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DOV - Q1 2018 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 1Q18 adjusted EPS of $1.16. Expects 2018 total revenue growth of 4-5% and adjusted EPS of $4.70-4.85.

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PRESENTATION

Operator

Good morning, and welcome to Dover's First Quarter 2018 Earnings Conference Call. Speaking 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 conference over to Mr. Paul Goldberg. Mr. Goldberg, you may go ahead.

Paul E. Goldberg - *Dover Corporation - VP of IR*

Thanks, Jennifer. 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 2018 guidance. We will then open the call up for questions. (Operator Instructions)

Dover's providing adjusted EPS results and pro forma EPS guidance that exclude after-tax acquisition-related amortization. We believe reporting adjusted EPS on this basis better reflects our core operating results, offers more transparency and facilitates easier comparability with peer companies. A full reconciliation between forecasted GAAP and adjusted measures reflecting adjustments for aforementioned acquisition-related amortization as well as separation costs and rightsizing costs is included in our investor supplement. 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 May 11, and the audio portion of this call will be archived on our website for 3 months. The replay telephone number is (800) 585-8367. When accessing the playback, you'll need to supply the following access code: 7788105.

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

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

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call.

Our first quarter performance reflects continued broad-based strength in our industrial markets. We generated 4% organic growth and delivered a margin improvement in 3 of our 4 segments. In particular, we had strong organic growth in environmental solutions, Printing & Identification, heat exchangers and our upstream energy businesses. A number of other businesses also turned in solid performances, including pumps, vehicle service equipment and industrial winches.

Retail fueling revenue was in line with our expectations, whereas retail refrigeration revenue was lower than expected, reflecting tough comps and soft market conditions.

With regard to margin, we delivered 70 basis points of improvement year-over-year and expect further increases in the coming quarters, especially in Fluids and Refrigeration & Food Equipment. We performed well in Engineered Systems and Energy. Refrigeration & Food Equipment was below expectations on lower volume.

Fluids margins were slightly off, reflecting some temporary inefficiencies regarding our factory consolidation in Europe. In all, our teams have done a nice job this quarter of pushing pricing through to offset material cost inflation, especially for steel. We also had strong organic bookings in Engineered Systems and Fluids, positioning these segments well as we move through the second quarter.

The team made great progress on the spin-off during the quarter, and on May 9, Apergy will become a fully independent company.

During the quarter, we also announced a management transition. Rich Tobin will begin as President and CEO on May 1. I am very pleased Rich has joined us, in, and I'm excited to see him put his stamp on the company.

Let me take a moment to cover several other things happening across the company. We have continued to make progress on our digital efforts. Our remote monitoring and IoT solutions in retail fueling and environmental solutions have enabled us to win significant new business. We are actively developing several focused offerings to help our customers manage costs and improve productivity. Our pipeline is developing nicely. We have bolt-on target companies in multiple areas that add either technology or in-market presence, which is complementary to our existing businesses. And lastly, we are well positioned to take advantage of the constructive global macro environment as most of our businesses are booking well and are poised to deliver solid organic growth this year.

We have provided pro forma 2018 guidance, which excludes our upstream energy businesses. We expect solid revenue growth and strong EPS growth.

Brad will now take you through the specifics of our first quarter performance and our guidance, and then I will come back for some closing comments.

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Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Thanks, Bob. Good morning, everyone. As I take you through the next few slides, please note, they are being presented inclusive of our upstream energy businesses.

As Bob mentioned, our results reflect organic revenue and bookings growth in 3 out of our 4 segments. Leverage on this organic growth combined with the benefits of our productivity and cost initiatives led to solid year-over-year improvement in adjusted margin.

There are several highlights in the quarter, including broad-based revenue and bookings growth in Engineered Systems. Within Fluids, we had strong performances in our industrial pumps, pharma and international retail fueling businesses as well as broad-based bookings growth across the segment. And within Refrigeration & Food Equipment, we had strong growth in our heat exchanger and can-shaping businesses.

In the quarter, we also experienced temporary operating efficiencies, including parts availability issues in retail fueling and weaker-than-expected market conditions in retail refrigeration. From a geographic perspective, the U.S., Europe and China markets all grew year-over-year.

