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DOV - Q4 2017 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 4Q17 revenue of $2b and EPS of $1.13. Expects 2018 total revenue growth to increase 3-5% and EPS to be $5.73-5.93.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

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

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

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

Thank you, Crystal. Good morning, and welcome to Dover's fourth 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 fourth quarter operating and financial performance, and followed with a discussion of our 2018 guidance. We will then open the call up for questions. (Operator Instructions)

Beginning with our 2018 guidance, Dover will provide adjusted EPS guidance and results that will exclude after-tax acquisition-related amortization. We believe reporting adjusted EPS on this basis better reflects our core operating results, offers more transparency and facilitates easier comparability with peer companies. A full reconciliation between the forecasted GAAP and forecasted adjusted measures reflecting adjustments for aforementioned acquisition-related amortization as well as carryover rightsizing costs is included in our investor supplement.

Please note that our current earnings release, investor supplement and associated presentation can be found on our website, dovercorporation.com. This call will be available for playback through February 13 and the audio portion of this call will be archived on our website for 3 months. The replay telephone number is (800) 585-8367. When accessing the playback, you'll need to supply the following access code: 7790239.

Before we get started, I'd like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement.

Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website where considerably more information can be found.

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

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

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. I am pleased with our fourth quarter performance, which reflects strong global markets resulting in broad-based revenue growth and solid margin improvement at each segment. In particular, we had strong organic growth in pumps, waste handling, food equipment and at our Wellsite business. A number of other businesses also turned in solid performances, including marking and coding, vehicle service equipment and bearings and compression, resulting in organic growth of 8% in the quarter.

Our organic growth in the quarter and for the full year, I believe, illustrates the strength of our portfolio. And all our team's focus and execution resulted in a solid quarter, while also making significant progress on the Wellsite spin off, rightsizing and several other commercial and investment initiatives. Our rightsizing initiatives in the quarter were important to align Dover's cost structure with its size post spin. These rightsizing actions are expected to deliver $55 million of benefits in 2018.

I'm also happy with the progress we've made towards transitioning to a more focused portfolio with strong platforms and attractive markets. We are firmly on track to achieve our 3-year revenue and margin targets, which we outlined at our investor meeting last June. We delivered strong organic growth and increased adjusted margin over 150 basis points in 2017 and are positioned to deliver further growth and margin expansion in 2018.

In conjunction with our portfolio-shaping activities, we have continued to build our platforms with 2 highly synergistic deals which were recently closed. These deals, while not large in scale, are margin accretive and enable us to expand the scope of our offerings and become a more important supplier to our customers.

As we enter 2018, I am excited with our position. The global macro environment is expected to be constructive, leveraged by tailwinds from our productivity and cost initiatives, and from U.S. tax reform. In 2018, we are expecting solid revenue growth, strong EPS growth and another year of strong free cash flow. Our outlook is supported by continued commitment to our strategy with a strong focus on margin expansion.

I'm very proud of the entire Dover team and want to thank them for their hard work and effort as they continue to focus on serving our customers. Brad will now take you through the specifics of our fourth quarter performance and 2018 guidance, and I will come back at the end for some closing thoughts.

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

Thanks, Bob. Good morning, everyone. As Bob mentioned, we had a solid fourth quarter. We achieved organic growth in all segments and had bookings growth in 3 out of the 4 segments. Leverage on this organic growth combined with benefits of our productivity and cost initiatives led to strong year-over-year adjusted margin improvement.

There were several highlights in the quarter, including broad-based revenue and bookings growth in Engineered Systems, strong performance in Fluids, including broad-based bookings growth, continued organic growth and significant year-over-year margin improvement in refrigeration and food equipment and lastly, strong revenue and bookings growth in Energy. Also from a geographic perspective, the U.S. and China markets had strong organic growth year-over-year.

Let's start on Slide 3 of the presentation deck. Today, we reported fourth quarter revenue of $2 billion, an increase of 13%. Organic growth of 8% was complemented by acquisition growth of 6%. Partially offsetting these results was a 3% impact from dispositions. FX provided a 2% benefit in the quarter. Adjusted EPS increased 49% to $1.13. This result excludes the cost associated with our previously announced rightsizing initiatives as well as Wellsite separation-related costs, which were both as expected. It also excludes net benefits from dispositions, benefits from the Tax Cuts and Jobs Act and benefit from a reduction to a previously recorded product recall reserve. A full reconciliation of adjusted EPS can be found in our investor supplement.

