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DOV - Q1 2017 Dover Corp Earnings Call

EVENT DATE/TIME: APRIL 20, 2017 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q17 revenue of $1.8b and EPS of $1.09. Expects 2017 total revenue growth to increase 11-13% and EPS to be $4.05-4.20.

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PRESENTATION

Operator

Good morning, and welcome to the First Quarter 2017 Dover Earnings Conference Call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations. (Operator Instructions) As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

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

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

Thank you, Paula. Good morning, and welcome to Dover's first quarter earnings call. With me today are Bob Livingston, Dover's President and Chief Executive Officer; and Brad Cerepak, our CFO. Today's call will begin with some comments from Bob and Brad on Dover's first quarter operating and financial performance and follow with our updated full year outlook. We will then open up the call for questions. (Operator Instructions)

Please note that our current earnings release, investor supplement and associated presentation can be found on our website, dovercorporation.com. This call will be available for playback through May 4, and the audio portion of this call will be archived on our website for 3 months. The replay telephone number is (800) 585-8367. When accessing the playback, you'll need to supply the following access code, 582-6839.

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

And with that, I'd like to call -- turn the call over to Bob.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. Let me begin by saying I am very pleased with our first quarter business activity and results. Revenue and bookings growth was broad-based at every segment. I was very encouraged by our organic performance as revenue was up 4% and bookings increased 12%. When factoring the significant contribution from acquisitions as well as the impact from dispositions, revenue and bookings grew a very healthy 12% and 21%, respectively.

During the quarter, the recovery of our U.S. Drilling & Production markets accelerated on higher-than-expected rig count. Well completions also expanded in the quarter. Further, our businesses serving the Printing & Identification, retail fueling and retail refrigeration markets as well as the majority of our other industrial markets had very solid activity.

From a geographic perspective, U.S., Europe and China markets all grew organically year-over-year. From a segment perspective, Energy exceeded expectations with broad-based improvements. Revenue was up 15% organically, largely driven by early cycle upstream applications, benefiting both our Drilling & Artificial Lift businesses. Our Automation and Bearings & Compression businesses also had a very strong quarter. We converted very well on the volume improvements resulting in segment margin above expectations.

Engineered Systems growth of 5% reflected another strong quarter in Printing & Identification and the impact of acquisitions. And the industrial platform growth in the majority of our end markets, most notably auto service equipment, was offset by reduced volume in our Environmental Solutions business. Of note, although chassis supply has been challenging, it did improve as we exited the quarter. Overall, bookings were very strong.

Fluids also had a very solid quarter, posting 32% revenue growth. Solid activity in retail fueling along with the majority of our other businesses was partially offset by continued softness and longer cycle oil and gas applications, most notably transport activity. Of note, Dover Fueling Solutions had strong first quarter market activity and remains on track with their integration plans and delivery of synergy benefits.

Refrigeration & Food Equipment revenue grew 5% organically. This result primarily reflects strong activity in the retail refrigeration market, especially in the glass door and refrigeration case and systems product lines. Customers are increasingly closing medium temperature cases, which is benefiting our business.

Now looking forward. In Energy, stronger-than-expected U.S. rig count deployment along with increasing well completion activity will result in higher full year revenue growth than previously expected. We are now assuming the 2017 average U.S. rig count to be between 820 and 840, up significantly from our forecast at the beginning of the year. We are maintaining our forecast for the average WTI price to be around $55. Our improved outlook reflects our strong position in the Permian and the success of our drill bit insert in ESP product lines. We are also benefiting from improved bill rates by our Bearings & Compression's OEM customers.

In Engineered Systems, we expect our Printing & Identification platform to continue to deliver consistent solid performance driven by our unique position in the digital textile market and our focus on consumables in marking and coding. Regarding our industrial platform, we anticipate an increase in year-over-year organic revenue driven by our strong bookings.

Within Fluids, we expect the majority of our businesses to remain solid, including retail fueling, hygienic and pharma and other industrial markets. The strong overall growth rate in this segment will be primarily driven by Dover Fueling Solutions, where the U.S. is growing nicely and European markets are improving. We also expect our transport market, which has largely stabilized sequentially, to benefit from easier comps in the back half of the year.

Finally, in Refrigeration & Food Equipment, healthy bookings, especially in retail refrigeration, will drive higher revenue than previously forecasted. The strength in our retail refrigeration business reflects our leading position in glass doors and cases as well as our technology around energy efficiency. We also expect food equipment to have a solid year.

