CORPORATE PARTICIPANTS

Jack Dickens  
Senior Director-Investor Relations, Dover Corp.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Brad M. Cerepak  
Chief Financial Officer & Senior Vice President, Dover Corp.

OTHER PARTICIPANTS

Jeffrey Todd Sprague  
Analyst, Vertical Research Partners LLC

Andrew Kaplowitz  
Analyst, Citigroup Global Markets, Inc.

C. Stephen Tusa  
Analyst, JPMorgan Securities LLC

Scott Reed Davis  
Analyst, Melius Research LLC

Joe Ritchie  
Analyst, Goldman Sachs & Co. LLC

Andrew Obin  
Analyst, BofA Securities, Inc.

Julian Mitchell  
Analyst, Barclays Capital, Inc.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Nigel Coe  
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Dover’s First Quarter 2022 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Jack Dickens, Senior Director, Investor Relations. After the speakers’ 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 consensual recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

And it is now my pleasure to turn the call over to Mr. Jack Dickens. Sir, please begin.

Jack Dickens  
Senior Director-Investor Relations, Dover Corp.

Thank you, Chelsea. Good morning, everyone, and thank you for joining our call. An audio version of this call will be available on our website through May 12 and a replay link of the webcast will be archived for three months.

Dover provides non-GAAP information. Reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials, which are available on our website.
Our comments today will include forward-looking statements based on current expectations. Actual results and events could differ from those statements due to a number of risks and uncertainties, which are discussed in our SEC filings. We assume no obligation to update our forward-looking statements.

With that, I will turn the call over to Rich.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Thanks, Jack. Good morning, everyone. I'm on slide 3, which shows the detailed US GAAP and adjusted quarterly results. So, let's go to slide 4 and take a look at the performance highlights. Our results in the first quarter were in line with expectations, our expectations. The demand for our products and services continued to be robust across the portfolio and the management teams of our operating companies did a solid job of navigating various challenges during the quarter.

Going into the quarter, we had appropriately forecasted the supply chain and input inflation headwinds, but we did not forecast significant geopolitical destabilization nor the return of pandemic challenges in China, which negatively impacted some businesses in our portfolio from a demand and supply chain perspective. We were able to largely offset these unexpected headwinds through robust production performance, particularly late in the quarter, on the back of our backlog strength.

Let's move to the numbers. Organic revenue was up 9% year-over-year in the quarter on strong demand across the majority of the portfolio. Backlogs remain at record levels, up 54% year-over-year and 5% sequentially with book-to-bill above 1 in all five segments.

Operating margin performance in the quarter was below our expectation. Planned volume leverage, productivity and tight cost controls were able to dampen the forecasted negative impact of supply chain constraints and negative price/costs embedded in older backlogs – in older orders in the backlogs of certain businesses. But our actions were short of fully offsetting unscheduled production interruptions caused by supply chain constraints and severe weather events, which negatively impacted volume and cost absorption and had an unfavorable mix effect on margins. We expect this to be recovered over the balance of the year.

During the quarter, we continued to invest organically in capacity expansions and productivity initiatives to drive revenue growth and operational success.

We recently acquired a unique intellectual property portfolio used in electric-powered and hybrid waste collection vehicles, which we plan to showcase a fully electric refuse vehicle built for one of our municipal customers at WasteExpo in May.

Our first quarter performance demonstrated again the strength of our diversified portfolio of businesses and our commitment to continuous improvement in operational rigor. Due to the dynamic environment in which we are operating, quarter-to-quarter results will be noisy, which I'm sure we'll discuss at length during the Q&A.

But keep in mind that we have a robust backlog and that the businesses that faced challenges in the back half of 2021 are positioned to drive robust performance as we get through the tougher comps of the first half of 2022. Despite the macro headwinds, we are well-positioned to deliver our full-year revenue guidance of 7% to 9% organic growth and adjusted EPS of $8.45 to $8.65 per share.
Let's go to slide 5. Engineered Products revenue was up 15% organically in the quarter. Demand continues to be robust across much of the portfolio, and we have considerable visibility as a result of backlog – our robust backlog position. Comparable operating margin was down largely as a result of price/cost and supply chain challenges, but sequentially improved as production performance ramped up and older backlog shipped. We expect this dynamic to continue through the balance of the year.

Clean Energy & Fueling was flat organically, as the expected roll-off of EMV demand in North America retail fueling was offset by growth in other businesses. Demand was strong across the balance of the portfolio of businesses, with particular strength in Clean Energy components, vehicle wash, below-ground, and fueling components.

Let me unpack the margin performance here before we make this an EMV-only story and draw the wrong conclusions of the projected margin trajectory for the balance of the year. As we previewed last quarter, we incurred roughly $20 million in new acquisition-related depreciation and amortization in the quarter, driven by our Clean Energy acquisitions in late 2021. This represented a 400 basis point headwind to segment margins in the quarter. The balance of the margin dilution is a result of product mix, which is EMV-driven, and Q1 supply chain and production challenges.

