Q4 2025 Earnings Call

Company Participants

- Christopher B. Woenker, Senior Vice President & Chief Financial Officer
- Jack Dickens, Vice President, Investor Relations
- Richard J. Tobin, Chairman, President and Chief Executive Officer

Other Participants

- Amit Mehrotra, UBS
- Andrew Kaplowitz, Citi
- Brett Linzey, Mizuho
- David Ridley-Lane, Bank of America Securities
- Deane Dray, RBC Capital Markets
- Jeffrey T. Sprague, Vertical Research Partners
- Joseph O'Dea, Wells Fargo
- Joseph Ritchie, Goldman Sachs
- Julian Mitchell, Barclays Capital Inc
- Michael Halloran, Robert W. Baird & Co.
- Nigel Coe, Wolfe Research
- Scott Davis, Melius Research
- Steve Tusa, J.P. Morgan

Presentation

Operator

Good morning, and welcome to the Dover's Fourth Quarter 2025 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer, Chris Woenker, Senior Vice President and Chief Financial Officer; and Jack Dickens, Vice President, Investor Relations. After the speakers' remarks, there will be a question-and-answer period. (Operator Instructions) As a reminder, ladies and gentlemen, the conference is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

I'd like to now turn the call over to Mr.Jack Dickens. Please go ahead.

Jack Dickens {BIO 19502289 <GO>}

Thank you, Stephanie. Good morning, everyone, and thank you for joining our call. An audio version of this call will be available on our website through February 19, 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 will turn the call over to Rich.

Richard J. Tobin {BIO 6485822 <GO>}

Thanks, Jack. Let's start on Slide 3. Overall, we had a good close to 2025. Our fourth-quarter results reflect broad-based top-line strength across the portfolio with organic growth up to 5% in the quarter, the highest level of the year. Revenue performance in the quarter was driven by robust trends, and our secular growth exposed markets as well as improving conditions in retail fueling, and refrigerated door cases and services.

Our strong bookings rates, which were up 10% in the quarter and 6% for the full-year, continue to support underlying momentum across the portfolio, providing confidence in the durability of the demand as we enter the new year. Book-to-bill was seasonally high for the fourth quarter at 1.02x. Segment EBITDA margins improved 60 basis points in the quarter to 24.8% on volume leverage and ongoing productivity initiatives.

All-in adjusted EPS at $9.61 was up 14% in the quarter, beating our raised third quarter guide and 16% for the full-year, a very encouraging result. Our solid operational results were complemented by our capital allocation strategy. The acquisitions that we closed in 2025 are off to a very good start, performing above their underwriting cases. Our current acquisition pipeline is interesting and is dominated by proprietary opportunities.

Additionally, we initiated a $500 million accelerated share repurchase in November underscoring our disciplined approach to capital deployment with meaningful balance sheet flexibility where we remain well positioned to deploy capital behind opportunities to enhance long-term shareholder value.

We are taking a constructive outlook for 2026. Demand trends are solid and broad-based across the portfolio and are supported by our order book with no individual end market presenting a material headwind based on current visibility. Our balance sheet optionality enables us to dynamically respond to market conditions and opportunistically play offense. We are guiding for adjusted EPS of $10.45 to $10.65 a share in 2026, which represents double-digit growth at the midpoint, consistent with our long-term trajectory and commitment to driving sustainable value creation to our shareholders.

Let's go to Slide 5. Engineered Products revenue is down in the quarter on lower volumes in vehicle services partially offset by double-digit growth within aerospace and defense components and software. Despite the organic volume decline, absolute segment profit improved in the quarter with margins up over 200 basis points on well-executed structural cost management, product mix and productivity initiatives.

Clean Energy & Fueling was up 4% organically in the quarter led by strong shipments and new orders in clean energy components as well as North American retail fueling software and equipment. Margins were down slightly in the quarter due to lower vehicle wash solutions, but still up materially for the year as we track towards our goal of 25% margin for the segment.

Imaging & ID was up 1% organically in the quarter on growth in our core marking and coding business. And in serialization software, EBITDA margin performance remains very good in the segment at 28%, though foreign currency translation and a higher mix of printer shipment slightly weighed on the margin in the quarter.

Pumps & Process Solutions was up 11% organically with growth in single-use biopharma components, thermal connectors for liquid cooling of data centers, precision components, and digital controls for natural gas and power generation infrastructure. SIKORA, which we acquired at the end of the second quarter in 2025, continues to outperform its underwriting case. Polymer processing posted its first quarterly organic growth since Q1 of '24 due to timing of large deliveries out of our backlog. Pumps & Process Solutions segment margin continues to perform at best-in-class levels.

