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DOV - Q1 2012 Dover Corporation Earnings Conference Call

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OVERVIEW:

DOV announced 1Q12 revenues of $2.1b and EPS of $1.05. Management raised the low end of 2012 guidance for EPS from continuing operations to a range of $4.80-5.00.

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CORPORATE PARTICIPANTS

Paul Goldberg *Dover Corp - VP, IR*

Bob Livingston *Dover Corp - President and CEO*

Brad Cerepak *Dover Corp - VP of Finance and CFO*

CONFERENCE CALL PARTICIPANTS

Shannon O'Callaghan *Nomura Securities Intl - Analyst*

Jeffrey Sprague *Vertical Research Partners - Analyst*

Nigel Coe *Morgan Stanley - Analyst*

Terry Darling *Goldman Sachs - Analyst*

John Inch *BofA Merrill Lynch - Analyst*

Scott Davis *Barclays Capital - Analyst*

Stephen Tusa *JPMorgan Chase & Co. - Analyst*

James Lucas *Janney Montgomery Scott - Analyst*

Charley Brady *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the first quarter 2012 Dover Corporation earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer, Brad Cerepak, Senior Vice President and CFO, and Paul Goldberg, VP of Investor Relations. After the speakers' opening remarks, there will be a question and answer period.

(Operator Instructions).

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

Paul Goldberg - *Dover Corp - VP, IR*

Thank you, Maria. Good morning, and welcome to Dover's first quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's first quarter operating and financial performance, and followed with our outlook for the balance of 2012. We will then open the call up for questions. As a courtesy, we kindly ask that you limit yourself to one question with a follow-up.

Please note that our current earnings release, investor supplement and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through May 2, 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 will need to supply the following access code, 68614955.

Before we get started, I would like to remind everyone that our comments today which are intended to supplement your understanding of Dover may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover, by referring to our 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 turn the call over to Bob.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. We are off to a very solid start this year, with first quarter revenue and segment earnings both up 14% over last year. Organic revenue growth was 9%. We delivered first quarter EPS of $1.05, a 19% improvement over the prior year adjusted EPS. These results illustrate the strength of our business mix, and reflect the positive portfolio changes we've made over the last three years.

In our Energy segment, we continued to see strong activity across all end markets, with double digit sequential order growth. Market dynamics, including the ongoing shift from gas to oil, remained very positive for us and we anticipate the strength in this segment to continue. Within our Engineered Systems segment, our Refrigeration and Food Equipment businesses had a great quarter, capitalizing on strong customer service and product innovation. We saw a strong seasonal increase in bookings in refrigeration, and are well-positioned to have an outstanding year.

Fluids and our other Industrial businesses also performed very well. The Fluids performance was driven by the significant investments we've made the last several quarters. Solid business trends continue, as bookings grew nicely. I am very pleased with the first quarter performance at Engineered Systems, and am confident they will have a great year.

At our Communication Technology segment, we saw solid life science and commercial aerospace markets, and strong MEMS microphone activity in the first quarter. We continued to ramp production at Sound Solutions and expand capacity at Knowles. We anticipate a stronger back half of the year, as Knowles and Sound Solutions benefit from new design wins connected with anticipated OEM product releases.

Within our Printing and Identification segment, the new products introduced by the Markem-Imaje team are winning in the marketplace. We believe our new products, coupled with our stronger sales and service organization has enabled us to grow even in slower markets. We will continue to invest in products and people to draw a stronger global growth at Markem-Imaje.

Overall, I am pleased with our margin performance in the first quarter. Our productivity and cost take-out initiatives enable us to continue to invest for growth. We ended the quarter with a solid book-to-bill of 1.06, despite some anticipated market softness, most notably in Europe. I'm also very pleased with the significant progress we achieved on several other fronts during the quarter.

We continued to ramp -- we continued to work on the ramp of new customers and products at Sound Solutions. The magnitude of this undertaking, and the related market opportunity is significant. By the end of the first quarter, we had two semi-automated lines up and running in our Beijing factory, and we expect that number to at least double by the end of the second quarter. These lines enable us to increase volume, improve yield and margin, and increase our customer service flexibility.

We also made progress on our globalization efforts. I'm happy to report these efforts are bearing fruit, as we are now winning business in smaller markets like the Middle East, Australia, and Russia. For example, our Energy segment recently won a major contract, significantly increasing our business in Australia.

I was also pleased we closed on the QuattroFlow and Maag Pump acquisitions in the first quarter. These deals fit in our strategy of expanding our Fluids platform. We believe that adding pump technology, integrating our manufacturing footprint, and leveraging our global sales channel allows us to create value for our customers.

Finally, our acquisition pipeline remains active. We expect to announce another acquisition in our Energy segment within the next few weeks, and we would hope to announce additional deals in our growth spaces in the coming months. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3. Today we reported first quarter revenue of $2.1 billion, an increase of 14%. Earnings per share also increased 14% to $1.05. After adjusting for $0.04 of tax benefits in the first quarter of 2011, EPS improved 19% over the prior year. Segment margin was 16.2%, flat with last year. This result reflects very strong conversion in Energy and Engineered Systems, as well as our traditional Knowles markets. This outstanding performance was partially offset by the expected lower volume in Printing and Identification, and in general, softer volume and higher cost at Knowles Sound Solutions, as we ramp up production and automation related to new design wins.

