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# Dover Corporation (DOV) CEO Richard J. Tobin on Q3 2019 Results - Earnings Call Transcript

Oct. 17, 2019 2:37 PM ET

by: SA Transcripts

## Q3: 10-17-19 Earnings Summary

[Press Release](#)[Slides](#)

EPS of \$1.6 beats by \$0.09 | Revenue of \$1.83B (4.46% Y/Y) beats by \$19.94M

## Earning Call Audio



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Dover Corporation (NYSE:DOV) Q3 2019 Earnings Conference Call October 17, 2019  
10:00 AM ET

## Company Participants

Richard J. Tobin - President &amp; Chief Executive Officer

Brad Cerepak - Senior Vice President &amp; Chief Financial Officer

Andrey Galiuk - Vice President of Corporate Development &amp; Investor Relations

## Conference Call Participants

Andrew Obin - Bank of America

John Inch - Gordon Haskett

Andrew Kaplowitz - Citi

Jeff Sprague - Vertical Research Partners

Nigel Coe - Wolfe Research

Julian Mitchell - Barclays

Scott Davis - Melius Research

Pat Baumann - JPMorgan

Josh Pokrzywinski - Morgan Stanley

Joe Ritchie - Goldman Sachs

Deane Dray - RBC Capital Markets

Mig Dobre - Baird

### **Operator**

Good morning, and welcome to Dover's Third 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. After the speaker's remarks, there will be a question-and-answer period. [Operator Instructions] As a reminder, ladies and gentlemen this conference call is being recorded and your participation implies consent to our recording of this call. If you do not agree to 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**

Thanks, Stephanie. Good morning and welcome to Dover's third quarter 2019 earnings call. The audio portion of this call will be archived on our website for three months. Dover provides non-GAAP information and reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials, which are available on our website.

Our comments today may contain forward-looking statements. 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 statements. 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 J. Tobin**

Thank you, Andrey. Good morning, everyone and thanks for joining us this morning's conference call. Let's get started on slide 3. Q3 organic revenue was up 6% for the quarter. The growth was broad-based across the portfolio and was positively impacted by improved production performance allowing us to ship product at a higher rate than Q3 last year particularly in the Fluids segment.

Bookings in the quarter were solid with 7% organic growth with Fluids and Engineered Systems posting book-to-bill above one. Adjusted segment earnings increased 17% to \$320 million contributing to 180 basis point improvement in operating margin over the comparable period. These results were driven by strong revenue conversion on volume leverage and continued improvements in productivity and cost controls more than offsetting unfavorable mix and labor cost inflation.

Adjusted Q3 earnings were up 15% to \$235 million and adjusted diluted EPS of \$1.60 a share was up 18% year-over-year. As mentioned during our investor meeting in September this is the last period, which we'll report under the legacy segment structure. Starting at Q4, we will report using the new structure and provide full year comparative data.

Overall, we are encouraged with the results in the third quarter and first nine months of 2019. Our revenue has increased organically by 5.5% year-to-date and our rightsizing and operational actions are yielding robust margin improvement with resulting increase in comparative free cash flow. We are entering the last quarter of 2019 with a solid order

backlog across all our businesses as well as strong momentum and execution towards our margin targets. And as a result we are tightening our full year adjusted EPS guidance to the top end of our range from \$5.82 to \$5.85 per share.

I'll pass it over to Brad here.

### **Brad Cerepak**

Thanks, Rich. Good morning, everyone. Let's go through the details starting on slide 4. All-in revenue grew 4% to \$1.8 billion and was driven by strong demand throughout our Fluids and Engineered Systems segments. GAAP EPS increased 33% to \$1.40.

Moving to non-GAAP results. As mentioned, we achieved significant margin accretion in the quarter with adjusted segment EBIT up 180 basis points over the prior year reflecting strong conversion on increased volume and continued execution of productivity initiatives.

Adjusted segment EBITDA was \$385 million, a margin of 21.1%. Key adjustments for non-GAAP results this quarter were acquisition-related amortization and rightsizing and other expenses. The EPS increase was supported by \$0.04 or \$5.2 million of discrete tax benefits, slightly below the \$0.05 benefit in the prior year.

Turning to slide 5. Let's get into a little bit more detail on our revenue and booking results in the quarter. As mentioned in our summary, organic growth was solid at 5.6% 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 1.6% or a \$29 million headwind for revenue, which had a \$4 million impact on earnings with the most notable impact on our businesses levered to Europe and Asia. We expect these FX headwinds to persist in the fourth quarter. From an organic growth perspective Engineered Systems grew \$42 million or approximately 6%, while Fluids grew \$68 million or 10%.

Refrigeration & Food Equipment revenue decreased by \$12 million or 3%. Bookings increased organically 6.7%, and were – and all in were negatively impacted by FX. At Engineered Systems organic bookings increased \$61 million, or approximately 9% driven by strong order intake in digital printing and the Environmental Solutions Group. Bookings

in Fluids also increased \$61 million, or 8% organically with strong growth in the fueling and transport and process solutions markets. Bookings in Refrigeration & Food Equipment declined \$8 million.