Climate & Sustainability Technology posted positive organic growth of 9% in the quarter on continued double-digit growth in CO_2 refrigeration systems and significant volume improvements in refrigerated door cases and engineering services, which was expected based on the Q3 booking exit rate. Demand for brazed plate heat exchanges, particularly for liquid cooling applications and data centers, continues to show robust momentum with record quarterly shipments in the U.S. in the fourth quarter.

Margins were up 250 basis points in the segment on volume leverage, solid execution, positive mix benefits from secular growth exposed end markets. With a book-to-bill of 1.21x in the quarter, the outlook for Climate & Sustainability Technology is very encouraging for 2026.

I'll pass it to Chris here.

Christopher B. Woenker {BIO 24336125 <GO>}

Thanks, Rich. Let's go to our cash flow statement on Slide 6. Free cash flow in the fourth quarter was $487 million, or 23% of revenue. The fourth quarter was our highest cash flow quarter of the year, in-line with historical trends. We were encouraged by Dover's full-year free cash flow result in 2025, which came in at 14% of revenue, an increase of nearly $200 million over the prior year. This increase was driven by improved cash conversion on higher year-over-year earnings, which more than offset expected increases in capital spend on growth and productivity projects. Our guidance for 2026 free cash flow is 14% to 16% of revenue, as we expect continued strong conversion of operating cash flow.

With that, let me turn it back to Rich.

Richard J. Tobin {BIO 6485822 <GO>}

Okay. I'm on Slide 7. Full-year bookings were up 6% in 2025, after growing 7% in 2024. Q4 consolidated bookings were up over 10% over the prior year. And a seasonally high book-to-bill above 1x continue the trends of bookings momentum we experienced in the last two years. All five segments posted bookings growth in the fourth quarter signaling broad-based demand strength for 2026.

On Slide 8, we highlight the capital allocation results from 2025 with our priorities. Our highest priority for capital spending is organic investment, which has proven to drive the highest returns on investment. We stepped up capital spending by over $50 million in 2025 over the prior year with a healthy balance between growth capacity expansions behind some of our highest priority platforms, as well as productivity and automation investments, including some rooftop consolidations. In total, we expect about $40 million of carryover profit from the previously announced productivity actions in 2026.

Our next priority is growth through acquisitions. In 2025, we deployed $700 million across four strategic acquisitions in high-end growth markets, three of which are in our highest priority Pumps & Process Solutions segment. These acquisitions are off to a tremendous start as we work to extract synergies through our center-led capabilities and leverage our global scale, channels and supply chains.

Finally, in 2025, we announced over $0.5 billion of share repurchases, including the accelerated share repurchase program enacted in November. With robust cash flow generated in 2025, our dry powder in 2026 remains almost identical to the starting position from the previous year, as we have self-funded our CapEx, M&A, and share repurchases in 2025. We are in an advantaged position, and I would expect that we will be active in 2026.

Let's go to Slide 9. Engineered Products is expected to improve in 2026. Our aerospace and defense components business continue to experience significant demand tied to electronic warfare and signal intelligence solutions. Vehicle aftermarket, which declined by double-digits organically in 2025, has shown some signs of moderating demand with constructive booking trends late in '25 and early '26, with the divestitures of DESTACO environmental solution groups in 2024 and the growth of other segments of the portfolio. Our Engineered Products segment now accounts for less than 15% of our total portfolio.

The outlook of Clean Energy & Fueling remains solid across most of the businesses. North American retail fueling is in the early innings of what we believe to be a new CapEx cycle, and the outlook in fluid transport and clean energy components is strong, with particularly robust demand in cryogenic applications. We expect the headwinds from the vehicle wash equipment and software to improve, that the headwinds in '25 to improve in '26. Clean Energy & Fueling should be among the leaders in margin accretion in 2026 on volume leverage and integration benefits from clean energy acquisitions.

Imaging and ID should continue its long-term steady growth trajectory, given its significant recurring revenue base and solid underlying demand, we are encouraged by the recent uptick in printer shipments building the global installed base for continued long-term recurring revenue attachment.

We expect demand conditions to remain constructive in Pumps & Process Solutions in 2026. The outlook for artificial intelligence and energy infrastructure is robust, including thermal connectors for liquid cooling of data centers, precision components for natural gas infrastructure, and in SIKORA's inspection equipment for high-voltage wire and cables.

Demand for single-use biopharma components remains solid, driven by production growth and blockbuster drugs and the ongoing shift to single-use manufacturing methods. As noted, we had a tough comp in the first quarter in biopharma due to heavy restocking in early 2025, but overall, the Q4 exit run rate for the business should hold true for 2026.