Bookings increased 7% over last year to $2.2 billion, reflecting double digit growth in Energy and Communication Technologies, and solid growth in Engineered Systems. In Printing and Identification, bookings decreased 21%, where solid order rates in our fast moving consumer goods markets were offset by weakness in our solar and semi markets. Overall, book-to-bill finished at a very solid 1.06, which is in line with our seasonal pattern. Backlog grew 12% to $1.7 billion. In the first quarter, we generated $89 million in free cash flow or 4% of revenue, as the first quarter is typically our lightest in terms of cash generation. We expect free cash flow for the year to be approximately 10% of revenue.

Now turning to slide 4. First quarter revenue growth of 14% was comprised of 9% organic, and 5% from acquisitions. Organic growth remained strong at Energy, achieving 23% in the quarter. Engineered Systems and Communication Technologies also saw solid growth, 12% and 7% respectively, driven by the refrigeration, fluid, industrial and handset markets. Printing and Identification was down 9%, as growth in the fast moving consumer goods and Industrial markets were offset by the expected weakness in solar and semi markets. For the quarter, the majority of our acquisition growth was at Communication Technologies, where acquisitions contributed 26%.

Turning to slide 5, and our sequential results. Revenue increased 3% from the fourth quarter, driven by strong results in Energy and Engineered Systems. Energy's results were broad-based, while Engineered Systems growth was primarily lead by Hill PHOENIX. Printing and Identification decreased 4%, while Communication Technologies was down 10%.

These results largely reflect seasonality in electronics markets, coupled with softer volume at Sound Solutions. Bookings increased 9% sequentially from the fourth quarter, with continued strong growth across Energy and Engineered Systems. Communication Technologies' bookings in the fourth quarter were impacted by the timing of orders, which we anticipate will accelerate in the coming quarters.

Now moving to slide 6. Communication Technologies posted revenue of $358 million, an increase of 33% over the prior year. These results reflect strong MEMS, life science and military defense activity, partially offset by weak telecom markets. Sound Solutions volume accounted for 26 points of the revenue growth. Earnings of $46 million were down 2%, and segment margin was 13%, a decrease of 460 basis points. Earnings increases in our MEMS business were partially offset by lower telecom results.

Sound Solutions reduced margin approximately 600 basis points in the quarter. We expect segment margin to significantly improve as the year unfolds, most notably in the second half, on the expected benefits of higher volume and automation productivity gains. Bookings were $356 million, an increase of 30%. This growth was largely driven by our handset markets. We also saw robust order rates in life sciences and aerospace. Book-to-bill was 1.0.

Turning to slide 7. Energy produced another excellent quarter, as the average North American rig count was up double digits from last year, and oil prices remained favorable. Although rig count flattened sequentially, the ongoing transition in drilling from gas, to liquid and oil rigs accelerated during the quarter. Oil rigs are now approximately 66% of the market, which lines up well with our product offerings. Revenue increased 25% to $532 million, while earnings increased 42% to $132 million. As was the case last quarter, we saw strong -- we saw growth across all end markets, drilling, production, and downstream.

Operating margin was 24.9%, a 300 basis point improvement from last year. Margin performance was driven by very strong leverage on volume, and lower acquisition costs. Bookings were $586 million, an 18% increase over the prior year. Book-to-bill was 1.1. We expect the Energy segment to remain strong, driven by solid market dynamics, our focus on globalization, and significant new customer wins.

Now slide 8. At Engineered Systems, sales were $822 million, an increase of 14% year-over-year. Fluid Solutions grew 11% to $180 million, while refrigeration and industrial grew 15% to $642 million. Segment earnings increased 24% to $122 million. These excellent results were broad-based, with strong performances in both platforms and all end markets, highlighted by another outstanding performance in refrigeration and food equipment which was up 21% over last year.

Operating margin was 14.9%, an increase of 130 basis points reflecting strong leverage across the segment. Bookings were $896 million, an increase of 8%, resulting in a book-to-bill of 1.09. Our Fluids platform bookings increased 6%, while refrigeration and industrial was up 8%. Book-to-bill for Fluid Solutions was 1.02, and refrigeration industrial was 1.11. The growth in bookings at Fluid Solutions was broad-based, while refrigeration industrial continues to be lead by very solid refrigeration equipment orders.

Now let's turn to slide 9. Printing and Identification revenue was $356 million, a decrease of 11% from the prior year. Earnings decreased 40% to $33 million. The revenue decline reflects the expected continuing weakness in solar and semi, as compared against a very strong prior year. These markets now represent about 15% of this segment's revenue, were down approximately $35 million year-over-year.

That aside, our fast moving consumer goods and industrial markets continue to perform well, despite the economic challenges in Europe. We believe our new product initiatives, and the strength in sales and service organization has enabled us to grow our business in a challenging environment, a trend we believe will continue. Operating margin declined 450 basis points to 9.3%, reflecting significantly lower volume in electronics, continued investment in our fast moving consumer goods and industrial markets and product mix.

We continue to drive actions that increase our flexibility and operating leverage. We completed some targeted, small restructurings in the quarter, and we expect some further actions to better align our footprint with the faster growing market opportunities. Restructuring costs related to these actions will be approximately $5 million in the second quarter. Bookings were $347 million, a decrease of 21% from last year. These results were driven by weakness in solar and semi, whereas bookings grew 1% in our fast moving consumer goods and industrial markets. Book-to-bill ended at 0.99.

Going to slide 10. First quarter net interest expense, corporate expense, and our tax rate were generally in line with expectations.