Unfortunately, we lost a week of production in March due to a weather event at one of our main production facilities in Texas. Setting aside acquisition accounting, we expect the segment to deliver robust, absolute revenue, and profits for the full year.

Sales in Imaging & ID declined 1% organically as volumes in our core marking and coding businesses were constrained by component shortages, as well as China lockdowns and reduction of business in Russia more than offset growth in our serialization and brand management software businesses. Digital textile printing continued its gradual recovery. Q1 margins in Imaging & ID were down to lower volumes and higher input costs.

Pumps & Process Solution (sic) [Pumps & Process Solutions] (00:07:19) posted another strong quarter at 13% organic growth, saw strong volumes across all businesses and geographies. Demand remained strong in core biopharma activity, where drug R&D projects, which – that were sidelined during COVID, came back strongly. But we did see normalization in order rates for COVID-driven biopharma components as demand for COVID-19 vaccines and therapies moderate. Margin performance was solid in the quarter on strong volumes, fixed cost absorption, and favorable mix [indiscernible] (00:07:55).

Top-line results in Climate & Sustainability Technologies continued to be robust, posting 17% organic growth and strength across all businesses and major geographies. Margins were up in the quarter as robust volumes, solid operating performance, and improved price/cost offset cost inflation and input shortages.

I'll pass it on to Brad from here.

Brad M. Cerepak
Chief Financial Officer & Senior Vice President, Dover Corp.

Thanks, Rich. Good morning, everyone. Going to slide 6, on the top is the revenue bridge. FX was a 2%, or $43 million headwind, to the 9% organic growth, resulting in $0.05 of negative EPS impact in the quarter. Our FX forecast for the remainder of the year does not assume any changes to the prevailing exchange rates, which creates a headwind for the year versus our prior guidance.
M&A contributed $53 million to the top line in the quarter, a product of $83 million from acquisitions partially offset by $31 million from the Unified Brands divestiture. We saw solid organic growth across all geographies, with notably strong performance in Asia and the Americas. China, which represents approximately half of our business in Asia, was up 20% organically in the quarter.

Moving to the earnings bridge on slide 7, adjusted segment EBIT was down $7 million in the quarter and adjusted EBIT margin declined 200 basis points as improved volumes, continued productivity initiatives, and strategic pricing were more than offset by input cost inflation, production stoppages, as well as acquisition-related amortization that drove a roughly 100 basis point headwind.

Adjusted net earnings improved by $13 million driven by higher segment EBIT, excluding AD&A and a favorable tax rate. The effective tax rate, excluding discrete tax benefits, was approximately 21.7% for the quarter, same as the comparable period. Discrete tax benefits were $10 million in the quarter, or $4 million higher than in 2021, for approximately $0.03 of year-over-year EPS impact.

Now on our cash flow statement on slide 8, free cash flow declined in the first quarter and was slightly negative, driven by working capital investments in inventory and heavy shipments in March driving higher receivables, as well as higher compensation payments. Capital expenditures for the quarter were principally in support of our robust growth expectations across several businesses. Q1 is seasonally our lowest cash flow quarter, and Q1 last year was a bit of an outlier due to post-COVID recovery.

With that, I'm going to turn it back to Rich.

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Okay. I'm on slide 9. This slide includes our current view of demand outlook, operational environment and margin drivers for the remainder of 2022 [indiscernible] (00:11:10). We expect top line in Engineered Products to remain robust based on solid backlogs and sustained strong bookings. Vehicle services continues to ship against a record high demand, driven by new vehicle service facility builds, replacement of service equipment, growth in wheel aligners as well as share gains.

Orders for refuse trucks and software solutions are robust with new order rates pushing well into the second half of the year. Momentum in industrial automation remains strong, particularly in China and within automotive. Industrial winches continue to recover with notable strength in natural resources and energy, and aerospace and defense will remain muted in Q2 on order timing but should accelerate in the second half.

As expected, price/cost was negative in the first quarter in this segment, but we expect it to flip positive in the second quarter as several rounds of price increases cycle through backlogs. We have also introduced other mechanisms to dampen the impact of commodity cost volatility in our capital equipment businesses. All in, we expect margins to improve sequentially as the year progresses.

We expect Clean Energy & Fueling to post robust growth for the full year as solid growth in below-ground, fuel transport, vehicle wash and software solutions coupled with our acquisitions in Clean Energy and components, which are off to a strong start, should more than offset the roll-off of EMV demand. Excluding the $45 million of incremental deal-related amortization expenses in 2022, of which approximately $20 million were incurred in Q1, we expect full year margins to improve on volume and mix.
Demand conditions in Imaging & ID are expected to remain solid as component shortages in core marking and coding subside. Serialization and brand protection software should contribute positively to robust bookings and backlog. Digital textile printing is recovering. We expect margin in this segment to be stable.

Order trends in Pumps & Process Solutions remain robust for much of the segment. Activity in industrial pumps and polymer processing is solid. And precision components continues its upward trajectory, aided by increasing activity at refineries and petrochemical plants and a recent uptick in orders for OEM gas compressor new-builds.