Finally, Climate & Sustainability Technologies should sustain its fourth quarter exit rate into 2026. CO2 refrigeration systems are expected to continue at a double-digit growth clip. We expect the recovery in refrigerated door cases and engineering services to continue with national retailers, signaling the intent to resume maintenance and replacement upgrades spending follow up -- following a period of tariff-related delays. We are experiencing robust demand across all geographies for brazed plate heat exchangers, with noteworthy growth in North America tied to liquid cooling of data centers where we were booked well beyond Q1.

Finally, let's go to Slide 10. Full-year guidance is on the left. We'd expect seasonality in 2026 to be similar to the last few years, with Q1 volume slowly ramping into peak product delivery periods in the second and third quarters, with the fourth quarter representing an early indication of next year's outlook.

We are encouraged by the momentum in our top-line performance, which marks an improvement over several years of organic growth below our long-term standard. Notably, even during that period of moderated top-line growth, our business model showed its strength as we successfully expanded profitability through disciplined cost management, strong margin conversion, and value-creating capital deployment.

The setup for 2026 is constructive. We anticipate solid volume leverage on incremental revenue, as well as carryover benefits from prior period restructuring efforts and accretion from M&A. We are continuing our long-term -- we are committed to continuing our long-term double-digit EPS growth trajectory into '26. Finally, I'd like to thank our global teams for efforts to deliver these last year's results, and we look forward to serving our customers, partners, and investors in the year ahead.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We'll take our first question from Steve Tusa with J.P. Morgan.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey. Good morning. Good afternoon I guess.

A - Richard J. Tobin {BIO 6485822 <GO>}

I know. Right.

Q - Steve Tusa {BIO 4278663 <GO>}

Yes. Had to eat lunch -- delayed lunch for you guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. We'll go early in the morning next time around.

Q - Steve Tusa {BIO 4278663 <GO>}

No. It's nice. It's nice you got to avoid the other calls. That's helpful. Price-cost, what are we looking at this year? I know you guys buy a bit of steel. So, how are you thinking about managing the raws?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. I mean, I think that -- right now, we should be doing what we've done every year. Probably like, 1%, 1.5% over. Now, clearly, we're looking into commodity costs moving up going into the year. We can talk about incremental margin and what that means. So whether we've got to go back to the well or not, we'll see based on the trajectory.

Q - Steve Tusa {BIO 4278663 <GO>}

Okay. So as of now, how much price are you embedding in the guide?

A - Richard J. Tobin {BIO 6485822 <GO>}

1.5% to 2%.

Q - Steve Tusa {BIO 4278663 <GO>}

Okay. And then just one more question for you. You were pretty positive over the course of the quarter in your commentary. Anything you've seen in the last month or so or two months that would change that positive view and tone on just the general economy and business?

A - Richard J. Tobin {BIO 6485822 <GO>}

No. I mean, look, we were looking for the best organic growth quarter for the year, and we got it. We got the margin accretion that we looked for, considering kind of a little bit of the mix differential that we had in Q4 versus the previous couple of quarters, and book-to-bill is over 1x. So to me, I think that we hit the three kind of data points that we were looking for going into '26. Our backlogs are good. Production performance should be pretty good in Q1. I think we get a -- don't get a little excited about production performance delivery because I think we'll really ramp, and the seasonality will be the same as usual. But overall, yes, I mean, we like the setup.

Q - Steve Tusa {BIO 4278663 <GO>}

Great. Thanks a lot.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. We'll take our next question from Julian Mitchell with Barclays.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi. Good morning. Maybe just to start off with very strong margin performance. But when we're thinking about kind of mix for 2026, and I know there's a lot of different businesses, but I suppose you're guiding for the highest organic sales growth in the segments with the lowest EBITDA margin. So maybe help us understand in DCEF and DCST, what sort of operating leverage you're aiming for this year? There's sort of outsized cost savings tailwinds, for example, that mean they can have very strong operating leverage alongside the high volume growth?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. No, you're spot on. I mean, what we're looking for in DCEF is, the leverage on the revenue growth, plus that is the segment that will be impacted the most from prior period restructuring, so the rooftop. That will come progressively through the year. So I think that the margin enhancement that we'd expect to get there would be a little bit back end loaded just because of the restructuring benefits.

