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DOV - Q4 2015 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 4Q15 revenue of $1.7b and adjusted EPS of $0.81. Expects 2016 revenue to be up 1-4% and EPS to be $3.85-4.05.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Joseph Ritchie *Goldman Sachs - Analyst*

Andrew Obin *BofA Merrill Lynch - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the fourth-quarter 2015 Dover earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations.

(Operator Instructions)

As a reminder ladies and gentlemen, this conference call is being recorded and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you. I would now like to turn the call over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead, sir.

Paul Goldberg *- Dover Corporation - VP of IR*

Thank you, Kristin. Good morning, and welcome to Dover's fourth-quarter earnings call. With me today are Bob Livingston and Brad Cerepak. Today's call will begin with some comments from Bob and Brad on Dover's fourth-quarter operating and financial performance and followed with our 2016 outlook.

We will then open up the call for 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, Dovercorporation.com.

This call will be available for playback through February 9, 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'll need to supply the following access code, 22028065.

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

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

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. Our fourth-quarter and full-year results continued to be impacted by tough market conditions, especially in oil and gas. We delivered fourth-quarter adjusted EPS of $0.81 in this environment driven by solid execution and some year-end tax benefits as our teams continued to pursue customer wins, cost actions, and productivity initiatives.

In 2015, we increased our efforts around operating efficiencies through our Dover Excellence program. One key element of this program focuses on free cash flow generation, which increased to $795 million for the year. The program also supports our ongoing investment in product innovation and customer activities.

Additionally, during the year we took multiple steps to right size of our businesses to reflect difficult market conditions, especially in our energy segment. These initiatives will remain a focus in 2016.

Further, we closed on four acquisitions since our last call. These businesses will generate well over $0.5 billion in revenue in 2016 and significantly complement and expand our market positions.

Now let me share some comments on the quarter. From a geographic perspective, excluding our energy exposure and tough comps in retail refrigeration markets, our US industrial activity remains solid and grew more than 4% year over year. On a sequential basis, China markets improved, and European activity was largely flat. Both regions were down versus the prior year.

In energy, markets were even tougher as we moved through the quarter and into the new year. Given that as a backdrop, our teams focused on actions to drive sales and remained resolute in implementing cost reductions. Our aggressive cost actions have reduced the impact of volume declines as reflected by decremental margins in the low 30%s.

On the revenue side, we estimate we've generated 5% growth from new business, much of it driven by new product introductions and continuing strong service levels. In 2016, we will strategically look to win new business with a strong focus on customer service, and of course continue to look for opportunities to reduce our cost structure.

Engineered systems had a solid quarter with 4% organic growth. Within printing and identification, our digital textile printing results were strong driven by a significant increase in order activity. We also posted good results in our core marking and coding business.

In the industrial platform, modest organic growth was led by strong results in our environmental solutions business. Fluids once again posted strong margin despite revenue being impacted by oil and gas exposure, reduced year-end capital spending, and tough comps off a very strong fourth quarter of last year. This solid execution resulted in segment margin exceeding 19%, excluding the impact of recently completed acquisitions.

Within our refrigeration and food equipment segment, revenue and earnings performance was as expected. Importantly, we now see the benefits of our customer expansion efforts reflected by new wins in retail refrigeration. Our retail refrigeration orders were up 20% over last year setting us up for an improved start in 2016.

As we've discussed, we were able to close several deals as we ended the year. Integration activities are well underway, and our customers are excited about the broader product sets we now offer. Early results are quite positive. Regarding the acquisition pipeline, we've continued to look for businesses that expand and enhance our positions in our key markets and will remain diligent and disciplined on valuations.

Now looking to 2016. We expect engineered systems, fluids, and refrigeration and food equipment to all grow revenue this year. Within energy, we remain cautious. We have reduced our full-year revenue forecast to reflect weaker US market conditions.

Providing some offset, we now have better line of sight on incremental new business. Our aggressive pursuit of additional business, expanding our international presence, and strong presence -- strong focus on cost is ongoing. We expect to make further progress on these initiatives in 2016.

In engineered systems, we anticipate solid organic growth led by the leading technology and new products offered across the segment. Specifically, we expect the marking and coding markets to be solid and our digital textile businesses to have double-digit growth.

Within our industrial platform, modest organic growth will be led by strong performance in environmental solutions and vehicle services. This performance will be complemented by our continued focus on cost and productivity.

Fluids will grow driven by the recent acquisitions. We also anticipate continued strong core margin performance on the benefits of ongoing productivity projects. In addition, a well executed integration of our recent acquisitions will provide a path to future revenue and margin improvement and enhanced customer service through scale and efficiencies.

Finally, within refrigeration and food equipment, we expect much improved revenue in earnings in 2016 leveraging our leading technology and merchandising solutions. Retail refrigeration should lead the improvement. We also expect solid performance in our food equipment markets.

In summary, we are reaffirming our EPS guidance. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP and CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of our presentation deck.

