FINAL TRANSCRIPT

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DOV - Q1 2011 Dover Corp Earnings Conference Call

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PRESENTATION

Operator

Good morning, and welcome to the first-quarter 2011 Dover Corporation earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer of Dover Corporation, Brad Cerepak, Vice President and CFO of Dover Corporation, and Paul Goldberg, Treasurer and Director of Investor Relations of Dover Corporation. After the speakers' opening remarks, there will be a question-and-answer period.

(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.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thank you, Jackie. Good morning, and welcome to Dover's first-quarter earnings call. With me today are Bob Livingston, Dover's President and Chief Executive Officer and Brad Cerepak, our CFO.

Today's call will begin with comments from Bob and Brad on Dover's first-quarter operating and financial performance and follow with our outlook for the remainder of 2011. We will then open the call up to questions and as a courtesy, we kindly ask you limit yourself to one question with a follow-up. Please note that our current earnings release, investor supplement, Form 10-Q and associated presentation can be found on our website, www.dovercorporation.com.

This call will be available for playback through May 5, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 1-800-642-1687. When accessing the playback, you'll need to supply the following reservation code, 55947580.

And 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 uncertainty. We caution everyone to be guided in their analysis of Dover Corporation by referring to our Form 10-K for a list of those 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 this call over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. Dover had an excellent start to 2011, as the momentum that was evident last year continued to build in the first quarter. We continued to see strong trends in mobile handsets, [cellware] equipment, the oil and gas market, and global industrial production. These trends are reflected in our strong first-quarter results and give me the confidence to increase our full-year expectations.

All segments achieved double-digit revenue growth and higher margins, absent deal cost. For the first quarter, orders were up 27%, and revenue increased 24%. Our first-quarter order rates of $2.2 billion were a record level for Dover.

As we discussed last quarter, we are making deliberate decisions to invest for growth. In addition to acquisitions, we continue to dedicate significant time and resources on international growth initiatives and product innovation. In the first quarter, our incremental investments in engineering and sales and marketing, especially in emerging economies, are driving emerging market growth. First-quarter revenue derived from Asia and Latin America was 20% of Dover's total, with a collective growth rate of 38%. We believe this trend is sustainable over the mid-term.

As we did in China in 2009, we are now putting the necessary infrastructure in place in Brazil and India to ensure we are well positioned to fully participate in these key growth markets. While still relatively small, our first growth -- our first-quarter growth rate was 28% in Brazil and 38% in India. Acquisition activity continued in the first quarter as we closed on four deals for a combined purchase price of $425 million. In particular, I could not be more pleased with the results thus far of Harbison Fischer, the largest of these acquisitions.

Customer feedback has been quite positive with respect to our combined offerings in artificial lift. The integration is proceeding at a pace faster than originally anticipated, and we are seeing early success in our efforts to expand into international markets. As you recall, in December, we announced the signing of the agreement to acquire Sound Solutions. We originally expected this acquisition to close around the end of the first quarter. We are diligently working through the regulatory approval process, which is taking longer than originally thought. As a result, we don't expect this deal to close before the mid of the second quarter.

In addition, our acquisition pipeline is rebuilding nicely. A result of internal initiatives and an active M&A environment. I am confident we'll announce additional deals in 2011.

Before I turn it over to Brad, let me say I am extremely pleased with the start to our year. We continue to deliver strong financial performance while keeping our eye on our longer-term objectives.

Brad Cerepak - *Dover Corporation - VP and CFO*

Thanks, Bob. Good morning, everyone. Let's start by turning to slide 3. Today we reported first-quarter revenue of $2 billion, an increase of 24%. Earnings per share increased 48% to $0.96. After adjusting for discrete tax benefits, EPS was $0.92, a 42% improvement.

[Second] margin for the quarter was 15.6%, up 60 basis points. Margins increased at all segments, absent one-time deal costs. Bookings increased 27% over last year to $2.2 billion and were broad-based, with virtually all Companies showing year-over-year improvement. This increase was aided by some accelerated bookings related to energy and military customers.

Book-to-bill finished at a very strong 1.15. Backlog grew 37% to $1.7 billion. In the first quarter, we generated free cash flow of $80 million. We remain confident that our full-year free cash-flow generation will be in the range of 10% to 11% of revenue.

Turning to slide 4. First-quarter organic revenue growth was 19%, with acquisitions contributing 4% and FX adding 1%. Organic revenue growth was double-digit at all segments. Electronic Technologies increased 27%. Industrial Products and Fluid Management both posted organic growth of 20%, while Engineered Systems grew 14%. For the quarter, a majority of our acquisition growth was at Fluid Management, where acquisitions contributed 14% of their total growth of 34%.

Turning to slide 5, which shows our sequential growth. For the quarter, Fluid Management grew sequential revenue 16%, driven by robust energy markets, while Industrial Products and Engineered Systems increased 7% and 2%, respectively. As expected, the normal seasonality of the global electronics market resulted in a sequential revenue decline at Electronic Technologies of 8%.

Bookings increased 17% over the fourth quarter 2010, reflecting solid demand. We are seeing particular strength in Industrial Products, energy, fluid solution, and engineered products, including the normal seasonal ramp-up at Hill Phoenix. Industrial Products and energy strong bookings were driven in part by some accelerated orders for military and energy-related products.

