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DOV - Q2 2015 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 2Q15 revenues of $1.8b and EPS (including $0.01 of restructuring) of $0.97. Expects full-year 2015 YoverY revenues to decline 8-9% and EPS (including $0.17-0.19 of restructuring costs) to be $3.75-3.90.

CORPORATE PARTICIPANTS

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Steve Tusa *JPMorgan - Analyst*

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Deane Dray *RBC Capital Markets - Analyst*

Nigel Coe *Morgan Stanley - Analyst*

Joe Ritchie *Goldman Sachs - Analyst*

Julian Mitchell *Credit Suisse - Analyst*

Mircea Dobre *Robert W. Baird & Company, Inc. - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the second-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, 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 Goldberg - *Dover Corporation - VP of IR*

Thank you, Maria. Good morning, and welcome to Dover's second-quarter earnings call. With me today are Bob Livingston and Brad Cerepak. Today's call will begin with some comments from Bob and Brad on Dover's second-quarter operating and financial performance, and follow with an update of our 2015 outlook. We will then open up the call for questions. And as a courtesy, we kindly ask that you limit yourself to one question with a 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 August 4, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 800-585-8367. When accessing the playback you'll need to supply the following access code 6798 3014.

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 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'd also direct your attention to our website where a considerably more information can be found.

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

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. Let me begin by saying that the energy markets have been more challenging than we anticipated, and the impact on our results have been quite significant. I do believe we are taking the right actions to address the current environment, and I am confident we will improve our performance in the coming quarters.

Now let me share some comments on the quarter. We faced tough markets in the second quarter, which included diminished demand and significant inventory reductions in our North American energy markets. We also saw reduced activity tied to customer capital spending in retail refrigeration and oil and gas related pump markets. Regarding our industrial platform, the US was very solid partially offset by some softness in Asia and Europe. These factors more than offset the cost containment actions we've been able to achieve and the very solid results we're seeing in Engineered Systems and Fluids.

From a geographic perspective, our US activity declined largely driven by our exposure to oil and gas markets. Our Asian activity also declined on tough comps in food equipment and reduced industrial capital spending in China. Overall, Europe remains solid and grew organically in the quarter.

Now some specific segment comments. In Energy, our drilling and production and automation businesses were significantly impacted by the severe North American oil and gas market declines. We also saw some weakness in energy related bearings markets while our compression business held up well.

In Engineered Systems, we achieved solid organic growth across both platforms. Within printing and identification, our businesses again performed well and the industrial platform achieved overall organic growth of 3% led by solid results in our waste handling business. Our Fluids segment had a strong quarter where market conditions for fluid transfer products were solid, and we had strong shipments in our project related pumps businesses. Fluids segment margin performance was excellent at 20%.

Within our Refrigeration & Food Equipment segment, retail refrigeration results were soft. We expected activity to replace previously lost volume to be more robust at this stage of the year. I am encouraged that bookings improved at Hillphoenix as we moved through the quarter. Additionally, our glass door business performed well leveraging the broad customer base and leading technology. Our acquisition pipeline developed nicely in the second quarter, and we have the opportunity to close on several bolt-on acquisitions in the second half of the year.

Now let me address our revised outlook for the year. Within Energy, we remain cautious and have adjusted our full-year forecast to reflect the weak second quarter and continuing low demand levels in the second half. On a positive note, we believe we are at the very beginning of a change in direction for our drilling business. Specifically, we saw drilling bookings stabilize and slightly improve off a low base as we exited the quarter. In addition, we have been actively expanding our customer base in select product categories and gaining business with new products and technology.

In Engineered Systems, we anticipate growth across both platforms. In printing and identification, we continue to win business globally, and organic growth should remain very healthy. In the industrial platform, we expect second half organic revenue growth to remain solid, quite similar to the first half supported by strong US markets.

Regarding Fluids, we believe the solid global markets will continue for fluid transfer and most of our pumps businesses, and margin will remain strong in the second half. Finally, within Refrigeration & Food Equipment, we have lowered our forecast due to reduced expectations at Hillphoenix. However, we do anticipate our glass door, heat exchanger, and commercial food equipment businesses to perform quite well in the back half.

With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of our presentation deck. Today, we reported second-quarter revenue of $1.8 billion, a decrease of 10%. This result was comprised of organic revenue declines of 10%, growth from acquisitions of 4%, and an FX impact of 4%. EPS was $0.97 including $0.01 of restructuring. Segment margin for the quarter was 15.6%, 300 basis points below last year.

