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DOV - Q1 2013 Dover Corporation Earnings Conference Call

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OVERVIEW:

DOV announced 1Q13 revenues of $2b. Management reaffirmed 2013 EPS guidance of $5.05-5.35.

CORPORATE PARTICIPANTS

Paul Goldberg *Dover Corp - VP IR*

Bob Livingston *Dover Corp - President and CEO*

Brad Cerepak *Dover Corp - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

Julian Mitchell *Credit Suisse - Analyst*

Jamie Sullivan *RBC Capital Markets - Analyst*

Shannon O'Callaghan *Nomura Securities Intl - Analyst*

Joe Ritchie *Goldman Sachs - Analyst*

Jeff Sprague *Vertical Research Partners - Analyst*

Steve Tusa *JPMorgan Chase & Co. - Analyst*

Nigel Coe *Morgan Stanley - Analyst*

Charley Brady *BMO Capital Markets - Analyst*

Deane Dray *Citi Research - Analyst*

John Inch *Deutsche Bank - Analyst*

Andrew Obin *BofA Merrill Lynch - Analyst*

Mic Dobre *Robert W. Baird & Co. - Analyst*

PRESENTATION

Operator

Good morning and welcome to the first quarter 2013 Dover Corporation earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations. After the speakers' opening remarks, there will be a question-and-answer period.

(Operator Instructions)

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

Paul Goldberg - *Dover Corp - VP IR*

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

This call will be available for playback through May 1 and the audio portion of this call is 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 32076262.

Before we get started I'd like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law. We would also direct your attention to our website where considerably more information can be found. With that, I'd like to turn the call over to Bob.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Paul. Good morning everyone and thank you for joining us for this morning's conference call. Our first quarter results were quite solid and in line with our expectations, driven by the production and downstream markets in energy, growth in consumer electronics, and the performance of our recent acquisitions. We were also pleased with the level of seasonally strong bookings as we move into the second quarter. From a geographic point of view, our North American markets continued to be very solid and our China markets remained positive. Our industrial markets in Europe were soft but did show signs of improvement in selected end markets as we ended the quarter. Though still modest, I am pleased our growth in the Middle East and Australia continues at a very healthy pace.

We see many positives as we start the second quarter and are excited about our prospects. The production in downstream markets within energy as well as the consumer electronics, refrigeration and food equipment and commercial aerospace markets should all be solid as evidenced by our strong bookings. We are also quite pleased with performance of our recent acquisitions, which helped drive acquisition growth of 6%. With respect to our Anthony acquisition, our integration and synergy plans are ahead of schedule.

We continued to execute on our previously announced share repurchase program. During the quarter, we repurchased 4 million shares for approximately $290 million. Overall, I am pleased with our results. Bookings growth at 7% and a book-to-bill of 1.09 gives us confidence going into the second quarter and for the remainder of the year. For the year, organic growth will be driven by new OEM product releases in the consumer electronics markets, continued strength and production in downstream energy, and a recovering rig count, seasonal strength in refrigeration, and our expansion initiatives in Fluids with a focus on plastics and chemical verticals.

Now, some specific comments on our first quarter. We posted revenue of $2 billion, an increase of 4%, and our adjusted EPS of $1.10 was a 9% improvement over the prior year. In our Energy segment, increased production activity, especially international markets, and continuing strength in downstream and retail fueling are among the trends that drove solid results. We expect the rig count to continue to improve through the year and drive a higher rate of growth in the segment. At Communication Technologies, our consumer electronics revenue growth continues to be driven by new product launches. We expect the second quarter revenue within consumer electronics to show strong sequential growth and will accelerate in a very active second half. Within our Engineered Systems segment, refrigeration and food equipment markets remain solid and our business performance was again strong.

Regarding our Fluid markets, results were impacted by some customer push-outs into the second quarter, but we remain well positioned as evidenced by their 1.1 book-to-bill. Our industrial end markets were mixed with good results in our global auto-related markets. Within our Printing & Identification segment, a continued weak European economy and a soft bar code printing business resulted in an organic revenue decline. Our fast moving consumer goods market continues to outperform our industrial markets in all geographies. We expect our revenue to improve as new laser equipment gains traction and we execute on a customer expansion campaign.

Though we didn't close on any transactions in the first quarter, our acquisition pipeline remains active. You should expect us to continue to strengthen our Company with additional deals this year. Our outlook for the year is largely unchanged from our last earnings call. We are reaffirming our previous guidance and expect to deliver full year EPS of $5.05 to $5.35. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corp - SVP and CFO*

Thanks, Bob. Good morning everyone. Let's start on slide 3 of the presentation deck. Today we reported fourth quarter revenue of $2 billion, an increase of 4% over the prior year. Organic revenue declined 1% while growth from acquisitions was 6%. The impact from FX was minor. Earnings per share were $1.12, a 12% improvement. Adjusting for $0.02 of discrete tax benefits, adjusted EPS was $1.10.

Segment margin for the quarter was 16.2%, down 50 basis points. This result was significantly impacted by higher costs associated with restructuring initiatives and other one-time charges. In the first quarter, these costs were more than $11 million, with roughly $7 million being incremental over the prior year period, impacting margin 30 basis points. Bookings increased 7% over the prior year, to $2.2 billion. These results represent strong 9% growth in both Communication Technologies and Engineered Systems.

