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DOV - Q3 2013 Dover Corporation Earnings Conference Call

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OVERVIEW:

Dover announced 3Q13 revenue of $2.3b and EPS of $1.53. Management narrowed its 2013 EPS from continuing operations guidance to $5.57-5.64.

CORPORATE PARTICIPANTS

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Jamie Sullivan *RBC Capital Markets - Analyst*

Steve Tusa *JPMorgan Chase & Co. - Analyst*

PRESENTATION

Operator

Good morning and welcome to the third-quarter 2013 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, Vice President of Investor Relations.

(Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

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

Paul Goldberg - *Dover Corporation - VP, IR*

Thank you, Laurie. Good morning and welcome to Dover's third-quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's third-quarter operating and financial performance and followed with our outlook for the remainder of the year. We will then open the call to 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, investors supplement and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through October 31 and the audio portion of this call will be archived on our website for three months. The replay telephone number is 1-800-585-8367. When accessing the playback you will need to supply the following reservation code, 74383862.

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 Corporation by referring to our Forms 10-K and 10-Q for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website, where considerably more information can be found. And with that, I'd like to turn the call over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this mornings' conference call. I was very pleased with our third-quarter results which were driven by strong conversion on broad-based revenue growth highlighted by 13% growth in engineered systems. I was also pleased to see organic growth across all segments. In all, we generated 3% organic revenue growth, achieved record margin and grew adjusted EPS 23%.

From a geographic perspective, our North American markets were quite positive. Our China markets remain solid highlighted by active printing and identification markets, and lastly our European markets were improved and showed solid growth after several quarters of contraction. I would not describe Europe as recovered, but we were encouraged with our third-quarter results in our early cycle businesses.

Now some specific comments on our third quarter. At communication technologies, our consumer electronics growth was driven by new OEM product launches. These launches provided Knowles the opportunity to supply all acoustic product categories to this key OEM. Our volume was lower than forecasted driven by two factors. The launch occurred later than anticipated, and late OEM product specification changes limited our output in the quarter from initial expectations.

In our energy segment, we saw significant growth in our drilling and downstream businesses. Drilling benefited from share gains and increased activity in China. And downstream continues to serve a healthy global retail fueling and transportation market. Within production, artificial lift grew organically at 3%, primarily driven by international activity but was offset by a weak wench market and the timing of shipments and soft US activity.

Within our engineered systems segment, refrigeration and food equipment markets were seasonally strong, and our business performance again was excellent. Regarding our fluids markets, our solid results were driven by our broad-based pump businesses which more than offset slow heat exchanger and dispenser markets. Our industrial end markets remain solid with continued strength in our waste handling business.

Within our printing and identification segment, growth in both our fast moving consumer goods and industrial markets resulted in very good performance. We saw solid growth in Europe and Asia and continued to deliver on margin improvement initiatives.

As we look to the fourth quarter, we see a full quarter of production supporting OEM products launched in the third quarter, which should drive sequential growth in consumer electronics, continued strong performance in energy driven by international activity in production and downstream markets, normal seasonality in our refrigeration markets and seasonal strength in our printing and identification markets.

We continued to execute on our acquisition pipeline and closed four synergistic deals including two in October. We also announced another important pump deal which should close before year end. Collectively, these acquisitions will help build out our fluids, energy and printing and identification growth spaces. Our pipeline remains active and we expect to announce additional deals in the near term. I'm also pleased to report the spin off of Knowles is progressing well and we are on track to complete it early next year.

In summary, I am pleased with our execution and results in the third quarter. Though I feel quite positive about our growth in productivity initiatives as well as our acquisition pipeline, we still face challenging market conditions. As a result, we have lowered our revenue growth expectations and narrowed our full-year EPS range. As we enter the fourth quarter, I feel confident in our ability to deliver continued strong performance. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Thanks, Bob, good morning, everyone. Let's start on slide 3 of our presentation deck. Today we reported third-quarter revenue of $2.3 billion, an increase of 7% over the prior year. Organic revenue grew 3% while growth from acquisitions was 4%. Earnings per share were $1.53. Adjusting for $0.03 of discrete tax benefits, a $0.06 impact related to spin-off costs and $0.02 benefit from other one-time gains, adjusted EPS was $1.54, an increase of 23%. A reconciliation of our adjusted earnings per share is in the appendix of our presentation deck.

Segment margin for the quarter was 19.4%, up 100 basis points. This result was driven by excellent execution, the benefits of prior restructuring and cost reduction activities. The performance was broad based as each segment reported significant margin improvement. Bookings increased 9% over the prior year to $2.2 billion. Again, these results were broad based with growth of 13% in energy, 11% in engineered systems, whereas bookings increased 5% in printing and identification and 3% in communication technologies.

Overall, book-to-bill finished at 0.96, slightly improved from last year. Backlog increased 2% to $1.5 billion. In the quarter we generated $283 million of free cash flow, representing 13% of revenue. Our full-year forecast for free cash flow remains unchanged at approximately 10% of revenue.