Bookings decreased 14% over the prior year to $1.7 billion, largely reflecting weak energy macros and softer capital spending in retail refrigeration, oil and gas exposed pump markets, and our industrial businesses in Engineered Systems. Overall, book-to-bill finished at 0.98. Our backlog decreased 17% to $1.2 billion. Free cash flow was strong at $175 million or 10% of revenue. For the full year, we expect to generate free cash flow of approximately 11% of revenue.

Now let's turn to slide 4. Fluids organic revenue grew 6% benefiting from solid fluid transfer markets. Engineered Systems grew organic revenue 3% reflecting solid growth in both platforms. Refrigeration & Food Equipment's organic revenue declined 12% on slower spending by our retail refrigeration customers in tough comps in our can shaping equipment. Weak macros in Energy drove organic revenue down 34%. As seen on the chart, acquisition growth was 4% while FX had a negative 4% impact.

Turning to slide 5 and our sequential results. Revenue increased 3% from the first quarter primarily reflecting normal seasonality, largely offset by Energy. Overall, Refrigeration & Food Equipment increased 20%, and Engineered Systems and Fluids were both up 3%. Energy decreased 15%. As we discussed earlier, the decline into the second quarter in Energy was deeper than expected. Sequential bookings decreased 1%. Of note, Refrigeration & Food Equipment increased 16% as we began to see orders for Hillphoenix improve as we exited the second quarter. Engineered Systems and Fluids both declined 2% while Energy declined 17%.

Now on slide 6. Energy revenue of $366 million decreased 24% driving earnings down from the prior year to $41 million. Energy's results were impacted by the steep deterioration in oil and gas markets. Most notably, in our North American drilling and production and in our automation markets where we continue to be impacted by diminished demand and significant customer destocking. However, international activity continues to be an area of opportunity for us and held up well in the quarter. We incurred an additional $3 million in restructuring costs in the second quarter and expect to take another $6 million to $7 million in charges in Q3 to further reduce our costs.

Excluding the Q2 restructuring costs, our operating margin was 12% reflecting significantly lower volume and price declines partially offset by the benefits of productivity and prior period restructuring. In 2015, we expect to take almost $90 million of costs out of this segment, a majority of it permanent to better position us for the future. Bookings were $345 million, a 28% decrease from the prior year. Book-to-bill was 0.94.

Turning to slide 7. Engineered Systems revenue of $593 million declined 3% overall reflecting organic revenue growth of 3%, offset by an FX impact of 6%. Earnings of $97 million decreased 5%. Our printing and identification platform revenue of $230 million decreased 9% overall. Organic revenue grew 4% driven by solid global markets for our core printing and coating business. In the industrial platform, revenue was essentially flat at $363 million and includes organic growth of 3% driven by growth in our vehicle service and waste handling businesses partially offset by softness in Asia and European industrial markets.

Margin declined 30 basis points to 16.3% primarily on business mix and the impact of FX. Bookings were $560 million, a decrease of 8% reflecting an organic bookings decline of 2% and a 6% impact from FX. Organically, printing and identification bookings were up 3% while industrial bookings decreased 5% on softness in Asia and Europe. Book-to-bill for printing and identification was 0.98, while industrial's was 0.93. Overall book-to-bill was 0.94.

Now on slide 8. Within Fluids, revenue increased 2% to $352 million, and earnings of $70 million increased 11%. Revenue performance was driven by organic growth of 6% and acquisition growth of 2% offset by FX. Our fluid transfer businesses benefited from strong demand in global retail fueling markets and ongoing safety and environmental regulations. Pumps results reflect strong shipments of project related orders and favorable comps.

Segment margin of 20%, an increase of 180 basis points largely reflecting favorable product mix and leverage on volume. Bookings were at $334 million, a decrease of 11% overall or 9% organically. This result primarily reflects softness in our oil and gas related markets within pumps and the timing of project related orders. Book-to-bill was 0.95.

Now let's turn to slide 9. Refrigeration & Food Equipment's revenue of $448 million declined 14% from the prior year. Earnings decreased 23% to $66 million. Revenue performance was impacted by reduced volume from a key retail refrigeration customer, as well as lower than expected shipments to other retail customers. Also impacting results were tough comps in our can shaping business.

Operating margin was 14.7%, a 160 basis point decrease from last year. This result largely reflects reduced volume and product mix. Bookings were $487 million, a decrease of 10% principally reflecting slower than anticipated order activity from our core refrigeration customers, partially offset by robust food equipment orders. Book-to-bill was 1.09, supporting an anticipated better second half.