Now turning to slide 6. Industrial Products posted revenue of $519 million and $64 million of earnings, an increase of 21% and 26%, respectively. This quarter marks the seventh consecutive quarter of sequential revenue gains.

Industrial Products operating margin was 12.4%, up 50 basis points from the prior year, as benefits from volume increases and productivity were partially offset by product mix and incremental investment in product and business-development activities. Bookings were $625 million, an increase of 44%, resulting in a strong book-to-bill of 1.21. This growth was influenced by pricing actions, a significant military order, and strong activity in our Companies that serve the downstream energy market.

With respect to our material-handling platform, sales increased 34% to $253 million, while earnings increased 45%. Strong results continue to be driven by increased activity across most end markets, including infrastructure and energy. In total, material-handling margins were up 130 basis points, reflecting volume increases and improving productivity.

For the quarter, bookings were $289 million, an increase of 41%, yielding a book-to-bill of 1.14. With respect to our mobile equipment platform, sales were $267 million, an increase of 11%. Earnings of $38 million were up 4%. Margins decreased 100 basis points, primarily reflecting changes in product mix on lower defense and refuse vehicle sales. Book-to-bill finished at 1.26, as we continued to see significant orders for our crude oil and dry-bulk trailers.

Turning to slide 7. At Engineered Systems, sales were $560 million, an increase of 16% year-over-year, and segment earnings increased 23% to $67 million. Operating margin was 12%, a 70 basis-point improvement from last year, reflecting volume leverage partially offset by material-cost escalation. Bookings were $633 million, an increase of 8% over the prior year. Book-to-bill ended at 1.13.

With respect to our product-identification platform, first-quarter sales were $226 million, an increase of 7%, which included a 2% gain from FX. Year-over-year earnings increased only 5% as margins decreased 30 basis points, primarily due to new-product costs and increases in investment and emerging markets. Revenue was also impacted by some softness in the US, although China and Latin America saw growth rates of 11% and 34%, respectively. Bookings increased 6% to $233 million, resulting in a book-to-bill of 1.03.

Moving to engineered products. The strong results for this platform are broad based as each Company reported improved revenue and earnings. Sales were $334 million, an increase of 23%. Earnings increased 46%, resulting in margin expansion of 190 basis points.

This favorable margin performance was largely driven by volume and productivity improvements. We experienced some material cost escalations in the quarter, and pricing actions are under way to narrow the price-cost spread. Engineered products bookings were $400 million, an increase of 9% over the prior year, resulting in a book-to-bill of 1.20.

Now moving to slide 8. At Fluid Management, first-quarter sales, earnings, and bookings were all-time highs. Revenue increased 34% to $509 million, while earnings increased 31% to $114 million. Acquisitions accounted for 13% of the growth.

Operating margin was 22.3%, a decrease of 50 basis points from last year. Margin was impacted by acquisition costs of approximately $5 million. Adjusting for these costs, segment margin was 23.4%, a 60 basis-point improvement over last year.

With respect to our energy platform, revenue increased 48% to $304 million, while earnings increased 45% on rising North-American rig counts and our recent acquisitions. We continue to see strong drilling activity. Margins remained very strong, but decreased 70 basis points due to acquisition costs. Quarterly bookings increased 70% to $355 million, with about one-third of the bookings growth coming from acquisitions. Bookings ended at 1.17 as energy markets continue to be extremely strong.

Moving to fluid solutions. This platform generated revenue of $206 million, an increase of 17%. We continue to see broad-based growth across many end markets, including chemical, food and beverage, and transportation.

Our emerging market initiatives are gaining traction, contributing 33% growth in China. Earnings increased 22%, resulting in an 80 basis-point margin improvement. Bookings increased 22% year-over-year to $218 million, and the book-to-bill remains solid at 1.06.

Turning to slide 9. Electronic Technologies revenue was $373 million, an increase of 28%. We continue to see strong sales of electronic assembly and test equipment, MEMS microphones, and solar products. Our Companies serving the telecom markets had more modest results due to softer telecom CapEx spending.

Earnings increased to $60 million, a 33% improvement over last year. Operating margin was 16%, a 60 basis-point expansion. Bookings were $420 million, up 17% over last year. Book-to-bill ended at 1.13.

Our electronic assembly equipment and test Companies posted a 62% jump in revenue year-over-year and continued to expand margin. In particular, DEK solar products have been quite successful, resulting in several new customer wins. In total, solar products drove half of the revenue growth in electronic assembly and test. Book-to-bill was 1.22, representing a normal seasonal upswing and strength in solar bookings.

Lastly, our communication-component Companies posted another solid quarter in revenue, as strength at NOLs, particularly MEMS, was partially offset by telecom CapEx softness at Vectron and CMP. Communication components exit the quarter with a book-to-bill of 1.05.

Going to slide 10. We took advantage of historically low interest rates and issued new long-term debt totaling $800 million in February. The proceeds were used to fund maturing notes and acquisitions in the quarter. As a result of the incremental new debt, first-quarter net interest expense was $28 million, an increase of $1 million over last year. Full-year interest expense is now expected to be up approximately $10 million from our prior forecast.

