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DOV - Q2 2013 Dover Corporation Earnings Conference Call

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OVERVIEW:

DOV reported 2Q13 revenue of \$2.2b and EPS of \$1.70. Expects FY13 revenue growth to be 7-9% and EPS from continuing operations to be \$5.56-5.71.



CORPORATE PARTICIPANTS

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Bob Livingston *Dover Corp - President & CEO*

Brad Cerepak *Dover Corp - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Shannon O'Callaghan *Nomura - Analyst*

Nigel Coe *Morgan Stanley - Analyst*

Scott Davis *Barclays Capital - Analyst*

Jeff Sprague *Vertical Research - Analyst*

Deane Dray *Citigroup - Analyst*

Steve Tusa *JPMorgan - Analyst*

John Inch *Deutsche Bank - Analyst*

Julian Mitchell *Credit Suisse - Analyst*

Charley Brady *BMO Capital Markets - Analyst*

Nathan Jones *Stifel Nicolaus - Analyst*

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

PRESENTATION

Operator

Good morning and welcome to the second 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 of IR

Thank you, Lori. Good morning and welcome to Dover's second quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's second quarter operating and financial performance and follow with our outlook for the remainder of the year. We will then open up the call for questions. As a courtesy, we kindly ask that you limit yourself to one question with a follow-up.

Please note that our current earnings release, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through August 1, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 1-800-585-8367. When accessing the playback, you need to supply the following access code -- 12556710.



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 Corporation by referring to our Forms 10-K and 10-Q, for a list of factors that could cause our results to differ from those anticipated in any 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 like to turn the call over to Bob.

Bob Livingston - *Dover Corp - President & CEO*

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

I was very pleased with our second quarter results, which were driven by strong revenue growth, especially in the Consumer Electronics and Refrigeration markets. Our Energy and Fluid markets also contributed solid growth. In all, we generated 5% organic revenue growth, improved margins 30 basis points, and grew adjusted EPS 24%. From a geographic point of view, our North American markets were modestly positive, our China markets was strong, resulting in broad-based growth of 20%, we continued to see significant growth from the investments we have been making in Latin America, the Middle East and Australia. Lastly, European markets were largely flat in the quarter. Many of the positive trends evident in the second quarter are continuing, giving us confidence as we move into the second half of the year.

The served markets within Energy, as well as the Consumer Electronics, Refrigeration and Food Equipment, Fluids and fast-moving Consumer Goods markets should all be strong, as evidenced by 8% bookings growth. Much like the second quarter, we see third quarter organic growth led by additional OEM product releases in the Consumer Electronics markets, continued strong performance in our downstream and production markets within Energy -- helped by an expected, modest sequential increase in rig count. Seasonal strength in both Refrigeration and Product Individuation, as several leading retailers continue their remodel plans and Consumer Goods companies prepare for the holiday selling season, and, of course, our global expansion initiatives across our Company.

Now, some specific comments on our second-quarter. At Communication Technologies, our Consumer Electronics growth was driven by new product launches, notably at Samsung. We expect the growth in Consumer Electronics to continue into the second half, driven by the Samsung ramp and several OEM product launches anticipated for the late third, or early fourth, quarter.

In our Energy segment, solid production activity, especially within international markets and continuing strength in downstream and retail fueling, are among the trends that drove solid results. We expect the rig count to improve sequentially through the remainder of the year, and for our production and downstream markets to remain strong.

Within our Engineered Systems segment, Refrigeration and Food Equipment markets were seasonally strong and our business performance was excellent. Regarding our Fluids markets, our solid results were driven by a healthy mix of long and short cycle product shipments with particular strength in our long cycle pump business. Our Industrial end markets were improved with solid results in our global auto related markets and strong performance in our Environmental Solutions group.

Within our Printing & Identification segment, growth in our fast moving Consumer Goods markets was offset by a tough barcode market and project timing. I am pleased with the recent momentum in this segment, as evidenced by solid sequential revenue growth of 5% and an improving margin.

Our acquisition program was quite active during the quarter, as we built our pipeline and closed four small synergistic deals, all of which either expand our product breadth or geographic reach. I'm also pleased to report the spin off of Knowles is progressing well and we are on track to complete it early next year. In summary, we are taking up the low end of our range based on our solid second quarter performance and our confidence in the second half. With that, let me turn it over to Brad.



Brad Cerepak - *Dover Corp - SVP & CFO*

Thanks, Bob. Good morning everyone. Let's start on Slide 3 of our presentation deck. Today we reported second quarter revenue of \$2.2 billion, an increase of 9% over the prior year. Organic revenue grew 5%, while growth from acquisitions was 4%. Earnings per share were \$1.70. Adjusting for \$0.36 of discrete tax benefits, and a \$0.02 impact related to spin cost, adjusted EPS was \$1.36, an increase of 24%. A reconciliation of our adjusted earnings per share is in the appendix of our presentation deck.

Segment margin for the quarter was 17.3%, up 30 basis points. This solid result was driven by strong execution and the benefits of prior restructuring. It also included covering incremental restructuring charges of \$4 million year-over-year. Bookings increased 8% to \$2.2 billion. These results represent strong 15% growth in Engineered Systems, and 9% growth in Communication Technologies. Printing & Identification bookings increased 3%, while bookings declined 1% in Energy. Overall, book-to-bill finished at 0.99, which is in line with seasonal trends. Backlog remains steady at \$1.6 billion. In the quarter, we generated \$251 million of free cash flow, representing 11% of revenue. Our full-year forecast for free cash flow remains unchanged at approximately 10% of revenue.

