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DOV - Q2 2014 Dover Corp Earnings Call

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OVERVIEW:

Co. reported 2Q14 revenue of $2b and adjusted EPS of $1.29. Expects 2014 revenue growth to be near the high-end of 6-7% range. 2014 EPS is expected to be $4.75-4.85.

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PRESENTATION

Operator

Good morning, and welcome to the second-quarter 2014 Dover earnings conference call. With us today are Bob Livingston, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and CFO; and Paul Goldberg, Vice President of Investor Relations. After the speakers' opening 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 with these terms, please disconnect at this time. Thank you. I would now like to turn the call over to Mr. Paul Goldberg. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - VP of IR*

Thank you, Lori. Good morning, and welcome to Dover's second-quarter earnings call. Today's call will begin with some comments from Bob and Brad on Dover's second-quarter operating and financial performance and follow with an update of our 2014 outlook. We will then open up the call for questions. As a courtesy, we kindly ask that you limit yourself to one question with a follow-up.

Please note that our current earnings release, Form 10-Q, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through July 31 and the audio portion of this call will be archived on our website for three months. The replay telephone number is 800-585-8367. When accessing the playback, you'll need to supply the following access code, 68710499.

Before we get started, I would like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover Corporation by referring to our forms 10-K and 10-Q for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website, where considerably more information can be found. With that, let me turn the call over to Bob.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Paul. Good morning, everyone, and thank you for joining us for this morning's conference call. I was pleased with our second-quarter results, which were highlighted by solid revenue and strong bookings growth, reflecting the continued momentum across the majority of our businesses. Most notably, fluids delivered 12% growth, and engineered systems grew 9%. In all, we generated 6% revenue growth and grew EPS 14%.

From a geographic perspective, US, Europe, and Asia all showed solid organic growth year-over-year. Conversely, Latin America and Brazil activity was softer over that same period. Now, let me share some specific comments on the quarter.

In energy, we continued to benefit from improving well activity and an increased rig count, primarily in our core production and drilling markets. Our bearings and compression revenue was impacted by lower OEM build rates. However, bookings were quite strong, setting us up well for the balance of the year.

Within engineered systems, we saw strong growth across both platforms. In printing and identification, growth in both our fast-moving consumer goods and industrial markets complemented by acquisitions, resulted in strong performance. The industrial platform also saw broad-based revenue growth, led by outstanding results in both environmental solutions and vehicle services.

Our fluids segment performed well, where generally healthy market conditions for both pumps and fluid transfer products, complemented by recent acquisitions, resulted in solid revenue growth. Our pumps businesses are benefiting from strong demand in the Specialty Chemicals vertical, while fluid transfer is seeing continued strength driven by increased regulatory activity.

Our refrigeration and food equipment results were generally solid in the second quarter led by strong growth in food equipment. Our quarter two refrigeration results were modestly impacted by the timing of shipments as we completed the transition to our new Atlanta manufacturing center. We expect revenue to accelerate in the third quarter, driven by strong bookings and backlog in refrigeration.

In all, we were pleased with the first half and are positioned well to deliver solid full-year results.

Business activity in our largest markets continues to be strong, as evidenced by our bookings and backlog. We also continued to execute on our core productivity and growth strategies in the quarter. Notably, we have completed the move to our new consolidated manufacturing facilities in Houston and Atlanta. These facilities not only improve manufacturing efficiency, but we also believe our customer service capabilities will be enhanced.

Our acquisition pipeline developed nicely in the quarter. I feel confident we will be able to close several deals that expand our product offerings and served markets, especially within fluids and energy.

Regarding our near-term business activity, we expect ongoing strong performance in energy driven by the increased North America well activity, continued growth in engineered systems driven by solid US industrial trends and global growth in printing and identification, strong results in our fluid markets on the benefits of our recent acquisitions, and generally healthy end markets -- and improved sequential results in our refrigeration businesses. In summary, the combination of a strong first half, robust bookings, and a growing backlog, and our positioning with customers gives me confidence to raise our full-year EPS guidance. With that, let me turn it over to Brad.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Thanks, Bob. Good morning, everyone.

Let's start on slide 3 of our presentation deck. Today, we reported second quarter revenue of $2 billion, an increase of 6%. Organic revenue grew 3% and growth from acquisitions was also 3%. Adjusted EPS was $1.29, an increase of 14%.

Segment margin for the quarter was 18.3%, essentially flat with last year. In the quarter, we saw margin improvement of 40 basis points in both our energy and refrigeration and food equipment segments. Of note, our overall margin would have been up 40 basis points, adjusting for the impact of acquisitions.

Bookings increased 11% over the prior year to $2.1 billion. This result represents broad-based growth across the Company, highlighted by 26% growth in fluids and 15% growth in energy. Engineered systems and refrigeration of food equipment both posted bookings growth of 5%. Overall book-to-bill finished at a strong 1.02, which sets us up well for the back half of the year. Our backlog increased significantly in the quarter, up 12% to $1.6 billion.

Free cash flow was $154 million for the quarter, or 8% of revenue. Free cash flow reflected higher working capital in anticipation of a strong third quarter. For the full year, we continue to forecast free cash flow of approximately 11% of revenue.

