Q3 2024 Earnings Call

Company Participants

- Brad M. Cerepak, Senior Vice President and Chief Financial Officer
- Jack Dickens, Senior Director of Investor Relations
- Richard J. Tobin, Chairman, President and Chief Executive Officer

Other Participants

- Andy Kaplowitz, Analyst, Citigroup
- Deane Dray, Analyst, RBC
- Jeff Sprague, Analyst, Vertical Research Partners
- Joe Ritchie, Analyst, Goldman Sachs
- Joseph O'Dea, Analyst, Wells Fargo
- Julian Mitchell, Analyst, Barclays
- Mike Halloran, Analyst, Baird
- Nigel Coe, Analyst, Wolfe Research
- Scott Davis, Analyst, Melius Research
- Steve Tusa, Analyst, J.P. Morgan

Presentation

Operator

Good morning, and welcome to Dover's Third Quarter 2024 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; Jack Dickens, Senior Director, Investor Relations. After the speakers' remarks, there will be a question-and-answer period. (Operator Instructions) As a reminder, ladies and gentlemen, this conference 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.

And I would now like to turn the call over to Mr. Jack Dickens. Please go ahead, sir.

Jack Dickens {BIO 19502289 <GO>}

Thank you, Connie. Good morning, everyone, and thank you for joining our call. An audio version of this call will be available on our website through November 14th, and a replay link of the webcast will be archived for 90 days. Our presentation today is on a continuing operations basis to exclude the impact of our divested waste hauling equipment business from historical results. Please reference the 8-K filed on October 10th for further information.

Our comments today will include forward-looking statements based on current expectations. Actual results and events could differ from those statements due to a number of risks and uncertainties, which are discussed in our SEC filings. We assume no obligation to update our forward-looking statements.

And with that, I will turn the call over to Rich.

Richard J. Tobin {BIO 6485822 <GO>}

Thanks, Jack. Good morning, everyone. Let's start with the performance highlights on Page 3. Overall, the quarter was modestly better than our internal forecast, which I'll cover in the upcoming segment results slides. Top-line performance was broad-based across the portfolio. We are especially pleased that the rotation from our longer-cycle businesses to our growth platforms has continued to drive positive margin mix for the total portfolio. We expect that to be an underlying theme as we head into 2025.

Segment margin performance for the quarter was solid at 22.6% and represents an all-time high for Dover -- Dover's consolidated portfolio. Bookings were up 5% organically in the quarter, with particular strength in clean energy, thermal connectors, CO2 systems and biopharma components, further bolstering our positive mix outlook. Adjusted EPS from continuing operations was up 6% to $2.27 per share.

During the quarter, we completed the divestiture of our Environmental Solutions Group business, reducing our exposure to the capital goods sector. As you can see in the bottom right of the slide, the reconciliation of this impact to our full-year adjusted EPS guidance from continuing operations. As a result of this transaction, we will exit 2024 with record capital deployment firepower, providing us with a variety of value-creation opportunities going forward.

Our outlook remains constructive for the balance of the year. Our third quarter performance has given us room to manage demand seasonality to drive cash flow optimization through year-end by thoughtfully managing capacity utilization. Our setup for 2025 is compelling with positive portfolio rotation into higher-margin businesses as we lap easy to long-cycle comps through the year. This is further augmented by our exceptional balance sheet optionality to pursue value-creating capital deployment strategies.

Let's skip to Slide 5 on segment performance. Engineered Products posted the strong top-line performance on volume growth and vehicle services in industrial winches. Aerospace and defense was lower in the period due to shipment timing and a difficult comparable quarter. Margin was down modestly because of margin mix on [ph] reduced aerospace and defense volumes.

Clean Energy and Fueling was down 1% organic as positive performance in Clean Energy components and North American retail fueling was offset by lower volumes in vehicle wash and retail fueling equipment in Europe and Asia. Bookings were positive in the quarter as below-ground retail fueling volumes are inflecting positively along with cryogenic components.

Margin was flat as favorable product mix was offset by near-term integration costs of our most recent acquisitions. We expect this dynamic to have a material positive margin swing as we complete our integration activities through 2025. Imaging & Identification posted an excellent quarter on solid marketing and coating [ph] performance in the US and Europe. New printer shipments inflected positively during the quarter, which is a good signal for customer capital spending. Margin performance was robust as management actions on cost-to-serve and footprint optimization continued to drive incremental margins.

Pumps & Process Solutions was up 2% organically on robust shipments in thermal connectors, precision components, biopharma connectors, and Pumps biopharma revenue is up mid-teens year-to-date and over 30% versus the comparable quarter of the prior year. As forecasted, polymer processing equipment was down in the period. All in Pumps & Process Solutions segment bookings were up 15% organically in the quarter as biopharma and growth platform cycles inflected positively.

