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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to Dover's Fourth Quarter and Full Year 2023 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Jack Dickens, Senior Director, Investor Relations. (Operator Instructions) As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

I would now like to turn the call over to Mr. Jack Dickens, please go ahead, sir.

Jack Dickens

Thank you, Angela. Good morning, everyone, and thank you for joining our call. An audio version of this call will be available on our website through February 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.

With that, I will turn the call over to Rich.

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

Thanks, Jack. Let's start with the key messages on Slide 3. Market demand conditions in the fourth quarter played out largely as we expected. And as we discussed at the end of Q3, we adopted a business posture focused on managing down production in certain product lines to balance channel inventories to the detrimental fixed cost absorption. This puts us in a good inventory position and enable us to match demand and production in 2024. This operating posture also drove solid operating free cash flow performance in the quarter, which positions us to play offense on the capital deployment front in 2024. We capitalized on strong volumes in several markets and drove margin mix higher for the consolidated portfolio in the quarter.

The breadth and diversity of our end market exposures, along with proactive cost containment and pricing discipline, led to another record high quarterly segment margin in Q4. We remained active at the portfolio front. We improved our portfolio through synergistic bolt-on acquisitions, including 2 transactions announced in January that add attractive reoccurring and software revenue streams good growth exposures to our mix.

We expect to close the DE-STA-CO sale by the end of the first quarter, which will further enhance our cash position. We entered 2024 in a significantly better financial position than we were 12 months ago. Underlying demand across the majority of the portfolio is solid. Bookings momentum is improving, and we drove the first organic bookings growth in 8 quarters.

Of note, biopharma book-to-bill was above 1 signifying an improving sentiment in the market, which is also evident in the recently announced results of some customers and channel partners. While we expect seasonality and idiosyncratic headwinds such as European heat pumps and can-making equipment to weigh on volumes in the first half. Overall, we expect demand conditions to progressively improve off their fourth quarter exit rate through the year.

Our recent investments puts us in a very strong position to capture secular growth across numerous end markets like CO2 refrigeration, bioprocessing, data center cooling, electricification of heating and cooling and smart compressor controls. In-flight cost actions provide carryover benefits in 2024 with specific projects to be announced during the year.

Lastly, our balance sheet has ample capacity to execute against a strong acquisition pipeline and pursue opportunistic capital return strategies as we continue to upgrade the portfolio overtime.

Let's go to Slide 4. Consolidated organic revenue was down 3% in the quarter. Bookings were up 2% organically, reflecting growing order rate momentum across much of the portfolio. Segment margin was up 100 basis points to 22% on broad-based productivity and portfolio improvements.

Free cash flow in the quarter was over $450 million or 22% of revenue on improved working capital efficiency and lower CapEx. Adjusted EPS was up 13% to $2.45 per share in the quarter.

Our guide 2024 reflects a constructive outlook. We are guiding for organic revenue growth of 1% to 3% and adjusted EPS of $8.95 to $9.15 per share, which represents a 5% to 7% year-over-year organic growth excluding the tax reorganization benefit recognized in the fourth quarter.

Let's skip to Slide 5. Engineered Products had a solid quarter driven particularly strong volume growth in conversion and waste handling. Chassis availability improved in the quarter and the business has reservations from large national waste haulers and municipalities well into 2024. Europe and Asia shipments were notably lower in vehicle aftermarket, but bookings improved during the quarter.

Margin performance improved 270 basis points on positive mix benefits and volume conversion on recent productivity investments in the waste hauling business, coupled with a solid performance in aerospace and defense.

Clean Energy & Fueling is our most distribution leverage segment, and as such, is where we intervened aggressively on production to facilitate general channel destocking in below around retail fueling, hanging hardware, LPG components and car wash in the quarter. Cryogenic components continued their robust growth, and our above-ground fueling equipment was up on continued recovery U.S. dispensers.

We believe that our proactive intervention on production in Q4 has allowed excess channel inventory to clear and we expect this business in this segment to return to normal booking and shipping posture in 2024 with normal seasonality levered to quarters 2 and 3.

Imaging & ID posted another as projected stable quarter against a difficult comparable period with a high degree of reoccurring revenue, end market and geographic diversity and exposures to growing regulatory requirement for product ID and traceability, this segment remains a consistent performer with strong margins and cash flows. Margin performance in the quarter was exemplary.

Pumps & Process Solutions was up organically in the quarter on strong shipments in polymer processing and Precision Components. The integration of FW Murphy is off to a strong start with a good reception from our customers and notable recent wins of substantial reoccurring revenue contracts in remote monitoring and smart compressor technology.