Now turning to slide 4. Communication technologies largely driven by new product releases in the consumer electronics market grew 4% organically. Energy, engineered systems and printing identification all exhibited broad-based organic growth of 3%. Overall, our organic revenue growth was 3%. Acquisition growth was 9% in engineered systems and 1% in energy.

Now let's turn to slide 5 and our sequential results. Revenue increased 1% from the second quarter. New smartphone releases help drive 3% growth in communication technologies. All other segments displayed sequential trends that are generally in line with our normal seasonal pattern. Sequential bookings declined 2% overall, which is reflective of our normal seasonality. Energies bookings increased 13% on the strength of large orders received from Queensland Gas. As we mentioned last call, this important project will create some lumpiness in energy's booking trends.

While communication technologies bookings were essentially flat, order rates in our consumer electronic markets were up 9%. Printing and identification bookings declined 1%. Lastly, engineered systems declined 11%, which is largely reflective of the normal seasonality inherent in our refrigeration markets.

Now on slide 6. Communication technologies posted revenue of $414 million, an increase of 4% from the prior year. This growth principally reflects the impact of new product releases in the smartphone market. In all, our consumer electronics business grew 6%. Also of note, our medical technology and telcom/other markets exhibited solid growth. Aerospace/defense was flat. Earnings increased 19% to $76 million, and segment margin increased 230 basis points to 18.4%. This performance reflects solid conversion on volume, productivity gains and benefits related to restructuring.

During the quarter we continued to make significant investments in the soon-to-be opened Philippines plant to support growth and productivity initiatives for Knowles. Also, we are pleased with our progress as we work through the complexities associated with our new acoustic product launches. As previously discussed, these OEM product launches were delayed a few weeks from our original forecast. In addition, late OEM specification changes limited our output within the quarter. We are now fully qualified and are actively shipping on all acoustic product lines.

Looking to the fourth quarter, we see both sequential and year-over-year growth in consumer electronics driven by new product launches. This year-over-year growth will be partially offset by anticipated lower demand from Nokia and BlackBerry. Bookings were $424 million, up 3% from last year. Book-to-bill finished at 1.02.

Turning to slide 7. Energy revenue of $577 million increased 3% and earnings of $145 million were up 5%. Energy produced another solid quarter as drilling and downstream achieved strong revenue growth. Share gains coupled with increased international activity resulted in 12% revenue growth in our drilling business. Production revenue declined 2% primarily driven by weak wench markets especially military applications, the timing of shipments and soft US activity. Within production, our artificial lift business grew 3% organically on the benefits of our continued focus on global market expansion. Within our downstream markets, we continue to see solid demand in retail fueling and transportation, resulting in 7% growth. Operating margin of 25.2% was up 50 basis points over last year. This reflects the favorable product mix and strong conversion.

Since the close of the quarter, we have completed two add-on acquisitions to expand our retail fueling capabilities. The initial acquisition accounting will put some pressure on margin in the fourth quarter, though we still anticipate ending the year with margin in excess of 24% in this segment. Bookings were $595 million, a 13% increase from the prior year. Bookings growth was broad based, with all end markets recording double-digit growth. In particular, production was driven by strong Australia activity. Book-to-bill was 1.03.

Now on slide 8. Engineered systems had another excellent quarter where sales of $1 billion earnings of $172 million were up 13% and 19% respectively. Our fluid solutions platform revenue increased 4% to $227 million, benefiting from solid results in our pump markets as we continue to focus on the oil and gas, plastics and petrochemical, and hygiene markets. And refrigeration industrial, revenue grew 15% to $778 million, reflecting the Anthony acquisition and growth in refrigeration, food equipment and vehicle service markets. Continued strong execution and cost reduction activities drove operating margins to 17.1%, up 90 basis points reflecting solid leverage on volume.

Looking to the fourth quarter we expect a normal seasonal decline in refrigeration revenue and the impact of modestly lower order rates. As a result, fourth-quarter revenue is slightly off our previous forecast. Bookings were $884 million, an increase of 11% driven by recent acquisitions. Overall book-to-bill was 0.88. Our fluid solutions platform bookings increased 12% to $222 million driven by our long-cycle pump businesses serving the plastics and petrochemical markets. Refrigeration industrial increased 10% to $662 million primarily on acquisitions. Book-to-bill for fluid solutions was 0.98 while refrigeration industrials book-to-bill was a seasonally normal 0.85.

Now let's turn to slide 9. Printing and identification produced a very solid quarter, where revenue of $257 million and earnings of $43 million were up 4% and 9% respectively. Revenue growth was broad based as fast moving consumer goods grew 5% and industrial grew 3%. Also of note, we saw a nice growth in Europe and developing markets grew as well. Operating margin increased 70 basis points to 16.7% reflecting solid conversion, restructuring benefits and improved performance in our bar coding business. Bookings were $256 million, up 5% reflecting broad-based growth. Book-to-bill ended at 1, up slightly from last year.