Now moving to slide 11, and our 2012 revenue guidance. We now expect full-year revenue growth of 10% to12%, which is an increase from our prior guidance. Organic growth is estimated to be 5% to 7%, with completed acquisitions adding around 5%. Breaking down revenue growth by segment, we expect communication technologies growth to be unchanged from our previous forecast at 11% to 13% organic, while acquisitions will add 10% to 12%. Energy's growth is expected to be in the range of 11% to 13%. Organic growth should be 9% to 11%, up 1 point from our prior forecast. Acquisition growth is unchanged at 2%. Engineered Systems is now forecasted to grow 10% to 12%. Organic growth is up 1 point to 4% to 6%, while acquisitions are up 5 points, to 6%. Lastly, Printing and Identification revenue is forecasted to be down 1% to 2%, versus our prior flat forecast.

Moving on to slide 12, which shows our full-year guidance. As previously mentioned, we now expect total revenue to be in the range of 10% to 12%. CapEx will be roughly 3.5% to 3.8% of revenue, up from our prior forecast, as we aggressively invest in our growth spaces, especially in automation and capacity at Communication Technologies. All other aspects of our prior guidance remain substantially unchanged. Based on the above, we are raising the low end of our range, and now anticipate a full-year earnings per share from continuing operations to be $4.80 to $5.00.

Now let's go to the earnings bridge on slide 13. As a reminder, 2011 EPS was $4.26, after adjusting for $0.22 of tax benefits. Volume, mix and price will contribute roughly $0.33 to $0.49 for the full-year, while net productivity will add $0.19 to $0.29. We expect completed acquisitions to deliver roughly $0.18 to $0.22 for the year. Investment and compensation is $0.03 lower than our prior forecast.

Interest expense, share count and our tax rate should yield a $0.03 benefit, up $0.02 from our prior forecast, primarily driven by lower average shares. The net result is EPS growth of 15%, over our adjusted 2011 EPS at the mid point. With that, I'll turn the call back over to Bob for some final comments.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Brad. I am more confident on 2012, than just a short 90 days ago. Our Energy and Engineered Systems segments had a strong first quarter, and are well-positioned to produce excellent results for the balance of the year. Printing and Identification is facing tough comps, and a slower economy in Europe in the first half. I do, however, expect a stronger showing in the second half, as we benefit from our people, and product investments, improved productivity and a modest second quarter restructuring.

Communication Technologies is investing quite heavily in the first half, on automation at Sound Solutions, capacity expansion at Knowles, as well as significant design win efforts. Anticipated second half product launches, benefits from automation, and additional capacity will be quite noticeable in the second half results. I expect Dover's second half revenue to be up about 6% to7% from the first half, and anticipate solid leverage on the increased volume.

As I look across Dover, I am extremely pleased with our positioning. Trends in global energy demand and wireless communication, a recovering US economy, and continuing opportunities in emerging economies fit well with the focus and the direction of our businesses. We maintain our focus and financial flexibility to continue to expand in our five growth spaces. We are poised to have a great year with record revenue, earnings, and cash flow.

In closing, I'd like to thank our team for a very solid start to the year. As always, your focus on customers, productivity and winning in the marketplace has enabled us to begin 2012 on a very positive note. With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - VP, IR*

Thanks, Bob. And with that I'd just like to remind everyone, if you can limit yourself to one question and a follow-up, that would be much appreciated. And with that, Marie, if you can queue up the questions?

QUESTIONS AND ANSWERS

Operator

Thank you. Our first question comes from the line of Shannon O'Callaghan of Nomura. Please go ahead.

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

Good morning.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, Shannon.

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

So, yes, first one is on Communication Tech. So ex-Sound Solutions, the margins were up I guess 90 bps year-over-year, so around 18.5. Which I think implies Sound Solutions probably lost a little money in the quarter, versus, it used to be kind of I think like a mid teens margin business. So clearly, sort of an unusual period here, you are going through. I'm just, maybe a little more color, as how you see this ramping, and where you think Sound Solution margins kind of finish off, once you're past the transition, you have got the automation where you want it, where do you think Sound Solution normal margins will be?

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Bob Livingston - *Dover Corp - President and CEO*

Okay. You have a couple observations, and a question. Your comment on the DCT, Communication Technology margins, excluding Sound Solutions are about right. Shannon, let me step back a little bit here, and take a historical perspective on Sound Solutions. And then I'll give you a direct response to your question.

If you look at first of all, we had been looking at this business as an acquisition target for several years, before we actually made the acquisition. And if you look at the second half of '10 -- and I'm going to pick the second half of '10, because that's before the noise with the Nokia market share drop started to affect the business. You look at the second half of 10, their quarterly revenue was running at about $80 million a quarter. And at that time, about 75% of their business was with Nokia and RIM, 25% all other.

Now, we sort of know what happened during 2011, we experienced a decline, or Nokia experienced a decline in their market share. We've seen it with a couple of other customers. And you've heard us comment about the activity we've been undertaking for the last couple of quarters on production ramps with other customers. But now let's bring it to the first quarter of '11. So the revenue was about $70 million -- first quarter of '12, I'm sorry.

So the revenue was about $70 million, but the share positions with customers has changed significantly. Nokia and RIM is down to about 35% of our business. Now all other, and all other is a fairly long list, but all other is about 65% of our business. When you do the math, what this business has been able to do and it is trying to expand even more is increase this business with all other account lists, excluding Nokia and RIM. And over the last several months, we've actually just about doubled that amount of business with the other customers.

Now your comment on margins. All-in, including our acquisition charges, Sound Solutions was negative for Dover in the first quarter. And I'm going to tell you, we expect it to be negative for Dover in the second quarter, but again I emphasize all-in including the acquisition charges. On an operating basis, it's mid, perhaps a bit higher than mid single digits operating EBITDA. That is much lower than it should be, and it's much lower than what we expected it to be.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

In the first half.