Finally, our book-to-bill finished at 0.99, while backlog at the end of Q3 was 3% higher than this time last year driven by Engineered Systems and Refrigeration & Food Equipment. From a geographic perspective the U.S. our largest market grew 7% organically driven by strong performance 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 nearly 20%.

All of Asia grew 6% organically with China driving the growth at 20%. Our Fluids business was up 6% in Asia overall with nearly 30% growth in China on the strength of both retail fueling and process solutions businesses.

Engineered Systems was up 10% in Asia whereas Refrigeration & Food Equipment was down mid-teens, primarily due to slower demand for heat exchangers in the region.

Let's go to the earnings bridge now on Slide 6. Starting on the top. Engineered Systems adjusted segment EBITDA improved \$17 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 in Refrigeration & Food Equipment reflects lower volumes for SWEP heat exchangers and slower activity in food retail.

Going to the bottom chart. Adjusted earnings from continuing operations improved \$31 million or 15%, primarily driven by higher segment earnings, partially offset by higher corporate costs and taxes. The effective tax rate excluding discrete tax benefits is approximately 22% for 2019, 30 basis points higher than the prior year on a comparable basis.

Now on Slide 7. Year-to-date free cash flow was \$447 million, a \$163 million improvement over last year. Our cash flow was strong in the third quarter at 16.7% of revenue versus 11.8% in the comparable prior period.

Despite strong topline growth through the year, our focus on working capital efficiencies drove a net improvement year-over-year. As we turn our attention to the fourth quarter, given the uncertain macro environment, we will manage our production schedules to meet our cash flow objectives.

The fourth quarter is traditionally our strongest cash flow quarter. Capital expenditures were \$137 million year-to-date, slightly ahead of last year. While we expect our capital expenditures to ramp in the fourth quarter, we do expect several of our investments planned for 2019 to carry over into 2020.

With that let me turn it back over to Rich.

### **Richard J. Tobin**

Thanks Brad. Let's move to the segment slides. Engineered Systems delivered topline organic growth of 6.3%, largely driven by our industrial platform. As you can see in the bridge incremental margin was strong exceeding 50% as we converted well on volume growth in digital printing and refuse trucks and have continued to gain efficiency across the businesses.

Our Printing & ID platform grew organically by 4%, driven by activity in digital printing on the heels of a strong order pipeline coming out of the ITMA trade show in June. Overall, the platform has performed well with particular strength in Asia where increased shipments in digital printing more than offset the weaker demand environment from marking and coding in China.

The industrial platform posted 8% organic growth. Our waste handling business continued to deliver double-digit growth as demand remained strong for both traditional equipment and software with digital solutions business growing over 50% year-over-year.

Our vehicle service business posted 8% growth on stronger aftermarket demand in Europe which has been slow in the past few quarters. DESTACO continued to experience slow demand in automotive OEM and MPG was flat for the quarter due to timing of orders for a specific defense program, but continues to carry a significant backlog as demand conditions in the defense sector remain constructive.

Bookings for Engineered Systems remained solid. All but two businesses posted book-to-bill above one with particular strength in digital printing and waste handling which booked several large orders replenishing at strong backlog.

Overall, we entered the last quarter on solid footing for the segment, largely driven by Printing & ID platform which is accretive to consolidated margins. The Fluids segment posted strong organic growth of nearly 10% for the quarter with continued strength across all businesses.

Adjusted segment margin increased 340 basis points with incremental margin in excess of 50%, driven by volume leverage and improved productivity more than offsetting negative geographic and product mix. Adjusted EBITDA margin increased to 24.2%.

Our pumps and process solutions business had an excellent quarter posting organic growth of 9%. Maag had a strong third quarter deliveries in the plastics and polymer markets in Europe and Asia which were back-end loaded to Q4 in 2018.

Biopharma and thermal management markets continued to deliver double-digit growth during the quarter. Shipments remained robust for our industrial pumps and precision components business despite the weakening macro demand environment.

Fueling and transport posted organic growth of 11% as demand remained robust across all geographies for both underground and aboveground equipment systems with particular strength in China which is going through the final stages of its underground piping upgrade cycle.

EMV demand in the U.S. improved sequentially, but remained choppy and was not a significant contributor to comparable growth. Bookings in the segment grew 8% organically over the comparable period. The macro environment has shown signs of

slowing in some end markets, but we remain constructive as the segment enters Q4 with a backlog roughly flat year-over-year albeit more skewed towards longer term projects.

Refrigeration & Food Equipment organic revenue was down 3% and adjusted EBITDA margin of 13.3%. The margins were pressured by lower volume and frictional costs as we continue to restructure our manufacturing footprint in this segment.

Activity in food retail remained mixed. Systems and services projects continue to decline year-over-year as new store activity remains subdued. Our core case -- door case product line food retail's largest sustained double-digit growth in revenue and backlog as retailers continued investing in store remodels.

SWEP posted a flat quarter on a rebound in European demand offset by continued weakness in demand for heat exchangers in Asia. Bookings in the segment declined 2% organically mainly due to lower activity in refrigeration systems business. We enter Q4 with two-thirds of revenue in the backlog for food retail business and a constructive outlook to book shipments against several large contracts we signed last quarter. SWEP and Belvac enter Q4 with an increase in comparative backlog.

