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DOV - Q4 2012 Dover Corporation Earnings Conference Call

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OVERVIEW:

DOV reported 4Q12 revenues of $2b and EPS of $1.16. Expects full-year 2013 revenue growth to be 7-9% and EPS to be $5.05-5.35.

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CORPORATE PARTICIPANTS

Paul Goldberg *Dover Corporation - VP, IR*

Bob Livingston *Dover Corporation - President & CEO*

Brad Cerepak *Dover Corporation - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Nigel Coe *Morgan Stanley - Analyst*

Scott Davis *Barclays Capital - Analyst*

Jeff Sprague *Vertical Research Partners - Analyst*

Deane Dray *Citigroup - Analyst*

Steve Tusa *JPMorgan Chase & Co. - Analyst*

John Inch *Deutsche Bank - Analyst*

Shannon O'Callaghan *Nomura Securities Intl - Analyst*

Andrew Obin *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

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

(Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded. 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 conference over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - VP, IR*

Thank you, Paula. Good morning and welcome to Dover's fourth quarter earnings call. Today's call will begin with comments from Bob and Brad on Dover's fourth quarter and full year operating and financial performance and follow with our outlook for 2013. 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, investor supplement and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through February 7 and the audio portion of this call will be archived on our website for three months. The replay telephone number is 800-585-8367. When accessing the playback, you will need to supply the following access code, 86837487.

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 uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law. We would also direct your attention to our website where considerably more information can be found.

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

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. 2012 was a strong performance year for Dover in revenue and earnings and a truly important year for us as we continue to execute on our strategy. Before I get to our fourth quarter results, I'd like to comment on a few of our key accomplishments during this past year.

With respect to strengthening our Company, we continue to concentrate on building our five key growth spaces. We achieved this in two important ways. First, we were quite active in acquiring market-leading businesses, investing a total of $1.2 billion. These acquisitions expanded our markets, enhanced our technology and product offerings, and broadened our customer base. For example, through the addition of Anthony, in our refrigeration space, we now have access to new markets and new geographies. Our product offering is greatly expanded, led by the exciting close the case trend, and we've gained access to another set of customers. The same can be said for our Maag Pump and PCS acquisitions, which also added market-leading businesses and technologies to our fluids and energy spaces.

Secondly, we announced our plan to divest our electronic assembly and test businesses. Those strong performers, these businesses served historically volatile end markets. We believe the disposition of these businesses will greatly improve the consistency of our future results. These activities position us very well as we head into 2013. Additionally, in November we announced a $1 billion share repurchase program. In total for the year, we repurchased 12.3 million shares for roughly $750 million, which includes $250 million against the $1 billion program. Overall, I am very pleased with our financial results for the year. The highlights include 5% organic growth, acquisition growth of 6%, margins exceeding 17%, and nearly $1 billion in free cash flow.

Now, some comments on our fourth quarter results. We posted revenue of $2 billion in the quarter, an increase of 6%, and our fourth quarter adjusted EPS of $1.09 was a 7% improvement over the prior year. In our Energy segment, increased production activity, especially international markets, and continuing strength in downstream distribution and retail fueling are among the trends that drove solid results in the quarter. Our drilling results, as expected, continue to be impacted by the lower year-over-year North American rig count. Overall, Energy's performance was characterized by modest revenue growth and strong margins.

At Communication Technologies, the consumer electronics market continued to be strong, especially smart phones. Our MEMS activity was, again, very strong, reflecting the breadth of our OEM coverage and the benefits of multiple design wins. Regarding sound solutions, we are now on an improved path and achieved sequentially better performance in the fourth quarter. We expect this positive trend for sound solutions to continue sequentially and for 2013 to be a much better year. Within our Engineered Systems segment, refrigeration and food equipment markets remain solid and are business performance was, again, quite strong. We were also very happy to close the Antony acquisition in the quarter.

Regarding our Fluids platform, our acquisitions completed earlier in the year are performing very well, and while overall markets remain much the same as last quarter, we began to see improvements in order rates during the fourth quarter. Within our Printing & Identification segment, solid organic growth in our fast moving consumer goods market more than offset the choppiness in our industrial markets. We also saw our European markets begin to stabilize in the fourth quarter. Our business teams achieved strong margin improvement, driven by earlier restructuring activities.

Now, looking ahead to 2013. In Energy, we expect continued expansion in our production and downstream markets driven by international activity and constructive oil prices. To accelerate this international activity, we completed a small bolt-on acquisition in the fourth quarter to serve the international artificial [get to] market. We also expect North American rig count growth to turn positive in the second half of the year. In Communication Technologies, the smartphone market is forecasted to be strong in 2013, supported by numerous new product releases. While OEM market share shifts are always possible, we expect to have a key position in virtually all planned smartphone releases and remain highly confident with our full year forecast. We expect 2013 to be a very strong year for Engineered Systems.

