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DOV - Q4 2018 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 4Q18 revenues of $1.8b, adjusted earnings of $211m and adjusted diluted EPS of $1.43. Expects 2019 adjusted EPS to be $5.65-5.85.

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PRESENTATION

Operator

Good morning, and welcome to Dover's Fourth Quarter 2018 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Andrey Galiuk, Vice President of Corporate Development and Investor Relations. (Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

I would now like to turn the call over to Mr. Andrey Galiuk. Mr. Galiuk, please go ahead, sir.

Andrey Galiuk

Thank you, Maria. Good morning, and welcome to Dover's fourth quarter and full year 2018 earnings call. We'll begin with comments from Rich and Brad, and we'll then open the call for questions. This call will be available for playback through February 19, and the audio portion of this call will be archived in our website for 3 months. The replay telephone number is (800) 585-8367. When accessing the playback, you'll need to supply the following access code, 6883448.

Dover provides non-GAAP information such as adjusted EPS results and guidance. Reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials which are available on our website, dovercorporation.com.

Our comments today may contain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law.

With that, I'd like to turn this call over to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Thanks, Andrey, and good morning, everyone, from balmy Chicago. Let's get started on Slide 3. Q4 organic revenue growth was up 6.2% for the quarter. A solid demand trends in Engineering Systems and an exceptionally strong performance in our Fluids segment more than offset the continued weak demand environment in Refrigeration & Food Equipment, particularly in can-making equipment and food retail. Adjusted Q4 earnings were up 17%, driven by top line growth, volume leverage and cost actions initiated in Q3. Adjusted EPS at $1.43 per share was up 25%, inclusive of $0.08 of favorable impact from tax.

As we discussed at the end of Q3, we had some heavy-lifting to do to offset the Q4 forecasted trading environment in Refrigeration & Food Equipment. The organization made a determinant effort to convert its backlogs, crystallize its cost-saving targets and focus on cash conversion with good effect. Despite the excellent shipping performance through Q4 in many of our businesses, bookings remained solid at the end of the quarter, posting a book-to-bill ratio above 1, which were broad-based across the portfolio.

Our SG&A rightsizing initiative is largely complete. And during the quarter, we began the first projects of our footprint rationalization plan, particularly with the 3-to-1 production site rationalization in Unified Brands, which is underway.

In Q4, we have taken our initial restructuring charge of $5 million as a result of the announced footprint consolidation efforts, which we forecast to deliver $4 million into 2019 and annualized run rate savings of $18 million.

Finally, on the inorganic growth front last Friday, we completed the acquisition of Belanger, a leading carwash equipment manufacturer, which we announced earlier in the month. Belanger meets all of the criteria for inorganic investment in terms of market attractiveness, execution profile and return on invested capital that we had laid out at our Analyst Day in September.

It's been a busy quarter for the company. I am pleased that we're able to deliver top -- solid top line growth and generate significant cash flow from operations while concurrently delivering on our productivity initiatives announced in September.

Okay. That's the balance of the opening comments. And here, I'll pass it on to Brad.

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

Thanks, Rich. Good morning, everyone. Let's go through the details starting on Slide 4. As mentioned, our results for the quarter were driven by strong demand in Engineered Systems and Fluids, solid margin conversion on revenue growth and cost actions. Adjusted segment EBIT increased 9% to $285 million, and adjusted margin was 15.7%, an increase of 80 basis points. This performance reflected strong growth in conversion in Engineered Systems and improved performance in Fluids, partially offset by lower volume in Refrigeration & Food Equipment. Adjusted segment EBITDA was $352 million.

Adjusted earnings were $211 million in the quarter and adjusted diluted EPS was $1.43, an increase of 25% over last year. The EPS increase was supported by share repurchases and a lower tax rate.

Full year 2018 results followed the same narrative as the fourth quarter. Results were largely driven by strong growth across our Engineered Systems and Fluids segments, partially offset by lower volume within our Refrigeration & Food Equipment segment.

Adjusted full year 2018 segment EBIT increased 4% to just over $1 billion. Adjusted EBIT margin was 14.8%, an increase of 30 basis points, driven by stronger conversion on revenue growth and by the impact of our margin improvement plan.

The effective tax rate for the full year was 21.4% when normalized for discrete tax benefits, excluding the additional Tax Act regulatory guidance covered by SAB 118.

Now turning to Slide 5. Let's get into a little bit more detail on revenue and bookings results in the quarter. Fourth quarter revenue grew by 3.2% to $1.8 billion. Organic growth in the quarter was 6.2% despite headwinds in Refrigeration & Food Equipment. The impact from FX and dispositions added headwinds of about 2% and 1%, respectively.

From a segment perspective, Engineered Systems grew $30 million or 4.3% organically, and Fluids grew $118 million or 17.2% organically on broad-based activity across the segments.

