OVERVIEW:
Co. reported 2Q19 revenue of $1.8b, adjusted earnings of $229m and GAAP EPS of $1.35. Expects 2019 adjusted EPS to be $5.75-5.85.
CORPORATE PARTICIPANTS

Andrey Galiuk  Dover Corporation - VP of Corporate Development & IR
Brad M. Cerepak  Dover Corporation - Senior VP & CFO
Richard Joseph Tobin  Dover Corporation - President, CEO & Director

CONFERENCE CALL PARTICIPANTS

Andrew Alec Kaplowitz  Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head
Andrew Burris Obin  BofA Merrill Lynch, Research Division - MD
Charles Stephen Tusa  JP Morgan Chase & Co, Research Division - MD
Deane Michael Dray  RBC Capital Markets, LLC, Research Division - Analyst
Jeffrey Todd Sprague  Vertical Research Partners, LLC - Founder and Managing Partner
John George Inch  Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials
Joseph Alfred Ritchie  Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst
Julian C.H. Mitchell  Barclays Bank PLC, Research Division - Research Analyst
Mircea Dobre  Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst
Nigel Edward Coe  Wolfe Research, LLC - MD & Senior Research Analyst
Scott Reed Davis  Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research

PRESENTATION

Operator

Good morning, and welcome to Dover’s Second Quarter 2019 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 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.

Andrey Galiuk  Dover Corporation - VP of Corporate Development & IR

Thank you, Christie. Good morning, and welcome to Dover’s second quarter 2019 earnings call. We’ll begin with comments from Rich and Brad, and we will then open the call for questions. This call will be available for playback through August 8, and the audio portion of this call will be archived on 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, 2256006.

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 intrinsically 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 would like to turn this call over to Rich.

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

Thanks, Andrey. Good morning, everyone, and thanks for joining us for this morning’s conference call. Let’s get started on Slide 3.

Q2 organic revenue was up nearly 3% for the quarter driven by continued strong performance in our Fluids segment at 7% with all markets contributing to comparable growth and solid trading conditions in the industrials platform within Engineering Systems, which were able to more than offset forecasted slowdown driven by timing in our digital print business that I’ll get into later in the presentation.

Refrigeration & Food Equipment was short of projections principally as a result of tougher trading conditions in Asia for heat exchangers as well as refrigeration systems demand. Forecasted demand and recent customer wins, particularly in retail refrigeration case and door, give us confidence for an improved second half of the year.

Adjusted segment earnings increased 13% to $300 million -- $311 million, contributing to 190 basis point improvement in operating margin over the comparable period. These results were driven by a strong revenue conversion in Engineered Systems and Fluids on volume leverage, good product mix, coupled with improvements in productivity and tight cost controls, more than offsetting raw material and labor cost inflation.

Adjusted Q2 earnings were up 15% to $229 million, and adjusted EPS at $1.56 a share was up 20%. As announced, we completed the acquisition of All-Flo Pump Co., a growing manufacturer of specialty pumps. This acquisition strengthens our leading position in the growing segment of positive displacement pumps for critical fluid transfer applications.

Overall, we’re encouraged by the results in the second quarter and the first half of 2019. Demand remains constructive across much of the portfolio. Our rightsizing and operational actions are yielding robust margin improvement. Dover entered the second half with a solid order backlog augmented by recent customer wins and as well as strong momentum and execution towards margin targets. And as a result, we are tightening the top half of our previous full year adjusted EPS guidance range to $5.75 to $5.85 per share.

Now that’s it for the opening comments. I’ll pass it to Brad and then come back with the segment color.

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

Thanks, Rich. Let’s move to Slide 4. Revenue grew by 1% to $1.8 billion and was driven by strong demand in Fluids and our industrial platform in Engineered Systems. GAAP EPS increased 25% to $1.35.

Moving to non-GAAP results. As mentioned, we achieved significant margin accretion in the quarter with adjusted segment EBIT up 190 basis points over the prior year, reflecting continued execution of productivity initiatives. Our SG&A actions announced last year are for all intents complete, and we are delivering the savings we expected. Adjusted segment EBITDA was $376 million, a margin of 20.8%.

Key adjustments for non-GAAP results this quarter were acquisition-related amortization and rightsizing and other expenses. The EPS increase was supported by $0.02 or $3.6 million of discrete tax benefits on par with a $0.02 benefit in the second quarter of the prior year.

Now moving to Slide 5. Let’s get into a little bit more detail on our revenue and bookings results in the quarter. As mentioned in our summary, organic growth was solid at 2.9% driven by Fluids and Engineered Systems and partially offset by Refrigeration & Food Equipment. As you can see, foreign exchange rates negatively impacted our revenue and bookings. FX was a significant 2.5% or $45 million headwind for revenue, which had an $8 million impact on earnings, with the most notable impact in Engineered Systems largely driven by printing and identification demand being levered to EMEA and Asia. The 2 largest contributors to the FX headwind were Europe and China where average exchange rates declined against the dollar by approximately 6%. Based on current rates, we expect the impact to moderate in the second half of the year. We have used a $1.13 rate for the euro and a $0.15 for the RMB in our full year forecast.
From a segment perspective, Engineered Systems grew $12 million or approximately 2% organically, and Fluids grew $52 million or 7%. Refrigeration & Food Equipment’s revenue decreased by $11 million or 3%. Bookings declined organically 1.7%. And as previously mentioned, we’re also negatively impacted by FX.