Segment revenue mix drove 200 basis points of margin improvement on excellent performance, production performance on volume growth in biopharma and thermal, margin mix from FW -- the FW Murphy acquisition, and tight cost controls in the polymers business. Revenue was down in the quarter in Climate & Sustainability Technologies as solid demand in food retail systems was offset by tough comps in beverage can-making equipment and weak demand in the broader HVAC complex, particularly in European residential heat pumps on our brazed plate heat exchanger business.

We had hoped to see positive bookings inflection in heat exchangers in the quarter, but that was not the case. So we have taken down our forecast for the back half of the year in that business to preserve production performance for 2025. It's a frustrating result as we were able to hold segment margins flat despite the lower volumes due to excellent performance in our retail refrigeration business that was augmented by exceptionally good shipments -- shipment rates in CO2 systems. Despite the short-term challenges, we like the setup going into '25 based on increasing CO2 demand, where we expect bookings to inflect materially higher together with market recovery and heat exchangers, both of which are margin accretive.

I'll pass it to Brad here.

Brad M. Cerepak {BIO 7371893 <GO>}

Thanks, Rich. Good morning, everyone. Let's go to Slide 6. Just a reminder that our presentation today is on a continuing operations basis, excluding our divested Environmental Solutions Group business from the historical results.

Let's go to the charts. The top bridge shows our revenue growth. The impact of acquired businesses this year more than offset the disposition of De-Sta-Co, which closed on March 31st by $21 million, while FX was basically flat. From a geographic perspective, the US, our largest market, was up 8% in the quarter on healthy broad-based demand. Europe and Asia were down 5% and 10%, respectively. China, which represents about half our revenue base in Asia was down 17% organically in the quarter, primarily due to shipment timing within polymer processing.

On the bottom chart, bookings were up $90 million organically year-over-year on solid broad-based demand across most end markets. Below-the-line items were slightly unfavorable on a year-over-year basis in the quarter on higher corporate costs, mostly related to acquisition deal costs.

Our cash flow statement is on Slide 7. Adjusting for taxes paid on the gain of De-Sta-Co, which are non-operational in nature, our free cash flow was 17% of revenue in the quarter, up $48 million year-over-year. Year-to-date cash flow on this chart is 11% of revenue. The fourth quarter is historically our highest cash flow quarter as we expect more favorable working capital balances over the rest of the year. We are on track to deliver our full-year adjusted free cash flow guidance of 13% to 15% of revenue, unchanged from prior guidance.

With that, let me turn it back to Rich.

Richard J. Tobin {BIO 6485822 <GO>}

Thanks, Brad. I'm on Slide 8. It was a busy quarter with the portfolio moves, discontinued ops and some counter-cyclicality within the portfolio. As a result of that, we thought it prudent to lay the groundwork for 2025 earlier to provide some hopefully helpful views.

Let's start with the portfolio. We articulated throughout the year that underlying demand across many of our end-markets is solid and that remains the case as we look forward into 2025. With a diverse portfolio such as ours, we enter each planning cycle constructing a view of the overall macro, the individual business cycles and our competitive position.

In 2024, we had a familiar challenge, much like we did in the post-COVID period navigating the biopharma demand cycle. In 2024, we managed a down-cycle on the portion of our high backlog long-cycle portfolio as well as the regulatory and stocking idiosyncrasies in heat exchangers as shown on the right side of the page.

As you can see on the slide, we managed to offset the significant cycle headwind with mixing up our consolidated margin on broader short-cycle improvement augmented by our growth platforms which we invested in both organically and organically.

As we complete 2024 and begin forming our view for 2025, we do not foresee the same countercyclicality in the portfolio. Bookings and customer forecasts indicate that our growth platforms are in a multi-period demand cycle. We are particularly pleased with the growth rates in biopharma components, thermal connectors, precision components and CO2 systems, all with margin accretion attributes to the portfolio.

We expect heat exchangers to return to growth in 2025 (Technical Difficulty) the recovery in heat pumps and large format demand district heating and demand -- and data center applications for which we are expanding production capacity today.

Let's move to Slide 9. Organic investment, inorganic growth and shareholder-friendly capital return, main front and center to our strategy and we have done all three so far in 2024. We have been more active on portfolio pruning this year at attractive valuations as we've methodically reshaped the portfolio to higher secular growth and less cyclical end-market exposures.

As mentioned earlier, we will exit '24 with significant optionality for capital deployment and/or capital return which is reflected on the balance sheet capacity bar on the right.

Let's finish up with Slide 10. I've already covered the adjusted EPS guidance to accommodate the discontinued operations earlier in the deck which is summarized on the left. At the time of the ESG announcement, we are often asked about the assumptions needed to offset the lost earnings from divestitures in 2025. We prepared the bridge on the slide to provide some direction on the moving pieces on a pro forma basis.

Let's not get too excited. We will as always provide formal '25 guidance after the close of the year. But I thought it would -- I thought but I hope that you find it to be a reasonable pro forma view that provides clarity on the moving parts.