Delayed shipments in can-shaping equipment and weak retail refrigeration markets drove a $39 million or 10.2% organic decline in Refrigeration & Food Equipment's revenue, the majority of which is due to the expected year-over-year declines at Belvac. In the fourth quarter, our retail refrigeration business posted its lower -- lowest rate of revenue decline in 2018 at approximately 3%.

Bookings increased 8% overall. Organic growth was strong at 10%, contributing to an increase in backlog over -- both over the third quarter of 2018 and the fourth quarter of 2017. Of note, Engineered Systems and Fluids organic bookings grew $86 million and $54 million, respectively, reflecting broad-based market demand. Refrigeration & Food Equipment segment bookings grew $25 million organically on approved orders at retail refrigeration and exceeded revenue by $14 million in the quarter.

From a geographic perspective, the U.S., our largest market, grew 6% organically, where broad-based growth in Engineered Systems and Fluids was partially offset by retail refrigeration, which is primarily a domestic business. Europe was up 10% organically, with strong performance across all segments, and Asia was flat. Within Asia, China grew 6% organically, driven by strong growth in our Fluids segment.

Finally, book-to-bill finished at 1.02, reflecting strong orders across our segments, including Refrigeration & Food Equipment.

Let's go to the earnings bridge now on Slide 6. Starting on the top. Engineered Systems adjusted segment EBITDA improved $11 million, largely driven by solid conversion on broad-based revenue growth across the segment, more than offsetting headwinds from FX and dispositions. Fluids' EBITDA growth of $32 million reflects a combination of robust growth, better execution in retail fueling, as well as strong conversion on volume and other businesses. The $22 million decline in Refrigeration & Food Equipment reflects lower volume and negative business mix, particularly in our can-making and retail refrigeration businesses. Additionally, our margin improvement plan began to deliver results, with our SG&A initiative contributing $22 million of savings to Q4 results.

Going through the bottom of the chart. Adjusted earnings from continuing operations improved $31 million or 17%, primarily driven by higher segment earnings, lower interest in corporate costs, partially offset by higher taxes on increased earnings.

Now on Slide 7. Free cash flow for the quarter was seasonally strong, posting our highest quarterly cash flow for the year despite the strong revenue impact, resulting in higher year-end receivables. The fourth quarter is traditionally our highest cash flow quarter. Free cash flow for the year was $618 million or 8.8% of revenue, within our guidance from our Analyst Day in September. Cash cost of $52 million associated with our restructuring initiatives negatively impacted cash flow in the year. Excluding such nonrecurring cash outlays, free cash flow was 9.6% of revenue.

Now let me turn it back to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Okay. Thanks, Brad. Let's go onto Slide 9. Engineering Systems had a solid broad-based quarter with top line organic growth of 4.3%. Incremental margin conversion in the quarter was excellent, driven by favorable mix and cost actions largely in the Printing & ID platform despite a more modest top line growth rate in Q4. The industrial platform performed well across the board as our CapEx-levered businesses continue to operate in a constructive demand environment and all posting top line comparable revenue increases. Our ESG business continued to deliver strong results with a robust positive bookings trend, building a runway to a solid forecasted performance for 2019.

OKI, DESTACO and TWG all finished the year contributing solid single-digit growth and margin expansion, and Microwave Products delivered, as expected, in a robust military spending environment.

Going into 2019, bookings for Engineering Systems remained solid. We expect this segment to contribute positively to both the top and bottom line despite the forecasted FX headwinds on our businesses that are materially exposed to Europe, predominantly Markem-Imaje, digital printing and VSG.

The Fluids segment posted organic growth of 17% for the quarter, with the majority of the portfolio posting double-digit comparable growth rates. Incremental margin was solid for the quarter, as volume leverage and cost controls were able to offset the impact of unfavorable product and geographic mix. Our Pumps and Process Solution businesses had an excellent quarter, with incremental margin performance in Maag, Hydro and Precision Components in excess of 35% in the period as a result of volume leverage, mix pricing and cost control initiatives outweighing input cost headwinds and tariff costs on imported components. Fueling and transport posted exceptional top line performance for the quarter as demand remained robust and we're able to clear the backlog that had been built as a result of our facility consolidations in DFS and OPW. Margin conversion, while improving sequentially, is the largest opportunity performance improvement going into 2019, and we are targeting to progressively track to the margin objectives that we laid out in September through the year.

Refrigeration & Food Equipment revenue declined in the fourth quarter, with the segment organic revenue down 10%. We had expected another difficult quarter at Belvac, and in retail refrigeration, our results came in line with forecast. Margin performance in the quarter was negatively impacted by volume in refrigeration and mix at Belvac. The segment also incurred transitory costs associated with product rationalization programs in refrigeration in preparation for our automation efforts to be built out in 2019. Positively, retail refrigeration bookings were up for the first time in 6 quarters during the period as project activity has increased.