Moving to slide 12. Slide 12 disaggregates the key sources of EPS accretion this quarter. Solid growth and operational actions continue to yield strong results driving the majority of the 18% EPS growth. Incremental conversion of the margin for the quarter was 60%.

We are reiterating our revenue guidance for Engineered Systems and tightening upward the guidance for Fluids. Recall Fluids posted 17% organic growth in Q4 of 2018, setting a high watermark for comparable -- for the comparable period this year. We expect Refrigeration & Food Equipment to post flat revenue in 2019 after an 8% decline in 2018 as the market stabilizes after resetting to remodel driven demand.

Overall, we are encouraged with the performance so far this year as we continue to deliver robust organic growth and margin conversion. We are executing well on productivity and cost initiatives and are working closely with our customers to sustain growth.



Demand conditions remain constructive across most businesses but visibility and sentiment are cautious in some sectors. We have a lot on our plate between now and the end of the year with several major capital projects underway and an interesting inorganic pipeline but we remain focused on closing out 2019.

So to wrap up despite the uncertain macro environment, a strengthening U.S. dollar and a challenging Q4 revenue comp, we are well-positioned to deliver a solid close to the year for both cash flow and earnings. And as such we are tightening our full year guidance to the top end of the range from \$5.82 to \$5.85 per share.

And with, that let's move on to the Q&A. Andrey?

**Andrey Galiuk**

Stephanie let's open the Q&A.

### **Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question comes from the line of Andrew Obin with Bank of America.

**Andrew Obin**

Good morning Rich.

**Richard J. Tobin**

Good morning, Andrew.

**Andrew Obin**

Hi, good morning everybody else. I landed at 3, last night. Sorry, I'm still trying to wake up. Look, let me ask you a lot of -- sort of we got questions from investors on bookings. Those were very good. And given the tough comps in Q4; A, how much of one-time stuff did you have in the third quarter because it does seem that you were helped by the Printing & ID?

I think some of the refrigeration bookings maybe happened that you got in second quarter, happened in third quarter sort of. So how much of one-time stuff did you have in 3Q in terms of robust bookings? And can you think you can deliver positive bookings in Q4?

**Richard J. Tobin**

Well, I think that -- I don't want to comment on where we end up on Q4 bookings. We'd like to see that end. But I'll give you some color right? A lot of what we did in Q3 comparatively was based on production performance and to a certain extent order timing.

So if you remember last year we were just coming out of a period in the Fluids segment where our backlog was high but that was driven by the fact that we were having trouble getting product out at this time last year.

Our production performance in retail fueling was significantly better this year than it was last year, which both drove the revenue line and the margin delivery. In addition, to that in the Pumps and Process Solutions business, particularly in MAAG, we delivered basically our Q4 last year in Q3. So it was great to get the product out because these are our systems related in Q3 but that makes the Q4 comp even more difficult than even we would have estimated at the beginning of the year. The fact of the matter is if we got it out of production and it's ready to go let's ship it.

In terms of backlog, I mean if you go back and look at the comments, the backlog is great. It sets us up well. But the fact of the matter is if you look in ESG, our backlog, a lot of that is flowing into 2020 as opposed to our ability to convert it into 2019 and especially so in MAAG and in precision components also. Those are longer-term systems contracts, which we're happy to have because we'd be shipping the next year. But I don't think that we're going to be able to convert them in Q4 just because of the long cycle nature of production.

**Andrew Obin**

Thank you. And then the question on Refrigeration. What's happening to labor cost in Refrigeration? And any way of sizing the OpEx investment around the planned automation into 4Q and into 2020?

**Richard J. Tobin**

The bigger issue in Refrigeration is not labor cost per se. It's labor availability that ends up rolling into over time, which ends up, so the labor cost net-net is up but it's -- the real struggle we're having is not the rate of labor cost, it's more of the availability. So running a bunch of overtime trying to get the product out and it is negatively impacting margins. But at the end of the day that is what we're hoping to resolve in the future by automating the process and taking a significant amount of the labor out. So if you looked at the P&L, labor costs will be up but it's not driven by rate. It's driven by the amount of OT that we're running.

**Andrew Obin**

Rich, Brad you made it look easy this quarter. Thank you.

**Richard J. Tobin**

Thanks.

**Andrew Obin**

Congratulations.

**Brad Cerepak**

Thanks.

**Operator**

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

**John Inch**

Good morning everybody.

**Richard J. Tobin**

Good morning, John.

**John Inch**

So Fluids, I think if I look at your guide, right for organic revenues for the year, it implies the core down high single digit. Rich, you went through some of that based on the timing MAAG pull forward and so forth. Is that it? Or is there something else -- firstly, am I kind of right about the down high single-digit core for Fluids in the fourth quarter? And is there something else going on that maybe could actually boost that business versus expectations today?