Going to the overview now on slide 10. Second-quarter net interest expense was $32 million. Corporate expense was $20 million, down $9 million from last year reflecting broad cost management initiatives and reduced compensation expense. Our second-quarter tax rate was 29.3%. Capital expenditures were $44 million in the quarter. Lastly in the quarter, we repurchased 4 million shares for $300 million and have repurchased 500 million year to date. As previously communicated, we expect to repurchase a total of 600 million this year.

Moving to slide 11, which shows our full-year guidance. We now expect the year-over-year revenue to be down 8% to 9%. We expect organic revenue to decrease 7% to 8%. Completed acquisitions will add approximately 3%. We continue to expect the impact to FX to be approximately 4%. Of note, segment margin is expected to be between 16.1% and 16.4%, excluding restructuring costs. Our full-year corporate expense forecast is down $9 million to $116 million reflecting flow-through of the second-quarter reductions. Interest expense should remain around $127 million.

We continue to expect the full-year tax rate to be approximately 29%. CapEx remains at approximately 2.3% of revenue, and our full-year free cash flow will be around 11% of revenue. From a segment perspective, Energy's full-year organic revenue forecast is now negative 31% to 32%, a reduction of around 6 points from our prior guidance. Within this estimate, all three end markets have been revised downward to reflect general North American market conditions. Refrigeration & Food Equipment's organic revenue forecast is now expected to be negative 6% to 8%, a reduction of 5 points reflecting slower customer volume in retail refrigeration. Engineered Systems and Fluids growth rates have both been trimmed 1 point off the top end for reasons previously outlined.

Turning to the bridge on slide 12. We now expect the year-over-year impact of restructuring costs to be negative $0.02 to flat. Lower performance largely driven by volume declines partially offset by productivity and restructuring benefits will reduce earnings $0.92 to $1. Within this estimate, our restructuring benefits of $0.36 to $0.38. Acquisitions already completed will be $0.02 to $0.04 accretive. Share reduction will add $0.20 to $0.21. Interest corporate and the tax rate will be in the range of $0.01 to $0.03 benefit. In total, we now expect 2015 EPS to be $3.75 to $3.90, inclusive of $0.17 to $0.19 of restructuring costs.

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

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Brad. We clearly have faced some tough market conditions in the first half, which will largely continue for the balance of the year. Our teams have managed well through this environment, and I'm confident they'll continue to do so. As I look forward, I see opportunities for improvement at each segment, which should result in better performance in the back half of the year and into 2016. For example, within Energy, I expect drilling destocking to dissipate. We are also aggressively pursuing share gains and expanding our international presence.

I am pleased we've been able to grow our share in select product categories over the last year in the face of tough markets and that we are actively bidding on many international tenders. I expect Engineered Systems to show growth in both platforms and am encouraged by a big recent win for waste hauling equipment as well as in large Navy contracts we just secured. Fluids has demonstrated very solid growth in fluid transfer, which should continue. On the pump side, we continue to grow in international markets as evidenced by an important plastics order we were just awarded in China. And lastly, within Refrigeration & Food Equipment, I anticipate a better second half on improved order activity at Hillphoenix. Our food equipment businesses will also have an improved second half boosted by stronger project shipments and new equipment rollouts for a couple of key restaurant customers.

With our strong free cash flow and the strength of our balance sheet, we have significant capacity to strengthen and build our position within our growth spaces, and I expect us to complete some acquisitions in the back half of the year. With that, I'd like to thank our entire Dover team for their continued focus on serving our customers and driving results.

With that, Paul, let's take some questions.

QUESTIONS AND ANSWERS

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks, Bob. Before we take questions, I just want to remind everybody as a courtesy if you can limit yourself to one question with a follow-up, we'll be able to take more questions from more analysts. With that, Maria, can we have the first question?

Operator

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - *UBS - Analyst*

Bob, I guess I'll start with this bottom/inflection point in drilling. Maybe a little color on what you're seeing there and are we just seeing an and to the bleeding or do you actually see something you like there?

Bob Livingston - *Dover Corporation - President & CEO*

Gosh, Shannon. Right now it's hard to have rosy glasses when you look at our activity in the energy market. Recount continued to decline during the second quarter. And we track that most closely related to our drilling business, our insert business for drill bits. And we saw the low point in the quarter in the first half of June. The second half of June was up about 10% or 12% over the first two weeks of June. And I would share with you that the order activity in July is up, so far just month to date is up about 15% above what we saw in May and June. Shannon, I'm not attributing that to a market recovery. It does reflect what I believe is the coming to the end of the destocking activity we've experienced with many of our customers.