Corporate expense was up $3 million from the prior year to $36 million, in line with our expectations for the quarter. With respect to taxes, our first-quarter tax rate was 23.9%. The rate was positively impacted by a $0.04 EPS benefit from discrete state-tax settlements and a more favorable mix of non-US earnings. Adjusting for the discrete tax benefit, the first-quarter rate would have been 27.2%. Going forward, our strong growth outside the US is now expected to reduce our full-year rate to 27% to 28%, or one point lower than our prior guidance.

Now turning to slide 11. Given the strong first-quarter bookings, we are now forecasting organic revenue growth of 9% to 11% and expect completed acquisitions to contribute around 3%. Therefore our total revenue growth is expected to be 12% to 14%.

Breaking down the organic growth by segment. We now expect Engineered Systems revenue should increase one point from our prior forecast and now be in the range of 6% to 8%. Electronic Technologies revenue should increase two points from our prior forecast and now be in the range of 11% to 13%.

Fluid Managements revenue should increase three points from our prior forecast for a new range of 10% to 12%. This increase is driven by broad-based improvements in their end markets. Lastly, Industrial Products should increase five points from our prior forecast to be in the range of 8% to 10%. This significant increase is largely driven by strong infrastructure in energy markets.

With respect to acquisition growth, Industrial Products and Electronic Technologies should add around 1% on top of their organic growth range. Fluid Managements acquisition growth should be an additional 12%, largely driven by their acquisition of Harbison Fischer. So in total, Fluid Managements revenue should increase 22% to 24%.

Corporate expense and CapEx are unchanged from our previous guidance. As mentioned, interest expense will be up due to our recent debt issuance, and we expect the full-year tax rate to be in the range of 27% to 28%.

Now let's go to the full-year earnings bridge on slide 12. Volume product mix and pricing should increase earnings $0.57 to $0.71, with volume being the largest driver. Net productivity is expected to yield $0.26 to $0.30.

We expect completed acquisitions to deliver $0.10 to $0.11, up $0.02 from our previous guidance. As discussed last quarter, investments will impact EPS $0.16 to $0.20. Interest expense will be $0.03 higher than previously forecasted.

Lastly, our reduced full-year tax rate, due to the strength of our international earnings, should positively impact EPS $0.05. In total, we are now forecasting EPS to be in the range of $4.30 to $ 4.45. With that, I'll turn the call back over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. We had a strong first quarter, and as Brad just indicated, we are expecting strong results for the balance of the year. I believe we are well positioned and focused on the opportunities presented by the strengthening global economy and increasing demand for energy, continuing growth in wireless communications, and the significant infrastructure needs of emerging markets.

I also think our positioning is quite well evidenced by our strong first-quarter results, and I believe 2011 will be a great year for Dover. In closing, I'd like to thank all our employees, customers, and suppliers around the world. Our first-quarter results would have been impossible to achieve without their strong efforts and support. Okay, Paul, let's take some questions.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thanks, Bob. At this point, I'd just like to remind everybody again as a courtesy, if you can limit your questions to one with a follow-up, we'll be able to answer more questions. So with that, I'd like to turn it over to Jackie to get some questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Jim Lucas, Janney Capital Markets.

Jim Lucas - *Janney Capital Markets - Analyst*

First question. On the Harbison Fischer, you had indicated that the integration going ahead of plan and was hoping you could give us a little bit more color of where specifically you're seeing that. And in conjunction with that, you had referred to some of the initial customer response. At what point would you expect to start seeing the revenue synergies from Harbison Fischer being put into the portfolio?

Bob Livingston - *Dover Corporation - President and CEO*

Well, you've asked two questions there. Let's talk about the activity in the first quarter. The integration activity, especially around the front end of the business, sales and business development and marketing, is moving ahead of schedule.

I think I commented on the -- in my prepared comments with respect to our international sales successes. And that activity, again, led by our infrastructure that NTS put in place over the past year, did bring some orders in in their first quarter that quite frankly, we weren't planning on to occur in the first half of the year. I would also -- I guess the other thing I would add is that the activity around some of our supply-chain initiatives, as we bring Harbison Fischer online with some of those initiatives, has moved a little bit quicker in the first quarter than we had anticipated.

Jim Lucas - *Janney Capital Markets - Analyst*

Okay, and on the subject of supply chain, could you give us any update of what you're seeing with connection to what's happened in Japan, in particular? Maybe not so much your supply chain, but your customer supply chain?

Bob Livingston - *Dover Corporation - President and CEO*

Gosh, Jim, it's kind of difficult for me to talk about our customer supply chain. First of all, let me sort of preface this. From a revenue perspective, Japan is a rather small market for Dover. I think maybe it represents maybe 1% of our revenue, so it's -- from an impact on Dover on that perspective, it's rather modest.

This did receive a fair amount of attention around Dover and our businesses after the earthquake and tsunami in Japan. And I think our concerns at that time were probably or not probably, were much higher than they are today. Our -- the impact is rather modest. It's around mostly around some specialty bearings and some electronic assembly, all of which were -- we've got work around with other suppliers or with second-source suppliers.

I don't believe it has had an impact on any of our customer-service activity to date. It is something that we're watching, not just with our direct suppliers, but as you point out with our customer suppliers. And as of yet, we aren't seeing pushback from supply disruptions from Japan.

Jim Lucas - *Janney Capital Markets - Analyst*

Okay, thank you very much.

Bob Livingston - *Dover Corporation - President and CEO*

Okay.

Operator

Steve Tusa, JP Morgan.

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

(multiple speakers) and conference call.