**Richard J. Tobin**

Okay. Well look, I mean at the end of the day, I think that we've been trying to tell everybody all year that the comp in Q4 in the Fluids segment was going to be tough because we grew 17% in Q4 last year. I think, it's going to be interesting when we go to the new segments because, when you look at bookings and revenue, you've got really two different kinds of businesses in there kind of like short-cycle demand which would be fueling systems and then you've got kind of long-cycle demand. And what we have going on is, backlog is up, but it's biased toward longer-term demand which is DPC and MAAG because those are longer-term projects.

This is not to say that the above -- that fueling solutions is going to have a bad fourth quarter, but the fact of the matter is that we've known all along, that we shipped a lot last year because we had a self-induced backlog and not being able to get the product out. And we've done a much better job in terms of production performance this year, which is reflected in the margins. So, there's really nothing going on so to speak other than timing differences on production performance.

**John Inch**

Well, so, I guess part of the issue is that we're going to have tough compares into -- literally through the first three quarters of next year too. All else equal, does that prospectively subdue growth similarly and I realize there were some kind of one timer's right in the fourth quarter.

**Richard J. Tobin**

Look, if I look at estimates for topline growth for '20 today and we haven't given out any guidance for '20, but if I look at it, I don't think that we will have an issue based on our backlog right now.

**John Inch**

Got it.

**Richard J. Tobin**

But clearly -- and I've read a bunch of the research reports, this notion of us kind of missing Q4. Well, we just beat Q3, so the assumption is you've got to moderate Q4. And we've been pretty clear that the topline was going to be a tough comp for Fluids in Q4.

**John Inch**

No, that's clear. The RF&E segment, so I mean it didn't show sequential improvement, so it deteriorated on the margins sequentially. I think you sort of explained that. The question is -- and I think the automation stuff obviously picks that back. Do you still see a path Rich to 15% to 16% margins in retail refrigeration that you outlined in the...

**Richard J. Tobin**

I do. I do. Look, we're in the midst of consolidating on UB's platform which is causing some consternation in terms of getting the product out and some transitional costs because we're going from five to three in terms of the footprint. And we are throwing labor right now at increased volumes in door case and it's costing us some money to do that. But I think we should have some good news in terms of backlog based on what I can see in door case leading to Q4, despite the fact that Q4, the seasonality is usually one of the worst quarters. But I think we're lining up to have some good news in terms of bookings at least going into '20.

**John Inch**

Just last, given the choppy economy, did you see -- like how did the third quarter play out for you? Traditionally, September is a very strong month right for most industrial companies. Were there anomalies as you went through July, August and as you ended

September and October?

**Richard J. Tobin**

I think that there is an amount of caution that's out there especially through distribution about everybody trying to manage their inventories through the end of the year. I think that we performed in the Fluids segment better than we expected, especially on the underground side and that -- because of this transition with the regulatory environment on the piping, so I think the guys did a fantastic job of getting the product out, but that's kind of pulling away from Q4 to a certain extent. And we knew that that was going to slow into '20. So, we're maximizing performance, but clearly the market sentiment is not as good as it was this time last year.

**John Inch**

It's refreshing to hear a company not managing quarters, but actually just getting the stuff shipped. Very much appreciated. Thank you.

**Richard J. Tobin**

You're welcome.

**Operator**

Your next question is from Andrew Kaplowitz with Citi.

**Andrew Kaplowitz**

Hey good morning guys.

**Richard J. Tobin**

Good morning.

**Brad Cerepak**

Good morning.

**Andrew Kaplowitz**

Rich, so food margins have continued to rise. And you talked at the Analyst Day that fueling solutions continues to be a near-term opportunity for margin enhancement. Are you basically at the point now through restructuring that you got to the 15% to 17% margin in DFS? And as you've gone through it, have you found incremental margin opportunities? Or are the strong incrementals in that business really just a function of the strong growth that you've had?

**Richard J. Tobin**

Well there's two pieces to it, right? I think that when we referred to the margin catch-up opportunity, that was on the aboveground portion of fueling solutions. And I think if you -- we don't disclose that number, but I can tell you that that is where a significant amount of the year-over-year margin accretion has come from. So the team has done a really good job in terms of executing on that. On the belowground side, that's just pure volume, right? I think that we've had arguably leading margins in the belowground side and they've been executing well. And I believe that we've gained market share in that particular segment. So, I don't think that we've extracted everything that we can from the aboveground portion. I think that -- as I mentioned back in September, I think that we need to improve our margins in the EMEA region. But overall, I think that we're reasonably pleased, but we don't feel that we're at the end of the runway.

**Andrew Kaplowitz**

Got it. And then, just talking regionally about your performance, obviously you just mentioned the underground inflection has had a regulation in China. But China was a bit weak for you last quarter. Obviously, very strong this quarter and Europe continues to be strong. So, maybe you can talk about those particular regions and what you see going forward. Did you see any stability for instance in businesses like MI in China? Or have they continued to weaken?

**Richard J. Tobin**

I think that the rate of weakening in MI is relatively static to last quarter, okay. So it didn't get any worse and it didn't get any better. I think that we performed well better than expected in Fluids on the underground portfolio of fueling solutions and that may be a little

bit of a pull forward.