Shannon O'Callaghan - *UBS - Analyst*

Okay. Then on the cost side, why was there only $3 million of restructuring this quarter in Energy? I would've thought -- I mean, last quarter there was $18 million. You said you were going to do $6 million to $7 million next quarter. Was there a reason that there was a little bit of a lull? I would have thought it would have been pretty intense restructuring this quarter.

Bob Livingston - *Dover Corporation - President & CEO*

Well, I would tell you, I think there would be some people within Energy that would tell you that there was some intense restructuring, it just didn't cost as much as what we're going to experience in the second half. Brad is going to have to help me here with an exact number but I think headcount was reduced in Energy by almost 400 folks in the second quarter. And there just wasn't a lot of restructuring costs associated with those employee reductions. Second half of the year, I think embedded in our guidance is about $15 million of restructuring costs total for the Corporation and probably two-thirds of that is in Energy, Shannon. We continue to whittle away at the cost base.

Shannon O'Callaghan - *UBS - Analyst*

Okay. So it's just how much it's costing to take it out. That's not aligned exactly.

Bob Livingston - *Dover Corporation - President & CEO*

The restructuring in the second quarter did not include assets.

Shannon O'Callaghan - *UBS - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President & CEO*

It was all people related.

Shannon O'Callaghan - *UBS - Analyst*

Got you. All right. Thanks, guys.

Operator

Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Can you give us a sense, I didn't see anything in the slides or commentary related to price in the backlog, particularly in Energy. Is there a -- have you hit a point now on where folks who wanted a repricing have got it and what you see in the backlog is stable price so we have there yet?

Bob Livingston - *Dover Corporation - President & CEO*

As soon as I answer the question affirmative, we're going to get another request for another tough discussion with a customer tomorrow, Scott. I believe that the bulk of it is behind us. I think I've shared this on the April call as well as at a couple conferences that I spoke at during the second quarter. That the bulk of the price reduction activity we've experienced in Energy has been in our drilling products as well as our rod products within artificial lift. Not a lot has changed. In our drilling products, it's still going to average for the year about 5%, and that's what we saw in the second quarter. A little bit more aggressive actions that we've taken along with some of the customer demands in rods, and that's probably averaging around 10%. Don't see it being much different during the second half of the year. And the net impact for the segment for the entire year I would tell you, it's still within the range we've been sharing with you for the past couple of calls, which is 3% to 6%, 4% to 6% in that range.

Scott Davis - *Barclays Capital - Analyst*

Okay. Understood. On corporate expense, it's down $9 million year over year. Is that -- can you give us a sense of how much of that is lower bonus accruals and how much of that is real cost out?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes. Yes. I'll take that question. I guess, Scott, about half of that is us reaching a threshold on our revised guidance whereby the long-term plans won't pay out. And so think about it as half is comp related. The other half, about 50% of that is real cost takeout. So I would say that's related to our functional cost initiatives around reducing the corporate overhead. And then we have a miscellaneous other stuff that normally happens in any given quarter comprised the remaining piece of that balance.

Scott Davis - *Barclays Capital - Analyst*

Okay. That's it. Thanks, guys. Good luck.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

The restructuring dynamics in Energy, can you maybe just remind us of what the expectation is, what you spent this year, what you expect to book this year in savings and then what the carryover is into next year? I think that's kind of an important piece, obviously, in being optimistic about next year.

Bob Livingston - *Dover Corporation - President & CEO*

Okay. I'm going to let Brad comment.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Let me start and then you could follow on if I don't hit all those questions. So we're seeing $40 million to $45 million total Corporation this year in restructuring charges, $0.16 to $0.19 range. Of that amount, we're looking at $27 million to $30 million of that being in Energy. In terms of the benefits, we continue to see, by the way I'll just make mention of this now, that as we continue to work through our restructuring, our benefit estimates have actually come up a little bit since our last forecast. Just more confidence around that benefit number. But in terms of Energy, I pointed out in my prepared remarks that we expect to take $90 million of costs out this year.

Steve, there's two pieces to that. There's a piece that's funded through restructuring and there's a piece that's just day-to-day initiatives around structure that doesn't cost us effort -- doesn't cost us money, I should say. Costs a lot of effort but money. And so Energy will take $90 million out. The run rate on that obviously is a much more significant. For the total Corporation, I would say we look for restructuring, I'm going to go back to just the restructuring piece, $90 million to $95 million of benefits. The run rate will be more like $130 million to $140 million going into next year on those actions.

