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DOV - Q4 2011 DOVER CORPORATION EARNINGS CONFERENCE CALL

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OVERVIEW:

DOV reported full-year 2011 revenues of $8b and EPS (after adjusting for $0.22 of tax benefit) of $4.26. 4Q11 revenues were $2b and adjusted EPS was $1.07. Expects full-year 2012 revenues to grow between 7-10% and EPS from continuing operations to be $4.70-5.00.

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Nigel Coe *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good morning and welcome to the fourth-quarter 2011 Dover Corporation earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer of Dover Corporation; Brad Cerepak, Senior Vice President and CFO of Dover Corporation; and Paul Goldberg, Treasurer and Director of Investor Relations of Dover Corporation. 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.

Paul Goldberg - *Dover Corp - Vice President of IR*

Thank you, Jackie. Good morning and welcome to Dover's fourth-quarter earnings call. As Jackie said, with me today are Bob Livingston, our President and Chief Executive Officer; and Brad Cerepak, our CFO. Today's call will begin with some comments from Bob and Brad on Dover's fourth-quarter and full-year operating and financial performance, and follow with our outlook for 2012. 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 web site, www.dovercorporation.com. This call will be available for playback through February 8. Any audio portion of this call will be archived on our web site for three months. The replay telephone number is 1-800-585-8367. When accessing the playback, you will need to supply the following access code -- 42636854.

Before we get started, I would 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 form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law. We would also direct your attention to our web site where considerably more information can be found.

And with that, I would 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. Our solid fourth quarter capped off a record year in revenue and earnings, as we posted quarterly revenue growth of 15%, including organic growth of 6%. This growth enabled us to deliver fourth-quarter adjusted EPS of $1.07, a 19% improvement over the prior year.

In our Energy segment, we continued to see strength across all end markets, especially production-related activity. Market dynamics, including the shift from gas to oil drilling, remain very solid for us; and we anticipate this strength continuing well into 2012. Within our Engineered Systems segment, our Refrigeration and Food Equipment businesses continued to execute extremely well, driven by market-leading technology and customer focus. We were pleasantly surprised with the strength of fourth-quarter bookings in Refrigeration, and begin 2012 well-positioned to deliver another outstanding year.

Fluids and our Other Industrial businesses also performed very well. The Fluids performance was driven by significant investments we've made throughout the year in product development, and growth in emerging markets. At our Communication Technology segment, we saw extremely strong MEMS microphone activity, as well as solid life science and commercial aerospace markets. We expect the handset market to show high, single-digit growth in 2012, with smartphone growth rates much higher.

Within our Printing and Identification segment, I am encouraged by the actions taken by our markem-imaje team to deliver new products, and expand our global sales and marketing activities. Our customers have responded very favorably to our new printers, which are for broader market and application coverage than the prior generation. These investments in products and resources will drive even better growth in the coming year.

These strong performances helped offset continued fourth-quarter headwinds in alternative energy and semicon markets, and weakness in telecom infrastructure markets. Despite these headwinds and general economic softness in Europe, we finished the year with a book-to-bill of 1, illustrating the depth and the resilience of our business mix. I feel we are well-positioned as we enter 2012.

For the full year of 2011, we achieved record revenue of $8 billion, up 20%, including organic growth of 11% and acquisition growth of 7%. Segment earnings were also a record, up 18%. Full-year margin was 17%, a very strong result considering we absorbed over $30 million in deal costs, and a significant increase in acquisition amortization. In addition to revenue and earnings, we set full-year records for EPS and free cash flow. We also increased our dividend for the 56th consecutive year.

During the year, we took several important steps to better position Dover for the long-term. We realigned our businesses into a new segment structure to more closely match our five key growth markets. We also divested three businesses which did not fit our long-term strategy. We received over $0.5 billion in proceeds for these businesses, and believe we have positively impacted our long-term profile.

In 2011, we spent $1.4 billion in acquiring nine businesses, all in our growth spaces. Most notably, Harbison-Fischer and Sound Solutions. Harbison-Fischer was a great addition to our Energy segment, and delivered a strong year. Our Sound Solutions acquisition was also an exciting deal for us, as it expands our products and technology in the handset market. As you know, we acquired the business just as it started to ramp new automation and products. The production ramp has been more challenging than originally anticipated, impacting us in the short term. That being said, my enthusiasm around the combination of Knowles and Sound Solutions is stronger than ever.

Our pipeline remains active, and we expect to announce additional deals in the next three to four months. In summary, I'm pleased, actually proud, of our 2011 achievements and results, and believe we are well-positioned as we enter 2012.

With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Thanks, Bob. Good morning, everyone. Let's start on slide 3 of the presentation deck. Today, we reported fourth-quarter revenue of $2 billion, an increase of 15%. Earnings per share also increased 15% to $1.12. After adjusting for tax benefits in the quarter, EPS was $1.07, a 19% improvement over the prior year.

Segment margin for the quarter was 16.5%, down 50 basis points. Solid performances in Energy, Communication Technologies, and Engineered Systems were offset by the expected lower volume in Printing and Identifications' solar and semi markets, as well as significant acquisition-related costs. Bookings increased 14% over last year to $2 billion, reflecting double-digit growth in Energy, Communication Technologies, and Engineered Systems. In Printing and Identification, bookings were stable in our fast-moving consumer goods markets, while the alternative energy and semicon markets continue at low levels.