Left to right, we start with pre-disposal EPS from our previous guide. We treat retrospectively the disposals on a full-year basis. We treat the cash balance prospectively as if we're held for the full year in the short term in highly liquid positions where it is presently which includes the retirement of commercial paper costs in 2024 and we roll forward the 2024 acquisitions earnings benefit.

We get to a rebase 2025 EPS of $8.60 to $8.75 on a base model that assumes zero organic growth in 2025. If we model a 3% to 5% organic growth at a 40% conversion rate next year, which includes $25 million in restructuring roll forward that is already completed or underway this year, we get an additional $0.55 to $0.90 of EPS. As I mentioned earlier, we are accelerating our synergy capture from recent acquisitions including footprint consolidation, so I would expect the restructuring contribution to be higher in 2025.

Considering what was covered in the growth platform's growth trajectory, margin mix and long cycle comparable performance that we discussed on Slide 8, the top-line and incremental margin assumptions seem reasonable now. Now, I certainly doubt that we'll sit on that amount of liquidity unless there is a drastic negative change in the macro and then in that case it is nice to have an insurance policy. Clearly, this model can be flexed for share repurchases in M&A, but the model timing is problematic. So this is a simplified (Technical Difficulty) view.

Our preference is to be active in -- on the M&A front and at present that environment is getting better. We have an interesting opportunity pipeline, but rest assured we will proceed with the capital discipline that we have demonstrated in the past.

With that, let's go to Q&A and I won't say idiosyncrasies or whatever that is. Okay, let's go.

Questions And Answers

Operator

Thank you. (Operator Instructions) And we'll take our first question from Jeff Sprague, Vertical Research Partners.

Q - Jeff Sprague {BIO 1494958 <GO>}

Thanks. We're all tongue-tied this morning.

A - Brad M. Cerepak {BIO 7371893 <GO>}

Good morning, Jeff.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hi, Jeff.

Q - Jeff Sprague {BIO 1494958 <GO>}

Good morning. Yeah, it's early. It's early, but it feels late. Hey, just on the comment on climate sustainability, Rich, that you made as you were going through kind of the opening comments, the comment about materially higher in '25. Was that a total segment comment, a heat pump comment? Can you just maybe elaborate on the moving pieces within that segment in particular?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, I mean, I think there was a bookings comment more than anything else. We -- if you recall, back last quarter, we had said that we would hope to have seen bookings increase in brazed plate heat exchangers for European heat pumps. That was not the case. So we have taken down our full-year estimates in that particular product line. So that's negative to bookings now. We're going to take down production just to let whatever the remaining clearing event needs to take place between now and the end of the year. So we'll cut production in Q4 also in terms of the estimates.

At that point, I think it's fair to say that bookings based on what we see for forecast for '25 demand on heat pumps should inflect positively going forward there. And in CO2 systems, based on feedback that we're getting from the market in terms of spend, we would expect a material amount of bookings inflection there. Whether we get it all in Q4, whether it splits between Q4 and Q1, we'll see. But based on our market read there, we think that we're going to be materially up on CO2 systems in 2025.

Q - Jeff Sprague {BIO 1494958 <GO>}

And then -- I appreciate the bridge here. It's definitely helpful. Just thinking about that $0.50 that's tied to cash on hand. Obviously, the deal impact can vary depend -- depending on what you pay for stuff and the like, right, multiples. Do you foresee a scenario where it's less than $0.50 because you're more active on the M&A front? How should we think about that?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, I mean, and that's -- I tried to cover that in the commentary, Jeff. Look, at the end of the day, as someone described it the in the bag would be just to sit on the liquidity. And that liquidity you can just basically say that, deposit rates, even with factoring in rate cuts would drive that kind of result. I -- in my comments I said I don't foresee that actually happening. Now whether it's M&A or share repurchases, that math gets kind of funky, right? Because you got to start. But we've done the models here and said -- if it's margin accretive and we paid 15 times, what does that look like, and if you close it in the Q1, what does that look like or if we did a share repurchase of a billion, what does that look like? You can do those scenarios, but we just thought optically, to give you a view of -- it's not only the -- it's not 2021 anymore where holding onto liquidity was a zero-sum game because your cost to carry was neutral, if not negative. Now it's meaningful.

And if you go back and look at our interest costs on commercial paper in '24 and you add that back, again, the gap that we have on the lost earnings is really what we're trying to show here is significantly reduced because of that carry. So I hope and I would expect that the interest income line is going to be overstated because I would expect us to deploy M&A capital. But just as a note, that cash balance is just the proceed -- the after-tax proceeds of the disposals and it doesn't really factor in our Q4 cash flow. So that number is a little bit understated anyway.

Q - Jeff Sprague {BIO 1494958 <GO>}

Right. And also you got additional leverage to deploy if you want to. Great. Appreciate it. Thanks. I'll leave it there.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah. Thanks.