Bob Livingston - *Dover Corporation - President and CEO*

Busy day.

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

Yes, you guys do energy, right? You have an energy business, right?

Bob Livingston - *Dover Corporation - President and CEO*

I think so.

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

The margin there. You know I ask every single quarter what's the forward band. Any kind of change in dynamics? How is pricing there?

All of the old services guys are saying very, very positive things about the US land business and the lack of capacity relative to the dramatic demand that's out there. So maybe you could talk about if your views on -- over the next 18 months the medium-term margin potential there, [X] the deals, what that looks like.

Bob Livingston - *Dover Corporation - President and CEO*

I'm not going to sit here and give you a response on an 18-month viewpoint, but for the balance of the year, I think you can expect margins to reflect what you saw here in the first quarter. We do see some material inflation headwinds in our energy businesses. But Steve, for the most part, we've been able to cover that with price increases.

Demand is strong. Rig count here in North America was up in the first quarter versus year-end. Everybody has got different forecasts for rig-count deployment. The ones that we follow and tend to send around do show continued modest increases in rig-count deployment during the balance of the year. And again, I think I've said this before. If you watch especially US rig-count deployment, that's a pretty good indicator of what's going on in our energy business.

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

Right. And so there's not any -- is there a big driver of content, given that these rigs, I guess, its a little more equipment and service intensive? Does that -- I guess that may benefit part of your business, but not all of your business? Is that how we should look at it?

Bob Livingston - *Dover Corporation - President and CEO*

We're going to see some benefit from that, but that still is a rather small part of our business, Steve.

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

Okay, got you. And just across the board at the Company, I might have missed this, but what is your -- what was the price cost? It sounds like there was a bit of a headwind this quarter, and how do you look at it through the rest of the year on net materials?

Brad Cerepak - *Dover Corporation - VP and CFO*

Yes, so as you know, in the quarter, we saw some acceleration of materials mainly in the area of steel. So as we entered the year, I think we said on the last call, or we have been talking about having headwind of about two basis points -- 20 basis points or so, about $0.05 of headwind on our EPS. Sitting here today, I think that doubled, so we see about $0.10 or so, Steve.

Now, having said that, I'd say our teams have gotten very active. And as we talked about at Dover Day on strategic pricing, so the way I see the year unfolding, if I take into account the price-material spread, the negative impact there, and our strategic pricing, I would expect as we move through the year that that would turn positive for us by the second half of the year.

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

Okay, and then one last question. Ingersoll's made it official. They are going to go out and sell Hussmann. There's no way you guys could buy them from a -- is there an anti-trust issue there or are you guys -- ?

Bob Livingston - *Dover Corporation - President and CEO*

I think that goes without saying, yes.

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

Yes, okay. All right, perfect. Thanks.

Operator

John Inch, Merrill Lynch.

John Inch - *BofA Merrill Lynch - Analyst*

So the Q called out 50 basis points or I guess $0.04 of the higher raw-material costs, to just pick up on that theme. Brad, how is that skewed by the businesses? Because the profit conversion, or just resulting margins in electronics, were sort of lower versus what you might have otherwise thought just given the strong -- still strong organic growth. Maybe you could talk a little bit about both those issues.

Brad Cerepak - *Dover Corporation - VP and CFO*

Well, the $0.04 that you're referring to in the quarter, I would say that that really is skewed more towards the higher steel content. Because again, we entered and saw steel double or double the headwind in essence. So when I talk about our headwind going up from $0.05 to $0.10, it's almost all steel driven. So if you think about it, it's our higher-steel-content businesses in the Industrial Product space and in the energy space and NTS as Bob was talking about.

Bob Livingston - *Dover Corporation - President and CEO*

And engineered products.

Brad Cerepak - *Dover Corporation - VP and CFO*

And engineered products, especially with some steel content in stainless steel in Hill Phoenix. You're asking a question about conversion, and conversion, it being DET seasonally low first quarter, I think if you're specifically asking about DET, their conversion was seasonally down. We don't see any real issue in terms of the rest of the year how that will unfold. In fact, very positive about DET's conversion for the rest of the year.

John Inch - *BofA Merrill Lynch - Analyst*

So with respect to then DET, Brad, there were no, for instance, business was so good you had to incur costs to satisfy demand or overtime or something? There was nothing unusual that you would call out from a cost structure with respect to DET this quarter, was there?

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Brad Cerepak - *Dover Corporation - VP and CFO*

I think the only thing unusual is as we continue to work through the Sound Solutions transaction, we did have some deal costs in the quarter. That brought it down a bit. We're going to continue to see that as we continue to move towards closure there. But again, I guess we do have some ramp-up in some of our investment in our solar business, but beyond that, nothing unusual.

John Inch - *BofA Merrill Lynch - Analyst*

And can you remind me, you mentioned Sound Solutions. Can you remind us what the deal costs are? I think they're in the second quarter, and is that part of your annual guidance?

Bob Livingston - *Dover Corporation - President and CEO*

No. It's not in our guidance. We don't tend to forecast deals that are not complete. And in fact, we don't put the deal cost associated with that in the forecast as well. So, when that transaction closes, that will be accrued in the second quarter when we close it.

John Inch - *BofA Merrill Lynch - Analyst*

Okay, but just so I understand, so the Harbison Fischer deal costs are in the numbers this quarter, and you're saying that Sound Solutions deal costs et cetera are not in the numbers, but they will be included in the presentation numbers?