Overall, book-to-bill finished at 1, which is in line with our seasonal pattern and historical fourth-quarter trends. Backlog grew 15% to $1.4 billion. In the fourth quarter, we generated free cash flow of $276 million, or 14% of revenue. For the full year, we generated $786 million in free cash flow, representing 10% of revenue.

Now, turning to slide 4. Fourth-quarter revenue growth of 15% was comprised of 6% organic growth and 9% from acquisitions. Organic revenue growth remained strong at Energy, achieving 25% growth in the quarter. Engineered Systems and Communication Technologies also saw solid growth, 8% and 6%, respectively, driven by the Handset, Refrigeration, Fluid and Industrial end markets. Printing and Identification was down 13%, largely driven by weakness in solar and semi. These results were partially offset by fast-moving consumer goods markets. For the quarter, the majority of our acquisition growth was at Communication Technologies and Energy, where acquisitions contributed 35% and 16%, respectively.

Turning to slide 5, and our sequential results. As expected, revenue declined from the third quarter. Strong Energy results were offset by normal seasonality in other segments, and weakness in some end markets. Engineered Systems' normal seasonal pattern was evident as revenue declined 11% sequentially, primarily driven by the Refrigeration markets. Printing and Identification, and Communication Technologies, were down 8% and 2%, respectively, due to normal seasonality and weak alternative energy and telecom end markets. Bookings also declined from the third quarter of 2011, largely reflecting normal seasonal patterns. Of note, we saw strong bookings in Refrigeration and Food Equipment, and solid Energy order rates.

Now on slide 6. Communication Technologies posted revenue of $396 million, and $71 million of earnings, an increase of 41% and 40%, respectively. These results were driven by strong MEMS in aerospace OEM and aftermarket activity. Sound Solutions' volume accounted for 35 points of the revenue growth. Operating margin was 17.9%, a decrease of 20 basis points from the prior year. Benefits from volume increases were offset by product mix in the handset market and production ramp challenges, as well as softness in telecom and the impact of acquisition-related costs.

Bookings were $350 million, an increase of 21%. This growth was largely driven by our very strong MEMS handset markets. We also saw robust order rates in aerospace. Book-to-bill was 0.88, reflecting normal seasonality and the timing of orders based on new product introductions from handset OEMs. The handset market will continue to be strong in 2012, as cell phone growth, smartphones in particular, will be positively impacted by new product releases.

Turning to slide 7. Energy produced another excellent quarter, as North American rig count modestly grew and oil prices were favorable. During the year, and continuing right through the fourth quarter, we saw a shift from gas to liquids in liquid and oil rigs. Oil rigs are now approximately 70% of the market, a dynamic that is positive for our Energy businesses. Revenue increased 41% to $510 million, while earnings increased 40% to $122 million. Acquisitions accounted for 16 points of the growth.

In the quarter, we saw growth across all end markets -- drilling, production, and downstream. Operating margin was 23.9%, 30 basis points lower than last year. Our margins remained extremely strong, even after the impact associated with 2011 acquisitions. Bookings were $520 million, a 42% increase over the prior year, which included 29% organic growth. Book-to-bill was 1.02. We expect the energy market to remain strong as we start 2012, driven by the shift from gas to oil, and continued growth in North American rig count.

Moving to slide 8 -- at Engineered Systems, sales were $731 million, an increase of 8% year-over-year. Fluid Solutions grew 13% to $163 million, while Refrigeration and Industrial grew 7% to $569 million. Segment earnings increased 17% to $93 million. These excellent results were broad-based, with strong performances in both platforms and across most end markets. Operating margin was 12.7%, an increase of 100 basis points, reflecting strong leverage across the segment. Bookings were $783 million, an increase of 11% over the prior year, resulting in a book-to-bill of 1.07. Our Fluid Solutions platform bookings increased 10% to $159 million, while Refrigeration and Industrial was up 11% to $626 million. Book-to-bill for Fluid Solutions, and Refrigeration and Industrial, were 0.98 and 1.1, respectively. The strong growth in bookings at Fluid Solutions was broad-based, while Refrigeration and Industrial was led by very solid Refrigeration and Food Equipment orders. We begin 2012 with a healthy backlog in this segment.

Now, let's turn to slide 9. Printing and Identification revenue was $368 million, a decrease of 13% from the prior year. Earnings decreased 43% to $45 million. The declines reflect the continued weakness in alternative energy and semicon markets, as compared against a very strong prior year. These markets accounted for $50 million of revenue in the quarter, down 50% from the prior year, primarily driven by solar. That aside, activity in the fast-moving consumer goods markets overcame a softening Europe, and continue to expand on the strength of new product introductions. Operating margin declined 640 basis points to 12.1%, reflecting significantly lower volume.

Bookings were $354 million, a decrease of 11% from last year. These results were driven by weak semicon and alternative energy markets, which we believe have stabilized. With regard to our fast-moving consumer goods exposure, we expect solid market conditions in 2012. Book-to-bill ended at 0.96.

Going to slide 10, fourth-quarter net interest expense and corporate expense were both in line with our expectations. With respect to taxes, our fourth-quarter rate was 22.3%. The rate was favorably impacted by a $0.05 tax benefit. Adjusting for this benefit, the rate would have been 25.5%. For the full year, after adjusting for $0.22 of tax benefits, our normalized rate was 26.5%. Our tax rate continued lower due to the impact of geographic mix of earnings.