Given the continuing strength of our bookings activity as we enter the second quarter, we feel confident of delivering strong performance across all segments in 2017. As a result, we are raising our full year revenue and EPS guidance.

With that, I'd like to turn it over to Brad.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Thanks, Bob. Good morning, everyone. Let's start on Slide 3 of our presentation deck. Today, we reported first quarter revenue of $1.8 billion, an increase of 12%. Growth from acquisitions of 12% was complemented by organic growth of 4%. Partially offsetting these strong results was a 4% impact from dispositions and FX.

EPS was $1.09 and included a gain of $0.39. Adjusted EPS of $0.70 exceeded the high end of our expectations, principally reflecting strong performance on higher revenue and a lower tax rate. Adjusted segment margin was 11.8%, an 80 basis point improvement over last year, largely driven by strong incremental margin on increased volume in our Energy segment. Bookings increased 21% to $2 billion. This positive result was broad-based and reflects organic growth of 12% and acquisition growth of 12%, offset by a 3% combined impact of dispositions and FX. Total company book-to-bill finished at a seasonally strong 1.12. Overall, our backlog increased 20% to $1.3 billion. On an organic basis, backlog increased 13%.

Free cash flow was $36 million for the first quarter, which is always our lowest quarter of the year. Our quarterly result was impacted by inventory increases driven by selective pre-builds. Overall, we remain committed to full year free cash flow of about 11% of revenue or 140% of net income.

Now turning to Slide 4. Organic growth in the quarter was solid, led by Energy's growth of 15% on improving U.S. oil and gas fundamentals. Refrigeration & Food Equipment increased 5% primarily on strong retail refrigeration markets. Engineered Systems was up 2% primarily reflecting continued solid growth in Printing & Identification. Fluids organic revenue declined 2% principally reflecting weak, longer cycle transport markets. As seen on the chart, acquisition growth in the quarter was most prevalent at Fluids and Engineered Systems at 35% and 9%, respectively.

Now moving to Slide 5. Energy revenue of $324 million increased 14% year-over-year and 11% sequentially. Earnings were $42 million and segment margin was 12.9%, both significantly improved over last year. These results exceeded our expectations driven by continuing improvements in oil and gas fundamentals, especially the U.S. rig count. These results also reflect [strong] conversion on volume.

Bookings of $348 million were up 27% year-over-year and 16% sequentially. These bookings trends along with continued rig count additions and higher expected well completions, set us up for a strong second quarter. In total, in the second quarter, we expect year-over-year revenue growth of about 30% or 4% on a sequential basis. Book-to-bill finished at 1.07.

Turning to Slide 6. Engineered Systems revenue of $608 million was up 5% overall and included organic growth of 2%. Excluding a gain on a disposition, earnings of $86 million increased 4% over an adjusted prior year driven by volume growth. Our Printing & Identification platform revenue of $249 million increased 4%. Organic revenue was up 5%, reflecting solid global marking and coding and strong digital textile markets. In the industrial platform, revenue increased 6% to $359 million. This result included net acquisition growth of 8% and a 1% organic decline. The organic decline was attributable to lower shipments at Environmental Solutions. The remaining businesses in the industrial platform all delivered solid organic growth, especially our auto service equipment business. Adjusted margin was 14.2%, essentially in line with last year. Bookings of $676 million were up 18% overall, including organic bookings growth of 12% and growth from net acquisitions of 7%. Organic bookings growth was very broad-based with Printing & Identification up 7% and industrials up 15%. Book-to-bill for Printing & Identification was 1.03. Industrials was 1.07. Overall, book-to-bill was 1.11.

Now on Slide 7. Fluids revenue increased 32% to $525 million, principally driven by acquisitions. This revenue performance primarily reflects solid activity across the majority of our businesses especially retail fueling within Fueling & Transport. This market is benefiting from robust activity in the U.S. and also from an improving international activity. Overall, organic revenue declined 2% and FX was a 1% headwind. Earnings increased 14% to $53 million, largely driven by volume growth offset in part by $4 million of integration and restructuring costs.

Margin in the quarter was 10%, slightly better than expected. Bookings grew significantly to $566 million, an increase of 35%. This result reflects acquisition growth of 35% and organic growth of 2%. Organics booking growth was broad-based. Book-to-bill was 1.08.

Now let's turn to Slide 8. Refrigeration & Food Equipment's revenue of $357 million included organic revenue growth of 5%. Organic revenue increase was largely driven by the strong activity in the glass door and refrigeration case product lines. Food equipment results reflected solid organic growth in the commercial kitchen equipment markets, offset by expected lower shipments in can-shaping equipment.