Now, turning to Slide 4. Communication Technologies, driven by new product releases in the Consumer Electronics market grew 11% organically. Energy and Engineered Systems both exhibited broad-based organic growth posting 5% and 4%, respectively, while Printing & Identification was flat. Overall, our organic revenue growth was 5%. Acquisition growth was 9% in Engineered Systems and 2% in Energy.

Now, turning to Slide 5 and our sequential results. Revenue increased 9% from the first quarter, with all segments showing sequential growth. Engineered Systems increased 16%, primarily driven by a strong seasonal uplift in Refrigeration and the shipment of longer cycle products in Fluids, including a deferred shipment from last quarter. Normal seasonal growth, coupled with new smartphone releases, helped drive 8% growth in Communication Technologies. Printing & Identification grew 5%, representing fast moving Consumer Goods growth and barcode product shipments. Lastly, solid downstream activity and improved drilling revenue helped drive a 2% increase in Energy.

Sequentially, bookings were flat, although three of our four segments achieved growth. Communication Technologies bookings increased 11% sequentially on the strength of OEM product launches in the Consumer Electronics market. Printing & Identification showed growth as several deferred barcode projects began to book. In all, bookings in Printing & Identification grew 9%. Engineered Systems grew 2%, principally driven by its Refrigeration and Food Equipment markets. Energy declined 15% due to seasonality, unusually severe weather in Canada and large Queensland gas orders booked in the first quarter, which did not repeat in the second quarter. The order activity related to this project has already resumed in the third quarter.

Now, on Slide 6. Communication Technologies posted revenue of \$401 million, an increase of 11% from the prior year. The strong growth in Consumer Electronics principally reflects the impact of new product releases in the smartphone market. All other end markets were largely flat, although our telecom market has shown improvement over earlier quarters. Earnings increased 3% to \$52 million, while segment margin declined 100 basis points to 12.9%. This decrease largely reflects incremental restructuring costs of approximately \$9 million. These costs include productivity and integration activities in our speaker and receiver business and facility rationalizations in our telecom businesses. Absent these charges, margins would have been 15%, an increase of 110 basis points.

The majority of our 2013 restructuring activities are now behind us. We expect to realize the benefits of these actions in the second half. Restructuring benefits, coupled with the expected second half volume increases connected with new OEM product launches, will result in a go-forward segment margin that is significantly above our first half level. We are pleased with the progress as we embark on these new product launches. And we've successfully positioned our business as a true launch partner with our OEMs across all acoustic products. Bookings were \$422 million, up 9% from last year, reflecting normal seasonality and continuation of the Samsung ramp. Book-to-bill finished at a solid 1.05.

Turning to Slide 7. Energy revenue of \$573 million increased 6% while earnings of \$133 million declined 1%. Energy produced another solid quarter, as drilling production and downstream oil achieved revenue growth, despite unusually weak Canadian markets. As expected, North American rig count declined on a year-over-year basis. Our continued focus on global market expansion allowed us to post another solid quarter of international growth, which was up 37%.



Operating margin of 23.2% was down 170 basis points. This reflects product mix, product development costs, and investment for international expansion. Bookings were \$526 million, a 1% decrease from the prior year. Strong bookings growth in drilling and downstream was offset by production. Book-to-bill was 0.92, reflecting the timing of orders and shipments related to the previously mentioned Queensland project.

Now on Slide 8. Engineered Systems had an outstanding quarter, where sales of \$1 billion and earnings of \$165 million were up 13% and 24%, respectively. Our Fluid Solutions platform revenue increased 7% to \$227 million, benefiting from strong results in our pump markets. In all, Fluid Solutions had organic growth of 4%.

In Refrigeration & Industrial, revenue grew 15% to \$777 million, reflecting the Anthony acquisition and strong growth in the Food Equipment and Environmental Solutions markets. Organic revenue growth was also 4% in this platform. Excellent execution drove operating margin up 140 basis points to 16.5%, reflecting strong leverage on volume. Bookings were \$998 million, an increase of 15%, driven by recent acquisitions. Overall, book-to-bill was [0.99].

For our Fluid Solutions platform, bookings increased 5% to \$213 million, and Refrigeration & Industrial increased 18% to \$785 million. Book-to-bill for Fluid Solutions was as expected, at 0.94, reflecting large project related pump orders shipped. Refrigeration & Industrial's book-to-bill was 1.01.

Now, let's turn to Slide 9. Printing & Identification revenue was \$251 million, essentially flat with the prior year; earnings increased 24% to \$36 million. Our fast moving Consumer Goods market showed modest organic growth, which helped to mitigate softness in our Industrial markets, particularly in our barcoding business. Of note, European revenue increased after two quarters of decline. Operating margin increased 280 basis points to 14.3%; the benefits of restructuring actions taken last year and the absence of those charges, helped drive margin improvement. Bookings were \$259 million, up 3%, reflecting growth in our fast moving Consumer Goods markets. Book-to-bill ended at 1.03, up slightly from last year.

Now on Slide 10. Second quarter net interest expense was up slightly from last year at \$30 million. Corporate expense increased \$2 million, principally reflecting incurred spin cost. Our second quarter tax rate was 7.3%, and included discrete tax benefits of \$0.36, related to the finalization of various domestic tax audits. Our normalized rate, was 26.7% for the quarter, and is 27.2% year-to-date. Capital expenditures were \$53 million. Lastly, we repurchased 758,000 shares for approximately \$59 million in the quarter, all of which were repurchased under our \$1 billion program. In total, we have repurchased \$600 million and remain on pace to complete 70% to 80% of the program in 2013.