At Engineered Systems, organic bookings declined by $39 million or approximately 5.5% due to slower activity in digital printing and the Environmental Solutions Group. Bookings in Fluids increased by $52 million or 7% with strong order activity across the segment. Bookings in Refrigeration & Food Equipment declined $43 million. Rich will provide more information on the order book and individual businesses in a few minutes.

Finally, overall order -- overall book-to-bill finished at a solid 1.0, while backlog at the end of Q2 was 2% higher than this time last year driven primarily by Engineered Systems.

From a geographic perspective, the U.S., our largest market, grew 2% organically driven by mid-single-digit growth in Engineered Systems and Fluids, partially offset by Refrigeration & Food Equipment. Europe was up 8%, with all segments posting organic growth and a particularly strong quarter from Fluids, which was up over 20% in EMEA.

All of Asia was down 5% organically, with China down 1%. Our Fluids business was up mid-single digits in Asia overall with double-digit growth in China on the strength of both the retail fueling and process solutions businesses, whereas Engineered Systems and Refrigeration were down in Asia due to slower economic activity in the region.

Let’s go to the earnings bridges on Slide 6. Starting on the top. Engineered Systems’ adjusted segment EBITDA improved $5 million, largely driven by volume and productivity initiatives more than offsetting headwinds from FX. Fluids’ growth of $35 million reflects a combination of robust growth, continued margin improvement in retail fueling and acquisitions. The $7 million decline at Refrigeration & Food Equipment reflects lower volumes for SWEP and slower activity in food retail.

Going to the bottom chart. Adjusted earnings from continuing operations improved $29 million or 15% primarily driven by higher segment earnings and lower corporate costs, partially offset by slightly higher taxes.

Now on Slide 7. Year-to-date free cash flow was $142 million, which is an improvement over last year in absolute terms and as a percent of revenue. The second quarter in particular compared favorable -- favorably at 8.5% of revenue versus 6% last year. Year-to-date strong top line growth was supported by working capital investment of $164 million, which we expect to convert to cash in the back half of the year, inventory built with volume increases in the quarter as well as in anticipation of a strong Q3. The third and fourth quarters are traditionally our strongest cash-generating quarters.

Capital expenditures were $91 million year-to-date, slightly below last year. We expect our CapEx to ramp up in the second half in line with seasonality of our cash flows and are still on pace to execute our previously guided organic growth investments in the year.

Let me turn it back to Rich.

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

Thanks, Brad. Let’s move on to Slide 9.

Engineered Systems delivered top line organic growth of 1.7%, largely driven by the industrial platform. As you can see in the bridge, incremental margin conversion on organic growth was over 100% in the quarter driven by productivity gains and volume leverage. Despite the negative FX translation, adjusted segment margin increased 120 basis points.

Our Printing & ID platform declined organically by 3% driven by the expected slower activity in digital printing due to the ITMA trade show that happens every 4 years where customers assess and review the latest technology before making investments. To put that impact in perspective,
digital printing was down approximately 20% in revenue and 50% in earnings from the comparable quarter in a business that we forecast to grow double digits in revenue for the full year. We are encouraged by the pipeline of orders coming out of the trade show, especially in our LaRio industrial printer line, and expect the business to reaccelerate into the second half. Overall, the platform performed well in Europe, while Asia experienced continued slowing from Q1.

Our industrial platform posted 5% organic growth. Our waste-handling business continued to deliver double-digit growth as demand remained strong for both traditional equipment and software, with software growing by over 20% driven by significant ramp in installations.

Despite the difficult trading conditions in the general automotive space, our vehicle service business posted 2.4% growth, offsetting the more challenging trading conditions in automotive OEM demand and negatively impacting DESTACO. MPG was down from the comparable quarter due to shipment timing but exits Q2 with its highest order backlog in many years as demand conditions in the defense sector remain constructive.

Going into Q3, bookings for Engineered Systems remained solid. Most businesses posted book-to-bill of around 1, with a notable exception of our waste-handling businesses where orders were slower versus high comps and record backlog in the comparable quarter. Overall, we enter the second half on solid footing for the segment, largely driven by Printing & ID platform, which is accretive to consolidated margins.

Moving on to the next slide. The Fluids segment posted strong organic growth of 7.5% for the quarter with continued strength across all the businesses. Adjusted segment margin increased 410 basis points with incremental organic margin conversion of 50% driven by volume leverage, improved productivity and product mix. Adjusted EBITDA margin increased to 22.9%.