As we presented in September, we've begun in earnest to address our footprint and productivity actions by starting in our Unified Brands business, as it is the clearest path to improving margins in the segment. We are planning -- we are in the planning and preparation phase for our automation and production consolidation programs on refrigeration and have committed 2019 capital spending to fund these projects. We are cautiously optimistic for improved revenue performance in 2019 for the segment based on our initial 2019 order backlog in retail refrigeration and quoting activity, as you'll see in our full year guidance.

So let's move on to guidance. Our full year guidance is made up of the following: 2% to 4% organic revenue growth; 2% to 3% total revenue growth, positively impacted by acquisitions of 1%, offset by foreign exchange of 2. We expect the FX impact to be concentrated in the first half of the year.

You can see the tax rate. I'm going to deal with CapEx on the following slide. The range on free cash flow conversion reflects the announced restructuring programs that there's a backup slide on, and a adjusted EPS guidance of $5.65 to $5.85. Guidance does not include unannounced footprint actions to be taken in 2019.

So let's go and take a look at the EPS bridge on the following slide. As a starting point, the 2018 EPS is normalized for a full year discrete tax items that you can see at the far left. Contributions to the 2019 EPS guidance are as follows: $0.39 from incremental SG&A rightsizing carried into 2019 as well as the impact for announced footprint actions. We have included supplemental slides in the backup for you to take a look at; $0.08 per share from the Belanger acquisition, which we closed January 25; $0.19 to $0.39 of conversion of the revenue range; and $0.15 from tax rate, which is a negative, as well as the share count reduction from 2018 repurchase program. It does not include any 2019 share repurchases, leaving us to the EPS guidance.

The last slide is moving onto capital expenditure. CapEx is forecasted to increase in 2019, approximately 30% to 40%, driven by several significant projects: a $26 million greenfield plan to support the growth of our colder connector business, which had an outstanding year, and is a business that we have targeted for investment. The plant will become fully operational in 2020. An initial $15 million investment in automation in retail refrigeration to improve productivity and enable footprint consolidation, which is scheduled to come online progressively in the second half. Excluding these large structural investments, CapEx is in line with historical averages between 2% and 2.5% of revenue despite significant investment in our digital initiatives.

To wrap up, Dover enters 2019 with solid momentum, as represented by our Q4 organic growth rate, solid order backlogs across most of the portfolio and margin expansion potential driven by volume and cost initiatives. We are delivering on our September commitments for cost alignment and reinvestment in the growth platforms, which I've included in the supplemental schedules. We believe we are well positioned to deliver solid top line growth and strong double-digit EPS accretion in 2019. Our guidance reflects a constructive demand environment, continued focus on margin improvement and rightsizing programs, as well as disciplined deployment of capital, underscored by the recent acquisition of Belanger.

And that concludes the presentation, and we will open up for questions. Andrey?

Andrey Galiuk

Maria, we can open up the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Steve Tusa of JPMorgan.

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

Just curious. So CapEx going up quite a bit next year, yet you're still guiding to kind of 8% to 12% of sales in free cash flow. Can you -- I know there is some noise around restructuring this year and maybe, obviously, some working capital headwinds. So can you maybe just help us kind of bridge the gap there and the other moving parts outside of CapEx?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Sure. I think it went -- Brad covered -- we gave a, call it a normalized cash flow for the cash impact to the restructuring operations. So I mean, we were just under 10% for the year. And with the strong revenue growth in Q4, we had some amount of cash flow that was hung up in receivables. So if you take a look at next year, the revenue growth is not at that same kind of momentum, so we would unwind that Q4 revenue through cash flow. And quite frankly, it's not as if we're [up -- we're] performing at 100% in terms of cash conversion, so making up that $30 million to $40 million over the year, we've got the ability to do it. So I don't think it's -- I know that we're forecasting to spend more for CapEx. We believe in the projects, we're doing it, but we don't think that, that spend on CapEx is negatively going to impact the cash flow target for 2019.

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

Okay. And then just quickly on product ID. I'm not sure if you'd mentioned this in the prepared comments, but how are orders there in the fourth quarter? And then there was kind of a smaller cap here that talked about some weakness in digital printing. I know you guys -- digital printing is not a -- maybe not comparable across the board. Are you guys seeing anything there with regards to trends globally and demand for what's been a pretty strong growth business?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. I mean, look at -- digital printing, in terms of its margin performance year-over-year, did a fantastic job. But as you know, these are high-dollar printers, so the revenue tends to be a little bit lumpy. It is reflected in our book-to-bill. In Printing & ID, it's not so much the Markem-Imaje piece, it's more just the lumpiness of the orders. But our expectation for digital print for 2019 is to increase revenue.