Energy had bookings growth of 6%, while bookings declined 5% in Printing & Identification. Overall, book-to-bill finished at a strong 1.09, which is in line with seasonal trends and slightly better than last year. Backlog remains steady at $1.6 billion. In the quarter, we generated $31 million of free cash flow, the first quarter is always the slowest for cash generation due to seasonal increases in working capital and compensation related payments. Our full year forecast for free cash flow remains unchanged at 10% of revenue. Cash flow generation continues to be a key focus area for us.

Now turning to slide 4. Communication Technologies, driven by consumer electronics, grew 4% over the prior year. Energy's organic growth was essentially flat, although our production in downstream markets growth was strong. A decline of 1% in Printing & Identification was the result of a soft European industrial market. Lastly, Engineered Systems declined by 5% due to tough comps in refrigeration, largely reflecting the non-repeating target business.

Turning to slide 5 and our sequential results. Revenue increased 1% from the fourth quarter. Engineered Systems increased 6%, primarily driven by acquisition revenue growth. Solid production activity, including a small acquisition, helped drive a 4% increase in Energy. Printing & Identification decreased 6%, largely the result of normal seasonality, project deferments and a soft European industrial market. Normal seasonality in the consumer electronics market was the primary factor for Communication Technologies' decrease of 7%.

Bookings were up 12% sequentially. We achieved growth in three of our four segments. Engineered Systems grew 20%, principally driven by its refrigeration and fluid markets. Energy grew 13% with strong growth across all end markets including drilling. Communication Technologies bookings increased 4% sequentially on the strength of OEM product launches. The continued softness in the industrial markets caused Printing & Identification bookings to decline 6%.

Now on slide 6. Communication Technologies posted revenue of $373 million, an increase of 4% from the prior year. These results reflect normal seasonality in consumer electronics. Medical technology was solid, while our aerospace, defense and telecom other markets were largely stable year over year. Earnings decreased 5% to $44 million and segment margin was down 110 basis points to 11.9%. This performance largely reflects OEM customer mix within consumer electronics and approximately $7 million of incremental restructuring costs and legal expenses. The legal expense resulted in a favorable outcome to a long-running MEMS intellectual property dispute.

The restructuring costs included cost reduction activities in our speaker and receiver business, recently undertaken by our new management team. Absent these charges, margins would have been 14%, an increase of 60 basis points over an adjusted prior period. We'll continue to look for additional restructuring opportunities within this segment to drive further cost reductions and integration. Bookings were $379 million, up 9% from last year, largely reflecting normal seasonality. Book-to-bill finished at a solid 1.02.

Turning to slide 7. Energy revenue of $561 million and earnings of $140 million both grew 6%. Energy produced another solid quarter, as oil prices remained supportive of continued production activity and downstream markets continue to expand. As expected, North America rig count declined year over year, impacting our drilling business. Whereas our continued focus on global market expansion allowed us to post another quarter of solid revenue growth in both production and downstream. We are pleased at international revenue and developing markets increased more than 50% year over year in the quarter. Our operating margin of 24.9% was flat with last year and reflects strong execution and an ongoing focus on productivity. Bookings were $621 million, a 6% increase over the prior year. Book-to-bill was very strong, at 1.11.

Moving to slide 8. At Engineered Systems sales were $868 million, an increase of 6% year over year. Earnings declined 4% to $117 million. Our fluid solutions platform grew revenue 13% to $204 million, benefiting from acquisitions completed in the prior year. Fluid solutions organic revenue was flat with solid results in North America offset by continued softness in Europe and the timing of orders into the second quarter.

In refrigeration and industrial, revenue grew 3% to $664 million, reflecting the Anthony acquisition. Organic revenue declined 6%, largely reflecting the anticipated lower volume at target. Operating margin was 13.5%, a 140 basis point decrease from the prior year. This decline largely reflects the impact of the Anthony acquisition. Bookings were $978 million, an increase of 9% resulting in a seasonally strong book-to-bill of 1.13. Our fluid solutions platform bookings increased 21%, to $224 million, and refrigeration and industrial increased 6% to $755 million. Book-to-bill for fluid solutions was 1.10, while refrigeration and industrial's was 1.14.

Now let's turn to slide 9. Printing & Identification's revenue was $238 million, a decrease of 2% from the prior year. Earnings increased 14% to $30 million. Our fast moving consumer goods markets remained solid and helped to partially mitigate softness in our industrial markets, especially in Europe. Operating margin improved 180 basis points to 12.5%. The benefits of prior restructuring, continued productivity and a favorable product mix helped drive margin improvement. Bookings were $237 million, down 5% from last year, reflecting continued soft industrial markets. Book-to-bill ended at 1.00, largely consistent with last year.

Moving to slide 10. First quarter net interest expense was essentially flat with last year at $30 million. Corporate expense decreased by $3 million year over year. Our tax rate was 26.1% and included discrete tax benefits of $0.02. Adjusting for these benefits, our normalized rate of 27.8% was in line with our expectations. Capital expenditures were $47 million in the quarter. Lastly, we repurchased 4 million shares for approximately $290 million in the quarter, all of which were repurchased under our $1 billion program. We have now repurchased $540 million in total and we expect to complete 70% to 80% of the program in 2013.

