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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to Dover's First Quarter 2024 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Jack Dickens, Senior Director, 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. Jack Dickens. Please go ahead, sir.

Jack Dickens

Thank you, Natalie. Good morning, everyone, and thank you for joining our call.

An audio version of this call will be available on our website through May 16, and a replay link of the webcast will be archived for 90 days. Our comments today will include forward-looking statements based on current expectations. Actual results and events could differ from those statements due to a number of risks and uncertainties, which are discussed in our SEC filings. We assume no obligation to update our forward-looking statements. And with that, I'll turn the call over to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Thanks, Jack.

Let's go to Slide 3. First quarter results were in line with our expectations. Strong performance across several of our end markets together with improving order and shipment trends in biopharma components and growth platforms, we're able to offset the counter cyclicality some of our long-cycle portfolio in what was expected to be our toughest comparable quarter this year. It is clear that our operating posture that we took in the second half of 2023 to proactively curtail production has had its intended effect.

Customer and channel inventories are now largely in balance with prevailing demand conditions and level set to normalize lead times. As a result, order momentum in the quarter was strong and broad-based, particularly in our shorter-cycle end markets, building off an exit rate from last year and bolstering our confidence full year outlook. We remain active on capital deployment.

During the quarter, we closed 2 synergistic bolt-on acquisitions that add attractive digital and reoccurring revenue streams to our retail fueling and carwash platforms. The DE-STA-CO of divestiture closed at the end of March as part of our ongoing portfolio evolution. We also launched a $500 million accelerated share repurchase program at the end of February to return excess capital to our shareholders. Our strong cash flow generation along with the proceeds of the DE-STA-CO sale provide ample capacity for further capital deployment in 2024.

We're off to a solid start to the year and the setup for the remainder of the year is encouraging. Our order rate momentum and healthy underlying demand conditions support the outlook for volume and margin improvement as we progress through the year. We are narrowing our full year adjusted EPS guidance towards the higher end of the range, and we'll continue to evaluate our full year targets as the year progresses especially if demand trends continue.

Let's go to Slide 4. All-in revenue was up 1% in the quarter. Bookings were up 3% organically year-over-year and up 12% sequentially in the quarter, reflecting growing order rate momentum across much of the portfolio. Of note, after 7 quarters of bookings decline, as a result of the post-COVID backlogs, we have now seen positive bookings growth in 2 straight quarters and expect this positive trend to continue for the rest of the year.

Segment margins were 19.7%, down 30 basis points. We expect to return to positive year-over-year accretion from here on mix and volume leverage. Adjusted EPS was up to $1.95 per share in the quarter, and we are guiding 1% to 3% organic revenue growth and adjusted EPS of $9 to $9.15 for the year 2024.

So let's move on to Slide 5. Engineered Products had a robust quarter, particularly strong volume growth and conversion waste handling, which set an all-time record for first quarter profits and should continue its positive trajectory on strong truck body order momentum and software adoption. Aerospace and defense also posted double-digit revenue growth. Volumes improved in vehicle aftermarket on better end market conditions and bookings growth, including in Europe. We expect volumes to remain strong for the segment throughout 2024. Margin performance was solid in the quarter on strong volume conversion, price/cost dynamics and productivity investments. Clean Energy and fueling returned to positive organic growth in the quarter after 9 consecutive quarters of flat to negative top line performance driven by the end of the EMV cycle in North America and channel destocking of what is most -- our most heavy distribution exposed segment. Margins were down in the quarter on negative comparable mix, but we expect to see sequential improvement from here and target full year margins up over ['23] driven by attractive volume conversion and the benefits from previously enacted cost control measures. Imaging & Identification posted a steady quarter with lower printer shipments in Europe and the U.S., largely offset by strong volumes in consumables and aftermarket. We expect top line to return to growth next quarter and to be up for the year. Margin performance was exemplary on cost controls and higher mix of consumables and aftermarket shipments. Pumps & Process was up organically in the quarter on robust volumes in polymer processing and precision components. Order rates for thermal connectors were very encouraging. We are pleased to see biopharma shipments grow year-over-year with orders gained further momentum with a book-to-bill of 1.08 as customer inventories continue to normalize and commercial drug production and new therapy development remain robust.