Now turning to slide 11, and our 2012 revenue guidance. We expect 2012 full-year revenue growth of 7% to 10%, consistent with expectations shared at Dover Day. Organic growth is estimated to be 4% to 7%, with acquisitions adding around 3%. Breaking down revenue growth by segment, we expect Communication Technologies will grow organically 11% to 13%, driven by strong prospects for MEMS microphones. Acquisition growth will add 10% to 12%. Energy should grow in the range 10% to 12%, comprised of 8% to 10% organic growth and 2% from acquisitions. Engineered Systems is forecasted to grow organically 3% to 5%; we also expect 1% from acquisitions for total growth of 4% to 6%. Lastly, Printing and Identification revenue is forecasted to be flat.

Moving on to slide 12, which shows our full-year guidance. We expect corporate expense to be around $145 million, up about $7 million from 2011, representing continued investment in incremental pension costs. Interest expense will be about $118 million. We are forecasting our full-year tax rate to be in the range of 26.5% to 27%. Cap Ex should be approximately 3% of full-year revenue as we continue to invest in capacity expansion and automation, and emerging economy growth. We again anticipate generating significant free cash flow, roughly 10% of revenue. Based on the above, we anticipate full-year earnings per share from continuing operations to be in the range of $4.70 to $5.

Now let's go to the full-year earnings bridge on slide 13. 2011 EPS was $4.26 after adjusting for $0.22 of tax benefits. Volume, mix, and price will contribute roughly $0.26 to $0.52 for the year, while net productivity is expected to generate $0.21 to $0.31. We now expect completed acquisitions to deliver roughly $0.18 to $0.22. We will continue to make investments in sales and engineering for growth. The combined impact of these investments and higher compensation cost should be $0.20 to $0.30. Lastly, interest expense, a slightly lower share count and our normalized tax rate all largely offset each other, resulting in a $0.01 impact. The net result is EPS growth of 14% over our adjusted 2011 EPS at the midpoint.

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

Bob Livingston - *Dover Corp - President & CEO*

Thanks, Brad. We had an outstanding 2011. And we expect to grow revenue and earnings nicely in 2012. As we start the year, we believe Energy will continue to perform at a high level, as will Fluids, Refrigeration and Food Equipment, and most of our other Industrial markets. We also expect the handset market to be very strong, which should help drive significant demand for our MEMS microphones and acoustic products.

I firmly believe we have the right organization and team in place, and are serving the right markets. Our focus on customers, technology, and higher-growth applications and economies should enable us to deliver another fine year to our shareholders. In closing, I would like to personally thank our employees, customers, and suppliers for their strong contributions and support in making 2011 a great success for Dover. I look forward to their continued contributions in the coming year.

Okay, Paul, let's take some questions.

Paul Goldberg - *Dover Corp - Vice President of IR*

Thanks, Bob. At this point, I would just like to remind everybody that if you can limit to one question with a follow-up, we'll be better able to answer everybody's question. So, with that, Jackie, let's have the first question.

QUESTIONS AND ANSWERS

Operator

Your first question from the line of Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks a lot. >> <Bob Livingston - President & Chief Executive Officer - Dover Corp> <livingstonbob> Good morning. The first point, you said you spent $1.4 billion on M&A last year. Obviously we're at the very beginning of this year. What are your thoughts on the pace at which you want to ramp up M&A, given it has been be six months where you haven't really sold businesses and not bought any.

Bob Livingston - *Dover Corp - President & CEO*

I'm not sure we feel like we're ramping M&A. M&A is actually quite active right now, but it was in the second half of the year, following the Sound Solutions acquisition as well. We just didn't close too many deals in the second half. As I commented in my opening comments, I would expect to announce some acquisitions in the next three to four months. But it is fairly active.

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

We did close three small deals in the fourth quarter into the early part of January. But they were relatively small.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. Thanks. And then secondly, on the Energy business, you talked about 8% to 10% organic growth in 2012. There is obviously a lot of noise in the last two weeks around the weakened outlook for gas-related Cap Ex, given gas prices. What sort of assumption are you factoring in for your business which is towards gas rather than oil this year?

Bob Livingston - *Dover Corp - President & CEO*

Okay, well, let's -- on key assumptions, you would start with rig count. And 2012, our assumptions and forecast do assume a very modest, single-digit increase in rig count over the year-end number. And Julian, I think our modeling is 3% or 4% increase in rig count in 2012 over the year-end number. But it is interesting, when you look at that number for 2012 against the average for 2011, it is about a 10% increase year-over-year comps on rig count deployment.

We have been seeing this for, goodness, for the past year, the switch from less gas to more oil on the rig deployment. The announcements in the last couple of weeks that you refer to, I think, would encourage that shift even more. And I have to tell you, that sort of plays to our favor.

Julian Mitchell - *Credit Suisse - Analyst*

Okay, thanks. Lastly, you had pretty big de-cremental margins in Printing and ID in Q4. How are you thinking about the cost base there? If bookings are stabilizing in semiconductors and alternative energy, does that mean you're hanging in there with the fixed cost base on the assumption that you could get quite a big revenue ramp later this year?

Bob Livingston - *Dover Corp - President & CEO*

Well, the bookings have stabilized; and to give you a bit more color on that, I would tell you that for -- not just for semi and solar but for all of the electronics activity in that segment, our 2012 assumption is that we're going to have revenue that's about equal to the second half of '11, annualized.