Our pumps and process solution business had another excellent quarter, posting organic growth of 7%. Demand remained robust for industrial pumps, rotating equipment components for natural gas compression and renewable energy and equipment for polymer pumps and filtration systems. Biopharma and thermal management markets continued to deliver double-digit growth during the quarter as we ready for a significant capacity expansion in this business.

Fueling and transport posted organic growth of 8% as demand remained robust across all geographies for both underground and aboveground equipment systems. EMV demand is forecast to continue to be choppy as all signs point to adoption trajectory continuing beyond 2020 at current activity levels. Margin conversion on volume was strong in the quarter, and we expect that trend to continue for the balance of the year as we track towards meeting the stated margin objectives in the Fueling Solutions business.

Bookings in the segment grew 7% organically over the comparable period. The growth is broad-based with particular strength in our plastics and polymer equipment and biopharma businesses.

In Refrigeration & Food Equipment, organic revenue was down 2.8% at adjusted EBIT margin of 15%. Demand for the margin-accretive SWEP heat exchanger business was down 6% in the quarter, most notably in Asia.

Activity in Food Retail was mixed, with systems and service projects posting a decline year-over-year; while our door case product line, Food Retail’s largest, posted double-digit growth in revenue and backlog as retailers restarted investing in store formats and refurbishment.

United Brands grew modestly despite a challenging comparison to the prior year as several large chain rollouts were shipped on orders booked last year. And Belvac revenue increased modestly, however, bookings were slow.

The poor mix effect on margins driven by the reduction of heat exchanger and system shipments was further exacerbated by volume ramp costs in retail refrigeration, which struggled with supply chain constraints and labor availability at our principal production site in Richmond. While we are encouraged by the turnaround in demand in Food Retail for our core case and door products, it is absolutely clear that we need to deliver on our automation project to deliver on volume earnings conversion.
Bookings in the segment were slower this quarter, posting 10% organic decline mainly due to lower activity in refrigeration systems businesses and can-making equipment. In Food Retail, recent customer wins versus this time last year give us confidence about the improved revenue outlook for the second half.

Moving to Slide 12. Slide 12 disaggregates the key sources of EPS accretion for the quarter. Dover continues to deliver on announced cost actions. Incremental margin for the quarter was at 21% and is expected to be the lowest percentage conversion for the year as a result of a negative mix effect on the high-margin Printing & Identification platform in this quarter.

Moving on. We are reiterating our revenue guidance for Fluids and Engineering Systems based on order books and forecasted growth in Printing & ID and have lowered Refrigeration & Food Equipment as we are cautious on Asia and systems demand in the second half. Overall, we are encouraged with the performance in the first half of the year. Organic growth is 5.5% with good margin conversion. We are executing well on productivity and cost initiatives. Demand remains supportive across most businesses, but visibility and sentiment remain cautious in some sectors. Despite the cautious macro environment, we are in control of a significant portion of our year-over-year profit change, and as such, we are tightening on our full year guidance range to $5.75 to $5.85 per share.

Lastly, as a note, we are targeting mid-September to host a Dover Day in Chicago where we will provide an update on our progress on previously announced initiatives and a review of our portfolio strategy. We’ll provide more information on that soon.

So that’s the presentation. Let’s move on to Q&A.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Your first question is from Jeffrey Sprague of Vertical Research Partners.

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

First, on kind of the product ID and printing businesses, thanks for that color on kind of the ITMA effect. But can you give us now a little bit of additional color then on what orders ought to look like in Q3? Do we see a big order bump there? And I just wonder if you can also expand the conversation about that segment to kind of the Markem-Imaje piece of the business also.

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

Okay. Sure. If we were to normalize our revenue through the quarters, the effect of printing -- of digital printing on the quarter was a little bit in excess of 0.5 point of organic growth. So I mean we knew this was coming...

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

For the total corporation.

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

Yes. For the total corporation, that is, not just the segment. Look, we knew this was coming. I can tell you that the feedback that we get in terms of orders in the pipeline is very encouraging. I think that we are very conservative of how we recognize bookings in that particular segment, but we’re talking about 2 million euro -- dollar pieces of equipment. So we wait until we have letters of credits in place and a variety of other things
before we put them into backlog. I would expect that we'll book a decent portion of that in Q3. But I can tell you that we've already begun to ship in Q3 in that particular sector. So we're -- that's why we're confident in terms of the bulk of margin impact on the segment in the second half.

As it relates to MI in total, MI had a very good Q1. It was slightly slower in Q2 largely driven by Asia. They had another very good month, another good month or quarter in Europe. Our full year expectations is for growth to come back modestly in MI but margin accretion to be robust in the second half.

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

And as a second question, if I could. Just on Refrigeration. So your comment about recent customer wins sounds like it's a food comment, not a refrigeration comment, just to clarify that. But...

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

That's a refrigeration comment, but go ahead.

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

So that is a refrigeration comment. So can you elaborate a little bit on that? And I guess the comment about struggling with the volume ramp-up, right? Your orders don't suggest there's a strong volume ramp-up, but obviously you're in kind of a seasonal period. Is that what you're suggesting just kind of normal seasonality, there's a little bit of struggle? Or there's something that...