Turning to slide 11 and our 2013 revenue guidance. Our revenue guidance in total remains unchanged from our last call. We expect full year revenue growth of 7% to 9%, organic growth is estimated to be 3% to 5% for the full year with a reduced estimate for our Printing & Identification segment. We now expect their organic growth to be in the range of 1% to 2%, down about 1.5 points due to lower industrial end markets. Completed acquisitions will add around 4%.

Now on slide 12. As Bob mentioned earlier, we are reaffirming our full-year EPS guidance. Again, we expect full-year revenue growth of 7% to 9%. Corporate expense remains unchanged at $150 million. Interest expense will now be around $127 million and CapEx should be about 3.4% of revenue. We expect our 2013 tax rate to be in the range of 27.5% to 28%.

Turning to the earnings bridge on slide 13. 2012 adjusted EPS was $4.44. For the full year, our bridge remains essentially unchanged from our prior guidance. The impact of volume and mix is $0.28 to $0.46. Net productivity should add $0.12 to $0.22. We expect completed acquisitions to be $0.13 to $0.16 accretive for the year, largely driven by Anthony. Investment and compensation will have a $0.12 to $0.18 impact for the year. Corporate expense will have a $0.05 impact on higher pension expense.

Lastly, our ongoing share repurchase program coupled with the tax rate and offset in part by incremental interest expense should have a net benefit of $0.25 to $0.30. Based on the above, earnings per share from Continuing Operations is expected to be $5.05 to $5.35, representing 17% growth at the midpoint. With that, I'll turn it back over to Bob for some final thoughts.

Bob Livingston - *Dover Corp - President and CEO*

Thanks, Brad. As I mentioned earlier, I am pleased with our first quarter performance as we delivered solid results. We ended the quarter with a strong book-to-bill of 1.09, which bodes well as we begin the second quarter. Looking forward, I remain confident in the positions we hold in our key growth spaces. For instance, the acquisition of Anthony and our leadership in the retail refrigeration market provides us with opportunities to continue the momentum we've exhibited the last several years.

Leveraging our broad product offerings, leading technology, and geographic reach, we expect to generate significant revenue growth. Our close-the-case offering is gaining traction in several international markets due to retailers' concerns with higher energy costs and food safety. Of note, we booked sizable orders in Mexico, Brazil, and India since the year began. We see this dynamic extending across all geographies over the course of the next five years.

Communication Technologies will continue to grow as consumer demand for better audio products in their mobile devices remains a driving force. One OEM has already begun ramping for a new product release. We also expect several additional new OEM product launches as the year unfolds. Many of these new launches utilize three microphones and even four when counting the headset. This trend of more content along with secular growth in the smartphone market will continue to drive this segment's growth.

Global expansion opportunities in production and downstream have and will continue to fuel Energy's growth. Our global growth plans along with the anticipated recovery in drilling will result in solid revenue growth for the full year. Artificial lift products and services will drive over $60 million in incremental sales in Australia and the Middle East in 2013. We continue to pursue internal initiatives and acquisitions to build upon this momentum.

Lastly, Fluids will increase revenue nicely as we continue to leverage our global distribution channels and bring our leading technology to new markets and verticals, especially the plastics and chemical markets. Our recently acquired mag business saw tremendous success in capturing customer projects in the first quarter. In closing, I'd like to thank our entire Dover team for their continued focus on serving our customers and driving results. With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - VP IR*

Thanks, Bob. At this point, I'd like to remind the audience to limit yourself to one question with a follow-up so we can get the most questions in as possible. Laurie, if you could compile the questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Yes, I guess the first question was just on --

Bob Livingston - *Dover Corp - President and CEO*

Julianne, this is Bob. You'll have to speak up a bit.

Julian Mitchell - *Credit Suisse - Analyst*

Sorry about that. Is this better?

Bob Livingston - *Dover Corp - President and CEO*

I can barely hear you.

Julian Mitchell - *Credit Suisse - Analyst*

Okay.

Bob Livingston - *Dover Corp - President and CEO*

Okay, go ahead.

Julian Mitchell - *Credit Suisse - Analyst*

Okay. So I guess, yes, the first questions is really on the outlook for organic sales growth. It was minus 1% in Q1. I think the organic bookings growth year on year in Q1 was around plus 1 or plus 2. So assuming you get plus 1% or 2% core growth in Q2, to hit 3% to 5% for the full year you better be doing 6% to 10% in the second half. I just wondered what are the one or two things that have happened the last couple of months that give you ongoing confidence in that acceleration, or is it the case that your Q2 number, you have more of an acceleration than I think?