EMEA, for us, as you know, is always a messy number, because we've got some substantial businesses there that export a lot. We do our best of trying to recognize revenue, but you've got a business like digital printing, for example, that had an excellent quarter, as we expected. That is -- 100% of that output is recognized in euros but it's exported around the globe. So our euro or our EMEA number is always -- it's more MEA than the E, if you follow me.

**Andrew Kaplowitz**

Yeah. Thanks guys. Nice quarter.

**Richard J. Tobin**

Thanks.

**Operator**

Your next question is from Jeff Sprague with Vertical Research Partners.

**Jeff Sprague**

Thanks. Good morning, guys. Hey, just back on fueling Rich, I think you just said you got more runway there. Not surprised to hear that. But the improvement that we're seeing, would you call this still just kind of better operational execution among the business as it sits today? Or are we seeing kind of fruits of really trying to maybe better integrate OPW and Tokheim and Wayne and just thinking about what was rolled up in prior years and maybe wasn't really fully stitched together?

**Richard J. Tobin**

More the former. Right? So I think a lot of it is some of the operational issues that we had last year have been -- not fully but a lot of that has been rectified. So when I referenced the issue of improved production performance Q-to-Q that's really what I'm talking about.



I think that we've made a lot of initial progress in terms of the integration, but that's really a European phenomenon for the most part. And really that's what we need to continue to work on. I think that there's been a lot of work done on it in preparation for harmonization of platforms between Wayne and Tokheim in Europe, but I don't think we're really seeing the benefit of that yet. That's to come.

**Jeff Sprague**

And you said that EMV did not contribute to growth. Does that mean it didn't grow? Or it didn't grow at a different growth rate than the segment?

**Richard J. Tobin**

It grew, but it did not materially impact the growth rate in Q3.

**Jeff Sprague**

And just one last one, cases versus doors. Were you saying just doors were up double-digit? I didn't really catch that.

**Richard J. Tobin**

No. It's an integrated offering now almost. It's door case.

**Jeff Sprague**

Yes. Okay. Up double digit in the quarter?

**Richard J. Tobin**

Yes.

**Jeff Sprague**

Okay. Thank you.

**Richard J. Tobin**

Welcome.

**Operator**

Your next question is from Nigel Coe with Wolfe Research.

**Nigel Coe**

Thanks. Good morning, guys.

**Richard J. Tobin**

Good morning

**Brad Cerepak**

Good morning

**Nigel Coe**

So, great, so free cash flow in the quarter. And obviously free cash is being a little bit lumpy. You've got strong growth no surprise there. But Brad you called out the seasonality impact in 4Q. Normally 4Q cash flow is higher. Number one, do you feel comfortable that you can grow free cash flow sequentially from what you did in 3Q? And therefore, I'll be pushing towards the upper end of the range in terms of the free cash margin guidance.

**Brad Cerepak**

Yes. Okay. Well, quite frankly, we're pleased with the execution here in Q3. And also, I think, it's the first time we're actually calling out that we've made progress on our working capital, which is great to see. We're continuing that -- those actions into the fourth quarter.

The thing we did point out and we continue to say is, that this is going to be a more heavily invested year, which means we're set up to have a stronger CapEx spend in the fourth quarter. Having said that, I still see that into the fourth quarter and we'll be delivering strong cash again year-over-year. So we feel confident about our cash flow for the year.

**Nigel Coe**

Okay. I think that's good enough. And then just – obviously, most of the metrics came in extremely strong. If I had to be critical, gross margin conversion was not a great quarter if I sort of like sort of dig into kind of what needs to improve.

So maybe just unpack gross margins and the – that decline, I think, it was year-over-year. Kind of what impacted that maybe price/cost mix? And then, Rich, what improves in 2020 in terms of getting that gross margin converted better?

### **Richard J. Tobin**

It was mix more than anything else. If we unpack it between kind of input cost headwinds and labor inflation versus price, we're better than – in tariffs, we're better than neutral. It's really mix at the end of the day. And mix you can't control.

I mean, if you look at -- let's pick one, like a company like VSG that posted an excellent top line growth, but the gross margin was down some. It's all mix related, but that's something over time that we think that we can rectify, because it's a specific product line that's kind of ramping up and we're dealing with some of the costs associated with that.

So there's a lot of different initiatives that were going – that are going on and will take some negative mix. It's not price driven. We're not buying market share, but it's kind of some transitory issues in terms of building up new product lines and the like. And if you look at the geographic mix of our revenue, let's go back to the questions I talked about before and we would be pretty upfront that Fueling Solutions' EMEA margins are negative to consolidated margins and they had a pretty good quarter.

So we'll take the revenue and we'll take the absolute earnings, but it comes out as a negative -- as in the negative mix. So the mix we can't really control. I think that we're trying to be disciplined in terms of pricing and a variety of other things. But you don't want to shut off the top line trying to manage gross margin.

### **Nigel Coe**

Absolutely. Thank you very much.

### **Operator**

Your next question is from Julian Mitchell with Barclays.

