities to take some cost out. Though, Shannon, I am going to be real direct here. It becomes more difficult as we go into 2016. But it will become -- in 2016, it will truly become a trade-offs being lowering cost and maintaining what we would define as appropriate service levels. But we do know we've got additional opportunities to tackle in 2016 if need be. I am not so sure I would agree with the other part of your statement that the bulk of our opportunities in 2016 are still within energy, Brad. I think we do expect our restructuring activity to be less in 2016 than they were in 2015. But the discussions we are having across the board, we have restructuring opportunities that we have identified, some of which we'll tackle here in the fourth quarter, some of which are lined up for the first half of next year, across all four segments.

**Shannon O'Callaghan** - *UBS - Analyst*

Okay, great. Thanks guys.

**Operator**

Your next question Jeffrey Sprague, Vertical Research.

**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

Good morning, gents.

**Bob Livingston** - *Dover Corporation - President & CEO*

Hi, Jeff.

**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

Good morning. Just shifting over to the refrigeration and Hillphoenix in particular, can you give us any other color on the nature of the customer, wins that you are talking about or the size and the impact that this might have on 2016?

**Bob Livingston** - *Dover Corporation - President & CEO*

I don't want to give you the individual customers, Jeff. As we talk about share gains and business wins, I will tell you what's not included in that would be any change that we would expect to see next year with our customer that we have been talking about all year long, which is Walmart.

But when you look at any downward change -- but when you look at the business wins and the share gains that we have experienced and benefited from here in the second half of this year and look at the carryover into 2016, I would label them mostly regional retailers. And we think we are going into 2016 with about $30 million worth of incremental business from wins that we have earned this year and partly have some of the revenue in the second half of this year. But about $30 million of incremental business into 2016 for this -- for these new wins and share gains.

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**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

And just shifting to fluids, you've historically described the direct oil and gas exposure there as on the small side. I think maybe 10%, but you're taking the guide down there. Can you give a little bit of color on how hard those businesses are being hit? Do I have that 10% dialed right? What's going on in that?

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**Bob Livingston** - *Dover Corporation - President & CEO*

10% to 12%. And almost all of the, I would call it the hit or the down cycle in oil and gas is restricted to some of the oil -- upstream oil and gas activity that our pumps business participates in. As Brad said in his script or in his prepared comments, the down guide on fluids is principally oil and gas but it's not all oil and gas. We are seeing some softness in Europe and China in fluids as well. We'll see how the fourth quarter shakes up. The third quarter concerned me a little bit in China.

If we were to pull out our project activity, which as most of you know can be lumpy from quarter to quarter, if we pulled out our project activity from both the third quarter of 2015 and third quarter of 2014, revenue was down in China double digits in the third quarter. Not expecting it to be down as much in the fourth quarter. In fact, October and September are telling us it won't be, but I am still being pretty cautious with respect to expectations in China here in the fourth quarter. Our business is down almost 15% in the third quarter in China.

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**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

If I might slip in one more quick one. Your comments about Middle East energy, there is a lot stories of budget stress and duress there, and where are you seeing strength in the Middle East and how significant is that?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Well, we have -- I am not so sure I've got exact numbers that I can recall for the Middle East. I know we have -- goodness, more than -- we're participating in more than 50 tenders right now in the Middle East and Southeast Asia, as well as South America. Jeff, three years ago the number would have been eight. The change has been that significant for us. And I would say more than half, probably two-thirds of these tenders, I would describe as Middle East opportunities. And the area that has been the most significant for us in the Middle East over the last three years has been our base of activity in Oman and then the areas in the Middle East that we service from our base in Oman and that continues to be quite attractive both here in the second half as well as expectations for 2016 and 2017.

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**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

Thank you.

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**Operator**

(Operator instructions)

Steve Tusa, JPMorgan.

**Steve Tusa** - *JPMorgan - Analyst*

Good morning.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning, Steve.

**Steve Tusa** - *JPMorgan - Analyst*

Can you just maybe talk about just kind of reaffirm or provide some color around what the carryover on savings are for next year again on these actions, on the restructuring actions?

**Bob Livingston** - *Dover Corporation - President & CEO*

I will start but Brad is going to have to help me here. As I look at it, Steve, I call it some of the self-help going into 2016. I have already commented that our restructuring charges in 2016 should be less than we have incurred in 2015 and 2014. I'm not going to give you that number until we finish some work, but I think we'll be prepared to finish that delta with our investors and the analysts at our dinner in December. But on the restructuring activities that we have executed on in 2015, I think the carryover that we are looking at is about $50 million, Brad?

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

That's correct.

**Steve Tusa** - *JPMorgan - Analyst*

Okay. $50 million. That's helpful. And then just on the energy exit rate for the energy margin. I'm not sure if you addressed this. What do you expect for energy margins for the year again, if you could just remind me? Just trying to get a base for next year because obviously 4Q is going to be pretty tough. It's not representative of the year, of course, but maybe just the year.