Julian Mitchell - *Credit Suisse - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

But even with the stabilization that we're seeing in the market activity, we have been taking some fixed costs out of this business during the second half of '11, and we have more action plans in the first half of '12, as well.

Julian Mitchell - *Credit Suisse - Analyst*

Great, thanks a lot.

Operator

Your next question comes from the line of John Inch with Bank of America.

John Inch - *BofA Merrill Lynch - Analyst*

Good morning, everyone.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, John.

John Inch - *BofA Merrill Lynch - Analyst*

Good morning. Brad or Bob, is there a way perhaps we could flush out a little more or quantify some of the production ramp cost spending that I'm assuming Sound Solutions incurred in the quarter? And how do you expect that to progress, because obviously you've got some new business ramp that is expected to come in, maybe a little bit of help on that dynamic?

Bob Livingston - *Dover Corp - President & CEO*

Well, I would start first by saying the challenges around the production ramp have more to do with yield than with customers or market. And the yield on some of the new designs, as we transition to some new customers, have been a bit more challenging than we would have liked. We do expect those yield challenges to continue through the first quarter well into the second quarter until we get our full automation up and convert from labor to automation. And we expect the Sound Solutions business to expand margins and earnings sequentially through the year.

John Inch - *BofA Merrill Lynch - Analyst*

Bob, is this an issue going on in China, because I know that business had been hiring a bunch of folks in China, or does this have to do with, overall, since you have owned the business, trying to tap into some other aspects of integration?

Bob Livingston - *Dover Corp - President & CEO*

No, I would not label this at all as having anything to do with integration. It is all production ramp in China.

John Inch - *BofA Merrill Lynch - Analyst*

Then my follow-up is really the historical market Markem-Imaje business. That business does have quite a bit of exposure to Europe. I think the core result's pretty good. What do you think is going on there? Maybe a little bit of color? And do you expect the business to fade given leading indicators in Europe? Or do you think these new product launches are superseding that impact? What do you think?

Bob Livingston - *Dover Corp - President & CEO*

A lot of it all. (laughter) Number one, we do have a strong business base in Europe. John, our business in Europe, you could actually split it into two pieces. We did see some softness in Europe in the fourth quarter. It was -- without any exceptions, it was restricted to southern Europe.

John Inch - *BofA Merrill Lynch - Analyst*

Yes.

Bob Livingston - *Dover Corp - President & CEO*

In northern Europe, central Europe business activity continued to be fairly strong. To give you a little bit of color for 2012, we're sitting here with our guidance, assuming 10% to 11% organic growth in a Markem-Imaje for 2012. We're not expecting much growth in Europe for Markem-Imaje next year.

John Inch - *BofA Merrill Lynch - Analyst*

Most of that, I'm assuming, is new product.

Bob Livingston - *Dover Corp - President & CEO*

New products and all regions of the world, except Europe.

John Inch - *BofA Merrill Lynch - Analyst*

Lastly, Bob, strategically, the divestiture of Heil makes a lot of sense. The question is, do you foresee Dover doing further divestitures? You're talking about acquisitions, but how are you thinking about the portfolio now, given the moving parts? I realize you talked about semicon at Dover Day, so maybe exclude those businesses. What about the rest of, say, your mix? How are you thinking about that?

Bob Livingston - *Dover Corp - President & CEO*

John, to be quite direct about it, we have no current plans for divestiture activity that we're currently working on. But I will repeat what I said at Dover Day. And I've said this before. I think you'll see us continue to tweak the portfolio this year, next year, the year after, when we believe timing is right and there is a different, better owner for a business than Dover.

John Inch - *BofA Merrill Lynch - Analyst*

Thank you.

Bob Livingston - *Dover Corp - President & CEO*

But I wouldn't expect anything major like we did in 2011.

John Inch - *BofA Merrill Lynch - Analyst*

Yes, no, that seems clear. Thanks very much. Appreciate it.

Operator

Your next question comes from the line of Terry Darling with Goldman Sachs.

Terry Darling - *Goldman Sachs - Analyst*

Good morning.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, Terry.

Terry Darling - *Goldman Sachs - Analyst*

Bob, I wonder if we make sure we get the complete list of what's changed in your thinking about the 2012 mosaic versus Dover Day. Looks like the Communication Technologies organic has gone up a bit. The acquisition growth down a bit. You talked about the ramp issues on Sound Solutions. Presumably the Comtech is just the handset view that you have. Has anything really changed around your segment margin expansion expectations of 40 basis points to 70 basis points? It looks like maybe that came down a little bit. Maybe just complete that list for us?

Bob Livingston - *Dover Corp - President & CEO*

Gosh, Brad's going to give you the detailed response. My response sitting here, as we've looked at this over the last three or four weeks, is I don't think there's much difference in our guidance and our outlook for 2012, versus what we shared with you at Dover Day. Perhaps a little bit of minor noise around margin expectations, but it is minor. But, Brad, do you want to add anything?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Yes, I think I would just say, I think you understand the sales well. You articulated that correctly. A little bit changed there, not much. With respect to margin expectations at Dover Day, there is really no major changes, I would say. The minor things, I would say, is we would expect DE and DES to be a bit stronger than what we said at Dover Day. And DPI may be a little bit less. And your observation is correct. I think total segment margin expansion is probably -- we said 40 to 70 basis points. We're probably 10 off on that range at this stage. Not much. Not much change is the way I would think about it.