Now, turning to slide 4. All segments showed organic growth in the quarter. Engineered systems grew 5% with broad-based growth across both platforms. Energy grew 3% on the continued strength of drilling activity. Fluids and refrigeration and food equipment grew 2% and 1% respectively, resulting in overall organic revenue growth of 3%. Acquisition growth in the quarter was 3% comprised of 9% in fluids, 4% in engineered systems, and 1% in energy.

Turning to slide 5 and our sequential results, revenue increased 9% from the first quarter, where normal seasonal growth of 27% in refrigeration and food equipment was complemented by 8% growth in engineered systems. Fluids and energy were both largely unchanged sequentially. Sequential bookings grew 2%, demonstrating continued momentum coming off a strong first quarter. This result was led by 10% growth in refrigeration and food equipment. Fluids grew by 3%, and energy was essentially unchanged whereas engineered systems decreased 3%. Overall, the bookings activity was quite positive and positions us well as we begin the second half of the year.

Now, on slide 6. Energy revenue of $481 million increased 3%, and earnings of $115 million were up 5% over last year. Energy produced another good quarter with solid revenue growth in our drilling and production markets, offsetting softness in our bearings end markets related to OEM build rates.

Within drilling and production, growth was driven by improving well activity and the continued strong performance of our drilling businesses. Notably, our core US Artificial Lift business grew sharply and more than offset tough comps related to our large Australian contract, which is winding down. We believe we are well positioned for a follow-on contract, which is expected to be awarded later this year.

Operating margin of 23.9% improved 40 basis points from last year and was in line with our expectations. Bookings were $477 million, a 15% increase over the prior year, reflecting broad-based growth across our segment, driven by generally healthy end markets. Book-to-bill was 0.99.

Now, turning to slide 7. Engineered systems had a strong quarter, where sales of $699 million and earnings of $112 million each increased 9%. Our printing and identification platform increased 15% to $287 million driven by broad-based organic growth of 6% and recent acquisitions.

In the industrial platform, revenue grew 6% to $412 million, reflecting 5% organic growth. Our environmental solutions and vehicle service activity remains particularly strong in this platform. Margin remains steady at 16.1%, where the benefits of ongoing productivity initiatives largely offset product mix and acquisition-related costs. Bookings were $692 million, an increase of 5%. Our printing and identification bookings increased 9% to $282 million, boosted by recent acquisitions and strong activity in the US and in Europe.

Industrial bookings increased 3% to $410 million, largely driven by strong orders in our environmental solutions business. Book-to-bill for printing and identification was 0.98, while industrials was 1. Overall book to bill was 0.99.

Now on Slide 8. Fluids posted another solid quarter, where sales increased 12% to $346 million and earnings of $63 million were up 7%. Revenue was driven by organic growth of 2% and acquisition growth of 9%. As previously discussed, our organic growth rate moderated to 2% in the quarter and now stands at 7% for the first half. This result is tracking well against our full-year target.

Segment margin was 18.2%, a decrease of 70 basis points from the prior year. Adjusting for recent acquisitions, our core business continues to perform extremely well with margin of about 20%. We expect overall segment margin to remain in the high teens for the balance of the year, continuing to reflect the impact of recent acquisitions. Bookings were $375 million, an increase of 26% driven by strong project-related order activity in the plastics and petrochemical markets, some of which will ship in 2015. Book-to-bill was 1.08.

Now, let's turn to Slide 9. Refrigeration and food equipment generated revenue of $522 million, up 1% over the prior year, and earnings increased 3% to $85 million. Strong revenue performance in food equipment was partially offset by softer Latin American refrigeration markets and the impact related to the completion of the transition to our new Atlanta manufacturing center. We entered the second half with a strong refrigeration backlog, up 16% over the prior year and expect strong shipments in the third quarter.

Operating margin increased 40 basis points to 16.3%. This result primarily reflects productivity gains and a favorable product mix. Bookings were strong at $543 million, an increase of 5%, principally reflecting strong demand for refrigeration products. Book-to-bill was 1.04.

Now, moving to the overview on slide 10. Second-quarter net interest expense was $32 million, up $2 million from last year, and in line with expectations. Corporate expense decreased $6 million to $29 million, as expected, and generally consistent with Q1. Our second-quarter tax rate was 30.8%. Capital expenditures were $44 million in the quarter. Lastly, we repurchased 290,000 shares for $25 million in the quarter.

Now, moving to slide 11, which shows our full-year guidance. We expect 2014 organic revenue growth to be around 4% at the high end of our previous range. We expect energy to be roughly 5%, the high end of the prior range, driven by strong North American market dynamics. Engineered systems organic revenue is forecasted to be up 1 point to 4% to 5% based on their strong printing and identification business and improved US industrial activity.

Refrigeration and food equipment is anticipated to have approximately 1% to 2% organic growth, reflecting a 1-point reduction from our prior forecast, primarily driven by a weaker Latin America. Our fluids organic revenue forecast remains unchanged. Completed acquisitions will add 3%. In total, we expect full-year revenue growth to be near the high end of our 6% to 7% range. Segment margin is still expected to be around 18%.

Corporate expense is forecasted at $125 million. Interest expense remains at $133 million. Our full-year tax rate is estimated to be about 31%. CapEx should be approximately 2.5% of revenue, and we expect our 2014 free cash flow will be approximately 11% of revenue.