**Bob Livingston** - *Dover Corporation - President & CEO*

I'll give you some color on that to help you with your modeling. The energy margins for the year is going to be a little bit better than 12% and this is all in. Restructuring, this is not adjusted. This is all in. A little better than 12%. I think one of the earlier questions was about the decline in revenue in the fourth quarter. In energy, it's about $25 million. Our margins in the third quarter all in were 13.5%, and we'll be about 100 bps below that in the fourth quarter.

**Steve Tusa** - *JPMorgan - Analyst*

Okay. Any other moving parts in any other segments for the fourth quarter that you want to call out, or is it pretty self explanatory from a seasonal perspective? And any items to call out within the other segments on the margin front?

**Bob Livingston** - *Dover Corporation - President & CEO*

No, there wouldn't be anything unusual to call out.

**Steve Tusa** - *JPMorgan - Analyst*

Okay. Great, thanks a lot.

**Operator**

Deane Dray, RBC Capital Markets.

**Deane Dray** - *RBC Capital Markets - Analyst*

Thank you. Good morning, everyone.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning, Dean.

**Deane Dray** - *RBC Capital Markets - Analyst*

I would just like to clarify on the financing plans for JK and Gala. In the press release, the last sentence said interest charges associated with incremental debt financing is not included in the EPS estimates. Brad said you are going to be using cash and fourth quarter cash flow, so you're assuming no cost to financing for these deals?

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

For the two deals that, as I said, the two deals we expect to close this year, there would be no financing related to that. It would be cash on hand and cash flow in the fourth quarter. And just to reiterate, on the Tokheim deal, depending on where we close next year, what we said would be $300 million to $400 million in financing, most likely I view that as using CP.

**Deane Dray** - *RBC Capital Markets - Analyst*

Got that. And then also on other and corporate, that $2 million lower this quarter, should we view that as a new run rate for that expense? Is anything unusual?

**Bob Livingston** - *Dover Corporation - President & CEO*

In 2016?

**Deane Dray** - *RBC Capital Markets - Analyst*

Yes.

**Brad Cerepak** - *Dover Corporation - SVP & CFO*

I would say the run rate, as you know in earlier quarters, we talked about this current year has impacted our compensation accrual, so I would expect to see some of that come back across that corporate number into next year. So no, I would expect it to go up slightly.

**Deane Dray** - *RBC Capital Markets - Analyst*

Got it. Thank you.

**Operator**

Joe Ritchie, Goldman Sachs.

**Joe Ritchie** - *Goldman Sachs - Analyst*

Thanks, good morning, everyone.

**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning, Joe.

**Joe Ritchie** - *Goldman Sachs - Analyst*

My first question on energy. Clearly, Bob, you mentioned that pricing has been kind of closer towards the -- down three this year. I am just curious, what are your expectations for pricing in energy next year? And how are you thinking about the end market across your businesses?

**Bob Livingston** - *Dover Corporation - President & CEO*

I am not giving guidance on 2016 yet, Joe, so you're going to have to -- I'm going to preface my comment by saying we're still doing a lot of work on that. But I will tell you, at sort of the high-level assumptions we are making is that the next couple of quarters are probably going to be pretty reflective of what we're seeing here as we end the third quarter and move into the fourth quarter. I would label that as stability but at a much lower investment rate and spend rate with our customers. It's a little bit more difficult to call right now the second half of next year. We'll give you a little bit more color on that at our dinner in December. But for the first half of next year, it is without any doubt, we are not planning for any recovery beyond our current run rate in the energy market. But I would also say we are not expecting or planning for another 10% down, either.

**Joe Ritchie** - *Goldman Sachs - Analyst*

Okay. Maybe just following up in asking a question -- .

**Bob Livingston** - *Dover Corporation - President & CEO*

Your second question was around pricing?

**Joe Ritchie** - *Goldman Sachs - Analyst*

Yes.

**Bob Livingston** - *Dover Corporation - President & CEO*

I would tell you that I'm not sure pricing was going to be much different. I think as we go into 2016, we would continue to see some pricing pressure, especially in the first half of 2016. I am not sure our guide would be much different than we were providing at the beginning of the year for the energy segment in total. Maybe a 3% price down pressure. And again, you're going to see it scattered around different product lines and regions where some price pressure will be greater than others.

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**Joe Ritchie** - *Goldman Sachs - Analyst*

That's great color, thanks Bob. I think the question I was really trying to get at, in the face of potentially another down 3% pricing year for next year, based on all the restructuring actions that you have done this year, can you guys grow margins, assuming that there is no falloff in organic growth, can you guys expand margins in your energy segment next year?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Now, I am going to preface this -- my response again by telling you, give us the opportunity to spend some more time on this between now and our investor dinner in December. I think this time allows us to come to grips with a little bit of what we are going to be expecting and planning for in the second half. Now, to your question about margin expansion. As we sit here today, we actually see the opportunity in all four of our segments to see margin expansion. It will be varied. But I think that we can in our core business, if you exclude the acquisition activity and aside from JK, the other two acquisitions we have announced do bring with them much lower margins than what we have as a Dover average. But in our core business for Dover, we do clearly see the opportunity for margin expansion in 2016. Do you want to add any color to that, Brad?