Adjusted segment margin was 14.4% in the quarter, a 210 basis point improvement over last year, primarily driven by incremental margin on increased volume. Bookings increased 13% to $2 billion. This increase is comprised of 8% organic growth and acquisition growth of 7%, partially offset by a 3% impact from dispositions and reflects strong growth in Engineered Systems, Fluids and Energy. Book-to-bill finished at 0.98. Overall, our backlog increased 15% to $1.2 billion. On an organic basis, backlog increased 10%.

Adjusted free cash flow was strong at $303 million in the quarter, up 26% over last year. For the full year, we generated $703 million of adjusted free cash flow, representing 9% of revenue. While our fourth quarter was wrong, we fell short of our full year plan, primarily a result of robust December shipments, which increased receivables in the month. Overall, we are pleased with the progress we've made on working capital this year. Working capital as a percent of revenue was 16.4%, down 280 basis points from last year.

Now turning to Slide 4. Organic growth was broad based. Engineered Systems grew 8% driven by solid activity across both platforms. Fluids organic revenue increased 4%, principally driven by strong activity in our industrial pumps, in pharma and hygienic businesses. Refrigeration and food equipment increased 1% and energy grew 23% organically. As seen on the chart, total acquisition growth was primarily driven by 20% growth in Fluids.

Now on Slide 5. Engineered Systems revenue of $667 million was up 8% organically, reflecting broad-based growth. Adjusted earnings increased 9% over the prior year and adjusted margin was 15.7%, representing a 20 basis point improvement. These results primarily reflect volume leverage, partially offset by some material cost inflation.

Our Printing & Identification platform revenue increased 3% organically driven by continued solid activity in our marking and coding business. In the industrial platform, revenue increased 12% organically, reflecting strong shipments in waste handling and robust activity in our vehicle service equipment businesses.

Bookings increased 6% overall, including organic bookings growth of 9%. Organic growth reflects solid activity across the segment. Book-to-bill was 1.04 for Printing & Identification, only 1.0 for Industrials due to the very strong shipments and 1.02 overall.

Now on Slide 6. Fluids revenue increased 26% to $610 million, including acquisition growth of 20% and 4% organic growth. Organic growth was primarily driven by strong performances in our industrial pump and hygienic and pharma platforms. Adjusted earnings increased 61% largely driven by volume growth, including acquisitions and productivity gains, especially at retail fueling. Volume leverage and ongoing retail fueling integration drove an adjusted margin improvement of 320 basis points, up 15 -- up to 15.2%.

Of note, we have recently begun setting up preproduction runs in advance of consolidating retail fueling production facilities in Europe. This consolidation and others in retail fueling will greatly improve margin of this business going forward. Bookings grew 34%, including 9% organic growth. Organic bookings growth was most prevalent in our pumps and hygienic and pharma platforms. Book-to-bill was 1.01.

Now let's turn to Slide 7. Refrigeration & Food Equipment's revenue of $377 million included organic growth of 1%. The organic increase was largely driven by the expected strong activity in our can shaping business within food equipment. Refrigeration results reflected the anticipated fourth quarter softness in our retail refrigeration markets as well as some customer rationalization.

Adjusted earnings increased 34% from the prior year and adjusted margin expanded 300 basis points. These results primarily reflect the favorable business mix and significant productivity improvements. Bookings decreased 3% organically, largely reflecting tough comps in our retail refrigeration business. Certain customers had ordered ahead of regulatory changes that went into effect in early 2017, which had the effect of softening back half and Q4 trends. Book-to-bill was 0.85.

Now moving to Slide 8. Energy revenue increased 24% to $364 million, reflecting growth in the U.S. rig count and increased well completion activity includes solid -- continued solid results in bearing and compression, which grew 3%. Adjusted earnings were $49 million and adjusted segment margin was 13.4%, both significantly improved over last year. These results were largely driven by strong volume growth. Bookings were up 18% year-over-year. Book-to-bill finished at 0.98.

As Bob mentioned, our Wellsite businesses had a strong quarter with 31% organic growth and grew 34% organically for the full year. Further, we have made significant progress on the spin and fully expect to complete the transaction in May. We expect our end markets to continue to improve and are excited about the prospects as an independent company.