I would like to point out that our biopharma business is nearly all consumable and in the post pandemic destocking headwinds dissipate, this is mostly driven by biopharma production volumes, which are growing. Margins in the segment were down modestly due to strong volumes in polymer processing, which was slightly dilutive to the consolidated segment margin. If order trends hold, we expect margins maybe positive sequentially from here. Top line performance in Climate & Sustainability Technologies was down as expected, driven by the expected capital investment slowdown in beverage can making and the impact of destocking of stocking headwinds in the broader HVAC complex, most notably in European residential heat pumps on our brazed plate heat exchanger business.

In contrast, our U.S. heat exchanger business continues to grow in double digits on technology share gains in an evolving end market applications, including data centers. We expect top line to improve as the year progresses with easier comparable performance in the second half of the year and supported by strong volume in CO2 refrigeration systems, which drove the bookings growth for the segment on several key customer build-out wins.

I'll pass it on to Brad.

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

Thanks, Rich. Good morning, everyone. Let's go to Slide 7. Top bridge shows our organic revenue decline of 1%. Acquisitions contributed 2% to the top line, while FX was essentially flat. The DE-STA-CO sale, which closed on March 31, will be an offset to acquisition revenue growth beginning in Q2. Total deal costs in the quarter were $3 million or $0.02 of EPS relating to the sale of DE-STA-CO and ongoing deal activity. From a geo perspective, the U.S., our largest market was up 1% in the quarter, while Europe and all of Asia were down 1% and 5%, respectively. China, which represents about half our revenue base in Asia, was up 5% organically in the quarter, with improving conditions across several end markets.

On the bottom chart, bookings were up year-over-year and sequentially on strong order momentum as a result of largely normalized channel inventories and lead times.

Our cash flow statement is on Slide 8. Free cash flow for the quarter came in at $122 million or 6% of revenue. Q1 comparable performance was impacted by investments in working capital due to the timing of shipments, driving higher receivable balances as well investment in inventory ahead of seasonally stronger quarters in Q2 and Q3. The first quarter is traditionally our lowest cash flow quarter of the year. The change in accrued taxes was driven principally by the recording of future tax payments related to the DE-STA-CO divestiture. We plan to adjust these tax payments out of free cash flow reporting as they are nonoperating in nature in line with the exclusion of the gain on the sale of our adjusted P&L results. Our forecast for 2024 free cash flow remains on track between 13% and 15% of revenue.

I'll turn it back to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Okay. Before we go to Q&A, I wanted to provide a little bit more color on some of the product lines that helped deliver our results in the last quarter and positioned us to continue growing in the high secular growth rate markets. Early on, we saw a significant growth opportunity in each of these markets and proactively invested in CapEx and R&D to cultivate technological leadership and provide a sufficient foundation to win and scale with our customers.

Across these markets, we enjoy leadership positions with strong brand recognition and well-entrenched intellectual property protection. Each of these end markets have enjoyed double-digit growth trajectories over the past 5 years and the robust booking trends in the first quarter point to these markets remaining meaningful contributor to Dover's overall revenue growth profile. In total, these products deliver attractive margin conversion that is accretive to Dover's consolidated margin.

In CO2 systems, we were the early mover in transplanting natural refrigerant technology from Europe to the U.S., where we currently enjoy a technological lead and have the largest installed base in food retail applications and the broadest product offering. We have proactively expanded our capacity and invested heavily behind a platform-based product strategy supported by a differentiated digital go-to-market architecture that facilitates the sale and design process, reduces complexity improves product quality and delivers best-in-class lead times and reduces the cost for ourselves and our customers.

Our recently launched platforms are gaining traction in the marketplace with several exciting large-scale CO2 conversion programs underway at key retailers with a multiyear runway. We are also benefiting from our exposure to data centers and the secular growth in infrastructure investment with the significant power requirements of next-generation chips that support artificial intelligence. Adoption are now requiring liquid cooling methods. We are exposed to liquid cooling of data centers in both our heat exchanger business, which enables heat transfer within the cooling distribution units and in the connector business, which provides leak free liquid connection points at the server racks and manifolds and now directly to the individual chip cooling cold plates.