Earnings of $34 million were down 12% year-over-year, reflecting a $2 million impact from a disposition in the prior year and approximately $2 million in restructuring. Margin was 9.4%, 110 basis points below last year and largely in line with our forecast. Bookings of $439 million increased 7% overall and 13% organically, reflecting strong order rates in nearly all of our end markets. Book-to-bill was seasonally strong at 1.23.

Going to the overview on Slide 9. Let me cover some highlights. Corporate expense and interest expense were both essentially in line with expectations. Our first quarter tax rate was 25.7%, reflecting the impact of a disposition and other discrete items of about $0.04. Excluding these items, our normalized rate was 27.8%.

Moving on to Slide 10, which shows our 2017 guidance. As Bob previously mentioned, we are increasing our annual guidance. We now expect total revenue to increase 11% to 13% versus our prior forecast of 10% to 12%. This forecast includes organic revenue growth of 6% -- of 4% to 6%, up 1 point. Our expectation for full year acquisition growth is largely unchanged. Completed dispositions will now impact revenue by 2% and FX is now expected to be a 1% headwind.

From a segment perspective, Energy is now expected to grow 20% to 23% organically, up 7 points over the last forecast, largely driven by the growth in our Drilling & Production and Automation businesses. Engineered Systems and Fluids organic growth rates are both being raised 1 point at the low end, driven by solid bookings growth. Refrigeration & Food Equipment's estimated revenue range has been increased 1 point to reflect our strong first quarter and continued bookings momentum. Corporate expense has been increased $5 million and net interest expense remains unchanged from our last forecast. Our full year tax rate is now expected to be slightly lower than our initial estimate, largely driven by favorable tax items recorded in the first quarter. Our forecast for CapEx and free cash flow is also unchanged from the prior forecast. Lastly, we now expect full year segment margin to be around 14%, excluding the gain, up about 30 basis points from our prior forecast.

Turning to the bridge on Slide 11. Starting with 2016, adjusted EPS of $2.85 as a base, the year-over-year impact of lower restructuring costs in 2017 is unchanged. Performance, including volume, productivity, pricing and restructuring benefits, is now expected to increase $0.29 from the prior forecast, at the midpoint, principally driven by our improved organic revenue forecast especially at Energy. Compensation investment will now be about $0.02 higher than our prior forecast. The combined impact of interest corporate expense and the tax rate is about $0.01 lower than our prior forecast. Lastly, the full year net benefit from the disposition will be $0.35. This represents a gain on sale of $0.39, less the $0.04 of previously forecasted earnings from the divested business. In total, we expect 2017 EPS to be in the range of $4.05 to $4.20.

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

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Thanks, Brad. As we begin the second quarter, I am pleased with the start to our year. Our strong first quarter bookings growth was much more than an oil and gas recovery. [I'd like] the growth we are seeing across our portfolio and across our major geographic regions. This overall improvement sets the stage for stronger revenue growth in 2017.

Beyond the markets, we continue to make strides in several other areas. We are actively investing for growth around Dover. We are increasing sales and customer-facing resources, expanding engineering talent and all businesses are focused on driving growth. In addition, we are building our capabilities within many of our businesses. One example of this is our new digital textile printing center of excellence to promote this exciting technology and accelerate its adoption.

We are also continuing to drive productivity through a number of initiatives, including global supply chain, our shared service organization and through relentless efforts around lean and facility consolidation. These efforts, combined with our 4 main objectives heading into the year, are our primary focus. As a reminder, the objectives are to fully leverage the North American oil and gas recovery, capture significant market opportunities from our acquisitions in Fluids and Engineered Systems, drive core margin improvement and successfully integrate our new acquisitions and capture the synergy benefits.

We are doing well against these objectives. Our Energy results have been very strong. Our recent Wayne and RAV acquisitions are performing above plan. Our integration plan is on track and segment margin is showing improvement. In all, while we still have several opportunities for improvement, we've made meaningful progress in a number of key areas.

In summary, our markets remain very constructive as we begin the second quarter, and I am confident we will continue to perform well, execute on our objectives and leverage our strengths. With that, I'd like to thank our entire Dover team for staying focused on our customers.

Okay, Paul, let's take some questions.

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

Thanks, Bob. (Operator Instructions) And with that, Paula, if we can have the first question

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QUESTIONS AND ANSWERS

Operator

Your first question comes from Shannon O'Callaghan of UBS.