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

No. I think the way -- what we have is -- we have to separate this segment into its component parts, right? So let's put heat exchangers to the side for a moment. What we're saying is on the systems business of refrigeration, that's been slow. So that is disproportionate amount of the decline in the bookings. The bookings on case and door, on the other hand, are up significantly and our production has ramped up significantly in case and door. Unfortunately, during the quarter, that is -- because of the labor intensity of that product line, a significant volume ramp comes at some cost that quite frankly we struggled with. And coupled with that, we had a supplier that went belly up in the middle of the transition. So I think, overall, it cost us approximately $4 million to $5 million in the quarter, kind of let's call that frictional costs with the ramp-up.

We will do better going forward from here. But at the end of the day, I think that we're pleased with our ability to compete in the marketplace. We're pleased that the order volume is ramping in door and case. We like the way the business is moving. It's going to come at some cost, so we don't have a lot of significant margin accretion associated with that. We'll get some absolute profit increase on the volume. But the margin accretion, I think until we change how we run this business in terms of SKU management and commonality of component parts, that's really what's going to trigger.

Operator

Your next question is from Steve Tusa of JPMorgan.

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

Good execution in kind of an uncertain environment. On the product ID side, you mentioned bookings were down in Asia. Are you seeing anything in kind of the machine builder channel that is a bit more choppy than expected given that there's a lot of cross-border kind of activity for those
guys, the small machine builders in the U.S. and Europe that are kind of selling into there that your products may kind of go along the same line with?

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

Steve, I don't know that question. I'd have to go back to the guys and we'd have to see the segmentation of the individual markets that they sell into. I just think that overall...

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

Would that still be a digital printing issue in Asia for that segment? Or would that seem to be more of a core -- a common and kind of core MI into Asia?

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

Yes, it's more of a core MI into Asia. On the digital printing side, in our particular space, which is at the top end of the market, the demand, it looks very proactive for the next several years just in terms of the proportionality of -- versus ticket price of those machines. I think that's a timing issue. And as I mentioned before, that's a business that we expect to grow revenues by double digits for the full year. So that side, we're confident as long as we can get the letters of credits and everything all lined up based on what we think the backlog is going to be.

On the MI side, it was a little bit choppy. So I don't think that -- I think that China was down 1%, and I think that India was down a couple percentage points during the quarter. I think that, that is a reflection of kind of what's going on in China, but I don't have any real color on the segmentation of their customers at MI in China. I'd have to get that.

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

Okay. No problem. You're plenty busy, so don't worry about it. On the price cost, the refrigeration business, which I would have thought needed to get a little more price to kind of offset the kind of material inflation or tariff kind of impacts, you didn't get price in that segment. Was that kind of where you probably saw the biggest headwind from price cost? Or do you not really have a headwind from price cost this quarter?

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

I'd have to go and disaggregate it, but I think on retail refrigeration, it's probably neutral. Not counting the frictional cost because that's not -- that's cost self-inflicted, quite frankly. So I think we were probably neutral in retail refrigeration. I'd have to go take a look at the other segments. SWEP is a difficult one because it's euro-based but it's got a lot of China exposures, so we'd have to go get that sorted out with all their FX translation.

Operator

Your next question is from Andrew Obin of Bank of America.

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

Just a question on free cash flow. I think you gave a fairly wide target for the year, 8% to 12%. You seem to be running well ahead of last year. Where do you think you guys are going to come out within that range given the performance year-to-date? And other than CapEx, any sort of big movements in working capital in the second half that we should be aware?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I mean I think that the working capital seasonality should hold, okay? So that’s first and foremost. And then our target is to hit spot on in the middle of the range, which is exactly we did last year. We are running a little bit behind in CapEx versus our full year guidance, so I think that we’re tracking probably to the lower end of the range on CapEx for the full year. But look, that swing number versus the entire working capital changes, it’s something, but I don’t think it’s anything overall.

At the end of the day, it’s what we said before. We can -- we’re working on grinding down working capital as a percentage of revenue or increasing turns across the portfolio. But what’s really going to swing it for us at the end of the day is what the second half growth rate looks like. If we reaccelerate in the second half of the year, then the industrial inventory won’t come down. If we don’t, then we would expect the same kind of liquidating -- or liquidation profile that we showed you last year in Q4.

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

And just a follow-up question on operations, just inefficiency at Refrigeration & Food Equipment on ramp-up. Any of it relating to restructuring and operational changes that you guys are making? And just if you can sort of provide us broader color, you’ve sort of now been at Dover for a while. How do you feel about the runway for cost takeout going forward and ability to execute? And I appreciate that you have not provided any specific targets for next year but just to give us a broader update.

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

Sure. The margin target that we gave for retail refrigeration at September holds. That requires us to intervene on the production footprint. And as we’ve said before, that process is underway. But this is not just basically installing some equipment and that changes the business. The business is working on a fundamental change of how they run the business particularly as it relates to SKU management, commonality of components and a variety of other things, which allows for automation in the future.