In Fluids, we expect a year of growth, as we leverage our recent acquisitions and continue to expand geographically. Within the refrigeration and industrial platform, we anticipate a year of strong growth for refrigeration and food equipment driven by customer wins and active remodel market, our expanded product offerings, and recent acquisitions. In Printing & Identification, we expect the fast-moving consumer goods market to remain strong in 2013. We are also excited about the release of several new products in the coming months and expect our industrial markets to improve. Our acquisition pipeline remains active and I am confident our M&A program will continue to strengthen Dover. Our outlook for the year is unchanged from Dover Day. We expect to leverage our strong market position, productivity initiatives, and share repurchase program to deliver EPS of $5.05 to $5.35, which represents 17% growth at the midpoint of our range.

With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Thanks, Bob. Good morning, everyone.

Let's start on slide 3 of the presentation deck. Today we reported fourth quarter revenue of $2 billion, an increase of 6% over the prior year. This was comprised of 2% organic growth, 5% from acquisitions and an unfavorable impact of 1% from FX. Earnings per share were $1.16, which included a $0.07 benefit from discreet tax matters settled during the quarter. After adjusting for tax benefits realized in the fourth quarter of both periods, adjusted EPS of $1.09 improved 7%. Segment margin for the quarter was 16.6%, down 30 basis points. This result reflects acquisition related costs and significantly higher restructuring, as we continue to pursue productivity and cost reduction initiatives.

In the fourth quarter, these costs were more than $14 million and roughly $7 million being incremental over the prior year period. Bookings increased 4% over the prior year to $2 billion. These results represent solid 6% growth in Energy and 4% growth in Engineered Systems. Bookings were essentially flat in Communication Technologies and Printing & Identification. Overall, book to bill finished at 0.98, which is in line with historical trends. The backlog grew 7% to $1.5 billion. In the fourth quarter, we generated $482 million of free cash flow. For the year, free cash flow was $964 million, which was 12% of revenue and 116% of net income. Cash flow generation continues to be a strength of Dover.

Now turning to slide 4, which shows our revenue growth. For the quarter we retrieved organic revenue growth in all segments. Engineered Systems, driven by refrigeration and food equipment, led the way with 4%. Communication Technologies, Energy, and in Printing & Identification, each achieved 1% organic growth driven by strong MEMS activity along with our medical technology, energy production, and fast-moving consumer goods end markets. For the quarter, our acquisition growth was in our Engineered Systems and Energy segment, as they posted 9% and 5% growth respectively.

Turning to slide 5 and our sequential results. Revenue decreased 4% from the third quarter, largely in line with normal seasonality. Communication Technologies increased 1% on solid 7% sequential growth at sound solutions. Energy decreased 4%, principally due to lower drilling activity, while Engineered Systems decreased 8%, largely the result of normal seasonality in the refrigeration end market. Printing & Identification increased 3%, driven by their continued market expansion activities and favorable FX.

Bookings were essentially flat from the third quarter and in line with historical trends. We achieved growth at three of the four segments, with Energy, largely driven by its production end market, growing at 4%. Engineered Systems grew 2%, driven by solid fluids orders and Printing & Identification was up 3%. Communication Technologies bookings declined 14% sequentially. This result reflects normal seasonality in the handset market, as well as lower order rates late in the fourth quarter indicating a sequentially softer start for the year.

Now on slide 6. Communication Technologies posted revenue of $401 million, an increase of 1% from the prior year. These results reflect solid growth in the MEMS portion of consumer electronics, offset by lower revenue at sound solutions. Our medical technology and aerospace defense markets were strong, while telecom markets remained weak. Although sounds solution's revenue decreased year-over-year, it improved 7% sequentially, as previously mentioned. Earnings decreased 18% to $58 million and segment margin was down 330 basis points to 14.6%. This performance reflects weak telecom markets, lower sound solutions volume, and $4.7 million of restructuring costs and one-time charges. As we start the year, we expect segment revenue and margin to moderate sequentially on anticipated lower volumes, primarily due to seasonality. Bookings were $353 million, essentially flat with last year. Also consistent with last year, book to bill finished at 0.88.

Now turning to slide 7. Energy revenue increased 6% to $540 million, while earnings increased 10% to $134 million. Energy produced another solid quarter, as oil prices remain supportive of continued production activity and downstream markets continue to expand. Rig count declined year-over-year impacting in our drilling business. Our focus on product innovation and international growth, especially in Australia and Middle East, allowed us to post another quarter of solid revenue growth in both production and downstream. Operating margin remained very strong. Our 24.7% margin was an 80 basis point improvement from last year, reflecting our strong market position and productivity initiatives. Bookings were $550 million, a 6% increase over the prior year. Book to bill was 1.02.