I'll leave the data center infrastructure and market forecast to our end customers further down the chain. For us, it's clearly an area of robust growth in the foreseeable future as evidenced by our recent order trajectory and high-profile specification wins with the chip OEMs. Importantly, we have proactively installed production capacity and are well positioned to meet any meaningful inflections in demand with industry best lead times. The through-cycle performance of our biopharma components platform has been solid despite the well-chronicled post-COVID destocking headwinds over the past 2 years. With customer inventory levels now normalizing, the long-term tailwinds for single-use bioprocessing and cell and gene therapies are compelling and importantly, our products are specified for a regulated manufacturing environment.

While our business is still below peak levels, we believe the recent booking trends and positive tone from our customers and industry partners set up for a potential upside this year.

Finally, let's go to Slide 10 shows the long-term performance of our portfolio. Our playbook for earnings accretion remains unchanged to deliver growth through a combination of top line organic growth earnings accretion through operational execution and returns of productive capital deployment strategy. We are pleased with the start of the year with our flexible business model, we will continue to monitor any end market conditions and can quickly respond to changes in the marketplace.

And Jack, let's go to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will now hear from Mike Halloran with Baird.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

Okay. So a couple of questions here. First on orders. Obviously, comps are easy in the next couple of quarters, but maybe just talk a little bit about the underlying perspective from an end market that gets you comfortable with the order commentary for the year, just kind of the confidence in the composition of where that order growth is going to come from, from an underlying market perspective. And then related, do you see orders up sequentially going into the second quarter?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes, I do. Look, we'd have to go segment by segment because they're different between the short cycle and the longer cycle portions of the portfolio, but orders are up broad-based with the exception of the 2 that we highlighted, both in can making and in heat exchangers in Europe. We would expect that trend to continue, which supports, basically, the seasonality where we expect some pretty big step-up in performance in Q2 and Q3, and we'll see about Q4, which will be a dynamic of how the order rates go between now and then. I think most importantly, our confidence is based on the fact that of all the hard work we did in terms of managing inventory through the channel last year, and that's allowed to us to have more confidence in terms of the order rates going forward.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

Can you just talk to the action-ability of the M&A pipeline from your perspective? Obviously, the commentary has been pretty positive about your flexibility in the short term here. How would you look at that channel as we're sitting here today in the priorities?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

It's loosened for sure. I think there's a recognition now that interest rates are here to stay, that's helpful. I think that the equity markets have rallied quite a bit. So I think that this fear of purchase compression on multiples has gone away. But it's not flood yet, but I think that the activity in terms of opportunities that we can look at is a lot better than it would have been a year ago today.

Operator

Our next question comes from Steve Tusa with JPMorgan.

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

So just on the orders comment, I guess, you said SWEP really isn't picking up. Is that a bit of a reflection of kind of the EU heat pump market that that's not really you would expect to see it by now, if you were -- if things were turning up there in the second half. I think you've said that before?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes. I mean we're running out of time here. So our expectation that, that market will be clearly down year-over-year. I think that we've got -- we've brought down even our internal estimates for this year. So I think that's probably the one business that is not tracking to what we thought it would have been. Maybe we're a little optimistic, but we'll see. So we would have to see orders bounce back at the end of Q2 to support any kind of inflection in the marketplace in the second half.

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

Right. So like a solid double digit first half to second half, like the way you see orders today, that doesn't sound right.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes. I mean, I have to go back and look at the comps. But if you remember last year...

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

I meant sequential, sequential, sequential.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes. Yes, sequential, yes.

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

You don't see that as being -- that's not embedded in your current forecast now given you aren't seeing the orders, just making sure.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

That's correct.

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

Okay. And then just could you help calibrate us just on an EPS basis for the second quarter? Or however you want to talk about it? I mean it looks like the orders are running right now ahead of the sales forecast that are out there, your orders are going to be up sequentially. So I mean like you look like you're covered from an orders perspective. Any further color on the seasonality of EPS for 2Q? Anything that influences margins in a major way or anything like that because the sales look like they're going to be okay relative to consensus?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes, I don't think that there's any change.

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

Okay. So what is it usually sequentially or percentage of the year, maybe Brad?

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

I think the normal season (inaudible).