**Julian Mitchell**

Thanks a lot. Good morning. Just wanted to ask a first question around Refrigeration & Food Equipment demand, not so much around door versus case or door case bookings in Q3 versus Q4, or whatever. But just last year, as you said, organic sales down 8%. This year maybe flat – flattish let's say. How do you think about the overall customer spending environment? Maybe be for 2020 or even for the medium term, do you really think this is a floor in sales for that segment? And where you think we are on the sort of replacement cycle for customers?

**Richard J. Tobin**

I think that the market is transitioning the way that we expected it, meaning that it's now driven towards repair, refurbishment which is good. And that's what's driving the door case portion of the volume. I think the greenfield build-out has continued to be weak, so it's a negative to systems.

So systems from here, it's hard to say. I mean, it's how one is a piece of a string. It's pretty damn low in terms of the demand right now, because we don't see a lot of big box greenfield expansion going out there. But we are getting slightly encouraged at least in terms of the door case demand, which is the bulk of the business and that's the part that we're intervening on in terms of its cost structure.

So we feel -- based on what we can see right now and as I alluded to during -- earlier in the call, I think that we should hopefully have some good news about bookings and door case closed in Q4, which sets up 2020 better than 2019 on the systems side. I would hope that we're at the floor right now.

**Julian Mitchell**

And if you think about what that means for margins, I mean, this year in Refrigeration & Food you've got flattish sales, margins down slightly probably for the year. If you had flattish sales in 2020, do we think the margin performance can be better?

**Richard J. Tobin**

I hope so. I mean a lot of that is going to be predicated on how we execute on the startup of our automation on the Hillphoenix side of the business. So I would expect that we're going to have some hiccups in Q1 and Q2. I mean, it's a pretty big project, but I think overall I think that we can post increased margins that we're expecting to -- post increased margins on the top line next year.

**Julian Mitchell**

Thanks. And then just my second and last topic would be around capital deployment. Buyback spend in the nine-month period I think \$23 million so very, very low. I think in the prepared remarks you've mentioned some attractive M&A opportunities. Maybe just flesh out how you're thinking about that and whether there are a lot of opportunities that you can still do at that 10% year three rolling hurdle rate.

**Richard J. Tobin**

Well, it's interesting. I think that the amount of opportunities has increased significantly over the last let's say six months, but the pricing environment is still tough. We lost out on one in Q3 that we would've liked to execute it, but the purchase price just got -- we got bid out at the end of the day. But having said that, I think that we've got a better -- a much better pipeline than we did last year, remains to be seen if we can have a meeting of the minds in terms of valuation and get them done. So I think that we feel good that based just on the number of attractive opportunities that you'll see some increased activity there.

**Julian Mitchell**

Great. Thank you.

**Operator**

Your next question is from Scott Davis with Melius Research.

**Scott Davis**

Hey, good morning guys.

**Richard J. Tobin**

Hey, Scott.

**Brad Cerepak**

Good morning.

**Scott Davis**

Richard has there been any real change in the M&A processes? Kind of how you guys -- whether the bodies or the process or the filters or anything that you're doing differently since you came on board?

**Richard J. Tobin**

I guess that's hard for me to say. It's been the same for the 1.5 years that I've been here and I've never retrospectively looked back at the processes in the past, but I think that we've got a pretty robust process for it right now. We walk away from quite a bit unfortunately considering the pricing environment. So we got to have the discipline.

Like I just mentioned we spent a lot of time and money on one that we just lost out on due to valuation in the quarter and that's life sometimes. So I can't speak to the past of the process. I can just say that we are confident in the team that we have here that is objectively evaluating these businesses.

**Scott Davis**

And just to follow-up on that, I mean, where are the lion's share of your opportunities come from? Are they books that are out there? Are they -- the sponsor stuff? Is it stuff that you guys are internally cultivating or a combination of all? Just...

**Richard J. Tobin**

It's a combination of all. It's a combination of all.

**Scott Davis**

Fair enough. Thank you guys.

**Richard J. Tobin**

Thanks, Scott.

**Operator**

Your next question is from Steve Tusa with JPMorgan.

**Pat Baumann**

Oh, hi. Good morning guys. This is actually Pat Baumann on for Steve Tusa. Thanks for taking my call. A question and I missed it at the very beginning part of the call so I apologize if this is repetitive. But as you look at the segment guidance for organic growth and you look at the year-to-date numbers, it just seems like Fluids the exit rate is going to be at least for the guide maybe just conservative. But just curious it looks like it's going to trend down high single-digits or so in the fourth quarter. Is that just comps timing? Like how would you kind of characterize that? First of all is that the right read in terms of guide?

**Richard J. Tobin**

No. It's correct and it's what we've been guiding all year that we grew 17% on the top line Q4 last year that there was no way we were going to do that again, because that 17% growth was timing of shipments in our process solution group that some of which that we recognized in Q3 so that business will grow year-over-year. It's just a timing issue.

And the fact of the matter and in fueling solutions we had a self-induced backlog of our inability to get the product out last year, which we've done much a better job this year. So our revenue growth has been more evenly blended. So it's going to be a difficult comp. I think the headline figure is going to be what it is, but I think that we're confident that we can increase absolute earnings quarter-over-quarter despite that difficult top line comp.