The other one is DCST. You saw the margin jump in Q4 of 250 basis points comparatively. We'll see if we can get more on the volume going from there. Back to the question we had previously, that's where we're a little bit commodity exposed, particularly in copper. So do we bounce up the top-line expectations a little there to cover that? We'll see as the year goes on. Right now, we've bought forward enough that we've got an idea, pretty good idea of what we'll get probably in the first half of the year. We'll see if we need to take any pricing action there to cover any headwinds we've got on input costs, but you're spot on in terms of the mix.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thanks. That's helpful. And maybe you've mentioned sort of seasonality, Rich, a couple of times as being sort of a normal year ahead. So should we expect, let's say, year-on-year EPS growth and sales growth each quarter to not be that different from the full-year framework on Slide 10 is the most --

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. No, Julian, that's right, right? And when we looked at consensus for the year, there was -- it was oddly high for Q1 despite the fact that I think for twelve months -- or not 12, for nine months, we've been saying over and over again, be careful about the biopharma mix in Q1. So, look, the full-year is the full-year. We'll hit the full-year, but the seasonality should be the same as it's been sitting in your models historically.

Q - Julian Mitchell {BIO 21229700 <GO>}

That's great. Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

You're welcome.

Operator

Thank you. We'll take our next question from Amit Mehrotra with UBS.

Q - Amit Mehrotra {BIO 15408970 <GO>}

Thanks. Hey, Rich. Good to talk to you. So just quick question on growth outlook for this year, 4%. Obviously, that's a good number, certainly a better number than the last couple of years, but it's a bit lower than sort of where we exited at in the fourth quarter. So maybe you can talk about it. Is that just pruning conservatism? Talk a little bit about that.

And then it looks like if I look at the margin expansion for this year, it seems like the entirety is explained by maybe that $40 million wraparound productivity benefit. Is that right? And maybe is that just the mix effect kind of offsetting some of the volume leverage?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. I mean, the answer is yes and yes. I mean, it's early in the year. I mean, if you remember -- I remember sitting here last year talking about our guidance, and then we ran into tariff tumult. So there is an amount of prudence in terms of the top-line and the incremental margin at the end of the day.

We talked about input costs and a variety of other things. These are numbers based on what we see in the backlog that we can execute on. Whether we can move them up or not, we'll see quarter-by-quarter. But booking's momentum has accelerated into the end of last year. So, if we get that same kind of acceleration and we get the visibility as we move through the quarter, then I would expect I think that we progressively moved up EPS last year based on our original guidance. We would expect to kind of look at doing the same thing.

Q - Amit Mehrotra {BIO 15408970 <GO>}

Yes. That's helpful. And just related to that. So I know there was like a $150 million drawdown in refrigeration last year. Obviously, orders perked up in the third quarter, and I guess are continuing to move in that direction. Do you feel confident you're able to get all of that back from where we sit -- stand today?

A - Richard J. Tobin {BIO 6485822 <GO>}

We're sold out for Q1. That's what I can tell you. So, we're booking -- and that is relatively short cycle business, and we're booking well into Q2. So, so far, so good.

Q - Amit Mehrotra {BIO 15408970 <GO>}

Okay. Very good. Thank you very much. Appreciate it.

A - Richard J. Tobin {BIO 6485822 <GO>}

Well, yes.

Operator

Thank you. Our next question will come from Jeff Sprague with Vertical Research Partners.

Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Hey. Thanks. Good day, everyone. Hey, Rich, just back on the incrementals and everything we've touched on this a little bit, but just cutting through all the different mix changes and the like. I just want to make sure there's not anything below the line I'm missing. It looks like you're sort of guiding an observed incremental as reported about 35%. Is that right, or is there something else, in between kind of OP and the bottom-line to be aware of?

A - Richard J. Tobin {BIO 6485822 <GO>}

There's nothing really on the bottom-line, Jeff. So you're close on the number, you're right on the number, more or less.

Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Yes. Hey, and then second-hand, right? So I'll be careful, but there's been some chatter that you've made some noise about kind of transformative sort of deal, generational deal, something very large. Maybe just to kind of address your appetite for something really large or are you more inclined to stick with bolt-ons anything you could add there?

A - Richard J. Tobin {BIO 6485822 <GO>}

Well, it's better than the retirement one from last year. So I'll take the transformational deal angle. We're not going to talk about anything in the pipeline It's not been our history here. I mean we have a very keen eye about execution risk. I'm sure that we'll do some M&A this year if we were to consider something transformational it would have to be shareholder, friendly to Dover at the end of the day.

So it's not as if -- it's not as if we look at the way -- that we look at the business and the business that we own and say that we've squeezed everything out of it. And then now we've got to go do something to move it on. I think we've got a good algorithm here with bolt-on deals and grow in the top-line that we're not required to do anything. I guess the best way I can describe it.

Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Yes. Hey, and then maybe I'm sorry a third one Jack don't get mad at me, but just back on revenues you noted maybe there's some conservatism here. But just thinking about this order growth rate that's been ahead of revenues now for a significant period of time and the fact that things like SIKORA were come -- are coming into organic at, like a faster rate. Like is it just anything that's more long cycle in the orders or something that doesn't convert quickly to kind of explain that apparent looking disconnect.