Now going to the overview Slide #9. Our fourth quarter corporate expense included $16 million of rightsizing and other costs and $14 million of Wellsite-related separation costs. Excluding these costs, corporate expense was $35 million, a little higher than expected. Interest expense were $35 million.

Our fourth quarter tax rate included a benefit of $51 million from the enactment of the Tax Cuts and Jobs Act. The benefit was primarily derived from the revaluation of deferred tax liabilities, offset in part by U.S. tax charge for deemed repatriation of foreign earnings. Excluding the impact of the Tax Act and other discrete benefits of $10 million, our fourth quarter effective tax rate was 24.1%. This rate reflects a favorable mix of geographic earnings. For the full year, the effective tax rate was 27.1%. For the fourth quarter we repurchased 1.1 million shares for $105 million as part of our previously announced $1 billion repurchase plan. We expect to complete the plan later in '18, utilizing the dividend received from Wellsite.

Moving on to Slide 10. Please note, our 2018 EPS guidance is presented on an adjusted basis. Starting this year, we will be adjusting for acquisition-related amortization of rightsizing costs and Wellsite separation costs as incurred. Acquisition-related amortization was $0.86 in 2017 and is expected to be $0.93 in 2018. The delta between years is primarily driven by changes in the tax rate.

Moving to the guide. We expect 2018 total revenue to increase 3% to 5%. Within this forecast, organic revenue growth is forecasted to be 5% to 7%. FX should add about 1% and dispositions are expected to have a 3% impact. All segments are expected to have solid organic growth. The specific rates can be seen on the slide.

Our forecast for corporate expense is $122 million and interest expense is expected to be about $130 million. The tax rate is forecasted to be between 22% and 23%, 4 to 5 points lower than the normalized 2017 rate. This improvement is driven by the tax act. Our forecast for CapEx is 2.4% of revenue and full year free cash flow is expected to be between 10% and 11% of revenue. Further, we expect adjusted segment margin to improve about 110 basis points over 2017 to approximately 15.3%.

In summary, we expect full year EPS to be $5.73 to $5.93. This represents an increase of 19% over 2017 on an adjusted basis at the midpoint. Our guidance does not include any 2018 costs related to the Wellsite separation.

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

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

Thanks, Brad. As expected, 2017 proved to be an exceptionally busy year for Dover. During that time we remained highly focused on the 3-year goals we shared at our Investor Day in June. For the period of 2017 through 2019, we communicated our targets to be 4% to 6% organic growth on an annual basis and cumulative adjusted margin expansion of 350 to 450 basis points. Although we know there is still much to be done, I am pleased with the progress we made in 2017.

On the revenue side, we performed very well against the 3-year plan, generating 8% organic growth. Every segment hit their organic revenue plan. I would also like to point out that the businesses that propelled our growth in 2017 remained strong in 2018, namely: marking and coding, digital printing and waste handling are all set up to have a strong year within Engineered Systems. In Fluids, we expect another year of strong growth in our pumps and hygienic and pharma businesses. Refrigeration and food equipment should once again deliver steady growth and our energy businesses are well positioned for double digit growth.

Looking forward, we expect EMV-related activity to be slow in the first half with tough comps, driven by the compliance date delay we have previously discussed. We also expect retail refrigeration's first half to be impacted by tough comps related to last year's strong shipments in advance of regulatory changes. We are forecasting organic growth of 5% to 7% in 2018, a full point above the target in our 3-year plan, and we are confident we will deliver.

In 2017, adjusted segment margin improved more than 150 basis points and we are on pace towards our 3-year target range. With respect to margins, in Engineered Systems, we fell a little short of our 2017 target primarily due to significant material cost inflation. We feel better about price cost as we enter 2018 and are also forecasting reduced investment as compared to a heavy investment year in 2017.

In Fluids, commercial excellence programs, productivity and our retail fueling integration have been and will remain the main drivers of margin enhancement. Refrigeration & Food Equipment's margin grew nicely in 2017 on improved productivity, especially within retail refrigeration, and we expect further progress in 2018. And finally, Energy's strong margin growth is primarily the result of volume leverage, which we expect to continue in 2018. In total, we expect more than 100 basis points of margin improvement in 2018 and our teams are aligned around achieving this goal.