Now, turning to the bridge on slide 12. We have raised the bottom and top end of our EPS range to reflect our current view. We now see volume, price, and mix contributing $0.26 to $0.33. Productivity will add $0.17 to $0.21, while investment in compensation will have an $0.18 to $0.22 impact. All other categories are either unchanged or reflect minor revisions. In total, we now expect 2014 EPS to be $4.75 to $4.85. This represents 11% growth at the midpoint. With that, I'll turn the call back over to Bob for some final thoughts.

Bob Livingston - *Dover Corporation - President & CEO*

Thanks, Brad. Overall, I am pleased with our first-half performance. We delivered solid revenue and earnings growth and also saw strong order activity. We are executing well and are well positioned for continued success, driven by strong dynamics in each segment. Within energy, we expect the strong growth in North American well activity to continue. This growth, combined with our global initiatives, including the potential for additional Australian project business, positions us very well into the second half of the year and beyond.

In engineered systems, growing global applications for our printing and identification technology including the emerging textile market, provides higher growth opportunities. Within our industrial markets, our customers' desire for productivity solutions offers significant growth prospects. Within fluids, increasing regulations regarding vapor recovery and the safe transport of chemicals and fuels affords a strong business climate for our fluid transfer businesses. Additionally, our pumps business is benefiting from strong plastics and petrochemical markets.

Finally, in refrigeration and food equipment, we continue to focus on the ongoing needs of our customers for productivity and energy efficient solutions. In addition, we're continually working to help them drive same-store sales growth through our innovative merchandising systems. We expect to outperform the market again, driven by market-leading products and solutions.

In all, the future remains extremely bright for Dover, and I am very confident about our positioning and long-term growth prospects. In closing, I would like to thank our entire Dover team for their continued focus on serving our customers and driving results. And, with that, Paul, let's take a few questions.

Paul Goldberg - *Dover Corporation - VP of IR*

Thanks. Before we put on the first question, Lori, I want to remind everyone, if you can limit yourself to one question with a follow-up, we'll be better able to serve all the analysts out there. Lori, what is our first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Andrew Obin from Bank of America Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Sure. Question on the quarter. As I think about margin expansion opportunities for the year, right, energy bookings were nice. Fluids were really nice. You actually showed margin expansion in energy, and if you exclude M&A, fluids were very strong. So, what's the opportunity, and why are we still being conservative? What's the big headwind that we should worry about in the second half?

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Andrew.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Your specific question is what should we be concerned about with respect to productivity and margins in the second half? Or, was it a general business question?

Andrew Obin - *BofA Merrill Lynch - Analyst*

Yes, the question is, if I look at the strong book-to-bill, if I look at the fact that energy actually did show margin expansion in the quarter; on fluids, ex M&A, we did nice margin expansion, right; it seems to me you guys are being conservative for the year, given so what are the headwinds I should be concerned about for the second half of the year on margin?

Bob Livingston - *Dover Corporation - President & CEO*

I think the guidance, or the comment that Brad shared with you, that margins for the year, we still look to them to be about 18%. I actually feel pretty darn comfortable with that about 18% number, and that doesn't -- I'm not going to sit here and give you specific guidance that it's 17.9% or 18.1%, but right now we feel pretty darn comfortable with the 18% number.

The growth rate in the second half, organic growth rate for Dover overall, should be up a bit versus the first half. We are seeing some pretty positive dynamics across the board in all four segments. Goodness, we could revisit each one of the segments and talk about it. But, the -- I think for the -- we sit here and look at the second half and feel like it's strongly within our grasp to just execute.

Brad Cerepak - *Dover Corporation - SVP & CFO*

I guess what I would add, Andrew, is that our first-half margin performance into the second half sequentially is going to improve for sure. As we talked about, first quarter we go back to the first quarter, acquisitions impacted us about 70 basis points. This quarter, it's about 40 basis points. That starts to diminish as we continue to integrate and bring them on board through the second half, where the full year impact is around 30 to 40 basis points. So, you will see that margin rate, first half to second half, sequentially improve for us.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a follow-up question, on acquisition pipeline development. You started out the year talking about $500 million to $1 billion. Then you dialed it down. Now, you are talking about M&A opportunities as well. So, what's the reasonable outcome for the year right now? And, I guess any color beyond that? Thank you.

Bob Livingston - *Dover Corporation - President & CEO*

Yes, you're right. I opened the year with a little bit of guidance saying $500 million to $1 billion in acquisition spend. I think it was -- by the time we got into April and May, I was sharing with you that that number could be closer to $500 million than $1 billion. Without sounding too positive, I would tell you today on an update that it's probably closer to the midpoint.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Terrific.

Bob Livingston - *Dover Corporation - President & CEO*

It's always difficult to predict an acquisition until we actually close on it. The profile hasn't changed any from what I've shared with the analysts and investors earlier. It's -- there's nothing that I would label as large in our pipeline. Anything from as small as $10 million to $400 million, it's -- that's where we are.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Terrific. Thank you very much.

Paul Goldberg - *Dover Corporation - VP of IR*

Thank you.

Operator

Your next question comes from the line of Scott Davis of Barclays.

Scott Davis - *Barclays Capital - Analyst*

Hi. Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Scott.