Shannon Rory O'Callaghan - *UBS Investment Bank, Research Division - MD and Equity Research Analyst, Industrials*

Bob, maybe to start with kind of the mix of business through the year on Energy. You talked about rig count better than expected and you also mentioned well completions. Can you talk about how much is being driven by drilling at this point? And how you see a bit of the hand-off or the pick up from artificial lift phasing maybe through the year?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. Yes. Good question, Shannon. So that's a forward question, not a first quarter question, correct?

Shannon Rory O'Callaghan - *UBS Investment Bank, Research Division - MD and Equity Research Analyst, Industrials*

Both, yes.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes, both. Okay. So I would say in the first quarter, I think, the overperformance in Energy was primarily attributable to the rig count activity being higher than we expected coming into the year. We did see well completion activity increase during the first quarter, but at a much lower rate than we saw on the rate of change with respect to drilling activity. In fact, the industry data I just looked at, I guess, it was just a few days ago, even with the well completion activity increase in the first quarter, uncompleted well backlog actually increased in the first quarter. So as we look at the balance of the year with respect to Energy, we've got a bit more of a muted expectation with respect to rate of change on rig count in the second, third and fourth quarters. We still see increases, but the rate of change will be quite less than we saw in the fourth quarter of last year and the first quarter this year. But we are expecting to see well completion activity pick up, especially in the second half of the year. This -- I mentioned this increase in uncompleted wells in the first quarter. Shannon, here's where I would probably be willing, right now, to give a comment with respect to '18. I think, this uncompleted well backlog that we'll see activity start to increase again here is in the second and third quarter. I think, it really is setting this Energy segment up well for continued well completion activity into '18 and perhaps even beyond. We feel quite bullish about the well completion activity in front of us.

Shannon Rory O'Callaghan - *UBS Investment Bank, Research Division - MD and Equity Research Analyst, Industrials*

Okay. Great. And then just on refrigeration. Seeing some nice strong orders there, just your thoughts on converting that to margin based on some of the production changes you've made in the plants and the change in the mix of orders, et cetera. And then it also sounds like close-the-case is picking up a bit, so maybe if you think about the changing mix of the business and the production changes you've made, how confident are you in the ability to convert those orders into attractive margin?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. So it's -- let me comment first on the close-the-case activity. I think, we commented on this both at our investor dinner early in the year as well as on our January call that this was a change that we truly did expect to see. We expect the change to be rather measurable in 2017, to start to see more and more of the medium temp door cases being taken by our customers with doors on them. That is happening. So the -- that increase in activity, both at Hill PHOENIX and I would also say at Anthony, was fairly healthy in the first quarter and we expect that change to continue. And we feel very well positioned to benefit from that change. To your other question, with respect to Hill PHOENIX, the activity in the first quarter, I would say that our production efficiency and manufacturing initiatives that we had planned for the first quarter, I think, we executed well. The results we were looking for in the first quarter were on plan, if not slightly better than we expected. But I'll also repeat myself again, you're not going to see the pickup in margins in this segment until the second half of the year. And I think, the effort that the guys are working on inside the factory and their productivity efforts in the second quarter will continue to show progress, and we will deliver these margin improvements in the second half.

Operator

Your next question comes from Nigel Coe of Morgan Stanley.

Nigel Edward Coe - *Morgan Stanley, Research Division - MD*

So wow, what a difference 3 months makes. So I wanted to stick with refrigeration. Sticking with refrigeration, obviously, a huge uptick in backlog activity there. I was just wondering, have we seen a change in the underlying market conditions? Is there some large projects [stored] in the numbers gaining share? Any color there will be helpful.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

I'm not going to comment on share gains. We actually won't see the industry data on the first quarter for probably another 3 or 4 weeks. But the profile in the first quarter was different, Nigel. We know we had some activity with a couple of customers, one of them being one of our top 5 or 6 customers, that those orders we would typically have expected to be second quarter orders, they came in, in the first quarter. To put this in perspective, we're actually not changing our expectations for the first half with respect to Hill PHOENIX. So the sort of the overperformance we had on orders and revenue in the first quarter, we're assuming right now we'll pay that back a little bit here in the second quarter. But we are looking for an improved forecast for the year. That said, I will tell you that the order activity so far in April has been quite reflective of what we were seeing in February and March. So it's -- this is one area where we could be -- we could have another pleasant surprise here in the second quarter.