Turning to Slide 11 and our 2013 revenue guidance. Our revenue guidance remains unchanged from our last earnings call. We expect full-year revenue growth of 7% to 9%, with organic growth in the range of 3% to 5%. Completed acquisitions will add around 4%.

Now, moving on to Slide 12, which shows our full-year guidance. As Bob mentioned earlier, we are revising our full-year EPS guidance to reflect our solid second quarter results, the tax benefits and incurred spin cost. We now expect full-year EPS to be in the range of \$5.56 to \$5.71, as detailed on the reconciliation page of the presentation deck. As a quick review; we expect full-year revenue growth of 7% to 9%, corporate expense remains unchanged at \$150 million, interest expense will remain around \$127 million, CapEx is now estimated to be about 3.1% of revenue. Our full-year tax rate of 27% to 27.5% is slightly lower than the previous estimate, due to mix of geographic earnings.

Turning to earnings bridge on Slide 13. 2012 adjusted EPS was \$4.44. For the full year, the impact of volume and mix is largely unchanged at \$0.31 to \$0.44. Net productivity should be a key contributor and add \$0.20 to \$0.25, up from our last estimate, on the benefits of restructuring. We expect completed acquisitions to be \$0.13 to \$0.15 accretive for the year, largely driven by Anthony. Investments and compensation will have a \$0.16 to \$0.23 impact for the year, due to higher investment in international growth.

Our ongoing share repurchase program, coupled with a slightly lower tax rate, and offset in part by incremental interest expense, should have net benefit of \$0.33 to \$0.35. And as mentioned, incurred spin costs were \$0.02, while discrete tax benefits provide \$0.38 benefit. Based on the above, earnings per share from continuing operations is expected to be \$5.56 to \$5.71. With that, I'll turn the call back over to Bob for some final thoughts.



Bob Livingston - *Dover Corp - President & CEO*

Thanks, Brad. As I mentioned earlier, I am very pleased with our second quarter performance, as we delivered strong results in a low growth macro economy. We also continued our practice of returning cash to our shareholders through our share repurchase and dividend programs. I am committed to completing the \$1 billion program by early next year and fully expect to continue our long-standing record of annual dividend increases. Our strong second quarter growth, solid book-to-bill and the positive trends across many of our businesses, give me confidence in our second half [growth] and earnings forecast.

I'm also very encouraged by the steps we have taken to strengthen our Company. We continue to execute on numerous growth and productivity initiatives. I am pleased with our progress in investing for growth in emerging economies, which helped drive significant growth in those markets. Our second quarter organic growth and margin expansion reflects our success with product innovation and productivity programs. In addition, we have a robust acquisition pipeline with targets that will complement and expand our already strong product and technology positions and further our efforts of geographic expansion. You should expect us to close several deals in the coming quarters.

Also of significance, we believe the spin off of Knowles will create substantial shareholder value and strengthen both companies. When completed, I believe Dover will be best in class diversified industrial company, with a strong growth and return profile. And Knowles will be positioned as a global technology and market leader in the Communication Technology space. I am excited with Dover's long-term prospects as we continue to execute on the important initiatives ahead of us. In closing, I'd like to thank our entire Dover team for their continued focus on serving our customers and driving our results. With that, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - VP of IR*

Thanks, Bob. At this time and like to remind everybody to kindly limit yourself to one question with a follow-up, so we can get everybody in. And with that, Lori, if we can have our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Shannon O'Callaghan of Nomura.

Shannon O'Callaghan - *Nomura - Analyst*

Good morning, guys.

Paul Goldberg - *Dover Corp - VP of IR*

Good morning, Shannon.

Shannon O'Callaghan - *Nomura - Analyst*

Bob, first, on the consumer electronics performance here -- 27% in the first quarter -- that was above the 15% to 20% you had talked about. What do you attribute the out-performance to? And then you also didn't change the revenue guidance for the year for that segment. Are you more cautious on the second half? Or is that just being conservative in terms of what you are planning for the second half, given you out-performed in Q2?



Bob Livingston - *Dover Corp - President & CEO*

Okay. So, you are asking two questions. One, the performance in the second quarter relative to the guidance we provided on the April call. Shannon, my first comment would be, I was probably being somewhat conservative in my April comments, just because we don't always know how the product stream is going to flow from one quarter to the next. It's not as easy to predict as it is in some of our other businesses. The guys had an outstanding second quarter. Third and fourth quarter, we do expect some significant growth, sequentially, second half over the first half. The driver of this growth is going to be new product releases. I think you've picked up in my prepared comments that we look at these product launches from the OEMs being late third quarter and early fourth quarter. I'd like to think I'm also being somewhat conservative with our comments on the product launches and the outlook for the Communication Technologies space in the second half of the year, Shannon.

Shannon O'Callaghan - *Nomura - Analyst*

Okay. Great. Then, just quickly on Energy. The international growth has been great. But the margins were a little lower this quarter. Can you talk about your expectations -- you talked about rig count up a little -- but maybe sort of profitability expectations going to the rest of the year?

Bob Livingston - *Dover Corp - President & CEO*

Okay. Second quarter margins, down a little bit. My first comment would be to treat them -- treat that as a temporary blip. We did have some lower activity in Canada. Actually, it was quite a bit lower than we anticipated coming into the quarter. But the other thing that was -- I would label as temporary, we did have some elevated product development spending in the second quarter. It wasn't all constrained to the second quarter, but the second quarter spending in this product area was quite a bit higher than the first quarter, or even what we'll see here in the third quarter. Margins for that segment were 24% and maybe a fraction in the first half. Shannon, margins for the year will be 24% for Energy.