Top line performance in Climate & Sustainability Technologies was impacted by expected volume declines in beverage can making and as well as the recent and abrupt industry slowing in the broader HVAC complex in Europe and Asia, most notably in residential heat pumps demand, the degree of which it was not incorporated in our previous forecast.

Margin performance was exceptional in the quarter, driven by improvement in food retail, which posted EBIT margins in excess of 15% in the fourth quarter, traditionally a seasonally slower quarter on positive CO2 product mix and productivity. The food retail team deserves commendation for their operational achievements to drive significant margin accretion in these past few years but we still have further runway to improve largely on improved product mix. I'm passing on to Brad here.

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

Okay. Thanks, Rich. Good morning, everyone. Let's go to Slide 7. The top bridge shows our organic revenue decline of 3%. With acquisitions and FX translation contributed positive 1% to the top line in the quarter. FX resulted in a $0.01 tailwind in the fourth quarter but remained a $0.06 headwind for the full year primarily driven by inter-year movements in the euro-dollar exchange rate.

From a geographic perspective, the U.S., our largest market, was up 2% in the quarter, while Europe was down 16% on lower shipment retail fueling and HVAC components. All of Asia 5%. China, which represents about half of our revenue base in Asia, was up 14% organically in the quarter, driven by large order timing within polymer processing.

On the bottom chart, bookings were up year-over-year due to normalization of lead times. Now on Slide 8. We're pleased with our full year free cash flow generation, which came in at $1.1 billion, nearly double the prior year's level on working capital management and lower CapEx. Our working -- on the working capital front, as previously discussed, we actively work to liquidate our working capital balances in 2023 with a particular focus on inventory reduction in the back half of the year.

We believe we have further room to go on working capital improvement in 2024. 2023 CapEx came in lower after reaching a record level of investment in 2022. The step down in CapEx in '23 was less pronounced due to a onetime $14 million opportunistic purchase of real estate within our heat exchanger business during 2023. We expect CapEx to further step down into '24.

With that, I'm going to turn it back to Rich, on Slide 9.

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

Okay. I'm on Slide 9. This highlights the results of some recent investments behind several fast-growing platforms in the portfolio. A few years ago, these were nascent product lines with about $50 million in combined revenue. We saw a significant growth opportunity in these markets and proactively -- organically invested in CapEx and R&D to cultivate technology -- technological leadership and provide a sufficient foundation for these businesses to win and scale with customers. We are in the early innings of capitalizing on these investments and are excited about their long-term prospects.

Across these markets, we enjoy leadership positions with recognized technology and strong relationships with marquee customers. With about $200 million in combined revenue planned for this year and a double-digit long-term growth trajectory, we expect these platforms to become meaningful contributors to Dover's overall growth profile.

Slide 10 shows progress against our capital deployment priorities after several years of elevated capital investments into capacity, productivity and automation projects, we expect capital expenditures to be lower in 2024. We continue to -- we continue seeking high confidence, high return on investment organic investments and we'll prioritize those in our capital allocation decisions. Acquisitions remain part and parcel to building a better and stronger Dover.

We have been actively shaping our portfolio in line with these priorities, we indicated to investors, both through additions and subtractions, as we work to reshape and enhance the portfolio towards higher growth, higher return and lower cyclicality. Our cash flow position and capital allocation optionality are far superior compared to [this time] last year. We expect another year of solid free cash flow generation in '24, with the added benefit of sale proceeds from DE-STA-CO that should close at the end of February, the beginning of March.

We have ample balance sheet capacity to continue improving our portfolio through accretive acquisitions or opportunistically return capital to our shareholders.

Moving to Slide 11 shows the long-term financial performance of the portfolio. Despite the top line headwinds we experienced in '20 and '23 over the past 5 years, we have grown organic revenue at a 4% annualized rate ahead of GDP and industrial averages. Our margin performance over that period was solid, up 410 basis points in aggregate at a conversion margin in excess of our long-term targets we laid out and primarily driven by operational improvement and product mix.

Finally, let's go to Slide 12. Our top line growth in 2024 will be driven by our secular growth exposed end markets, including CO_2, data center cooling, heating, electrification and cryogenic components. The near-term outlook for Precision Components remain strong as demand for infrastructure investment tied to the energy transition is driving increased demand for our compressor components and engineered bearings. Our waste handling business is effectively booked for the year and should continue its double-digit growth trajectory as chassis shortage abates and haulers work to republish -- replenish and upgrade their fleets.

Based on recent history, we have incorporated appropriate caution in our forecast for biopharma during the year. But we are confident that we will post year-on-year growth in this end market, and we'll update our view as the year progresses. Full year consolidated operating margin is forecasted to improve on volume, product mix and productivity actions. We have done the hard work to get our channel inventories and balance and expect revenue to build off the fourth quarter exit rate with return to pre-COVID seasonality in several businesses. Our portfolio consists of a collection of businesses that operate in attractive and unique niche end markets.