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

I knew you wouldn't want to answer this. So I'll go to Brad.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Brad left the room, Steve. Sorry I mean, look I think the seasonality that we would expect is where we're tracking right now. So Q2, Q3 up and then we leave some optionality in Q4, and that will, back to your question about order rates, Q4 will be depending on how we track. So there is potential upside in Q4 if order rates continue to build.

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

Yes. There's a nuance on order rates because DE-STA-CO now out of our order book and Jack can take you through that, but we still see sequential up even covering DE-STA-CO in the second quarter and through the year.

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

So like 225-ish for 2Q, does that sound about right?

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

You know we don't give quarterly guidance.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

All right. Any other questions?

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

No, no, that's it. I guess I'll ask Jack offline.

Operator

And our next question comes from Julian Mitchell with Barclays.

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

Maybe I just wanted to start off with the DCST segment. So I think price down a little bit year-on-year. Was that just kind of a mixed thing and then it comes back later in the year. And on the margin front for DCST, 14% first quarter, do we just assume a sort of steady sequential ramp from that point through the year?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

I think it's because of the effect -- the negative effect on the heat exchanger business, which is accretive to that segment. The ramp is going to be very much predicated upon how much CO2 system volume we can get out between now and the end of the year. So I guess, to answer your question, is it will ramp, but you need to take into account when you're looking at comps that until we get into the back half of next year, we're going to be pushing up against the reduced volume and heat exchangers.

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

Got it. And on the pricing, I think it was down just a little bit in Q1. And is there sort of anything to call out there? Does it flip back to positive later in the year?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes, I think that's a nice, to be honest with you. I mean, the pricing that we have out there is relatively hold. It's got to be more mix related than anything else.

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

That's helpful. And then just a follow-up, sort of more broadly, when you're looking at your customers and then realize there's a breadth of end market exposures. But is it your perspective that for your product that channel partners and your customers, the sort of inventories are pretty lean now for where we are in the year, any concerns around further need for inventory reduction? Or do you think we start to move the other way when you're looking at how your channel partners are behaving based on orders and so forth?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Yes. The portions of the business that are distribution, we don't see a build. We just see pass-through right now. So one would hope that we get a little bit of build, but that will be dependent on what we see on pull-through demand from here. So we've talked about this quite a bit, Julian. I mean we did a lot of work and took proactive work in the second half of the year.

Our distribution channel checks don't show build, we just see pass-through right now. So it's not going to be a headwind. Hopefully, if demand continues to inflect positively, there will be a little bit of a tailwind.

Operator

Our next question comes from Brett Linzey with Mizuho.

Brett Logan Linzey - *Mizuho Securities USA LLC, Research Division - Executive Director*

I wanted to come back to biopharma. You noted some potential upside moving through the year. It does sound like customer tone has improved there. Maybe you could just talk about some of the warranty expirations and some of the obsolescence of some of that single-use channel inventory that could be a multiplier effect for that business.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

It's all done now, right? If you went back and look sequentially at the biopharma business where shipments are heavy, that where we've lapped kind of that 2.5-, 3-year time line now. So there's still pockets of inventory out there and the system builds are relatively a headwind right now, but on kind of the processing side of the business is what is inflecting forward. So we expect orders to be up from here just because of the fact that the inventory has been cleared one way or another over the last 36 months.

Brett Logan Linzey - *Mizuho Securities USA LLC, Research Division - Executive Director*

And then maybe shifting over to thermal connectors, doubling of bookings. What do you think the revenue run rate is in that business by year-end? And I guess, is there any reason why this business and those applications should be growing in line with some of the liquid cooling adoption trends?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

That's what we hope. I think it's -- I'm not going to size it for you right now because of the competitive aspect of the end market. What I can tell you is we feel good about where we are positioned from a spec point of view. I think that we're going to be a little bit of a trailer because we're a subcomponent behind a lot of the build that's going out right now. But what I can also tell you is we have prebuilt the production capacity that if it was to inflect kind of like what we saw in biopharma, we're going to be able to be there with industry-leading lead times.

Operator

Our next question comes from Joe Ritchie with Goldman Sachs.