Brad Cerepak - *Dover Corporation - VP and CFO*

Okay, so let me clarify. In the first quarter, we have deal costs as we continue to work on closing Sound Solution that under accounting principles, need to be expensed as incurred. But there are, you know as is typical of any deal, there are deal costs yet to come upon closing, including contingent-fee type stuff.

John Inch - *BofA Merrill Lynch - Analyst*

Yes. Okay, that's fine. Wanted to ask you, this has been -- my second question is for Bob. This is probably the sweet spot of M&A with respect to demand and the opportunity to perhaps make divestitures. You've called out construction businesses in the past. I guess the question is why wouldn't you -- I mean the problem is if you wait too long, the deal or selling construction even next year is going to be dilutive, respectively, versus the price you could get today. Why not just move and put closure to bed and kind of get rid of those businesses sooner versus later?

Bob Livingston - *Dover Corporation - President and CEO*

I'm not sure what your question is, John.

John Inch - *BofA Merrill Lynch - Analyst*

Well, I guess my point is with respect to the macro environment for deal activity today, given high purchase prices that are being received, and strategically, these businesses don't fit, the profits are up, why wouldn't we as investors be expecting the businesses to potentially be sold sooner versus later? Because if you wait too long, the deal is going to be dilutive, and just strikes me that you should maybe strike while the iron is hot type of thing.

Bob Livingston - *Dover Corporation - President and CEO*

John, I think that the input response that we've provided over the last three or four months is that you should expect some divestiture activity from our portfolio over the next 12 to 18 months. And we'll have -- we'll make an announcement when we have an announcement to make.

John Inch - *BofA Merrill Lynch - Analyst*

So, let me ask it this way. The consideration of the timing is going to be predicated on what? You could remind us about that. Like what goes into the thought process as you look at the timing of possible divestitures?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, it'll end up being a unique situation with each business that we consider. Market conditions are a part of it.

John Inch - *BofA Merrill Lynch - Analyst*

Okay. All right. Thank you.

Operator

Scott Davis, Morgan Stanley.

Scott Davis - *Morgan Stanley - Analyst*

When you think about the type of growth rates you guys have been putting up, it begs the question of your capacity. And how soon do you get to a point of being stretched and need to start ramping up the spend pretty considerably or potentially miss out on business?

Bob Livingston - *Dover Corporation - President and CEO*

Okay. Across -- that's going to be a different story within each segment and a different story almost within each business. If you look at our early cycle businesses, especially within electronics and some of the energy businesses that were early-cycle in this recovery, we've been adding capacity, even starting in the second half of 2009. So we're not sitting here today looking at a problem in front of us with respect to either customer service or lead-time management.

When you look at our mid- to late-cycle businesses where we've started to see a significant increase in demand over the last couple quarters, most notably within Industrial Products, Scott, the capacity management issue there is actually one of employees as opposed to fixed capital. And we have been adding employees over the last three or four or five months to manage the increase in demand. We are not looking at either one of our businesses today and believe that we have a challenge in front of us over the next three to six months to meet customer requirements.

Scott Davis - *Morgan Stanley - Analyst*

Okay. And I was certainly not thinking three to six months. I was thinking more out. But 2012, if you had another big kind of year, 2012 versus 2010, let's say 10% organic.

Bob Livingston - *Dover Corporation - President and CEO*

Well again, you go back and look at our -- the last couple years that the two significant businesses within Dover where we have added I will call it measurable impact numbers on Dover for expansion of capacity as been at NOLs. And I think we have been doing that every year since we acquired them, maybe with the exception of one year. And then again, within our energy businesses, most notably at US Synthetics, we have had significant capacity expansion there twice in the last three years. We've got a current program under way that was approved, and we've been funding that for the last six months. And that capacity expansion program runs through 2011 and I think will have us well positioned for 2012. We don't see an issue right now, Scott.

Scott Davis - *Morgan Stanley - Analyst*

Okay. Fair enough. Guys, just a little bit of a conceptual question, but when you think about incremental margins, and this quarter you had just phenomenal top line and the incremental margins were not as high as maybe they have been in the past, but you have one-time deal costs, you've got raw material increases. What do you think -- do you ever target a certain particular incremental-margin type number? Let's say 20%, 25%. Or do you not think about the business in that way?

Bob Livingston - *Dover Corporation - President and CEO*

Well, Brad's going to give you more specific response than I would, but you do ask an important question. Do we have a target? And the target will be a little bit different from business to business and segment to segment. But we actually start with a target of 80% to 85% of the business's gross margin. And we'll go up and we'll go down depending upon what costs we're adding or what other investments we're making in the business. But if you look at sort of the everything being equal target, that conversion should be 80%, 82% of a business's gross margin. So if you roll that up for Dover, and you look at our gross margin, we have frequently said that -- in fact this was in our guidance for 2011 -- our initial guidance that we were targeting conversion, I believe the number was 30% conversion for 2011.

Brad Cerepak - *Dover Corporation - VP and CFO*

Yes, high 20s, 30% was our plan, and I'd say we're a little bit, sitting here today, we're a little bit off that number for the full year. The way to explain that best, and you've articulated a couple pieces to it, is price commodity does hurt us. In the first quarter, we had 18% conversion, which is lower than obviously our target for the year and what we were thinking about for the year.