Shannon O'Callaghan - *Nomura - Analyst*

Okay. Great. Thanks a lot, guys.

Operator

Nigel Coe of Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks, good morning.

Paul Goldberg - *Dover Corp - VP of IR*

Good morning.

Nigel Coe - *Morgan Stanley - Analyst*

So just -- obviously, you referred to some of the factors that drove the bookings weakness in Energy Q-to-Q. Obviously, that does impact probably the revenue outlook into 3Q. I'm wondering, as we look into the 3% to 5% core growth for the full year, is there more of a bias toward the lower end of that range at this stage, Bob?



Bob Livingston - *Dover Corp - President & CEO*

No. Absolutely not. In fact, your comment that our lower bookings in the second quarter -- you said impact our revenue outlook for the third quarter? That's not true, Nigel. I think, as Brad mentioned in his comments, we do see some of the international business activity, especially around production in Energy -- most notably around production in Energy, as being a little bit lumpy. It's not a steady drum beat. In fact, Brad mentioned that the Queensland order for our production group in Energy, we did not receive a second quarter order on that project. It did come in early July and the size of this, Shannon, or, Nigel, -- what is it, \$70 million or \$75 million, Brad?

Brad Cerepak - *Dover Corp - SVP & CFO*

\$75 million, yes. That all won't ship in the third quarter.

Bob Livingston - *Dover Corp - President & CEO*

Yes. And, as an example, that order is actually for product shipments in the late August through mid-first quarter timeframe of next year.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. So, just to clarify that.

Bob Livingston - *Dover Corp - President & CEO*

Don't pencil us in at the low end of that range.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. \$70 million dollar order came in in early July, okay.

Bob Livingston - *Dover Corp - President & CEO*

I think was actually the first week of July, yes.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. It's really helpful. And, switching to Com Tech. You called out Samsung several times. I don't think I've ever heard you actually refer to an OEM customer on the call before. So, I'm wondering if that's a signal.

Bob Livingston - *Dover Corp - President & CEO*

That may be the only one I can refer to (laughter).

Nigel Coe - *Morgan Stanley - Analyst*

But is that indicative that Samsung is (multiple speakers). Is that not indicative that Samsung is now your biggest customer?



Bob Livingston - *Dover Corp - President & CEO*

No. For the year, they will not be. No. It's fairly -- it's a fairly close position between customer one and customer two for the year.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's helpful.

Bob Livingston - *Dover Corp - President & CEO*

They were rather significant for us in the second quarter.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Great. Thanks guys.

Bob Livingston - *Dover Corp - President & CEO*

We actually have a very, very broad customer base. Especially for our microphone business and its growing for our speaker and receiver business.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. Thanks, Bob.

Operator

Scott Davis of Barclays.

Scott Davis - *Barclays Capital - Analyst*

Hi. Good morning, guys.

Paul Goldberg - *Dover Corp - VP of IR*

Hi, Scott.

Bob Livingston - *Dover Corp - President & CEO*

Scott, I don't have my hearing aid on this morning. (laughter) You are going to have to speak up a little bit.

Scott Davis - *Barclays Capital - Analyst*

Okay. Sorry. Guys, you are one of the few companies that have said anything positive about China and awhile. Can you reconcile how broad-based within your portfolio is the China recovery that you are seeing with the strength in the quarter?

Bob Livingston - *Dover Corp - President & CEO*

Okay. So, Scott, let me preface -- before I give you a response in the second quarter, let me preface this by saying I have shared both at Dover Day as well as some of the conferences that we've been speaking at, that over the last four or five years, we've actually served two key markets within China. One of them being the very, very significant export market for China -- the export industry. We are doing much less in that today than we did in the past. And our focus, today, is really -- I use the phrase supporting, servicing and touching the growing consumer class. I would tell you, as an opening statement, that's what you see in the second quarter. I think that's what you are going to see for the balance of the year, is continued activity and growth around our various businesses that do support the growing consumer class.

It's interesting to note, all four segments had double-digit growth in China in the second quarter. From our consumer electronics business, to our retail fueling activity, to our auto lift business, to Markem Imaje and our Printing & Identification segment. It was, again, I don't know how else to say at -- it was rather broad-based.

Scott Davis - *Barclays Capital - Analyst*

Okay. Very fair. Just as a quick follow-up. You did four small deals in the quarter, I think. Then, you talked fairly optimistically about some deals closing. Can you give us a sense of what types of businesses -- even what segments, maybe, they might fit into? And, a sense of average multiples? Higher than historical average -- lower? Just a little bit context to help us understand how the -- (multiple speakers).

Bob Livingston - *Dover Corp - President & CEO*

Okay. So multiples. First of all, I'm going to emphasize the word small. I could have used the word very small. I think, in total, the revenue we acquired in the second quarter was around \$45 million or \$50 million. Is that the right number? Annualized. So, they are rather small. The question around valuation in multiples may be actually a bit lower than our historic number over the last four or five years. I think our historic number for the last four years has been 9 or 9.3, something like that. (multiple speakers) In trailing EBITDA. A little bit lower than that. We like the valuation on these deals. As I commented, they were all -- they were all add-on, highly synergistic product extensions. One of them was a bit of a geographic extension for us. We had a couple of them within Engineered Systems, a small one in our pumps business and another one in Environmental Solutions group. And, a small one within Printing & Identification.

Scott Davis - *Barclays Capital - Analyst*

Okay. Helpful. Thanks, guys. I'll pass it on.

Operator

Jeff Sprague of Vertical Research.