Scott Davis - *Barclays Capital - Analyst*

Wanted to get a little granularity on printing and ID. That was a business that was a bit of a soft spot for you a while. Now you've bounced back the last couple quarters. It looks like you gained a fair amount of share this quarter based on at least what your competitor -- main competitor is putting out there. How is -- give us a little sense of the sustainability of this? When I think about it, you know, you're in a share loss position. You came back with some new product. You gained share back. Is this a one-time step-up where you're kind of back in the game, if you will, and then that more normalizes with industry growth? Or, is this something bigger than that?

Bob Livingston - *Dover Corporation - President & CEO*

Well, Scott, let me correct a couple statements first.

Scott Davis - *Barclays Capital - Analyst*

Please do.

Bob Livingston - *Dover Corporation - President & CEO*

I actually think we've been back on the game, to quote your phrase, for more than just a couple of quarters. I think you could look back over perhaps at least the last four or five quarters and see the building momentum within that business. They have had -- Markem Imaje had another great second quarter. Actually, I think they had a great first half. I think they have had a very, very strong last four quarters. Organic growth for MI in the second quarter, Brad, was 8%.

Brad Cerepak - *Dover Corporation - SVP & CFO*

8%.

Bob Livingston - *Dover Corporation - President & CEO*

8%. It was fairly broad based. I would point out, and I think Brad commented on this with respect to refrigeration, and I commented on it in my opening comments. All of Latin and South America has been rather soft here in the second quarter across the board for Dover. That didn't escape MI, Markem Imaje, as well.

But, when you look at our activity in the US, our activity in Europe, and in Asia, the team is doing quite well. I think it's sustainable. We're showing very strong, positive organic growth for the second half of the year, and we've got new products being launched in the second half of the year as well.

Scott Davis - *Barclays Capital - Analyst*

Okay. Fair enough. So, this is a little bit of a -- my follow-up is a little bit of a political hot cake. When I think about companies that, like yours, that have relatively high tax rates. It's not crazy, but 30%-plus is higher than the average in the group.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Yes.

Scott Davis - *Barclays Capital - Analyst*

Would you consider an inversion? Has there been any thought of doing something internationally? Because there's some potential targets out there, of course, that could potentially make sense for you also and the added benefit of tax would certainly make it more attractive.

Bob Livingston - *Dover Corporation - President & CEO*

Well, I don't want to say never ever, but it clearly isn't in our planning or thinking as we sit here today.

Scott Davis - *Barclays Capital - Analyst*

Okay, I'll pass it on.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Scott, back to the tax rate, we've said that we look at our taxes because of our geo mix. As we become more global, we do see a path to below 30%. And, that's where we currently still believe we can get to. We'll continue to see the benefits of, for instance, the Markem Imaje growth is very global, and it has a lower tax rate associated with it. So, I do think we'll get below 30%. I think we said that by 2016.

Bob Livingston - *Dover Corporation - President & CEO*

And, a fair amount of our acquisition spend over the last 18 months has been outside the US. I think 7 of our last 10 or 11 acquisitions have been outside of the US.

Scott Davis - *Barclays Capital - Analyst*

Okay. I guess what I'm saying is does it matter to you that your headquarters is in Chicago versus Dublin, or something like that? Does it really matter for Dover?

Bob Livingston - *Dover Corporation - President & CEO*

Technically, no.

Scott Davis - *Barclays Capital - Analyst*

Okay. That's all I was really asking. Congrats on a good quarter.

Bob Livingston - *Dover Corporation - President & CEO*

Thank you.

Operator

Your next question comes from Jeff Sprague of Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

Thank you very much. Good morning, gents.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

I was wondering if we could just talk about energy margins a little bit more. They were up year over year, but last year was kind of depressed. I actually would have thought with a surge in drilling and production in the US, that would be very mix-positive. And, your margins are actually down sequentially on flat, slightly up revenues sequentially. So, is there something with mix or investment or something else going on in there?

Bob Livingston - *Dover Corporation - President & CEO*

I don't think there's anything different going on. We continue, and I think I've commented on this at least once this year. We continue to make our investments for supporting our geo mix growth, especially in the Middle East and in Southeast Asia and in Australia. We're at a low point right now in our Australia activity, with respect to energy.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Low point in sales.

Bob Livingston - *Dover Corporation - President & CEO*

Low point in sales.

Brad Cerepak - *Dover Corporation - SVP & CFO*

And, the cost is still there for the next (multiple speakers)

Bob Livingston - *Dover Corporation - President & CEO*

And, the cost is there. So, that has a little bit of weight on the margins. But, Jeff, I would tell you that we ended last year in energy with margins of 24.8%, and I think my comment a couple times last year was I happen to like that number. And, I believe that's about where we're going to end 2014, is about 24.8%.

Jeff Sprague - *Vertical Research Partners - Analyst*

Would that imply, Bob, that there actually is upside in that number, and you're spending it away. Because at this margin level, you would obviously prefer growth over margin? Or, do you think you're at some kind of natural ceiling in that business?

Bob Livingston - *Dover Corporation - President & CEO*

I would tell you that -- again, I'm going to repeat myself with respect to the investment that we're making in our geo mix initiatives, as well as the near-term carrying cost of what we're doing in Australia, has some pressure on the margins. Some of it also has to do with some of the recent acquisitions, Jeff. Every acquisition we make in energy doesn't come out of the gate with 25% operating margins.

Jeff Sprague - *Vertical Research Partners - Analyst*

Right. And then, just finally, I'll move on. Someone else this morning indicated a broad-based quote, unquote, fade in activity in Europe in June. Did you see anything like that?