Let's go through the details, starting on Slide 3 of the presentation deck. Today, we reported first quarter revenue growth of 6%, which includes organic growth of 4% and 1% from acquisitions. Partially offsetting these results was a 3% impact from dispositions. FX provided a 4% benefit. Adjusted EPS increased 26% to $1.16. This result excludes acquisition-related amortization costs as well as costs associated with our previously announced rightsizing initiatives and separation-related costs. A reconciliation of adjusted EPS can be found in our investor supplement.

Adjusted segment margin was 12.5%, a 70 basis point improvement over last year primarily driven by incremental margin and increased organic growth. Bookings increased 4% overall. This includes 4% organic growth, which reflects strong results in Engineered Systems and Fluids. Of note, excluding Apergy, organic bookings also increased 4%. Book-to-bill finished at 1.10. Excluding Apergy, book-to-bill was 1.12.

Our first quarter adjusted free cash flow was as expected, reflecting a slight increase in working capital and higher compensation payments. Overall, we are pleased with our continued progress in working capital. Specifically, working capital as a percent of trailing 12-month revenue was 17.5%, down 200 basis points from last year.

Now let's turn to Slide 4. As previously mentioned, 4% organic growth was driven by broad-based growth in both Engineered Systems and energy. Fluids organic revenue was essentially flat where strong industrial pump and international retail fueling was largely offset by U.S. EMV activity, which came in soft as expected. Refrigeration & Food Equipment decreased 7% primarily on the combination of tough comps and lower capital spending in retail refrigeration markets. As seen on the chart, foreign exchange was a 4% benefit while dispositions impacted revenue 3%.

Now turning to Slide 5. Engineered Systems revenue was up 8% organically, reflecting broad-based growth. Adjusted earnings increased 15% over the prior year, and adjusted margin was 15.3%, representing a 110 basis point improvement. These results reflect solid conversion on volume and the ability to mitigate increasing material cost through pricing.

Our Printing & Identification platform revenue increased 4% organically driven by continued solid activity in both marketing, coding and digital print businesses. In the industrial platform, revenue increased 10% organically, reflecting strong -- very strong shipments in waste handling and broad-based growth across other businesses.

Bookings increased 6% overall, including organic bookings growth of 8%. Organic growth reflects continued strong activity across the segment. Book-to-bill was 1.01 for Printing & Identification and a very strong 1.19 for Industrials and 1.11 overall.

Now on Slide #6. Fluids revenue increased 5%, including acquisition growth of 1% and 4% from FX. Organic revenue was flat, principally reflecting solid pump international retail fueling and pharma markets offset by U.S. EMV activity. Adjusted earnings increased 7%, largely driven by volume growth.

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Adjusted margin increased 20 basis points to 10.2%. This performance reflects earnings on volume largely offset by temporary inefficiencies, including supply chain shortages of components used in retail fueling. Of note, productivity will improve as our retail fueling factory consolidation is completed in the second quarter, resulting in substantially improved margin on a sequential basis.

Bookings activity was strong and grew 11% overall, including 6% organic growth. Organic bookings growth was broad-based. Book-to-bill was a strong 1.13.

Now let's turn to Slide 7. Refrigeration & Food Equipment's revenue organically declined 7%. The decline was largely driven by tough comps and weaker-than-expected capital spending in retail refrigeration. Last year, we saw seasonally strong first quarter activity in front of the new DOE energy efficiency regulations. We knew that this volume wouldn't repeat in 2018, whereas our can-shaping and heat exchanger businesses performed very well in the quarter. Earnings decreased 13% from the prior year and margin contracted 80 basis points, reflecting the impact of lower volume. Bookings decreased 14% organically largely reflecting softness in retail refrigeration market and order timing in can-shaping equipment. Book-to-bill was 1.10.

Now on Slide 8. Energy's organic revenue increased 17% reflecting growth in U.S. rig count and increased well completion activity and includes continued solid results in our industrial winch business. Earnings and segment margin both significantly improved over last year. Bookings were up 14% year-over-year. Book-to-bill finished at 1.03.

As Bob mentioned, our Apergy business had a strong quarter with 22% organic growth.