Operator

And we'll take our next question from Julian Mitchell from Barclays.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning. Maybe, a lot of good color on the slides. Maybe one thing I wanted to touch on was just the overall organic growth backdrop. Your tone sounds pretty confident. I think bookings up mid-single-digit organic is sort of broadly what you expected. I just wondered sort of what your impression was of the broader environment in terms of customer activity, anything notable moving around? And tied to that, when we look at your segments, say, in Q3, very, very widespread of organic growth outcomes, one division up low double-digit, one down high single digits. When we're thinking about the 3% to 5% framework you have on Slide 10 for 2025, is the core assumption that the sort of variability across the five segments is much narrower and kind of all are contributing to growth?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, Julian. I think that's what we were trying to do with the Slide 8. I mean, I think the $300 million headwind was like a 4% or 5% growth headwind that we carried into this year that we were able to offset by the kind of the investments in our growth exposures. So what we're saying is here, we don't see any indication on the growth platforms for that growth rate, the low [ph] small numbers, of course, is that will continue at the same pace, I guess, in terms of growth going forward.

And then we'll begin to lap the headwind that we have, basically, which is a long cycle part, which is beverage can-making, which is completely bottomed at this point, and polymer processing, which we believe is bottomed at Q4, what we're going to see in heat exchangers next year, I'd like another quarter to figure it out and see what everybody is going to say about heat exchangers. But what we can from our channel checks, we would expect that by cutting production in Q4, we'll probably undercut the -- into the market and just push demand into next year.

So if I look at the core portfolio, I don't see anything else that is in cycle down in '25. We're just getting that behind us. And that was a 3% to -- 4% to 5%, or 3% to 4% to 5% headwind this year. So that's why I think it's reasonable to expect. I think what we modeled here was 3% to 5%. And the incremental margin, if you take out the restructuring benefit is basically where we've always been at 25% to 35%.

Q - Julian Mitchell {BIO 21229700 <GO>}

That's very helpful. Thank you. And then just maybe one quick follow-up on one of the segments. DII doesn't often get much attention, but superlative margin performance again in that business in Q3. You've seen that in the first half also. So maybe sort of clarify, I know there's a mixed commentary as a tailwind for DII, but is that something, I don't know, structural changing in the mix in terms of kind of how you've repositioned that business, or it's simply just a consumables versus equipment dynamic and that may flip around next year?

A - Richard J. Tobin {BIO 6485822 <GO>}

The consumables equipment will fluctuate quarter-by-quarter, but if you look at over -- look at it over longer periods, it's not overly meaningful. So it does -- you hear comments quarter-to-quarter about it, but over a 12-month cycle, it always ends up in the same spot. Really, the margin performance here is that the management team of that particular business has done an excellent job on cost to serve. This is a global business. There -- it's synergy extraction from the cost to serve on a global basis.

So, I mean, that's the majority of, if you go back and look over the last three years to four years, it's not generally been volume, it's been business model change. So I don't think that these margins that we're posting now, because I know what the pipeline is for '25 and '26. I think that this is a reasonable approximation where this business is capable of delivering.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thanks very much.

A - Richard J. Tobin {BIO 6485822 <GO>}

You're welcome.

Operator

And we'll take our next question from Scott Davis from Melius Research.

Q - Scott Davis {BIO 2393277 <GO>}

Hey, good morning, guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hey, Scott.

Q - Scott Davis {BIO 2393277 <GO>}

Hey, I wanted to follow up a little bit on the M&A question. I think it was Jeff. It seems -- the deals we've seen in the last couple years that at -- in the multiple ranges, the only deals that are kind of working are the ones where there's a fair amount of synergies. Is that -- is this something, when you guys look at your existing portfolio, is there a wide enough net there to be able to buy things that bolt-on to make you kind of the -- what I'll say, the best owner of that asset? Or do you think, or have multiples come down to the level where that's no longer the case?

A - Richard J. Tobin {BIO 6485822 <GO>}

I think that if you go back and look at multiples paid here over the last four years to five years, I think they've been reasonable. And at the time of the announcement, on the kind of more material deals, there was always a good portion of the return that was based on synergy extraction. The smaller deals, there's really not a lot to do, but the bigger deals. We've built basically an engine on our existing -- if you think about when we went through from '18 to about '22, we had built this engine to extract synergies out of our own core portfolio, which driven -- which drove a lot of margin expansion.