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

I would just add that Markem-Imaje has been steady all year long at above 1 book-to-bill. So that business remains solid for us.

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

So I get digital printing was the reason for kind of the weaker orders in the quarter? I think you said they were down?

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

Yes.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. It's just the lumpiness of when we'll get the (inaudible).

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

It's timing. It's really...

Operator

Our next question comes from the line of Nigel Coe of Wolfe Research.

We'll move on to Andrew Obin of Bank of America Merrill Lynch.

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

Just a question. Just to clear it up, sort of unannounced footprint consolidation, I assume it's food refrigeration and automation actions related to it. Can you expound on that? Can you just explain to us what that is?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

No, not necessarily. I mean, we are investing in retail, refrigeration and automation, and that is going to progressively come online, so expand the capacity of the footprint enrichment. So it's not alluding to that necessarily. I mean, that's a project that's going to take more or less the whole year to get online.

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

Okay. And that's all we had announced in terms of food and refrigeration right now?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

The only thing we've announced in terms of that segment is the consolidation in United Brands bringing the footprint from 3 to 1, which is underway.

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

Got you, got you. Okay, that makes sense. And then the second question, just going back to cash flow. This range of 8% to 12%, can you bracket what drives the range? And I remember at CNH, cash was a big focus when you came in. How are you changing the systems inside Dover to achieve better cash flow in the long run?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Well, I mean, Dover's historical cash generation has not been poor by any stretch of imagination. I think that what we did was widen the range for cash generation just to open up business and recycling of the business, which is more revenue related and capital consumption from CapEx. So at the end of the day, if you take a look at what was generated for the full year of '18, we came slightly below 10%. If we normalized for the cash cost of the restructuring actions, despite the fact that having CapEx up a little bit, we're getting a little bit penalized in Q4 because of the fact that the growth rate was so robust, so you've got some amount of cash that's hung up in receivables. So on one hand, we don't want to manage that cash number where to the extent that we're not taking orders and making deliveries because we prefer to have the operating profit, quite frankly. So what we -- the way that we look at it here and should look at it here is it's a self-liquidating balance sheet, right? We accommodate the negative impact of higher revenues. We're taking the earnings and we've just got to get really good at cycling our receivables and working on our payments, so it's just kind of the working capital point of it. But on the other hand, it's not as if we can get cornered into 10% of revenue where we say, wait a minute, stop shipping, if you will.

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

That makes sense. It's just the perception, I think, was that the Apergy business was a big cash generation. And ex Apergy, I think it was nice to see that cash is still very good.

Operator

Our next question comes from the line of Jeffrey Sprague of Vertical Research.

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

Just back to refrigeration. I mean, I guess, unannounced restructuring is unannounced. But if the automation and [refurbishment] is increasing your capacity enrichment, it certainly follows that you need to make some other moves at some point in that business, I would think. Or you, in fact, see growth clearly picking up where you're not in a situation where you have overcapacity.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

At demand levels that we forecasted for 2019, we will be over-capacitized.

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

Yes. And just thinking about these orders, Rich, in refrigeration you're seeing now, is the pricing on orders such that you feel better decent on the margin trajectory in refrigeration over the course of 2019?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I'd like the pricing to be better is the honest answer, but we've modeled in kind of exit pricing or current market conditions. One would hope if demand was to accelerate in excess of what we've modeled in here, that there'd be some room for pricing. But right now, I think that we've got a pretty cautious view about demand and pricing for retail refrigeration in '19.

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

Great. And then just one other one. It would have never occurred to me that Unified Brands would have been that big of a restructuring opportunity. But is this something that you're going to execute it fairly quickly here in the first half? Or is this drawn out over some period of time?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Don't look at the supplemental chart and say that's all Unified Brands. A piece of that is Unified Brands, but there's a variety of other smaller projects in there. Unified Brands tends to be the one we are using as example because the footprint consolidation is quite large. And we started that in Q4, and it's pretty much going to take us through the first half of 2019 to complete.

Operator

Our next question comes from the line of Andy Kaplowitz of Citibank.

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

Rich, at your Analyst Day, you mentioned that DFS was finalizing a path to 15% to 17% margin. You mentioned in your third quarter call that you're happy with DFS's exit margin rate. It does look like margin, overall, in Fluids is quite good. So how much has DFS already improved in margins? And has the improvement been faster than you expected?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

The DFS margin in Q4 was slightly below the exit rate of Q3, but that was entirely driven by geographic mix. So it has been sequentially getting better through 2018. And as I mentioned in my comments, one of the -- if you do look at -- if you do the math on the incremental margin on the EPS bridge, you're going to see, at the lower end of the revenue side, that it's pretty robust, and a lot of that is the non-reoccurrence of some of the issues that we dealt with in 2018. I think that the margin targets that we showed in 2000 -- in September are real, and we're going to be tracking progressively to realizing those margins through 2019 under current demand scenarios.