But two points of that is price commodity spread, which as I indicated earlier, will turn positive by the second half of the year. That's in our forecast. Two points is deal costs in the quarter, especially in DFM, which we pointed out, and then really mix within our businesses.

If you think about the performance in the quarter and what's changed, our guidance is up five points on DIP, which is our lower margin business -- lower-margin businesses. And even within DIP, there was some mix within those businesses. So mix can play a big impact to the number, and we see that mix impact to be five to six points in the first quarter of conversion impact.

Scott Davis - *Morgan Stanley - Analyst*

That's great granularity. Thanks, guys.

Operator

Terry Darling, Goldman Sachs.

Terry Darling - *Goldman Sachs - Analyst*

Thanks. Bob, wondering if we could go back to your commentary about expectations to do some more M&A this year. And I'm wondering how you would characterize you're overall buying powder -- buying power, dry powder. Can you scope that for us in the context of Sound Solutions and where your net debt-to-cap is and view on free cash flow?

Bob Livingston - *Dover Corporation - President and CEO*

Brad, do you want me to handle that or would you like to jump in? There's a lot in there, but --. Okay, so let's start with -- Brad's going to have to fill some numbers in here. Let's start with our cash balance here at the end of the first quarter which I think, Brad, was about $1.3 billion or $1.4 billion?

Brad Cerepak - *Dover Corporation - VP and CFO*

Yes.

Bob Livingston - *Dover Corporation - President and CEO*

And Terry, we've got a large chunk of that set aside or ear tagged for Sound Solutions, which is $855 million. So you get beyond the $855 million that's ear tagged for Sound Solutions. You look at our cash balance. You look at our ability to generate some cash through the balance of the year.

You look at -- I think we've still got some powder with respect to our credit facilities and our balance sheet. If I had to throw out a number, which I think is what you're asking, if we had the opportunity for the right businesses between now and year-end, could we spend another $800 million? Easily.

Terry Darling - *Goldman Sachs - Analyst*

That's helpful. And the energy and the Electronic Technologies have been the areas of focus. Should we think in terms of along those lines, or are there some other areas that you'd like to see balanced up a little bit more?

Bob Livingston - *Dover Corporation - President and CEO*

I think I'm going to refer you back to the guidance that we've been giving you for the last couple of years is that we have five market spaces that we are quite focused on, to not only organic growth but for M&A opportunities. And yes, it's energy, and yes, it's communication components, but it's also our fluid solutions platform, our product ID business, and our refrigeration business. You can't look at any one year and say okay, one was absent, so we're not playing there anymore. It is a matter of opportunity and timing, but we are currently looking for opportunities in all five of those spaces.

Terry Darling - *Goldman Sachs - Analyst*

Okay, and maybe that transitions into my last question on product ID. First, in terms of the performance in the first quarter, you mentioned US was down a little bit. I think growth in the mid-single digits. I think your main peer today said mid teens. Obviously this stuff can bounce all around quarter-by-quarter, and so it may be just a bit of that.

But there are also moving into adjacencies in order to continue the acquisition focus within that business. So I guess the question is can you comment on what you think happened on relative performance in Q1? And then as you think about M&A in that space, are you thinking adjacencies? Or do you still think there's plenty to do closer to the core of the PID business?

Bob Livingston - *Dover Corporation - President and CEO*

Terry, I'm going to thank you. Maybe you were being kind there to try to offer me an out on the first-quarter performance, and I'm not going to take it. I think I commented on this on the January call that I, not just myself, we're a bit disappointed with I would label it as being a few quarters late with some of our new product-development launches. And I am pleased that we actually started shipping our new products around the middle of the first quarter. And we were quite pleased with the uptake in those products that we saw in late February, and especially the order intake in the month of March.

That said, our year-over-year revenue growth for product ID was only 7%. I think it was 5% organic after stripping out FX. It is lower than it should be. And I think we have a challenge in front of us over the next two or three quarters to reverse a little bit of what we've been struggling with for the last three or four quarters.

We're committed to do this. I think this is a great business that we have. I am very, very interested and committed to this business. And I think part of the even part of the margin pressure we saw in the first quarter was a deliberate decision we made to significantly increase some of our business-development and sales and marketing expenses in this business, especially in emerging economies.

Now, with respect to your M&A, my answer is yes. Yes, we think there are still some opportunities. I will call it tightly connected to our current marking and coding businesses, both direct coding as well as bar coding, but I also believe there are some adjacent spaces that would fit well with what we do and what we'd like to do, and we're looking.

Terry Darling - *Goldman Sachs - Analyst*

Appreciate the honesty in the answers. Thanks.

Operator

Nigel Coe, Deutsche Bank.

Nigel Coe - *Deutsche Bank - Analyst*

Thanks. Good afternoon from New York. First of all, book-to-bill of 1.15 --

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Bob Livingston - *Dover Corporation - President and CEO*

But we're in Chicago.

Nigel Coe - *Deutsche Bank - Analyst*

So I don't think we're going to see too many companies with that kind of backlog build. I mean out of interest, when's the last time Dover reported a 1.15 book-to-bill?

Bob Livingston - *Dover Corporation - President and CEO*

I don't know. I didn't look that up.