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**Brad Cerepak** - *Dover Corporation - SVP & CFO*

The only thing I would add is it gets back to what we were talking about before. We would expect sitting here today, not as much restructuring spend; that's part of that answer. And the carryover benefits obviously are quite significant going into next year at $50 million. So that gives us some jumpstart into that discussion of margin expansion into 2016.

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**Bob Livingston** - *Dover Corporation - President & CEO*

And on top of that, we are anticipating and planning and identifying significant benefits from productivity in 2016.

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**Joe Ritchie** - *Goldman Sachs - Analyst*

Okay, that's helpful. Thanks, guys.

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**Operator**

Jonathan Wright, Nomura Securities.

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**Jonathan Wright** - *Nomura Securities - Analyst*

Good morning, guys.

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**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning.

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**Jonathan Wright** - *Nomura Securities - Analyst*

Bob, just to add to your comments on China a little bit, was that 15% number in 3Q for Dover as a whole? And maybe if you could just dig into the verticals a little bit and talk about which pockets were weakest and how that's treated into Q4?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Yes, it was a Dover number. Jonathan, I'm going to have to -- I would be guessing because I don't have good recall on what the down cycle was in China by each segment. It was evident at each segment. That I can tell you, but I don't have the numbers and a good recall for each segment.

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**Jonathan Wright** - *Nomura Securities - Analyst*

Where was the biggest exposure to China in the portfolio? Is it printing, ID, or where is your biggest exposure?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Fluids and printing and ID. And it's actually not insignificant for refrigeration, either.

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**Jonathan Wright** - *Nomura Securities - Analyst*

Okay. And then just one more, the comments you made around the international tax filing benefit from the restructuring you've conducted, does that imply a lower tax rate in 2016, or is that a one-off benefit you're seeing this year?

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**Brad Cerepak** - *Dover Corporation - SVP & CFO*

I would characterize it more like a one-off for this year, and probably reverting back to the slightly below 30% rate, that 29% rate for 2016.

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**Jonathan Wright** - *Nomura Securities - Analyst*

Okay, great. Thank you, guys.

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**Operator**

Nathan Jones, Stifel.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

Good morning, Bob, Brad, Paul.

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**Bob Livingston** - *Dover Corporation - President & CEO*

Good morning.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

Just starting with the JK acquisition, I know the knock on a lot of competitors in that space has been that they don't control the ink. With you now controlling the ink there, is that something you can use as a strategic weapon or a strategic advantage in competing in that space?

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**Bob Livingston** - *Dover Corporation - President & CEO*

I don't like the word weapon because -- (laughter). We'll use it as a strategic opportunity to better service our customers.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

So the answer is yes, I'll take that.

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**Bob Livingston** - *Dover Corporation - President & CEO*

(laughter) Absolutely.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

And then my second question is on that cost actions that you've taken so far this year.

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**Bob Livingston** - *Dover Corporation - President & CEO*

I will underscore how important that question is on this JK acquisition.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

Okay. I think that answers it. On the cost out actions that you've have taken this year, one of your comments in your prepared remarks, Bob, was that you have permanently reduced the cost structure. Could you give us some flavor for what is structural reduction in cost and what is volume related?

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**Bob Livingston** - *Dover Corporation - President & CEO*

Oh, my goodness. So, let's see. How do I want to tackle that one, Brad? Help me with a response here between manufacturing, manufacturing cost, and SG&A. So for manufacturing cost, our restructuring activity, I think we are at a run rate now, an annualized run rate of $90 million or $94 million, am I right with that number?

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**Brad Cerepak** - *Dover Corporation - SVP & CFO*

$92 million across all segments.

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**Bob Livingston** - *Dover Corporation - President & CEO*

And a significant chunk of that was not recognized for the entire year. We have about $45 million of that that is a carryover into 2016. And then below the line, below the gross margin line, we have taken out, goodness, is it close to $50 million in SG&A? $35 million in SG&A of which we would label about 18% to 20% of that as permanent. It's that permanent part of SG&A that I add to the carryover from the manufacturing cost of about $40 million that gets me to the round number of about $50 million of benefits that we'll see in 2016 as we see these projects complete the annual cycle.

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**Nathan Jones** - *Stifel Nicolaus - Analyst*

All right, thanks very much.

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**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.

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**Paul Goldberg** - *Dover Corporation - VP of IR*

Thanks, Lori. This concludes our conference call. We were very happy to speak to you this morning and personally thank you for the one question and one follow-up. We got a lot more questions than we normally would. With that, we would like to thank you for your continued interest in Dover, and we look forward to speaking to you at our next earnings call. Have a good day. Thank you.

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**Operator**

Thank you. That concludes today's third-quarter 2015 conference call. You may now disconnect.

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