Today, we reported fourth-quarter revenue of $1.7 billion, a decrease of 14%. This result was comprised of an organic revenue decline of 12%, growth from acquisitions of 2%, and an FX impact of 4%. Adjusted EPS was $0.81 and above our implied Q4 forecast. The performance improvement consists of $0.01 higher segment income and $0.05 on the tax line.

Segment margin for the quarter was 13.3%, 150 basis points below last year. Adjusting for fourth-quarter restructuring of $16.5 million, margin was 14.3%. Restructuring activities were broad-based with a continued focus on energy.

Bookings decreased 13% to $1.6 billion, largely reflecting significantly lower oil and gas markets and soft macro conditions. Overall book-to-bill finished at 0.96. Our backlog decreased 16% to $1 billion.

Free cash flow was once again solid at $274 million for the quarter or 16% of revenue. We are beginning to see the results of our Dover Excellence program reflected in cash flow performance. For the full year, we generated $795 million of free cash flow representing over 11% of revenue, a full point higher than last year.

Now turning to slide 4. Engineered systems had solid organic growth of 4% reflecting strong growth in our printing and identification and environmental solutions markets. Fluids declined 6% -- fluids' decline of 6% was driven by weak oil and gas markets and generally softer market conditions.

Refrigeration and food equipment's organic revenue declined 6% primarily on reduced volume from a key retail refrigeration customer. Energy organic revenue was down 40% on significant declines in North American oil and gas markets. As seen on the chart, acquisition growth in the quarter was 2% while FX had a negative 4% impact.

Turning to slide 5 and our sequential results. Revenue decreased 5% from the third quarter, largely reflecting normal seasonality in our retail refrigeration markets and a continued step down in energy markets. Engineered systems and fluids were modestly up.

Sequential bookings decreased 5%, principally driven by the impact of oil and gas markets and normal seasonality in retail refrigeration. Strong growth in engineered systems resulted from solid printing and identification markets and robust environmental solutions orders.

Now on slide 6. Energy revenue of $323 million decreased 41% driving earnings down to $31 million. Energy results continued to be impacted by steep declines in oil and gas markets. However, we continued to see targeted customer wins in the Middle East and North America.

Energy absorbed an additional $4 million in restructuring costs in the fourth quarter and has incurred $31 million in costs for the full year. Excluding the Q4 restructuring costs, our operating margin was 10.8% reflecting volume and price declines partially offset by the benefits of productivity and previously completed restructuring. We expect the carryover benefits of these and other cost actions to be approximately $40 million in 2016. Bookings were $316 million and book-to-bill was 0.98.

Now on slide 7. Engineered systems revenue of $597 million increased 1% overall reflecting organic growth of 4% and acquisition growth of 3% partially offset by an FX impact of 6%. Earnings of $89 million decreased 4% principally reflecting the impact of acquisitions in the quarter.

Our printing and identification platform revenue was $256 million increasing 3%. Organic revenue was up 8% reflecting strong digital textile markets and solid North American marking and coding activity. Acquisitions added 6% growth while FX had an 11% impact.

In the industrial platform, overall revenue declined 1% to $342 million, where organic growth was 1% -- of 1% was offset by FX of 2%. Organic growth was once again led by environmental solutions.

We incurred $5 million in restructuring costs in the quarter for actions that will further improve our cost structure. Excluding the Q4 restructuring costs, margins were 15.7% reflecting the benefits of prior cost actions, partially offset by business mix.

Bookings were $608 million, a decrease of 2% reflecting organic bookings growth of 1% and acquisition growth of 2% offset by a 5% impact from FX. Organically, printing identification bookings were up 6% and industrial bookings decreased 6%. Book-to-bill for printing identification was 0.98 while industrials was 1.05. Overall book-to-bill was 1.02.

Turning to slide 8. Within fluids, revenue decreased 6% to $356 million and earnings decreased 1% to $62 million. Revenue performance reflects a 6% decline in organic revenue whereby the impact of acquisitions and FX largely offset each other.

Our fluids transfer businesses remained solid and were up slightly organically, while our pumps results reflect the impact of weak oil and gas markets and the timing of large project shipments. The impact of acquisitions reduced margins roughly 170 basis points in the quarter resulting in margin of 17.6%. Excluding acquisitions and related purchase accounting deal costs, margin was 19.3% reflecting continued strong execution.

Bookings were $321 million, a decrease of 7% overall or 6% organically. This result primarily reflects slower year-end CapEx activity and the impact of oil and gas exposure in our pumps markets. Book-to-bill was 0.90.

Now let's turn to slide 9. Refrigeration and food equipment's revenue of $419 million declined 9% from the prior year and earnings were $43 million. As expected, revenue continued to be impacted by reduced volume from a key retail refrigeration customer. Our glass door business remained solid and our can-shaping business was improved.