Jeff Sprague - *Vertical Research - Analyst*

Thank you, good morning.

Paul Goldberg - *Dover Corp - VP of IR*

Good morning, Jeff.



Jeff Sprague - Vertical Research - Analyst

Just following up, maybe, on that theme, and just thinking about capital deployment. As Brad noted, I guess you are on track for the share repurchase for the year. But was there any particular reason you kind of stepped back in this quarter? The deals sound like they were small -- it seems like you would have been able to actually do a lot more than you did.

Brad Cerepak - Dover Corp - SVP & CFO

You're you talking about the acquisitions, Jeff, or the share buyback?

Bob Livingston - Dover Corp - President & CEO

Why was the share repurchase activity thin in the second quarter?

Jeff Sprague - Vertical Research - Analyst

I'm kind of wondering if there was maybe a big deal that didn't happen and therefore you didn't do share repurchase?

Brad Cerepak - Dover Corp - SVP & CFO

Look. As I said, we're right on track with our share buyback. We still have more to do this year, as I indicated in the prepared comments. Keep in mind, in the second quarter, there was a period of time that we weren't in the market, as we were nearing a point in the decision around our spin. So, I think you'll see us be a little bit more aggressive in the second half than in the second quarter on that, Jeff.

Jeff Sprague - Vertical Research - Analyst

All right. Yes. That make sense. Thanks. Then, can you give us a little color on Anthony, organically if we think about that on a pro forma basis? How would it grew in the quarter?

Bob Livingston - Dover Corp - President & CEO

Organic -- no, I actually don't have that data on what they did last year. We view Anthony as being very much on track with our acquisition model and the expectations we had for the year. Our close-the-case business at Anthony continues to, I will say, expand and execute quite well. The coordination between Anthony and the Hill Phoenix team is proceeding extremely well, especially on the front end of the business in our sales and marketing activity and the channel management. We are quite happy with the acquisition.

Brad Cerepak - Dover Corp - SVP & CFO

The only data point I would give you, Jeff, is that -- I don't have year-over-year, either, but we are really pleased with the sequential growth we saw in Anthony. It is into the season, but 25% sequential growth into Q2. We will see that continue to grow into Q3. Then, obviously, moderate with the seasonality in that business into Q4. But, right on track where we expected it to be, both in terms of our revenue expectations and, importantly, our earnings expectations.



Jeff Sprague - Vertical Research - Analyst

Great. And then just one last one on Samsung. If we think about your sales to Samsung moving higher in the back half of the year, can you give us some sense -- is that just their higher volume pulling you through, or are you still early in kind of an adoption curve with them on new products or increased content on existing products? (multiple speakers)

Bob Livingston - Dover Corp - President & CEO

Yes. Let me be very specific here. Samsung, year-over-year in the second half, will be up. I don't know what that percentage is, but it's rather significant. We will have very strong year-over-year growth. To put this in perspective, though, Jeff, on a sequential basis, we look at first half versus second half expectations from Samsung. Modest growth in the second half over the first half. I think it may only be 10% growth in the second half over the first half.

Jeff Sprague - Vertical Research - Analyst

Great. Got it. Thank you.

Paul Goldberg - Dover Corp - VP of IR

Thanks.

Operator

Deane Dray of Citigroup.

Deane Dray - Citigroup - Analyst

Thank you, good morning, everyone.

Paul Goldberg - Dover Corp - VP of IR

Good morning.

Deane Dray - Citigroup - Analyst

There was discussion earlier on expectations for an increase in rig counts, some of that seasonal. Can you quantify that and what the timing is? And maybe the split between gas and oil?

Bob Livingston - Dover Corp - President & CEO

Oh gosh, I'm not sure that the split between gas and oil has changed any over the last couple of quarters, Deane. I think, when you look at the total rig count that is deployed, gas rigs are down about 20% and we don't see that changing here in the second half. As we move into -- as we move into the second half of the year, I think our plans -- I think are calling for about a 3% sequential improvement in North America rig count. No, let me correct that. 3% sequential improvement in US rig count, second half over first half averages. So it's not a big driver of our expectations, but we do see it improving slightly.



Deane Dray - Citigroup - Analyst

Is that a seasonal adjustment, would you say?

Bob Livingston - Dover Corp - President & CEO

No. I'm not going to -- you would see the seasonal adjustment in Canada. That one tends to be a bit more significant, Deane. The rig count in Canada in the second quarter typically drops about 70% from the first quarter on -- sequentially. We saw that again in the second quarter. Perhaps even a little bit more of a drop than we typically see. That will recover from the second quarter lows, as we typically see it. I think, for the year, the second half will lead to an improvement over the first half, but again, it's because of just the seasonal downturn in Canada in the second quarter.

Deane Dray - Citigroup - Analyst

And you mentioned Canada, and we've seen some of the impact or discussion about the impact from flooding. How would you characterize that on your business and what kind of snapback recovery are you expecting?

Bob Livingston - Dover Corp - President & CEO

I don't have an exact dollar impact, with respect to revenue, but, look, it's pretty safe to make the statement that in the last -- whatever it was -- the eight or nine days of June, Southern Alberta, there wasn't much business activity going on. That flooding was pretty severe. (multiple speakers) We do see it recovering. We do see a return to normal activity in the third quarter and fourth quarter.

Deane Dray - Citigroup - Analyst

Got it. Thank you.

Operator

Steve Tusa of JPMorgan.

Steve Tusa - JPMorgan - Analyst

Hi guys, good morning.

Bob Livingston - Dover Corp - President & CEO

Good morning, Steve.