Terry Darling - *Goldman Sachs - Analyst*

Okay, helpful. Bob, can you explain more why the shift from gas to oil is a positive, is a net positive, for Dover? And in that context, the 8% to 10% organic is in line with that rig count forecast you have. And you've been outgrowing the rig count in the couple of years past. Let me just square those up.

Bob Livingston - *Dover Corp - President & CEO*

Okay. So, there are two questions there. So, let me give you a little bit of color. Let me give you a little bit of color on the markets for energy. Drilling production and downstream. Drilling, because of the, I call it, tapering off of the growth rate and the rig count deployment for drilling growth in 2012, we're looking at mid single-digit growth in drilling next year, 6% to 7%. And downstream, in production, low double digits. That gives you a little bit of color on the markets.

Your question on why the shift to oil favors us, well, to be rather frank about it, on a typical gas well, to bring it in production, we will get maybe $10,000 or $12,000 of revenue per completed gas well. On an oil well or a liquid-rich well, it is about $50,000. We just have more product content.

Terry Darling - *Goldman Sachs - Analyst*

Okay. And Bob, you could help us with the rough percent split of the business as you see it now between drilling production and downstream.

Bob Livingston - *Dover Corp - President & CEO*

Oh, goodness. Production is about half of the Energy business. Downstream and drilling, obviously the balance. And the balance is probably split 55/45 in favor of downstream.

Terry Darling - *Goldman Sachs - Analyst*

Okay, great, I'll pass it on. Thanks.

Operator

Your next question comes from the line of Jeff Sprague with Vertical Research.

Jeff Sprague - *Vertical Research - Analyst*

Thank you, good morning, gentlemen.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, Jeff.

Jeff Sprague - *Vertical Research - Analyst*

Could you elaborate a little bit, Bob, on the strength that you're seeing in refrigeration? Is there some new programmatic type activity at some big retailers or some share shifts going on? Just any additional color there would be great.

Bob Livingston - *Dover Corp - President & CEO*

Yes, well, I wish I could sit here and tell you that the market is booming, but that's not what we're seeing, and that wasn't what was behind the fourth-quarter strength. In fact, Jeff, I would tell you is, we went through the fourth quarter and saw the bookings coming in a little bit stronger than we had anticipated. I have to tell you, our initial response is we were probably seeing some pull-forward order activity from the first quarter to the fourth quarter. And that's always a bit difficult to predict anyway, that fourth-quarter bookings. So, that was our consensus as we were chatting with you at Dover Day. I have to tell you as we -- January is not over, but we're three weeks into the new year, and bookings activity at Hill PHOENIX is remaining fairly strong. I think there is some share gain that Hill PHOENIX is capturing. And we are seeing a rather significant increase in opportunity for Hill PHOENIX in Canada and Mexico.

Jeff Sprague - *Vertical Research - Analyst*

Just wondering on -- (multiple speakers)

Bob Livingston - *Dover Corp - President & CEO*

Jeff, don't ignore the acquisition that we just completed here for this business in, I think it was, in November. I think we've got about $30 million of revenue, annual revenue, in our plan in 2012 from Advansor.

Jeff Sprague - *Vertical Research - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

Jeff, the business is doing very well.

Jeff Sprague - *Vertical Research - Analyst*

Yes, it sounds like you're still taking some nice share. Just thinking about your deal pipeline, obviously it just depends on when things close and all of that. I get that. But is the window closing, in a sense, for 2012 deals to be able to add to 2012 earnings? Just thinking of now the timing of when things might close and your knowledge obviously of what's in the pipeline and handicapping what might close?

Bob Livingston - *Dover Corp - President & CEO*

Well, it ends up being deal-specific, like it always is. If we can close on a couple or three deals here in the next three to four months, obviously the timing of that, the timing of that early in the year, gives you the opportunity to have a little bit of opportunity for EPS accretion. But at the same time, each deal is going to be unique with respect to the integration cost and some of the up-front cost of bringing the business in to Dover. Let us announce the deals and we'll give you some guidance as we make the deals.

Jeff Sprague - *Vertical Research - Analyst*

Fair enough. Thanks, guys.

Operator

Your next question comes from the line of Shannon O'Callaghan with Nomura Securities.

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

Good morning, guys.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, Shannon.

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

As you think about this year-over-year decline in the Printing and ID margin, I know we have the semi stuff and solar, but you guys had also obviously been ramping a bunch of investments in the product ID side of things. Of this 640-basis-point decline, do you have a broad stroke of what the chunks of that are?

Bob Livingston - *Dover Corp - President & CEO*

Gosh, the fourth-quarter decline, I think would be primarily due to the lower volume in semi and solar and the electronics part of the business compared to the fourth quarter of '10. But we have been making some significant investments. We continue making some significant investments with Markem-Imaje, as well as Datamax-O'Neil. And some of the decline in the fourth quarter was attributed to some minor margin declines at Markem-Imaje. Do you want to add any color to that?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Well, yes, I would agree with that, Bob. I think they're minor and they do principally reflect a little bit of investment. And we saw a little bit of a mix in the fourth quarter, as well, that worked a little bit of against Markem-Imaje, but nothing significant, nothing permanent.