Operating margin was 10.2%. Adjusting for $6 million in restructuring costs for the quarter, margin was 11.7%, down 50 basis points from an adjusted prior year reflecting lower volume partially offset by productivity improvements. Bookings were $380 million, an increase of 3% reflecting significant improvements in order activity. Book-to-bill was 0.91, a large improvement over last year. This strong bookings activity sets us up well as we begin 2016.

Now going to the overview slide, number 10. Let me cover some highlights. Corporate expense was $25 million, down $5 million reflecting ongoing cost management initiatives.

Our fourth-quarter tax rate was 25% excluding discrete tax benefits. This rate was lower than our last estimate principally reflecting passage of the tax relief extension act. Of note, our full-year normalized tax rate was 27.8%.

Moving on to slide 11, which shows our full-year guidance. Our 2016 revenue guidance has been modestly lowered from our recent investor day. We now expect revenue to increase 1% to 4%. Within this estimate, organic revenue is expected to be down in the range of 1% to 4%, a 1 point reduction from our prior forecast due to oil and gas markets.

We expect completed acquisitions will add approximately 7% growth while the impact of FX is expected to be about 2%. This is unchanged from our prior guidance. As a reminder, at the midpoint of our guidance, adjusted segment margin is expected to be around 16.5% excluding the impact of recent acquisitions.

Our full-year corporate expense and interest expense forecast remains unchanged. We now expect the full-year tax rate to be approximately 28%, 1 point lower than our last guide reflecting the tax relief extension act and the impact of recent acquisitions. CapEx remains unchanged as does our full-year free cash flow forecast.

From a segment perspective, energy's full-year organic revenue forecast is now expected to decline 11% to 14%, a 3 point reduction from our prior forecast. The expected full impact from declines in oil and gas markets is partially offset by incremental new business, not in our prior forecast. All other segments were unchanged versus our prior guidance.

Turning to 2016 bridge now on slide 12. Let's start with 2015 adjusted EPS of $3.55, around $0.07 higher than forecasted at our investor day reflecting slightly better Q4 performance and an improved tax rate.

We expect the year-over-year impact of restructuring costs to provide $0.15 to $0.17 benefit. Performance including changes in volume productivity, pricing, and restructuring benefits, will add $0.26 to $0.40 to earnings, modestly lower than our previous forecast. Within this estimate are restructuring benefits of $0.23 to $0.24.

Increases in investment and compensation will impact earnings $0.26 to $0.28. Acquisitions already competed including Tokheim will be about $0.18 accretive.

The carryover benefit of shares already purchased will be approximately $0.08. Interest, corporate, and the tax rate will impact earnings about $0.08 reflecting a minor improvement over our last forecast. In total, we expect 2016 EPS to be $3.85 to $4.05. This estimate is unchanged from our prior forecast.

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

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. Markets are mixed as we enter 2016. Our businesses with exposure to oil and gas will once again face challenges whereas engineered systems and refrigeration and food equipment should grow organically.

Within this environment, we will remain focused on new product launches and innovation across the entire organization, expanding our business with new customers and in new geographies, capitalizing on our customer wins mindset by becoming an even more important partner with our customers, and leveraging our Dover excellence program to continue to drive margin, productivity, and cash flow. The combination of these actions is expected to provide incremental revenue of 2 points in 2016 and increase core margin 20 to 40 basis points. The bulk of this incremental revenue is sales from new product introductions.

Our plan for EPS growth and strong free cash flow in 2016 is supported by three significant activities that have already been implemented. They are: the completion of several acquisitions that will deliver meaningful accretion, 2015 restructuring actions that will provide significant benefits this year, and completed share repurchase activity that will deliver $0.08. We expect oil and gas markets to remain uncertain in 2016, and we are poised to take further cost actions beyond what is currently forecasted if necessary.

With that, I'd like to thank our entire Dover team for staying focused on our customers. Paul, let's take some questions.

QUESTIONS AND ANSWERS

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks, Bob. Before we take questions, I'd just like to remind you if you can limit yourself to one question with a follow-up. We have several people in queue. The more questions we have, the less people we can talk to. With that, Kristin let's have the first question.

Operator

Our first question comes from Deane Dray with RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

Bob, I was hoping you could expand on energy where you said that there was some new business that you had won, maybe kind of expand there, what products, what regions. You also mentioned international expansion.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Dean.

Deane Dray - *RBC Capital Markets - Analyst*

Good morning, Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Sure, glad to. I have -- I think I've shared this comment on the -- on at least one call, if not a couple of calls last year, that as we work through this down cycle in the energy business, we have continued to work on new product -- new product launches, and targeting specific customers that we thought we should have an initial business position with or even a larger business position with. And in 2015, I think in the second half of the year, we estimate that we had about 5% of our revenue in the second half in energy with what we've labeled as new wins. As we provided guidance and initial guidance at the December meeting, we knew we were going to keep the business that we had won in 2015, but we were not including in our guidance any anticipated new business in 2016 unless we actually had a contract or knew we had won the business.