Our biopharma business remains strong but likely lumpy intra-year from a demand perspective as our customers transition from COVID mRNA (sic) [mRNA] (00:13:46) vaccine production to alternative therapies. Subject to year-to-year shifts in mix, we expect the 30%-plus margin in this segment as the new normal going forward.

We expect Climate & Sustainability Technologies to post double-digit organic growth this year, driven by its large backlog in sustained order rates. New orders in core food retail businesses have been healthy across product segments. Our case business within food retail is now booking into 2023.

Our heat exchanger business is positioned well on strong order rates across all geographies and end markets, and Belvac packaging equipment business continues to work through its record backlog. They're also booked for 2022 and are taking orders for 2023.

Q2 and Q3 are seasonally strongest quarters for volumes and margins in the segment. We expect margins to improve significantly in 2022 on improved volume leverage, positive price/cost dynamics and normalizing supply chain.

Okay. Here we go. This is the new slide, and I'm going to attempt to provide some clarity on bookings and backlog by segment, since this subject has been actively debated, and I can see, continues to be this morning.

First, total backlog is up 50% year-over-year with double-digit growth across all segments despite robust revenue performance in the last 12 months. All segments also posted sequential growth in backlog during Q1. Next, our book-to-bill in Q1 was 1.1, with all five segments above 1 despite 9% organic revenue growth in the quarter.

This is a very good picture. Top line visibility is a great thing from an operational and planning perspective, and it's an important pillar of our full-year guidance. Intuitively, we would not expect these elevated order rates and advanced ordering patterns to persist, especially in the short cycle portion of our portfolio, as supply chains improve. But we see two factors influencing current order patterns. First, it's reasonable to assume that customers who expect persistent inflation will continue advance-ordering to lock in – in the attempt of locking favorable pricing. And second, customers expecting robust demand in 2023, or remain cautious on supply chain stability, want to ensure supply.

As you can imagine, we spent a lot of time on this topic, and at present, do not have a conclusive view despite booking into 2023 in long-cycle, CapEx-driven portions of the portfolio. So, we'll just have to adapt accordingly and keep a keen eye on working capital as the year progresses. I would however caution that we need to be careful about drawing definitive conclusions on changes in comparative order rates or backlogs.

The scale of our typical operating company gives us significant flexibility to adapt to changes in the demand environment, and we manage them all uniquely based on the operating model, business cycle and competitive stack. I'm absolutely confident that we have the tools to maximize profitability to the upside scenario and to protect it on the downside as we approved in 2020 and 2021.
Dover's portfolio has significant diversification from a product and end market exposure perspective, many of which we believe has secular growth tailwinds. And as such, despite the ongoing macro and geopolitical challenges at present, we are continuing to invest organically behind areas of strength.

Moving to slide 11, again, we're reaffirming full year guidance for the year.

And let's move on to Q&A.

**QUESTION AND ANSWER SECTION**

**Operator:** [Operator Instructions] Our first question comes from Jeff Sprague with Vertical Research Partners.

Jeffrey Todd Sprague  
**Analyst, Vertical Research Partners LLC**

Thank you. Good morning, everyone.

Richard Joseph Tobin  
**President, Chief Executive Officer & Director, Dover Corp.**

Hi, Jeff.

Jeffrey Todd Sprague  
**Analyst, Vertical Research Partners LLC**

Hi. Could – I guess a couple things. I mean, first, Rich, you sound a bit more confident on price/cost over the balance of year. You also mentioned kind of older backlog working its way through the system. So, I would imagine you have a pretty good handle on that. But maybe you could just elaborate just a little bit more on kind of the residual tension on converting existing backlog and some of these steps you said you took to kind of dampen the volatility on cost inputs going forward.

Richard Joseph Tobin  
**President, Chief Executive Officer & Director, Dover Corp.**

Sure, Jeff. I mean, we were chasing price/cost last year. And one of the good things that – I mean, the good news is having a high backlog, you get visibility, which is helpful to planning, let's say. The bad news is if that backlog is building in advance of input cost headwinds, you're chasing it to a certain extent. So, as you're – basically without repricing backlog, right, you go negative price/cost, which we saw in Q4 last year.

If you remember what we talked about at the end of the year, I said the disappointing performance for us in Q4 was, because of supply chain, we did not convert as much backlog as we would have liked, which would have – strangely, our revenue would have been up and our margin would have been down in Q4. And what we've done is we've carried some of that into Q1. And I think, if you remember, what we said about modeling Q1 this year was that it was a safe bet to model it against Q4 of last year. And if you go do the comparisons, we're pretty much spot on.

But we are shipping that older backlog, right? So, now we're – so we're going to squeeze price/cost in Q2 significantly and then flip significantly positive, at least in three portions of the portfolio, on the back half of the
year and particular in Engineered Products, in Clean Energy and in Climate, where we expect to see a significant benefit in the back half of next year on price/cost and because of the comps are significantly easier, right?