A - Richard J. Tobin {BIO 6485822 <GO>}

I mean at the end of the day, I mean three to five historically without getting over our skis here is a pretty good number. But you're right if I look at the the velocity of orders coming in you could roll forward and see. Q1 is always a kind of a an interesting quarter for us because we have a lot of production performance and then we ship a lot in Q2, Q3.

I think part of it is let's get into Q1 let's see if we're manufacturing backlog, or we're replacing what are -- what we're taking in production performance with new order flow. And if that's the case then we'll take a close look at the top-line. And again, I don't want to repeat myself, we are cognizant about input costs moving up and if we have to take pricing action that will actually drive some top-line growth also.

Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Right. Okay. Great. I'll leave it there. Thanks Rich.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Operator

Thank you. We'll take our next question from Joe O'Dea with Wells Fargo.

Q - Joseph O'Dea

Hi. Thanks for taking my questions. I wanted to start on the retail fueling CapEx cycle side of things. And just if you could elaborate on what you are seeing there, some details across regions, how you think that plays out over the course of 2026 in terms of any accelerating demand there?

A - Richard J. Tobin {BIO 6485822 <GO>}

It's very much a North American phenomenon. We've actually drawn down our exposures in both emerging markets in EMEA. We haven't left, but we've taken -- that's actually been a drag on our top-line over the last three or four years that we've gone and done 80-20 on the customer side. And other than that, it's -- look, since 2001-ish, EVs were taking over the world, so there was not a lot of cap expense in retail fueling.

And that was reflected, maybe not in the margin, which I think we've done a fantastic job of, but on the top-line. Well, that's kind of turned the corner here. And if you go look at someone like Costco and what margins are fueling are right now, I think it's woken up the market that spreads at the retail are as high as they've ever been. So -- and that's going to drive returns on projects.

Q - Joseph O'Dea

And then just on the restructuring side, you've got the $40 million carryover from actions last year. I think in the past you've touched on, there could be more to do there. And so just how you're approaching that when you would make any decisions around it, parts of the business that would see a bigger impact if you do decide to do more?

A - Richard J. Tobin {BIO 6485822 <GO>}

I think we've got a pretty full plate on what we're doing now. So there's a lag time between looking at proposals and then enacting them. Like if you take refrigeration, we're actually going to carry extra fixed costs for the first half of the year as we're taking down one facility and building another one.

So we don't really get the benefit of that until the back half of next year. And that's the same for clean energy to a certain extent. But yes, look, every year we've got a goal of attacking fixed costs. So we'll update you as we take the charges, we'll tell you what they are and where they are.

Q - Joseph O'Dea

Got it. Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Operator

Thank you. We'll take our next question from Nigel Coe with Wolfe Research.

Q - Nigel Coe {BIO 3818998 <GO>}

Hey. Thanks. Good afternoon guys. So Rich, I thought it'd be interesting to think about growth bifurcated between your -- the 20% of what you call sector growth markets and that's been growing double-digits. And then the trough markets that are, I don't know, 40%, 50% MAAG, SWEP, Belvac, BSG, refrigeration. Just maybe just talk about what you see in those two buckets in 2026.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. The growth bucket is going really well. You're out with really nothing to add to it. So anything that we'd said over the previous three quarters of last year, that trajectory has continued as I -- so we're good there. I mean, I -- the ones that have been of a headwind, I mean, in Belvac, that's when it's easy. We're just going to have to wait for the CapEx cycle to turn in can making. At least the conversations are getting there, but we don't really see it in backlog yet.

On vehicle service group, that has very much been a European story, and that is why despite having the headwind on the top-line, you don't see a lot of margin dilution because that's just reflective of the difference between the regions where we make high margins and not to a certain extent. I don't see that improving yet, but we're almost in year three of Europe being down there. So one would expect that that could turn hopefully during the year as we go forward.

And refrigeration was an anomaly. I mean we discussed it at length at the end of Q3. It was deferment, but we showed you the backlog building in Q4, and then look at the revenue growth and the margin expansion that we got in Q4. And as I mentioned to one of the questions, we're sold out for Q1, and we're booking well into Q2 now. So it doesn't look like -- there's only so much we can make in a given year, right, from a capacity point of view, because we've actually taken a lot of capacity out there. But (inaudible) what we've said about going into '26 is reflected in our backlog and was reflected in the revenue growth in Q4.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. So refrigeration is recovering nicely. It sounds like MAAG is still some headwinds there. Everything else steady-steady? Is that a good way to summarize it?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. MAAG is going to -- MAAG is -- will see it, because -- and you'll see it in the backlog, because the dollar value of MAAG's orders are so high, you'll know when it's coming. And right now, it's fair to say that the European chemical market is not doing well.