Well, the benefit of building those engines, if you will, is when we do an M&A, we just do the same playbook just because we practice on ourselves for five years. So they need to be of a decent of enough size, but I think everything that we did of the bigger ones recently in Clean Energy had a good amount of synergy extraction. And if you go back and look at the transcript and you look on the Clean Energy side, I think that we posted a 20% margin this year. It's going to take us probably three-quarters of '25 to finish up on the footprint and everything else, but we fully expect to drive those businesses up to '25 on synergy extraction alone.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. That's good color. Hey, guys, maybe a dumb question, but when you -- when you're selling these thermal connectors, it -- who's specking in the product? Is it the cloud guys or is it the cooling guys? Every -- and I assume you get (Multiple Speakers) and you're good to go on that design?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah. Look, I'll answer it this way. We've been in this business for quite a while. So it's not a product that we're ramping up because of AI build-out. This product was actually built for supercomputing applications, which are the only ones that were using water cooling was relatively low volume in the past. So it is specced [ph] out and there are recommended specs, but you still need to sell to the user and/or the builder. So it's kind of complicated, but we would -- we're the ones, I think that we can claim to have the most product that's actually in use in the ecosystem today.

Q - Scott Davis {BIO 2393277 <GO>}

Right. But the point is, kind of, once it's specced in, if it needs to be replaced to preventive maintenance or whatever, it's like-for-like, right?

A - Richard J. Tobin {BIO 6485822 <GO>}

I think that would be the assumption, yes.

Q - Scott Davis {BIO 2393277 <GO>}

Okay, okay. Fair enough. Thank you guys. Good luck. Passing on.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks. Thank you.

Operator

And we'll take our next question from Deane Dray, RBC.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone.

A - Richard J. Tobin {BIO 6485822 <GO>}

Good morning.

Q - Deane Dray {BIO 1722688 <GO>}

Hey. On the biopharma, the recovery underway in the single-use is what are the green shoots you're looking for? We saw results that would suggest that from Danaher in particular. So, is there anything broader going on in terms of how you think? Because it's been the most extended destocking period for everyone, but just any color there would be helpful.

A - Richard J. Tobin {BIO 6485822 <GO>}

Sure. Look, we led down because we're -- because of the amount of inventory post-COVID that it put into the channel and we're leading out, right? Because these are consumable products. So these don't require new builds of new systems. They just need the systems that have been sold in previous periods to continue to operate. So for a while, there was a little bit of de linkage because we were going down early. And from what our customers saying, I think that we've been reading the reports from the market participants and we're mostly in line now. I think we're all saying basically the same thing in terms of the trajectory of the recovery. And I think that that is reflected in our growth rates in terms of the consumables portion of it.

Q - Deane Dray {BIO 1722688 <GO>}

Good. And, excuse me, now you'll have double the amount of imaging questions that you typically get. Your primary competitor made a lot of noise about broadening a platform, what they call, from source to shelf. They're more vertically integrated than you guys. But is that a broader platform that you all would be interested in participating in? Do you have aspirations there? They paid up pretty sizably for a SaaS business.

A - Richard J. Tobin {BIO 6485822 <GO>}

Dean, are we talking about the acquisition that they just made?

Q - Deane Dray {BIO 1722688 <GO>}

Yes, but then..

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, okay. Yeah, I mean, we've got a good size track and trace platform within that business today. So I think it's nuance in terms of where you are in the chain. We're more pharma oriented and I haven't studied it that looks like it's more food oriented. So we've got a pretty big business right now that's actually been doing quite well over the last couple years in that space. So we're already there.

Q - Deane Dray {BIO 1722688 <GO>}

Great. Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

You're welcome.

Operator

And we'll take our next question from Nigel Coe, Wolfe Research.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks. Good morning and thanks for the '25 kind of help out there. So it sounds, Rich, like you're pretty sort of like the base case would be the organic range you laid out there. So you'd encourage us to kind of use that range. But what I'm kind of curious of is when we look at the '24 performance, what impact did you have from the capital businesses, MAAG, Belvac and the SWEP European businesses? If we assume that those are bottoming out this year, maybe stabilizing next year, what is the mechanical impact of those businesses?

A - Richard J. Tobin {BIO 6485822 <GO>}

Nigel, if you go to Slide 8 on the presentation, we give you the absolute number. And it's -- now I'm going to get it wrong, 3% to 5%..

A - Brad M. Cerepak {BIO 7371893 <GO>}

4% to 5%.

A - Richard J. Tobin {BIO 6485822 <GO>}

4% to 5% headwind that we're taking and that is on a rolling 12-month basis. Correct?

A - Brad M. Cerepak {BIO 7371893 <GO>}

I think so. [ph]

A - Richard J. Tobin {BIO 6485822 <GO>}

Q4 of last year through Q3 this year, it's cost us $300 million bucks of headwind and that's about 4% or 5% growth.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. And I completely missed them. So again, if that then flattens out, 3% to 5%, it seems, I don't know, no improvement in the rest of the businesses. Is that the right way to read it?

A - Richard J. Tobin {BIO 6485822 <GO>}

Like, well, you may have missed the beginning here. I mean, we're not giving out '25 guidance. We just thought that it was important because of all the noise with discontinued ops and everything else to kind of let you rebase your look on '25. I didn't want to come out to this thing and say, well here's discontinued ops and we'll tell you in January what that all means. So it's a reasonable approximation, but give us another quarter to get an understanding of the macro and everything else. And I'm not saying that those are exactly going to be the numbers that we give out for '25 guidance, but they look reasonable based on using the growth rates that we have on our secular growth exposures and then a lapping of the headwinds that we have, seems reasonable. But I will...