I call your attention to our Q2 performance last year, I think was the highest margin that Dover ever posted. So, the comp that we’ve got ahead of us is a tough one. I would tell you that, I guess before somebody asks. Again, I would point to Q2 last year as a proxy for performance of Q2 this year.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Great. Thanks for that. And maybe just a little bit of kind of macro color for lack of a better term, I guess. But obviously, the world feels different the last six or eight weeks. I mean, the backlogs and orders do look robust, but are you seeing any indication, trepidation from customers about taking backlog or shifting their places in line or anything that would kind of undermine your confidence in kind of the deliverability of the backlog?

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Well, I think that from a top concerns point of view, this China COVID situation is new news in the quarter that we’ve had to navigate here. I don’t have a view on where this goes. I’m hoping, based on the news this morning, that we’re not going to move onto Guangzhou or somewhere else. But that is not helping from a supply chain point of view.

Look, so far, the pricing that we’ve passed has not been to the detriment of backlog. So we haven’t had call-offs in that backlog. I think the biggest issue for us is the supply chain side of the business. Does it get better or does it get worse from here, we’ll see. And from our customers’ point of view, they, again, are dealing with supply chain issues and labor availability issues. So that’s where you’ve got a lot of push and pull of we’re working really hard to get the product out the door, and we’re working really hard with our customers to make sure they’re ready to receive it at the same time because they’re dealing with their own, call them, supply chain issues.

So, right now, we don’t see it. We don’t see much of a risk in terms of shipping our backlog other than our own constraints, and so as far as the customer taking it, but we’ll see going from here.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Right. I’ll leave it there. Thanks for the color. Thank you.

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Thanks.

Operator: All right. Thank you. Our next question comes from Andy Kaplowitz with Citigroup.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Yes. Good morning, Rich.
Hi, Andy.

So, DPPS, obviously, book-to-bill, still positive. Orders did turn down on tough comps, and it looks like you lowered your 2022 revenue forecast slightly in that segment. And you called biopharma, I think, lumpy. Could you give us more color on what percentage of DPPS has had the COVID-related tailwinds and is normalizing versus the rest of the business? And ultimately, how are you thinking about Dover's overall ability to grow DPPS at this point?

Yeah. I think that we're going to go through a little bit of an air pocket here in terms of the demand function because of this transition from COVID therapies to non-COVID therapies. I think, on the long run, we believe that this is a growth market, and I'd like to thank Danaher for going before us, because I think they explained it far better than we're going to be able to do it. But we would expect, in the middle of this year, to have a reduction in order rates as that transition takes place, that's accommodated into our earnings forecast for the year. But I don't believe that this COVID-related issue is an air pocket, where revenues are going to drop, never to be seen again. We think it's an intra-year conversion, and we feel really good about our position in single use.

Thanks for that, Rich. And then could you give us more color into the improvement you're seeing in DCST? Obviously, revenue growth was strong in the quarter. Is it possible at this point to quantify how much added growth your initiatives in that segment are? CO2 systems, Belvac, SWEP, how much do they add to this business? And do you still see that segment hitting your mid-teens margin target for the year?

The two-year CAGR on Belvac is now in the 40s. The two-year CAGR on heat exchangers is in the 20s. So it's not – before we get to refrigeration. So there's – you've got two big principal drivers which are margin-accrretive to the segment, by the way. The two-year CAGR on refrigeration business is about 16.5%, 17%, and it's widespread across the portfolio, the fastest-growing portion being the systems business.

As we discussed before, we'll take all the system business we could get, and we are trying to maximize the profitability on the case business, meaning that we're trying to – we're not running and taking all the business that's out there. So, so far, so good. Still a lot of supply chain issues because these are complicated assembly processes, but Q2 and Q3 margins should be interesting.

I guess I'll leave it at that. Thanks, Rich.
Operator: All right. Thank you. Our next question comes from Steve Tusa with JPMorgan.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Hi, guys. Good morning.

Brad M. Cerepak
Chief Financial Officer & Senior Vice President, Dover Corp.

Good morning.

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Good morning.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Can you just – you said 2Q is going to look a lot like 2Q last year. What's the organic growth do you think in 2Q? I mean, it was a pretty big step-up in 2Q last year, so maybe just over that.

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Yeah. Look, I mean, I think you can calculate that, right, if I say it’s going to look similar at the end of the day. I don’t have that at the top of my head. I mean, I know that from a data point, but I'd have to go ask one of my colleagues here about trying to extrapolate that into organic growth. I can tell you, it should be similar to Q1.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Got it. Okay. Sorry. Just trying to do less work these days. Looking for a little help there.

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Right.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

And so that means that kind of the back half you're looking at, I don't know, like, 7% – 6% to 7%? And if that's the right number, that would imply, I guess, somewhere in the range of a 45% to 50% incremental for the back half of the year?

Richard Joseph Tobin
President, Chief Executive Officer & Director, Dover Corp.