Q - Nigel Coe {BIO 3818998 <GO>}

Yes, that's not a shock at all. And just a quick clarification on the incremental margins. Is there a structuring payback to sustain 35% of incremental margins, given the mix pressures you've highlighted, or could that be --

A - Richard J. Tobin {BIO 6485822 <GO>}

I think that when you do the math and you look at the incrementals, I think that there's more upside than downside there.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. That's clear. Thanks, Rich.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Operator

Thank you. We'll take our next question from Scott Davis with Melius Research.

Q - Scott Davis {BIO 2393277 <GO>}

Hey. Good afternoon, guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hey, Scott.

A - Christopher B. Woenker {BIO 24336125 <GO>}

Hey, Scott.

Q - Scott Davis {BIO 2393277 <GO>}

Rich, if you take a step backwards this portfolio has changed quite a bit since you've taken the helm here, but what do you think the entitlement -- the new entitlement kind of through cycle growth rate is of this portfolio you have now. Is it kind of right? Kind of in that sweet spot around 5%? Is it 4% to 5%?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes. I -- look -- I mean -- it is somewhere between 3% to 6% dependent on GDP and everything else, but clearly can do 5%.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. That's what I would have thought. And guys, it's been a -- it's kind of been a while since we've talked about close the case, that whole nonsense thing that kind of went up and went down.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Q - Scott Davis {BIO 2393277 <GO>}

You've got a big installed base and it's got to be aging out. Is there any way to think about the age of that installed base and kind of what the -- and be able to just socialize maybe the pent-up demand, how long those things last before they need to be replaced, et cetera?

A - Richard J. Tobin {BIO 6485822 <GO>}

Well, is a little bit of a -- that business is a little bit of a tale of two cities. There's the CO2 rooftop, which is a change in technology play where knockwood, we are the North American market leader and we're a co-leader in Europe and we're the North American market leader and we're doing really well because -- for a variety of reasons. And that's -- that I would put into the kind of the growth platforms and when Jack gives you those numbers, that CO2 business is in there.

On the retail refrigeration door case business, we've taken that business from somewhere around 7% or 8% margin up into the very high teens now. We're finishing the last CapEx. We've put -- we've basically rebuilt the entire industrial footprint there. So what we end up is with like a core refrigeration business, which is around a $0.5 billion-ish at very nice margins and extremely good cash flow because it doesn't hold any working capital.

So it's worth significantly more today than it was back in the day when it was a discussion element. We'll grow that business, but we'll grow it for profitability and we'll grow the CO2 side as quickly as we can because that -- we're in the early innings there and we've got a leadership position.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. Helpful. Good color. Thank you. I'll pass it on. Best of luck this year, guys.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. We'll take our next question from Mike Halloran with Baird.

Q - Michael Halloran {BIO 16666360 <GO>}

Hey. Good morning. Well, afternoon everyone. So first on the Clean Energy margins. In your prepared remarks, you mentioned the mid-20% target. Maybe just some timeline on when you think you can get that, Rich?

A - Richard J. Tobin {BIO 6485822 <GO>}

We're going to have to walk it up. So knockwood should get into the low 20s this year and then walk it up from there. Can we accelerate it? It's going to depend on a little bit of mix. And I really want to see, we're still kind of in a transitional period on the footprint side. So what we really get out once we're done and what the benefit of the fixed cost absorption on the -- is once we get that done.

So we're still doing that now and we'll probably be completed by the end of the year on that. So just on the top-line, we think we can get into the low 20s from there. It's going to be on the roll forward to the cost out. And your guess is as good as mine. We're really excited about the longer-term opportunity on the cryogenic side, which is not a super large business for us, but becoming larger. If that growth rate and that opportunity continues to expand, then we're very excited about it.

Q - Michael Halloran {BIO 16666360 <GO>}

That makes sense. And then you touched on it briefly there, but you've had comments about there's only so much capacity to drive the growth. At the same time, you're also doing some of these internal initiatives, managing capacity lower. How do you see that push-pull as you work through the year? Are there areas where you might be putting incremental capital to expand capacity? Or do you feel pretty good about the network as we sit here today? And then what's left on the pairing side?

A - Richard J. Tobin {BIO 6485822 <GO>}

Right now, CapEx is coming down in '26 because of the -- basically the completion of the expansion capacity and the restructuring capacity. So it's coming down. We feel good where we are. We are greenfielding a plant or beginning to greenfield a plant in North Carolina. That'll probably take us into '27 by the time that's complete. So, we've got a flexible model. I mean, we can kind of expand capacity relatively quickly.But -- so, besides the ones that we had in flight that we detailed in Q3, the only new one that I would add to that is the greenfield plant in North Carolina.