Bob Livingston - *Dover Corp - President and CEO*

I think your waterfall for the year on organic growth is pretty close to what we're looking at, Julianne. I guess my first comment in response would be a comment on the first quarter and our organic growth of a negative 1%. Actually, I would look or point out three -- make three specific points on the first quarter. Europe for Dover was down 2% year-over-year. That was a little weaker than we expected coming into the quarter. Our Target business at Hill Phoenix was down year-over-year as expected, about $23 million, $24 million. That's about a 1% negative decline for all of Dover. Our drilling business in the first quarter was down 9%. As we exit the quarter, again, I commented on this, a book-to-bill of 1.09, very solid, very strong. As we exit the quarter, and I would also say here in the early part of the second quarter, we see some improvement in Europe. The March and April activity show this.

Our second and third quarter is shaping up to be a quite strong period for Hill Phoenix and Anthony. Our acoustics business will be up in the second quarter, not only up sequentially, Julian, but I think if we look at it year-over-year, the acoustics business, our handset business is going to be up year-over-year, mid-teens to almost 20%. We expect some strong growth, organic growth in the second quarter from Fluids, just based upon the backlog we have coming into the quarter. If I were to give you a specific response on the second quarter, we guided for the year of organic growth of 3% to 5%. The second quarter should be right in that range. The balance of the growth, obviously, is in the second half of the year.

Julian Mitchell - *Credit Suisse - Analyst*

Okay. Thanks. And then just my follow-up question, in the Energy business, the margin performance was very, very good in Q1. I just wondered if there was anything abnormal in terms of the mix tailwind or something that helped you that may flip back again in Q2?

Bob Livingston - *Dover Corp - President and CEO*

No. Well, no, there wasn't anything unusual in their first quarter, but when you say the flip in Q2 or for the balance of the year, I guess the variable that we are monitoring pretty closely is the rig count and we do expect the rig count to continue to improve through the balance of the year. That will have -- that direction of change does have a little bit of bearing on the margins on Energy. We expect a fairly solid year from Energy for 2013.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes, I would just add, the execution in Energy was really very, very strong in the first --

Bob Livingston - *Dover Corp - President and CEO*

superb.

Brad Cerepak - *Dover Corp - SVP and CFO*

-- in the first quarter, through productivity and cost initiatives. Because as you know, the drilling business is some of our higher margin businesses. So, the mix naturally wants to mix down on the margin a bit and the team really did a great job in the first quarter.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. Thank you.

Operator

Jamie Sullivan, RBC Capital Markets.

Jamie Sullivan - *RBC Capital Markets - Analyst*

I wonder if you could talk a little bit on ComTec, just the mix effect on margins? You mentioned some of the shifting around with OEMs and how that kind of progresses into margins throughout the year. Also what the -- you talked about some sequential improvement in 2Q. There's been an Apple supplier last night talked about some noise around weakness into Q2 related to the supply chain. Just wondered if you could touch on those topics?

Bob Livingston - *Dover Corp - President and CEO*

Okay. Well, your first question was about margins in their first quarter and the outlook for the year. We do expect margins to continue to improve at ComTec as the year unfolds. I would say that the second quarter activity within ComTec, and especially within consumer electronics, is very focused on solidifying our design wins, some new design activity and some very, very strong focus on operational management to be prepared for a rather active second half of the year in consumer electronics with several new OEM product launches. Specific to the first quarter margins, Brad, you're going to have to chime in here, but our restructuring and our legal costs I think did weigh on our margins. But, I think if you back that out they were either similar to or slightly above our operating margins of last year. I actually think we had a very strong execution quarter at ComTec in the first quarter.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Sure. And then just quickly on Fluids, you mentioned some shipments pushed to 2Q, just wondering if you could talk a little bit more about that and maybe some of the -- how maybe Maag is doing and how that business is growing right now?

Bob Livingston - *Dover Corp - President and CEO*

I think maybe all of the push-outs we saw late in the quarter, into the second quarter, were related to Maag and some European customers. That happens. I mean, it was unfortunate, but we do see that on occasion in that business. They are pushed into the second quarter. We had very strong bookings within our Fluids business, especially within pumps in their first quarter. We're looking for a fairly solid performance from the group in the second quarter. I think their organic growth expectations in the second quarter, year-over-year, are mid single digits. Maag's doing great. We've been very pleased with this acquisition. It does give us the opportunity to address some different customers and some new verticals. I mentioned this in my prepared comments, especially chemicals and plastics. We've been quite pleased with this acquisition.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Thank you.

Operator

Shannon O'Callaghan, Nomura.

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

Hey, Bob, can you maybe just fill out a little more color on some of these OEM design wins you're talking about? I mean, I know it's not all reflected in your bookings in the quarter, but you sound like you have some visibility into the second half here. Can you just fill that out a little bit in terms of what you can see at this point?

Bob Livingston - *Dover Corp - President and CEO*

Well, we've been participating in a new OEM design launch that's occurred here in the last few weeks. We are not -- I don't think there's anything major or significant that we're looking at from an OEM product launch in the second quarter. The bulk of the activity for new OEM product launches is in the second half of the year and I'd say more specifically the third quarter. We have some visibility to those product launches. We'll have greater visibility as we exit the second quarter. Shannon, I would say that as we work through the second quarter, what we want to get a little bit firmer on is the exact timing of the product launches and the share content we'll have on those product launches. I think by the time we get through or end the second quarter, we'll have much, much better visibility on those two variables than we have today.