In closing, I feel that Dover is exceptionally well positioned in 2018. Our markets are healthy and we have tailwinds from U.S. tax reform and our rightsizing initiatives. We expect to deliver a very strong year in terms of EPS growth and will remain disciplined with respect to capital allocation. We will return cash to shareholders by completing our $1 billion share repurchase and by raising our dividend for the 62nd straight year. And we'll continue to expand and enhance our platforms through margin accretive bolt-on acquisitions and investing in organic growth.

Now, Paul, let's take some questions.

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

Thanks, Bob. (Operator Instructions) So with that, Crystal, if we could have the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Andrew Obin with Bank of America.

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

Just a question, early in the year, you highlighted smaller acquisitions, something you haven't done before. Can you just comment why all of a sudden you're putting out press releases on these smaller deals and [broader] on capital allocation going forward, given Wellsite and now that we have visibility on taxes, how should we think about capital allocation going forward?

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

So your first question about press releases, you said...

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

Yes. You're highlighting smaller deals, which I don't think you've done in the past.

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

We just felt they were important to announce, Andrew. I mean, there's nothing magical about it.

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

And how should we think about capital allocation going forward?

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

Let's stay first with the share repurchase program that we announced in the fourth quarter, and I think we'll -- believe we'll have the bulk of that completed by the time we complete the spin in May of Wellsite. We sit here today, I do not have anything significant in our acquisition pipeline that we would expect to close on in the first 5 or 6 months of 2018. If 2018 does prove to be a light year with respect to M&A activity, I think it's very reasonable to expect the board and I to have further discussions around share repurchases for the second half.

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

Terrific. And just a follow-up question on revenue outlook. A lot of companies sort of don't seem to indicate impact of tax reform on demand in their revenue outlook. Where do you guys stand about potential upside to revenue from the tax reform?

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

Yes. It's not in our guide. I think I'm probably giving a similar response that you've heard or will hear during this earnings season from other capital good manufacturers. When you look around the Dover portfolio, about 30% of our revenue is recurring. The remaining 70% -- Andrew, I would tell you that about 80% of that remaining 70% is either capital goods or components we manufacture that go into capital goods. And a significant percentage of that 80% is U.S. based. In fact, I think our earnings split for '17 was 60% domestic and 40% non-domestic. Am I right on that number?

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

That's close, right.

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

And I think you'll -- I think we will watch 2 or 3 areas for a pickup in capital goods activity that could be a response to the tax act and we'll see it in the industrial platform of Engineered Systems. I think we'll see it in retail fueling and perhaps as well in refrigeration, especially the Hill PHOENIX and Anthony business.

Operator

Our next question comes from the line of Steve Winoker with UBS.

Christopher Belfiore - *UBS Investment Bank, Research Division - Equity Research Associate Analyst of Industrials*

This is Chris, on for Steve. I just wanted to kind of get a little bit more color on refrigeration. Could you provide some color on the split of the mix versus productivity in the 300 basis points of adjusted margin expansion? And with regard to that, how far along do you think you are in adjusting the model and the factory performance there? And then, for the year kind of going into next year, where do you think margins can reach? And like what's the optimal kind of organic growth rate within that 3% to 4% guide?

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

So I don't have the detail on the margin improvement question you've asked. I would say the lion's share of the margin improvement is productivity initiatives, but I can't give you a specific number and specific percentage. But productivity is a big part of it. But we've also -- we have also been, probably earlier -- this business was probably earlier than some of our other businesses in 2017 to push some price increases through as a result of the material inflation. I think that was -- that helped. But we've also done a fair amount sort of around the edges, nothing major, but a fair amount of work around the edges to exit some product areas that were, I would just label it as underperforming historically and coming to a conclusion that we weren't able to improve the margins to where we wanted it to be. And I don't know what that number is, I don't remember that number. But it could be as much as, what, $40 million of revenue in 2017 that we exited.

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

And another $40 million to $50 million in '18.

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

In 2018 that we exited just because we didn't like the margin profile.

Christopher Belfiore - *UBS Investment Bank, Research Division - Equity Research Associate Analyst of Industrials*

Okay. And then just quickly on just the EMV adoption within retail fueling. How much of that was the fuel dispenser replacement versus just the payment?