Bob Livingston - *Dover Corp - President and CEO*

In the first half. We get into the second half, Brad, help me with the numbers here a bit. We get to the second half, the significance in these design wins, and the impact from the automation projects, as well as the anticipated customer launches in the second half gets us --

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Gets us back to the historical--

Bob Livingston - *Dover Corp - President and CEO*

The revenue increase is significant.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Right.

Bob Livingston - *Dover Corp - President and CEO*

And the second half margins, get us back to the historical margins that we saw and continue to expect from Sound Solutions.

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

Okay. Yes, that's a pretty big swing. So, and you feel like you have visibility now? You've got the design wins to matter, sort of the timing to flow from that, right?

Bob Livingston - *Dover Corp - President and CEO*

It's a matter of timing. We have worked quite diligently in the second half of last year, first quarter of this year, continuing to work on it for more design wins, but we believe the design wins that we need for the second half production ramp have been won. And it is a matter of product launches with the customers.

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

Okay. And then just a question on Energy. So the comps have already gotten tougher here. We've had the declines on the gas side, but organic growth was still 23%. You had this 13% sequential increase in bookings. It sounds like international is becoming sort of a more important thing for you. And I'm just curious if that's right? And how we should be thinking about it, and how you're sort of seeing international side of the story develop?

Bob Livingston - *Dover Corp - President and CEO*

International is growing for us. Actually, it's growing quite -- it's the fastest growing part of our Energy business right now. We had a great first quarter. The guys did an outstanding job. But our downstream business, Shannon, is also growing nicely. If you look at the guidance that we have provided here, that Brad provided earlier here, on the revenue guidance for the year, the comps do get tougher.

We are not, we are not forecasting significant volume increases in our Energy business beyond the first quarter of level. We do have some increases, but they are not significant. I think if I remember correctly, the second half of 2012 for our Energy business is up low single digits, over the first half. And we do expect the rig count to be moderating here, as we go through the year.

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

Okay, thanks.

Bob Livingston - *Dover Corp - President and CEO*

All right. Thank you.

Operator

Our next question comes from the line of Jeff Sprague of Vertical Research. Please go ahead.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Hi, thank you. Good morning, everyone.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, Jeff.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Good morning, Jeff.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Thank you for that very detailed answer on Sound Solutions. I'm just wonder, one other element to that, Bob.

Bob Livingston - *Dover Corp - President and CEO*

Yes.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Are you, are you in fact, struggling in some way with the automation ramp relative to what you were expecting? It sounds like that's an undercurrent of some of what you're talking about here today? And what are those issues, and how long should those take to be worked out?

Bob Livingston - *Dover Corp - President and CEO*

I would say that the first two lines that we have brought up in Beijing have come on line slower than we would have liked, and actually slower than we believed four or five months ago, Jeff. As of the end of the first quarter, we do have two lines commissioned. They are fully [owned] now by production, and we're focused on getting at least two more lines up in the second quarter. And we expect the commission of these two lines, perhaps even a third one, to be much more efficient and quicker than we experienced with the first two.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Great, and I'm just wondering--

Bob Livingston - *Dover Corp - President and CEO*

It was a great learning exercise for everyone on the first two.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Yes, I guess so -- (Multiple Speakers).

Bob Livingston - *Dover Corp - President and CEO*

-- make sure we learned from it

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Well, as long as it's working by the time those product launches come, I guess it all works out.

Bob Livingston - *Dover Corp - President and CEO*

Yes.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

On the M&A front, can you give us a little color on kind of, order of magnitude size you're talking about, given that you've got some stuff kind of near in your sights here?

Bob Livingston - *Dover Corp - President and CEO*

Well, the -- I guess the only one that I would comment on, was the deal we'll announce here in a couple or three weeks in our Energy segment. Brad, do you have the details on that?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Yes, so as Bob indicated we expect to close a deal in the Energy space in the next couple of weeks. Size-wise, it's roughly going to mean about $100 million of sales on an annualized basis for us in our Energy business. Purchase price is going to be around 220. And so we're excited about adding that to the Energy business. It will be just very slightly dilutive for us this year, because of deal costs and amortization step ups, especially on the inventories as it turns out, Jeff. But we look -- this has high margins like other businesses we've done in the Energy space, other acquisitions we've done.

Bob Livingston - *Dover Corp - President and CEO*

And Jeff, and folks, this is an acquisition addition into our production segment in Energy, around artificial lift.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Okay. And just maybe a small follow on, and I'll pass it on. Did you have some deal dilution, as it related to Maag pump or other things in the quarter? You didn't call that out, but I assume there was some (inaudible) there.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Yes. Well, we only owned it for about two weeks. So it was kind of neutral within the first quarter. But for the second quarter, we're going to see that -- those costs, those initial start, in essence rollout of the inventory in the second quarter. And so the second quarter will get hit by about -- oh, I would say about $0.01 to $0.02 of dilution. And then as the year progresses, we expect that there will now be, slightly accretive for us, Jeff. A very strong business performance so far in this year, even for the period that we didn't own them. And we have high expectations for the rest of the year on that business.

Bob Livingston - *Dover Corp - President and CEO*

Strong order rates and backlog on this acquisition.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Great. Thanks a lot.

Operator

Our next question comes from the line of Nigel Coe of Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Yes, thanks, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Hi, Nigel.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Good morning.

Nigel Coe - *Morgan Stanley - Analyst*

Just a quick follow on -- over the M&A backlog. It sounds like there's a few more deals that you have a bit of visibility on. What would you say is the probability of a big deal this year?