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

Okay. And you sound pretty pleased with the operating performance of the business in the quarter. I mean, where does that put Sound Solutions at this point in terms of profitability and yields and what you think you have left to do there?

Bob Livingston - *Dover Corp - President and CEO*

Yield improvement continued to be executed on quite well during the quarter. I'm also pleased to share with everyone that they did a great job in rebuilding a share position with several customers during the first quarter. We think that will continue during the second quarter. Revenue was slightly less than we anticipated, even with our share gains, Shannon. We did see with one specific OEM some reduced, I'll call it production builds, late in the quarter. We've got that reflected in our outlook for the second quarter. I know I'm repeating myself. The game plan for the second quarter is truly to be prepared for a very strong acceleration in product demand from several OEMs in the second half of the year.

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

Okay. Great. Thanks a lot, guys.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

Just following up on Shannon's last question on Sound Solutions, last quarter I believe you mentioned we were expecting about $0.13 to $0.18 in incremental EPS from Sound Solutions for '13. Are we still on track?

Bob Livingston - *Dover Corp - President and CEO*

Well, we've taken some self-imposed headwinds on that one, Joe. We took some restructuring charges in the first quarter. We're going to take some additional restructuring charges in the second quarter. As we get through the second quarter, we'll have an outlook for what additional cost reduction activities we'll have on the table for the second half of the year. The yield improvement, the gross margin improvement, the execution with our customers is improving and I would say that their first quarter performance came in very, very close to our expectations.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. That's great. As you progress through the rest of the year on Sound Solutions, is the goal then to get to profitability by 3Q with some of the product launches that you're seeing in the back half of the year, exiting the year with positive operating margins?

Brad Cerepak - *Dover Corp - SVP and CFO*

That's still the same.

Bob Livingston - *Dover Corp - President and CEO*

That's still the same. In fact, the more definitive plan I would tell you is exiting the year with a fourth quarter run rate of double-digit operating margins.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. Great. Thank you very much. I'll get back in the queue. Thank you.

Operator

Jeff Sprague, Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

Bob, just a little bit more on ComTec, if you could. You used the word solidify a couple times. Just unclear, have you actually won this new business or not, and it's just a question of timing of volume ramp or is there still --?

Bob Livingston - *Dover Corp - President and CEO*

Designs have been approved by the OEMs and we have won the business. What we don't know sitting here today, Jeff, is the exact date of the OEM product launches in the third quarter. We have a pretty good idea of what our share content will be, but I think by the time we get to the end of the second quarter we will have a definitive answer on that share content. But, the design wins are locked.

Jeff Sprague - *Vertical Research Partners - Analyst*

We should think of this stuff going through the Vienna plant?

Bob Livingston - *Dover Corp - President and CEO*

No, it's both, both Vienna as well as Beijing.

Jeff Sprague - *Vertical Research Partners - Analyst*

And then just one --

Brad Cerepak - *Dover Corp - SVP and CFO*

and our Knowles' facility, too.

Bob Livingston - *Dover Corp - President and CEO*

And the Knowles' facility.

Jeff Sprague - *Vertical Research Partners - Analyst*

Just on Anthony, the margin impact you're talking about, was that simply just mix effect? I assume it's not. Can you just give us how much purchase accounting and other noise might have been in there?

Brad Cerepak - *Dover Corp - SVP and CFO*

Sure. What we said was that -- if you recall, we said that Anthony would start the year -- I think we said it would be fairly neutral in the first quarter. We actually were a little bit better than that, Jeff. They were positive earnings in the quarter, even after covering amortization and acquisition related costs, so they were better than we expected. But at a low rate, because it is not their most significant quarter. They build into the second and third quarter, just like Hill Phoenix does. We still believe we're right on track, in fact maybe just a bit ahead on Anthony, given the first quarter. Simply the math of volume with very little accretion on the EBIT line impacts the margin mechanically.

Jeff Sprague - *Vertical Research Partners - Analyst*

Yes, absolutely. Thank you.

Operator

Steve Tusa, JPMorgan.

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

Can you hear me okay?

Bob Livingston - *Dover Corp - President and CEO*

Hi, Steve. Hear you fine. Thank you.

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

Just digging into Engineered a little bit more, the Target headwind you said was around $25 million, I think? Anthony --

Brad Cerepak - *Dover Corp - SVP and CFO*

$24 million.

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

$24 million?

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes.

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

Okay. We'll take $24 million. And then on the Anthony deal, around $70 million in revenues for Anthony?

Brad Cerepak - *Dover Corp - SVP and CFO*

For the first quarter, no.

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

Yes.

Brad Cerepak - *Dover Corp - SVP and CFO*

It was less than that. I want to say it was $60 million or low $60s million.

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

Okay. Low $60s million. Got you. So, the ex-Target and ex-Anthony the business was basically flatish?

Brad Cerepak - *Dover Corp - SVP and CFO*

Ex-Target --?

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

For refrigeration and food, revenues went up $30 million.

Brad Cerepak - *Dover Corp - SVP and CFO*

Oh, I would -- I don't have that math. It might be --

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

Revenues for refrigeration and food went up $30 million.