Nigel Edward Coe - *Morgan Stanley, Research Division - MD*

Okay. Great. And then maybe for Brad. Can you just call out the impact to the refrigeration margins from the manufacturing realignment? And also the impact to Fluids margins from Wayne accounting?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Let's see here. I'm looking at Bob. So I actually don't have in front of me the data on the Wayne margins inclusive of AD&A. They're not negative, but they're -- as your question infers, we are eating a fair amount of purchase accounting charges here in the first quarter. From a full year perspective, let me give you this comment. I think you should have a fairly good feel for the AD&A for this business for the full year. We do see the operating margins for Wayne and Tokheim expanding through the year. The first quarter is the lowest quarter of the year, both in revenue and earnings for this business. I think, for the year, we're looking at margins for the year of 11% and my operating margins, Brad, 11% for the year, with the fourth quarter being maybe 300 basis points higher than the yearly average. And the first quarter was -- I don't think we hit 8% operating margins in the first quarter.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Just shy of 8%.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes, just shy of 8%. So, I guess, to add to that, the Wayne business is typically double digit, slightly over double-digit type margin profile ex AD&A, again, all these numbers that Bob is talking about. And Tokheim, we've told you before, is in the high single, so the combination of those 2...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Is 11 for the year.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes, it's about 11 for the year. What I would say is DFS, our Dover...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Fueling Solutions.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Fueling Solutions, we're off to a great start there. I would expect that we will beat our plan with respect to acquisition delivery of EPS related to DFS.

Nigel Edward Coe - *Morgan Stanley, Research Division - MD*

Great. And then just any color on the manufacturing costs in refrigeration?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

I think, we still had some production variances in the first quarter. I would call it production variances higher than what they should be, but that variance is half of what it was in the fourth quarter and in the third quarter of last year. I will point out one other thing with respect to refrigeration, Nigel. Even though we did see the improvement in production variances, what I call the factory variances, in the first quarter and my earlier comment was -- as planned, if not a bit better. We were encountering some input cost -- metal cost headwinds in the first quarter. And Brad, that number was probably about $4 million higher metal cost than we had anticipated coming into the year. We'll continue to see that as a headwind in the second quarter. We are processing material surcharges with our customers. We expect to offset not all of it because there is a lag, but we expect to offset a significant chunk of that as we go through the year.

Operator

Your next question comes from Jeffrey Sprague of Vertical Research.

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

Wonder if we could just flesh out a little bit more on the Energy progression. And I guess, the nature of my question is to make sure we get kind of the margin dynamics correct here. So you clearly, obviously, had a very, very rich mix in Q1 with drilling leading your business up...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Good catch.

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

Yes. So I'm trying to kind of balance the idea of you still should show very good operating leverage off of depressed base in every one of your businesses, but as the completion activity comes up and perhaps other things are going on, how should we think about this margin progression for the year?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Okay. So let's stay with the first quarter first. As you know, the conversion there was significant year-over-year. Adjusted ex restructuring, Jeff, 60% conversion year-over-year driven on the strength of drilling as you point out. Sequential improvement in margin on the higher volume, about 30%, 31%. As I think about it going forward, and we gave you some numbers related to the second quarter in our script, the pre-read, I'm thinking that the year-over-year for the year, for the full year, will be in the 40% range. So coming off that high first quarter, conversion will moderate based upon the mix of business. But sequentially, I still see ongoing sequential improvement in that 30% range.

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

And that 40% will be ex restructuring, ex -- that's underlying ex all restructuring [comps]?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes, it is.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

And I would add one other point here to what Brad has shared with you. I think, you will also see us here in the second quarter and third quarter add a little bit of cost back into the segment. We have tried to stay as lean as we possibly could in the fourth quarter and first quarter, but as the drilling activity continues to increase and we start to see an increase in well completion activity, Jeff, I don't want to see our lead time stretch.

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

Right. Just a quick follow-up on Energy and then I have one other question. How should we think about the growth in your drill bit business versus the rig count in the quarter? I assume you lag that growth by some amount as we inflect it higher. I think the rig count was up 33%.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. I -- do you have that data, Brad? My recall is, is that our improvement, our top line growth in our drill bit insert business was actually fairly well correlated with the increase in rig count. In fact, it may have been a bit higher, Jeff.

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

Okay. Great. And just then quickly on cash flow. It looked unusually low in the quarter. What's going on there? It sounds like you're pretty comfortable with the year.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Still feel very comfortable with the year. First quarter activity was a little bit stronger than we expected, Jeff, coming into the quarter. So the inventory levels naturally were a bit higher. Receivables, a little bit higher than we expected. But I would also tell you that in a couple of areas of the business, we did make decisions about halfway through the quarter to do some selective prebuilds to make sure we were holding delivery times where we wanted them to be in the second quarter. And that's...