I think that when we announced the investment that we were going to make, we said it’s kind of going to be a little bit of a chicken and egg because at the time, we were at the bottom of the market in terms of the demand function for door and case. And now that market is coming back, and we’re going to have to run the business in its more traditional labor-intensive way until we get everything stood up. But we need to protect market share, and we need to protect the amount of volume that we’ve got going into fundamentally changing the business.

So at the end of the day, I’m not making any excuses for it. I think that we struggled with getting the available labor in the market with employment rates what they are. It’s tough. And as I mentioned, we had a supplier kind of go belly up on us in the middle or the beginning of the quarter, which cost us some money. So I would expect that we improve over our performance in Q2, but really what’s fundamentally going to change this business is changing basically how we manage our SKUs and how much labor content is in this process.

Operator

Your next question is from John Inch of Gordon Haskett.

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

Rich and Brad, if you were to sort of -- we talked about Asia and parts of selective implications of detraction. How much would you say Asia detracted overall from the results? Maybe if you look at it sequentially or however you’d like to characterize it. Obviously not a big company in Asia but still helpful, I think, to put that into kind of a jumbled bucket.
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I think that -- look, I think that Brad mentioned in his comments what total translation impact was. So there’s the FX component of Asia, which you can calculate, right? So it’s a percentage piece based on the geographic distribution out of the $7 million to $8 million of translation loss that we incurred in the quarter. So that’s a piece. And then I think the quarter-over-quarter profit of MI is Asia-driven mostly, right? But I know that you can’t see MI at end of the day, but you need to unpack it from the digital printing impact, but I gave you some color in terms of what that was.

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

Right. And then you have the offsets from retail fueling having a really good quarter and continuing to have a good quarter in China. So if you pull all that together, not having the exact data in front of me, I would say China down slightly in the revs but earnings still remains positive for us.

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

Yes. I mean SWEP was $4 million, so somewhere between $4 million and $8 million probably in the quarter.

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

Okay. That’s helpful. Rich, at the EPG, you alluded to the fact that you thought Dover might be perhaps one of the very few companies to benefit from these List 3 tariffs. Could you -- is there any way to expand a little bit on that? I got a few questions on that. Where exactly would that be benefiting you? And do you think that’s sustainable with some market share opportunities? Like how exactly is this playing out?

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

Well, I mean, I think it’s benefit just because of our participation in the markets with our critical components that our price cost versus tariffs has been positive, number one. Number two, you can read in the paper every day about people readdressing the supply chains, and we are the beneficiary of that just because we’re a component supplier that’s levered largely to North American production.

Conversely, at the end of the day, I’m not -- I don’t want to take this as a conflict, I’m positive on tariffs. I think that it’s just been -- we’ve been positioned appropriately just because of the nature of our business so far. But to the extent that those tariffs cause a significant slowdown in Asia, then as you can see from the results that we have here, then ultimately it becomes a little bit of a negative on our revenue streams in Asia. But on the North American side of the business, it had been positive both from a price realization point of view and a volume point of view.

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

Maybe just lastly, Fluids obviously put up another very strong broad-based quarter. I guess we can sort of think about things like biopharma doing well on a sustained basis. But maybe you can just talk to your conviction in the portfolio, which I realize has got some niche elements to it. The portfolio overall in Fluids being able to, kind of ex compares, still put up a cadence of robust growth against the backdrop of a global softening. How should we think about this, do you think?

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

Look. I mean it is a collection of businesses, and there’s a variety of things going on, right? We’ve got a high-growth business that’s sitting in with biopharma that’s growing in high teens, let’s call it, and it has been for some period of time. So you’ve got a high growth and high margin, so you’ve got that portion of the portfolio. We think that we have a pumps franchise that is able to compete both macro growth and from a competitive point of view. So there is an element of share gain despite the fact that those -- trying to calculate share gain in a very dispersed business is difficult. We believe that we’re winning in the marketplace in that particular side.
And on the Fluids side of the business, we’ve got a best-in-class underground franchise that is driven by regulatory growth, and I would say that we’re probably gaining market share. There also and most importantly, as we had highlighted last year, I think that our aboveground business improved margins -- comparable margins by 400 basis points quarter-to-quarter. So basically, we are on track to meet what we said by exit this year. So you’ve got a high-growth element and then you've got some niche franchises. We are winning in the marketplace, and you've got one big piece of the business that is improving their margins dramatically.

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

And is there a runway of deals to do in this space, Rich, that would meet your returns criteria and pricing and so forth?

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

I hope so.

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

I guess I’ll hear more in September. Appreciate that.

**Operator**

Your next question is from Andrew Kaplowitz of Citi.

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

Rich, you mentioned that EPG, that DFS would probably reach the bottom of the 15% to 17% margin range for the year. But you just kind of answered John’s question and you kind of said that DFS, nothing's on track. Obviously, a very strong incremental in the quarter. Did something change? Is it just that they're starting to get their act together there? I mean you did better all year, but you did make those comments on EPG.