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

I don't have that data. The -- in 2017, the bulk of our EMV activity as we have reported in the past I was in the first half of the year. We continue to see some activity in the second half, but nowhere near what we saw in the first half. We're taking a pretty cautious approach to the 2018 guide. I would say that the 2018 guide has less EMV activity, fewer EMV activity in the guide than we actually experienced in 2017. And I'll repeat myself, I think that's cautious and conservative. We do believe that the EMV activity will begin to pick up in the second half and we'll provide further cover on that activity on the April and the July call. And my hope is it gives us an opportunity to raise our guide as we move through the year.

Operator

Our next question comes from the line of Jeff Sprague with Vertical.

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

First question, Bob, actually, I guess it might be multipart, but it just goes on kind of some of the guidance dynamics here. First, you stated that the guidance excludes Wellsite one-off costs. But I'm wondering, does it kind of fully reflect the total cost of what we'll have when there's 2 companies? In other words, does the restructuring you're doing getting at what we, for a lack of a better term, may be called the stranded cost that would be created when you stand up the new company? And then just secondly on the guidance, too, I was just wondering, that $0.28 to $0.26 for commercial and product investment, I never really seen that called out before. I certainly don't recollect that. That's a big number. What actually is that?

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

Okay. Well, let me deal with the first question. The rightsizing activity in the fourth quarter -- let me give you a number there as well. I think our rightsizing costs in the fourth quarter, Brad, were what, $45 million, $46 million, something like that. And there is some carryover that's in our guide for 2018 for rightsizing costs. I think the number is about $11 million, Jeff. And the bulk of that -- I'm not going to say 100% of it, but I think the bulk of that will occur in the first quarter. And then on top of that, we have another $12 million -- $10 million or $12 million of restructuring cost planned for 2018 that I would label as just normal and ordinary recurring type of activity that you've seen us tackle in the past few years. With respect to the final separation of Wellsite from Dover, there is going to be some stranded cost that we'll have to deal with. We'll deal with it at the time of the spin or slightly thereafter, but it is pretty modest, Jeff. I -- Brad, is it $4 million, $3 million?

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

As reflective of the activities we've been taking, we've narrowed it down to about $3 million to $5 million. Still looking at more ways to reduce the stranded cost inside Dover. Jeff, keep in mind that when Wellsite goes, the easiest way to think about this is so does all the segment of the DE energy, the segment cost. Soma and his team and the cost they incurred, that segment level go with the spin. So that, in essence, is taken care of through the spin activity. They will have to add incremental cost above that number as a new public company. We say 35, but in reality, it's a smaller piece because the segment already is staffed up than 35. I hope that helps.

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

Yes, it does. And then on that -- and the bridge item, that commercial and product investment bucket there?

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

That may be a change with respect to our external communication. But Jeff, I wouldn't look at it as something new within Dover. It is -- there is a fair amount of investment we're looking at in 2018 for, I call it commercial-facing activity...

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

Including digital.

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

Including our digital activity. And we have -- we do have a fair amount of projects around Dover in 2018 for productivity, which we have a tendency to support, not only with people assigned to productivity, but with capital. But it's -- I wouldn't look at it as different activity. It is a slight change in how we present it.

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

Okay. And then just one other one and I'll move on. Just back to energy, so it looks like we -- I'm assuming this margin, which is nice year-over-year but down sequentially, reflects some moderation in actual drilling activity and we're starting to get the ducks quacking, so to speak, completions activity.

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

I wish the ducks were quacking more, Jeff.

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

Yes. Can you just kind of walk us through what happening...

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

Yes. The -- I would tell you that we probably saw 2 things in the fourth quarter within energy, within Wellsite that were a little bit different than we expected going into the quarter. Drilling activity was a bit reduced, especially in November and December relative to our early in the quarter expectations. And I think the best market indicator there to sort of coalesce with is -- the rig count activity was -- I would label it as a bit flattish in the fourth quarter, and we expected a little bit more growth. The second item is with respect to well-completion activity. We did not see the pull-through in our rod lift business to the degree we thought we would. And on the flip side, we saw more ESP pull-through than we had planned. And there is margin difference between those 2 technology offerings, Jeff. ESP operating margins are probably 5 to 6. Am I right, Brad? 5 to 6 points less than rod lift? And I would say the overall color with many of our customers -- we heard many comments that my CapEx budget is done for the year during November and the early part of December. To provide a little bit more color on that, I would tell you that activity here in January has been quite strong. Rig count activity has been up. And in fact, the rig count increase, I think it was last week, 15, 16, 17 unit increase last week, I believe, was the largest weekly increase in rigs in this recent upturn. But the drilling activity is picking up, it's a little bit ahead of our plan for January and our artificial lift business is on plan.