Steve Tusa - *JPMorgan - Analyst*

Okay. And of the $90 million, how much is actually from the restructuring?

Brad Cerepak - *Dover Corporation - SVP & CFO*

The $90 million in Energy you're referring to?

Steve Tusa - *JPMorgan - Analyst*

Yes.

Brad Cerepak - *Dover Corporation - SVP & CFO*

So about $60 million to $65 million.

Steve Tusa - *JPMorgan - Analyst*

Okay.

Brad Cerepak - *Dover Corporation - SVP & CFO*

For us coming through real initiatives around just cutting back to spend levels that we expect some of that to be permanent.

Bob Livingston - *Dover Corporation - President & CEO*

And lower product costs.

Steve Tusa - *JPMorgan - Analyst*

Right. I think you said last quarter, there were $30 million of temp stuff. Is that still kind of -- that's what that implies? Is that still kind of the number but you're making that sound like it's a bit more structural perhaps now?

Brad Cerepak - *Dover Corporation - SVP & CFO*

I don't think that number's changed much, no.

Steve Tusa - *JPMorgan - Analyst*

Okay. And then one last quick question just on Refrigeration & Food. The margin has been down in the first couple quarters here. What do you see there for the year? I know your volumes maybe returned a little bit in the second half. What margin are you expecting in that business for the year?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Gosh. For the entire year, at least 13.5%. It may push 14%, Steve.

Steve Tusa - *JPMorgan - Analyst*

In Refrigeration & Food?

Brad Cerepak - *Dover Corporation - SVP & CFO*

In that segment.

Steve Tusa - *JPMorgan - Analyst*

That's a huge I think bump up from -- I know you had restructuring in the fourth quarter but I mean that's definitely a hill to climb in the second half.

Bob Livingston - *Dover Corporation - President & CEO*

So let me give you a little bit of color on anticipated second half margins for Dover, which I think would be helpful for everyone to understand. As we look at the second half, we are anticipating operating margins to be up about 250 basis points over the first half. Steve, the bulk of that goes back to your first question. Of about 150 of the 250 bps improvement we're seeing in the second half is the recognition of increased benefits of restructuring and lower restructuring costs versus the first half. And about 30 bps of improvement in the second half from what I would just label as normal productivity initiatives.

Steve Tusa - *JPMorgan - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President & CEO*

And then some improvement in margins from increased volume. We are looking at volume in the second half to be up; I think it's about $130 million over the first half. And we'll see some increased margin activity from that increased volume.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Keep in mind the discussion that Bob, the numbers he's given you is all to the high-end of our guide range. Just to be clear.

Steve Tusa - *JPMorgan - Analyst*

Okay. Great. Thanks for all the color. It's great to have all these details and thanks for trying to make a call on some of the stuff that's incredibly fluid over the last couple of quarters. All the details very helpful, so thanks.

Brad Cerepak - *Dover Corporation - SVP & CFO*

You're welcome. Thank you.

Operator

Jeff Sprague, Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

Just a couple others thinking about this back half, you had previously been pretty explicit about how you thought Energy would exit the year. Could you give us that granularity also on what's embedded in your guide?

Bob Livingston - *Dover Corporation - President & CEO*

Yes. The second half guidance, second half forecast on Energy, second half versus first half, Jeff, the revenue was down $40 million. But the second half run rate is fairly consistent with the second quarter. Obviously that said, that means that the first quarter will be the high quarter of the year for Energy. Three months ago, I truly did anticipate that we would exit the year with a 20% margin in Energy. I still think this business is a 20% margin business. We're just not going to see it in the fourth quarter. Not with the volume that we are anticipating now. I think the number we have in our forecast for a fourth-quarter exit rate is 15% or 15.5% margins.

Jeff Sprague - *Vertical Research Partners - Analyst*

Wonder if you could actually address that earnings power comment in a sense. It seems as if there is in fact some very significant changes going on in the market and how people are approaching fracking, the geological services that Schlumberger and Halliburton are offering to drive the business. It would seem that you're not particularly well-equipped to compete with that. I just wonder how you'd respond to that. Is there things that you need to do with your portfolio, and is there some impairment in the margin rate of this business normalized going forward relative to what you saw historically?