Our business model is flexible, and we can quickly to respond to changes in market dynamics, be they beneficial or detrimental to the business, have numerous cost control levels and capital allocation optionality at our disposal to deliver on our full year forecast. I'd like to thank our global teams for the efforts to deliver last year's results, and we look forward to serving our customers, partners and investors in the year and ahead. And Jack, let's go to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Andrew Obin with Bank of America.

Andrew Burris Obin - *BofA Securities, Research Division - MD*

Just a question, bookings have turned positive, I think, first time in 8 quarters. How sustainable is this churn? And how much visibility do you have in bookings staying positive?

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

I would expect the bookings stays positive throughout '24 based on our outlook right now. I think that the channel -- we've done the hard work on the channel inventory, and that's where we're seeing the inflection in the bookings, whether it be biopharma and that we would expect to see the same in Fueling Solutions. So I don't expect this trend -- I don't expect to go negative unless we're going to have an unforeseen recession in 2024.

Andrew Burris Obin - *BofA Securities, Research Division - MD*

That sounds good. And then just a question on biopharma. Do you -- just to clarify, do you have any biopharma recovery in the year because my understanding is that some of the inventory will become obsolete sometime in the first half of the year. So what is reflected in your guidance and what's not? And I know that it's been tough to call for the past 12 months. So clearly, some degree of caution is warranted.

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

It's not a coincidence that we did this call behind some of our customers because we had been in front of them and been wrong. We have very little accretion in earnings on biopharma despite the fact that order rates are beginning to pick up, we'd rather position ourself cautiously. And if you go back and look at the transcript, [I said] we're just going to update you where we are quarter by quarter. So I think that we're going to wait and see -- what we can say as we do not expect it to be down year-over-year, but we have not incorporated anything -- any meaningful amount of operating profit up year-over-year. We'll keep that to ourselves until we see the orders.

Andrew Burris Obin - *BofA Securities, Research Division - MD*

And am I correct in thinking that some of the inventory does become obsolete because it's FDA regulated?

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

Yes, you are absolutely correct.

Operator

The next question comes from Andrew Kaplowitz with Citigroup.

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

Richard, Brad, maybe you could give us some more color on how you're thinking about the 1% to 3% organic growth by segment? And then how are you thinking about the cadence of growth in EPS for the year? I know you said you would return to pre-COVID seasonality which -- in a lot of your businesses. But is this year going to be more back-end loaded given the turn in short cycle is happening kind of now?

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

I think that it will start slowly. So I think the Q1 will be kind of a roll forward of what we saw in Q4 to a certain extent. But again, you've got some difficult comps I would expect by Q2 -- the vast majority of the accretion will occur in Q2s and Q3 as we ramp production into that. And then Q4 -- Q4 was actually pretty strong for us. Usually, it's a run for working capital. But again, like every other year, it's going to be highly dependent on production rates that we adopt for Q4.

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

Got it. That's helpful. And then Rich you mentioned the intervening in clean energy and that you feel good about where your inventory is now, would you say you generally feel that way across the Dover portfolio? Maybe heat pumps is an exception or heat exchangers for you guys? And then back to clean energy, do you see good demand in that business? Or is it more easier comparisons that should drive it in '24.

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

Well, there's a lot of moving parts of what's in clean energy. I'd -- To back up for a moment. I think that the operating posture that we adopted at -- as we move through Q3 into Q4 was predicated upon of dropping production to flush total channel inventory. And I think that we've accomplished that across the total portfolio. As we mentioned, I think what was not incorporated into our Q4 forecast was the sudden decline in demand on heat exchangers for heat pumps.

Again, like biopharma, I think that we're going to be very cautious about that for '24 until we see the market return. So right now, I think that we're calling heat pumps down year-over-year, but I think that, that may prove to be conservative. I think that -- my own view is it's probably going to flush in Q1 and Q2, and then we'll return to growth on the other side.

So overall, outside of heat exchangers for heat pumps, I think that we're in pretty good shape in terms of balance. And so what's incorporated into the 1% to 3% is basically that's the aggregate of demand that we see. So production demand should be pretty much in balance. So we will probably build some inventory in Q1 as we ramp back up for Q2 and Q3, but that's kind of the way we see it right now.

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

Can you grow DCST with heat exchangers down, Rich, in '24 or?

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

No, right, Because you've got Belvac rolling down year-over-year, which we've expected for 3 years. If heat exchangers stays with our forecast, which is very conservative. The CO_2 revenue growth will not offset that, but I think that we're being cautious until we see what happens and when we see what all our customers say about heat pump demand for 2024.

Operator

The next question comes from Scott Davis with Melius Research.