Steve Tusa - JPMorgan - Analyst

Just a question on the Com Tech stuff. I guess in the back half of the year, to get to your guidance, first half to second half, you need about \$120 million in sequential increase?



Bob Livingston - *Dover Corp - President & CEO*

I think that sounds about right. I don't have that exact number. You may be slightly high, but that sounds about right.

Steve Tusa - *JPMorgan - Analyst*

So, if I assume the other businesses seemed flattish. Are there any dynamics sequentially in the non- consumer electronics businesses that are moving around? They seems kind of flat to stable.

Bob Livingston - *Dover Corp - President & CEO*

There will be some improvements in the non-acoustic businesses in the second half versus the first half. The bulk of the sequential growth, Steve, is as you are inferring. It's going to come from consumer electronics.

Steve Tusa - *JPMorgan - Analyst*

Right. So, 50% of the business is going to carry most of the load. And I think you said Samsung is up 10%. What is it -- are there that many launches from the other customers, and I guess if there are, are we looking at something other than the traditional handset stuff? Is there -- are there other things that are driving that in a material way? Assuming -- because Samsung up 10% is fine, but it's still below average of kind of what you need that consumer business to grow.

Bob Livingston - *Dover Corp - President & CEO*

Okay. So, even aside from product launches that I will comment on here as my second comment, you do see some seasonal balance between first half and second half, especially in consumer electronics. The second half is always a little bit stronger than the first half. So, we do expect that and we will see that. When you look at product launches in the late third quarter going into the fourth quarter -- our participation in those product launches is rather significant and it's rather broad-based. The increased revenue, aside from the little bit of a seasonal pickup you get in the second half, the bulk of our increased revenue in the second half, sequentially, is coming from our participation in the new customers' product launches in late third quarter, fourth quarter.

Steve Tusa - *JPMorgan - Analyst*

Okay. It's handset focused -- is still the -- it's not like some new --

Bob Livingston - *Dover Corp - President & CEO*

Almost all of it is handset focused.

Steve Tusa - *JPMorgan - Analyst*

Okay. So the other biz of it is outside of Samsung, is growing a lot faster than Samsung. You've got the Samsung -- it was really the lift in this quarter that you called out?

Bob Livingston - *Dover Corp - President & CEO*

Correct.

Steve Tusa - *JPMorgan - Analyst*

Okay. Just one quick one on engineered -- very good quarter. Much stronger than I was expecting.

Bob Livingston - *Dover Corp - President & CEO*

They had a great quarter, Steve.

Steve Tusa - *JPMorgan - Analyst*

Absolutely phenomenal. I guess you mentioned the bev can stuff. I guess you called that out a bit in the 10-Q. But it's interesting that the core -- it seemed like the core Hill Phoenix business, what was that up? You were still kind of anniversarying the target headwind. That's even more impressive in the face of that. Just curious what your organic -- bottom line, what was your organic at Hill Phoenix? I can back into the rest.

Bob Livingston - *Dover Corp - President & CEO*

I think organic at Hill Phoenix was 4% or 5%?

Brad Cerepak - *Dover Corp - SVP & CFO*

5%.

Bob Livingston - *Dover Corp - President & CEO*

5%.

Steve Tusa - *JPMorgan - Analyst*

Wow. And that includes the target headwind that you expected?

Brad Cerepak - *Dover Corp - SVP & CFO*

It was more the first quarter than the second but there was headwind there, yes.

Bob Livingston - *Dover Corp - President & CEO*

Yes. We called this out on the April call. The real headwind, we were feeling it target, was much more noticeable in the first quarter. We still dealt with it in the second quarter, but it was reduced.

Steve Tusa - *JPMorgan - Analyst*

Okay. Great. Thanks a lot. Thanks for the details.

Operator

John Inch, Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

Thanks. Good morning, everyone.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, John.

John Inch - *Deutsche Bank - Analyst*

Morning. Bob, could you give more color around your comments on long cycle pump business strength? What geographies or verticals are actually showing improvement? And -- just curious what the trajectory is.

Bob Livingston - *Dover Corp - President & CEO*

Actually, it would have probably been more helpful, if I had mentioned the actual business, instead of -- but, our primary business within pumps that is the longer cycle is Maag Pump. The acquisition we made, oh gosh, 15 months ago, I guess. It's not the only one, but that's where we see the primary long cycle activity is within Maag.

Brad Cerepak - *Dover Corp - SVP & CFO*

And that's where we had a deferred shipment from the first quarter.

Bob Livingston - *Dover Corp - President & CEO*

Yes. And John, we did call out on the April call, that part of our weakness in the first quarter in fluids was a deferral by a customer of a scheduled first quarter shipment into the second quarter. That was part of the growth in the second quarter. But beyond that, the guys -- we had very, very strong activity within the second quarter within our pumps business.

John Inch - *Deutsche Bank - Analyst*

And is there, Bob -- the other part of my question, was there a vertical application that seems to be picking up? Because, companies that have been serving the flow industry have been talking about projects being pushed to the right. I'm just wondering if maybe you are starting to see some of these projects, perhaps, get kind of put back on on the books here or something like that.

Bob Livingston - *Dover Corp - President & CEO*

It wasn't just one vertical, but if I did -- if I did mention one vertical that was important, it is the plastics vertical.

John Inch - *Deutsche Bank - Analyst*

Plastics, okay. That's helpful. I want to ask you about Knowles. Knowles -- really just doing so well. If you were to keep the business next year, I mean, our back of the envelope says that it might contribute \$0.80-plus to your earnings. My question is, how are you thinking about the prospects of maybe stepping up share repurchase or acquisitions. You obviously called out the very strong pipeline to prospectively replace some of that. What are your thoughts there, Bob?