Bob Livingston - *Dover Corp - President and CEO*

Nigel, the only reason I'm commenting on this energy deal, is because it is sort of already in the public space, as we've received HSR approval. And that's -- I, beyond that, I really don't want to comment on size, or number of deals in the backlog or the pipeline. It's -- we never know we're going to close one, until we close it.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, that's fair enough. And then looking at the Markem-Imaje performance, it looks like 2% or 3% organic growth. You commented previously, you're looking for double digits. You've got a lot of new product launches coming up, for the balance of the year. Can you just give us visibility, on when you'll start to see the benefits of those launches?

Bob Livingston - *Dover Corp - President and CEO*

We did have positive organic growth in the first quarter, pretty modest. And I have to tell you that, as we started the year, January was a bit of a hole for us, that revenue was quite a bit less than we expected, and we were feeling it most notably in Europe. February and March activity returned to normal and expected levels. The second half of the year actually is a pretty strong forecast for Markem-Imaje. And as of right now, Nigel, our internal plan, we've backed off a point or so on the internal plan from what we had 90 days ago. But the internal plan for Markem-Imaje is still high single digits organic growth for the year.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. And just another quick one on this -- the book-to-bill of 0.99. How does that break out between Electronics and other?

Bob Livingston - *Dover Corp - President and CEO*

Oh goodness.

Nigel Coe - *Morgan Stanley - Analyst*

Sorry.

Bob Livingston - *Dover Corp - President and CEO*

Let's see. I'm not sure I can give you both numbers. I know Markem-Imaje was a positive book-to-bill. I think Markem-Imaje book-to-bill in the first quarter was 1.03. The electronics, the electronics and semi and solar, obviously would have been less than 1.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Thanks, Bob.

Bob Livingston - *Dover Corp - President and CEO*

But I do know Markem-Imaje was 1.03.

Nigel Coe - *Morgan Stanley - Analyst*

That's great. Thanks.

Operator

Your next question comes from Terry Darling of Goldman Sachs. Please go ahead.

Terry Darling - *Goldman Sachs - Analyst*

Thanks, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Hi, Terry.

Terry Darling - *Goldman Sachs - Analyst*

Hi, maybe Brad, I'm wondering if you might scope out your thinking on year-over-year margin change for the segments? You had talked in the past, Energy up 50. It looks like you're tracking well above that. Coms up 120, probably below that, and so forth and so on for the segments.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Okay. So you're referring back to -- back to when we scoped that out for Dover Day, correct?

Terry Darling - *Goldman Sachs - Analyst*

Right.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Yes. So I guess if I -- just generally speaking, we said at Dover Day, total Dover, total Dover would be up somewhere between 40 bps to 70 bps. And one of the things that is influencing that overall number at this stage is the Maag acquisition. So you've got to -- that was not known at the time of the Dover Day guidance. And so that brings down our total Dover about 20 bps or so. So total Dover, we're looking at going from about a 17 actual, to up somewhere between 17.0 to 17.3 or so.

As I think about the segment, generally speaking I would say, the margin rate we've had in DE in the first quarter of about almost 25%, we should see a little bit of improvement in that throughout the year. DES, we will also, at almost 15, we'll see a little bit of improvement throughout the year on DES as they continue to get leverage on volume. DPI, obviously, we have expectations that the second half will be better than the first, and better than the first quarter. And we'll see some significant improvement there, as well as in our Communication Technologies group.

Terry Darling - *Goldman Sachs - Analyst*

Okay. And then just on the acquisition where you've got the HSR, and we've got a little bit of dilution this year. Any way to scope out the potential accretion in '13 as you're viewing it today?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Boy, I -- we don't have that, I don't have that data with us, Terry.

Terry Darling - *Goldman Sachs - Analyst*

Okay. And then Bob, I guess looking at the semi and solar businesses, are you pretty confident that you've moved sideways here, indicating a bottom? And are you seeing signs of a pick up on the order front, or do you think that's second half? Or how do you think about those businesses as you move into the second half and into '13?

Bob Livingston - *Dover Corp - President and CEO*

Well, let me give you one quick comment on solar. It's low. (Laughter). I think we've got less than $40 million of revenue in our plan for 2012 for solar. Okay? So let me go to semi. I think we shared this with the audience on the January call, that we felt or believed at that time that we had hit the trough in the third quarter of last year on bookings. And that trend continues to hold.

I think our fourth quarter sequential bookings improvement in semi, was up about, like 18%. First quarter over fourth quarter, sequentially up about 7% or 8%. And we expect some very, very modest improvements in that business throughout the year, off of the first quarter order rate. On revenue for semi, first quarter was our trough. That would fit with the order rates. And we expect a little bit of improvement throughout the year in semi revenue, but it is still pretty modest, Nigel. I think in our total forecast for Dover, I think we've got $200 million of revenue in for semi.

Terry Darling - *Goldman Sachs - Analyst*

Okay. And then just lastly, weather impact in the first quarter? Did you get some pull forward at Hill PHOENIX? Do you think OPW got some benefit? Just overall, reflect on the --

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Bob Livingston - *Dover Corp - President and CEO*

Yes, I know. That's always, I'd have to -- my response would have to be, that it's possible but it's very, very difficult to pinpoint anything, Nigel -- I mean Terry. The -- your comment on HP, the -- we came into the year, and the Hill PHOENIX folks did expect their market to be up in 2012 over '11. And that has been the case in their first quarter. They had a very, very strong first quarter, and the revenue was up 20% year-over-year, and the bookings increase was a similar number.

I will tell you, we're not, the guidance we're giving you here, on revenue for the year, we are not raising the Hill PHOENIX plan, and maybe that goes back to your question. It is difficult for us to have great visibility into the second half right now. We believe we're going to have a very strong first half at Hill PHOENIX We're at this point in time, we're holding the annual plan for Hill PHOENIX.