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

And so maybe sticking on that Slide 9, I did actually get a chance to see some of your thermal connectors. Your customers were showing them off the data center world a couple of weeks ago. But my question is really on the CO2 systems. Like Rich, how far long do you think we are in terms of these regulatory tailwinds that's helping this business? And maybe just kind of maybe talk a little bit about what the path from here?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Okay. We are shipping our first platform. We're going to be launching our second platform in the next couple of months. And then sequentially, after that, the third platform will be launched after that. What we have right now is early adopters. So there are certain retail clients that because of ESG reasons and a variety of other reasons, have chosen to be an early adopter in the space and not wait for the regulatory aspect of it. And then we've got a lot of customers that are buying individual units to test them out. So I think we're in the early innings here, but we like the trajectory.

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

Okay. Cool. No, that's great to hear. And then -- and I know, look, you guys have referenced this biopharma, it seems like we're starting to see some green shoots here. I'm just curious, as you're kind of thinking through the margin trajectory for that business going forward? Maybe just kind of help us with the path from here?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

It's mix, Joe. So as the revenue climbs, the margin mix is important to the segment. And a way to look at it, frankly, is to go look back a couple of years at the margin that we were at and what we actually didn't decline that much in consolidation because the balance of the segment portfolio actually performed quite well. So I wouldn't think about it in terms of incremental leverage on a unit basis. I would look at it more as the revenue climbs, the segment mixes up from there.

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

Yes. And maybe just a quick follow-up there. So are we at a bottom then in margins for that business you expect it to improve from here sequentially if any...

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

We never really gave up any margin in the business. What we gave up was volume. So like I said, it's not a business that you would look at decremental and incremental margins. It's just mix up, mix down as a proportion of revenue.

Operator

And our next question comes from Andy Kaplowitz from Citigroup.

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

Maybe just thinking about the segment level organic growth versus your own expectations. It seems relatively clear that DEP should continue to be Dover's best growth in '24 and DCST is the weakest. But if you look at the other segments, how are you thinking about growth versus that 1% to 3% guide for the company? And were there any surprises versus your own expectations in Q1?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Okay. Let me think about it. I think that, as I mentioned earlier, the only business that is performing worse than what was baked into our original forecast is the heat exchanger business in Europe for heat pumps, which is about -- on a last year basis, it is about 30% of our revenue. So we're going to have to mop up some of that. Now what we have offsetting that is CO2, right? And so I just answered Joe's questions about the trajectory in the market and to the extent that the demand continues to be solid, we should be able to mop up some of that decline. And Belvac was always baked into our forecast. So we don't think that we will post top line growth in that particular segment until Belvac just basically bottoms from there. And then we'd expect to inflect positively, hopefully, in Q4, depending on CO2 demand. The balance of the businesses are tracking by and large, exactly where we had forecasted. So they're really going into the quarter because I think I mentioned that when we did the full year results, it was all about order momentum and so far, so good.

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

That's helpful. And then, Rich, maybe just on DCEF. Can you give us a little more color into the comment you made about margin up for the year after that Q1 start. I know you do have that cost out programs, so how does that flow in through the year and help you get to where you want to be?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Look, I mean, I think from a margin heavy lifting point of view, I think that's where we've got to do the most work. I think the management team is on it. So you've seen us take some structural cost out of that business. What you need to understand is that business is from a proportion point of view, the one that's most exposed to distribution, right?

So it's had a pretty good headwind during the, let's call it, the destocking phase of 2023. So it should run that was a business that we can look to that says, okay, incremental margin should be positive as volume flexes upward.

Operator

Our next question comes from Andrew Obin with Bank of America.

David Emerson Ridley-Lane - *BofA Securities, Research Division - VP*

This is David Ridley-Lane on for Andrew Obin. A little bit of a bigger picture question here. So you're seeing broad-based orders improvement, manufacturing PMI back above 50. If you had to take a cut at looking back, right, was there actual underlying demand weakness last year? Or was it all just destocking and a function of comps i.e., do you think the underlying trend is getting -- demand trend is getting better now?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

The demand trend is getting better now because of the headwind from destocking in the previous comps. And then after that, then you get to idiosyncratic product lines and business and geographies, but if you want a macro comment, right? And I think that we addressed it last year is even if you look back 2 years, unitary demand was relatively flat, right? There was a lot of pricing flowing through the marketplace, but the unitary demand was relatively flat. And then because of interest rates, you had a negative headwind last year in terms of destocking. So going into this year, you're thinking positively, let's say, that we'll see about unitary demand year-over-year, whether it inflects up, but what we know categorically is that you don't have the headwind from destocking them, right, because it's just pass-through.