Nigel Coe - *Deutsche Bank - Analyst*

Yes, I mean--

Bob Livingston - *Dover Corporation - President and CEO*

We had a pretty healthy book-to-bill in the first quarter of last year. I'm not sure it was 1.15, but I know it was 1.1 --.

Nigel Coe - *Deutsche Bank - Analyst*

It was 1.1.

Bob Livingston - *Dover Corporation - President and CEO*

Yes.

Nigel Coe - *Deutsche Bank - Analyst*

That's the highest I've seen for the last 10 years. I'm actually interested, why do you think this is a quarter where you've seen a record backlog build? Is there anything in terms of some of the orders of longer cycle in nature? Do you think it's more a case of you guys are gaining share? Can you just try to figure out why we're seeing such strength here in the backlog build?

Bob Livingston - *Dover Corporation - President and CEO*

Well, Terry -- I mean Nigel -- I'd need 15 minutes to answer that question. Where do I want to start? The booking strength was obviously -- I'm stating the obvious, was quite strong in the quarter. That said, I'm also going to tell you, it built during the quarter. The month of March was stronger than February. February was a little bit stronger than January. We saw it across the board. It wasn't one specific segment or area of the business. It was across the board.

Now to give you a little bit of color. There is -- there could be, depending upon how we want to label a customer or the project, there could be a little bit of activity in the first quarter that we would label as accelerated. How much? Okay, maybe $75 million or $80 million.

We did have a one-time military order in the first quarter. I think it was $20 million or $25 million range that it will not repeat again this year. And we had some energy-related bookings, both within Industrial Products as well as in our energy platform that I would label as more annual or project-type of buys that don't fall into what I call the quarterly drum beat.

So you need to layer that in when you look at the $2.2 billion. That said, and I'm not trying to take anything at all away from the first quarter outstanding bookings, that said, what we saw in the first quarter continued strength in energy, continued strength in electronics, continued strength in engineered products. And then we saw the kick-in in the first quarter that we started to see in the second half of last year of our mid- to late-cycle businesses.

And Nigel, it's very, very evident when you look at Industrial Products. And I think that is the big difference in the first quarter. You just cannot ignore the impact on the mid- and late-cycle businesses. Predominantly, those businesses are within Industrial Products.

Nigel Coe - *Deutsche Bank - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President and CEO*

Does that help? I think we lost New York.

Operator

Shannon O'Callaghan, Nomura.

Bob Livingston - *Dover Corporation - President and CEO*

Shannon, I lost Nigel. Were you able to hear me?

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

Yes, I took him out. It's been a long day of earnings. You know, I'm getting impatient. But on the solar business, can you give a little more color on what's going on there and the strong growth in the quarter and what you're expecting for the rest of the year in solar?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so Brad is the keeper of the numbers here. Let me see if I can respond without giving you an incorrect number. The solar business in their first quarter was quite strong, but Shannon, we've also been seeing this over the past year. Let me give you some color here. When you look at our growth rate in electronic assembly and test, look at our growth rate in the first quarter, I think Brad said it was about 60% or 62%. Half of that growth is coming from solar.

When you look at the year-over-year growth rate just on solar, it's a huge number. The first quarter '11 growth rate year-over-year is over 300%. It is now to the point where the solar business, our solar-equipment business at DEK, actually will represent about 50% of DEK's business in 2011. It has been that successful of a product-development and a product-launch activity.

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

And is that at all projected-oriented in terms of --

Bob Livingston - *Dover Corporation - President and CEO*

No. Don't label this as project business. In fact, just sitting here doing the mental math, let me give you another statistic on our solar business. It now represents about 2% of Dover's revenue.

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President and CEO*

But no, don't label this as project business.

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

Okay. And then just on the $5 million I guess it was in Harbison Fischer costs, those are the costs that you're sort of classifying as one-time deal costs in the quarter? Just wanted to clarify that.

Bob Livingston - *Dover Corporation - President and CEO*

Yes.

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

Okay, and so as we look from your first-quarter run rate X the $5 million, are there any other incremental costs in the fluid segment you need to absorb as we go through the year?

Bob Livingston - *Dover Corporation - President and CEO*

Incremental? Well, I don't have the detail here, but don't lose sight of the fact that as we move forward with the integration of Harbison Fischer and a couple of other small acquisitions that had been made here in the last three or four months, we do incur some I call it integration costs, not just integration benefits. And it is not always -- we don't always enjoy great timing with respect to the cost and benefits. So there will be some further one-off costs. And we're not looking at them as being major though.

Brad Cerepak - *Dover Corporation - VP and CFO*

Yes, but there's a difference in those synergy costs are in our estimate, in our guidance and our bridge of this $0.11 that we're now pointing out as acquisition accretion. The $5 million in the first quarter is costs to get the deal executed, like legal fees, so on and so forth, the one offs, not integration. To the extent we have integration related costs against synergies, it's in our forecasted guidance.

Bob Livingston - *Dover Corporation - President and CEO*

It's in our guidance.

Shannon O'Callaghan - *Nomura Securities Intl (America) - Analyst*

Right, okay. Got it. All right. Thanks, guys.

Bob Livingston - *Dover Corporation - President and CEO*

All right.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

I had to jump off for five minutes, so my apologies, but I had actually just two core questions. First, on NOLs, I believe you guys are starting up a new plant in Malaysia, I think in the second half, but obviously your guidance speaks for itself. But is there some accommodation in your guidance for disruptions? Should we think about costs associated with bringing that on? And to what extent does that untap some more revenue opportunity to the extent that you were capacity constrained in [Shuzo]?