Now going to the overview on slide 10. Third-quarter net interest expense was essentially flat at $30 million. Corporate expense increased $11 million to $43 million principally reflecting incurred spin-off costs. We also had a one-time pension curtailment gain of $4 million. Our third-quarter tax rate was 28.7% excluding discrete tax benefits. Capital expenditures were $57 million in the quarter. Lastly, we repurchased 650,000 shares for approximately $57 million in the quarter, all of which we repurchased under the $1 billion program. In total, we have repurchased $657 million and remain on pace to complete 70% to 80% of the program by the end of the year.

Now turning to slide 11 and our 2013 revenue guidance. We now expect full-year organic revenue growth of approximately 3%. Adding in 4% growth from acquisitions, full-year revenue growth is now expected to be about 7%. Our revised forecast is largely driven by our reduced short-term outlook for our consumer electronics business. Accordingly, we have reduced our organic revenue forecast for communication technologies by about 3 points to 6% to 7%. Our full-year outlook for engineered systems and energy is at the low end of our prior range, at 2% and 3% respectively. Our forecast for printing identification remains unchanged.

Moving on to slide 12, which shows our full-year guidance. We are narrowing our full-year EPS guidance and now expect full-year EPS to be in the range of $5.57 to $5.64. The bridge from our prior range can be found in the appendix to our presentation deck. As a quick review, we now expect full-year revenue growth of around 7%. Corporate expense is now $150 million and represents the net impact of incurred spin off costs, pension curtailment gains and lower spending. Interest expense is slightly lower at $123 million. CapEx should be about 3% of revenue. Our full-year tax rate of around 27.8% is slightly higher than our previous expectations due to a mix of geographic earnings.

Turning to the earnings bridge on slide 13. 2012 adjusted EPS was $4.44. For the full year, the impact of volume and mix is now $0.30 to $0.33 reflecting our lower revenue forecast. Net productivity remains a key contributor and adds $0.25 to $0.28. We expect completed acquisitions to be $0.11 to $0.12 accretive for the year down from our previous estimate reflecting a dilutive $0.02 fourth-quarter impact from our recently completed acquisitions. These acquisitions are expected to be accretive in 2014. Investment and compensation will have an $0.18 to $0.20 impact for the year. Reduced corporate spending coupled with the one-time pension gain will provide a $0.02 benefit.

The combined impact of our ongoing share repurchase program, normalized tax rate, the incremental interest expense should have a net benefit of $0.30 to $0.32. Our slightly higher tax rate had a $0.04 impact. And as mentioned, incurred spin-off costs were $0.08 and discrete tax items provided a $0.41 benefit. Based on the above, earnings per share from continuing operations are expected to be $5.57 to $5.64. On an adjusted basis, our revised guidance reflects a $0.02 improvement from the bottom end of our prior range and a reduction of $0.06 off the top end. With that, I'll turn the call back over to Bob for some final thoughts.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. As I mentioned earlier, I am very pleased with our third-quarter performance as we delivered strong results in a low growth macro economy. I am very encouraged by our continued execution on our growth strategies and productivity initiatives. In particular, over the past five years we have seen the positive impact of our increased focus on expanding our activity outside of our core North American and European markets. The focus is a bit different for each segment, recognizing their uniqueness and opportunity sets. Let me share a couple of data points as illustration.

Within energy, there has been a focus on the expansion of their drilling activity into China, growing their production business in the Middle East and Australia and building their downstream position in all developing economies. Overall, energies revenue outside of North America and Europe has more than doubled over the last five years and is almost $400 million on an annualized basis.

In refrigeration, Hill PHOENIX has focused on expanding their business from their core US markets to Canada, Mexico, the Caribbean and now into South America. Over the last five years, refrigeration's revenue outside the US has grown from 10% to 21%. These growth initiatives have been supported through our acquisition activity. Most recently, the announcements of Finder, SPIRIT, KPS and [Foberlate] all bring complementary products and technology to help foster this global growth.

In addition to executing on our growth strategies, we continue to do a great job on productivity and our operational excellence initiatives. We expect to continue our outstanding performance as we consolidate our manufacturing footprint and share infrastructure across our segments. In all, I remain very confident with our positioning and long-term prospects. In closing, I'd like to thank our entire Dover team for their continued focus on serving our customers and driving results. Paul, let's take some questions.

Paul Goldberg - *Dover Corporation - VP, IR*

Thanks, Bob. At this time, I'd like to turn it back over to Laurie and remind you if you can limit yourself to one question with a follow up, that would help everybody get a question in. Laurie, can we have the first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Bob, when we look at our variance it looked like your margins were very, very strong this quarter and can you help us understand a couple things? One, given how strong the margin performance is, I understand the top line is coming a little soft, but is there any reason to expect those margins will come down in 4Q that indicates the guidance would come down a little bit because it seems a little bit of a disconnect there? This is an aside on that, you seem a little bit more cautious on 4Q, does that -- is that an indication that you saw something in October that scared you a little bit or is it -- are you just being cautious?