Well, the back half of the year, the incrementals are going to be significant because the comps with all the operational difficulties that we had last year, I mean, we lap all that.
We're shutting down facilities, and then we had negative absorption. We had reduced volumes, negative absorption, everything else, and the beginnings of negative price/cost. So, if all things being equal and the supply chain and the macro doesn't get worse from here, yeah, I mean our incrementals in the back half of the year, particularly in Engineered Products and in Clean Energy and in Climate, should be robust.

I would add to that, I guess, to say we'll see where the macro goes on commodities. But as we think about the back half and the price material implications, I would say our forecast now include enacted price. So, I think we feel good about that under the scenario that the backlog's cleaning itself out and we have the price increases in place. So, I think that's good news for the back half.

Sorry, one more on that detail, can you remind us how much of those – I recall you guys saying it was like a $30 million to $40 million kind of one-time-ish type of costs related to supply chain. And then how big do you expect kind of that price cost spread to be in the second half? Those two items, a little more precision there would be great.

Well, I mean, clearly, it's going to be that headwind plus. So, you mop up all the headwind on a comp basis, plus you get normalized incremental margin on the volume.

Yeah. How big is that? Can you remind me?

I never told you, so there's nothing to remind you about it.
C. Stephen Tusa  
*Analyst, JPMorgan Securities LLC*

Okay. Thanks a lot. Appreciate the color.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

All right.

**Operator:** All right. Thank you. Our next question will come from Scott Davis with Melius Research.

Scott Reed Davis  
*Analyst, Melius Research LLC*

Morning, guys.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Hi, Scott.

Scott Reed Davis  
*Analyst, Melius Research LLC*

I was hoping you could educate us a little bit, or me, I should say, on the biopharma business. When you think of – I mean, all these biosimilars that are coming out, and there's just a [obscenity] (00:29:37) ton of them. If I walked into one of those facilities, would it have similar asset intensity to kind of the predecessor product? I mean, I guess, kind of question is, is that, are they more – just as like they use single use?

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Oh, boy. Well, like I tried to say before, we listen to Danaher because we knew this was coming. And I think that what they articulated was far better as – we are a subcomponent supplier. What I would tell you is that skid production in biopharma is very much a growth avenue, right? It grew because of COVID. But now these mNRA (sic) [mRNA] (00:30:28) therapies have got a variety of different therapeutic uses, and the chosen technology for production and our understanding is skid, and as such, we are component supplier to that chosen type of production.

Scott Reed Davis  
*Analyst, Melius Research LLC*

Okay. All right. That's super helpful. And then to back up, the electric garbage truck, is this – are there any specs you can share on it? Are there – is there – can you make money making these things? Are the specs – are we a few years off from being able to actually – I'm just picturing like the battery density has to be massive to be able to drive these things more than 20 miles. So, any color there that you can help just to understand if that's a real market or not?

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*
I don't know. Maybe you and I can go down to WasteExpo on May 5 and go take a look at it. Look, we are not – you should...

**Scott Reed Davis**  
*Analyst, Melius Research LLC*

"I'll take a pass on that, Rich. I'll meet you there. Let's put it that way. Yeah."

**Richard Joseph Tobin**  
*President, Chief Executive Officer & Director, Dover Corp.*

"Right. Yeah. We don't have a plane here, so I can't pick you up. Nonetheless, remember, we're not a chassis builder, so..."

**Scott Reed Davis**  
*Analyst, Melius Research LLC*

"Yeah."

**Richard Joseph Tobin**  
*President, Chief Executive Officer & Director, Dover Corp.*

"...this is a – basically, if you think about a hybrid, this is a battery pack that drives the compactor that sits on the back of the truck. So, the use is, in theory, a full electric vehicle. So, you have a full electric truck with this technology sitting on the back, but you could also have a diesel chassis with an electric compactor, the guys that run this business are going to hate me for trying to describe it, and you get basically a hybrid benefit.

So, are we going to make money on it? That's the intent. But the fact of the matter is, for municipalities, it's taxpayer money at work here. And if somebody decides they want to go to an electric fleet, they're going to go to an electric fleet, and as a material supplier, we've got to have a product offering."

**Scott Reed Davis**  
*Analyst, Melius Research LLC*

"Yeah. Makes sense. All right. Thank you, guys. I'll pass it on."

**Richard Joseph Tobin**  
*President, Chief Executive Officer & Director, Dover Corp.*

"Thanks."

**Operator:** All right. Thank you. Our next question will come from Joe Ritchie with Goldman Sachs.

**Joe Ritchie**  
*Analyst, Goldman Sachs & Co. LLC*

"Thanks. Good morning, everyone."

**Richard Joseph Tobin**  
*President, Chief Executive Officer & Director, Dover Corp.*

"Hey, Joe."
Hey, Rich. Just a quick clarification just on the 2Q comment. So, we're talking about like-for-like EPS, right, organic growth. It's going to be up, obviously, so margins down on a year-over-year basis, 2Q?