Bob Livingston - *Dover Corporation - President & CEO*

Broad-based what?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Fade. Fade of bookings or activity.

Bob Livingston - *Dover Corporation - President & CEO*

No. I would say our activity in Europe was again pretty solid across the board for Dover businesses.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Generally speaking, June was the best month.

Bob Livingston - *Dover Corporation - President & CEO*

June was the best month.

Brad Cerepak - *Dover Corporation - SVP & CFO*

For us in the quarter.

Bob Livingston - *Dover Corporation - President & CEO*

Yes.

Jeff Sprague - *Vertical Research Partners - Analyst*

Very interesting. Thank you very much.

Operator

Your next question comes from the line of John Inch of Deutsche Bank.

John Inch - *Deutsche Bank - Analyst*

Thank you. Good morning, everyone.

Bob Livingston - *Dover Corporation - President & CEO*

Hi, John.

John Inch - *Deutsche Bank - Analyst*

Bob and Brad, so I guess Domino called out -- I know you sort of indirectly referenced this. But, they did call out difficult product ID in Asia. What do you -- what's your sense of market conditions in Dover's performance in product ID in Asia? And, maybe talk a little bit about what your -- are you looking to do M&A there, or build the presence?

Bob Livingston - *Dover Corporation - President & CEO*

Specific to product ID?

John Inch - *Deutsche Bank - Analyst*

Yes, please.

Bob Livingston - *Dover Corporation - President & CEO*

Was that the question?

John Inch - *Deutsche Bank - Analyst*

Yes.

Bob Livingston - *Dover Corporation - President & CEO*

Well, we've -- we continue to see growth in Asia, both organic, as well as what we're reporting as acquisition activity, John. The recent acquisition we made earlier in the year of MS Printing -- they do ship a fair amount of their systems into Asia.

That said, I will tell you that the growth rate, the activity for Markem Imaje, specific to Markem Imaje -- the activity in China specifically was not as strong in the second quarter as perhaps what we've seen over the last two or three quarters, but I think I've signaled that a couple times here in the last two or three months.

John Inch - *Deutsche Bank - Analyst*

No, I think you have. Have any of your other businesses, Bob, inflected in China either more positively or more negatively that you saw in the quarter?

Bob Livingston - *Dover Corporation - President & CEO*

Well, look. When you look at the number for Dover for China, to get a real sense of that, you've sort of got to pull out the lumpiness that we do experience in our food equipment business specific to Belvac and their project shipments into China. But, I think all-in for China, what was our growth rate? It was mid-teens in China for the second quarter.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Which included a large Belvac (multiple speakers)

Bob Livingston - *Dover Corporation - President & CEO*

But, it did include a Belvac shipment.

Brad Cerepak - *Dover Corporation - SVP & CFO*

I think adjusting for that, John -- .

Bob Livingston - *Dover Corporation - President & CEO*

Look, I'm not concerned -- let me give you a highlight. I'm not concerned about our activity in China. I know there's been a little bit of a slowdown that we've all been experiencing in China over the past couple or three quarters. I don't label it as a problem. It has been a little bit for the core activity, it's been a little bit slower in the second quarter than perhaps it was a year ago. But, it's -- our businesses are doing quite well in China.

John Inch - *Deutsche Bank - Analyst*

Yes, and then my follow-up, Bob, it really is to the energy business. You've been putting investment spending into international Artificial Lift markets. Middle East is a source of growth. My question is this turmoil that we've seen in the Middle East, has that in any way impacted sort of what your customers have said with respect to project disbursements and spending? I realize your business is not -- it's not centered in Iraq or Syria or any of those places. But, I'm just wondering about the implications of what you're hearing, and does it cause you perhaps to think about modifying your pace of investment spending? Either more forcefully or less forcefully in the region for the energy businesses?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. So let me respond to activity -- your first part was activity in the Middle East. Our activity there continues to expand. And, perhaps I don't have this exact comparison, but my sense is, John, that our activity in the Middle East is probably at pace or a bit ahead of pace of our investment rate of change in the Middle East.

The second part of your question was with respect to customers. It's interesting that when you have read the headlines over the last three or four months with respect to some of the larger oil and gas customers pulling back from either the Middle East or maybe some larger projects around the world and a little bit more focus, per se, on the opportunities in North America. I think we've seen that. On one data point, we've seen that with respect to the increased rig count and well activity here this year. But, that pullback in CapEx, I will tell you I happen to think it's a little bit of the phenomena behind the slowness or the deferrals we've seen in our bearings and compression business activity.

John Inch - *Deutsche Bank - Analyst*

Okay. Perfect. Thank you very much.

Operator

Your next question comes from the line of Nigel Coe of Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks. Good morning, Bob, Brad, and Paul.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning.

Nigel Coe - *Morgan Stanley - Analyst*

Just wanted to -- Brad, I think you called out that obviously you have pretty good strength in the fluids backlog, but some of that backlog converts in 2015. I'm just wondering, are we seeing a change in mix between maybe some large projects coming through there, and perhaps you can give some color on that, Brad.