Bob Livingston - *Dover Corporation - President and CEO*

Well let me take them in order. So you're first question, Scott, was about the continuation or sustainability of third-quarter margins into the fourth quarter?

Scott Davis - *Barclays Capital - Analyst*

Yes, sir, that's correct.

Bob Livingston - *Dover Corporation - President and CEO*

So historically our -- we have so much seasonality in a couple of our segments that the fourth quarter, both revenue and margins, have historically been less than what we achieve in both the second and the third quarter. So you will see the margins come down in the fourth quarter. But I think maybe embedded in your question, was there anything unusual in the third quarter that benefited our margins, and the answer is no. We have been executing, not just this year but last year, on our productivity initiatives. Scott, we're going to have about $30 million of restructuring charges for the full calendar year of 2013 and it was very much front end loaded. I think two-thirds of those charges occurred in the first half. And I think what you're seeing here in the third quarter, we'll see some more in the fourth quarter, we'll continue with this in 2014, you're seeing the benefits of some of those productivity initiatives.

The second question, am I being cautious? For the fourth quarter did I see something -- have we seen something different here in October? We haven't seen anything different in October. I would tell you that when you look at our revenue, our revenue guidance, and you go from the top end of our previous guidance of 3% to 5% to our current guidance of 3%, I will throw out a number. Let's just say we're talking about $130 million to $150 million of organic revenue. Scott, from an internal goal perspective, I would say that the bulk of that reduction is a result of third-quarter revenue not meeting our internal expectations.

We saw a little bit of a miss in energy, especially in production. A little bit of a miss, even with an outstanding quarter, with respect to our internal goals, Hill PHOENIX was off a little bit. And then we have the issue at comm tech, communication technologies, we were probably off maybe $25 million from our internal goal in the third quarter due to the late product launches. And we're probably going to be about $20 million off our internal goal in the fourth quarter due to some lower volume that we're now seeing at Nokia and RIM, or I'm sorry, BlackBerry.

Scott Davis - *Barclays Capital - Analyst*

Okay, I think I've used up my questions. That's very helpful Bob, thank you.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Obviously, and you provided some good color in terms of the impact from Nokia and BlackBerry in 4Q, but can you -- the $0.06 growth in consumer electronics between handsets and other fee?

Bob Livingston - *Dover Corporation - President and CEO*

Okay. I don't have -- I'm not sure I have that data for the third quarter. I can tell you how we look at it for the year, Nigel. We're looking at in consumer electronics a growth year over year for the full year at about 13%. But it is interesting, within consumer electronics for the year that growth of 13%

embedded in that is handset growth of about 20%. So that begs the question, if handset is growing at 20%, what's not growing? And I would say we're relatively flat in other areas, in consumer electronics, like components for ear buds, notebooks, and I -- the tablet market has been rather flat, a little bit of growth this year. But I would also point out that we're about ready to see the launch of some new products in the tablet market that we have pretty strong participation in that will benefit communication technologies as we go into 2014.

Nigel Coe - *Morgan Stanley - Analyst*

Now tablets seem to have been quite a weak area for you guys, would they be share gains?

Bob Livingston - *Dover Corporation - President and CEO*

Would you repeat the question?

Nigel Coe - *Morgan Stanley - Analyst*

Yes, tablets hasn't been a strong area for Knowles traditionally, so would those represent share gains?

Bob Livingston - *Dover Corporation - President and CEO*

Well I would say we've had strong participation in the tablet market. But probably not as strong of a share position in the tablet market as we have had in the handset market. I actually believe as we exit this year going into '14, you'll see these guys with a stronger share position in the tablet market than we've had historically.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, that's helpful. And then a follow on, post Mills, you're obviously going to have a good size contribution from energy in the -- from the portfolio. We're starting to see weakening on the production side in North America. Can you maybe talk about some of the changes that you're experiencing and seeing on the production side in North America and are you content to have such a large proportion of your EBIT driven by energy going forward?

Bob Livingston - *Dover Corporation - President and CEO*

The changes we see in North America, let me give you a comment on the third quarter. I'd circle a number of about $25 million that I feel we were short of with respect to our internal goals for production in the third quarter. Nigel, $8 million of that was actually shipments scheduled for the third quarter that were ready, that were shipped and we had a deferral on revenue recognition. And I'm blaming Brad on that. But we did have a little bit of a slower start in Canada as we came out of the spring thaw. We saw activity a little softer there in July and August. But I would say that the activity in Canada in September and so far here in October has been back to normal levels and we're quite happy with the activity level.

The one comment I'd share on the US market, and this is the reason why I have my comment about softer US activity, it's very, very specific to a couple of Texas basins or Texas fields. The Permian Basin for I guess in particular was down for us, not only down against last year but down against expectations. The other basins around North America, especially in the US, were solid to strong. But there was a shortfall in the Permian Basin.

Nigel Coe - *Morgan Stanley - Analyst*

What would've caused that?

Bob Livingston - *Dover Corporation - President and CEO*

I think most of it is inventory adjustments.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great, thanks, Bob. That's very helpful, thanks.