Bob Livingston - *Dover Corp - President & CEO*

Let me clarify that. What Brad refers to the mix issue in the fourth quarter, printer sales were a little bit higher percentage of revenue for Markem-Imaje in the fourth quarter than consumables. I think that reflects the surge that the guys are seeing with the take-up of the new product offerings.

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

Is Markem-Imaje back to where you wanted it to be after you had to take the margins down for investment purposes to get the new products out or is that still ramping?

Bob Livingston - *Dover Corp - President & CEO*

I would label that still a work in process. Ask me that question a year from now and I would like to be able to answer yes.

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

On the margins in Engineered Systems, the strength there. Anything unusual you would point out in that or what do you accredit that to?

Bob Livingston - *Dover Corp - President & CEO*

Nothing unusual. Very broad-based. Strong conversion at that segment in the fourth quarter.

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

Okay. Great. Thanks, guys.

Operator

Next question comes from the line of Robert McCarthy with Robert W. Baird.

Robert McCarthy - *Robert W. Baird - Analyst*

Good morning, guys.

Bob Livingston - *Dover Corp - President & CEO*

Good morning.

Robert McCarthy - *Robert W. Baird - Analyst*

Can you give us some visibility on what your expectations is for book-to-bill in the Communications Technology segment? Do you consider the below 1.0 number in the quarter to be an aberration and we ought to look for a combination of seasonal factors and stronger order flow to take us back above 1 as early as the first quarter? Or does it take a little bit longer for that to happen? And is a, perhaps, related shift in growth expectations for the segment a little more back-end weighted, the explanation for why your organic growth forecast went up a little bit and your acquisition contribution number went down a little bit?

Bob Livingston - *Dover Corp - President & CEO*

Your first question was around book-to-bill for the fourth quarter. And actually, Rob, I would label the fourth quarter of '11 to be more normal, and the fourth quarter of '10 to have been a bit of an aberration. You do typically, especially in the handset business, you will typically see, the reduction -- you will see a very, very strong order flow and production through mid November, sometimes through the end of November, sometimes into the middle of December. But typically, December is normally a fairly weak order month for the cell phone guys. And that holds true through Chinese New Year.

Robert McCarthy - *Robert W. Baird - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

So, we'll see a significant change in order rates as we come back off the Chinese New Year here in a couple of weeks. We would expect order rates in the latter half of the first quarter and second quarter to be quite strong.

Robert McCarthy - *Robert W. Baird - Analyst*

Okay. And so that related question then of whether the changes -- bumping up the organic growth number for Comtech and taking down the acquisition contribution, which really is first half concentrated, does that -- I sense that you've shifted your revenue growth expectations for that segment to a little bit later in the year.

Bob Livingston - *Dover Corp - President & CEO*

That's true. I would also tell you that we're probably seeing the opportunity for a little bit more growth at Knowles this year than maybe we shared with you at Dover Day.

Robert McCarthy - *Robert W. Baird - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

And when we look at Sound Solutions, I think the guys sitting around me would tell you I'm being conservative, but we have backed off the Sound Solutions revenue forecast for 2012 for Sound Solutions by about, I think it is about, $15 million. And it is all Nokia.

Robert McCarthy - *Robert W. Baird - Analyst*

Yes, all right.

Bob Livingston - *Dover Corp - President & CEO*

Sitting here now, if you're looking for any upside opportunities to our guidance, I would like to think we could outperform that slightly in 2012.

Robert McCarthy - *Robert W. Baird - Analyst*

Yes, okay. And my related question to that is, just really big picture, is it a fair characterization to say that most of the earnings per share growth that you're forecasting will occur in the second half of the year? You have got short-term ramp issues. You've got a little bit of hangover from printing and ID, especially in the first quarter, et cetera.

Bob Livingston - *Dover Corp - President & CEO*

I don't look at it that way. So, I don't have that detail in front of me. But from a revenue perspective, I'm not sure I can equate it directly to EPS. Forget organic and comps. I would tell you that when we look at revenue for 2012, about $4.2 billion in the first half of '12. And about $4.4 billion, $4.45 billion number, in the second half, so the second half is a little bit better than the first half, but I'm not sure I would label that as unusual.

Robert McCarthy - *Robert W. Baird - Analyst*

Yes, okay. Thanks, Bob.

Operator

Your next question comes from the line of Steve Tusa with JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Hi, good morning.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, Steve.

Steve Tusa - *JPMorgan - Analyst*

Question on Communication Technologies. Can you just help me bridge the gap? People view this as an iPhone play, but I'm struggling to bridge the gap from what Apple is putting up and 6% core growth in Communication Technologies, and the 7% that you did this year and how that bridges you to the 11% to 13% that you're talking about for next year. What gets materially better?

Bob Livingston - *Dover Corp - President & CEO*

Okay. What gets materially better? Wow.

Steve Tusa - *JPMorgan - Analyst*

Just describe the moving parts, because 6% core growth is solid, but not something that we would expect looking at the smartphone type of volumes you're talking about. I know there's other businesses in there.

Bob Livingston - *Dover Corp - President & CEO*

Look at the whole segment, Steve. Obviously you know this, as well as everyone else, that it is not all handset. When you look at the major markets that we're serving within this segment -- and I can't break this out between organic and acquisition, but the area that is down in 2012 is telecom and some other small applications. And that represents about $200 million of revenue for this segment and it is down 14% in '12.