Yeah. Look, I mean, I know -- we have all these discussions about price/cost, and what's ignored there is the dilutive effect on price/cost. Even at neutrality, it's dilutive to margins. So, you're going to get that piece of it even if we were absolutely neutral across the entire portfolio and pricing has been robust. That's the math. That's the way the math works at the end of the day. Now, our portfolio is so diverse. It's a little bit all over the place, and depending on when -- how much commodity exposure we have in certain businesses and everything else. From an absolute profit point of view, I think because Q2 was peak margins for, I'm going to get my years right now, 2021...

That's right.

Even with that dilutive effect and absolute profit, Q2 is a proxy. But I'd be careful about the margin.

Yeah. No, that makes a ton of sense. I guess the follow-on there is really I want to kind of parse out the Clean Energy & Fueling margin this quarter. So, clearly, we know the AD&A, the 400 basis points. Is -- so, I guess two questions. One, are we going to see the rest of the depreciation and amortization come in in 2Q? Is that going to be linear throughout the year? And then the second question, just maybe kind of help parse out a little bit more. Yeah, I think you guys talked about like one week production being down in that business. And so, how quickly can kind of -- ex the AD&A, how quickly can margins come back?

Yeah. I'm going to leave the AD&A question to my colleagues. I'll deal with everything else, and we can circle back on the linearity.

Well, I mean, to answer that question, the back half goes to a linear amortization amount at roughly $7 million a quarter. So, if you're thinking about the second quarter, it's not as high as the first because of the inventory rolls off into the second quarter. And we said it was $45 million for the year, so you could do the math and squeeze the second quarter, and that's as simple as I can make it.
Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Okay. We’ll endeavor to remove AD&A from the segments going forward. Our bad on that one. Nonetheless, look, Q1 was just a mess. I don’t want to go back and revisit COVID. But in January, at our main production facilities, we weren’t doing much. We rushed like hell to pump out as much as we could, and we were actually on a pretty good pace, and then we lost a week of production in our main production facility above-ground dispensers in March because of hurricane, which is – that’s life. It should have happened in a quarter where we weren’t taking $20 million of AD&A, I guess.

And our Clean Energy business, which no one understood and – understandably no one understands the seasonality, their actually lowest profit margin of the year is Q1, where we basically write orders for the balance of the year. So, the backlog that we can see and the revenue trajectory that we can see for those business is very good but is actually dilutive to prior-year margins because of seasonality.

So, from here, all things, supply chain being equal, our below-ground business, which is very profitable, is booked. And our Clean Energy is all coming, and that’s accretive to margins, and that is doing very well from a backlog point of view. So, as long as we can get the product out the door, I’m confident that full-year absolute profit and margin performance will be robust despite EMV.

Joe Ritchie  
*Analyst, Goldman Sachs & Co. LLC*

Got it. Super helpful. Thanks. Thank you both.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Thanks.

Operator: All right. Thank you. Our next question comes from Andrew Obin with Bank of America.

Andrew Obin  
*Analyst, BofA Securities, Inc.*

Good morning.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Hi.

Brad M. Cerepak  
*Chief Financial Officer & Senior Vice President, Dover Corp.*

Hey.

Andrew Obin  
*Analyst, BofA Securities, Inc.*

Just a question on volume versus pricing. In Q1, pricing was up 6%, and it sounds it’s going to get better. So, if we sort of look into second half, if we look at the organic growth guidance [indiscernible] (00:37:44) sort of pricing
implies relatively flat volumes in the second half. And given how robust orders and backlog is, just wondering are you guys trying to gauge growth in the second half to optimize profitability, right, given this dynamic between price/cost uncertainty, commitments to backlog, just trying to understand how to think about very robust backlog and volumes seemingly being flattish in the second half.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Yeah, I think that one could say that pricing that you've seen in Q1 remains linear over the balance of the year. And the margin accretion in the second half is because you flip positive because of inventory valuation, so, if you follow me.

Andrew Obin  
Analyst, BofA Securities, Inc.

Yeah.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Meaning that pricing is in. As we cycle the older inventory that is valued higher, you've got in Q1 – in Q4 and Q1, it was dilutive. It gets to neutrality, slightly positive. And then it flips all things being – assuming we get all the product out the door, positive from there. So, the growth rate for the full year, one could assume, is somewhere in the 5% to 6% price-related and the balance being volume. But as you know, mix here, because of the diversity of the portfolio, is going to be quite different likely.

Andrew Obin  
Analyst, BofA Securities, Inc.

Got you. And then sort of a second question, European growth was surprisingly robust this quarter sequentially, given all the news in Ukraine. How has your view changed on Europe and for the second half? And also maybe broadly, are we sort of banking on more North American growth and maybe less Asia and European growth in 2022? So Europe specific plan B, the sort of mix between North America and the rest of the world. Thank you.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Yeah. I mean, the economic environment in Europe is a risk. But we can only look – well, the good news is our backlogs in Europe are not as high as they are in North America, but they still remain good. And our expectation is that we would ship off that, but clearly we're going to watch order rates in Europe from here, if one adopts a scenario of the demand function in Europe getting worse from here.