Going to the overview on Slide 9. Our first quarter corporate expense included $12 million of separation costs and $1 million of rightsizing costs. Excluding these costs, corporate expense was $29 million. Interest expense was $34 million. Our first quarter tax rate was 22.6%, in line with expectations when excluding discrete benefits.

In the first quarter, we completed $45 million of share repurchases as part of our previously announced $1 billion repurchase plan.

Now moving on to Slide 10, which shows our updated 2018 guidance. Our updated guidance is presented on a pro forma adjusted basis. As discussed last quarter, we are adjusting for acquisition-related amortization and rightsizing costs and separation costs as incurred. Further, our updated guidance now excludes Apergy for the full year.

Lastly, within our updated guidance, bearings and compression, which was part of our Energy segment will be reported within Fluids. And Tulsa Winch, which was also part of Energy, will be reported in Engineered Systems.

Moving to the guide. We expect 2018 total revenue to increase 4% to 5%. Within this forecast, organic revenue growth is expected to be 3% to 4%. Acquisitions will add 1% and FX should add about 3%. Dispositions are expected to have a 3% impact. All segments are expected to grow organically. Further, we expect adjusted segment margin to improve about 50 basis points over 2017 to approximately 15.1% at the midpoint. In summary, we expect full year adjusted EPS of $4.70 to $4.85.

Our guidance excludes second quarter cost related to the Apergy separation. Further, this guidance represents an increase of approximately 15% over 2017 at the midpoint.

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

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thanks, Brad. Going forward, the strong bookings in Engineered Systems and Fluids and our strong book-to-bill supports our organic revenue forecast. Additionally, we expect marking and coding, digital printing and waste handling to continue to perform very well.

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In Fluids, we expect another year of strong growth in our pumps and pharma businesses. We also expect bearings and compression to be solid and retail fueling to sequentially improve. In Refrigeration & Food Equipment, we expect continued strong performance in heat exchangers and can-shaping equipment while retail refrigeration will improve in the back half of the year as several customers step up the remodel activity.

With regard to the second quarter, we expect both Engineered Systems and Fluids to deliver solid organic growth as they ship under strong order books. Retail refrigeration in the second quarter will continue to be impacted by tough comps related to last year's strong shipments and softer overall markets. We also expect to see improved margin on a sequential basis at all 3 segments especially at our Fluids and Refrigeration & Food Equipment segments. I believe that Dover is well positioned in 2018.

In closing, I just want to say that it has been a great honor and pleasure to serve as Dover's CEO these past 9 years, and I would like to personally thank every Dover employee for contributing to our success. I wish you all well, and I am sure you will have continued success in the future.

Now Paul, let's do some questions.

Paul E. Goldberg - *Dover Corporation - VP of IR*

Thanks, Bob. (Operator Instructions) So with that, Jennifer, let's take the first question.

QUESTIONS AND ANSWERS

Operator

Your first question will come from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

Bob, congrats on a good run. Enjoy your retirement. Thanks for all your help over the years. Much appreciated.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thank you, Jeff.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

I know you don't want to speak for Rich and you made the comment about him putting his stamp on things. But is it safe to assume that given that he's on the board, that this guide that we're getting today and the outlook that we're getting today kind of conforms with his view of the world also?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

He is not ignorant of the guide we're providing today. I guarantee you that, Jeff. I think the forecast and the guide we have shared with you today with respect to -- I would say with respect to Engineered Systems reflects the very strong visibility we have for them in the second quarter and I would also say in the third quarter. With the fourth quarter, I think we are being a bit conservative with our outlook in Engineered Systems. And on Fluids, I will tell you, we didn't share this in the comments, in the prepared comments here, but we were very, very pleased with the order activity in retail fueling in the first quarter especially as it built through the quarter and have pretty strong confidence that we are going to see sequential, both revenue and margin improvements, in this platform and in this segment as we move through the year. It would be -- I think the last thing I

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would want to do is, Jeff, as Rich is coming on board, would be to raise guidance because I don't think it's necessary today. I think if there's going to be any change in guidance with respect to our strong activity, I'm going to leave that for Brad and Rich to speak to you about on the July and the October call.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

Great. Understood. And then I just wonder if we could drill a little bit more into refrigeration for a moment then. Obviously, there's a lot of uncertainty among grocers in particular on CapEx they want to spend and what they want to spend on and that sort of thing. Can you just provide a little bit more detail what you're hearing from the channel? Do you see capital spend perhaps freeing up later in the year? And is there any particular price cost dynamics that influence the margins in refrigeration in the quarter?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