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

Yes. Look, I think that the range that we had for exit is 15% to 17%. I said we were tracking towards the bottom. Can we beat it? Sure, we can. But let’s walk through another quarter or so and see where we are. But I think that we’re not out of the woods from a comp point of view before we get excited about the margin comparison, but I think the team is on it. And clearly, a 400 basis point accretion in the comparable quarter is great, and it puts us on the trajectory to meet those exit numbers. The backlog is there, so it’s supportive. At the end of the day, that is a -- to me, that is a midterm target for that particular business because even at exit, when we comp it against the competition, we've got some room to go. But so far, so good, and we're very pleased with the effort of that particular business to grind it out.

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

That's great. And then last quarter, Rich, in ESG in particular, you mentioned that you had decent visibility into the business in Q3, but you needed another quarter under your belt to see how the business would fare for the year. So how are you thinking about ESG bookings and revenue growth in particular for the second half of the year? And what kind of visibility do you have at this point?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Look, we feel good about ESG for the year. So I think clearly that when we're looking for that business to slow down, we don't think it's going to this year. We're booked pretty much through the end of Q3. We're waiting on a few orders and backlogs. So hopefully, by the time we do this again in another 90 days, that the backlog will actually probably stay even to go up slightly, which would solidify the full year. We're very pleased with the growth that we're getting out of the software franchise, so we'd noted that. That particular piece of the business has grown 20%. And it's not margin accretive yet because it's just on installs, but we expect the leverage on that to be significant going into 2020.

Operator

Our next question is from Julian Mitchell of Barclays.

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

Maybe a first question around capital deployment. There was no buyback spend in the first 6 months of the year, a couple of small acquisitions and you closed on All-Flo Pump. So maybe give us some update on, at least for this year, specifically how you're thinking about capital deployment. I understand we'll hear about the medium term in 8 weeks' time.

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

Well, I mean in general terms, Julian, it's basically what we said before, all right? Our bias is for organic investment followed by inorganic investment going to capital return. I think that we've got a relatively robust pipeline on the inorganic side, so we'll keep our powder dry to see how that develops over the next few months. If we are unable to close on those, then we'll revisit the issue of capital return for sure.

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

I see. So if we don't see a big step-up in M&A, we can expect more buybacks by year-end?

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

At some point. I don't want to put a calendar on it. But at some point, we're not going to -- we have an expectation in terms of cash flow for the year. We're not going to sit on a significant pile of cash at negative carry for sure. We prefer to deploy it.

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

Understood. And then my follow-up would be just looking at the aggregate profitability in Refrigeration & Food Equipment, should we expect the profits in that division to be flattish year-on-year for 2019 as a whole? Or does the -- is that just dependent on the Richmond site productivity efforts?

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

Our expectation is for revs and profits to be up year-over-year.

Operator

Your next question is from Nigel Coe of Wolfe Research.
We've touched on a lot already, but I do want to pick up on the last question from Julian. The growth in Refrigeration and Food, we've got a slight down organic in the first half of the year. Backlog is pretty flat. We burned backlog in 2Q modestly. What is the degree of conviction in the second half moving to sort of a 3%, 4% organic growth rate?

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

Well, I mean, look, at the end of the day, I think we moved the segment down by 1 point, okay? I think that our conviction in food retail for growth is quite high. We actually missed from a calendarization point of view. In order of that, we would've liked to have been able to book at the end of June but can't book until you have the order at the end of the day.

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

That's coming in now.

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

And so it's coming in now. So again, just to give you some color on bookings, as we proceed into Q3, we're quite constructive there. For us, it's the margin conversion issue in that particular segment. We've got some aspirations there. But as we said before, I think that we need to change the dynamic of that business in terms of working on SKU management and reducing the amount of labor content. But that -- the benefits of that don't come in until mid-'20. So I think that overall, we're pleased in terms of the demand dynamic for door and case. What's going on in the marketplace, it's up to us to kind of maximize profitability out of it in the second half of the year.

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

That's great color. And then maybe just characterize what you're hearing from kind of your field organization, your channel partners. And the spirit of the question really is that some of the distributors in the U.S. have been talking about change in customer behavior through June towards the end of last quarter. And you alluded to kind of lower end of the CapEx for the full year. And I'm wondering if maybe you're pulling back a little bit or dialing back a little bit on investment spend in the back half of the year because I think that was more back-end loaded in your plans. Any color on that would be great.

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

Yes. I'll start with the second and go back to the first. I think no, we're not pulling back on CapEx. It's just -- as it always happens, you've got aspirations to spend this money and then it takes time to actually deploy it because when you think about what we're doing with our new plant up in Minneapolis for CPC, by the time we work through getting building permits and a variety of other things, you're 3 months behind and then timing. So I think that, that capital will be deployed overall, but I think it's probably -- a piece of it is going to slip into '20 just because of capital timing at the end of the day. So we're not pulling back on the aspirations. But -- and then again, we did give a range and we're probably going to come out of the bottom of it now, the way things look from a calendarization point of view.