And Dean, since then we have won some business. We've got contracts. Some of the business will actually have modest shipments on here in the first quarter. And it's across the segment, specifically within the upstream market, we continue to win new business within our -- with our PDC insert business, but it is most noticeable within our artificial lift business. But I would be remiss if I didn't throw a kudo out to the guys in our bearings and compression business. They've also been pretty active and have been successful in this endeavor as well.

Operator

Our next question comes from Joseph Ritchie with Goldman Sachs.

Joseph Ritchie - *Goldman Sachs - Analyst*

Thanks, good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Hi, Joe.

Joseph Ritchie - *Goldman Sachs - Analyst*

So just quick question on oil and gas. You know, there's a lot of outcomes and uncertainty as it relates to oil and gas over the next two years. I'm just trying to get a sense for how you're thinking about how your business is set up today, if we go to cash costs, or if we get an uptick in oil and gas, and really, just where's your mind-set there today.

Bob Livingston - *Dover Corporation - President and CEO*

It's -- I guess to begin that answer, Joe, I'll revert back to the answer I just provided Dean. We have been very active in taking costs out in 2015, and you'll see us continue to do that in 2016. But at some point in time, we will see a change in this market, and we are still convinced that our superior -- what we believe are our superior service levels and the continuing investment we're making in product development are the right things to do to be prepared for an upturn when that occurs. Our assumptions in 2016 guide, we are seeing our plan in the first quarter, maybe even in the first four months of the year reflect the current pricing of oil in today's environment. The -- let's call it roughly $30. Our plan does assume that the price recovers a bit in the second half of the year. Our plan is based on a $40 oil price in the second half of the year.

Joseph Ritchie - *Goldman Sachs - Analyst*

That's helpful, Bob. And maybe my one follow-up is really around margins, and Brad, perhaps to you. Within the 16.5% guidance for the total portfolio, what's the energy number, and how do you think about then the trajectory of energy margins if and when we do get an uptick in oil?

Brad Cerepak - *Dover Corporation - SVP and CFO*

Okay. Sure, so the 16.5% at the midpoint, that's an adjusted number, just to reiterate that. That's excluding acquisition-related activity. But with respect to our segments, the core margin expansion is really coming from the other three segments. We see energy year over year adjusted to adjusted down into 16%, and I would say, you know, roughly we would say the margin expectation in energy is around 12% to 13% for 2016. You know, I would say the way we see the year on energy reiterating what Bob said is that obviously year over year in the first quarter, energy is going to be down significantly. I would say we should be thinking about energy more like the fourth quarter moving into the first quarter sequentially being pretty much the same, and as it relates to the rest of the year then as we see in our forecast some recovery in the average price per barrel of oil.

Bob Livingston - *Dover Corporation - President and CEO*

Modest.

Brad Cerepak - *Dover Corporation - SVP and CFO*

It's modest. We would see some further improvement throughout the year. As it relates to the other segments, year-over-year core margin expansion, so the first quarter and into the year will look a lot like the sequencing that we saw in 2015. That's the way we think about it.

Joseph Ritchie - *Goldman Sachs - Analyst*

Great. Thanks, guys.

Operator

Our next question comes from Andrew Obin with Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Andrew.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a question on pretty good industrial performance, printing and ID. Could you get us some color because it seems you guys did quite a bit better than Danaher reported this morning?

Bob Livingston - *Dover Corporation - President and CEO*

Well, we had a -- as I reported, we had a very strong fourth quarter at Markem-Imaje. Organic growth for Markem-Imaje in the quarter was 4%. We actually ended up for the entire second half at 4%. We ended up at 5% organic for the full year. But on top of that, we had very strong performance from MS, our textile printing business, and interestingly enough, we didn't get any contribution from my higher margin acquisition, JK, in the fourth quarter because of the our AD&A charges but we were quite pleased with the performance of the printing and ID platform in the fourth quarter.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And do you think the strategy --?

Bob Livingston - *Dover Corporation - President and CEO*

I would add to that, North America was strong for us in the fourth quarter.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And can you just -- could you just point to specific areas of strength that you were seeing? As I said because I think the buy side of [south side] are still blooming in North American industrial and you guys are doing so well.

Bob Livingston - *Dover Corporation - President and CEO*

Well, if you look at the three regions, North America, Europe, and Asia, I'm doing this a little bit from memory here, but I think North America was our strongest business, and for Markem-Imaje in the fourth quarter perhaps followed by Europe and trailed by Asia.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And if I may on the industrial businesses, what trends are you seeing? Are you seeing any destocking towards the end of the quarter? Once again, very strong performance.

Bob Livingston - *Dover Corporation - President and CEO*

No, actually, there's -- we were quite pleased with the performance from engineered systems in the quarter, both platforms, both printing and ID as well as our industrial platform, and did not see any evidence at all of destocking.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Well, congratulations, thank you.