So let me deal with the first one. I think there is a growing confidence that we have as a result of input and conversations we're having with customers that we will see increased spending, capital spending in the second half of the year. But Jeff, I will tell you, it is going to be very, very much driven by remodel activity, not new store construction. And without sharing the name of the customers, we have a couple of new customers that enter the order books in the second half of the year as well. So I feel pretty good with the outlook right now for refrigeration. Material and cost, our pricing, I'll give you a response on refrigeration, but I think it's just as important to hear it for all of Dover. We entered the year with about $14 million of what we labeled as tailwind for 2018 -- what we thought pricing -- the tailwind that we thought we had pricing above material and cost inflation. Some of that has evaporated, Jeff. I think I did throw out the number $14 million on the January call. And I would say our forecast right now and our guide assumes that $10 million of that $14 million has dissipated. But we have been much quicker this year than we were last year in pushing pricing through. And many of our companies, especially the larger users of steel, have implemented price increases during the first quarter. We're taking orders now that have the new price increases in them and feel like we've got a much better start on covering the material cost inflation with our price increases this year than we did last year across the board.

Operator

Your next question is from Julian Mitchell with Barclays.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

I'll echo Jeff's congratulations, Bob, and wish you all the best.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thank you.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

On the -- just looking at that slide in the appendix, you talk about the $0.05 of EPS this year coming from incremental share repurchase. Just wondered what sort of dollar number of buyback spending that tallied to? And if there had been any change in the aspiration to spend the spin dividend all on buybacks this year.

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Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, I'll give you a headline comment or response on that. Brad can provide a bit more detail. So the $0.05 change in our guide with respect to share repurchases does assume that the dividend we received from the Apergy spin will be fully allocated, 100% allocated to share repurchases in 2018. That said, Julian, I will tell you that the $0.05 increase on the guide is as conservative as we can make it with respect to the share repurchase activity. It does not assume an early ASR with respect to share repurchases. It is sort of feathered in our guide to occur during the balance of the year following the spin of Apergy. I will leave to Rich and to Brad and to the board to make a final decision on how that share repurchase activity actually occurs. But I'll repeat myself. The $0.05 could not be any more conservative on our share repurchase activity.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

So let me just add, I mean, a couple of facts there, I guess. Our forecast is assuming about 140 -- 154.6 or so shares weighted average for the year. Remember the timing of the $0.05 is -- it could be done lots of different ways to Bob's point, but the power actually comes forward into -- goes forward into 2019 where we see those shares opening up '19 in that $145 million to $146 million type of share range on spending of that $700 million. So you have this carryover benefit going into '19.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

Very helpful. And my follow-up will just be around the corporate cost. The guidance has gone up about $7 million, I guess. That's mostly costs that were in Apergy that are sort of stranded at the remainco for now. But I guess, when you think about what that number should be for your revenue base excluding Apergy, how much lower do you think that run rate should be than the $129 million? I guess the stranded costs would go away and then some of that base corporate cost also should be coming down because of the smaller revenue base.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, a lot of the rightsizing we did last year as you know, and that's why we call it rightsizing, getting ready for the Apergy spin. You're correct that our previous guide, I believe, was $122 million. It is now $129 million. A little almost $5 million of that, I would say, is this Apergy stranded cost that we've shown here in corporate. Of that $5 million, we got to work through the details of that. We have been working through the details. Some of it will go away. A lot of it will go away into '19. But some of it, like fixed infrastructure of a building, for instance, doesn't go away. But we're active on it. We're on top of it. We expect to continue to work it down. And I would expect the corporate cost number to continue to come down a bit into '19.

Operator

Your next question is from Andrew Obin with Bank of America Merrill Lynch.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Bob, congratulations on your retirement, and thanks for all the hard work over the years.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thank you.