Q - Nigel Coe {BIO 3818998 <GO>}

Okay.

A - Richard J. Tobin {BIO 6485822 <GO>}

Rest assured we'll update them in January.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay, that's a good boilerplate response, Rich. And then just on -- just a quick clarification on the 4Q guide and then I'll pass it on. The 4Q -- sorry, the full-year EPS, the -- so the -- I'm guessing there's about $0.10 of interest income coming through in the fourth quarter from the ESG divestment proceeds. So is that wrapped into the $1.02 [ph] or is that sort of within the $0.05 kind of bump up to the low end? Just any help there?

A - Richard J. Tobin {BIO 6485822 <GO>}

I don't know whether it's $0.10. I'd have to go back and look deconstructed. There is an amount of interest income that's in the bump that helps to offset what I mentioned earlier about, we're taking heat exchanger volumes down or making some production cuts there. So yeah, it's all in. Right now and look..

Q - Nigel Coe {BIO 3818998 <GO>}

Okay.

A - Richard J. Tobin {BIO 6485822 <GO>}

At the end of the day, we're driving towards the top of the range as usual.

Q - Nigel Coe {BIO 3818998 <GO>}

Yeah. Okay, thanks, Rich.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

And we'll take our next question from Joe O'Dea, Wells Fargo.

Q - Joseph O'Dea

Hi, good morning. Thanks for taking my questions.

A - Richard J. Tobin {BIO 6485822 <GO>}

(Multiple Speakers)

A - Brad M. Cerepak {BIO 7371893 <GO>}

Good morning.

Q - Joseph O'Dea

Just wanted to touch on fueling and the comments around below-ground fueling inflecting positively. And any sort of context or perspective in terms of the cycle trends there and what you're seeing now in terms of how early on we are in seeing some growth?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, I mean that's been a headwind for us for three years, I think. Right? Because it suffered with its inflationary inputs and the lack of ability of labor and a variety of things that if you had gone and looked at the CapEx projections. For retail operators, it -- they never hit their numbers just because of the inflation that's going through the system. So with labor costs and labor, just availability getting better, we've seen that begin to inflect positively, which is great because it's margin accretive to that particular business.

So when we would expect that to cycle forward from here, on the demand side of it, it's been relatively muted, so you can't see it. But that is us. We are managing this business for margin and I think we've made some tougher decisions about business that we would take, particularly in Europe and Asia. So that has muted the top line growth because we -- because in combination with the cryogenic components, if we get this right, we can get the entire segment up to 25% EBITDA margin at kind of an exit rate 25%, or at least that's the goal.

Q - Joseph O'Dea

I appreciate that. And then just wanted to circle back on the restructuring. I think you talked about as we head into next year, $25 million of carryover, but also made some comments that there could be more. And so just wanted to make sure I heard that correctly in terms of -- are there additional sort of planning efforts underway and where we could see more of that happening across the business?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, I think that the $25 million is either completed or to be completed in fiscal year '24. So that's the roll forward of what we get done this year. But we've got a lot to go. Like, I mentioned previously, I think that the synergy target that we had put in the Cryogenic acquisitions was about 20-ish. Some of that requires footprint consolidation over time, which takes longer. So back to my comment about driving that segment to $25 million, we'll be incurring costs clearly through the first two to three quarters of next year, which will require some more restructuring costs which will pick up in kind of the further roll forward. So that number that you see in the chart again is incurred or to be completed in fiscal year '24.

Q - Joseph O'Dea

Understood. Thank you.

Operator

And we'll take our next question from Steve Tusa, J.P. Morgan.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey, good morning.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hi.

A - Brad M. Cerepak {BIO 7371893 <GO>}

Hi, Steve.

Q - Steve Tusa {BIO 4278663 <GO>}

I'm going to ask an even dumber question than Scott. What is the actual revenue kind of guidance for this year, like the absolute kind of rough number you're guiding to for this year?

A - Richard J. Tobin {BIO 6485822 <GO>}

I don't know. I think we gave you a range in the top line, right, a 1 to 3. So (Multiple Speakers)

Q - Steve Tusa {BIO 4278663 <GO>}

Right. But off of like -- is it like a $7.6 billion number, something like that comes out too?

A - Richard J. Tobin {BIO 6485822 <GO>}

I don't know. Off the top of my head.

Q - Steve Tusa {BIO 4278663 <GO>}

All right.

A - Richard J. Tobin {BIO 6485822 <GO>}

(Multiple Speakers) you got me.

Q - Steve Tusa {BIO 4278663 <GO>}

I'm kind of -- guess it's not a dumb question.