Bob Livingston - *Dover Corporation - President and CEO*

Thank you.

Operator

Our next question comes from Jeffrey Sprague with Vertical Research Partners.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Thank you, good morning.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Hello, good morning. Hey, just before my question, one point of clarification on what Brad said about energy in Q1, or the comment about similar to Q4, was that similar rate of year-over-year decline organically or similar revenue level versus [Q2]?

Bob Livingston - *Dover Corporation - President and CEO*

No, actually, I would tell you that if you look at the first quarter for Dover, go back and look at the first quarter of last year and the results will be quite similar in the other three segments excluding energy. The real change you're going to see in aggregate -- the real change you're going to see in the first quarter is simply the year-over-year decline in energy, Jeff. As you remember the first quarter of last year was still a pretty strong quarter. I'd love to return to that level this year. But the first quarter of -- for energy last year was pretty strong, and almost all of the first quarter 2016 down from first quarter of 2015 is attributable to the decline in energy.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Right, I was trying to get at whether or not you're guiding with an organic --.

Bob Livingston - *Dover Corporation - President and CEO*

Actually, you're -- okay. If you want to look at it sequentially, I think our revenue guide for energy is probably down very, very slightly, maybe $10 million, sequentially from the fourth quarter.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Okay. Thank you.

Bob Livingston - *Dover Corporation - President and CEO*

I actually -- our earnings are flat in energy fourth quarter to first.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Right. That's very helpful. Hey, can we just talk about the fluids for a moment? You know, book-to-bill looks a little bit disconcerting. You mentioned some timing, but is the timing around the oil and gas related jobs that maybe could continue to be a timing issue if you get my drift and just --.

Bob Livingston - *Dover Corporation - President and CEO*

Yes, actually, the -- that was probably one area in fluids that was a bit of a concern in the fourth quarter, Jeff. We do continue to see the impact of our oil and gas exposure, especially in our pumps business, and I'm referring to the upstream oil and gas activity, and that was down a little bit more than we had anticipated in the fourth quarter. We see that continuing in 2016. In fact, I would tell you I think we're being overall I believe sitting here today, we're being cautious with respect to fluids and our guide for 2016 because of that.

It's just much more difficult to forecast accurately our activity through our distributors in the upstream oil and gas market and some of the other I call them second order connected markets than it is with activity direct with OEMs. On top of that, we did see an absence of what I would call the normal CapEx spending that you see in the fourth quarter, what I called year-end capital budget flushouts, and there was -- it was a little bit different profile in the fourth quarter.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President and CEO*

I think we're being appropriately cautious with our fluids guide for 2016.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Great. Thank you.

Operator

Our next question comes from Nigel Coe with Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks, good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Just want to go back to I think the comment that you made on regarding ex-energy, the sequential looks similar to last year. I think that was the comment. I'm just wondering, does that include the Tokheim because that's up the -- is a very material acquisition.

Bob Livingston - *Dover Corporation - President and CEO*

I'm really referring to earnings, Nigel. Not the top line. Obviously in the first quarter, we'll have the top-line performance from Tokheim, but I don't have the data here, but I don't think we're expecting any contribution to earnings from Tokheim in the first quarter just because we have the normal I call it front end of purchase accounting on the Tokheim acquisition. Also --.

Nigel Coe - *Morgan Stanley - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President and CEO*

Don't lose sight of the fact that as we enter 2016, we don't drop it to disk ops because that rule has changed but we've tried to show this detail to you on the attached slides that we did dispose of a significant business, a $100 million business, walk-in coolers in the fourth quarter. Obviously, that's not in our numbers in 2016, and we have another pending divestiture that should close here soon in the next few weeks. That's about $100 million a year in revenue that is not in our guide.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's helpful. And then just taking a step back and I guess this sort of feeds into the portfolio discussion you just made. How are you thinking about capital allocation here this year because, you know, it seems like it's a good -- a better environment to be a buyer, yet obviously the macro situation's a little bit less visible, so is there a bias towards spending more or maybe consuming capital here? How are you thinking about that book?

Bob Livingston - *Dover Corporation - President and CEO*

Well, you know, I always start first with the comment that my preference is to build the business through capital allocation, and we'll make the acquisitions that are right to help us build bigger businesses and better businesses within Dover. And my second comment is, we don't always control the timing of the opportunities. In fact, as I remind people here, it's rare for us to control the timing. We get to say yes or no. I am a little cautious right now with respect to valuations because I think the sort of the downdraft on public company valuations is not very well reflected in the -- I would call it in private companies that are -- that may be for sale, so we're being a bit cautious here with our outlook here over the next three or four months.

And then of course that brings up the question of share repurchases, and look, all I can tell you is look at our history. We have been quite balanced between M&A and share repurchases over the last three or four years. You should expect us to be as disciplined and balanced over the next two or three as we have been over the last two or three. But we're not announcing a share repurchase activity today. Perhaps more on that over the next two or three months.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Very clear, thanks, Bob.