Well, with the amount -- with the different types of businesses that we have in the portfolio, you can imagine the plethora of mixed messaging that we get from the marketplace. I can just tell you as a general comment that the sentiment was more negative at the beginning of the quarter so -- than it was at the end of the quarter. We actually went through this issue that -- back in April that we were kind of worried a little bit about backlogs and a variety of other things, and then we actually accelerated in the quarter in terms of both our own shipment performance and our backlog. So it's a little bit of an odd situation that's going on out there in terms of what we're hearing from the marketplace and how that's developed
into kind of our forecasting. I can just tell you that leaving the quarter based on, a, what’s in our control and what we need to do to convert to get to the top end of the range if you look down at the squeeze, I think that we’re in good shape.

Nigel Edward Coe - Wolfe Research, LLC - MD & Senior Research Analyst
That’s -- you’re right, that’s a very odd environment.

Operator
Your next question is from Scott Davis of Melius Research.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research
I can’t remember if you mentioned this at EPG or not, but what were the return kind of hurdles that you crossed for this All-Flo Pump? Is it double-digit by year 4 or something like that? Or did you not mention that yet?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
It’s 10% by year 3.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research
10% by year 3. Okay. And then I have question. I covered your stock for a while and I don’t know the answer to this. The Environmental Solutions business, you mentioned software sales and I just can’t recall what that is. Can you share your memory on what you’re selling...

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
Dover made an acquisition a couple of years ago called 3rd Eye. That guy was principally there for doing driver safety, but it’s managed now to expand what it sells around that camera technology that is quite interesting. And the adoption rate over the last 6 months with some major independent carriers have been excellent.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research
Is that -- I mean can you size that business? Is it big enough to move the needle?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
I hope so in the future. I can just tell you that off a relatively -- let me think about it in the context of ESG. Yes, I mean it’s big enough to move the needle over time.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research
Okay. And then just last question, just on portfolio, and I imagine we’ll get into this at Dover Day in mid-September, but are you reasonably happy with the portfolio you have now, Rich? I mean I know you’ve got some challenges in Refrigeration, but is this -- if we look out 5 years -- 2 years from now, is there likely to be further divestitures?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I don't want to get ahead of our big presentation in September. Nothing in the portfolio is destroying capital at its present. But 5 years from now, is the portfolio going to look different than it is today? The answer is yes.

Operator

Your next question comes from Mig Dobre of Baird.

Mircea Dobre - Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst

Just want to go back to your comments from about 2 minutes ago on just trends through the quarter. I mean I understand your comments on Asia and maybe portions of the business in there being a little bit weaker, but it seems to me that everything else is trending pretty well. So I guess against this theme, if you would, of macroeconomic uncertainty, can you kind of help us understand, if there is anything that slowed maybe through the quarter, where was it? And if things maybe held better than what you anticipated at a point in time in April, for instance, where did you get a little bit of upside?

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

Well, I think in -- the entire Fluids segment is performing slightly better than we would expect it, I think, on the top line, and I think that we're pleased with the trajectory of the earnings for sure. We would have -- we did not expect the slowdown in heat exchangers demand during the second quarter nor did we expect the FX. So between those 2, that probably cost us $7 million to $8 million in profit during the quarter. So those were unexpected.

There's certain portions of the portfolio, like the small exposure that we have to automotive OEM, that we expected to slow and it did, in fact, slow during the quarter. But that, we had modeled into our full year forecast at the end of last year in the first place.

So I think that we would have not forecast the frictional cost in Richmond due to the fact of labor unavailability and a supplier issue that we had. DDP, as we've beaten that to death, we expected that in the quarter, so that's not a surprise. I think that the heat exchanger business and the FX translation is the 2 areas that when we take a look at what we had forecast at kind of the beginning of the quarter and versus the other quarter where we are. We would've liked to do better a little bit on the backlog. And as I mentioned before, we were -- we had a couple orders coming that we would've liked to get in June.

I can tell you just as some further color on the DDP side, I mean we did that trade show, and if you go back and look at my comments, I think that we're really pleased with the feedback that we have, but we didn't book anything in Q2 in DDP. So to the extent that we can convert that interest into bookings in Q3, we would expect to see a good bounce back there.

Mircea Dobre - Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst

All right. That's helpful. And then maybe for my follow-up, I saw last night you announced the partnership with ABB for Dover Fueling. So maybe you can give us some thoughts here as to what the revenue model might be, the growth opportunity, how do you see the retrofit of existing infrastructure? What's the game plan?
**Richard Joseph Tobin - Dover Corporation - President, CEO & Director**

Well, look, I can’t monetize it for you right now because we just signed it yesterday. But in effect, we’ve always said that we recognize the fact that EV chargers, there’s going to be somewhat of a future on that. We can all debate what the size of that is. But we’ve signed a Europe contract with ABB where we’d be purchasing chargers for resell into both our distribution and direct customer network, and then we’d be moving to purchasing kits that would be incorporated into our dispenser factor over time and spare parts. So too early to start to say size and scale, but I think it was important that we develop partnerships because we’re very attractive to manufacturers of charging stations because of the size and access that we have to distribution network and our OEM customers.