A - Richard J. Tobin {BIO 6485822 <GO>}

I'm sure we can get it and you can follow up with Jack to give it to you, but I don't know what the exact baseline number that it comes off of.

Q - Steve Tusa {BIO 4278663 <GO>}

I think it's 7.7 if by my math, just wanted to double-check that. So how big are the headwinds?

A - Richard J. Tobin {BIO 6485822 <GO>}

This is like questions about net interest income. Didn't your boss address that? Anyway, keep going.

Q - Steve Tusa {BIO 4278663 <GO>}

Sorry. Like, total top-line absolute sales, it kind of important, I think. Don't you think?

A - Richard J. Tobin {BIO 6485822 <GO>}

I get it. Well, I think that you'd be able to model that, but go ahead.

Q - Steve Tusa {BIO 4278663 <GO>}

Like, don't people ask you at like, cocktail parties, like, how big the company is you run and you kind of throw at $8 billion and stuff? I mean, like you should know that, right?

A - Richard J. Tobin {BIO 6485822 <GO>}

I'm not a cocktail party guy. But anyway, keep going.

Q - Steve Tusa {BIO 4278663 <GO>}

The headwind businesses, as we'll call them, how big are those this year? Are those about like $3 billion in total?

A - Richard J. Tobin {BIO 6485822 <GO>}

No. No, no, no, no. No.

Q - Steve Tusa {BIO 4278663 <GO>}

$1 billion. Something like that?

A - Richard J. Tobin {BIO 6485822 <GO>}

I'd have to do the math in my head. I mean, what are we talking on a '24 full-year basis?

Q - Steve Tusa {BIO 4278663 <GO>}

Yeah. Yeah. I mean, just like what were like the $300 million was off of, like what base?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, like $1 billion. I'm doing it in the back of my head, it's like $1 billion if [ph]?

Q - Steve Tusa {BIO 4278663 <GO>}

Yeah. Okay, got it. And as far as, like, your outlook next year for pricing, is it a little more normal? Is it anywhere that you're seeing any kind of price pressure or is it kind of modestly positive or maybe even like a point or something like that for next year?

A - Richard J. Tobin {BIO 6485822 <GO>}

Modestly -- modest -- more mix than anything else, but modestly positive on pricing. And to that end, we've been taking advantage of going long into '25 because input pricing on commodity metals is pretty favorable. So we've been going along (Technical Difficulty) we've actually gone out into '25 to help that out.

Q - Steve Tusa {BIO 4278663 <GO>}

Okay. And then just one last one for you. For the other businesses, kind of the mixed bag businesses outside of DII, of course, are any of those in there that you're -- that are kind of like on watch for like declines next year? And any that worry you out of the other business -- not the secular growth, not DII, and not the headwind businesses like the other businesses.

A - Richard J. Tobin {BIO 6485822 <GO>}

I had to cover in the commentary. We knew about Belvac, we knew about MAAG. We kind of knew, but got it wrong on heat exchangers. There's not another business in the portfolio with that kind of quantum headwind as we look into '25. So the only kind of worry that we would have would be about the macro and then we'll see.

Q - Steve Tusa {BIO 4278663 <GO>}

Right. Okay. That's all I got. Thanks a lot.

A - Richard J. Tobin {BIO 6485822 <GO>}

Great.

Operator

And we'll take our next question from Joe Ritchie, Goldman Sachs.

Q - Joe Ritchie {BIO 16351356 <GO>}

Hey, good morning, guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hi, Joe.

Q - Joe Ritchie {BIO 16351356 <GO>}

Tough act to follow there. The -- so I'm going to ask Steve's question, maybe slightly more positively or perhaps helpful. If I -- we're getting to hopefully election certainty sometime in the next month or so. Project financing is arguably, hopefully getting better because of interest rates. You've had one of your competitors call out the fact that that's really impacted their car wash business. As you kind of think through, like that macro element, which is both election and interest rates, like, where can you just potentially see a benefit to your business? And how do you see that kind of playing out in 2025? I know that you don't have a crystal ball. So your best guess at this point.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah. I mean, I think we would have hoped that interest rates would have had a bigger impact in the second half of '24 on volume. But I think because of election uncertainty and a variety of other things, you can feel a little bit of caution out there. It's not bad, but it's not -- we -- the amount -- if we take a look at the amount of quoting that we do for project-based business versus the time that it takes for those quotes to turn into actual orders, you can -- and this notion of things being pushed that you hear a lot about, that's not a thing, right? So to the extent that cost of capital stays down and that we get some kind of certainty going into '25, I would expect if we take a look at some of our businesses that you could call kind of like more project-related, that we would expect that to inflect positively.

Q - Joe Ritchie {BIO 16351356 <GO>}

Okay. Fair enough. And then we talked a little bit about the recovery in biopharma, which is awesome to see. The next kind of logical question is like, when can we get the margins back up to that 30-plus range? And I know that you're feeling good about the recovery of that business into 2025. And so, just kind of any thoughts around getting back to 30% next year?