Operator

Again, ladies and gentlemen, please limit yourself to one question and one follow-up. Our next question comes from Julian Mitchell with Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Hi, thank you.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Julian.

Julian Mitchell - *Credit Suisse - Analyst*

Good morning. Just a question on the refrigeration and food equipment. Sales -- adjusted sales were down 7% in Q4, but your bookings in Hillphoenix were very good, so when are you thinking about the sales --.

Bob Livingston - *Dover Corporation - President and CEO*

Thank you. I thought they were as well.

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Julian Mitchell - *Credit Suisse - Analyst*

When you're thinking about the sales base turning around, you're guiding up 2% to 4% adjusted sales growth for 2016, do we see those bookings feed into the revenues early in the year in Q1 or that's more of a second half feeding through into revenue?

Bob Livingston - *Dover Corporation - President and CEO*

Well, no, you'll see the bulk of those bookings have the revenue impact in Q1, but not all. I mean, we do have a different order profile with some of our customers than we did with Wal-Mart. And we are -- we have -- I think we are well loaded with respect to our factories are well loaded in the first quarter with respect to our forecast, but we are expecting to see this business and this segment return to a growth profile in 2016, and we're pretty confident.

I would add one further comment. You know, last year we dealt with the loss of a significant chunk of business from Wal-Mart. We are not looking at Wal-Mart as the provider of our growth in 2016. In fact, I think the guys are actually taking the Wal-Mart business down a little bit again in 2016 but with that, we still believe we've got a good executable plan for growth within the Hillphoenix business and within the segment.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks a lot, and then my follow-up would just be on the energy segment. You talked about how you'd lowered your oil price average assumption for the year. What about your assumptions on pricing fear products within that business? Have those -- has that assumption changed at all?

Bob Livingston - *Dover Corporation - President and CEO*

No, we closed 2015 pretty dead on about a 3% price concession for the whole segment, and you know, I've commented on this several times during 2015. The bulk of that we saw within our rods business and artificial lift and as well as our PDC insert business with our drilling activity. We do include in our guide another 2% down. On top of that is 2% incremental for the segment in 2016 and we feel pretty comfortable with that.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thanks.

Operator

Our next question comes from Steven Winoker with Bernstein.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Thanks, and good morning.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Just to put a finer point again on the energy side, what rig count assumption are you baking in now for 2016 given the continued deterioration?

Bob Livingston - *Dover Corporation - President and CEO*

Yes, so I -- let's see. I told you that in the first three to four months of the year, we're looking at a price of oil at you know, $30 or low $30s for the recount. I think at the low end of our guidance, we see the recount down 28% or 29%. At the high point of our guidance, it's down 25%, 26%.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. Great. That's helpful. Thanks. And then if you break out both the engineered systems and the industrial piece within that and on the pump side, the things that were actually down --.

Bob Livingston - *Dover Corporation - President and CEO*

Wait a minute, pumps is not in engineered systems.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

No, no I know. I'm talking about two different segments, okay.

Bob Livingston - *Dover Corporation - President and CEO*

Yes, okay.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

So within the -- first on the industrial side of engineered systems, what -- the down 3% on the bookings front and the down 1% on revenue, obviously that's not environmental, which is up, so what is getting hit in that place, in that segment?

Bob Livingston - *Dover Corporation - President and CEO*

Well, I'm not following your -- you lost me with the numbers.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

You said environmental solutions was positive so something's negative.

Bob Livingston - *Dover Corporation - President and CEO*

Partly what you need to recognize that included in the industrial platform is a business that we owned in 2015 that we still own today that we're in the process of divesting, and it's about $100 million a year, and that revenue for that business is taken out of our guidance in 2016, and I think you'll note that as probably the most significant decline.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

That's hitting organic.

Bob Livingston - *Dover Corporation - President and CEO*

That's hitting organic, yes.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. Fine. And then I was just saying on the pumps side within fluids.

Bob Livingston - *Dover Corporation - President and CEO*

Right.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

The non-energy side, so you've got industrial plastics, food, pharma, et cetera, what are you seeing in those areas?

Bob Livingston - *Dover Corporation - President and CEO*

Holding solid.

Steve Winoker - *Sanford C. Bernstein & Co. - Analyst*

Okay. Great. Thank you.

Operator

Our next question comes from Scott Davis with Barclays.

Scott Davis - *Barclays Capital - Analyst*

Hi, guys. Sorry if you've already answered this question. I don't recall hearing you say what your price in your backlog looked like holistically. You said it was flattish. I think you said for energy it was better than kind of expected but across the portfolio.

Bob Livingston - *Dover Corporation - President and CEO*

The pricing in our backlog? Gosh, Scott, we're such a book and ship business, that's not much -- that's not something I really pay much attention to. As I commented earlier within energy, our price for the segment, our price concessions for the segment were down 3% for 2015, and we expect another 2% down on 2016, but I'm not sure. Does that answer your question?