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

I would (inaudible) number about $40 million.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

About $40 million.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

$40 million, $45 million...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. $40 million of inventory that was -- I would just label as prebuilds to support second quarter delivery schedules.

Operator

Your next question comes from Andrew Obin of Bank of America Merrill Lynch.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Just to get away a little bit from drilling and refrigeration, you have sort of made -- you had made this commentary that, I think, in every segment that you were seeing broad-based booking strength. We're getting a lot of questions from investors about the macro environment. What's your view on the macro in the U.S. and globally based on this booking strength? What does it tell you?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Well, so if I can ignore, I'll call it projects, which tend to distort some of the numbers on occasion. I would say that the industrial activity we were seeing here in North America, here in the U.S., was fairly indicative of what we were seeing in the third and fourth quarter of last year. And by that, I am also telling you probably not much of an increase. I mean it was healthy, but I'm not sure if we actually saw what I would label as an increase in market activity here in the U.S. In Europe, I would label the first quarter activity, and perhaps even what our expectations are for the second quarter, as an improvement in general market activity for Europe. Our growth in China was fairly strong. It was, I think, our organic growth in China may have been -- it was better than mid-single digits. I think it may have been 7% or 8%, even approaching 10% in the first quarter. And that's important for us because -- I think I made this comment on our January call with respect to the fourth quarter. The fourth quarter of last year was organic positive for us in China. And I believe the fourth quarter was our first quarter in about 7 that we'd actually had positive organic growth. So we see that as a fairly positive signal for our business activity in China. The balance of the year may not be pushing 10%, but we look at it as a fairly healthy market for us over the balance of the year.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

And just a follow-up on Fluids within your pumps business, maybe I missed it. Could you just comment on the pricing environment and what are you seeing in terms of bookings on the pumps? And as I said, the quality of the backlog and where it's coming from? And when does it inflect positively, I guess, that's the question?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Well, if your comment is on industrial, and by that, you're asking me to exclude the impact of some of the later cycle oil and gas activity that we're dealing with?

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

No, no, no. I actually -- no, all inclusive, including...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

All inclusive of that, okay.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Yes, yes.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

I know the second half is positive organic growth for our pumps business. And Brad is nodding yes, the second quarter is as well. I knew the second half was. So I think our inflection point is the first quarter. And we are anticipating fairly healthy mid-single-digit organic growth out of our pumps business for the balance of the year.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

And how is pricing?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Normal.

Operator

Your next question comes from Steve Tusa, JPMorgan.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

So just to kind of put a bow on it. I guess, the 40% incremental ex restructuring for the year, is that around the 13% margin for Energy? What's the margin you're dialing in now for Energy for the year?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

For the year, it's slightly above 13%.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Okay. And then just -- you guys had given, I think, some color on the margin for the rest of the segments during the guidance period, maybe if you could just update some of those or any change? I think it was 15 point -- high, high 15 to 16 in Energy and Engineered, 13-and-change in Fluids, 13-and-change in Refrigeration. Maybe you can just give us some updates on margins by segment for the year.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

So I think, Steve, you're dead on with those numbers. Here's what I would say, is -- we just went through Energy, we're up 30 to 40 basis points from our last estimates. So that spread pretty evenly across the other 3 segments. That's the best way to think of it. So everybody up slightly with Energy being up significant.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Okay. And then just the, I guess, just the second quarter margin cadence in Fluids. Seasonally, there's a little bit of noise there from the acquisitions, et cetera. Is that -- what should we think about as the margin there for the second quarter?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Well, I mean, I think it's going to be indicative of the full year type of rate. So when we talk -- yes. So I think, you'll see that. And that rate will build into the...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Into the third and the fourth.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

So that the total year, the second quarter looks like the full year but the first quarter is lower, as you know. So it has to build into the back half as the seasonality of the business there.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Right. And then just one last quickie on the product recall charge you took in the fourth quarter. I noticed in the 10-Q that was, I think, tweaked down a little bit from what you had original expected. Would that have been a change?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

No.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Did that impact the income statement at all?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

No, no.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

No, no. That's just cash payments against the reserves.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes, no P&L impact.

Operator

(Operator Instructions) Your next question comes from Andrew Kaplowitz of Citi.