Going to slide 8. In Engineered Systems, sales were $819 million, an increase of 12% year-over-year. Earnings improved 10% to $102 million. Fluid solutions revenue grew 27% to $207 million, benefiting from acquisitions completed earlier in the year. Food solutions organic revenue was down 4%, with solid results in North America and Asia offset by a weak Europe. Refrigeration industrial grew 8% to $613 million, including 6% organic growth. Operating margin was 12.4%, a 30 basis point decrease from the prior year. This result primarily reflects acquisition related costs associated with Anthony. Excluding Anthony, segment margin would have been 15.4%, an increase of 270 basis points.

Bookings were $816 million, an increase of 4% resulting in a book to bill of one. Our Fluid solutions platform bookings increased 32% to $210 million, while refrigeration industrial decreased 3% from last year to $607 million. Refrigeration industrial bookings included approximately $40 million of orders in the prior year, primarily related to Targets PFresh project, which is now winding down. Book to bill for Fluid solutions was 1.02, while refrigeration industrial's was 0.99.

Now let's turn to slide 9. Printing & Identification's revenue was $254 million, essentially flat with the prior year. Earnings increased 22% to $41 million. Revenue gains in our fast-moving consumer goods markets helped to mitigate relative softness in our industrial markets. Excluding the impact of foreign currency, organic growth in our fast-moving consumer goods end market was 4%. Operating margin improved 280 basis points to 16%. The benefits of prior restructuring, continued cost improvement, and favorable customer mix helped drive margin improvement. Bookings were $253 million, flat with last year. Book to bill ended at 1.

Going to slide 10. Fourth quarter net interest expense of -- was $2 million higher than last year, driven in part by higher debt levels related to our recently completed acquisitions. Corporate expense decreased by $1 million year-over-year. Our fourth quarter tax rate, absent discrete tax benefits of $0.07, was 28.5%. This rate was slightly higher than our prior forecast, reflecting mix of geographic earnings. For the full year, our normalized tax rate was 28.2% after adjusting for $0.09 of discrete tax benefits. Our capital expenditures were $88 million in the quarter. Lastly, we repurchased 5.8 million shares in the fourth quarter, which includes 4 million shares repurchased under the $1 billion program. For the year, our share repurchase activity contribute $0.12 to our EPS.

Turning to slide 11 and our 2013 revenue guidance. Our revenue guidance remains unchanged from Dover Day. We expect full year revenue growth of 7% to 9%, organic growth is estimated to be 3% to 5% for the full year, with the impact of foreign exchange being essentially neutral. Completed acquisitions add around 4%. Now breaking down revenue growth by segment. We expect Communication Technologies growth to be 9% to 11% for the year, primarily driven by an active consumer electronics market. Energy growth is expected to be 5% to 7%, including 3% to 5% of organic growth and 2% from acquisitions. Engineered Systems is forecasted to have strong growth at 10% to 12%, which includes 2% to 4% organic and around 8% growth from acquisitions, primarily Anthony. Lastly, within Printing & Identification, we expect growth of 2% to 4%.

Moving on to slide 12, which shows our full year guidance. As previously mentioned, we expect full year revenue of 7% to 9%. Corporate expense will be around $150 million, largely reflecting higher pension costs driven by a lower discount rate. Interest expense will be around $130 million, which is up from last year and reflects higher debt levels. CapEx should be in the range of 3% to 3.5% of revenue. We expect our 2013 tax rate to be in the range of 27.5% to 28%.

Turning to the earnings bridge on slide 13. 2012 adjusted EPS was $4.44. For the full year volume and mix will contribute roughly $0.28 to $0.46 and we expect pricing to be essentially stable. Net productivity should add $0.12 to $0.22. We expect completed acquisitions to be $0.13 to $0.16 accretive for the year, largely driven by Anthony. Investment and compensation, including higher pension expense, will have a $0.10 to $0.16 impact for the year. Our on-going one billion share repurchase program coupled with the tax rate and offset in part by incremental interest expense should have a net benefit of $0.23 to $0.28. The largest component of which is our reduction in our weighted average shares, which will provide a $0.25 to $0.30 benefit. Based on above, we are reaffirming our full year earnings per share to be $5.05 to $5.35, representing 17% growth at the midpoint.

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

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Brad.

As I mentioned earlier, I am very pleased with our fourth quarter and 2012 performance. We delivered strong revenue and earnings growth in a tough environment. This is clearly a testament to the strength of our businesses and the responsiveness of our leadership teams across the Company. Looking ahead to 2013, I remain confident in the positions we hold in our five key growth spaces, which now represent nearly 80% of our revenue. Our continued focus in these areas offer substantial growth opportunities. I feel very good about the prospects for 2013 in all four segments. The acquisition of Anthony and new product offerings will help drive growth at Engineered Systems. Communication Technologies will continue to grow, as consumer demand for better audio products and their mobile devices surges on. Global expansion opportunities and production and downstream will fuel Energy's growth. And Printing & Identification will benefit and grow from an expansion of core applications and new product launches.