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Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

Just one question. Given all the macro concerns, just want to drill into one of the business -- drill down into one of the businesses. Specifically on Printing & ID, could you provide more detail by geography and market, both on sales and what are you seeing on orders, if you're seeing signs of a slowdown in any specific market or any specific geography?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Okay. I don't have the detail with me, the geographic detail for Printing & ID, though I do know in the first quarter, I know that order rates were extremely balanced around the globe. There was nothing unusual in growth rates on order activity in the first quarter that would raise any concerns. But I don't have the specific numbers. In order activity, the answer is no. We have seen no sign, no evidence, and our order book would actually speak just the opposite of your question that the order activity did build through the quarter. And we are looking at a fairly solid 2018 at Markem-Imaje and another double-digit growth rate in our digital print business.

Andrew Burris Obin - *BofA Merrill Lynch, Research Division - MD*

And just a follow-up on the Refrigeration & Food Equipment question. Given sort of the weakness of organic orders in the first quarter, you are saying that you're seeing pickup in orders. But basically, the pickup in orders has to be fairly substantial to get you to flat revenues for the segment for the year. How much uncertainty is there about the order pick up? Or do you actually have enough visibility at this point to feel comfortable with this forecast?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, number one, this business -- let's speak to our retail refrigeration, Hill PHOENIX and Anthony. I would tell you that -- and our customers recognize this -- is that our lead times over the last, I would say, 6 months, maybe 9 months, are significantly shorter than what we were dealing with in -- and I think it was in -- help me here, guys, in 2016 and in the first half of 2017 as we were making so many changes there in the factories. So it's -- the short-cycle nature of this business is very well recognized by our customers today. We have very strong input from customers with respect to anticipated spending in the second half. And the new awards that I referenced or hinted to earlier, those are not yet -- I mean, we are not waiting for those to be signed. They have been awarded.

Operator

Your next question is from Steve Tusa with JPMorgan.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Congratulations, Mr. Livingston. So just on refrigeration, the book-to-bill was good, but not perhaps as strong as it's been historically in the first quarter because obviously, this is a very seasonal business with 2Q and 3Q stronger than 1Q and 4Q. Should we expect -- you mentioned back half deliveries. Should we expect a bit of a sub-seasonal performance in 2Q before maybe being a bit better seasonal in kind of 3Q and 4Q? How should we just think about using the base of 1Q?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Yes. I think you will see this year that the third quarter is a much stronger seasonal third quarter relative to the other 3 quarters of the year than we have historically shown. If you look back at history, many years, the second quarter has been the strongest quarter with the third quarter being strong, but typically trailing a little bit behind the second quarter. And we see that being different this year. We see in the third quarter -- June through September -- being the strongest shipment period for this business in 2018.

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Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Okay. And then what...

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

And then some of -- and right now, we do expect the fourth quarter to show organic growth for the retail refrigeration part of the business. And again, I'm going to reference the new awards that have been booked recently.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Right, okay. And then as far as the margin guidance for that segment, I'm not sure you've given it specifically, but maybe just some color on how you would expect for the year -- it to play out for refrigeration.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, I can't -- I don't have it by quarter, Steve.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

No, no, no, just for the year. Just for the year. Just call it for the year.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

I think we're sitting right at 100 bps of margin improvement for the year.

Charles Stephen Tusa - *JP Morgan Chase & Co, Research Division - MD*

Okay. Even with the first quarter start being down?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Even with the first quarter start.

Operator

Your next question is from Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Congratulations, Bob.

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Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thank you.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

So maybe touching on Steve's question there for a second on just refrigeration. So I want to make sure that I've got this right. The bookings this quarter were down a lot, but it sounds like the awards are -- have been booked. So it's just like...

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

No, no, no. I referenced 2 new customer wins. We have those contracts in-house. We don't have the releases yet on when they actually want the product shipped, but we do know that it will be shipped in the second half of the year.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

So the awards will then be booked in your backlog sometime in 2Q or 3Q?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

I would expect some of that to be flowing into Q2 and the balance of it in Q3, yes.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. That's good clarification. And then on -- I may have missed the last comment you made on 100 basis points of margin expansion. Were you guys talking about refrigeration specifically?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

The segment.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

The segment?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Yes.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay. And that starts to pick up from a cadence perspective in 2Q?