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

Rob or Brad, you mentioned that your organic backlog growth was up 13% as of the first quarter. But you only raised your organic revenue guide for the year up 1%, to 5%. So maybe you can talk about the balance between being conservative, maybe more difficult comparisons in the second half of the year. And are there any concerns you have in any of your businesses that they could be a little slower in the second half of the year versus the first half of the year?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Any of our businesses being slower in the second half, I cannot think of a single one. Brad?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

No, no.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

The answer is no. With respect to your question, are we being a bit conservative with respect to our outlook given the 13% organic growth in bookings in the first quarter? Let me take you back to my comment earlier on refrigeration. We had really strong bookings in refrigeration in the first quarter. The book-to-bill, gosh, what was it, like 1.2 or...

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

1.23.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Something like that. I think -- I'm not sure I'd label it conservative as much as I would express some caution as we enter the second and third quarter, which is typically the ramp season for Hill PHOENIX and Anthony. I made a comment earlier, I have -- I think we have some belief that the strong bookings we saw and the strong revenue we saw in the first quarter, we would have normally had some of those bookings and some of those shipments in the second quarter. So as we move into the second quarter, I think I'm being a little bit cautious, but conservative? Perhaps. We'll see. Let us play the second quarter out and you can tell me whether we were conservative or just being cautious. If you look at it around the rest of Dover, I think we're [loading] well. And if there's an opportunity for us being described as being conservative, it could very well be in the point you're making here that maybe there is a little bit of caution even beyond refrigeration. Will the bookings rates that we saw in the first quarter continue into second half? And the only thing I can share with you right now is that the order rates in April are very reflective of what we were seeing in February and March.

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

Okay. Bob, that's very helpful. And maybe focusing on ESG, you mentioned across Engineered Systems broad-based organic bookings growth. And then you mentioned that ESG, the chassis availability issue was getting better toward the end of your quarter. I think you said previously that you would expect it to improve significantly in 2Q. So maybe talk about the expectations for that particular business unit. Or do you still think 2Q should look materially better within that business and underlying environment around that business?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Q2 will be significantly better within this business than we've seen, not just in the fourth quarter, but I would say significantly better than what we saw in the second half of last year. Our bookings within this business in the first quarter were actually quite strong. The market activity for us is quite healthy. I think the book-to-bill within that business in the first quarter, gosh, Brad, 1.3? Something like that. It was quite healthy. For the full year organic growth is up nicely in this business. It may be pushing high single digits for the year. So we see a very strong recovery in this business in the second, third and fourth quarters. The chassis delivery has started to improve. We saw significant improvements in March. We see further improvements in April. And I think by the time we exit the second quarter, we'll feel like our shipment production schedule and our chassis delivery will be well matched.

Operator

Your next question comes from Scott Davis of Barclays.

Scott Reed Davis - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

I'm not sure you mentioned anything -- or if you did, I apologize, but did you mention anything about your M&A plans for the rest of 2017, the backlog, with how things are tracking in that regard?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. We've -- I guess, I would give you a similar comment that I've shared on previous calls. We remain very active in looking at some of our targets and having discussions with companies that have been on our target list for 2, 3 or sometimes 10 years. I -- we announced a small acquisition, I guess, it was in April.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes, in April.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Early April, with respect to our digital textile printing initiative. Don't expect anything significant from us in M&A over the next 3 or 4 months, Scott. But you may see us close on a couple of smaller deals sort of reflective of the size that you saw in this announcement earlier this month.

Scott Reed Davis - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

Okay. And just -- can you remind me what your balance sheet capability or what you think your next 12 months potential...

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. Well, my number is always higher than Brad's.

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

We traditionally said it's in the order of magnitude of 500 to 700, in that range.

Scott Reed Davis - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

Okay. And does your book-to-bill give you confidence to step up in that regard? I mean, just commenting on the fact you didn't buy back any shares in 1Q.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

I -- look, the execution on our M&A targets, it is significantly lesser influenced by our backlog than it is the ability to reach a conclusion and agreement with the owners of the targets. I -- don't expect us to announce a share repurchase program for 2017. Our focus is still on growing the business.

Operator

Your next question comes from Deane Dray of RBC.

Deane M. Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

I was hoping you could give some more color regarding your comment that the Wayne integration is ahead of plan?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Okay. Like what?

Deane M. Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Integration, new product development, geographic.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Let's see. The bookings in the first quarter, a little bit stronger than we had in our beginning of the year plan for both Wayne and Tokheim, actually for the entire business, Dover Fueling Solutions. I don't remember what the number was in excess of our plan, but $10 million or $12 million greater than we had anticipated. Synergy -- the synergy capture activity was on plan. I would counter that by also saying that our cost to achieve on our integration activity, we did pull some of that forward from the second quarter into the first quarter. Brad, $1.5 million, $2 million?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

It costs [$2 million].