Q - Michael Halloran {BIO 16666360 <GO>}

Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes.

Operator

Thank you. We'll take our next question from Andrew Obin with Bank of America.

Q - David Ridley-Lane {BIO 16243129 <GO>}

Hi. This is David Ridley-Lane on for Andrew Obin. I was wondering if you could talk about your exposure on sort of the natural gas power generation side. You supply components for just large turbines or there's small turbines and reciprocating engines as well. And then notably over the last kind of three, six months, there's been quite a number of capacity expansions by the equipment providers and just over participating in that. Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

The answer to your question is yes, yes, and yes. So everything from large turbines to midstream to reciprocating compressors, the large turbine business is kind of front-running the market right now. And while capacity in percentage terms has moved up quite a bit, these are very, very big units, so the unit value is high, but the number of units is not dramatic. We believe that there's going to be significant follow-on CapEx on the delivery side, meaning getting the natural gas to those turbines. We expect that to kick off, hopefully, but expect it to kick off in the back half of '26.

Q - David Ridley-Lane {BIO 16243129 <GO>}

Got it. And just to sort of clarify a thing from the slides. There's something about price cost in the fourth quarter for the Clean Energy & Fueling segment. Is that kind of one time, or --

A - Richard J. Tobin {BIO 6485822 <GO>}

You know what? You got me.

A - Christopher B. Woenker {BIO 24336125 <GO>}

Yes. It's a bit of a timing catch-up in terms of when the price comes in relative to the cost. So it's really just a timing thing we see in the fourth quarter.

Q - David Ridley-Lane {BIO 16243129 <GO>}

Got it. Okay. Thank you very much.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. We'll take our next question from Andy Kaplowitz with Citigroup.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Good afternoon, everyone.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hi, Andy.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Hey, Rich. You've mentioned as you get better visibility, then you could adjust revenue guidance, but given book-to-bill has been pretty good over the last couple of quarters and you still seem relatively positive about your markets, do you have visibility at least to continue that near-term book-to-bill ladder over 1x that you've been delivering?

A - Richard J. Tobin {BIO 6485822 <GO>}

I don't know, right? As I mentioned in my earlier comments, right, that Q1 tends to be a production month and not much of a shipment month, right? So -- and part and parcel to having a discussion, I mean, I can't believe we're giving out guidance. I'm talking about moving guidance already, but part and parcel to that is getting through Q1 and seeing whether we're eating into our backlog or we're neutral or is backlog building even in excess of production, which is basically what we'd have to add into the back half of the year.

So look, we were here the same time last year, and then the S hit the fan in February. So let's get into the year. Right now, all things look good in terms of trajectory -- exit trajectory and backlog trajectory and orders and everything. Let's kind of walk it into Q1, and we'll give you an update when we get there.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

That's helpful, Rich. And then I want to ask you about DII. Like, I know it's kind of a GDP, maybe GDP plus business, but what, if anything, gets you going there a little bit more? I know the low-single-digit forecast for '26, and you did mention you're in the middle of this sort of multi-year margin expansion progression and structural costs that so where are you in that progression? Do you still have a good margin upside in that segment?

A - Richard J. Tobin {BIO 6485822 <GO>}

We're actually deploying a bunch of CapEx into that business right now Kind of some modernization and productivity. So if that all goes well that'll drive margin from there. It's consumer goods exposed, I don't follow consumer goods that closely. Well whether we see capacity expansions there which would drive kind of the organic growth higher than kind of normal. But I mean, it's such a messy number because it's a global business and it's got a lot of FX running through it. We try not to get above our skis on kind of the longer-term growth rate because it flops around. But it's a highly valuable business when you look at the cash flow dynamics of it.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Helpful, Rich.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. We'll take our next question from Brett Linzey with Mizuho.

Q - Brett Linzey {BIO 22393044 <GO>}

Hey. Good afternoon, all. Question on the 20% of the business tied to the secular markets You've done a good job highlighting that over the last several quarters. Curious post-mortem, how did that group of businesses grow in 2025? And then are you still seeing a pretty solid double-digit type of rate here for '26 for that 20%?

A - Richard J. Tobin {BIO 6485822 <GO>}

Yes, and yes.

Q - Brett Linzey {BIO 22393044 <GO>}

Yes, and yes. Okay. And then a follow-up on capital allocation. So Slide number 8, the dotted bar stack frames the optionality on the flex leverage. Maybe just an update on the investment grade leverage ratio that's implied there.

A - Christopher B. Woenker {BIO 24336125 <GO>}

I would imagine that it's calculated off of full-year 2025 EBITDA.

A - Richard J. Tobin {BIO 6485822 <GO>}

Right.