Operator

Our next question comes from the line of Steve Tusa with JPMorgan.

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

What's the -- the tax rate on the amortization add back looks a little bit higher than what you guys are kind of guiding to for it to go forward. What's the difference there?

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

We're using a tax rate based on the jurisdiction of which the amortization -- the statutory rate in the jurisdiction in which that amortization is incurred. In other words, if you think about it, we did acquisitions in different parts of the globe and we're applying the statutory rate on a blended basis across each of those.

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

Okay. So that's not going to change with tax reform?

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

No, no.

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

Okay. And then free cash flow, still pretty solid, but a little bit light of what we were expecting. It looks like there was -- we don't have the details yet, but perhaps some working capital. Can you just talk about what you're assumptions are there going forward, is this just a little bit of a working capital build on the back of better volumes? I think that you guided to 11% to 13% or something like that, so just curious on the free cash flow front.

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

10% to 11%...

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

No, no, no, don't take that 13%. We guided to 10% to 11%.

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

I know you had -- I think you had -- we were expecting something a little bit higher, I think, this year specifically.

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

Actually, I was a little disappointed with the outcome for the year on our cash flow. It was a bit disappointing to not hit the 10% number, Steve. But 2 things, you sort of tried to give me an answer that working capital maybe was going up. Actually, let me tell you, working capital for Dover in 2017, we lowered it...

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

Significantly.

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

120 basis points, 140 basis points year-over-year. What we did see in the fourth quarter was December revenue was much stronger than we would normally anticipate when you look at past years. And we typically get a little bit, I would call it receivable liquidation during December. And with the strong revenue in December, that did not happen. I think for the most part, I would tell you that cash collections were not really the problem, even though we didn't liquidate drawdown receivables in December. But I think we had a little bit more of an outflow in a couple of areas than we had expected. CapEx spending was a little bit higher in the fourth quarter than we had planned. And I think we would tell you now that maybe our -- not maybe, our outflow on tax payments could have been lower than the payment we make. And I think even making those adjustments would get us really close to 10%, but not over.

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

Okay. And then lastly, any price cost headwinds in your guidance for 2018? Steel or anything like that?

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

That's a good question. Our material cost dynamic versus price in 2017, we actually had a negative headwind of almost $15 million in 2017. The bulk of that was -- I think all of it was actually in the first 3 quarters of last year. As we look at 2018, given the current material cost and the pricing actions we took in the second half of 2017, we see that flipping. We see a $13 million to $15 million tailwind in our guide on material versus price.

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

That's all in bulk price. That's all in.

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

Yes. All in.

Operator

Our next question comes from the line of Deane Dray with RBC Capital Markets.

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

Bob, I hope you can expand on the comment in refrigeration when you said you saw and had some customer rationalization. Just kind of explain what was going on there and maybe size the impact if you could.

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

Okay. So it was actually happening throughout the year. This wasn't just a fourth quarter activity. I think in the first quarter of last year, we said no to about $20 million worth of business within retail refrigeration that we just weren't happy with the margins on and didn't feel like we could improve them to the point where it would be constructive to our margin targets for this segment. In the fourth quarter, we actually divested, was it -- yes, it was in the fourth quarter, we divested a small business, a glass-door business in China that we've been working very diligently to improve the margins and grow it and just have not been successful, so we divested it in the fourth quarter. And I also believe in the fourth quarter, we shut down our aftermarket service business in Canada that -- I don't remember the revenue number there, Brad, but it was about $10 million. And I believe the glass-door business in China, Jeff -- or Deane, was also about $10 million. A little bit here and a little bit there, but they were the 3 major items. But all in total, it was about $40 million.

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

And is that -- do you have more in store for the first quarter? Or has that run its course?

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

I would say that it's run its course.

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

Okay. And then on the energy side, just last question for me. Can you clarify whether some of the uptick in the energy was the recovery from the hurricane dislocations that you saw in the third quarter? It was -- I think you had sized it like $0.04 in the third quarter. Did that all get recouped here in the fourth quarter?