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

Okay, that's helpful, Rich. And then maybe you can break down a little more of the 17% growth in Fluids. I mean, you talked about strength in Pumps and Process Solutions. The [B&B] impact, the quarter did a pick up in the quarter and with the bookings strength in the segment, is it fair to say that there's relatively high confidence in the 3% to 4% growth forecast for 2019, given the backlog that you have?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

We like our exit growth rates and we like our book-to-bill, and that is reflected in what we're -- that we're putting out there for the guidance for the segment. As you know, what we have and what we can see is into Q2 at the present time. So look, we feel good where we are despite a lot of negativity in terms of sentiment about the demand environment for everything going into 2019. So we feel good about the forecast that we have out there. In terms of the growth rate, the fastest-growing portion was DFS or Fluids -- or the Fluids business on the retail fueling. But having said that, the balance of the portfolio really grew well. We've commented before, I think in Q2 and maybe to a lesser extent, of Q3, on the Maag business, which is very much project related. That was a large contributor to the growth in the incremental margin also for the quarter.

Operator

Our next question comes from the line of Julian Mitchell of Barclays.

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

Maybe just a question around capital deployment. I think you had noted that the assumptions for 2019 on EPS do not embed much in the way of extra buyback or overseeing unannounced M&A. So maybe just update us on how you see your capacity for capital deployment, at least this year, even if you're not giving us guidance on the buyback and how you see the preference of acquisitions versus buybacks to use that capital.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Sure. Well, I think in terms of the hierarchy, it's the same as we had presented in September, that we've got a bias for organic investment because that's where the returns are highest. And really, the biggest change year-over-year is what we're doing in terms of organic investment, which is reflected in the CapEx slide. We just completed an acquisition or an inorganic investment in the carwash equipment business. We gave the criteria of what we were looking for in September in terms of margin expansion, execution risk and return on invested capital hurdles. That particular one meets all 3, so we feel quite good there. We've got a reasonably good pipeline that we're taking a look at right now. And the size of that pipeline in terms of the scale of those opportunities are more or less around where that Belanger acquisition was. So that's the kind of color I can give you on. Whether we'll execute or not, who's to say? But we're not going to sit on cash as we build it through the year.

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

And then my second question would be going back to the Fluids business again. Talk about any updated thoughts around the U.S. retail fueling build-out, not just the revenue assumptions maybe for this year and medium term, for that EMV aspect, but also, I guess, how you're handling that in terms of working capital build, which was something you'd mentioned once or twice on the prior earnings call.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I'll deal with the working capital one, and I'll let Brad take the EMV because, of course, we always have an EMV slide somewhere around here. Yes, on the working capital side of DFS or retail fueling, I think we have -- the conversion on our orders was very robust in Q4. So we go into 2019 with not a lot of inventory. What we do have is the receivable balance from that strong growth. So in total working capital, we had highlighted the fact earlier in the year that we were going to build safety stock to accommodate what we thought was going to be a robust demand environment. We got it at the end of the day, but from a working capital point of view. If there's any negativity of growing, it's the fact that we hung it up on receivables. But I'll leave it to Brad to comment on what -- how EMV participated in Q4 and what our view on EMV is for 2019.

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

Sure. Sure, Rich. When I speak about EMV, just a reminder, I'm not talking about dispensers that are EMV ready. It's really the component pieces. And we stay on track and track it very carefully. I would say, second half of '18, including the fourth quarter, was above '17. So we came out of that air pocket in the first half. Sequentially, we go into '19 and we see growth and solid -- we see growth sequentially and solid year-over-year growth in EMV. I would say, DFS, our business leadership is really very confident in terms of how we're -- we see now line of sight to EMV for 2019 based on discussions with our customers and specific projects. So EMV is shaping up to be, year-over-year, up into '19, sequentially improving throughout the year.

Operator

Our next question comes from the line of Nigel Coe of Wolfe Research.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Can you hear me?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes, we can, Nigel.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay, good. I just want to touch on the bookings, 10% bookings growth. Obviously, you went through a lot of detail in the slides. But I'm just curious because, number one, it's broad-based and secondly, 10% is pretty good, going to be one of the best that we see this quarter. So is there anything different about the investments you've made or the structure that you put in place that could explain the inflection orders? Or is it just one of those things?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I think that it's one of those things. I mean, I think it's a reflection of the fact of the exit rate on the growth. I think it's a reflection on uncertain businesses that lead times have gotten extended because of supply chain. I mean, there's an overall view, I think, in the market because of strains of tariffs and a variety of things that people are getting worried at the performance of supply chains to a certain extent, so they're getting in front a little bit of getting in line for what they believe that they need for 2019. So overall, I don't think there's anything in there except for the fact that we've been on a pretty good -- our businesses have been on a pretty -- with the exception of refrigeration, been in a good place in terms of top line growth. And there is an overhang of worry about our supply chains getting extended in a variety of other things, and that's allowed us to go out and ping our customers and say, "look, if you really want first half deliveries, you've got to get in line."