**Pat Baumann**

Understood. And then in the context of what looks like a tough comp to start next year there? Or do you expect kind of next year start out slower than ultimately ends just given those comps?

**Richard J. Tobin**

I don't want to get into -- look we haven't given that guidance for next year and I'm not going to give out sequential guidance for next year. So let's wait until we close the year, we can deal with seasonality of 2020.

**Pat Baumann**

Okay. Make sense. And then just my second follow-up would be, just in terms of the incremental cost savings expected for 2020 could you remind us what the total number of the incremental cost savings number -- I wouldn't think that that's changed but just remind us what that is. And then...

**Richard J. Tobin**

You mean the famous \$50 million? I knew, we'd finally got a question. Congratulations Pat. Yes, it's \$50 million.

**Pat Baumann**

So, \$50 million. And then should -- like I know you don't want to guide for next year, but you gave that number. So just curious, if we should be thinking about that weighted to 1.5 of the year versus the other...

**Richard J. Tobin**

You can't stop yourself with the seasonality can you? All right. \$50 million is all you've got. Thanks Pat.

**Pat Baumann**

Thanks guys.

**Operator**



Your next question comes from Josh Pokrzywinski with Morgan Stanley.

**Josh Pokrzywinski**

Hi, good morning guys. Just a follow-up on kind of the core margin conversion this quarter, Rich, and I think in some of the past quarters you tried to isolate what was the self-help what was kind of the core conversion. Earlier in the year, I think you would've said core conversion could have been better. Obviously the 60% is a very good all-in number. Just wondering how you kind of grade those different pieces in the quarter.

**Richard J. Tobin**

It's better and it continues to get better as we've gone through there. Mix aside and a variety of -- just take the noise out of the numbers, it's getting better. And a lot of that is based on improved production performance year-over-year. Now the reason that we stopped disaggregating it is because we said that we were going to do it for a year and the SG&A line especially because of FX movement is now getting really messy, right, because you've got headwinds on profit translation which is offset by kind of core cost on currency which positively impacts in our case the SG&A line.

So it looks like we're overcooking SG&A now. We knew this was coming as we watched FX develop through the year. So overall, look we're never completely satisfied. I think that we've been open about where we need to improve next year. But overall, I think the gross margin conversion or the operating conversion we feel good about.

**Josh Pokrzywinski**

Got it. That's helpful. And then I know you made mention to it a few times on some of the various moving pieces on revenue timing. Any way to kind of size the totality of the revenue that might have been pulled forward for the fourth quarter? Just for the sake of confusion so no one kind of gets that number wrong?

**Richard J. Tobin**

Yes. We knew -- you can imagine as we were closing this quarter and we knew that we were going to be explaining this Q4 squeeze when we actually beat our own internal estimates for Q3 revenue in Fluids and only became -- made the problem harder. The fact of the matter is, especially as it relates to process solutions to the extent that the product is ready and we can ship it. We'd be crazy not get it out of the door and try to manage the Q4 number.

So it's pumps and processes solution, especially Maag had an excellent Q4 last year. We recognize that in Q3 and I think that we've beaten this whole Fluids issue between the bad comp that was self-induced last year on the aboveground and the fact that we performed very well in Q3 in China, in Q3 and we would not expect that to do that again in Q4 on the underground side.

**Josh Pokrzywinski**

Got it, that's helpful. And then just one minor one, anything that you saw, on more of the pumps side of Fluids that matched some of this kind of macro agita out there? It doesn't really seem like it. But given that it's longer cycle maybe it's not something that's apparent in the numbers?

**Richard J. Tobin**

Yes. I think that the longer-cycle systems business continued to book well for us. I think on the pumps business, we saw some weakening at the end of Q3 going into Q4.

**Josh Pokrzywinski**

Got it appreciate the color. Good quarter guys.

**Operator**

Your next question is from Joe Ritchie with Goldman Sachs.

**Joe Ritchie**

Thanks good morning guys. So we've talked about the 4Q guide to some extent on the Fluids it implied 4Q organic for Fluids. Maybe just thinking about Refrigeration & Food Equipment, it seems like the flattish guide for the year implies about mid-single-digit growth in 4Q. And so just curious just how much of that you already have in your backlog versus meeting short cycle to get better in order to hit that number.

**Richard J. Tobin**

I would think that we've got the majority of it in backlog.

**Joe Ritchie**

Okay. All right. Good enough. And then I guess maybe kind of thinking about next year and clearly on the fueling and transport side, you guys have been great regionally but very specifically in China you mentioned an upgrade cycle coming to an end. I guess how do you think about the growth rate in China on the fueling side of the business next year? And is there a headwind that we should be aware of as we're thinking about our own planning for 2020?

**Richard J. Tobin**

Yes. We think that the belowground portion has got a headwind specifically in China because of the runoff of the regulatory environment. We're working on plans to make it up in other regions at the end of the day. But clearly on the underground side, we would expect that to be a headwind going into next year.

**Joe Ritchie**

Got it. Is your expectation at this point that China overall on the fueling side is still growth next year?