Brad Cerepak - *Dover Corp - SVP and CFO*

I would say slightly negative in the first quarter, even pulling Target out. And when I say slightly negative, excluding Target, it may have been -- revenue at Hill Phoenix may have been down less than $10 million, maybe $10 million, in the first quarter. I would label that as timing.

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

Okay, that's just timing.

Brad Cerepak - *Dover Corp - SVP and CFO*

Yes.

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

So, what -- I recall in the third quarter, 10-Q from last year, you guys still talked about remodels from retailers, I don't know if that was Walmart or Target. When does -- just remind us when the Target comp rolls off?

Brad Cerepak - *Dover Corp - SVP and CFO*

The Target comp rolls off -- so last year we had a very strong first half of 2012, and I think the delta on the first half, Steve, on Target, first half of '13 versus first half of '12 with respect to Target, it's down about $45 million.

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

Okay. So it gets much better in the third and the fourth quarter, so that's a part of that kind of --?

Brad Cerepak - *Dover Corp - SVP and CFO*

I would tell you right now, because we don't make the decisions, the customer does, but our planning right now would be that our activity in the second half of the year with Target would be about flat with the second half of last year.

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

Okay. And then one just quick question. Your commercial paper went from like minimal to $600 million at the end of the year, then it went up another $100 million in the quarter. I assume that's just timing because your free cash flow. How should we expect that balance to move throughout the course of the year?

Brad Cerepak - *Dover Corp - SVP and CFO*

I would expect to see, as we pace through the year, as our cash flow improves, the first quarter is our lowest because we're building inventory for the cycle on Hill Phoenix and Anthony, that we will continue to see that commercial paper come down. The increase in the commercial paper in the quarter, though, is directly related to us executing on our buybacks.

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

Then, sorry, one really quick one. What would the Sound Solution revs in the quarter, was it around $65 million? Is that right?

Brad Cerepak - *Dover Corp - SVP and CFO*

No. $5 million, $7 million higher than that.

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

Okay. Perfect. Thanks a lot. Appreciate it.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

So just going back to the organic growth cadence, just want to clarify, did you endorse the 1% to 2% range for second quarter?

Brad Cerepak - *Dover Corp - SVP and CFO*

Repeat that, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Yes. So you gave some color on organic growth in 2Q in the second half. Did you endorse that range, 1% to 2%?

Brad Cerepak - *Dover Corp - SVP and CFO*

For the second quarter? No. I think what Bob said was we have an expectation of 3% to 5% organic for the year. While we don't give guidance in the second quarter, given the strong book-to-bill, you look back a year, coming off a first quarter book-to-bill of 1.09, we should be well within that range for the second quarter of a full year range. I know that sounds convoluted, but we're going to see growth in the second quarter higher than that 1% to 2%.

Nigel Coe - *Morgan Stanley - Analyst*

Yes. I'm just clarifying, because I'm getting 3% to 4%. So, actually that makes sense.

Brad Cerepak - *Dover Corp - SVP and CFO*

I happen to like your number, Nigel.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's good. Then on the EPS phasing, you gave some color on 1Q, and 2Q you normally make somewhere between 26% and 27% of full year. Do you still think you'll be in that range for 2Q?

Bob Livingston - *Dover Corp - President and CEO*

I don't have that waterfall with me.

Brad Cerepak - *Dover Corp - SVP and CFO*

I'm going to say we're not going to really comment on that. We don't give quarterly guidance. I give you the top end, I give you the bottom. Then we're in quarterly guidance mode. I think you can look at our history and we gave some color on the first quarter because it was a little bit different given the seasonality we were seeing in our business and the impact of Target and Riggs. Beyond that, we're not really going to provide that kind of color going forward.

Nigel Coe - *Morgan Stanley - Analyst*

That's fair enough. And then just taking a step back, since the last earnings call in January what are the puts and takes in terms of your framework? Obviously you've taken down PID by about a point or so. Sounds like Europe came in a bit weaker, but seems we've turned the corner a little bit. Just your expectations in light of the strong book-to-bill, what's changed since January?

Bob Livingston - *Dover Corp - President and CEO*

Well, your comment on Europe would be the, probably my headline comment. It was a little bit weaker in the first quarter than we anticipated. We have, I would say, lowered our expectations very, very modestly for Europe for the year. That's probably it, Nigel. I will tell you that as we go through the second quarter, I've already commented on one of these points, that as we go through the second quarter and end the second quarter, what we're going to be watching very carefully is going to be the launch dates within consumer electronics, of the new products from the OEMs, and to see how the rig count is developing for the US market in the second half of the year. We still believe that the rig count will continue to improve throughout the year. We've seen some signs of that, some positive signs of that here in April. Those are going to be, from my perspective, those are the two key variables that we're watching for the second half and I actually feel pretty good with our set-up right now for the second quarter.

Brad Cerepak - *Dover Corp - SVP and CFO*

The only thing I would add to that, Bob, is I agree with the Europe comment being a little bit softer than maybe coming into the year, but what we're seeing in terms of the international growth on our Energy business is higher than we had expected. Now, we don't see it in a change of our guide range for the top line growth, but I would tell you we're very encouraged by that number.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great. Thanks a lot, guys.

Operator

Charley Brady, BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Back on the question of the rig counts, I think last quarter you had said you expected drilling to be, in '13, to be flat with '12, assuming about a 3% decline in rig counts. Is that still your expectation?