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Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Q2.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay, great. And then one question on EMV. You saw some softness this quarter. You're -- one of your large competitors talked about it last night as well. Maybe talk to us a little bit about how you expect that to move forward for the rest of the year.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, I -- Brad, you'll have to clarify if I'm speaking incorrectly here. But I don't think our EMV activity in the first quarter was any different than what we expected.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

That's true.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

It is interesting that what we did see in the first quarter -- and here, you're going to get into the nuances of is it EMV or is it commercial activity, normal commercial activity? The order rates were stronger in the first quarter than we had anticipated across the board for retail fueling. And when I say across the board, I'm not just referring to our U.S. market. We had stronger booking rates, most notably in Asia, especially China and India, in the first quarter but also in Europe across the board for retail fueling. The order rate increases we're seeing are actually for new dispensers. So as we get into the second half of the year, we are -- our confidence is growing that we're going to see increased EMV activity. But we also know, especially as we saw in the fourth quarter of last year and even more so in the first quarter that was just completed, that some of the strong dispenser orders we're getting, are 4 applications are for sites, especially here in the U.S., that absent the purchase of a new dispenser, we would be selling EMV kits. So we've actually -- we're actually quite pleased with the order activity we had in the first quarter. And our confidence is growing that we're going to have a very solid year in retail fueling not just here in the U.S. but globally.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. That's good to hear. And Bob, again, congratulations and best of luck.

Operator

Our next question is from Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Bob, I would've thought that you would've timed your farewell tour to include one last appearance at EPG. How did that not happen?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

I made a mistake.

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Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Can we talk about the supply chain disruptions, factory consolidation issues in Fluids in Europe? Just give us a perspective on what has happened? And you said it will be completed in the second quarter, so will it still be disruptive in the second quarter?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

So it is within the Fluids segment, Deane. You're correct. But to be more specific, it's actually within retail fueling. So we -- as part of the integration plan and activity with Tokheim and Wayne, we are in the process of moving production from the Swedish factory, which was the Wayne factory, into the Dundee, Scotland factory, which was the -- is the Tokheim factory. And that move, I believe, I actually believe it gets completed in 2 weeks. Am I right? It's May, I think that it actually gets completed in 2 weeks. And the -- we did incur some additional, I would call it, overtime and let's just call it move cost in February and March that, frankly, we didn't have in our forecast. With respect to the supply chain, I don't remember all 4 parts, and it really was restricted to 4 components that we had some supply interruption with in January and February. I think 2 of them were fairly much resolved and behind us by the time we exited the first quarter. The other 2 are being resolved as we are on this phone right now, Deane, and will be a nonissue by the time we exit the second quarter. And I think you're going to see some fairly significant improvement in margins for this segment in the second quarter.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. And then for the follow-up, in Engineered Systems, a comment about industrial businesses having broad-based growth beyond the highlighted waste handling business. Can you just talk for a moment about these other businesses within industrial? They don't usually get much airtime, but maybe you can touch on those here. That'd be helpful.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, again, it was broad-based. I think I did mention in the script that we saw very solid growth at vehicle services in the first quarter. And I called out industrial winches which, going forward, will be in Engineered Systems. But it was broad-based across each of the businesses and the industrial platform. That said, I will tell you, it was most -- the company that led that platform in growth rates in the first quarter was material handling. They did an outstanding job.

Operator

Your next question is from Andrew Kaplowitz of Citigroup.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

Bob, congratulations and good luck.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Okay. You have 2 minutes because I'm leaving at 9:45.

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Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

Bob, can you talk about the change in the free cash guidance? Just marginal to 10% -- from 10% to 11%. But cash as you know came in a little light last year just in terms of conversion. So anything you can sort of read into it around working capital movement? Or maybe you're just being a little bit more conservative to start the year.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Brad will give you some detail on this. But I -- look, we dig at this pretty strongly every week, every month, every quarter. Working capital was down again as a percentage of revenue in the first quarter. I think you're going to continue to see that through the balance of the year. But working capital as an absolute dollar amount did increase in the first quarter as a result of some increased inventory. And it's totally connected to the growth rates. We are -- we had really strong growth rates and order rates in Engineered Systems and in Fluids. And some of the working capital, absolute dollar working capital increase in the first quarter is in response to the growth rates. But again, as a working capital metric, working capital came down. Do you want to clarify or add to that?