Operator

John Inch, Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

I want to make sure I understand the context, because some other tech firms have been reporting weaker China, emerging markets this earnings season. So it sounds like Bob and Brad that that's not really what you were experiencing, this was more Dover specific or is the 3 point reduction, is there any aspect of the market that you are seeing that may not have to do with your own timing of projects?

Bob Livingston - *Dover Corporation - President and CEO*

No, I would not label the change in the revenue at communication technologies as having anything to do with the geographic market. As I commented, it was all about the OEM product launches that were a few weeks later than we had anticipated, not only at the beginning of the year but I would also say at the end of the second quarter. And continuing -- I would say a continuing struggle that we're having with lower volume, especially here in the fourth quarter at Nokia and BlackBerry.

It is interesting. You mentioned China, I'll share another interesting data point. You look at our three largest geographic markets, and I'll label them as North America, Europe and then Asia including China. John, we had 4% organic growth in all four markets. We -- it was -- I commented in my prepared script about the growth in Europe. We had 4% growth in Europe. We saw some early signs of that as we were coming out of the fourth quarter, or the second quarter, but we had a very strong quarter in Europe especially in two or three of our early cycle businesses.

John Inch - *Deutsche Bank - Analyst*

So Bob, the performance then of the segment, and you called out a little bit of the issues, was there a difference as you look into the segment in the fourth quarter between MEMS and the non MEMS businesses of the segment?

Bob Livingston - *Dover Corporation - President and CEO*

In the fourth quarter?

John Inch - *Deutsche Bank - Analyst*

Well in the third quarter and that leads you to obviously your commentary around the fourth quarter and the slightly lower reduction of target.

Bob Livingston - *Dover Corporation - President and CEO*

In the handset market, no not really. We obviously have a stronger position with MEMS in the non-high handset piece of the consumer electronics market. But I made a comment about late spec changes by the OEM, that was not on just one product, that was on a couple products. It was MEMS as well as speaker boxes.

John Inch - *Deutsche Bank - Analyst*

Okay and then with respect to share repurchase, what are you're thoughts particularly with Knowles, I'm presuming it's going to pay the parent, you guys a dividend. What are you're thoughts toward extending possibly share repurchase next year based on that or just the success of the program this year?

Bob Livingston - *Dover Corporation - President and CEO*

John, I'll wait and comment on that in the first quarter.

John Inch - *Deutsche Bank - Analyst*

Okay, last question Bob. Was there any benefit -- the margin expansion was very impressive, was there any benefit from -- you called out restructuring that was front end loaded this year, was there any benefit from the supplier sourcing initiatives that Dover had begun under your leadership a few years ago, or is that for the most part tailed off and this is other --?

Bob Livingston - *Dover Corporation - President and CEO*

No, I wouldn't say it's tailed off. In fact it's been rather steady for the last couple of years. I don't have a separate data point to pull out of that. But yes, that has been part of it and continues to be part of it and will continue to be part of our operational excellence and productivity initiatives for next year.

John Inch - *Deutsche Bank - Analyst*

Sounds like you feel pretty good about the runway, particularly if volumes begin to pick back up again.

Bob Livingston - *Dover Corporation - President and CEO*

I think we're very, very well positioned for any pickup in volume.

John Inch - *Deutsche Bank - Analyst*

Perfect, thanks very much.

Operator

Shannon O'Callaghan, Nomura.

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

Bob, so can you explain a little bit more what drove these required spec changes and why they came so late and have you experienced this type of requirement before? And you talked about some market share losses, are those recoverable or temporary in the quarter? Maybe fill that out too.

Bob Livingston - *Dover Corporation - President and CEO*

Oh gosh, Shannon, if you're asking me to give you a technical explanation of those spec changes, I could probably do it and be wrong. The -- is it normal? We don't see it on every product launch. Does that happen on occasion, yes. So I wouldn't label this as an unusual occurrence but it does happen on occasion. And when I say a late spec change, if memory serves me correctly, I think we were dealing with a specification change three weeks, four weeks prior to the OEM's product launch. It was that late in the cycle.

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

And the losses, the market share losses you talk about, are those permanent losses or what occurred there?

Bob Livingston - *Dover Corporation - President and CEO*

No, actually I will tell you as we came out of the third quarter and here in October, we are shipping on all of our acoustic products to the OEMs that we're qualified with according to our share award. And furthermore, I would tell you that we're shipping just about everything we can build.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes, that's what I would have said. We're shipping everything that we can make.

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

And on -- over in energy than on the drilling business, it was up 12%. Obviously the comp finally started getting really easy there, but you talk about China drilling. Are you actually expecting strong growth to resume in drilling or was that a comp-related pop this quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Well you are right, we did have a bit of an easier comp but I've got to give some credit to the business guys here. It wasn't just an easy comp. The share gains that I mentioned, I would label that activity around their core customers here in North America. But there has been a growing and a building of activity and expanding their customer base outside of the core customers here in North America. And they've started to have some success over the last couple of years in China. The success has been building this year, and the activity in the third quarter was significant enough for them in China that I wanted to point that out.