Bob Livingston - *Dover Corp - President and CEO*

I do believe that was the expectation that we shared with you on the January call, was rig count down year-over-year. I'm talking averages now, about 3%. I haven't done the math, but I would say it's still about that same number, maybe even 1 point weaker Charlie, in our outlook. Now, it is interesting to note that we, in our outlook, we have an average -- I'm talking the US market now, not North America. We have an average for the US market, in the second quarter of, to be very precise, 1,742 units. I mean, that's how we roll it up. Here in mid-April, the latest data point I've seen is rig count deployment in the US market right now is at 1,771 units.

Charley Brady - *BMO Capital Markets - Analyst*

Yep. Okay. That's very helpful. Just as a follow-up, on ComTec, your commentary on preparing in 2Q for a very active second of half, can you just help me understand, when you're saying preparing, should I assume additional cost inputs in that or am I looking at that the wrong way?

Bob Livingston - *Dover Corp - President and CEO*

No. I think if you look at any incremental cost inputs in the second quarter, it will be related to additional restructuring and some integration activities that we want to undertake in the second quarter. When I say preparing for the second half, the second of half is a big period. It's going to be a significant growth period for ComTec, especially in consumer electronics. I think I mentioned earlier that we see growth in the second quarter in our consumer electronics business of mid-teens to maybe almost 20%. The growth in the second half of the year is even more significant. I can't tell you an exact number, but I would tell you that the revenue split between first half and second half in our ComTec business is probably very close to $45 million in the first half and $55 million in the second of half. That underscores my earlier comment about getting prepared for some accelerated activity in the second half of the year.

Charley Brady - *BMO Capital Markets - Analyst*

Thanks a lot.

Operator

Deane Dray, Citi Research.

Deane Dray - *Citi Research - Analyst*

I wanted to go back to your commentary on product ID, just if you could flesh that out? You said softer bar code market. You also mentioned the new laser technology coming online. How much of this is lower volumes and is there any share loss implicit in this guidance?

Bob Livingston - *Dover Corp - President and CEO*

Okay. Well, you had two different companies here. On the bar code business, I would tell you that the disappointment in the first quarter was all around some large projects that have been deferred either into the second or the third quarter. One of which we've actually booked the order on here in April, so we've captured that. With respect to our largest business in this segment, Markem-Imaje, the softness was in Europe. In fact, goodness, North America, Markem-Imaje had low to mid single digit growth. Latin America was probably 6% or 7% growth. We had 6% growth in China and in Europe I think Markem-Imaje was down 3% or 4%.

Deane Dray - *Citi Research - Analyst*

Okay. That's helpful. And then separate topic, Bob, was hoping you could comment on the implications of GE's acquisition in artificial lift? Obviously, it validates the attractiveness of the space, but now you've got a bigger competitor, bigger capitalization. You'll likely see more pressure as they try to consolidate this space. How does this impact your outlook for the business near term, longer term?

Bob Livingston - *Dover Corp - President and CEO*

Near term, we don't see an impact on our business near term. I do agree with your comment, that it does validate the value of our business and why this business is important to Dover. Longer term, we'll see how that plays out. We think we've got a very, very strong position. At the end of the day, the customers make the decision based upon the best product and the best service and the best technology and we like our position.

Deane Dray - *Citi Research - Analyst*

Will it be harder to do M&A in this space?

Bob Livingston - *Dover Corp - President and CEO*

No. In fact, I would tell you that -- oh, gosh, I don't know the count, but I commented earlier about our acquisition pipeline. I'm not sure how many deals we have that we're actually pursuing right now. Most of them, if not all of them, are within either refrigeration or fluids or the energy space. In the energy space we are looking at some very attractive add-ons that can be bolted into existing businesses in production as well as downstream. I happen to like the -- I think the pricing is attractive as well.

Deane Dray - *Citi Research - Analyst*

Great. That's helpful. Thank you.

Operator

John Inch, Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

The execution of the rest of the buyback, I'm trying to remember, have you guys said that this would be prospectively contingent on receiving proceeds from electronic test and assembly or just go you ahead regardless of that?

Bob Livingston - *Dover Corp - President and CEO*

No. We didn't say it was contingent on that.

John Inch - *Deutsche Bank - Analyst*

Okay.

Bob Livingston - *Dover Corp - President and CEO*

Obviously, that process is continuing. We are on track where we want to be and I'd say we will continue to execute on that buyback.

John Inch - *Deutsche Bank - Analyst*

Okay. Then on the sale of that -- is that a '13 event most likely, based on everything you know?

Bob Livingston - *Dover Corp - President and CEO*

On the electronic assembly?

John Inch - *Deutsche Bank - Analyst*

Yes.

Bob Livingston - *Dover Corp - President and CEO*

Yes. Brad said we're well on track. We're on process. I would expect that transaction on these businesses in the third quarter.