Look, Andrew, I mean, we could think of 100 different reasons to kind of tap down expectations for this year, whether that be what's going to happen with COVID in Asia, what's going to happen with Russia-Ukraine and Europe, we're making – we're not assuming continued strength in the dollar versus some of our other trading currencies, but I think that would be a copout, and it's too early to tell here.

The good – we're looking – the challenge for us is to get the product shipped profitably from here. And that is up to us in the productivity side, and it's up to us to work the supply chain things like crazy. But as I said in my prepared comments, we do this business by business, and we're on it, right, in terms of tearing apart order rates and making sure that we don't get over our skis from a working capital perspective or anything else. And we'll see how it goes. Right now, we believe that we can meet our forecast for the year.
Andrew Obin  
*Analyst, BofA Securities, Inc.*

Great. I appreciate, I also appreciate the [indiscernible] (00:41:33) early in the earnings season. Thanks a lot.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Thanks.

**Operator:** All right. Thank you. Our next question will come from Julian Mitchell with Barclays.

Julian Mitchell  
*Analyst, Barclays Capital, Inc.*

Hi. Good morning. Maybe just wanted to start off with Imaging & ID, as I don't think that division has been touched on much yet. You took down the sales guide slightly but had very good order growth actually in Q1 versus other businesses. So maybe help us understand, on that revenue outlook, how much is just that soft start to the year on sales. Also, there seemed to be more conversation in your prepared remarks around component shortages in DII than perhaps what we've heard three to six months ago. So any color around that? And how do we think about the margins kind of flipping around there maybe as those shortages ease?

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Well, I'll take the last one first. I think that we said that margins are going to be stable on the full year. Look, we did have circuit board shortages in Q1. Bad on us. And that was partially due by the fact that we sourced those from Asia, so the Asia lockdowns, and we had to shut our production factory, which is in Shanghai, during the quarter. So, we'll pick up as much as we can out of there. To a certain extent, the geographical mix on that business is more levered towards consumer production in Europe. So, we're being a bit cautious in the demand function. And again, I don't want to bring up this translation issue again, but that's part of it also.

So, overall, I mean, this is a business that grows low to mid-single digits at pretty much constant margins, although I'll give the management team a lot of credit. Over the last couple of years, they've driven margins up nicely. Our expectation for this year, probably that kind of performance, low-single-digit growth at healthy margins and excellent cash flow. But it's going to be a little choppy based on macro and supply chain.

Julian Mitchell  
*Analyst, Barclays Capital, Inc.*

That's helpful. Thank you. Then maybe a question on inventories, one more for Brad and one for you, Rich. But I guess, Dover's own inventories, you had the big working capital headwind, free cash flow was very soft in Q1. How quickly does that reverse? And then maybe for Rich, what we often hear from a lot of multi-industry companies is their own inventories are sky high, their customer and distributed inventories are rock bottom. Maybe help us understand how you see that delta today regarding Dover.

Richard Joseph Tobin  
*President, Chief Executive Officer & Director, Dover Corp.*

Okay. You want me to take it first?
Brad M. Cerepak  
Chief Financial Officer & Senior Vice President, Dover Corp.

Go ahead. Sure.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

All right. Yeah. All right. We don't – as a portfolio comment, we do not believe that our inventories are reflective of our distribution network inventories, meaning pretty much what we ship out the door kind of passes through of us through distribution. Our inventories are high, clearly, but so is our backlog, right? So the way that we look at those inventories is before we – I'm just talking about physical inventory before we get into working capital, that's something else.

But to the extent that we ship that backlog, which we have every intention of doing, that those inventories will moderate. And you also need to take into account that inflation has an impact on absolute dollar value of inventories, right? So, it's very nice that we're – everybody's talking about raising prices and everything else, but that needs to be taken into account when you look at year-over-year change in inventory because the absolute dollar value of that inventory has gone up significantly.

Brad M. Cerepak  
Chief Financial Officer & Senior Vice President, Dover Corp.

And I think the only thing I would add is the sequence of cash flow was more like it's been in the years past, which is fourth quarter being our highest quarter of cash flow, and we'll progressively pace through the year where we'll see free cash flow increase from Q2 into Q4.

But again, I think, as Rich said and we said in our prepared comments, the balance sheet will have some liquidation to it in the sense of we had very high receivables because of the high shipments in March coming off of a low January. So, just time-wise, the collection period falls into the second quarter. And then you also have inventory which will continue, I think, to come down over the course of the year as we ship across the backlog.

Julian Mitchell  
Analyst, Barclays Capital, Inc.

That's perfect. Thank you.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Thanks.

Operator: All right. Thank you. Our next question will come from Josh Pokrzywinski with Morgan Stanley.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Hey. Good morning, guys.

Brad M. Cerepak  
Chief Financial Officer & Senior Vice President, Dover Corp.
Good morning.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Hi.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Rich, do you think you'll need any more price this year? I know there's been some lumpiness in some of the input costs, particularly things like freight over the past 90 days. But maybe like freight surcharge aside, are you guys where you need to be on price?