Bob Livingston - *Dover Corporation - President & CEO*

Well, let me start first by saying we're not really a participant. I shouldn't even use the qualifier, not really. We are not a participant in the fracking market. We'll participate in the drilling activity with the inserts, and we'll participate once the well has been fracked. We will participate with whatever technology of artificial lift is appropriate for that well. But in the pure fracking application, that's just not something we participate in.

Jeff Sprague - *Vertical Research Partners - Analyst*

I'm thinking more along the lines as they get better and better at refracking, we're doing less drilling.

Bob Livingston - *Dover Corporation - President & CEO*

We're still in the early days of seeing this refracking application here in North America. But when you refrac, you've got to pull the gear of that well. And we believe there's an opportunity for us as that gear -- as that system comes out for either if it's been down hole a short period of time, a year or so, maybe two years, there's an opportunity for us on the downhole pump, either a service, a repair, a rebuild, or a new pump. If it's a rather new well, it would be unusual for the rod strings they need to be replaced. But if it's an older well, we think there's an opportunity that some of these well operators may take and actually replace the entire rod strength. It really does depend on the characteristics of that individual well.

Jeff Sprague - *Vertical Research Partners - Analyst*

Just one follow-on, on the restructuring, the paybacks are really phenomenal. So $40 million to $45 million in spend is driving $90 million to $95 million in benefit and I heard run rate 130. I'm just wondering if you could --?

Bob Livingston - *Dover Corporation - President & CEO*

Yes. 130 to 140. Yes.

Jeff Sprague - *Vertical Research Partners - Analyst*

So do you have to get into a heavier level of restructuring so that I think you -- I guess what this implies is you've taken out people and places where they're not unionized and you just let them go and there's not a lot of severance and the like but do you need to actually adjust your footprint and get into some more costly heavier restructuring?

Bob Livingston - *Dover Corporation - President & CEO*

You saw us take some steps, let's see, did we do this in the fourth quarter? For sure, we did it in the first quarter. You saw us take some steps in the first quarter with respect to footprint consolidation. My goodness, I don't remember how many field locations were actually removed during the first quarter but double-digit number of field locations. And with that, you see a little bit of our charge activity related to some asset charges. In the second half of the year within Energy, you'll see a little bit more activity around I call it footprint consolidation.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay. Thank you.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

On the refrigeration side, when you talk about the slowly to develop replacement activity, I presume that's where you were trying to fill the whole in the lost WalMart business. So did you miss out on orders from those customers, like not get that share or are the customers just not ordering?

Bob Livingston - *Dover Corporation - President & CEO*

We don't believe we've missed out on any orders that we had planned for the second quarter. We have seen that activity shift to the right. I'll give you a little color on that, Dean. April order activity wasn't that bad. In fact, it was probably similar to or maybe even slightly above March activity as we exited the first quarter. May was a surprise. I don't remember the exact numbers at Hillphoenix, but May order activity may have been down as much as 15% or 20%, 15% from March and April. June can back very strong. In fact, it was not only strong at Hillphoenix, the bookings for the segment in June were the highest monthly bookings we've seen in the last 18 or 24 months. It was a very, very strong June. And order activity here in the first few weeks of July is quite supportive of our third-quarter forecast.

Deane Dray - *RBC Capital Markets - Analyst*

Great. Thank you. And then just could you clarify in the negative preannouncement, when you talked about the oil and gas pump market being particularly weak, can you just flesh out that? What exactly did you see? Pricing, competitive dynamics, just anything you could share would be helpful.

Bob Livingston - *Dover Corporation - President & CEO*

There may have been a little bit of pricing. I wouldn't say there was much difference in competitive dynamics. It was all attributable to the continuing decline in the North America oil and gas market, especially upstream. And I would say we saw a little bit more distributor inventory management in the second quarter than we would have anticipated.

Deane Dray - *RBC Capital Markets - Analyst*

Inventory management by distributors, that's in destocking?

Bob Livingston - *Dover Corporation - President & CEO*

(multiple speakers) Destocking by distributors, yes.

Deane Dray - *RBC Capital Markets - Analyst*

That was the word I was looking for. Thank you.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Obviously, covered a lot of ground already. There's obviously --

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Bob Livingston - *Dover Corporation - President & CEO*

We're going to cover a lot more with you, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

(laughter) I really just want to dig into some points already covered. The payback, [$0.02 to $0.03] payback on your bridge, obviously you had quite a heavy 4Q restructuring quarter as well, so I'm wondering how much of that is coming from the 4Q restructuring action that is rolling forward into 2015 i.e., how much of your already realized in the first half?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. You're asking how much is the benefits first half versus second half of this $90 million to $94 million we're talking about? I would say in the first half, we've seen about $30 million to $32 million of the benefits roll through second quarter, significantly better than first quarter in terms of benefit profile. And then obviously, the back half gives us the remaining fees with it building sequentially through the year and into next year, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. And that's within -- that's for the whole of Dover, not just Energy, correct?