Terry Darling - *Goldman Sachs - Analyst*

Okay, makes sense. Thanks very much.

Operator

Your next question comes from the line of John Inch of Bank of America. Please go ahead.

John Inch - *BofA Merrill Lynch - Analyst*

Thank you. Good morning, everyone.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, John.

John Inch - *BofA Merrill Lynch - Analyst*

Bob, want to talk a bit about the downstream energy business. I think you made some positive commentary toward it. It did in the quarter have the slowest growth. So are you expecting the business to sequentially improve, more so than the other businesses as the year progresses? And kind of the angle I'm fishing for a little bit is low nat gas pricing. Maybe you can talk about how that, perhaps dovetails into an opportunity set for that business?

Bob Livingston - *Dover Corp - President and CEO*

Well, John, you're right. It did not have the growth rates in their first quarter, that drilling and production did. But John, don't ask me to apologize for 14% growth in our downstream business. It was a pretty solid quarter for them. The growth for the year, we still -- we're forecasting double digit, low double digit growth for the downstream business for the year.

I think the natural, the low natural gas prices will have a positive influence on activity and projects and downstream markets. I don't think you're going to see a surge in business the second quarter through the third quarter. But I think you are going to see an increase in permitting, and interest, and quote activity as the year goes on. I would tell you to think more about the downstream business, as having a bump from the low natural gas prices, as being a bit of a tail wind for us late this year and going into '13.

John Inch - *BofA Merrill Lynch - Analyst*

Okay. No, that kind of makes sense. Can I ask about Hill PHOENIX? I mean, obviously, the -- I'm presuming Hill PHOENIX surprised even you in the quarter. It kind of looks like you're gaining share, maybe share significantly in the case business. Is this a -- and I realize you don't want to talk about customers, but was this a one off win, proportionately as you look at it? Or is there -- or is it maybe you could just provide a little more color on product momentum, or what's really going on there?

Bob Livingston - *Dover Corp - President and CEO*

So let me remind you, that I think even on the January call, I commented about how strong the bookings were at Hill PHOENIX in the fourth quarter. They were quite a bit stronger than we had anticipated.

John Inch - *BofA Merrill Lynch - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

So John to be frank, coming into their first quarter, there were probably some questions or concerns, that maybe for whatever reason, project timing and customer decisions that some 2012 business that we were expecting, had been pulled into 2011. Well, the first quarter sort of proved that concern to be false. The business increase at Hill PHOENIX was very broad-based. It was not driven -- I think you're referring to the big projects at Wal-Mart and Target.

It was not -- we had nice increase with both of those customers, but it was not driven significantly so by those customers. We had very strong business increases in Canada and Mexico, which has been a focus for the business over the last cup of years to grow the business outside of the US. And did we take share? We think we did. We believe that at least, on the data we're looking at the end of February, I do not have full first quarter data, but through the end of February, our share of the case business is up about 4% to 5%. And I'm talking low 40s.

John Inch - *BofA Merrill Lynch - Analyst*

Yes, but that's -- okay. No, that makes sense. And maybe just lastly, Brad or Bob, you referenced weak Europe, obviously Europe is in a recession. I realize you don't have a ton of exposure. It's somewhat limited. But does European businesses, just talk about them, are they in a holding pattern? Are you getting -- seeing things soften or maybe even strengthen a little bit? And just any color you could provide would be great, thanks.

Bob Livingston - *Dover Corp - President and CEO*

Okay, well, Brad can probably share some data points with you, but I don't think we would talk about Europe and use the word strengthening. The -- we -- in Europe, we have the most significant presence obviously with our Markem-Imaje business, with our SWEP business, and with some of our semi and solar activity. Europe, was actually, as a percentage of our revenue, was actually rather flat with what it's been over the last several quarters at 17%. If you exclude the impact of Sound Solutions, because part of, obviously, part of Sound Solutions is European.

John Inch - *BofA Merrill Lynch - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

If you exclude the impact of Sound Solutions, our European revenue in the first quarter was down 1% I think, Brad, is that right?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Yes, 1%.

Bob Livingston - *Dover Corp - President and CEO*

And I -- you hate to cheer a negative number, but I was pleased with their business performance in Europe in the first quarter.

John Inch - *BofA Merrill Lynch - Analyst*

I mean, how would that have compared to December? Is it better -- the December quarter? Sorry.

Bob Livingston - *Dover Corp - President and CEO*

Well, the latter half --it's better than the latter half of the fourth quarter.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

It's basically flat, quarter to quarter. Sequentially flat, and as Bob said, slightly down year-over-year.

John Inch - *BofA Merrill Lynch - Analyst*

Yes, got it. Thank you very much.

Operator

Your next question comes from Scott Davis of Barclays. Please go ahead.

Scott Davis - *Barclays Capital - Analyst*

Hi, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Hi, Scott.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Hi, Scott.

Scott Davis - *Barclays Capital - Analyst*

A couple questions for you. I mean, one, AAC has been talking pretty aggressively about taking share in MEMS. Is -- do you see a more aggressive competitor there? Is it just at the margin? Or is there something kind of bigger going on that we should be aware of?

Bob Livingston - *Dover Corp - President and CEO*

Taking share? Scott, what we see -- we see AAC at one customer. Our MEMS business in the first quarter, on revenue was up. What was it, Brad, 25%, 24%, 25%?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

25%.