A - Richard J. Tobin {BIO 6485822 <GO>}

Well, it was 29% in the quarter. And that's taking into account still -- yeah, it's still taking into account that MAAG is probably is bottoming now. And by the way, to MAAG's credit, despite the top-line headwinds, their ability to preserve margins during that period was excellent. And so to me, it's more of what is going to be the growth rate in biopharma and thermal and single-use pumps, everything and everything that we've got in that particular segment, to the extent that it stays on the track that it is, it's all incremental margin positive to the 29% we just posted.

Q - Joe Ritchie {BIO 16351356 <GO>}

Good to hear. Great. Thanks guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

And we'll take our next question from Andy Kaplowitz from Citigroup.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Good morning, everyone.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hi, Andy.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Rich, with the understanding that you aren't giving out '25 guidance as you just said, you did say that you could do 40% incrementals with some restructuring tailwind and mix benefits. And as you know, you've talked about 25% to 35% long-term incrementals. So should we get more excited at this point that with accelerated portfolio transformation, Dover is really making that transition to a higher incremental margin capable company or is that a bit premature?

A - Richard J. Tobin {BIO 6485822 <GO>}

No, I don't think it's premature at all at the end of the day. I mean, we loved ESG, but the fact of the matter is, it was a high-growth business that had decremental margins to the greater portfolio and that's I mean, other than end-market cyclicality and blah, blah, blah. That's part of the reason that we took the action that we took.

So -- and if I -- I don't want to keep repeating myself, but if you go back to Slide 8, Slide 8 is what we talked about back at the last Investor Day of this is where we're investing organically and inorganically. And hopefully, we should be doing that in businesses that have higher growth rates and higher margin profiles to them. I mean, you saw it yourself in action when you went down to DFR and (Inaudible).

I mean,those -- that CO2 systems business is a high growth, high incremental margin to the segment business. So it's -- we've got all the irons in the fire, whether it's portfolio construction or organic investment or inorganic investment, it's all part and parcel to driving the consolidated segment margin to '25, right? And we're going to get there by hook or by crook?

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Yeah. Love it. Okay. And then just another question you love around bookings, just one clarification. Like so was DCST really the hit exchanger stuff? The big difference in what you thought versus that book-to-bill of 1. I know you mentioned macro was maybe still holding some projects back. As you look at Q4, do you see book-to-bill getting closer to 1, if DCST does begin to show some life on the heat exchanger side?

A - Richard J. Tobin {BIO 6485822 <GO>}

It depends on what the order intake is going to be in CO2 systems, because we've basically taken bookings assumptions down for heat pumps. So what we had originally forecast for heat pumps is worse going into Q4, which is accommodated into our forecast. Whether we can -- we know, maybe I should be that definitive, we expect that we will inflect materially higher in bookings on CO2 systems. It's just a question of whether we can get them from forecasting to orders in Q4 or not.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Got it. But it's coming in the next couple of quarters. It's just a question of when.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

That's helpful. Thanks, Rich.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

And our final question comes from Mike Halloran from Baird.

Q - Mike Halloran {BIO 16666360 <GO>}

Hey, good morning, everyone.

A - Richard J. Tobin {BIO 6485822 <GO>}

Good morning.

Q - Mike Halloran {BIO 16666360 <GO>}

So, a couple quick ones. Just on the comment of managing capacity utilization, I don't think this is of the scale that you would have talked about fourth quarter last year. Is this just tied to the heat exchanger piece or is there anything broader? And any comments on inventory levels in the channel?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yeah, we -- overall we'd like to maximize cash flow in Q4. And then depending on where you are in terms of backlog and the delivery assumptions of that backlog, if we believe we can push production performance (Technical Difficulty) January out of Q4, it's prudent to do so at the end of the day. Right? Because it flexes up cash flow and it preserves fixed cost absorption into next year. So we'll do that in select businesses in Q4. And that's why we're kind of happy about the results in Q3 because it buys us the room to do that, because we don't want to be like trying to protect margin in Q4 by building inventory. Right?

So it's not nearly what it was back in the beginning of the destocking days where we consciously made a decision to do that across the wider portfolio. This is a more selective comment.

Q - Mike Halloran {BIO 16666360 <GO>}

Makes sense. And not beating a dead horse here. Just want to make sure I understand the 25% margin comments for DCF -- DCEF that was applicable to the whole segment, not just say the gas piece or something more insular (Multiple Speakers)

A - Richard J. Tobin {BIO 6485822 <GO>}

The whole segment.

Q - Mike Halloran {BIO 16666360 <GO>}

All right. Quite a jump. Thank you. Appreciate it.

A - Richard J. Tobin {BIO 6485822 <GO>}

Great. Thanks. Thank you.

Operator

That concludes our question-and-answer period and Dover's third quarter 2024 earnings conference call. You may now disconnect your line at this time and have a wonderful day.