Going forward, we continue to make internal investments to insure we can properly support and service our customers. Included in our plans this year is the build-out of a manufacturing facility in the Philippines, which will support the growth we anticipate in both the handset and hearing aid markets. In addition, we are supporting our growing heat exchanger business with a new manufacturing plant in Oklahoma. We also plan to consolidate several facilities serving the Energy market into a new Houston operation and consolidate some of our refrigeration plants into a new facility in Georgia. Of course, we will continue to make innovation investments to ensure we stay at the forefront in technologies that help our customers win in their markets.

In closing, I would like to thank our entire Dover team for their hard work and dedication in 2012. Their focus on serving customers and achieving results will continue to drive our success. Okay, Paul, let's take some questions.

Paul Goldberg - *Dover Corporation - VP, IR*

Thanks, Bob. At this point, I'd just like to remind everybody if you can limit yourself to one question with a follow-up, we'll be able to get more questions.

With that, Paula, if you can give us the first question.

QUESTIONS AND ANSWERS

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Can you make a comment on any noise that might create in 1Q for ComTec.

Bob Livingston - *Dover Corporation - President & CEO*

For 1Q?

Nigel Coe - *Morgan Stanley - Analyst*

So, it looks like there's going to be a sequential down second handset volumes in 1Q, which is not untypical, but it looks like they -- the book to bill within ComTec was 0.88, which was flat year-over-year, but I would have expected better given Sound Solutions is on a up-swing. I'm wondering, should we expect a sharper seasonal downtick within ComTec in 1Q versus 4Q?

Bob Livingston - *Dover Corporation - President & CEO*

Well, let me back up and put this in a little bit of context, Nigel. I think we shared a lot of this with you and others at Dover Day, but there are several trends driving our handset business in 2013. We still expect the smartphone market to grow in the mid-20% range this year.

It will be supported by several new product leases, probably from every major OEM and we continue to see the transition to smartphones from the lower end handsets. We continue to see the trend of using multiple mics in each smart phone. We expect that to expand. In fact, we are now seeing several of the OEMs and their new designs for releases this year that are moving to three mics per phone.

You commented on Sound Solutions. We continue to expect Sound Solutions to improve sequentially through the year as they rework -- as they work to rebuild their share. And we saw the evidence of this in the fourth quarter. The first quarter seasonality, it will be similar to what we have seen in the past. It will be down from the fourth quarter.

But it is interesting, Nigel, as we look at a current look at their first quarter, our outlook for this segment for the first quarter isn't any different than we were looking at it 60 days ago as we were finalizing our plans for 2013. We are going to see some market share shifts in the quarter, but I think our broad coverage of the OEMs and the multiple design wins we have will prove to be quite a benefit.

Nigel Coe - *Morgan Stanley - Analyst*

And then switching to Anthony. So you called out 3 points of margin degradation within ES, which I calculated to be about $0.10 EPS deletion, which changes the complexion of the quarter quite a bit. I'm wondering, do we now move to an EPS neutral/positive from 1Q onwards? And I'm wondering if the 15.5% underlying margin for the full out segment in 4Q, which is normally quite a weak seasonal margin in 4Q where that's a good run rate ex-Anthony going into 2013.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Well, -- hi, Nigel, it is Brad. Let me try to answer that and then maybe we need a follow on. Anthony, as you know, acquired mid-December, we have a lot of acquisition related costs and rollover of inventory happening in the fourth quarter carrying into the first. We still feel -- we are still on our same forecast for Anthony. I think I said at Dover Day we deliver $0.10 to $0.12 of full year EPS accretion for us.

That continues to be our view, except that first quarter will be more neutral as more acquisition rollover happens and then it picks up from that point forward. Some of that is -- they don't have the same seasonality picture as a Hillphoenix, but there is some seasonality in the Anthony business, of course, as well. I guess I want to just back up for a second on this question of how we move sequentially into the quarter and into 2013.

Bob talked about our expectations in the handset market. I have covered a little bit about the expectation on Anthony will not be contributing in the first quarter. Also, the PFresh program was very powerful for us early part of 2012. That's not repeating itself, so Hillphoenix will also have some more normal or traditional seasonality.

Lastly, as we indicated earlier in the year, earlier in the call, we see rig counts growing throughout the year, so our drilling business will get sequentially better throughout as well. So, in terms of the way we see starting the year or starting the year will be more consistent with what we have experienced in years prior to 2012 in essence.

2012 had a lot of strength to it in the first quarter and so I would expect -- we don't give quarterly guidance, but I would expect that the first quarter EPS should be around 20% of our full year where I see it today.