Bob Livingston - *Dover Corp - President and CEO*

And our handset business, our activity was up like 25%. And other MEMS business, like tablets and some other applications, it was up 20%. Look, there is -- you're going to see some changes from quarter to quarter. We think our business is doing quite well.

Scott Davis - *Barclays Capital - Analyst*

Yes. Clearly, just wanted to give you a chance to refute their comments. So can we talk a little bit about X-Rite? Danaher announced that deal not so long ago, and I'm guessing you took a look at it. I mean does it -- when you think about kind of the future of the printing business or the -- whatever you want to call it, does having a color business, is that important? Is it going to become more important? Is this something where you need to start looking at assets, that are similar to X-Rite? Or is this more of a one off?

Bob Livingston - *Dover Corp - President and CEO*

Gosh, you are asking me to comment on someone else's acquisition. And I really don't want to do that, Scott. If you go back to what we shared with everyone at Dover Day, with this segment -- with the strategy we have for our Printing and Identification segment, we do want to look for other printing applications that just necessarily would not be an add-on to Markem-Imaje, but do expand our play in other printer --printing applications. The one you're referring to, is that an example? That would be an example.

Scott Davis - *Barclays Capital - Analyst*

Okay. So is it fair to say you looked at it then?

Bob Livingston - *Dover Corp - President and CEO*

It's fair to say.

Scott Davis - *Barclays Capital - Analyst*

Okay. Good enough. That's all my questions.

Bob Livingston - *Dover Corp - President and CEO*

Thanks.

Scott Davis - *Barclays Capital - Analyst*

I'll pass it on.

Operator

Your next question comes from the line of Steve Tusa of JPMorgan. Please go ahead.

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

Hi, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, Steve.

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

So just the energy dynamics you are talking about, basically kind of you are not modeling much sequential improvement. Is that just your conservatism, or is that kind of the rig count dynamic you see out there? And then as we move into kind of 2013, assuming that the mix in the rigs doesn't change that much more dramatically, if rig counts are flat, do you grow in '13? Is there still the content story, or is this kind of like the bump that we've had stabilize here?

Bob Livingston - *Dover Corp - President and CEO*

Okay, let's see. Well, you've got three or four questions there. (Multiple Speakers).

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

-- is there share gain? I guess, just a commentary on -- you talked about kind of flattish sequential energy revenues. But you've talked about higher content in oil versus gas. And so, I'm just curious if there's anything else to that?

Bob Livingston - *Dover Corp - President and CEO*

Let me deal first with what our assumptions are, in our planning for the rig count. When you look at averages, we still -- we've taken down the rig count deployment for 2012 slightly, from where we were 90 days ago. But we're still looking at about an 8% year-over-year increase in average rig count deployment. At year-end, here in the US and for the December quarter, I think the number was like 1,973 or 1,975 rigs. The average in the first quarter here in the US was actually down a bit. And we believe that the second quarter here in the US is going to be flat with the first quarter. You will see some noise during the quarter, but flat with the first quarter.

For North America, the -- I would say the commentary is similar for North America, which is primarily we are adding Canada. The question you're asking about content, on the rigs actually affects -- it has little impact on our drilling business. And our drilling business had a very, very strong first quarter. Actually, of the three segments, they had the strongest growth. Our growth in drilling in the first quarter was 30%, Steve. And I don't have the slices and the detail on this, but I would guess that perhaps, as much as of a third of that growth could be share gains in the first quarter.

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

Got you. Okay.

Bob Livingston - *Dover Corp - President and CEO*

Would that continue? We fully expect that to continue.

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

Right. And then, just curious on the CapEx versus investment? Why is comp and investment lower? And then, the increase in CapEx as a percentage of increased sales, is that, the majority of that, is that in CMT, or is that in other areas as well?

Bob Livingston - *Dover Corp - President and CEO*

Okay, I -- okay, repeat the question, Steve.

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

In the earnings bridge, you -- (Multiple Speakers).

Bob Livingston - *Dover Corp - President and CEO*

Oh, okay. So your question, the CapEx question.

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

Yes, because it goes from 3% to 3 --

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

3.3% to about 3.5%.

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

Right.

Bob Livingston - *Dover Corp - President and CEO*

I would say that the bulk of that increase is in Communication Technologies, but not all of it. Probably 60% of that increase is in Communication Technologies, but let me give you a little bit of color on that. If you look at our CapEx plan for the year as we've shared with you, for the total number, Steve, probably 80% of that CapEx is in our five growth spaces.

And I would say, that well north of 50%, maybe even as high as 70% of the CapEx in those five growth spaces, it's all for better positioning or capacity, or automation to capture opportunities outside of their core markets like here in the US. The bulk of the other CapEx, that's not in our five growth spaces, gosh, I would say at least half of that, is what you and I would label as maintenance CapEx. I don't know --

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

Okay.

Bob Livingston - *Dover Corp - President and CEO*

Does that provide some color for you?

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

Yes, absolutely. And one just quick question on the other telecom and other revenue in the Communication Tech segment, down 14% in the quarter. But you said your other MEMS business did, I believe you reported in there --

Bob Livingston - *Dover Corp - President and CEO*

Okay, so. What the -- (Multiple Speakers).

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

-- like the, your tablets and stuff, if that was up 25% -- sorry?

Bob Livingston - *Dover Corp - President and CEO*

You want to know the detail?

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

Well, I just -- I'm just curious if MEMS, because if that was up 25%, and the segment was up -- was down 14, that means telecom was down like -- I don't know, 30 to 40 or even 50 or something like that.

Bob Livingston - *Dover Corp - President and CEO*

No, not 40. I'm going to -- Brad, help me here. 25% to 28% down?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Yes, around 30.