Bob Livingston - *Dover Corp - President & CEO*

Well, your comment was if we were to keep Knowles. Let me repeat my previous comment. Our progress on seeing a first quarter spin transaction is progressing very well, John. Yes, they had an outstanding quarter, if you annualize it, you get a pretty impressive number for next year. I think they will have a pretty impressive 2014. We are working through our acquisition program across the group in Dover to pursue -- to pursue the deals that make sense for us and to pursue the deals and have the right valuation for us. We'll see how that rolls out over the next -- over the next two, three, or four quarters.

With respect to additional share repurchases, all I'm going to do is repeat the comment that I made and that Brad made. We are on track for being at about 70% to 80% of the \$1 billion authorization by year-end. Any other comments beyond that, I would defer to a later date or later call.

Brad Cerepak - *Dover Corp - SVP & CFO*

The other thing I would add, is in addition to looking at acquisitions across the portfolio of Dover, we are, as you notice in the quarter, stepping up our investments internationally because we see great opportunity there for us. As Bob said, the broad-based growth in China has a lot to do with that.

John Inch - *Deutsche Bank - Analyst*

Yes. That makes a lot of sense. Just lastly, electronic assembly and test, do you still expect those businesses -- I mean, Intel had some kind of weak numbers -- do you expect those business to still kind of be on track for (multiple speakers).

Bob Livingston - *Dover Corp - President & CEO*

We are running a process and as I've been saying for the last three months or four months, I think you'll see us make an announcement here in the third quarter.

John Inch - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Julian Mitchell of Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Hi. Thanks a lot.



Bob Livingston - *Dover Corp - President & CEO*

Hi, Julian.

Julian Mitchell - *Credit Suisse - Analyst*

Hi. I just had a question around the net benefits of productivity. I mean, you push that up in your sort of EPS bridge to \$0.20 to \$0.25 from \$0.12 to \$0.22. Was that sort of largely a function of the extra Com Tech restructuring, or really just in Printing & ID, or how are you thinking about that? I guess, related to that point on Printing & ID, you had a very, very big margin jump in Q2 off flat sales. You had a high margin base in the second half of '12. Do you think the second half of '13 margins can be above that 16% rate last year?

Brad Cerepak - *Dover Corp - SVP & CFO*

Okay. There's a lot of questions in there. But, as I said in my comments, the increase in productivity is specifically due to the restructuring benefits. When we entered -- but back up for a second. When we entered the year, in our earlier guide, we were expecting to spend in the order of magnitude of \$12 million to -- let's call it \$12 million to \$15 million of restructuring. We are now looking at a number of \$20 million to \$25 million, of which a lot of that was already executed in the first half. A lot of that, actually, executed within DCT. So, the benefits we are seeing coming through in the second half have a lot to do with the amount we spent in DCT to take out costs. You will see it in the margin expansion in the second half, where we said we'd be substantially up. So, that's what you are seeing on the bridge.

Bob Livingston - *Dover Corp - President & CEO*

Okay. Your other question, Julian, was around Printing & Identification.

Brad Cerepak - *Dover Corp - SVP & CFO*

Right.

Bob Livingston - *Dover Corp - President & CEO*

I think, if you're trying to build your model, and I know that's what you're trying to do, I would feel pretty comfortable using margins in the second half for this segment -- second half of '13, to be rather similar to what they were in the second half of '12.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. Thanks. Then, just a follow-up would be around US short cycle industrial demand. I think you made one or two comments that that did look better. I guess stuff related to the automotive supply chain, perhaps. Could you elaborate a little bit?

Bob Livingston - *Dover Corp - President & CEO*

Yes. We call it auto related. It's not so much -- it's not so much the auto supply chain for building vehicles and light trucks here in North America, but it's really a comment around our lift business, within vehicle service group. The activity there remains rather robust.

Other short cycle activity here in the US, we commented on Hill Phoenix. Even within environmental solutions group, specifically our refuse truck business had a very strong second quarter, both on revenue and bookings. We see them having a fairly solid performance in the second half. We



obviously aren't seeing the growth in US, in North America, that we are experiencing and winning in China or other emerging economies. But, we do forecast modest growth here in the US market in the second half of the year.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thanks.

Operator

Charley Brady of BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Hi. Thanks. Good morning, guys.

Bob Livingston - *Dover Corp - President & CEO*

Good morning.

Charley Brady - *BMO Capital Markets - Analyst*

Can you just talk a little bit about sort of raw material costs? How is that looking? We have heard of some companies coming in a little bit better than what are currently in current budgets. Can you speak to that effect of what it's having across the business segments?

Bob Livingston - *Dover Corp - President & CEO*

Yes. I would echo that. I would say we are seeing it a little bit better. It's not dramatic, but from where we were earlier in the year, I would say it's improved -- improved quite a bit in the area of steel. But, it's not big enough, really, to call out and say it's helped driving us into the second half.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. In terms on the Energy segment, the impact of the Canadian -- the softness, I guess, in which you said -- it sounds as though that's kind of rectified itself going into Q3. First of all, is that correct? Did I hear you correctly on that?

Bob Livingston - *Dover Corp - President & CEO*

Yes. That's correct.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. I guess, can you quantify what the impact was in Q2? Has anything shifted outside of '13? Or has it just kind of moved a little bit to the right?

Bob Livingston - *Dover Corp - President & CEO*

I'm not aware of anything that is shifted out of '13. It's all moved to the right.



Charley Brady - *BMO Capital Markets - Analyst*

Okay. Thanks.