Bob Livingston - *Dover Corporation - President & CEO*

That's for the whole of Dover, yes.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great. That's helpful.

Bob Livingston - *Dover Corporation - President & CEO*

And I would say Energy is very similar profile. Building sequentially into 2016, with the first quarter being only about $4 million or $5 million of benefits and then the rest really picking up pace in the second, third, and fourth quarters.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's helpful. It helps explain the way that it rolls forward.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Let me just reiterate what Bob said. The back half margin profile versus first half is up 250 basis points. 150 of that really is coming from reduced right now in our forecast, reduced spending level on restructuring and better benefits.

Nigel Coe - *Morgan Stanley - Analyst*

Right. Okay. And then that's the second part of my question is, I think Bob, you mentioned second half Energy revenues similar to the 2Q run rates. In the past, you've said you expected 2Q to be the trough on Energy revenues so it sounds like 3Q might be the trough, so if you'd just clarify that point and then secondly --?

Bob Livingston - *Dover Corporation - President & CEO*

No. Actually, I used the phrase or the descriptor similar. I will tell you that we do anticipate a very slight improvement in energy revenues in the third quarter and the fourth quarter over the second quarter. And Nigel, the only difference is, is we do expect a better revenue profile out of our drilling insert business in the second half of the year versus the second quarter because we do believe that the destocking by the drill bit customers is almost complete.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Recognizing that --

Bob Livingston - *Dover Corporation - President & CEO*

That truly is the only change in the second half versus the second quarter is a little bit of an uptick, little bit of an uptick in our insert business both from destocking, but I will also tell you that some of the increased order activity we saw in the second half of June and that we're continuing to see here in July is the result of new products and some new technology that we've delivered to some customers and the take-up has been rather significant on the new products. I will add another bit of color, take the opportunity to do it now. I think in my prepared comments I shared with you, the activity we're engaged in with respect to international tenders. We are bidding on and tracking -- actively tracking almost 50 international tenders as we sit here today. The timing of them, the timing of the awards, and the actual award amount is a bit uncertain. None of those tenders -- none of those tender awards that we could win are included in our second half forecast.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's encouraging. Any way to try and size the impact of the inventory headwinds that you had in the first half of the year, and particularly the second quarter?

Bob Livingston - *Dover Corporation - President & CEO*

It's hard to tell. All I can give you is some data points. So for example, if I compare second quarter of 2015 to second quarter 2014 year over year, the rig count decline was 55% here in the US. I'm ignoring Canada. Here in the US, the rig count decline was 55%. Our revenue decline in our insert business was almost 70%. It was that significant, Nigel. Now, that 15-point delta between the rig count decline and our revenue decline, I would say perhaps 4 or 5 points could be attributable to price. The rest of it, at least 10 points, at least $40 million or $50 million, is attributable to destocking.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's really helpful. Thanks, Bob.

Operator

(Operator Instructions)

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

On the Fluids segment, you talked about an organic growth guide of 5% to 6%. It seems like that's going to imply a bit of an acceleration in the second half on similar comps. And the order trends in the first half were pretty negative, so I'm just trying to understand what the offset is that's driving the confidence and the acceleration in the second half.

Bob Livingston - *Dover Corporation - President & CEO*

So organic growth in the first half was 4% for Fluids. We're looking at 5% to 6% for the year. The low point was actually quarter one. Quarter three should look very similar to quarter two. And quarter four may be a little bit better than quarter one is how the waterfall looks.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Is there any --?

Bob Livingston - *Dover Corporation - President & CEO*

We do see a little bit of improvement in the FX hit in the second half of the year.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. But is there anything underlying the -- it seems like you called out oil and gas softening a little bit within the Fluids segment so I'm wondering if there's other end markets that you guys saw some improvement in as we were exiting June or into July. I'm just trying to get a sense for what the underlying trends are.