Nigel Coe - *Morgan Stanley - Analyst*

Just to clarify on the last point. With the 15.5% margin ex-Anthony within ES, was there any mix issue pushing that higher that could unwind or is that a good run rate just for seasonality for 2013?

Bob Livingston - *Dover Corporation - President & CEO*

No, there's nothing unusual in the fourth quarter and I would expect the margins at Engineered Systems to be reflective in '13 of what they were in '12, with, perhaps, a little bit of improvement.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Thanks, Bob.

Operator

Scott Davis of Barclays.

Scott Davis - *Barclays Capital - Analyst*

I want to talk a bit more about ComTec and I know there's some seasonality here and such. But the book to bill of 0.88. Can you help us kind of reconcile bookings flat versus book to bill at 0.88 versus kind of the seasonality? I know a year ago it was also lower. I figured the timing of some of your handset guys ramping up production would have caused that book to bill to be a little bit higher. Can you help us out there?

Bob Livingston - *Dover Corporation - President & CEO*

We see a lot of noise on any given quarter around book to bill with individual companies or individual customers. Scott, it's interesting to note that it's probably a little bit different here with this part of our business than it is with the rest of our portfolio in that we typically are only showing bookings in our handset activity for about the next two to two and a half months worth of production expectations. I think we are seeing some seasonality return to this business.

That's reflected in the book to bill, especially in the latter part of the fourth quarter. As I commented I think it was on Nigel's question, we will see the handset business down in the fourth quarter sequentially from -- or in the first quarter sequentially from the fourth. But we are still showing -- we are still expecting the business to show growth in the first quarter year-over-year.

Scott Davis - *Barclays Capital - Analyst*

And we'll go back to on Sound Solutions there's a couple things I'm tying to figure out here. In the slide that says improve sequential performance of Sound Solutions and then two lower, it says lower Sound Solutions revenue. Are we at the point now where sequentially revenue is going to go up each quarter or are you just talking about profitability improving?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Both.

Scott Davis - *Barclays Capital - Analyst*

So, we are at the bottom as far as the revenue ramp?

Bob Livingston - *Dover Corporation - President & CEO*

I would say Q3. Q3 was the bottom.

Scott Davis - *Barclays Capital - Analyst*

Q3 was the bottom. Okay. Last question, just the same topic here. I mean, how much do you -- I know it's really hard to talk about individual customers here, but how much do you guys really care about the share shifts that are going on in the handset market?

Is it -- are you somewhat customer agnostic, I guess is my question? Or are there kind of dis-economies of scale as you need to ship less to one customer, but a little bit more to another customer. How does that work out?

Bob Livingston - *Dover Corporation - President & CEO*

Well, it always gives a little bit of angst within the short-term or the near-term, as you see the shifts. Again, let me try to put this in context. Let me use Knowles Acoustics as an example. I think in 2012 we produced and shipped a little over 1.2 billion microphones. Our plan for 2013 is about 1.5 billion microphones.

You break that down, if it were absolutely equal every quarter, which it's not, but if it were, if you looked at it on a quarterly average, what is that? About 370 or 375 million mics per quarter for Knowles. You see a little bit of noise in shift during the quarter or during a half year period from customer to customer.

We have to manage through that. But the volume expectations in serving the broader market, and we do have a very, very good design coverage on the broader market. Sale gives us plenty of opportunity to grow for the year and to manage internally the shifts that we do experience from customer to customer.

Scott Davis - *Barclays Capital - Analyst*

Okay. Fair enough. I will pass it on.

Operator

Jeff Sprague of Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

A little more on Sound Solutions and ComTec. It looks like we are back to kind of a business with 3% of sales being 90% of the conference call. Food for thought. I'm just wondering, I just want to be clear. So, on handsets you are expecting Q1 down sequentially for your business overall, but Sound Solutions up sequentially?

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Bob Livingston - *Dover Corporation - President & CEO*

Modestly, yes.

Jeff Sprague - *Vertical Research Partners - Analyst*

Can you give us some color, Bob, on just how to think about the profit comparison? The loss you absorbed in 2012? Does that move to a zero in '13, the magnitude of that swing, and is that swing kind of in your sights given where the current yields are?

Bob Livingston - *Dover Corporation - President & CEO*

So, when you look at our guidance for '13, gosh, what is the V or the delta, Brad, on Sound Solutions from '12 to '13?

Brad Cerepak - *Dover Corporation - SVP & CFO*

We would expect the year-over-year V all in. When I say all in, Jeff, I'm talking about including AD&A, which is quite substantial in this business, as you know, would be $0.13 to $0.18. Our expectation on Sound Solutions is it will contribute $0.13 to $0.18 in 2013.

Jeff Sprague - *Vertical Research Partners - Analyst*

On a V basis.