Operator

Nathan Jones of Stifel.

Nathan Jones - *Stifel Nicolaus - Analyst*

Good morning, Bob, Brad, Paul.

Bob Livingston - *Dover Corp - President & CEO*

Good morning.

Paul Goldberg - *Dover Corp - VP of IR*

Good morning, Nathan.

Nathan Jones - *Stifel Nicolaus - Analyst*

I would like to just go back to Europe for second. You commented in your remarks, Bob, that Europe was flat in second quarter. Is that a better performance than you've seen recently? And, can you comment on which markets were better and which markets were worse? And if you think you might've seen an inflection point there?

Bob Livingston - *Dover Corp - President & CEO*

Well, I'm reluctant to call an inflection point. It was better activity for us in the second quarter than we saw in the first quarter and in the fourth quarter. The business -- you are asking for color on what was up and what was down. It is interesting, I think, for the first time in three quarters -- in three or four quarters, Brad, Markem Imaje was actually up in Europe in the second quarter. It was modest, but I think they were up, maybe 3% or 4% -- 3% in Europe in the second quarter. Our pump business may have been up slightly, but even with -- it's interesting, Nathan, even within our pump business you will see some brands serving some verticals that were up and you will see some brands that serve in different vertical that were down again. The business that probably struggled the most in Europe in the second quarter was our heat exchanger business. I don't remember now how much they were down -- 5%, 6%, 7% down.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay. If I could just talk about Anthony for a minute. I mean, obviously the engineered systems segment had a great second quarter margin performance. I'm wondering if you could give us any color on how Anthony contributed to that improvement? And whether Anthony is progressing faster from either a cost out standpoint or revenue synergy with Hill Phoenix standpoint, than you anticipated when you bought it?

Bob Livingston - *Dover Corp - President & CEO*

Okay. So, I would say that your question is, did Anthony contribute to our margin performance? That's the question?



Nathan Jones - *Stifel Nicolaus - Analyst*

Yes, but potentially more than you had expected it to?

Brad Cerepak - *Dover Corp - SVP & CFO*

No. I would say it's right on track year-to-date and in the quarter. Keep in mind, we do have pretty substantial AD&A or amortizations on that business acquisition. So, I would say all-in with amortization, it's below the margin.

Bob Livingston - *Dover Corp - President & CEO*

It's a drag on margins.

Brad Cerepak - *Dover Corp - SVP & CFO*

It's a drag on margins. If I took out that AD&A, we're really, really pleased with -- I'm not going to go and tell you what the margin is for Anthony, but let's just say it's not an operational drag.

Nathan Jones - *Stifel Nicolaus - Analyst*

If I could just get one clarification question in, Bob. You said that you expect Energy margins for the year to be 24%, is that right? Which would mean they're down year-over-year in the second half?

Bob Livingston - *Dover Corp - President & CEO*

24% and a small fraction. I think it would be a good number to look at.

Nathan Jones - *Stifel Nicolaus - Analyst*

Okay. Thanks. Congratulations on a nice quarter.

Bob Livingston - *Dover Corp - President & CEO*

Thank you.

Operator

Mig Dobre, Robert W. Baird.

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

Good morning, guys. Thanks for taking my question.



Bob Livingston - *Dover Corp - President & CEO*

Pardon?

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

I said good morning.

Bob Livingston - *Dover Corp - President & CEO*

Yes, thank you. (laughter)

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

I'd like to go back to Hill Phoenix, if we can. Very good performance there, as you already talked about. I'm wondering, can you talk about the drivers? Is it some shared gains? Is it that the market is, perhaps, behaving better than some of us have anticipated? How should we think about that?

Bob Livingston - *Dover Corp - President & CEO*

No. I wouldn't -- I would label this as share gains. I wouldn't label it as a stronger US or North American market. I would bring a lot of attention on Hill Phoenix comment to their continuing efforts to grow their business outside of North America. They've been working on this for, oh goodness, a couple of years now. We are seeing the benefits of that a little bit in the latter part of last year. We've seen some real benefits here in the second quarter. We think we will see even more benefits in the third quarter. But, don't label this as share gain and don't label this as a stronger than anticipated North America market. It's our international activity.

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

Great. That's helpful. I guess, last one for me would be on Print & ID. Can you talk broadly about the growth opportunities in this segment going forward? How do you think about, maybe, your opportunity to deploy capital here?

Bob Livingston - *Dover Corp - President & CEO*

Okay. Growth opportunities -- I guess my first comment would be with respect to a geographic opportunity. We still see plenty of opportunities for this business in emerging economies. I commented earlier that all four of our segments had double-digit revenue growth in China in the second quarter. Markem Imaje was part of that success in the second quarter with double-digit growth rates. We would expect to see that continue for the balance of the year. They had an outstanding growth profile in Latin America and India. Then, on top of that, we still see the US market as a growth opportunity for Markem Imaje.

The second part of your question was capital allocation. We made one small add-on acquisition and, here again, I will use the word very small add-on acquisition in the second quarter. But, within our pipeline, we have another -- I don't know -- two or three opportunities we are looking at and chasing. We will see how they evolve and conclude, here over the next couple of quarters. It is an area that we would like to deploy some more capital.

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

Are those opportunities still fairly small? Or are you looking at something larger?



Bob Livingston - *Dover Corp - President & CEO*

They're small, but perhaps larger than what we did in the second quarter (laughter).

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

All right. Thank you very much. Good luck.

Bob Livingston - *Dover Corp - President & CEO*

Thank you.

Operator

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

Paul Goldberg - *Dover Corp - VP of IR*

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

Operator

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

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