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Increased spending on restructuring in the second quarter within Fluids than we had in our opening plan for the quarter. Europe, Tokheim did very, very well in Europe in the first quarter. That said, I'd also have to remind -- I keep reminding myself and I'll remind you that we didn't do very well in Europe in the first quarter of last year with Tokheim. But the step up year-over-year by Tokheim in Europe in the first quarter was actually fairly impressive and we feel like that market is beginning to recover for them and they are executing very well. With respect to combining the 2 businesses, we actually had a price increase in Europe in the first quarter. I think on the Tokheim brand, we processed the price increase in 1st of February. And with Wayne in Europe, the price increase was announced the 1st of March. This is very noteworthy, Deane, because I think, this may be the first price increase in Europe in this market in -- could be 7 or 8 years. It's been a long time. And the early read is that this -- the price increase is sticking. So all in all, we are quite pleased with the market activity. We are pleased with what the teams are achieving early in the process on the capture of benefits. And we were very pleased that we could move some of the restructuring of what I'd label as the cost to achieve forward from the second quarter into the first quarter. So all in all, I was very happy with this business in the first quarter.

Deane M. Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Great. That's real helpful. And just my follow-up on the mix in Energy. I know we saw strength in Bearings & Compression in the fourth quarter. It looked like it was still pretty healthy into the first quarter. What's the expectation there? I know that a lot of the focus has been on the Drilling & Production side, but how about on the longer cycle equipment?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. You picked it up correctly. Bearings & Compression performance in the first quarter was healthier, was stronger, both revenue and earnings than we had anticipated coming into the year. For the entire year of 2017, this business top line organic will be up mid-single digits. And margins are performing quite well and continuing to expand as they should.

Operator

We have time for one more question. Your final question comes from Julian Mitchell of Crédit Suisse.

Julian C.H. Mitchell - *Crédit Suisse AG, Research Division - Head of Global Capital Goods Research Team, Director, and Lead Analyst for United States Electrical Equipment and Multi-Industry Group for United States Equity Research*

Just wanted to ask about pricing in Energy. It was flat sequentially, down 60 bps year-on-year. Maybe give any color as to how you see that playing out over the rest of the year? And if there are any interesting trends within the sub-segments of the business?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

Yes. So let's see here. I think if -- when we do the analysis, we would show that pricing was down in the first quarter within Energy. Brad, it's little under $2 million for the first quarter?

Brad M. Cerepak - *Dover Corporation - CFO, Interim Principal Accounting Officer and SVP*

Yes.

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

But I would also say this was price concessions that were delivered to customers in the second quarter of last year. I do not believe there were any price concessions agreed to in the second half of last year. Am I correct with that statement? Okay. So what we're seeing here in the first quarter is sort of the burn-off or the tail end of the price concessions that we gave up in the second quarter of last year. With respect to our guide for 2017, we are not including any price increases other than those that we would normally see as we introduce new products where the pricing on those new products may be a bit healthier or stronger than the product it is replacing.

Julian C.H. Mitchell - *Crédit Suisse AG, Research Division - Head of Global Capital Goods Research Team, Director, and Lead Analyst for United States Electrical Equipment and Multi-Industry Group for United States Equity Research*

Understood. And then my follow-up would just be back to Refrigeration & Food Equipment. Just food equipment specifically, you've had a tough revenue trend for the past 12 months. It sounds like that's mostly in can shaping still. How do you see that playing out from here in terms of the recovery slope?

Robert A. Livingston - *Dover Corporation - CEO, President and Director*

The recovery slope here is pretty strong in the balance of the year for food equipment. With respect to our food service equipment in the first quarter, we had quite healthy organic growth rates just within food -- the food service equipment. We still had some really tough comps in can shaping. We had very good order activity in can shaping in the first quarter. And their plan for the year will have growth, I also think it's high single digits for the year. And here's an important thing to note on that business. I actually believe that the bulk of our revenue forecast for the balance of the year may be as much as 80% of our production forecast for the balance of the year within can shaping is in our backlog.

Operator

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

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

Thanks, Paula. This concludes our conference call. With that, we thank you, as always, for your continued interest in Dover, and we look forward to speaking to you again next quarter. Have a good day. Thanks. Bye.

Operator

Thank you. That concludes today's first quarter 2017 Dover earnings conference call. You may now disconnect your lines at this time, and have a wonderful day.