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay, understand. That makes sense. And then I just want to go back to Steve's question on free cash flow. The 8% to 12% is obviously a very wide range, about $3 million of bandwidth on free cash flow. I understand the CapEx headwind, but is there anything else that's highly variable within your free cash builds, cash restructuring, et cetera? Does it explain that wide -- that wide range?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

It would be growth at the end of the day. Our expectation is we would actually underperform when the top line is moving up aggressively and we would overperform as the businesses liquidate their balance sheets.

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

Off the midpoint, yes.

Operator

Our next question comes from the line of Mig Dobre of Baird.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just going back to refrigeration here. I understand that you guys remain cautious into 2019, and that business struggled a lot. But orders were finally decent, maybe for the first time in almost 2 years. So I'm wondering if there's something specific in the quarter, any customer, anything that happened that would be discrete? Or is this market finally starting to turn around a little bit?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I think it's not any particular customer. It's broad-based of our traditional customers. And I think, overall, it's just a reflection of capital investment in retail food has been low for quite a long period of time, and it's coming off easier and easier comps as we've gone through the cycle. So we're grateful for it. I think it's good for morale in the business, but we remain cautious and we'd like just to continually update it, hopefully, quarter-by-quarter if these kinds of trends hold.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I see. And in terms of what you're hearing from your salespeople, is it any particular vertical? I mean, is it dollar stores or the big retailers? And anything else that you can say about demand?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I don't want to get into individual customers, but it's big box and all other.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Lastly, on Belvac, anything you can talk about in terms of demand and -- I presume that the comps are getting a lot easier going forward. How do you think about that business in '19?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

If we go back and look at Belvac's performance over time, it's been lumpy. I think it's just become more material to the segment because of the fact that refrigeration has shrunk so much. So there's nothing particularly wrong with Belvac. It's a CapEx-driven business from the beverage side, and it was just a bad year. A lot of projects got deferred and a variety of other things. So I think we've also got a cautious view. We're engaging with all of our customers, but we'd like to see the backlog build sequentially and then we'll comment it over the year.

Operator

Our next question comes from the line of Scott Davis from Melius Research.

Scott Reed Davis - *Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research*

I don't know much about this carwash equipment business, and maybe this would be a good opportunity late in the Q just for you guys to help educate us a little bit. I mean, how many other opportunities out there -- are there out there to really roll it up? Is it already consolidated? Is it -- just help us understand, really, where you're going with it.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes, I don't know if I want to opine on kind of one of our longer-term strategy. Maybe just back up and say that -- within the OPW, there had been a carwash business, PDQ. It's been accretive to both the segment and the company. We like the trends in carwash. This particular acquisition is of a size that -- we think that it's from, an execution point of view, it's very doable for us and it widens our portfolio and our strength with our distributors, meaning now that we've got a ton of product to go along with our traditional position. So we like the secular trends in carwash in terms of the growth profile, and we like our historical performance in terms of margin. And like I said, it checked the box on return hurdles and execution risk. It's a fragmented market. There's -- but on the other hand, it's -- now that we've done this acquisition, we are one of the largest players, at least in North America. So we like the market structure also, but I think -- and to the extent that there's additional opportunities, we continue to take a look at them. But it really did check a lot of boxes for companies that we're looking for.

Scott Reed Davis - *Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research*

Fair enough. And then I'm sure you guys are sick and tired of answering questions on refrigeration, but I'm going to pile on a little bit. What's been the customer response to cutting SKUs, cutting capacity? I mean, is there generally an understanding at the customer level, that you just don't have a choice and you need to make these moves? Or has there been some sort of pushback, particularly in the SKU rationalization?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes, no one likes this. At the end of the day, I think that our track record in the second half of the year in terms of trying to run the business while preparing it for a transformational change, I'm sure that we have made some of our customers unhappy. I think that we're working diligently to kind of lay out the path where this gets our cost in control, and we believe very much that it's going to improve our quality over time. But having said that, I think that the business has been around a long time. I think there is an amount of goodwill. But clearly, we're going to need to execute in this project as we go -- it's probably the biggest project that we have in -- right now for 2019.

Operator

Our next question comes from the line of John Inch of Gordon Haskett.