Bob Livingston - *Dover Corporation - President & CEO*

Okay. Again, I think I shared this data point with the callers on the April call. About 10% of this segment's business base is connected to upstream oil and gas. That was weaker in the second quarter than the first quarter. And it was weaker in the second quarter than we anticipated. It's not 30% of the Fluids segment. It's only about 10%. Order rates, I would tell you that outside of oil and gas, order rates around the segment were pretty solid with the exception being oil and gas and the absence of some larger project orders that we would did have in our order book in the second quarter of last year. We do anticipate some project wins here in the second half.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Great. My one follow-up is Bob, you mentioned earlier that there were several bolt-on acquisitions that you were working on potentially that could close in the second half of the year. I'm just wondering if you could just provide some more color on potentially size of the acquisitions and what segments you're looking to bolt on in.

Bob Livingston - *Dover Corporation - President & CEO*

Well, the sizes are, my goodness, anywhere from the smallest one could be under $20 million. The largest one could be, I don't know, $300 million or $400 million. And which segments? I think you'd see the bulk of them in Fluids.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Great. Thanks, guys.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Just on refrigeration and food, one shorter-term question just around food equipment, seems that was down high teens in the first half. Maybe just explain a little bit what's going on in the market and your own share position. And then just more broadly longer term on the segment in aggregate, how you feel about the positioning of where you are in different pieces within it in terms of the ability to drive decent earnings growth from here.

Bob Livingston - *Dover Corporation - President & CEO*

Let me take food equipment platform first or market sector first. Second half will be quite different than the first half. I would say in the first half, most notably true in the second quarter, we saw a real absence of what I call the project -- projectivity with our can making equipment. We see that picking up in the second half, and we have the orders in our backlog to support that forecast. Organic growth in food equipment in the first half was 19% negative. I'm sorry. 14% negative. In the second half, it's a positive 9%. That's how much of a true change there is within this platform from first half to second half. A big boost in the second half is the rollout. We are currently engaged in right now with two key customers on some restaurant equipment and that will have a rather significant impact on the growth rates in the second half.

Brad Cerepak - *Dover Corporation - SVP & CFO*

I would add to reiterate what you said, Bob, we have good line of sight in the second half of food equipment.

Bob Livingston - *Dover Corporation - President & CEO*

Very good line of sight, yes. Second half versus first half in the refrigeration piece of the segment, what is the revenue growth? I think first half -- the second half over first half the revenue growth in that part of the segment is. I think it's $50 million. And given the backlog that we ended the quarter with, given the order rates that we saw in June, and the activity we're seeing here in July, I will tell you that our third-quarter factory load is pretty solid to support that forecast. And we have lowered our expectations for the year. I think we have set a bar that we can hit here for the second half of the year in this segment.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. Thanks. Just to follow up on Fluids again, how much of your second half sales are in your backlog today?

Bob Livingston - *Dover Corporation - President & CEO*

Oh, gosh. I don't have that number. Let's see. For the whole segment, it's pretty much I would say 75% of our revenue, maybe even 80% of our revenue in this segment. I would label as quick ship type of sales. The project business may only account for 15% or 20%. And we're fairly comfortable with the order rates continuing in the second half that we've seen here over the last two or three months. And the project revenue forecast we have in the second half, I think with the exception of one project we actually have on our order book today.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Mircea Dobre, Robert Baird.

Mircea Dobre - *Robert W. Baird & Company, Inc. - Analyst*

A lot has been covered, so I just have one question. Maybe some color on your automation business in Energy. My understanding has always been that that's a stabler business, if you would, compared to your drilling business and yet we've see a pretty big sequential down tick there. How should we think about this business in the back half?

Bob Livingston - *Dover Corporation - President & CEO*

The back half -- Brad, you'll have to help me here with this detail but I think the second half of the year is fairly consistent, similar with the revenue stream we saw in the second quarter. It is down from the first quarter run rate.

Mircea Dobre - *Robert W. Baird & Company, Inc. - Analyst*

But is it fair for me to think of this business as being inherently more stable than the production business?

Bob Livingston - *Dover Corporation - President & CEO*

Parts of it would be, but don't lose sight of the fact that there is 20%, there's 20% of the automation business maybe a little bit more than that, Brad, at least 20% of the automation business that would be connected to more of the drilling activity than well completion and production monitoring.

Mircea Dobre - *Robert W. Baird & Company, Inc. - Analyst*

I see. Okay. Thanks for the color.

Operator

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

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks, Maria. 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 after the third quarter. Have a good day. Thank you. Goodbye.

Operator

Thank you. That concludes today's second quarter 2015 Dover earnings conference call. You may now disconnect your lines at this time and have a wonderful day.

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