John Inch - *Deutsche Bank - Analyst*

Can we shift gears to sort of your outlook for pricing? I think in the Q you called out customer mix on the ComTec side, little bit of a reference back to I suppose GE and Lufkin and pricing. How are you guys thinking about pricing? You're getting all this new business, but with respect to new -- handset platforms and so forth, but how are you seeing this sort of evolve, right? Because, there's obviously a degree of observation that the OEs on the handset market are going to have to introduce significantly lower price point product. How do you dove tail it all, Bob?

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Bob Livingston - *Dover Corp - President and CEO*

No, I wouldn't agree with that comment, John. Gosh, last year -- let me start by giving a comment on 2012. It's easy to do because it's history. For 2012, I would say that ASP decline was very, very low single-digit percentage. When I say low, I think it was less than 3%, John. That's for the business. On any individual customer it's going to be a different product and a different price point, based upon the age of the product or the age of the design and the performance specs by the OEM. I would say that's -- we don't see any change in 2013. In any given quarter we can see some noise around customer mix, simply because of that. The difference between product performance specs and the design that we're delivering can carry different price points.

John Inch - *Deutsche Bank - Analyst*

So all else equal you think --?

Bob Livingston - *Dover Corp - President and CEO*

The ASP decline last year was extremely modest.

John Inch - *Deutsche Bank - Analyst*

I know it was. Basically ASP you think is in this zone for the foreseeable future, that's what you think?

Bob Livingston - *Dover Corp - President and CEO*

Yes.

John Inch - *Deutsche Bank - Analyst*

Consequently margins probably hold, particularly if looked on Sound Solution restructuring and you've got this new volume coming through. Is that fair?

Bob Livingston - *Dover Corp - President and CEO*

We expect margins to improve, not just hold. We expect margins to improve in this segment as the year unfolds.

John Inch - *Deutsche Bank - Analyst*

Yes. Sorry. I meant at least hold. Okay. Got it. Thank you.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a question. You commented on China, that China was solid in the quarter. How did it progress throughout the quarter and what was the trend post the Chinese New Year, if you could comment on that?

Bob Livingston - *Dover Corp - President and CEO*

The Chinese New Year in the first quarter was in February and whatever month that falls into happens to be the weakest month we're going to see in China for that quarter and the first quarter was no different. So, I would say we had two strong shoulders in the quarter, January and March, and with February being down a bit. We did like the activity, the level of activity we were seeing as we exited the quarter. But, we were rather pleased with, not just our overall Dover performance in China for the quarter, but goodness, you could list the long list of our operations, our businesses that operate in China. I think all of them had growth in their first quarter, with the exception of one and it's a project business. It's going to be up and down throughout the year, but even that business is expecting growth in China for 2013.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And just -- thank you so much. Looking at order dynamic in Energy, how do you guys, talking to your customers, how do they balance the view with nat gas now back north of $4, but then WTI is falling, how do you internally balance this view and how do your customers balance that view?

Bob Livingston - *Dover Corp - President and CEO*

We're not quite that privy to all of the internal debates and decisions that our customers make. We do see the outcome of those decisions. It is interesting to note that even with the rig count decline we've experienced over the past year, and let's see, I think in the first quarter rig count in the US was down 12% versus the first quarter of '12. What's interesting to note is that in the rigs that are being deployed for the drilling of oil, that rig count is actually up 5% year-over-year in the first quarter. Now, that's a little bit of a data point that speaks to your question and I -- there is a lot of speculation that as the rig count increases here in the US in the balance of the year, that we'll see some additional rigs being deployed for gas drilling.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Thank you very much.

Operator

Mic Dobre, Robert W. Baird.

Mic Dobre - *Robert W. Baird & Co. - Analyst*

Just a couple of quick ones. First is on overall bookings, can you tell us exactly how much of the growth was contributed by recent acquisitions?

Bob Livingston - *Dover Corp - President and CEO*

Oh, my goodness. I'm not sure I have that data point, Brad.

Brad Cerepak - *Dover Corp - SVP and CFO*

Well, I would just -- I don't have the data point either, but I would say it's a very small number in net bookings because the acquisitions, other than Anthony, were pretty small. Anthony is more of a book and ship business, so there's not much of a build in the backlog or in the bookings for Anthony.

Mic Dobre - *Robert W. Baird & Co. - Analyst*

Okay, I see. Sticking with Anthony there, can you comment a little bit on the seasonality of this business? From what I understood, you're expecting a nice uptick in second and third quarter. I wonder, normally what do these two quarters account for when it comes to the total year's revenue and maybe also talk a little bit as to how you see order progress through the quarter for Anthony?

Bob Livingston - *Dover Corp - President and CEO*

No, I'm not sure I can share with you, simply because I don't have the detail on how the orders progress during the quarter with Anthony. My guess would be they were fairly stable or fairly linear. Your question about how much of their revenue would occur in the second and third quarter, and it's going to look very similar to what we have shared with you over the years with respect to Hill Phoenix and I would say it's 60% to 65% of the annual revenue is going to fall in the second and the third quarter.

Mic Dobre - *Robert W. Baird & Co. - Analyst*

Great. Thank you.

Operator

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

Paul Goldberg - *Dover Corp - VP IR*

Thanks, Laurie. This concludes our conference call. We'd like to thank you, as always, for your continued interest in Dover and we absolutely look forward to speaking to you again next quarter. Have a good day. Bye.

Operator

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