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

Okay. The $0.04 -- look, in my recall of the $0.04 was a...

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

A preliminary number.

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

Was a preliminary number that I provided, I think, in mid-September. That was sort of the risk we were seeing at the time. And I think when we actually closed the third quarter, the guys, the business teams had done a tremendous job in closing that gap. And I believe we felt, at the end of the quarter, we were only $0.01 off because of the hurricane. So I wouldn't label much activity in the fourth quarter as being a carryover from the storm interruption in the third quarter.

Operator

(Operator Instructions) And our next question comes from the line of Scott Davis with Melius Research.

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

Can we just refresh our memories a little bit or refresh my memory, I should say, on pumps. The -- how much of that business goes through distribution versus direct? And I guess part of the question I'm getting at is that the growth you saw, is there some restocking going on that folks want to make sure they're geared up for higher operating rates?

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

No. So within pumps, and I'm including both our PSG business, our [MAC] business and our hygienic and pharma, maybe 60% of it is through distribution. The balance of it being direct to the end user or an integrator. No, I -- your question about restocking, I actually believe that the bulk of that restocking activity we saw in the second and third quarter. I think what we saw in the fourth quarter and what to expect here in 2018 is true end-market pull.

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

All right. Okay, that's helpful. And then I don't think you said this, if you did, excuse me. But can you just give us a bit of a walk around the world. I mean, where you saw strength and weaknesses globally versus your model?

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

For the fourth quarter?

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

Yes, for the fourth quarter.

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

I would say that China and the U.S. market activity was a bit stronger than we anticipated. In fact, Scott, it was interesting. Organic growth in the U.S. in the fourth quarter was a little better than 10%. We saw good organic growth. Double digit in China. And in Europe, we saw flat. It was relatively flat versus the fourth quarter of '16, but I would give our business teams a little cover on that by pointing out that the fourth quarter of '16, we had some pretty healthy, I call them project shipments, in Europe in the fourth quarter of '16. But almost 11% in the U.S. was a little bit stronger than we anticipated.

Operator

Our next question comes from the line of John Inch with Deutsche Bank.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

I'm coming up with about $4 on the Dover remain co under the old accounting, so excluding -- or including the amortization, excluding Wellsite. Is that about the number? And if so, in terms of your guidance for '18, what kind of growth rate would that represent? I'm trying to understand how you're guiding your EPS or your thought process around EPS kind of on the apples-to-apples basis ex Wellsite.

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

Yes. Well, I guess, I would start by saying you can anticipate that we will provide clarity on that in the April call as we get closer to the spin date in May. I would say, though, keep in mind that as Wellsite comes out, the 2 things I would point out that the model you would expect when we get to April, one is that our forecast or our guidance for '18 does not include the current thinking around the buyback that we will do once we receive the cash.

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

The dividend.

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

The dividend. So that the stock will be bought back in that May time frame once we receive the dividend. And then, secondly, just to give you a little bit of a sense of what direction it goes in. Wellsite is a mostly U.S.-based earner. And so the tax rate for us will probably move closer to the low end of the range and they will be slightly above the range we gave. And so that will have implications to your modeling as well. That's probably about all I would comment on at this point. Put aside, waiting for April.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

Okay. So wellsite -- just to recap what you said, Wellsite is going to have a higher tax rate and the remain co businesses are going to have a lower tax rate. I'm sorry, is that what you said?

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

That's what I said, yes.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

In the range, okay. And then...

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

I'd say on the amortization line, because we now start to report that way, if you think about the amortization, we said $0.93. Amortization related to Wellsite within that $0.93 is roughly $0.20, $0.23, $0.24.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

Okay. Good, that's helpful. In the quarter, just a good look at the quarter for a second. I think your restructuring that you wouldn't actually include, so not the exclusionary stuff, was about $2 million. How did that compare with your plan? And what is the plan for '18? I think you maybe said about by -- I still can't quite understand what's kind of included and excluded. But didn't you say there was -- you're going to do $18 million to $20 million of restructuring in 2017? So I'm just curious about that stuff.