John George Inch - *Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials*

So just -- how did the quarter progress? And I ask the question because some companies have called out a softer December, particularly end of December. Some have called out sort of a softer October that picked up back up in November. And I'm just curious because obviously you don't have necessarily a broad line of economic businesses that are kind of specific to Dover. But the trends that you saw against the backdrop of global economy softening, softening in Asia, does that give you any kind of pause or what to watch for as these quarters come through in 2019?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I think that our biggest worry in the quarter was conversion of what we had in the backlog. I think we got a little bit -- in a perfect world, we would have converted earlier in the quarter and not have to run like crazy during December from both a production point of view and from a cash point of view. But as I said in my opening comments, it got a little dicey, but we were able to get it out the door and collect it. So I think from an execution point of view, I think that the organization should be proud of themselves. We dispatched the segment management to China because we read the same things that everybody else did. So segment management spent a week in China recently to go and see how it's impacting our business and the like. Our management in China is feeling pretty confident. Now we've got really 2 revenue streams in China. It's the consumables portion of Markem-Imaje, which is relatively stable business. And then the regulatory piece of Fluids, which is geared towards OPW, which generally has a decent line of sight in terms of backlog. So we're cognizant of the risk out there. But right now, our projections for China are offered to grow in 2019.

John George Inch - *Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials*

Rich, in the last recession, refrigeration got clipped. And what's different about this go around, depending on how the economy plays out, but at some point, we'll get another recession. Refrigeration is obviously not stopping -- starting off a high base. And I'm just curious, you've -- as a company, you have talked about the fact that the next downturn, you'd perform kind of much better, obviously, given Apergy is no longer there. But what about refrigeration? I mean, are we at a base level that if there was a broader economic downturn, you'd think that it would perform better? Or is it just the lower base and it would still go down the way it's done historically? I mean...

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. John, I can't add anything to what you said, right? I haven't been around long enough to really think about it specifically as it relates to refrigeration. But you put your finger on it. At the end of the day, if it was to happen this year, God forbid, we're at such a low base in refrigeration. I'm not -- I mean, we're below replacement at this point.

John George Inch - *Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials*

Okay. So it's fair to say, you'd feel, obviously, I think, very good about the base, at least in the context of possible risks to the economy? Without putting words in your mouth?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Well, no. I think I'll feel really good if we execute on our plans in 2019. I mean, 2018 was a tough year, I think, for the management of the business and for us. I think that we've got a good plan. I want to see us execute it and I'm going to feel a lot better about it.

John George Inch - *Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials*

Just lastly, Rich and Brad. The $18 million of benefit you've called out from near-term footprint consolidation, presumably, this is part of a Phase 2, if you will, in Dover's evolution. Where would you put this in that context? You talked about, right, the 200 manufacturing warehouses. I mean, is this a -- is there any way to size this in any sort of a way, or...

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I think the way to answer it is twofold, that when we had the meeting in September, we said that the priority was to go after SG&A first because it was a one-for-one benefit and it was in your control so you could execute it. Then we said that we moved onto footprint. Footprint is a lot more risky, and the timing of acting among the footprint is a lot longer. So that's why you see us taking a relatively small charge in the end of 2018, and the real benefit -- the total benefit is in 2019. So the returns, if you calculate the returns, they're still excellent. But we've got to run a business here, right? And we don't want it to impact the top line, so we're pretty -- being pretty deliberate about how we execute these things.

John George Inch - *Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials*

But in the big picture, Rich, could -- even if it takes several years, could footprint/Phase 2 be as big as the SG&A?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I don't want to size it, but that was a relatively small start that we've taken, and we're forecasting $18 million. So we look at this as a multiyear program.

Operator

Our next question comes from the line of Deane Dray of RBC Capital Markets.

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

I want to circle back on Fluids. And Rich, you talked about one of the benefits -- because, first of all, we don't see organic growth rate in that segment as strong as 17%. So can you take us through, with any more color, the impacts of mix and pricing? And then you also said there was a benefit of some of the cost out there as well.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I don't want to start -- I think we can do those in follow-ups. I think, at the end of the day, the 2 biggest driving issues within the segment were retail fueling. We've been talking, I guess, in the second half of the year that because of footprint consolidation, we got a little bit behind in terms of our backlog and we had a lot of catch-up to do. Plus the fact Brad took you over -- took you through that EMV is starting to come through, which is a positive for 2019. And the fact, I think, that we talked about earlier in the year, some of the margin was related to mix and that's project-related work that's driven by the Maag business. So what we got in Q4 was very good conversion. Maybe not so much in EBIT or as much as we'd like in EBIT, but on the top line of converting in the backlog, in the retail fluids business and a lot of shipments out of Maag, which are good for margins.

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

Got it. And then you mentioned tariffs as a factor in Fluids. And then can you also address how you did in oil and gas broadly, away from retail fueling?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

The tariff related -- what I mentioned about tariffs is the fact that we believe that it is contributing a little bit to the build in the backlog, right? Everybody is worried about the supply chain, which -- and a piece of that is tariffs. So customers that have plans, CapEx-driven plans or demand plans for 2019, we feel that's what's contributing somewhat to the good order book that we have. In terms of our view on tariffs, we were -- we will be able to cover the tariff impact with pricing and productivity, and that's our expectation for 2019.