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

Okay, thanks.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

I had a question on the fluids business inside engineered systems. At the beginning of the year there were some customer deferrals, I think those went away but obviously one of the major pumps guys came out with some sales reduction this morning. I wondered organically within your fluids business what you're seeing? So I think some of the numbers you mentioned had acquisitions included.

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so organically in fluids, gosh Brad, help me here. I think it was 4%?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes, the fluids as we define is more than pumps.

Bob Livingston - *Dover Corporation - President and CEO*

Yes, and that's -- but within the platform, I think it was 4% organic. But it's interesting, we've got three businesses in our fluids platform. The pumps business that you're referring was the best performing on a comp basis in the third quarter. In fact, the other two businesses in fluids actually had negative organic growth. My comment earlier about our growth in Europe, I will tell you did not include these two businesses in fluids, which is our heat exchanger business and our dispenser business. Both were down in Europe in the third quarter which is a key market for both. But our pumps business is performing pretty solid around the globe, not just in Europe.

Julian Mitchell - *Credit Suisse - Analyst*

Got it, thanks. And then on the restructuring and the productivity savings, I think you pushed up by a few cents the kind of productivity savings you expect to get this year. Does that reflect any kind of acceleration in restructuring spend or you're just getting a better payback on the plans that you had outlined at the beginning of the year?

Bob Livingston - *Dover Corporation - President and CEO*

Well I think we may be getting a little bit better payback now but I'm not sure that's the significant item. I think we have found opportunities as the year has progressed to increase our productivity actions. I actually think coming into the year maybe our restructuring charge number for the year may have been low 20s, $20 million or $22 million.

Brad Cerepak - *Dover Corporation - SVP and CFO*

$22 million, yes.

Bob Livingston - *Dover Corporation - President and CEO*

We're going to end the year at almost $30 million. So we have been able to find additional opportunities that we didn't have on our activity plans at the beginning of the year.

Julian Mitchell - *Credit Suisse - Analyst*

Great, thank you.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

Back to energy and your confidence in Q4 or perhaps uncertainty on Q4. If we go back to the Q2 discussion and if we would have left that Queensland order in Q2 where it belonged, the book-to-bill was 1.3, but if we leave that guy over in Q2 it puts the energy of book-to-bill at only 0.9 here in Q3. So I'm wondering now as you look actually at your Q4 revenue forecast, are there substantial book and ship type activities that you need to see happen here in the fourth quarter to reach that forecast or is it in backlog at this point?

Bob Livingston - *Dover Corporation - President and CEO*

No I would -- for the businesses within energy that I would say actually manage their activity driven by a backlog, I would say the backlog is there for the fourth quarter. Jeff, the bulk of our -- aside from this Queensland order that we've referred to a couple times, the bulk of our activity in artificial lift and I would say even within drilling and for probably half of downstream, it may not be book and ship in the same month. But it's a pretty quick cycle business.

The activity -- I'm actually fairly confident with our outlook for energy for the fourth quarter. I think we'll see a pretty strong recovery in production in the fourth quarter, both here in the US as well as our increased activity in our geo expansion initiatives. And we're looking for a fairly solid performance again in the fourth quarter from downstream.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great, thank you. I'm wondering on -- back to comm tech and the pressure on from Nokia and BlackBerry. And I think in the Knowles Form 10, only Samsung was called out as being above 10% of sales, I may be incorrect on that. But obviously Nokia and BlackBerry have been shrinking for a long time. Are they collectively over 10% of sales? Or how big are they at this point?

Bob Livingston - *Dover Corporation - President and CEO*

Oh gosh, I wasn't -- I didn't brief myself on the Form 10 coming into this call is morning. I don't believe -- you're asking if Nokia and BlackBerry together represented 10% of comm tech's revenue, the answer is no, not even close.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay, so that bleed then starts to burn off, right? Obviously there's some channel disruptions from BlackBerry's failed launches and everything?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Yes, I would agree with that.

Jeff Sprague - *Vertical Research Partners - Analyst*

Right, okay. And finally and I'll pass it, Bob you just said Hill PHOENIX came in a little bit light of your expectations/ Was there anything in particular that stood out? Was it project timing? Anything of note there?

Bob Livingston - *Dover Corporation - President and CEO*

If I had to point to two things, Jeff, I would say we continue to see softness in the US market in the northeast. And we saw that through the first half of the year. I would say that it was probably a little bit softer in the third quarter than even we saw in the first half of the year. But I also think that what we're seeing here in the second half of the year is a little bit of a reduced expectations in Mexico for Hill PHOENIX.

Jeff Sprague - *Vertical Research Partners - Analyst*

Interesting. And Anthony is not --

Bob Livingston - *Dover Corporation - President and CEO*

With respect to Mexico, that is timing.

Jeff Sprague - *Vertical Research Partners - Analyst*

And Anthony is not in the organic yet, right, but how is actually Anthony performing?