Scott Davis - *Barclays Capital - Analyst*

Yes, I guess I was trying to get at the non-energy stuff and see if there was some price deflation you're seeing in those businesses.

Bob Livingston - *Dover Corporation - President and CEO*

No, no I -- no, it's not.

Scott Davis - *Barclays Capital - Analyst*

Okay. That's fair enough. And then what's the FX impact on the backlog? Has to be pretty substantial I would think so I was just trying to get some granularity there.

Bob Livingston - *Dover Corporation - President and CEO*

I would say we dealt with the bulk of the FX impact on our backlog in the first nine months of last year. I don't think we have any exposure in our backlog beyond what we're already guiding, which is another 2% headwind this year in FX. And I should be sitting here with a smile on my face saying it's down from 4% to 2% but still 2% is a pretty significant number for us. But, again, it's -- we are such a book and ship business that the -- you see it show it pretty quickly in revenue, and I think we've got it covered.

Scott Davis - *Barclays Capital - Analyst*

Okay. All the other questions have been answered so thanks, guys.

Bob Livingston - *Dover Corporation - President and CEO*

All right. Thanks, Scott.

Operator

Our next question comes from Steve Tusa with JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Hello, good morning.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning Steve.

Steve Tusa - *JPMorgan - Analyst*

Just a couple questions on restructuring. Can you just help us kind of reconcile what was the incremental restructuring that you guys took relative to third quarter in energy? What was your -- I had my own expectation but kind of what was the stepped-up amount that was attributable to energy from your third-quarter guide? And then also, what were the year-over-year savings you guys recorded? I assume you're getting some of the savings where you took some heavy restructuring early in the year. What were the savings that you recorded year over year in your energy margin in the fourth quarter?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, my goodness. I don't have that detail, Steve. The restructuring in the fourth quarter in energy was a little over $4 million, and I think that was probably -- I think it was probably up $2 million slightly. It was up about $2 million over what we thought we would do as we entered the quarter.

Steve Tusa - *JPMorgan - Analyst*

So I guess the question is, if things are worse here going forward, if it's not if you guys are down more like in line with what you were down relative to rig count this year, I mean are you still taking kind of these onesie twosie restructurings or do we need to see more dramatic cost takeout? It just seems like $2 million relative to your annual revenue rate, any decline in the dramatic step down in rigs that we've had and the dramatic step down in oil price is a little bit light to help us feel good about the margin trajectory for next year.

Bob Livingston - *Dover Corporation - President and CEO*

I think if we -- that's a good question, Steve. I'd tell you that if we weren't continuing to try to expand our customer service activity, and we did in 2015 and our plan in 2016 is, again, to actually see an increase in product development spending within energy. If we weren't doing that, you'd see actually more benefits coming through from some of the restructuring actions we've taken in 2015. In 2016, I think our guide, we have I think $20 million of restructuring charges in our guide for 2016. 80% of that's probably in the first half, Steve. There may be a little bit of trickle over into the third quarter. But 80% of it I would say is in the first half.

Of the $20 million, probably $9 million of it is energy. The balance of the $11 million, a little bit at refrigeration but the balance of the $11 million is pretty evenly split between fluids and engineered systems. And if we see further deterioration in the energy market, look, we've got a -- at some point in time, we have this push versus pull of taking costs out versus continuing to invest for tomorrow and for being a better partner with our customers, and if we see further deterioration in the energy market, that debate gets a bit harsher.

Steve Tusa - *JPMorgan - Analyst*

Got it. Great. Thanks a lot.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks.

Operator

Our next question comes from Shannon O'Callaghan with UBS.

Shannon O'Callaghan - *UBS - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning, Shannon.

Shannon O'Callaghan - *UBS - Analyst*

In terms of this down 45% in drilling of production in the quarter, do you have the split between the drilling and the production piece? Then are you seeing any change in sort of drilled but uncompleted well activity or any other dynamics there?

Bob Livingston - *Dover Corporation - President and CEO*

So do I have a split between drilling and production? You'll have to follow up with Paul on that. I don't have that. I will tell you as a color comment that through every single quarter in 2016, our drilling activity was down year-over-year much more than our other upstream activity, which is artificial lift and automation. I think our drilling activity in 2016 was down 60% or 65%, significantly more than we saw in artificial lift and automation. Does that give you a little bit of color? I don't have the exact numbers.

Shannon O'Callaghan - *UBS - Analyst*

No, that's helpful. And in terms of -- I mean, now that we're down to $30, I mean have you seen any change in behavior on the pro0duction side in terms of these, you know, uncompleted wells or anything else, you know, in the various space?