Bob Livingston - *Dover Corporation - President & CEO*

I know -- this is Bob. And, I know that part of our backlog in fluids is dated into 2015, and it's really related to a couple of our more recent acquisitions. The MOG acquisition that was completed about two years ago, and then the Finder acquisition that was completed last fall, which are more systems-type of businesses rather than distributed product. Is there a change in our profile? Other than that, I'm going to say no.

The fluids -- for the segment, the organic growth in the second quarter was obviously less than it was in the first quarter, and I think when we reported first quarter results, we clearly indicated that we had some projects that were shipped in the first quarter. That as we opened the year, we actually had them planned for shipment in the early second quarter, and at customer request, we pulled them forward. Organic growth for fluids in the first half was 7%. I think we're going to be real close to that organic growth rate, maybe a little bit less in the second half. We will always see a little bit of the lumpiness due to the project nature of the business model we have at MOG and at Finder.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's (multiple speakers)

Bob Livingston - *Dover Corporation - President & CEO*

Both businesses are doing well with their customers, and both businesses are growing.

Nigel Coe - *Morgan Stanley - Analyst*

Great. And then, just turning back to the [M&E] backlog, you started the year with that range, and then you said it went below that range and now you're moving back to the midpoint. I'm just wondering, what's happened in the last two months? Are we starting to see more willing sellers coming through, or am I just overthinking this?

Bob Livingston - *Dover Corporation - President & CEO*

I think you may be overthinking it a bit, Nigel. It's -- look, we can define a pipeline, and Brad and I, internally we review this weekly what our status is. And, status changes. I would tell you that we're moving forward on an acquisition opportunity today that three months ago I would have told you it's probably not going to happen until 2015. It's not a new target. It's not something that represents a change in our attitude or our pricing discipline. The position with the target changed a bit. So, just don't overthink that.

I would -- I still feel comfortable with the range that I opened the year with of $500 million to $1 billion. And, as I said earlier on the call, maybe today we're closer to that midpoint in that range.

Nigel Coe - *Morgan Stanley - Analyst*

Okay. That's very helpful, Bob. And, just quickly, just to clarify a certain point. Any ambition to move outside of your defined growth areas? Obviously, fluids and NG, refrigeration, PID have been sort of your sort of growth avenues. But, any desire to maybe add one or two other growth avenues going forward? Maybe Greenfield?

Bob Livingston - *Dover Corporation - President & CEO*

Yes, I don't think you're going to see us do that in the next year or two, Nigel. I think what you do see, and we've been -- I think we've been illustrating this for the past couple of years now in these primary growth spaces that we focused on, we continue to sort of push into new adjacencies and to grow our market space and to grow and increase the size of the available market that we can play in. And, we think we have plenty of opportunity to continue to do that for the next couple of years.

Nigel Coe - *Morgan Stanley - Analyst*

Thanks, Bob. That's great.

Operator

(Operator Instructions)

Your next question comes from the line of Steve Winoker of Sanford Bernstein.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

First question is how much of the bookings number is acquired bookings from acquisitions -- of the 11%?

Bob Livingston - *Dover Corporation - President & CEO*

I don't have dollar number. I can give you a data point here though. On the second quarter bookings, organic growth -- the total growth of 11%, of that organic was 7.5%.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay, great. And, on the guidance, as I sort of look at what you changed and walked through, it seems like you're looking at something like 33% incrementals on the additional volume growth. And then, it looks like investment and compensation improved by $0.01, and productivity tightened up a little bit as well. Am I reading that correctly in terms of how you're thinking about it? Then, on the investment comp side, what was improving and on the productivity side, what changed?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Okay. There's a lot in that question.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

I'm only allowed two.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Well, the second-quarter conversion rate ex acquisitions was very, very positive. No doubt about it, coming off of first quarter, which was reasonably good as well. We're still thinking that the full-year conversion on all the volume is in that range of 27% to 28%. So, yes, the incremental is a little bit -- the mix gives you a little bit of stronger conversion.

As it relates to changes in the bridge, again, I think we're just tightening up a little bit on the volume and the mix. As far as productivity, we continue to put considerable focus in this area in order to continue to drive performance and be able to make the investments we're looking to make. I would say sitting here today, we feel very, very good about the progress we've made on productivity. We got a lot of projects underway that will drive incremental gross productivity for us that's slightly better than we anticipated earlier in the year. As far as compensation, I would say that's just normal activity or true-ups of where we think we'll be for the year in the compensation.

Bob Livingston - *Dover Corporation - President & CEO*

Nothing unusual.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Nothing unusual.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay, great. One follow-up on the productivity side, though. The refrigeration plant move, did you run those plants in parallel? Or, did you do a hard turnover that drove the revenue decline?

Brad Cerepak - *Dover Corporation - SVP & CFO*

There was a little overlap, and the revenue decline -- as we said, the revenue decline is just a deferral to the third quarter. We didn't lose any customer orders or anything in our bookings, our backlog. It's in the backlog, in essence. It's about $10 million or so of sales that will move into the third quarter.

We had a little overlap of costs, both in Houston and both in Atlanta. I would say, that overlap of cost cost us about $0.01 in the quarter in total for both of those facilities. But, that will diminish now or go to zero in the third quarter.