David Emerson Ridley-Lane - *BofA Securities, Research Division - VP*

And then just a quick housekeeping question. What is the share count and effective tax rate assumption embedded in the 2024 EPS guide?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

You can call Jack about that. Let's not get into -- I'm not going to page through all these stock units.

Operator

Our next question comes from Jeff Sprague with Vertical Research Partners.

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

Rich, you would -- you addressed kind of your view on what's going on in distribution. Do you have kind of a view on what's going on with the OEM customers? Like if we think about Europe heat pumps, do you know one way or the other, if they actually are sitting on inventory or your product or you're just really kind of waiting for the order for kind of a view of what the underlying demand might be. So heat pumps is the one that kind of stands out, but maybe there's some others where that's kind of a question also.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

They're clearly sitting on our product in inventory. So you've got kind of like you've got the market going down and then you've got inventory with -- because we're a subcomponent with our partners. So we're going to go down first, I guess, is what I'm saying. We went up first as when pull-through demand goes up and everybody kind of puts inventory to allow for their estimates on the builds and now you've got the market turning lower and so that inventory that's out there has got to get depleted. So our expectation is that our demand will inflect up before the end market demand kind of bottoms.

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

Yes. That makes sense. And then on the liquid cooling stuff, there's a number of competitors and the like, and I don't expect you to name names, but do you have more than 1 or 2 cooling-related customers in this market? And you had also indicated you were specified by the chip OEMs, not to parse words, but I'm just wondering if that was kind of a misspeaking and you're actually specified by the cooling HVAC-related companies. Just curious on that detail.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

I'm not -- it wasn't a misspeaking, but it depends on the chip and it depends on the customer in terms of how without getting into the details about it, you do need to get specified by the chip maker who makes recommendations to the builder, right? So we did the hard work in getting specified at the up end. But clearly, we're going to have to sell into the build channel ultimately will be our customers as those units are built.

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

And it's more than more customers than I can count on one hand or now if you are talking...

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Apparently, everybody is in the space, including us. What I can tell you is it's a unique product, number one; and number two, that the production requirements look very much like pharma and that is good for us because we're basically building these products in not the same facility. We've got a dedicated facility for these products, but we're going to run it more or less the way we run our connector business for biopharma. So I think we're in good shape from an IP point of view, and we're in good shape in terms of production capacity.

Operator

Our next question comes from Scott Davis with Melius Research.

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

Guys, you were probably a little bit more skeptical than some of the others in '24 on kind of price and ability to get more price, can we mark-to-market that a little bit here in April? Have you been able to be a little bit more successful with price than perhaps you may have thought?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

I think that we're not going to be negative on price, for sure. I would expect us to be positive to price by the end of the year. I just think that the during supply chain issues and everything else, there was a little bit of solid days in price passing going on. And we weren't the big winners there to be perfectly frank. If you go back and look at our price realization through that period, arguably, we should have taken more.

But at the end of the day, to me, that's more of a non headwind going forward because all that capacity got built out if market demand is good, but it's not exactly robust. I don't think there were -- I think that we're positioned appropriately that we're not going to have to give back price because there's been a lot of price take over the last 36 months.

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

Makes sense. And Rich, totally switching gears, but are you happy with the portfolio you have? It's just -- it's very broad. So there's got to be good and bad. But the opposite of an expensive M&A market is the opportunity to sell things perhaps at above market value. So is there parts of the portfolio that you think makes sense to look at departing with.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

How do I want to answer that? I know that I'm on the clock, right? Could you give me 12 months. DE-STA-CO is a good example, right? That's a business that we looked at in terms of end market exposure and where we had taken it to from a margin point of view, we found a partner, we monetized it, I think, at a multiple that DE-STA-CO not trading within the Dover portfolio, so I think that, that optionality remains on other pieces of the portfolio, but you need to find ruling partners and the like, this is the first part of the question.