Brad Cerepak - *Dover Corporation - SVP & CFO*

On a V basis. So, what that would tell you though is that full in and full in with AD&A we are still showing some drag on our EPS. A small amount, but some drag. By the time we exit though, and we have consistently talked about it in this fashion, as we exit out the second half, it's a positive contributor to our EPS.

Bob Livingston - *Dover Corporation - President & CEO*

At the operating level, ignoring the AD&A, the second half of the year we do have expectations that the operating margins at Sound Solutions will be low double digits.

Jeff Sprague - *Vertical Research Partners - Analyst*

Shifting, if I could, to the production business. A, it looked good and B, you called out --.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Production, are you referring to Energy?

Jeff Sprague - *Vertical Research Partners - Analyst*

Yes, Energy. The strength in production. Could you elaborate a little bit on the international trends. You've obviously spoken about markets opening up in Oman and Mexico and other places. Was there some clear inflection in your penetration in those markets? Just a little bit of elaboration on what's going on there.

Bob Livingston - *Dover Corporation - President & CEO*

Nothing new that we haven't been sharing with you over the last four or five or six quarterly calls. This has been a focus for us for the last two or three years. I think last year we probably experienced better than a 20% growth in our international business related to production. That continued in the fourth quarter.

We see it continuing in '13, though it may be at a smaller growth rate, but off of the higher base. But we are seeing it around the world, not just Mexico but other regions in South America, the Middle East, and Australia. Australia over the last 12, 15 months has proven to be a strong growth market for us as well.

Jeff Sprague - *Vertical Research Partners - Analyst*

Okay, great. Thank you very much.

Operator

Deane Dray, Citi.

Deane Dray - *Citigroup - Analyst*

In product ID the margin improvement, that's 280 basis points. You called out both restructuring and mix and maybe you can give some color as to what the contribution of those two were for the quarter.

Bob Livingston - *Dover Corporation - President & CEO*

I'm not sure I can split the difference for you. The margin performance, the margin improvement in the fourth quarter, number 1, it was expected. We had been working towards this for the last two or three quarters.

Brad Cerepak - *Dover Corporation - SVP & CFO*

And consistent with the third quarter.

Bob Livingston - *Dover Corporation - President & CEO*

Actually, it was. It was quite consistent with the third quarter. But the restructuring activity that we referred to were some changes we made in the business back in late first quarter and the second quarter. Deane, it takes a few months for some of the benefits to flow through and we were starting to see those benefits in the third and fourth quarter. We think the -- we like where we are at now with [Mark LaMargue].

We had pretty decent growth at Mark Largue in the fourth quarter. I think it was 3% or 4%. We saw some softness in our industrial markets and that specifically ran our Datamax-O'Neil business that we think will change and we will see some recovery in 2013. But the margins that we have at Mark LaMargue today and for the second half of the year, we view as sustainable and we are looking for ways to incrementally improve them going into '13.

Deane Dray - *Citigroup - Analyst*

What specifically was going on with mix? Is it new product introductions, you capturing more of the consumables.

Bob Livingston - *Dover Corporation - President & CEO*

I would say it is almost all new product introductions.

Deane Dray - *Citigroup - Analyst*

And just one last quick follow-up over on the ComTec side. Bob, you reference the trend towards some of the lower price point phones with some of the reduced features. Would that also result in fewer microphones or is the market kind of locked into more is better?

Bob Livingston - *Dover Corporation - President & CEO*

No, I think on the lower end phones, it's still pretty safe to use a number of one microphone per phone. On the smartphones, as I commented earlier, we are seeing the growing trend of multiple mics. Actually, it is -- we have been convinced of this for the last couple of years and I think '13 is going to be a proving point for us. We see it happening now that most of the -- most of the new phones being introduced in 2013 will have three microphones.

Deane Dray - *Citigroup - Analyst*

I will just add on that that they're actually advertising some of the microphone technology and filtering and so forth. So, that's becoming a bigger cell feature. But that's it for me.

Bob Livingston - *Dover Corporation - President & CEO*

I've actually noticed that, Deane.

Deane Dray - *Citigroup - Analyst*

Great. Thank you.

Operator

Steve Tusa of JPMorgan.

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

What did the core Knowles revenue grow this year and maybe if you give us that detail in the fourth quarter. I noticed you guys re-segmented that segment, so now it's a much -- you can't really see the Knowles numbers. So, just curious as to you give us the units, which is great, but maybe just the revenue numbers.

Brad Cerepak - *Dover Corporation - SVP & CFO*

You are asking for the growth for the year?

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

Growth or -- because we had them from last year. You use to disclose what the core Knowles revenues were. For this year what were they? Non Sound Solutions then I think you moved some other stuff into that consumer electronics sub-segment for ComTec. So, I'm just trying to parse that out because it's very hard to see what that business is doing now.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Actually, Steve, I think what we are showing in consumer electronics actually is a bit cleaner than what we probably had initially, but consumer electronics I think is entirely Knowles Acoustics. I am excluding the hearing aid business. Knowles Acoustics and Sound Solutions.