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

Yes. We had said that around $18 million to $20 million. That's kind of normal for a given year. I think the fourth quarter was a little lighter to your point. Your number is not that far off in the quarter and for the year. I think we did about $13 million or $14 million, so lighter compared to the original forecast that we gave. In 2018, we have $11 million of rightsizing carryover. So again, $45 million, $46 million in the fourth quarter, $11 million in the first quarter, maybe just a little bit falls into the second quarter, but most of that in the first quarter. And then we have built in to our guidance what I call normal restructuring, things that we do every year, we've been doing for 5 years of around $10 million. The figure all-in, rightsizing and restructuring in 2018 of $21 million.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

Of which we're excluding the $11 million, is that right?

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

Yes, yes.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

And you're keeping the $10 million. And the reason that it's $10 million versus $18 million to $20 million is because Wellsite is not there. Is that the biggest chunk of it?

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

Well, no. I would say, look, the rightsizing has captured a lot of things. But as I -- I think we mentioned earlier, I don't think we're done sitting here today. I mean, Bob can comment on this. I'm not for a moment thinking that we'll come in at $21 million. I think that there's likelihood you could see that number come up -- up there.

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

It should be higher.

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

Incremental, not dramatically different, but incrementally higher as we continue to work through and get closer to the spin-off date. Do you want to add anything on that, Bob?

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

No. I -- the $12 million, what I label as normal and ordinary type of restructuring. John, you have to appreciate that we know what those projects are. As the year -- as we roll through the first and second quarter, I fully expect the business team leaders to identify other opportunities. And if it makes sense, we'll do it.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

And then just lastly, Bob. Refrigeration, when you were transitioning your ops to smaller lot sizes and invoking the sort of more flexible production systems, if you will, is that completely through so that refrigeration margins today are going to be a function of volume and obviously associated price and mix? Or is there still work to do around that front?

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

No. I think most of that work around -- that we tackled around the reduction of the lot sizes is complete. Now don't take that statement as meaning that there aren't additional productivity projects that we can tackle this year or next year because there are. And the fourth quarter, we actually, in our case business, we actually shut down one of the case factories and have consolidated all of case manufacturing into one factory, which is a byproduct or the end result of many of the productivity initiatives we've been working on over the last 2 years just to, I call it, react to the difference in the lot sizes and some of the improvements we've made in the process flow. But it's -- the team there did a great job in 2017 and I know they are very, very excited about expanding that great job again in 2018.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

And lastly, sorry. Core variable margin contribution in '18 -- based in '18 based on your guide ex Wellsite, what do you think that is, Brad?

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

I don't have that number.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

But it's been in that -- you've historically had this 30%, 35% number. Have you not?

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

I think it's -- I'd say it's a little bit higher than that. I think that with all the productivity -- and again I'm doing this on an adjusted basis, adjusted to adjusted year-over-year.

John George Inch - *Deutsche Bank AG, Research Division - MD of Multi-Industry Sector of US and Senior Analyst*

Yes. That's why I'm asking, yes.

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

Yes. It's a little bit higher than that. I'd say it's closer to 38%, 39%.

Operator

Our last question comes from the line of Andrew Kaplowitz of Citigroup.

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

I just want to go back to refrigeration for a second. Maybe just talk about your confidence level in growing that business 3% to 4% in '18. Obviously, we've seen the book-to-bill relatively weak over the last 2 quarters. But do you have good visibility toward bookings growth in the first half of the year? And should we be thinking that '18 is basically back-half loaded a bit on easier comparison than the second half of the year?

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

Okay. Well, on comps, it may appear to be back-end loaded. I would say our expectation for 2018 for the food retail business, this is Hill PHOENIX and Anthony, I think it's going to return to the more traditional seasonal pattern that we've seen over the last 7, 8 or 10 years and that would be that the second quarter and the third quarter are the ramp and the heavy build seasons, with their first quarter and the fourth quarter being -- I call it the shoulder seasons. And that's quite different than what we experienced in 2017. The order rates that we are expecting in their first quarter to support our plan for the first quarter and our ramp for the second quarter, I can tell you that here in January, our order rates are on plan. So we actually feel rather confident with our target and our guide on refrigeration.

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

You still there, Andy? I guess Andy's gone. Crystal, are you still there? Is anybody there?

Operator

Yes, I'm here. Thank you. That concludes our question-and-answer period. I would now like to turn the call back over to Mr. Goldberg for closing or additional remarks.

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

Thanks, Crystal. Yes, this concludes our conference call. As always, we thank you for your continued interest in Dover and we look forward to speaking with you again next quarter. Have a good day. Bye.

Operator

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