**Richard J. Tobin**

I hope so, but I think it's a little too early to tell whether -- what the quantum of the underground side versus the catch-up on the aboveground side. So let's -- we don't know yet but that's kind of our planning.

**Joe Ritchie**

Got it. Okay. Thanks guys.

**Operator**

Your next question is from Deane Dray with RBC Capital Markets.

**Deane Dray**

Thank you. Good morning everyone. Hey Rich you've used this term improved production performance multiple times over this call and I would love to hear more specifically around that. What are you doing differently especially in Fluids now versus last year? Is it automation you've added? Did you take out bottlenecks, streamline SKUs? Just give us some color for like what changed that -- in totality is this characterization of improved production performance?

**Richard J. Tobin**

I think that arguably year-to-date 2019 that the Fluids -- or our fluid solutions group has done the best year-over-year improvement in operations, meaning I think that we were pretty upfront last year that we were struggling with the planned consolidation in Europe that need to be rectified. And to a certain extent we were struggling, not struggling but we felt we had room to improve with our North American operations and both have improved year-over-year. So that's what it is. It's -- so it's -- there's no frictional cost, not a lot of overtime. We're basically -- it's manifesting itself in reductions in working capital terms. A variety of different ways that we measure the performance.

So it's helped us. It's part and parcel to the year-over-year revenue growth because we had the same backlog last year. We're just getting it out in a more sustained fashion this year and not squeezing it into Q4 which happened. So it's that more than re-platforming. I think that the group is doing a lot of good work on re-platforming but that's a benefit I would expect that we see in the future.

**Deane Dray**

That's great. And then just as a follow-up on the geographies, I'm trying to figure out which is more impressive, the fact that you had all segments growing in Europe, considering some of the anxiety we've seen in slowing there or China being up 20%. Just start with Europe, the balance of the segment growth there and in terms of recent weakness that we've seen in those geographies.

**Richard J. Tobin**

As I mentioned earlier, we continue to perform well in Europe. And almost inexplicably, I mean, I think I wrote that into our comments despite the bad macros and everything else. But remember too that it is an EMEA comment. It's not necessarily what we would consider the old Western Europe, right? And there are headwinds there.

We run through headwinds in both DESTACO and to a certain extent VSG on our auto OEM European auto OEM volume that we've offset and we've made a lot of that up on Printing & ID that are shipping into greater EMEA. So it's not like a lot of that product is being shipped into Germany per se. A lot of it is being shipped into the Middle East and Africa.

So overall I think there's some timing differences on VSG. I think that Europe was actually up, off of two previous down quarters. And the balance of it is mostly in the Printing & ID segment and on the pumps on the biopharma side.

**Deane Dray**

And then China, no sign of trade friction fallout?

**Richard J. Tobin**

No. There's all kind of signs of trade friction fallout for sure. But at the end of the day I think that the Fluids group and digital printing offset weakness in pumps I think and MI in Markem-Imaje.

**Deane Dray**

Very helpful. Thank you.

**Richard J. Tobin**

You're welcome.

**Operator**

Your final question comes from Mig Dobre with Baird.

**Mig Dobre**

Thank you. Good morning. Just wanted to follow up on the China Fluids discussion. Can you help size maybe the benefit that you've had from this pre-buy? I don't know how else to call it but ahead of regulatory changes.

**Richard J. Tobin**

No. I can just tell you that our estimates for Q3, we did better than we would have thought in terms of timing. Whether we can squeeze out some more growth in Q4 it remains to be seen. But we consider it to be a headwind going into 2020 just because of the end of the transition. But I can't size it.

**Mig Dobre**

I mean we're all wondering about the materiality of that specific business to the segment overall.

**Richard J. Tobin**

No I get it. And it's – the good news for us is that we've got a variety of different – first of all, once we go to the new segment structure you're going to be able to unpack the long cycle portions of Fluids with the short cycle side. So we'll give you a lot more transparency there.

So before you start taking the entire larger old segment and putting a total headwind on it of some percentage basis I would caution you, why don't you wait to Q4 and then you're going to see the split between the long cycle and the short cycle.

**Mig Dobre**

Okay. And then lastly on ESG, we've seen some pretty good order volatility throughout the year. I think orders were down quite a bit in the first half. Obviously, you made up for it in the third quarter. What's sort of going on here? In terms of timing is there some specific product rollout? Is this just lumpiness from large customers? And what's kind of the setup going forward?

**Richard J. Tobin**

It's the latter, right? So we recognize in that particular business that there are large high-value kind of blanket orders that come in from large customers that you've got to deal with the timing of the runoff. So part of the backlog positivity that we had this quarter is the fact that ESG is beginning to bring in orders for 2020 and that's reflected in our backlog.

**Mig Dobre**

Okay, thanks.

**Operator**

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

**Andrey Galiuk**

Thank you. This concludes our conference call. We thank you for your interest in Dover and look forward to speaking to you next quarter. Have a good day.

**Operator**

Thank you. This concludes today's third quarter 2019 Dover earnings conference call. You may now disconnect your lines at this time and have a wonderful day.