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

And oil and gas?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Our oil and gas exposure now is relatively low with the spin-off of Apergy.

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

But you still have residual oil that shows up in midstream. Any color there?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. It's not an overly material number. And quite frankly, because a lot of our pumps business is sold through distribution, I mean, I guess, we could do the work at the end of the day, but it's hard to parse it.

Operator

Our next question comes from the line of Joe Ritchie of Goldman Sachs.

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

So I guess my first question is just on the CapEx investments, Rich, and how are you thinking about the expected payback from those investments?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Look, we wouldn't be doing them unless we had positive NPVs on them at the end of the day. I called out the 2 bigger ones because they've got a little bit of different profiles, right? So it was to kind of message in terms of what we will consider when we do big CapEx projects. One was on the colder business, which is our connector business. I believe it was the fastest growing or maybe in second place fastest-growth business that we had in 2018, and the margin is positive to both the segment and the group. So if we're going to invest in capacity expansion, that's a pretty good candidate. So we like the dynamics of that business, and we were getting chockablock in terms of our ability to grow based on our footprint. The other one is driven by what we're doing in terms of retail refrigeration. And that, let's put that in kind of the productivity bucket rather than kind of the expansion bucket, right? And both have different dynamics in terms of how we model the return, but both of them are very NPV positive as long as we execute correctly.

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

Got it. That's helpful. And then I guess, just my one follow-on. When you think about the $72 million in incremental SG&A savings to come through this year, how are you thinking about that coming through? Should it all be pretty linear, just given that the actions we're taking in 2018?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. Yes, that's the way we think about it, linear.

Operator

(Operator Instructions) Our final question will come from the line of Josh Pokrzywinski of Morgan Stanley.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Rich, just first question on some of the footprint consolidation and some of the longer-term optionality there. I know it's probably premature to size it. But thinking about the percentage of the footprint that's been evaluated, so just looked at so far, what does that $18 million of savings really comprise? Is it that you looked at 1/3 of the business? You looked at 25%? Just trying to get a sense for at least what's gotten kind of the first blush so far?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Well, I think that we've taken a look at the entire footprint, but not -- so our cursory view of identified opportunities by operating company. Then we've kind of put them in order in terms of the -- our ability to execute, both as a group and by the individual operating company. And so we force rank them based on that. So we've got a relatively long pipeline, but execution risk in some is a lot higher than others. The need to do it from a margin enhancement point of view is higher in some than others. I think that we signaled in September the 2 segments that are challenged from a margin point of view, so our bias would be to act there first. But then it comes back to the organization's ability to execute, that we're bringing in resources in 2019 to kind of accelerate our way through 2019. But the fact of the matter is the group's track record in doing facility consolidation is not great. So we want to be relatively deliberate and get some momentum of successful projects and then begin to roll.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Got it, that makes sense. And then I think a couple of questions have kind of nipped at the edges of this. But Fluids guidance of 3% to 4% organic coming off of a pretty good quarter, I think, and easy comps in the first quarter, good bookings, decent visibility with EMV. I think you add it all up, things should be probably to the high end or maybe even above the high end. I guess the one comment that you made earlier in maybe the prepared remarks was about clearing some of the backlog there. Is that really what pulls that within the range? Is more that you had some of this business with pent up, you've worked through it and maybe now the comp is not as easy as it appears as of the fourth quarter? Just trying to calibrate how do you stay within the range there.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. Well, we've been having quite the dialogue around here between our very good performance in conversion and how that affected the top line versus what our guidance was going to be versus the market's saying that there is a slowdown in the horizon and everything else. We feel great about what happened in Q4. I don't think that we could keep that level up through the year, but there's no reason for us not to hit the top end of the range. But these are businesses that don't have a lot -- I mean, they're so small in their nature. There's not a lot of secular stories behind them, so we took kind of a middle-of-the-road view. And to the extent that the demand is there, then we'll push the top end as hard as we can sequentially through the quarters. But I think it would have been a little bit difficult for us to take Q4 and say, well, based on that and our backlog, this thing just rolls through '19. We just don't have enough visibility right now.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

No, I think that's fair. I guess the question, relative to the rest of the business, it seems like you've baked in more of a soft landing from a macro perspective there than elsewhere. Is that kind of a fair starting point?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

That's fair. That's fair.

Operator

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

Andrey Galiuk

This concludes our conference call. Thank you for your interest in Dover, and we look forward to speaking to you next quarter.

Operator

Thank you. That concludes today's fourth quarter 2018 Dover earnings conference call.

You may now disconnect your lines at this time, and have a wonderful day.