Steve Tusa - *JPMorgan - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

All other segments that we're serving, we're showing growth from very, very modest low single-digit on military, and I know that seems odd, but we actually have line-of-sight on some growth in military, but it is very low single digit. Aerospace and Industrial markets, we're seeing growth of 9% to 10%, in '12. Life sciences, mid single digits, 5% to 6%. Obviously, the bulk of the growth is our handset business.

Steve Tusa - *JPMorgan - Analyst*

What was the biggest headwind in the quarter by those buckets? What was the worst type of decline? Was it the telecom business?

Bob Livingston - *Dover Corp - President & CEO*

In the quarter?

Steve Tusa - *JPMorgan - Analyst*

Yes, for fourth quarter.

Bob Livingston - *Dover Corp - President & CEO*

Fourth-quarter comps against the fourth quarter of '10, life sciences was down slightly, like maybe 3% or 4% year-over-year. Military was off slightly. Again, 3% or 4% year-over-year. Aerospace Industrial was actually up nicely. What was it, Brad? 25%, 30% growth in the fourth quarter? And everything else was handsets.

Steve Tusa - *JPMorgan - Analyst*

So, was it --

Bob Livingston - *Dover Corp - President & CEO*

Actually telecom was down slightly. I think 2% or 3% in the fourth quarter.

Steve Tusa - *JPMorgan - Analyst*

So handsets was up what?

Bob Livingston - *Dover Corp - President & CEO*

The balance. It was a large number, Steve. I don't remember the number.

Steve Tusa - *JPMorgan - Analyst*

Okay. I guess I can walk through it with Paul off-line.

Bob Livingston - *Dover Corp - President & CEO*

It was well over 100%.

Steve Tusa - *JPMorgan - Analyst*

One last question just on Engineered Systems, it looks to me like you guys took that organics down from 4% to 6% to 3% to 5%, but you're talking more positively about Hill PHOENIX. Is there something else going on in that business?

Bob Livingston - *Dover Corp - President & CEO*

No, I think I would label the guidance at DES to be quite reflective of what we were seeing in the final three or four months of 2011; and we've probably got two segments that I would say we're baking in a little bit of conservatism with respect to Europe. Those two segments being Printing and Identification and DES.

Steve Tusa - *JPMorgan - Analyst*

Got you. One more very quick one, just housekeeping. I'm just unclear. Sound Solutions, looks like you're guiding that to incremental revs of up $150 million to $160 million. You had been expecting something around $200 million, I think. Again, is this a customer issue or is this, you said, an automation problem, a production ramp problem? What exactly is that?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

I would say we're not guiding down on that full-year number for 2012. As Bob said, if you think about where we were last time on this call to where we are now, maybe $15 million guide down, but the number remains substantially unchanged and a lot higher than the number you're talking about.

Steve Tusa - *JPMorgan - Analyst*

Okay. I guess I have to go through the numbers with Paul again. Thanks a lot. Appreciate it.

Bob Livingston - *Dover Corp - President & CEO*

The only difference between what we've been sharing over the last couple of calls and our guidance and outlook for 2012 is about a $15 million reduction in how we look at Sound Solutions revenue opportunity in '12, and as I said earlier, it is all around Nokia. Well, Nokia and a little bit at RIM.

Operator

Your next question comes from the line of Scott Davis with Barclays Capital.

Scott Davis - *Barclays Capital - Analyst*

Hi, guys, good morning.

Bob Livingston - *Dover Corp - President & CEO*

Hi, Scott.

Scott Davis - *Barclays Capital - Analyst*

Specifically for you, Brad, we haven't talked about the whole concept of centralization in awhile and some of the things you were working on like procurement and such. Can you give us an update there? Are we pretty much done or is there more to do in 2012?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

There's a lot more to do. We continue to work on it. I would say we still expect more incremental impact in 2012 on our supply chain efforts; and I would say that that number is pretty much, the incremental is, pretty much in line with what we achieved in 2011, so we continue to see good opportunities there.

We're working on a lot of other areas, including efforts around our IT infrastructure and as well as we're in the very early days of taking a look at some back office opportunities. And you'll perhaps hear that unfold a little bit, as we get later into 2012, about things that we can expect to achieve in the back office and through IT. But that's an area that up to now, Dover hasn't spent a lot of time working on. It is the natural progression coming off of our supply chain efforts in centralization.

Scott Davis - *Barclays Capital - Analyst*

Makes sense. Just following up a little bit from Steve's first question. We saw this list of Apple suppliers, and it is the first time I can remember seeing the list. Maybe they've put it out before, but it's the first time I've seen it.

Bob Livingston - *Dover Corp - President & CEO*

It's the first time they've published that.

Scott Davis - *Barclays Capital - Analyst*

Okay. And obviously they list you guys and they list your key MEMS competitor AAC. Have some of the capacity constraint issues you guys are talking about, has that open the door a bit for somebody like AAC to build out scale and be able to compete more effectively with you guys? How do you view that?

Bob Livingston - *Dover Corp - President & CEO*

Number one, I don't think we've had a capacity constraint issue that has led to a position where we have not been able to satisfy or support a customer in the way they wanted us to support them. So, let's be sure about that.

Scott Davis - *Barclays Capital - Analyst*

Okay.

Bob Livingston - *Dover Corp - President & CEO*

This is a pretty large market. It is becoming a larger market and as much as we would like to say we're the only one in the market, this is something we've known was going to be happening ever since we acquired the business in 2005. And it was interesting, someone asked earlier about the assumptions around energy.