Bob Livingston - *Dover Corporation - President and CEO*

We're very happy with Anthony's performance. The earnings that they're going to deliver to Dover and to us this year is right on our acquisition model and on our forecast.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great, thank you very much.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

Just going to energy for a second. The comps going into Q4 for drilling also are pretty easy and so with thinking back to Brad's comments earlier about the margins being 24% plus, that's a pretty wide range into the fourth quarter. Can you describe your confidence in your ability to maybe drive 25% margins based on the mix and productivity issues that you've undertaken thus far this year in energy?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Let me clarify. My comment was in excess of 24% for the year. And we did point out that in energy, there'll be pressure on the margin in the fourth quarter due to these late in the year deals we've just completed in the downstream side. In fact, if you think about how we've guided and you look at the bridge on acquisitions, you'll see that our acquisition expectations for the year have come down just a bit, $0.02 to $0.03, and that's really the deals taking place in the fourth quarter. You could argue that's part of the reason we've come off the top end of our range, $0.06 on the performance basis includes completing these deals and then they'll be accretive into the next year. So to clarify, we do see some pressure on the margin in the fourth quarter because of the amortization and deal costs associated with closing those deals.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay great, that's helpful.

Bob Livingston - *Dover Corporation - President and CEO*

Joe, if I were to add anything to that, and that's on the top line, in drilling, we do expect to see fourth-quarter revenue to be down sequentially from the third quarter. But yet, when we look at the fourth quarter year over year, the growth is going to be high-single digits.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay, great and than one other question on engineered systems. I know that the organic growth forecast for the year is now 2%. It still implies a pretty meaningful acceleration in the fourth quarter and you have some headwinds with seasonally weak refrigeration revenues, the order rates haven't been great. And so talk to me a little bit about the confidence that you have in hitting that mid single-digit number for Q4.

Bob Livingston - *Dover Corporation - President and CEO*

I feel pretty confident with the fourth-quarter forecast across all the segments, especially DES. My comment about some of the, I call it revenue miss with respect to internal expectations in the third quarter with respect to engineered systems, it was almost all at Hill PHOENIX. And I think we've actually taken a fairly conservative view in the fourth-quarter forecast for Hill PHOENIX.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay, even though you're still continuing to see some weakness in the northeast, are there pockets geographically where you're seeing some strength as we enter the fourth quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Especially outside of the US.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay, great. Thanks, guys.

Operator

Charley Brady, BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Could you talk a little bit about -- in terms of emerging markets, obviously China sounds as though it's probably stronger than I would have guessed given the commentary from other companies. But outside of China, other emerging markets, are you seeing any kind of tapering of growth there? And then can you also speak in terms of what pricing and raw material costs are looking like? Are you getting any kind of benefit, because it sounds like raw materials are coming in for a lot of people a little bit better than budgeted?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so I shared my comment on Asia. Other emerging markets, gosh Charley, the ones for us that are meaningful is our activity in the Middle East and Australia. Those markets we continue to see growth in. We'll see growth there in the fourth quarter. We expect more growth out of those two markets in 2014. If we look at South America as an entire market, the third-quarter activity was lighter than we expected but I would take that back to my comment around Hill PHOENIX and some deferrals of order, mostly around timing activity in Mexico. But we feel that the emerging markets for the fourth quarter and going into 2014 continue to provide a very nice growth opportunity for all of Dover. I'd like to see the growth continue in Europe.

Charley Brady - *BMO Capital Markets - Analyst*

Right, thanks. And can you talk about pricing across the board, across the segments?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well yes to your question on materials, we did see a little bit of favorability in terms of material input costs in the quarter. Not a substantial -- pretty modest coming off of Q2. And I would say some of the pricing that we have put in place related to materials earlier quarters have started to come down a bit. So the net spread as we track price as it relates to materials sequentially really is pretty flat off the second quarter.

Charley Brady - *BMO Capital Markets - Analyst*

Great, thanks.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Not a major change.

Charley Brady - *BMO Capital Markets - Analyst*

Okay, appreciate it, thanks.

Operator

Jamie Sullivan, RBC Capital Markets.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Question about you talked about the Queensland orders and that maybe a little bit of a comp headwind as we go into next year. Can you frame that for us and how we should think about that in 2014?

Bob Livingston - *Dover Corporation - President and CEO*

No, okay from a bookings point of view, it's always a bit difficult to actually peg exactly when we get the order. It's not a steady monthly drum beat of orders there. They tend to be an annual award or semi-annual award. So from a -- on any individual quarter, there could be a negative on the comp with respect to that activity. For the year, we expect our activity in Australia and specifically around the Queensland project to be up in 2014 versus 2013.

Jamie Sullivan - *RBC Capital Markets - Analyst*

That's helpful. And I guess similarly on the margin side, you talked about some of the restructuring expenses going from $20 million to $30 million this year from original plan. Is -- should we think about the $20 million as the ongoing spend or is it more of a benefit to the margins as we go into next year?