The second part of the question, Scott, is if we go back to '18, '19 that we said that we were not just going to go around selling stuff around here to dress up margin expansion. That's easy to do at the end of the day, but I don't think it's creating shareholder value. It's just creating optics. We've moved up the margin here substantially right? So I think that unlike '18 and '19, if we were to monetize pieces of the portfolio, we're going to get a lot more than we would have getting back then to the extent that we can find a willing partner there. So I understand that the complexity of the portfolio is a difficult issue from a thematic point of view, but I'm not going to apologize for the value creation of -- that we've been able to extract from the portfolio. So we'll just retain that optionality going forward.

Operator

Our next question comes from Joe O'Dea with Wells Fargo.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Rich, I wanted to ask about the climate orders in the quarter, pretty notable step up and well above each quarter of 2023, so just trying to understand a little bit more what happened in Q1 versus every quarter of 2023 that brought sort of customers forward. It sounds like what you saw in terms of order levels in Q1 is more of a sustainable level moving forward. So just kind of the catalyst behind that switch from a calendar flip and much stronger demand.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Well, when you take into account that our orders are dropping in heat exchangers and down -- maybe not down in Belvac because Belvac built that backlog several years ago, but down in heat exchangers, the order rate is exclusively in the fact that we're launching a new product line in CO2 systems. So that's what's different.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

But you wouldn't call that lumpy. You're not saying Q1 is like lumpy. It's like there's sustainable demand at that level in Climate.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Look, I mean they're going to continue well, CO2 is going to continue to offset the heat exchanger business. Now the heat exchanger business has easier comps once we get beyond August because I think that inflected down in September of last year. So it may be a little bit of put and take between now and then because in CO2 systems, we tend to get large orders every once in a while to flex it up and down. But over time, I think that order rates should look good from the half year going forward, for sure.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Got it. And then just circling back to David's question, making sure I kind of understand the takeaway. I mean, it sounds like what you're seeing in order levels is really the reflection of what you see for sell-through demand so that this is sort of working through the end of destock and this is just reflective of sell-through demand. It's not saying that sequentially from, say, 3Q to 4Q to 1Q, the demand environment has really gotten better. It's really just -- this is the absence of the pressure that we saw on channel reductions.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Right. That's it, right? Because if we go back last year and the decline in revenue that wasn't a reflection of pull-through demand because it had the headwind of destocking. Now what you have is just basically, let's just call it pass-through. So we don't see stocking. We just see it pass it.

Operator

Our last question comes from Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Can we get on imaging, just the, say, the world in consumer packaged goods, it sounded like that business is beginning to also see some normal demand, but what have you guys has been seeing?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

It's stable, Deane. You have some inflection up and down between the equipment side that the consumable portion is generally a steady eddy. It doesn't flex up or down. You have a little bit of price that goes through every year. I wouldn't be too concerned on quarter-to-quarter movements because they don't tend to be very high at the end of the day, and there's a lot of FX rolling through there just because of the fact that it is truly I think the only real true global business that we have. So it's steady, right? We don't see an inflection up in terms of production rates and consumer products. China seems to be, which was a headwind next year, seems to sequentially be improving. So we'll see from there, but it does run up against a strengthening dollar.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Understood. And then just a couple of cleanup questions on the data center discussions on this call. The first is, I know you've got lots of headaches with SWEP heat exchangers, what about SWEP in data centers in Europe? I know you were highlighting in the U.S., but where's SWEP and data centers in Europe? And then on the connectors are you being asked to bid on these projects for the chip makers? Or are you being is a negotiated design in because that's a big differentiator.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Chairman of the Board*

Let me take the last question first, it's design in. I'm sure that our commercial teams will say it's not that easy. But the fact of the matter is it's designed in predominantly. Now there will be a variety of different negotiations with the participants that are building out the infrastructure, but the most important part, it's kind of win the spec business early on and then we see where we go from there. Data centers in Europe, I'm going to have to get back to you. I don't think it's meaningful. I think that the data center activity that we see is more North American-based.

Operator

And thank you, ladies and gentlemen. That concludes our question-and-answer period and Dover's First Quarter 2024 Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.
