

Dover Corporation
Non-GAAP Reconciliation
2018 Annual Report

This document defines, reconciles to GAAP and discloses the relevance to investors of the non-GAAP measures included in the 2018 Annual Report.

Adjusted Earnings Per Share

Earnings from continuing operations are adjusted by the effect of acquisition-related amortization, the Tax Cuts and Jobs Act, gains on disposition of businesses, disposition costs, rightsizing and other costs and a product recall reserve charge and reversal to derive at adjusted earnings from continuing operations and adjusted diluted earnings per common share as follows:

(in thousands, except per share data)	2018	2017	2016
Adjusted earnings from continuing operations:			
Earnings from continuing operations	\$ 591,145	\$ 746,663	\$ 502,128
Acquisition-related amortization, pre-tax ¹	146,297	151,277	140,796
Acquisition-related amortization, tax impact ²	(37,001)	(48,881)	(45,242)
Tax Cuts and Jobs Act ³	(2,832)	(54,908)	-
Gain on dispositions, pre-tax ⁴	-	(205,334)	(96,888)
Gain on dispositions, tax impact ²	-	32,753	28,685
Disposition costs, pre-tax ⁵	-	5,245	-
Disposition costs, tax impact ²	-	(2,015)	-
Rightsizing and other costs, pre-tax ⁶	72,828	49,379	-
Rightsizing and other costs, tax impact ²	(14,531)	(14,746)	-
Product recall (reversal) charge, pre-tax	-	(7,200)	23,150
Product recall (reversal) charge, tax impact ²	-	2,614	(8,913)
Adjusted earnings from continuing operations	\$ 755,906	\$ 654,847	\$ 543,716
Total Adjustments	164,761	(91,816)	41,588
Diluted average shares outstanding	152,133	157,744	156,636
Adjusted diluted earnings per common share:			
Earnings from continuing operations	\$ 3.89	\$ 4.73	\$ 3.21
Acquisition-related amortization, pre-tax ¹	0.96	0.96	0.90
Acquisition-related amortization, tax impact ²	(0.24)	(0.31)	(0.29)
Tax Cuts and Jobs Act ³	(0.02)	(0.35)	-
Gain on dispositions, pre-tax ⁴	-	(1.30)	(0.62)
Gain on dispositions, tax impact ²	-	0.21	0.18
Disposition costs, pre-tax ⁵	-	0.03	-
Disposition costs, tax impact ²	-	(0.01)	-
Rightsizing and other costs, pre-tax ⁶	0.48	0.31	-
Rightsizing and other costs, tax impact ²	(0.10)	(0.09)	-
Product recall (reversal) charge, pre-tax	-	(0.05)	0.15
Product recall (reversal) charge, tax impact ²	-	0.02	(0.06)
Adjusted diluted earnings per common share	\$ 4.97	\$ 4.15	\$ 3.47

¹ Amortization expense of intangibles and inventory step up related to business acquisitions.

² Adjustments were tax effected using the statutory tax rates in the applicable jurisdictions or the effective tax rate, where applicable, for each period.

³ 2017 Tax impact primarily related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform Act"). This benefit also includes decreases in statutory tax rates of foreign jurisdictions. 2018 adjustment represents tax benefits related to additional Tax Reform Act regulatory guidance covered by SAB 118.

⁴ Includes gains from the sales of Performance Motorsports International (PMI) and Warn Industries, Inc. (Warn) in the first and fourth quarters of 2017, respectively, as well as Texas Hydraulics and Tipper Tie in the first and fourth quarters of 2016, respectively.

⁵ Disposition costs include costs related to the fourth quarter 2017 sale of Warn.

⁶ Rightsizing and other costs include actions taken on employee reductions, facility consolidations and site closures, product line exits and other associated asset charges.

* Per share data and totals may be impacted by rounding.

Free Cash Flow

Free cash flow represents net cash provided by operating activities minus capital expenditures as follows:

(in thousands)	2018	2017	2016
Cash flow from operating activities	\$ 789,193	\$ 739,409	\$ 734,596
Less: Capital expenditures	(170,994)	(170,068)	(139,578)
Free cash flow	\$ 618,199	\$ 569,341	\$ 595,018
Revenue	\$ 6,992,118	\$ 6,820,886	\$ 6,043,224
Free cash flow as a percentage of revenue	8.8%	8.3%	9.8%

Non-GAAP Disclosures

Adjusted earnings represents earnings adjusted for the effect of acquisition-related amortization, the Tax Cuts and Jobs Act, gains on disposition of businesses, disposition costs, rightsizing and other costs and a product recall reserve charge and reversal. We exclude after-tax acquisition-related amortization because the amount and timing of such charges are significantly impacted by the timing, size, number and nature of the acquisitions the Company consummates. We exclude these other items because they occur for reasons that may be unrelated to the Company's commercial performance during the period and/or Management believes they are not indicative of the Company's ongoing operating costs or gains in a given period. Management believes this information is useful to investors to better understand the company's ongoing profitability and facilitates easier comparisons of the company's profitability to prior and future periods and to its peers. Adjusted diluted earnings per common share represents adjusted earnings divided by averaged diluted shares.

Free cash flow represents net cash provided by operating activities minus capital expenditures. Management believes that free cash flow is an important measure of operating performance because it provides management and investors a measurement of cash generated from operations that is available for mandatory payment obligations and investment opportunities, such as funding acquisitions, paying dividends, repaying debt