A - Christopher B. Woenker {BIO 24336125 <GO>}

And it is probably the max leverage with some wiggle room kind of to maintain investment grade. So it's just simple math.

Q - Brett Linzey {BIO 22393044 <GO>}

Yes. Okay. Got it. I'll leave it there. Thanks a lot.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. We'll take our next question from Joe Ritchie with Goldman Sachs.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Hey guys. Good afternoon.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hey Joe.

Q - Joseph Ritchie {BIO 16351356 <GO>}

So I'll start by just asking -- I mean I'll ask the flip side to Jeff's question from earlier. So not talking about big deals, but potential divestitures across your business. I know you like -- you look at your portfolio frequently. Just how are you thinking about the portfolios it stands today? And potentially, addition by subtraction.

A - Richard J. Tobin {BIO 6485822 <GO>}

Well, I mean we've got a fiduciary responsibility if someone wants to purchase a portion of the portfolio, we have to consider it, number one. Right now, we're comfortable with what we own. We do preserve optionality if we were to lever to do deals that we could delever by monetization of the portfolio as an option per se. But right now, we're fine with the portfolio as it is, either organically investing in it or the portions that we've historically done more M&A.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Okay. All right. Good to hear. And then I'm not going to ask you to change guidance, you just gave guidance. But if you go back to that Slide 9 and you take a look at your organic growth expectations for the year, where across the portfolio do you think you have the biggest swing factors this year?

A - Richard J. Tobin {BIO 6485822 <GO>}

I mean, they're all correct. And if you added 1 percentage point to all of the -- you know what I mean? It's -- there's no -- this one can double based on our expectations. It's more of, do you get a point here, do you get a point here, do you get a point there? And you know what at the end when you add it all up, it adds a couple of points to the top-line. So I don't -- without getting over our skis here, I think that those are directionally absolutely right.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Okay. Sounds good. I hope you get that point as we progress through the year.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks, Joe.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Good to talk to you.

A - Richard J. Tobin {BIO 6485822 <GO>}

See you.

Operator

Thank you. Our final question comes from Deane Dray with RBC Capital Markets.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good day, everybody.

A - Richard J. Tobin {BIO 6485822 <GO>}

Hey, Deane.

A - Christopher B. Woenker {BIO 24336125 <GO>}

Hey Deane.

Q - Deane Dray {BIO 1722688 <GO>}

Hey. Maybe just pick up on Joe's question there, because I've been staring at Page 9 and I'm trying to remember the last time you had organic growth all green and all the arrows on margin pointing up uniformly like that. And it just -- it begs the question, was there anything different about the planning process this year? Is this strictly a bottom up aggregation of the -- of each one of the businesses, or did you overlay in any way, haircut anything -- remember a year ago, the tariffs, you decided that you did want to be a little more conservative. So is there any element of trimming or boosting here that you'd like to share?

A - Richard J. Tobin {BIO 6485822 <GO>}

Sure. I think it was in the comments, but I mean, I think that we were pretty upfront over the last two or three years of some of the longer cycle businesses that had done extremely well were cycling down, right? Because it was coming out of the backlog. So the MAAGs and the Belvac of the world, we knew that we were exiting, some businesses or some revenue in Europe in our fueling solutions business. That was going to be negative, that was incorporated into our guidance. So meaning top-line headwind, but margin up.

And then we did not have a -- I don't know, I think that we had thought going into '25 that we were concerned about vehicle services group in Europe, and that's the way it turned out at the end of the day. So I think what this shows here is that we don't have an identified headwind like we have whether it's because of long cycle businesses cycling down and or particular markets that we think are under duress.

Q - Deane Dray {BIO 1722688 <GO>}

That's helpful. Thank you. And just a quick one. Backlog has come up a bunch of times in Q&A here. Just directionally, how much of '26 revenues do you expect are in backlog today, just kind of directionally and how does that compare to other normal times?

A - Richard J. Tobin {BIO 6485822 <GO>}

I don't know in total. I can just tell you anecdotally, I think I mentioned it before, something like refrigeration that grew heavily in Q4 were sold out for Q1, right? And that is not a normal state of affairs. We generally bleed it historically in that particular business or most of our businesses actually bleed down backlog in Q4 and replace it in Q1 because we built so much backlog in Q4 of this year, the swing factor is going to be, do we eat into it in Q1? Or does it just continue to build? And if it does, it's proactive for the back half of second half of the year, but we'll know that in the next 60 days or so.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you.

A - Richard J. Tobin {BIO 6485822 <GO>}

Thanks.

Operator

Thank you. That concludes our question-and-answer period and Dover's fourth quarter 2025 earnings conference call. You may now disconnect your line at this time, and have a wonderful day.