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Not to clarify, but I will add a few points. Our first quarter, we characterize it as expected. Slightly negative. I would say it splits between -- I'll call it, Dover and Apergy about the same levels, meaning about 50-50. And again, if you look back 5 years' trends, we're always somewhat little bit negative to low single digits in the first quarter. That's traditionally what we've seen in that first quarter, so nothing unusual there. With respect to last year, I'll just reiterate. When we looked at last year, we came in at about 9%, a little over 9%. Again, that splits about the same for both companies. So going forward, the 10% call now, I'd say, is early days. A little bit conservative perhaps, but we think it's a reasonable number as we now go forward on a Dover basis ex Apergy. So we feel like it's a good guide for us.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

Okay, that's helpful color. And then obviously, we're cognizant that Rich might have a different view when he gets into the seat, but are there any more significant actions that you can take in refrigeration? If the weakness in the market persists and it doesn't come back as you expect, can you do more restructuring in that business?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Number one, I will tell you, we haven't stopped. I don't remember the count, but I know that in the month of March and coming into the first part of April, there where additional rightsizing steps taken within Hill PHOENIX and Anthony. I don't remember the number, Brad, but I think it was, gosh, I think it was about 110 employment positions that were reduced in March and early April. So we continue to, I think, manage the business fairly well. And I will tell you, the business leadership team at Hill PHOENIX and Anthony has done a very good job over the last couple of years relaying out the factories, reducing the factory footprint. And I think -- I have a lot of confidence. We see a little bit of volume growth here in the second half of the year. You're going to see a pop in margins from this business that will reflect all of the work that this team has done over the last couple of years. I actually feel very positive about the work they've done.

Operator

The next question is from Steve Winoker from UBS.

Steven Eric Winoker - *UBS Investment Bank, Research Division - MD & Industrials Analyst*

Congrats on your retirement, Bob. I'll echo that.

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Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Thank you.

Steven Eric Winoker - *UBS Investment Bank, Research Division - MD & Industrials Analyst*

So just, you spoke about the M&A pipeline a bit and the richness of that right now. I guess, a couple of questions there. One is to what extent is that a little bit on hold given the leadership transition at all? And then secondly, Middleby, others have been very active. We've seen a lot of closed deals in food equipment, et cetera, in the recent quarter. Just give us a sense for whether that space is still a priority as opposed going forward or how to think about it.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, let me correct something. You used the word richness. I didn't use that word. I think our pipeline is fairly active. It is absent at the current time any significant or large deals. They are all fairly, I'll call them small to midsize deals, and they are all bolt-ons. And I would tell you that nothing has slowed down with respect to our pursuit of these opportunities over the last couple of months as especially in the last few weeks as we announced the transition with myself and Rich. And I think you'll hear more from Rich on this topic over the next couple or 3 quarters, I am sure.

Steven Eric Winoker - *UBS Investment Bank, Research Division - MD & Industrials Analyst*

Okay. Fair comment. And on margins, those long-term margin targets you set in place. You have talked a little bit about it now. But just on the road map to those kind of 300 to 400 basis points for Fluids and Refrigeration & Food Equipment, what's your sense of the kind of achievability and timing of that now?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

I think we're in a good position to achieve those targets in Engineered Systems and in Fluids. As I commented earlier, with respect to refrigeration, we need to see this leadership team have a little bit of volume here in the second half of the year pick up over the first half. And I think you'll see that those margins are achievable as well.

Operator

Next question is from Scott Graham with BMO Capital Markets.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Bob, congratulations and good luck and really enjoy your retirement. I'm just -- I'd like to go back and revisit that last question because I think it was prefaced with a long-term characterization. Those are '19 targets, right?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Correct.

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Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

So you do feel that with a strong second half, you can get to your refrigeration targets in '19?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Well, if you're referring to the strong second half of '18, we still have another year.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Right. But there's -- I guess, my broader question is, is there anything right now that you see -- and it sounds like not but just to ask it directly -- where you won't at least hit the low end of those targets in '19?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

No. I feel very confident with the low end of those targets.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Let me maybe interject something here because I want to make sure -- we're talking a lot about the back half here. I just want to maybe set something up here for a second. I want to go back. I know you don't have 2017 on a pro forma basis. That will be...