Bob Livingston - *Dover Corp - President and CEO*

Around 30, yes.

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

Okay. So then the other MEMS stuff was up kind of the mid teens type of thing, type of stuff?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

20.

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

Okay.

Bob Livingston - *Dover Corp - President and CEO*

20, yes.

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

Okay. Thanks a lot.

Bob Livingston - *Dover Corp - President and CEO*

Okay.

Operator

Your next question comes from Jim Lucas of Janney Capital Markets. Please go ahead.

James Lucas - *Janney Montgomery Scott - Analyst*

Oh, thanks, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, Jim.

James Lucas - *Janney Montgomery Scott - Analyst*

One follow-up question, just coming at M&A from a little different direction. Could you comment, of what you're seeing in the overall multiples, given that there's just so much cash still on the sidelines? And in particular, just areas where you're seeing, maybe a little bit more attractive, less competition? Just any color you can give on the pipeline would be appreciated.

Bob Livingston - *Dover Corp - President and CEO*

Well, okay. Goodness. I guess the color -- my first comment would be, every single deal is so unique, and so specific to the seller and the market opportunity. As a -- I think I've shared this comment on the January call, that if you look at the last three years I think our average PE on trailing EBITDA -- Brad, help me here? 8.5 or 8.3, or maybe pushing 9? It was in that range.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

It would be 8 to 9.

Bob Livingston - *Dover Corp - President and CEO*

8 to 9 range. And the -- I wouldn't change my comment on the deals that are -- I call them, the close end deals that we have in our pipeline. The multiples are rather constant. That doesn't mean that there haven't been some deals we've seen, that have gone at higher prices, and we've just elected to not chase the higher prices.

James Lucas - *Janney Montgomery Scott - Analyst*

Okay, that's helpful. And then secondly, with regards to Fluids, could you give a little color of what you're seeing there? You've done a good job of making some nice acquisitions to complement it. Kind of talk about how that segment is positioned today, and any particular areas that stood out, as you look out for the rest of '12?

Bob Livingston - *Dover Corp - President and CEO*

Well, the -- as Brad commented, for the first quarter, our business was up about 11%. We're going to have very strong growth in this business for the year, with a significant chunk of the growth coming from the Maag acquisition as we've shared. But you're asking on specific areas, I tell you, it's very, very broad-based. We have seen parts of this business continue to do very, very well in Europe and China, even with all of the reported slow downs in market activity.

And we've also seen a couple of the smaller parts of the pump portfolio that have been impacted by the slowdown in Europe. And especially some of the tempering -- or the slowdown in construction activity in China, but the business continues to expand. This is a very, very balanced global business for us. It's probably as equally balanced between US, Europe and emerging economies, with an emphasis in China and Asia, as any other business we have in our entire portfolio. And I tell you, the 11% growth in their first quarter, I think is a pretty good indication of what we would expect from this business for the balance of the year, absent the positive impact from the acquisition.

James Lucas - *Janney Montgomery Scott - Analyst*

Perfect. Thank you very much.

Operator

Your final question comes from Charley Brady of BMO Capital Partners -- Markets. Please go ahead.

Charley Brady - *BMO Capital Markets - Analyst*

Hi, thanks, good morning.

Bob Livingston - *Dover Corp - President and CEO*

Good morning, Charley, and welcome.

Charley Brady - *BMO Capital Markets - Analyst*

Thanks. Just on Communications Technology, I want to go back to comments I guess on the telecom other piece of that business, on a couple questions ago. Are you still looking to that segment, that piece of it to be down 3% to 5% for the year? And then, in a larger sense for the segment as a whole, it looks like your growth from acquisitions has dropped a couple hundred basis points. Is that a function of kind of first half Sound Solutions activity, or is it something else in there?

Bob Livingston - *Dover Corp - President and CEO*

Okay, Brad, how about I take the first part, and you take the second part? (Laughter).

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

Okay.

Bob Livingston - *Dover Corp - President and CEO*

So you are asking about Telecom other, for the first quarter I think we were reporting it down, what, 13% or 14%?

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

13%.

Bob Livingston - *Dover Corp - President and CEO*

13%. And the down part was telecom infrastructure. Some of the other was up for the year. It's -- it changes significantly for the year. I think we're looking at negative growth in Telecom other for the year to be, only like a minus 1%, or minus 2%, minus 3%.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. So that's a little bit better than I guess, you had a few months ago?

Bob Livingston - *Dover Corp - President and CEO*

Yes.

Brad Cerepak - *Dover Corp - VP of Finance and CFO*

And with respect to the second question, you're right. When we were at Dover Day, if that's what you are referring to, we expected acquisitions to add a little -- a few points greater than what we see now. And it goes back to the discussion we had about the softness in our business in Sound Solutions. If you recall, we treat acquisitions, organic once we hit that date we acquired it. So it's really a first half number for Sound Solutions. And that's the way -- that's the impact that you're seeing there, slightly slower volume.

Charley Brady - *BMO Capital Markets - Analyst*

Great. Thanks.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Charlie.

Paul Goldberg - *Dover Corp - VP, IR*

Okay --?

Operator

Okay. Thank you. That does -- I'm sorry, sir, go ahead with your closing remarks.

Paul Goldberg - *Dover Corp - VP, IR*

Yes, so this concludes our conference call today. We thank you for your continued interest in Dover, and we look forward to speaking to you again next quarter. And I just want to remind the investors and analysts out there, that we do have our Technology Day on June 4. And an invitation will be coming forth -- will be coming soon, in New York City, so we look forward to seeing you there. Thanks for your time today.

Operator

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

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