Bob Livingston - *Dover Corporation - President and CEO*

We're monitoring that pretty closely. We continue to see what is the industry ducks drill but uncompleted. We continue to see the ducks inventory built during the third and fourth quarter. The -- it's -- that's always hard to forecast. It is -- for us, it's something that we've looked at in our sort of our rear view mirror as the data gets released, but we do know that the activity is quite different between the basins here in North America. West Texas or the Permian Basin is starting to see some increased completion of drilled but previously uncompleted wells. We're not seeing that in the other basins, and that's our fourth quarter comment; that's not our first quarter comment.

Shannon O'Callaghan - *UBS - Analyst*

Okay. That makes sense. Thanks a lot guys.

Operator

Our next question comes from Andrew Kaplowitz with Citigroup.

Andrew Kaplowitz - *Citigroup - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning.

Andrew Kaplowitz - *Citigroup - Analyst*

Bob, I think you mentioned that China sequentially improved in 4Q versus 3Q, and I know you've had some comments to that at the analyst dinner, but maybe you can talk about China across the business. Are you seeing more signs of stability there across the business?

Bob Livingston - *Dover Corporation - President and CEO*

No, you're referring to China as -- if the question is more of a general comment about China, I can't see the improvement. We just don't see it, even when we talk to our folks on the ground there. I think the improvement we saw in the fourth quarter, I'm going to trace it back to comments I've been making all year long. It's -- we continue to look for opportunities for new product releases and new products specific to the China market. Even with some of the restructuring activity that we have planned in the first three to five months of 2016, and this is a fluids comment, within the fluids segment, almost all of that restructuring is in Europe and China, interestingly enough. And some of the benefits that we will achieve with the restructuring in China is actually being reallocated to increase our customer facing and customer service capabilities in China. There are opportunities for growth, but I'm not going to label the change we saw in the fourth quarter as a ground swell change.

Andrew Kaplowitz - *Citigroup - Analyst*

Okay. That's helpful. And you talked about refrigeration already, but the margin itself was relatively low. A lot of that has to do with lower volume. Do you think this is the bottom for margin in that segment? And do you see -- have you seen any incremental pricing pressure in that segment or do you expect it to improve?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, gosh. This is probably the -- well, let's not talk about the segment. It would be very -- my comment would be very specific to Hillphoenix. I would say that this has always been a very price competitive market, and we'll see what happens in 2016 and 2017 with the change in ownership with our major competitor. Margins in the segment for the fourth quarter, the fourth quarter is historically, traditionally our weakest quarter of the year for margins for this segment. I think we saw that again in the fourth quarter of 2015, but we are -- we do see a pretty good path going forward here in 2016 for margin improvement for the year, for the year.

Andrew Kaplowitz - *Citigroup - Analyst*

Thank you.

Paul Goldberg - *Dover Corporation - VP of IR*

Do we have another question, Kristin?

Operator

Yes, our next question comes from Jon Wright with Nomura.

Jon Wright - *Nomura Securities - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corporation - President and CEO*

Good morning.

Jon Wright - *Nomura Securities - Analyst*

So I think in fluids, Bob, you talked about 10% to 12% up from exposure to oil and gas. Just wondering about midstream exposure given we've seen some cuts start to come, Kinder Morgan pulling back on CapEx. Do you have a sense of how big the midstream exposure there is, particularly on the fluids transfer side and maybe what are you hearing from customers?

Bob Livingston - *Dover Corporation - President and CEO*

Yes, we have some exposure. I'm not sure what the percentage is. I think it may be less than we have in upstream. We have -- we've seen it in some of our fuel transfer products that deal with terminals and distribution. I would say it was softer than expected in 2015, but I wouldn't label it as negative. We are taking a cautious approach as we look at that part of the market in 2016. But I will also point out that we also have this midstream exposure around energy within our energy segment in bearings and compression, and we watched that pretty closely, especially the OEM build rates around compressors, and that was down in the second half of last year. We are not anticipating a recovery. In fact, I believe that the guys are actually seeing further decreases in OEM compressor build rates in 2016.

Jon Wright - *Nomura Securities - Analyst*

Okay. And I guess given all that on the fluids side and given where you were in 4Q both in the sales and the book-to-bill front, what are kind of the offsetting positives that give you comfort in the negative 1% to plus 2% organic guide for 2016?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, look, you asked a question about the midstream. Still, the bulk of our -- by a large percentage, the bulk of our activity in fluids is not in upstream or midstream. The retail fueling piece, which is fairly significant and even more so now with the acquisition of Tokheim, we view as solid around the globe in 2016. It has both market expansion opportunities as well as some significant drivers in safety and regulatory issues, and we had embedded within that platform within our fluid transfer platform is our medical and our connector business, our fluid connector business, and that business I think had 7% or 8% organic growth in 2015 and is looking at something similar to that in 2016.

Jon Wright - *Nomura Securities - Analyst*

Great, thanks, guys.

Operator

And ladies and gentlemen, we have reached our allotted time for Q&A today, and we thank you for your participation in today's fourth-quarter 2015 Dover's earnings call. Please disconnect your lines and have a wonderful day.