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Not yet, not yet.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

But I'm actually going to give it to you right now. But we're going to file an 8-K after the spin and we'll provide all the restated data and you'll have all that information. But in 2017, we did $4.15 on a comparable basis to our guide, that we're guiding today, on an adjusted pro forma basis. The way the year is setting up, you think about it this way. When you see 2017, you'll see the first half was 44% of our year and the back half was the delta, 56%. This year is setting up no different.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

It's actually identical.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

It's identical. And so when you think about first half, second half and trajectory of the business, yes, DRFE, we have some bookings that we expect in Q2 into Q3 which will make the back half better. By the way, on food equipment, same thing. We won a big piece of business even though food equipment has been a challenging market. I'm talking about matching up with the Welbilt's and the Middleby's. We feel really good about that business. And we said this, heat exchanger business is going to have an awesome year, and so we feel good about that. The last piece I would say -- just again, you don't have this data, it's coming out -- our first quarter, the way our first quarter on a pro forma ex Apergy basis will look versus $1.16 is $0.90. So we're right on pace where we want to be. Our guide hasn't changed. Our guideposts for Dover ex Apergy haven't changed. Our core growth is up 1% on the revenue side. Our segment margin expectation guide-to-guide for a -- on a pro forma basis hasn't changed. There's a

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little bit of a change in corporate that we talked about offset by a little bit of interest savings as we paid down the $350 million of debt due in the first quarter and a little bit of benefit on tax and shares. And that's how our guide sets up. So we're really sitting here today with fundamentally the first quarter as we expected. The mix shift is different within the segments, and the trajectory of the business feels good to us.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

And I echo that strongly.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

I do want to maybe just go back and maybe try to understand price cost where you said that about $10 million of your $14 million, which I assume was positive price cost if I remember that correctly, that there's $4 million left and you're out there increasing prices. So I need to triangulate here a little bit because first quarter inflation in certain commodities, obviously, the metals complex was pretty significant. So are you saying that your $4 million positive price cost on an annualized basis today?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Yes. Without further inflation, yes.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

So your price increases will make you price cost positive in 2018?

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Slight. Slightly. It impacts the margin rate a bit. But yes, marginally price positive. Again, as Bob said, we got ahead of the curve on this. And that's where we still see ourselves at this point.

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

And it was different than what we experienced last year. I would say across the board here in Dover, the price increases, they weren't all done in the same day, but the companies all pursued this during the first quarter. And we feel fairly comfortable with the position we are with respect to pricing as it exists today for the second and third quarters.

Operator

Your final question is from Robert Barry with Susquehanna.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I'll also conclude with echoing the congrats to Bob. Good luck. Just a few follow-ups at this point. On the inefficiencies in retail fueling, can you say how much that cost you in the quarter? And was that also revenue headwind because you couldn't ship?

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Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

It was a slight revenue headwind. I don't want to make a big deal out of this on revenue. But I mean, it may have been $5 million, $6 million or $7 million. It wasn't a game changer. It did cause us to incur some additional cost on express rate and some overtime.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Got it, got it. And following up on something Brad said earlier about feeling particularly good about the food equipment business that lines up with Welbilt and Middleby. I know that's been kind of challenging for a little while. Is that -- you think that end market there is finally starting to show some traction?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

I would say it's spotty. I think with some customers -- we see some customers buying that are buying more than they were last year. But I would say it's not broad-based. We're actually looking at growth within this part of the business for the year, but it's all around special projects and special orders. And I would also tell you, they are on the books. We have the orders in-house. But we see a fairly good growth rate in this part of the business in the second half of the year.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Got it. Just one last then, a big picture question. Do you guys hear anything from customers about using tax savings or new depreciation rules to step up investments at this point?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

We keep asking that question internally as well, and it's difficult to pin an order to the tax law change.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Got it. So not clear yet that it's helping?

Robert A. Livingston - *Dover Corporation - Former CEO, President & Director*

Correct.

Operator

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

Paul E. Goldberg - *Dover Corporation - VP of IR*

Yes. So this concludes our conference call. With that, we thank you for your continued interest in Dover. And we look forward to speaking with you again next quarter. Thanks, again, for your interest. Bye.

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Operator

Thank you, ladies and gentlemen. That does conclude today's first quarter 2018 Dover earnings conference call. You may now disconnect your lines at this time, and have a wonderful day.

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