Paul Goldberg - *Dover Corporation - VP, IR*

Right. So, within that -- Steve, it's Paul -- I think what you'll see is the MEMS -- I think the question you're asking is what MEMS volume of what MEMS revenue growth is, is that correct.

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

Yes. You got -- used to say, call it, handsets, I think.

Paul Goldberg - *Dover Corporation - VP, IR*

For MEMS revenue growth in the fourth quarter, I think it was about 30%.

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

So, then -- and so that finished the year somewhere in the kind of up a 25% to 30% range for the annual number.

Bob Livingston - *Dover Corporation - President & CEO*

Yes.

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

What was the $5 million charge there at ComTec?

Bob Livingston - *Dover Corporation - President & CEO*

Oh, my goodness. Restructuring in three or four -- nothing major at any one business, but restructuring activity, I think, at three or four businesses. Maybe the largest one at any given business was probably $1.5 million or $1.8 million, something like that. Brad, does that sound right?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes, about $1.4 million or so at one of our businesses. But, a lot of the spend this year in ComTec has been around restructuring our telecom business. So, we've had restructuring charges a little bit each quarter and that continued into the fourth quarter. We'll continue to look at that in 2013 to take more cost out as the telecom markets remain fairly weak.

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

And one last question just on the Engineered. You mentioned a very helpful with the bookings number of $40 million, I think you said, of PFresh last fourth quarter. Is that right? So, what were the PFresh revenues in '12 for you guys and then what were the orders?

Bob Livingston - *Dover Corporation - President & CEO*

I'm not sure I can give you the orders for the year. I would say that if you wanted some context on the PFresh program, Steve, I would tell you in 2011 it was about $130 million.

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

Okay.

Bob Livingston - *Dover Corporation - President & CEO*

In 2012 it was about $30 million down in 2012 with almost all of that down comparison being in the second half of last year. And in '13, we expect it to be down another $40 million or $50 million.

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

Okay, thanks. Appreciate the detail.

Operator

John Inch, Deutsch Bank.

John Inch - *Deutsche Bank - Analyst*

If you were to exclude your tech businesses, what did you see in China in the quarter? I realize you are not penetrated across the spectrum of your companies, but just would you corroborate these trends that you are seeing toward Chinese macro improvement? Just how did that play out?

Bob Livingston - *Dover Corporation - President & CEO*

If we were to exclude the tech businesses -- well, I don't have the data, but we would have had growth, but it would have been probably single digits in China in the fourth quarter. Actually, John, it's interesting. If you look at all of Asia for the fourth quarter, the growth was probably a little bit better than that.

John Inch - *Deutsche Bank - Analyst*

So China is still a little bit of a laggard.

Bob Livingston - *Dover Corporation - President & CEO*

Well, it was -- we are seeing a recovery in China. The headline news that everyone reads with respect to the improving activity in China was reflected in our activity as well in the fourth quarter.

John Inch - *Deutsche Bank - Analyst*

That's really what I was searching for. Bob, the outlook for smartphone is, obviously, very robust. You got microphone penetration story. What I'm wondering about is that as smartphones are now going to be penetrating a lot of these overseas markets, the OEs have plans to introduce low-end phones or a lot of lower-priced phones. That's certainly is the conjecture around what Apple should perspectively be doing.

And it's not just them, it's others. What do you think that does to kind of your pricing in the outlook? I'm not talking about your first quarter or anything, but does that change anything in any way? And is it superseded maybe because you got more penetration but lower future pricing or is it still premature to call that out?

Bob Livingston - *Dover Corporation - President & CEO*

Is this a question specific to Knowles?

John Inch - *Deutsche Bank - Analyst*

Yes, it is.

Bob Livingston - *Dover Corporation - President & CEO*

We tend to have -- we tend to play -- let me step back. With speakers and receivers, we tend to have a position across the entire market, whether it's the lower end handsets or the smartphones. With respect to our microphone business, it tends to be much higher concentration in the smartphone segment. And again, it comes back to the multiple mics per phone.

The last year or so, I guess the example I would use would be Samsung, who has not only got the top end smartphone product offerings, but the midrange and the lower end smartphone product offerings. We have a very, very strong design and share position with that customer. The products that we sell them tend to be the same, irrespective of their price point on their product offering.

John Inch - *Deutsche Bank - Analyst*

So you are suggesting that's a window into perspective resilience in pricing.

Bob Livingston - *Dover Corporation - President & CEO*

I think the relationship in the example I just used here with Samsung is indicative of what we will see with other lower end smartphones as they get introduced by other customers. It does increase the market for us.