Bob Livingston - *Dover Corporation - President and CEO*

Okay, so maybe I do this in the reverse order, Jeff. Number one, we -- I don't want to give you the indication that our revenue in the first quarter or even in the second quarter is constrained at all by capacity. It wasn't and it won't be. That's number one.

Number two, we referred to in a new factory in Malaysia. Just to be clear on this, it's actually not a new factory. We've been operating -- NOLs has been operating in Malaysia for several years. We have a fairly large operation in Malaysia. We are taking part of the available space that was built a couple of years ago and outfitting it here in the second half of the year so that we now have our second location for MEMS microphone assembly and testing.

So it's not a brand new factory, and we probably -- as we launched this project in the second half of last year, we did think that maybe in the second half of '11 we'd have a little bit of excess capacity in the second half of the year. I'd like to think the guys at NOLs are going to use everything that they have available. But whatever I call it duplicative cost or transition cost or expected on this project, they are in our guidance.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great, and then I don't know if any of the earlier questioners got a little bit deeper into Hill Phoenix, but can you give us just a little bit more color on Hill Phoenix? Specifically, how it performed in the quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Okay. They had a very strong first quarter. Revenue in the first quarter was up 19% year-over-year. Earnings were up an equal growth rate if not a bit more. I don't remember the exact number. I do remember they had -- their margin expansion was about 200 basis points in the first quarter versus a year ago.

To give you a little bit more color, we still are forecasting, and this is in our guidance, we are still forecasting about a 5.5% to 6% growth for the year for Hill Phoenix year-over-year. So when you take the year's forecast and look at our performance in the first quarter, Jeff, I will tell you we're probably going to see a little bit different water fall on the revenue split this year versus what we saw last year. We are seeing first half probably being 10% to 12% revenue growth, with the second half being essentially flat. It has a lot to do -- it has all to do with just project timing both this year and last year, just some timing differences, but the business is performing quite well.

THOMSON REUTERS

Order rates were up, I don't know, 5% or 6% in the first quarter versus a year ago. We happen to like the profile of our order rates. We had some pretty strong business in the first quarter with our systems business, which is always a good indicator that the case business will follow in a few weeks.

We're going to see the normal seasonal patterns. And the data that we've seen, the industry data we've seen for the first quarter, I think we took a little bit of market share on case business in the first quarter. I don't know. That's my color on Hill Phoenix.

Jeff Sprague - *Vertical Research Partners - Analyst*

I would think with Hussmann now being officially for sale, there might be some share to grab there. Not to pick on a competitor, but obviously, your results at Hill Phoenix are kind of embarrassing if you're sitting at Hussmann. I'm just wondering, as you think about that asset changing hands, what would you be worried about changing there? Maybe you don't want to give the play book to whoever the next owner is, but you've run circles around that business operationally. And I just wonder about your ability to maintain that lead. Any thoughts on that?

Bob Livingston - *Dover Corporation - President and CEO*

I don't have a comment on that, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

All right. Thanks a lot.

Operator

Wendy Caplan, SunTrust Robinson.

Wendy Caplan - *SunTrust Robinson Humphrey - Analyst*

Two quick questions on the accelerated orders that you spoke about. Were there any blanket orders in that? That was stunning in terms of the order rates in the quarter, the bookings. Anything that was unusual in that regard?

Bob Livingston - *Dover Corporation - President and CEO*

No. I didn't use the word blanket, and I'd be hesitant to use that word. I would call -- especially some of the international orders we had in our energy business, as well as a couple domestic customers, I would label them as annual buys versus blanket orders. And I underscore the word annual buy. They just happen to all be released here in the first quarter as opposed to seeing a waterfall throughout the year. I mean, nothing special. Don't read anything special into it. We're just giving you some color on it.

Wendy Caplan - *SunTrust Robinson Humphrey - Analyst*

Right. No, I appreciate that. Just to get a sense of what the picture could look like as the year goes on. Your end markets are very strong. You mentioned Industrial Products as being particularly strong given the kind of later-cycle nature of that business -- of those businesses. Have you seen anything in terms of end-market deterioration from earlier-cycle businesses?

Bob Livingston - *Dover Corporation - President and CEO*

No.

Wendy Caplan - *SunTrust Robinson Humphrey - Analyst*

No. Okay, and finally, that military order that you mentioned, when does that ship?

Bob Livingston - *Dover Corporation - President and CEO*

Goodness, I don't know, Wendy.

Brad Cerepak - *Dover Corporation - VP and CFO*

Within this year, for sure.

Bob Livingston - *Dover Corporation - President and CEO*

Oh, within the next 12 months, for sure.

Wendy Caplan - *SunTrust Robinson Humphrey - Analyst*

That was my question. Okay, great. Thank you very much.

Bob Livingston - *Dover Corporation - President and CEO*

All right. Thank you.

Operator

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

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thanks, Jackie. This concludes our conference call. We thank you for your continued interest in Dover, and we look forward to speaking to you with our second-quarter results. Thanks for joining us. Goodbye.

Operator

Thank you. That concludes today's first-quarter 2011 Dover Corporation earnings conference call. You may now disconnect your lines at this time, and have a wonderful day.