Bob Livingston - *Dover Corporation - President and CEO*

No, look I'm not prepared to start giving 2014 guidance. But with respect to that specific question I think you should continue to expect us to execute on $20 million plus of restructuring activity in 2014.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Okay, thanks very much.

Operator

Steve Tusa, JPMorgan.

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

Is the Anthony seasonality similar to Hill PHOENIX?

Bob Livingston - *Dover Corporation - President and CEO*

In the US it's almost identical.

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

Okay and year to date--

Bob Livingston - *Dover Corporation - President and CEO*

There's a little bit of a difference outside of the US, but in the US it's almost identical, Steve.

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

Right and so I want to make sure I'm base lined correctly here, but year to date I've got revenues of about $210 million for Anthony?

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Bob Livingston - *Dover Corporation - President and CEO*

I don't have that detail. I don't have the detail, Steve.

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

Okay. So you guys don't know what the run rate of the -- I mean you're saying close the case is going well, so it's growing but --

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Bob Livingston - *Dover Corporation - President and CEO*

Close the case is going well, yes.

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

So how do you track that without the Anthony revs?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Well we have the Anthony revs, Steve, we just don't have them right at our fingertips at this point.

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

Oh got you. Okay, that's helpful. And then -- yes, okay.

Brad Cerepak - *Dover Corporation - SVP and CFO*

We (multiple speakers) close the case very, very closely. And I would say coming into the year we had expectations for close the case, and our view right now is we're right on track where we expected to be with that program. And it's providing some nice growth for Anthony. I don't have the numbers in front of me but Paul could --

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Bob Livingston - *Dover Corporation - President and CEO*

But we also had a fairly aggressive forecast for Anthony for close the case and they're hitting it.

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

Right. And then on the margin front, you said 24% plus for engineered -- or energy, that's helpful. Can you maybe baseline us for the year on some of the other segments? Maybe a bit of a range so we can -- because there's a -- you guys blew it away this quarter but you said the total margin will be below the second quarter I guess. Is that -- if I'm reading the code correctly, is that the way to think about it and then we back into the other -- are there any other moving parts in the segments that we should be aware of I guess third quarter to fourth quarter here?

Brad Cerepak - *Dover Corporation - SVP and CFO*

No, I guess from where we were last time I would answer that question is no significant changes related to where we thought we would end the year. We originally said we would grow 30 to 40 basis points. I think we're on track to do that. I would expect DPI be a little bit weaker in the fourth quarter not because of the revenue but because we are doing some, Bob, talked about restructuring. There is a lot of benefits flowing through, but you will hear us talk about another restructuring activity in our printing and identification business in particular in the fourth.

Bob Livingston - *Dover Corporation - President and CEO*

Yes and I know the timing of that may seem odd, but we actually want to get this done in the fourth quarter. Not just for margin improvement for next year but for some, I would call it some customer facing activity that we want to be executing on going into 2014.

Brad Cerepak - *Dover Corporation - SVP and CFO*

So I think you'll see DES seasonally down. DE we talked about. And in comm tech, you'll see a little bit of a reduction going into the fourth quarter as well.

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

Okay one last very quick housekeeping item. Going back to this Anthony question, I think in the press release it was $310 million business last year you said in the press release I guess when you acquired it.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Okay.

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

If you divide that by the last years' revenues, you're getting to about 9% acquisition, 9% contribution of revenues and you guys are saying it's an 8% acquisition contribution. I want to make sure that there's not a -- you guys are reporting a part of the business differently, maybe there was some run off revenue that's not included because there are some other acquisitions in there this year, right?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Not this year in refrigeration, no.

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

Or just engineered, total engineered.

Brad Cerepak - *Dover Corporation - SVP and CFO*

I think Paul could take this question off line but I do think if I recollect the $310 million number. When we acquired Anthony, as I think we pointed out, they were a supplier to Hill PHOENIX.

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

Right, okay.

Brad Cerepak - *Dover Corporation - SVP and CFO*

And so that's probably why you're asking the question is that there -- the way we think about it now is we do not think about Anthony with that internal supply in the --

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

Yes, there's a lens, there's a lens. That answers the question.

Bob Livingston - *Dover Corporation - President and CEO*

And I -- if memory serves me right, Steve, I think the, I call it the inter company activity between Anthony and Hill PHOENIX was in the $30 million to $40 million range.

Brad Cerepak - *Dover Corporation - SVP and CFO*

That's right, that's right.

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

Okay so that would get you to the two -- okay, yes that makes a ton of sense. (Multiple speakers) That makes a ton of sense. Perfectly, thanks a lot for the detail guys, I appreciate it.

Operator

Thank you, that concludes our question-and-answer period. I would now like to turn the call back to Mr. Goldberg for closing remarks.

Paul Goldberg - *Dover Corporation - VP, IR*

Thanks, Laurie. This concludes our conference call. We thank you for your continued interest in Dover and we look forward to speaking to you again in January. Have a good day.

Operator

Thank you, that concludes today's third-quarter 2013 Dover Corporation earnings conference call. You may now disconnect your lines at this time and have a wonderful day.