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

Do you -- last question. Do you foresee having the need to make any sort of changes to the way you operate or go to market or really anything in order to be able to capture on this opportunity? Or is it just with your install base for lack of a better term in terms of operation?

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

The latter.

**Operator**

Your next question is from Joe Ritchie of Goldman Sachs.

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

Maybe just touching on the rightsizing benefits for a second. Obviously, you guys are -- have executed well in that regard, and I think we’re -- you’ve had about a $0.30 benefit so far this year. It seems like we’re probably going to be through most of it, I guess, as we get into 3Q. And so as you kind of think about the composition of your guidance into the second half of the year, how are you thinking about the importance of getting a little bit better leverage out of your organic volumes in order to hit your guidance and where to kind of put the hit there?

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

I got you. We knew that was a question. If you go back and look at my comments, we said that the margin conversion in Q2 is likely to be the lowest for Dover for the full year. So if you go back and take a look at the side of the EPS impact of conversion, we would expect that conversion to go up in Q2 and -- I mean Q3 and Q4 relative to Q2 and that the SG&A to slowly unwind. But I think that’s all baked into what we believe that we need to do to reach the top end of our EPS guidance.

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

Yes. So Rich is referring to the 21% on the chart. You see the 73% there with SG&A, but the 21% is going to improve in the back half.

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

Got it. And the biggest drivers of that, if I’m hearing you guys correctly, is going to come in RF&E and then potentially with digital printing picking back up in E&S? Or are there other moving parts?
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I think that we expect for -- clearly for Engineering Systems driven by Printing & ID platform within Engineering Systems. I think that we're going to continue to have very good conversion in aboveground fueling systems on the margin side. And then thirdly, it would be DFR, and which, even when we continue to make strides in improving performance, is going to be dilutive to consolidated margins.


Okay. Yes, that makes sense. And then maybe my quick follow-up here, I guess, just to make sure I understand, the impact that ITMA had on the quarter, I think you guys had roughly 50 basis points of growth to the whole portfolio, so call it, 100 to 150 on the actual segment. Is the right way to think about it then, call it, 2Q growth, would've been more like 3% in the segment and maybe that's our starting point within expectation?

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

It is higher than that.

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

Yes. We would have rounded up, Joe. So -- but at the end of the day, it would have been 3.5% or...

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

To 4%.

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

Or slightly in excess of 3.5% to 4%.

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

Yes, to 4%.


All right. I was talking specifically about in Engineered Systems, right?

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

Yes, that's what we were thinking about.

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

Yes.
Okay. All right. Got it. And that’s kind of like the starting point for 3Q and you guys would expect an improvement on that?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
Yes. Well, that would be kind of like the normalized in a business we expect to grow in excess of 10% for the full year.

Operator
Your next question is from Deane Dray of RBC Capital Markets.

Deane Michael Dray - RBC Capital Markets, LLC, Research Division - Analyst
Just want to follow up on that last comment on digital printing. The idea here is purchasing managers were out of pocket so there was no ordering. But when you talk about normalizing, did you launch any new products at the trade show that would create some incremental demand? Or is it the same product line and just a catch-up on orders?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
We did launch a product, a mini LaRio. And then we launched a couple of different software solutions and a bundling package of consumable products with a big printer. So we’ve launched a series of different things. But even if we had not launched anything, we would have had the same demand dynamic because that’s just the way -- the show only happens every 4 years. So everybody holds off until they see what’s the latest launched products and what the pricing environment is and a variety of other things. But...

Brad M. Cerepak - Dover Corporation - Senior VP & CFO
And if I go back to what Rich said, the order take was very good at that show, but we’re not showing them in our bookings until we get the credit lined up with our customer base. You can imagine we ship those all over the globe and we’re very conscious of being paid for what we ship. So we line it up first.

Deane Michael Dray - RBC Capital Markets, LLC, Research Division - Analyst
Got it. And then just a clarification on heat exchangers. That came up a number of times. The size of it, I think you said $4 million. But what do you attribute the slowdown or the falloff in demand? Was there any share loss? Is this trade uncertainty? But what would you point to there?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director
Yes. I always shy away of any of our businesses having -- being a macro driver. What I can tell you is that it was mostly China and it was mostly non-refrigeration product line or HVAC.

Brad M. Cerepak - Dover Corporation - Senior VP & CFO
Yes, non-HVAC.
Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Non-HVAC product line, so industrial applications.

Operator

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 - Dover Corporation - VP of Corporate Development & IR

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

Operator

Thank you. That concludes today’s second quarter 2019 dover earnings conference call. You may disconnect your lines at this time, and have a wonderful day.