Well, let me tell you the assumptions around MEMS for this year and next year, number one, we still believe there's going to be significant MEMS encroachment on the old style audio technology for microphones. We think that still has a lot of room to move. And that as we see that further encroachment on MEMS technology, we believe we're going to maintain a very, very high share of the MEMS microphones for the cell phone guys. For the next two to three years, we believe there's going to be continued growth in the cell phone market. There will be competition. It is a big market.

Scott Davis - *Barclays Capital - Analyst*

How much does it help having Sound Solutions now? Does that allow you to, for lack of a better word, bundle or how does that work? Are they still pretty disparate businesses?

Bob Livingston - *Dover Corp - President & CEO*

I don't like the word bundling, but it sure does help on cross-selling. In fact, I will tell you that it is interesting when you look at the target opportunities and revenue opportunities for Knowles in the MEMS business in 2012, we've added two customers for 2012 that we did not have prior to Sound Solutions, and the cross-selling has been a result of Sound Solutions.

Scott Davis - *Barclays Capital - Analyst*

Okay. Good. Thank you, guys.

Operator

Your final question comes from the line of Nigel Coe with Morgan Stanley.

Nigel Coe - *Deutsche Bank - Analyst*

Good morning.

Bob Livingston - *Dover Corp - President & CEO*

Good morning, Nigel.

Nigel Coe - *Deutsche Bank - Analyst*

So you managed to get through the whole call without answering a single semi cap question. (laughter and multiple speakers) This is a breakthrough. Don't worry, I'm not going to change that. No, I'm not going to go there. So, I just wanted to dig in a little bit on the comps given in these segments. You saw a really nice ramp-up in March in the Q3 and Q4. I'm actually wondering, how much of that was due to the Sound Solutions yield improvements and how much was just due to normal acquisition accounting which will roll forward, which washed out in 4Q?

Bob Livingston - *Dover Corp - President & CEO*

I'm not sure I understood the question, Nigel.

Nigel Coe - *Deutsche Bank - Analyst*

The sequential improvement in contact margins from 3Q to 4Q?

Bob Livingston - *Dover Corp - President & CEO*

I would label the bulk of the improvement just the elimination, if you want to call it that, of some of the deal costs we incurred in the third quarter. In fact, I commented about some of the production ramp-up costs. I will confess that the yields in the fourth quarter at Sound Solutions weren't much better than they were in the third quarter. That's a challenge we're going to continue to struggle with, as I commented earlier, going into the first quarter until we can get the automation completely online and that's going to be late this quarter and into the mid of the second quarter before that project is complete.

Nigel Coe - *Deutsche Bank - Analyst*

Are you still aiming to have the automation lines up and running by March, I think?

Bob Livingston - *Dover Corp - President & CEO*

Let's see. There are several scheduled, Nigel. The first one is actually up and running now. The second line is being tested and prepared for hand-off to manufacturing as we speak, and it is probably in total about a five or six week process to complete that transition. The third one, the third automation line, I don't think it goes into the factory until early March. That's why I say, it will be well into the second quarter before that one is complete.

Nigel Coe - *Deutsche Bank - Analyst*

Okay. So, we've got a yield improvement story coming through the next two quarters?

Bob Livingston - *Dover Corp - President & CEO*

Yes, we do.

Nigel Coe - *Deutsche Bank - Analyst*

Okay. I know you guys don't give quarterly guidance but --

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

That's right, we're not. (laughter)

Nigel Coe - *Deutsche Bank - Analyst*

But on the comm side, you have got Chinese New Year, so you would expect to have some volume absorption issues coming through. Well, fixed cost absorption issues coming through in 1Q. Then you have the yield improvement coming up through from Sound Solutions. How should we think about 1Q margins in comms compared to 4Q?

Bob Livingston - *Dover Corp - President & CEO*

For Dover or for Communication Technologies?

Nigel Coe - *Deutsche Bank - Analyst*

Exactly, Comtech.

Bob Livingston - *Dover Corp - President & CEO*

Comtech, gosh, I don't have that Brad, do you?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Well, highly -- (multiple speakers)

Bob Livingston - *Dover Corp - President & CEO*

Similar.

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

High level, I would say the volumes, because of Chinese New Year, are down, down off of the fourth quarter.

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Nigel Coe - *Deutsche Bank - Analyst*

Sure.

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Therefore, we would expect the margins to follow suit. We don't give specific guidance, but that would be a normal pattern, I would expect.

Nigel Coe - *Deutsche Bank - Analyst*

That's really helpful. Brad, quickly, the 4% to 7% core growth, that includes FX as well?

Brad Cerepak - *Dover Corp - Senior Vice President & CFO*

Yes, it does.

Nigel Coe - *Deutsche Bank - Analyst*

Great. Thanks, guys.

Operator

Thank you. That concludes our question-and-answer period. I would now like to turn the call back over to Paul Goldberg, Vice President of Investor Relations for closing remarks.

Paul Goldberg - *Dover Corp - Vice President of IR*

Thanks, Jackie. This concludes our conference call. And with that, as always, I would like to thank you for your continued interest in Dover and we look forward to speaking to you again next quarter. Thanks a lot and have a good day.

Operator

That concludes today's fourth-quarter 2011 Dover Corporation earnings conference call. You may now disconnect your lines and have a wonderful day.