Steve Winoker - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Jamie Sullivan of RBC Capital.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Jamie.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Most of my questions have been answered, but maybe just one on the industrial business. You've had some decent organic growth there the last couple of quarters. Maybe you could just talk about where you're seeing the strength in ESG, VSG? Maybe how you see the sustainability of those end markets?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. Well, you're right. As we commented in the earlier part of the call, in the industrial platform, we saw some outstanding activity. We've seen it for the year. Actually, I would say that this is not new. We've been -- these two business areas have been performing quite well over the last, I would say, at least 12 months, if not 18 months. And, we see it continuing in the second half, and these two businesses are very, very well positioned in their marketplace and with their customers. We see that being quite sustainable.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Okay, thanks. And then, just a follow-up on the free cash flow targets. Your confidence there given where you are in the first half? Should we just look at it as a normal seasonal pattern, or is there an additional weighting this year toward the second half versus normal?

Brad Cerepak - *Dover Corporation - SVP & CFO*

I would say it's mostly the same seasonal pattern. But, if I look at the second quarter, the performance was okay, maybe a little bit lower than what we were looking for.

But as I said earlier, June was our best month in the quarter, and the teams have really -- we're set up nicely now in going into the third quarter. So, there's a little bit of carry of working capital. So, on the edges, maybe the second half is a little bit higher than we would have expected going into the year.

Bob Livingston - *Dover Corporation - President & CEO*

But, we still feel very comfortable with the 11% target.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Steve Tusa of JPMorgan.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Good morning.

Paul Goldberg - *Dover Corporation - VP of IR*

Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Hi, Steve.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

On the refrigeration business, even with the deferral, can you just maybe talk about -- or if you ex out the deferral, could you just talk about what you're seeing from just maybe segment the customers from the Big-Box guys to the more local customers on that front?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. Well, this question, it's more -- my answer is going to be more specific and I think your question is to Hill Phoenix. First off, on the big customers, let's -- without sharing information on an individual customer, I'll say the big two that we've talked about over the last couple of years, Wal-Mart and Target, we've got a little bit of headwind that we're dealing with this year. Most of that is actually occurred in the first half.

When you look beyond the big two and look at the regional retailers, that activity has been up for us. We've seen it in all parts of the business, be it the cases, be it the doors, as well as our refrigeration systems.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Got you. And then, just a follow-up -- .

Bob Livingston - *Dover Corporation - President & CEO*

Steve, I'll give you another color point on that. If we have any concern right now relative to where we were coming into the year, I'm going to bring you back to my comment earlier about the softness we've seen in Latin America and South America. I don't know the exact number, but I want to say it was probably somewhere in the $11 million to $15 million range for the first half in revenue expectations in Latin America and South America. We're that much softer than we anticipated. And, sitting here today, I would tell you that we aren't planning for a recovery or a rebound in Latin America or South America in 2014. That recovery is not in our numbers.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

And that's core Hill Phoenix (multiple speakers)

Bob Livingston - *Dover Corporation - President & CEO*

That one's probably -- that's Hill Phoenix and Anthony and our after-market services all together.

Brad Cerepak - *Dover Corporation - SVP & CFO*

But, it's not entirely just that business, Bob is referring to. That's the total Company. But, I would say Hill Phoenix is probably a bigger part of that softness that we're talking about.

Bob Livingston - *Dover Corporation - President & CEO*

Yes, yes.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Right. And then, just a quick update, so your business is down a little bit in the first half. I guess the margin is down a tad there as well for the whole segment. What is -- how is Anthony doing? And, what's the -- just remind me of the revenue base Anthony will represent in 2014?

Bob Livingston - *Dover Corporation - President & CEO*

Oh, my goodness. Let's see. We track Anthony now as a business unit on doors only. All of the after-market activity of Hill Phoenix and Anthony has been combined into a separate business unit that is now reported under Hill Phoenix. So, on doors only, what's the revenue base? $250 million, just on doors, and I call it glass and door frames.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay, and that compares to what in 2013?

Bob Livingston - *Dover Corporation - President & CEO*

It's up, what -- mid-single digits?

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay.

Bob Livingston - *Dover Corporation - President & CEO*

Maybe a little bit higher than that.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

And, the margin is kind of flattish like the segment?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. That's something -- you're getting into some detail now that we don't release, but we're happy with the margins.

Steve Tusa - *JPMorgan Chase & Co. - Analyst*

Okay, great. Thank you.

Operator

Your next question comes from the line of Julian Mitchell of Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Hi, thanks. I just wanted to follow up on refrigeration again. Because I guess you took down the organic growth guide a little bit for the year, but you had had a very good book-to-bill in Hill Phoenix in Q1. I think you said it was 1.3. And, the plant deferral stuff you'll get back. So, is it really just Latin America suddenly got very bad in the last couple of months in that business? Because you did have -- as you said, you had a very good book-to-bill three months ago.

Bob Livingston - *Dover Corporation - President & CEO*

The book-to-bill for Hill Phoenix and for -- well, especially for Hill Phoenix, was very strong in the first quarter, as well as it was in the second quarter. It's interesting.

Again, it's -- for Hill Phoenix, because of the way -- I call it the seasonal period builds and runs. That seasonal period being the second and the third quarter combined. You get actually a better picture when you look at the period rather than the quarters, because projects can move from quarter to quarter. If you were to look at the 2014 seasonal period, second and third quarter versus last year's seasonal period, I think Hill Phoenix will be up 2 to 3 points organically.

Julian Mitchell - *Credit Suisse - Analyst*

Got it. And then, just on -- .