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Yeah. You should hear the yelling and screaming that goes on about pricing sometimes around here.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

I listen to the calls. There's plenty.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Yeah. I don't think so. I think that any pricing from here, especially in the capital goods side, is going to be surcharge and not absolute price, but we'll see. I mean, it's — you tell me what the trajectory of inflation's going to be over the balance of the year. I mean that's one of the watch points. I mean I think what — good news, bad news on inflation is — as the way that we look at it, is inflation looks to be moderating except the fact that we've got $1 trillion plus of infrastructure and American Rescue Plan coming our way. And what does that mean? It's hard to say right now.

I think the good news is, does that — is that good from the demand point of view in certain businesses of ours? Yes, it is, right, because it's where — we've got a big portion of our portfolio that's tied to CapEx. What does that mean from an inflation point of view? All bets are off there. So, it's an interesting dynamic. I don't — so I guess to answer your question is I think that we're going the be very selective from here. And if it's commodity price driven, it's likely to be surcharge based.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Got it. Super helpful. And then some nuance on the margin kind of expectations from here, especially with the traffic light commentary in the slide deck. Relative to where we were kind of coming out of fourth quarter, any change to how you see either the full year or the cadence in DEP or DPPS?

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Well, I mean, look, that was [indiscernible] (00:48:54). DPPS, look, biopharma demand is probably intra-year going to be a bit light. So, I think that nobody should fall out of their chairs if order rates go down there some. The balance of that portfolio is actually order rates are picking up quite nicely. Now, that's slightly dilutive to biopharma
but not to the extent where people saying that we're over-earning and we're going to go back to historical margins. So, I think if you go back and take a look at the transcript, I say that 30% plus is the new normal here. So, we'll be able to absorb it.

Where we're looking for – and it should make sense when you go back and take a look at the calendarization of earnings last year, where we're looking for absolute profit performance, 2022 versus 2021, is in Engineered Products, Clean Energy, and into the Climate side of the business. We're not looking for a lot of year-over-year incremental profit from the other two segments. There's going to be some, but that's not going to be the principle driver. Because, quite frankly, those two businesses more or less sailed through 2021.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Got it. Thanks.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Okay. Thanks.

Joshua C. Pokrzywinski  
Analyst, Morgan Stanley & Co. LLC

Thanks.

Operator: All right. Thank you. Our final question comes from Nigel Coe with Wolfe Research.

Nigel Coe  
Analyst, Wolfe Research LLC

Thanks. Good morning, everyone. Sorry, I dropped off for 10 minutes, so I apologize if I'm repeating any questions here. But your refrigeration margins – sorry, the Clean – I can't remember the new name for the segment, but best margins in – 1Q margins since 2013. So, curious, you've talked about significant margin expansion this year in that segment. Just wondering, do you think we're going to be in mid-teens zone for the full year?

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Well, for the segment? Sure.

Nigel Coe  
Analyst, Wolfe Research LLC

Yeah. Okay. And then – nice quick answer there. And then turning back to the fuel and – sorry, I should know these by now, shouldn't I? But the Clean...

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Yeah. I know what you're talking about. Go.
Nigel Coe  
Analyst, Wolfe Research LLC

You called out mix as a significant headwind there, and obviously the weather impact on the production facility. Given the acquisitions of RegO and Acme, I mean, I thought they were like low-20s EBITDA margins, Rich. So, just wondering is there any seasonality to those businesses, or was the mix impact elsewhere more than offsetting that contribution from those acquisitions.

Richard Joseph Tobin  
President, Chief Executive Officer & Director, Dover Corp.

Well, you answered the question. Yes, there is seasonality in the acquired businesses. Q1 is actually the lowest-margin quarter. So, supply chain and COVID issues aside in Q1, what we expect is we roll out of EMV demand in Q2, which is probably the peak for EMV demand last year, which is margin accretive, but we basically offset that over the balance of the year and then some through the acquired revenue and profits and the fact that our underground business and vehicle wash and everything else start shipping significantly through the year. And that's against a comp in the second half of last year where it was weak.

Nigel Coe  
Analyst, Wolfe Research LLC

Okay. And then maybe just one more, a question we're getting a fair amount, not just for Dover but across the group, US CapEx. And just maybe this is a question for Brad. Are you – within your CapEx budgets, are you shifting more CapEx into the US relative to elsewhere?

Brad M. Cerepak  
Chief Financial Officer & Senior Vice President, Dover Corp.

No. Not significantly, although CapEx is – in our growth-oriented businesses, if you think about the ones we're talking about that have the higher growth profiles, that's where the CapEx is.

Nigel Coe  
Analyst, Wolfe Research LLC

Thank you.

Operator: All right. Thank you. This concludes our question-and-answer period and Dover’s First Quarter 2022 Earnings Conference Call. You may now disconnect your line at this time and have a wonderful day.