John Inch - *Deutsche Bank - Analyst*

Just last on Sound Solutions, from an outsider's perspective, it seems somewhat inevitable that you maybe are going to have to take a write-down. You just talked to us about sort of a process, Bradley. Does this happen kind of once in terms of your review? Has it just happened or -- how do you do it? Is it too soon to make that call, obviously given the sequential improvement that's happening?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes, I think it is the latter. It's too soon to make that call. We do, obviously, have to look at goodwill impairments once a year and we do that in the fourth quarter. But we were seeing sequential improvement. We continue to articulate our high expectations for this Company and the prospects for it.

As Bob indicated, we are going to see sequential growth from 2013 and exit at a level that's not satisfactory to us, but a significant improvement. We see our way back to the historical levels of profitability. You recall this business at one point had a high 20s EBITDA margins. I think that is still within our reach.

John Inch - *Deutsche Bank - Analyst*

Got it. Thank you.

Operator

Shannon O'Callaghan, Nomura Securities.

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

Just one last one, hopefully, on Sound Solutions. We'll see. But, did it achieve breakeven core pre-AD&A in the quarter and what did you get the yields to on speakers and receivers?

Bob Livingston - *Dover Corporation - President & CEO*

Yes to your first question on an operating basis it was about breakeven. We continued to see, we'll use the phrase our financial yields continue to improve and in a couple of the product areas we're actually quite pleased with the yields that we are at now coming into 2013. More to do, we're not done yet. We were quite pleased with the progress that we made in the fourth quarter.

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

So, are both pieces, basically, to breakeven type yields at this point?

Bob Livingston - *Dover Corporation - President & CEO*

What you mean both pieces?

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

Speakers and receivers.

Bob Livingston - *Dover Corporation - President & CEO*

For product areas I would say yes, for individual lines we probably still have a little bit more work to do on receivers than we have on speakers, on the speaker boxes.

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

And then in terms of this drilling outlook for the year, how much was drilling down this quarter and when do you expect that to bottom and turn positive?

Bob Livingston - *Dover Corporation - President & CEO*

Are you referring to our business or the rig count?

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

Both.

Bob Livingston - *Dover Corporation - President & CEO*

So let's see. Our drilling activity -- our drilling biz revenue in the fourth quarter, I think, was down about 10%. Brad, does that sound about right, year-over-year? Again, about as expected as we came into the quarter. Our outlook for '13 for our drilling business is essentially flat. You will see some different numbers during the year when we report quarterly, but our outlook for the year is for it to be essentially flat.

Embedded in our guidance is the assumptions and the data we use on what we think rig count will be in 2013. If you look at average for '12 versus average for '13, in the US market we expect the rig count average for '13 to be down again versus '12, again, I am using average for '12 versus average for '13, about 3%.

But if you look at where we ended the year, at year end '12 rig count, I think, was like 1760 units here in the US We see it moderating down a bit further during the first quarter, but all indications are after the first quarter is that this will start to increase again. And I think the average for '13 versus the year-end number for '12, it's up about 3% or 4%.

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

Okay. Thanks, guys.

Operator

Andrew Obin, Bank of America.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just to follow-up on the Energy. How should we think about mix change within the segment between domestic and international during the year?

Bob Livingston - *Dover Corporation - President & CEO*

Mix change. I'm not sure it's going to be any different in '13 than it was in '12, other than we continue very strongly to push the expansion of our artificial lift business and some of our downstream applications into international markets. I mentioned in my prepared comments a small acquisition that we closed on in December.

Even though it's a US business that we acquired, our intent with this business is to dedicate all of its production capability over the next year or so to serving some of our international customers. It will continue to grow.

Andrew Obin - *BofA Merrill Lynch - Analyst*

But, I guess, the question of the US rig count is sort of flatish and international is growing. Why wouldn't the mix change more toward international or the US is just so big?

Bob Livingston - *Dover Corporation - President & CEO*

Well, therein is your answer. I still think our North America business -- our North America slice of our drilling and production business is probably still 83%, 85% of the total.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just in terms of this year pace of buybacks throughout the year, should we expect them to roughly match your free cash flow or is there a specific pattern that we should keep in mind?

Brad Cerepak - *Dover Corporation - SVP & CFO*

I guess when we were at Dover Day, I said at that time that we would complete somewhere around 70% to 80% of the buy against the $1 billion program. We completed $250 million in the fourth quarter. I think you should expect that we will continue to buy more weighted towards the first half of the year in 2013, not necessarily lining up with free cash flow.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Thank you very much.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Thanks.

Operator

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

Paul Goldberg - *Dover Corporation - VP, IR*

Thanks, Paula. This concludes our conference call. With that, we would like to thank you for your continued interest in Dover and we look forward to speaking to you again next quarter. Have a good day.

Operator

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