Bob Livingston - *Dover Corporation - President & CEO*

We are expressing some caution around Latin America and South America. And, I think that's what you really see reflected in a little bit of the downtick on the organic growth rate for the segment.

Julian Mitchell - *Credit Suisse - Analyst*

Thank you. And then, I think just on capital allocation. The last earnings call you talked about maybe giving a buyback update during Q2. I think in the quarter you spent about $25 million on the buyback. Is that a sort of a run rate we should expect, given you sound pretty positive about the M&A pipeline?

Bob Livingston - *Dover Corporation - President & CEO*

I think you could expect to see that run rate continue in the second half.

Julian Mitchell - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Deane Dray of Citi Research.

Deane Dray - *Citigroup - Analyst*

Thank you. Good morning, everyone.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning, Deane.

Deane Dray - *Citigroup - Analyst*

I might have missed it, but did you give a specific percentage amount you thought the North American rig count could be trending up for the year? We have been tracking -- it was interesting. In the beginning of the year, it was flattish. Then, last update, maybe 2%. It sounds like you're a bit more encouraged here. So, do you have a number for that?

Bob Livingston - *Dover Corporation - President & CEO*

Yes, we look at based upon the first-half actuals and the second-half forecast, we see the rig count in the US being up about 6% over 2013.

Deane Dray - *Citigroup - Analyst*

That's quite a jump. Are you expecting any share gains in that higher volume, or just holding steady there?

Bob Livingston - *Dover Corporation - President & CEO*

I'm not going to speak to share gains. I would tell you that if -- to get a really good feel, I probably need to separate some business activity for you, Deane.

I've commented about our project business in Australia. If you were to pull, if you were to separate -- I'm going to give you some data just on Artificial Lift. Not the segment, but just on Artificial Lift. But, if you were to pull out the Australia project business and look at Artificial Lift without it, the revenue growth in the second quarter was about 8%. Bookings were up about 16%. If you were to look at, again, doing it for the full year that's embedded in our revised guidance, you would see Artificial Lift up 15% or 16% and bookings up -- I'm sorry. That would be the bookings, about 15% or 16% increase in bookings, and low double-digit growth in revenue in Artificial Lift.

Deane Dray - *Citigroup - Analyst*

That's for the full year?

Bob Livingston - *Dover Corporation - President & CEO*

That's for the full year. Activity in North America is pretty strong, Deane.

Brad Cerepak - *Dover Corporation - SVP & CFO*

Taking Australia out.

Bob Livingston - *Dover Corporation - President & CEO*

Taking Australia out, yes.

Deane Dray - *Citigroup - Analyst*

That certainly is reflected there. Then, just a last quick one for me, and it's a blast from the past. But for Brad, are there any stranded costs that will be addressed in Knowles, or is that chapter completely closed?

Brad Cerepak - *Dover Corporation - SVP & CFO*

Well, I think that chapter has been pretty well complete. We continue to work on some smaller areas, but as we said in the first quarter, I think we brought our corporate costs down quite nicely. We continue to keep the costs associated with the regional centers in the sense of where we're going to try to grow globally, or we are growing globally. So, I think that chapter is really closed at this point.

Deane Dray - *Citigroup - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Charley Brady of BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Hey, thanks. Good morning.

Bob Livingston - *Dover Corporation - President & CEO*

Good morning.

Charley Brady - *BMO Capital Markets - Analyst*

Just a quick one on refrigeration. You've touched on a few points of it, but I guess as I look to the -- you answered the question of the revenue outlook for the second half given some moving parts here. But, if I look to the margin, we don't have a headwind from Target and Wal-Mart, or we certainly have a great reduction in that. We've got a catch-up from the shipments from 2Q into 3Q.

I guess I look out to the margin expectation in the second half, and I guess particularly into Q3, it sounds as though that ought to get a decent tick-up in some of the margin there. But, I guess what I'm really trying to square that up is, how much of a margin headwind does Latin America really give you? Got to offset these other moving parts that otherwise would indicate pretty good margin performance in 2H?

Bob Livingston - *Dover Corporation - President & CEO*

Okay. So, look, there's more to this segment than just refrigeration. We've got a sector we call food equipment, and it's interesting in the first half of 2014. I think organic growth for food equipment was slightly positive, like 2 points, even with the headwind we had in Latin America. And, here is a case -- here is a point or position where we actually see a little bit of a headwind in eastern Europe and in Russia, but it's minor. But, for this sector, for this little group, it's measurable.

The second half of the year, we see organic growth in our refrigeration business, 2 or 3 points. But, because of the project activity that I mentioned earlier around Belvac, the second half in food equipment could actually be negative organic growth slightly.

And, here now is the point on your margins. The food equipment group has higher margins than the refrigeration group does. So what you see in the second half is some increased volume, but you don't see the margin increments flowing through, and it's all due to product mix between the two sectors.

Charley Brady - *BMO Capital Markets - Analyst*

That's great. Very helpful. Thanks, Bob.

Operator

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

Paul Goldberg - *Dover Corporation - VP of IR*

Yes. We just want to thank everybody again for joining our conference call today, and we look forward to speaking to you next quarter to discuss third-quarter results. Have a good day. Thank you.

Operator

Thank you. That concludes today's second-quarter 2014 Dover earnings conference call. You may now disconnect your lines, and have a wonderful day.