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

Thanks for being brief with your prepared remarks, I really wish everybody would get that memo. It's helpful to get to get to the (expletive) point as I say and get to Q&A and let's all move on. But guys a couple of things caught my eye. One, kind of the volatility geographically, China 14%, Europe down 16%. And maybe if you could walk around the world a little bit for us for '24 and expecting a little bit more of a normalization there? Or maybe some puts and takes on some of the geographic moves I'll just stop and open it up.

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

Sure. Yes. Look, look, I think that the China number is kind of -- first of all, China as a percent of our revenue now is, I don't know, 7% or 8%, 6% now, okay, 6%. So that number on the law of small numbers when we make a big shipment into China out of polymer processing, it swings the numbers. So the base business that -- the remaining base business that we have in China is a reflection of the Chinese economy. It's not great, but it flexed up because of that. Europe is really a couple of things. Well, first of all, the European economy is not great, but it's been exasperated in the quarter by the sudden shift down in demand in heat exchangers for heat pumps where we went from an operating posture of selling absolutely everything we could make to selling hardly anything at about mid-September. So I think there was a market-wide recognition that inventory got over their skis a little bit, so that needs to clear.

So what was baked into our forecast next year is I don't think that we're overly optimistic on Chinese demand. I think the European demand in aggregate should improve year-over-year only because of the fact of that idiosyncratic headwind that we had. But -- the vast majority of the growth that we've got baked into our forecast is North America driven.

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

Okay. That makes a lot of sense. So Rich, I think you started off the last couple of quarters, you've made increasingly more kind of tonality, positive remarks on M&A. What -- what -- this may be hard to answer, but what does good look like? If '24 is a good year for M&A? Is it -- is there some sort of a range of dollars that you'd like to put to work or some sort of a -- something where you guys just have a goal line in mind or that we can start to think about? And -- that's...

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

I mean look, yes, sure. No, I understand the question. Look, at the end of the day, the reason that we put the 1 slide together in terms of firepower, it was an odd dynamic coming out of COVID, where earnings accretion was great, but there wasn't a lot of cash flow because it was all getting hung up in supply chain and inventory and everything else. So what we expected going into this year was this is the year we've got to generate a bunch of cash. Now we've had ample balance sheet capacity during that time period. So it's not like we haven't been doing M&A -- because we were waiting to build this cash position. But on the other hand, I think our ability for M&A and capital return is significantly better just on pure cash than it was 12 months ago.

So you would expect us to be more active in the deployment. Now we've closed 3 acquisitions in the last, what, 5 months. We've got a decent pipeline of acquisitions that kind of look like that. Would we like to do something bigger? Sure. But we've got some return hurdles that if we can't find something with those return hurdles, then we'll return the cash to shareholders. So that's the posture we always adopt. So it's not like we got to go find x amount of M&A every year. We need to find things that are attractive from a return point of view. And if we can't, it's coming back to our shareholder base.

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

Fair enough. Best of luck this year, guys.

Operator

The next question comes from Mike Halloran with Baird.

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

Jay just tying everything up, when you think about the year and the idea that things get better through the year for you, how much of that is tied to comps and destocking being behind you versus a fundamental thought process that the underlying demand patterns improve across numerous business you have?

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

I don't think that we're getting over our skis in terms of demand. At the end of the day, we've got 1% to 3% in top line. Now taking to that 1% to 3% is, we've got a small amount of dilution because we sold the stake out versus what we brought into the portfolio. I think from an earnings point of view, that neutralized itself, but not from a top line point of view when I take a look at the math.

We've got certain parts of the portfolio that have just done fantastically which would be can-making equipment and polymer processing equipment where are cycling down. So -- we've known about this product. And that's why we've been investing in a variety of other portions of the portfolio to cycle up and we take a look that we had a couple of footfalls last year that we don't expect to repeat.

So net-net, the underlying growth is higher than 1%, 3% because we're incorporating the headwind that we have on some of the cyclical portions of the portfolio, but it's not as if we're baking in this return on just overall GDP growth, I think that what's really baked into our growth is where we have invested. So like what we try to highlight on that page. I mean, we've taken -- we've got a significant amount of revenue growth on 3 platforms that really didn't exist in the group up until a year ago of any consequence.

So the growth is a little bit better than the highlight figure just because of the headwinds we got on the cyclical ones. And it's largely driven on specific products and end market exposure rather than AG. The Fed is going to drop interest rates and GDP is going to expand.

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

Yes. I guess what I would add to that is unlikely we've been pretty vocal about the fact that price was pretty significant to the top line over the last 2 years that I would say, while it's not a big set of numbers here because of the 1% to 3% guide, there is positive volume growth, except for the first quarter as we come down on this idiosyncratic issue that we're talking about. So I think it is a better set up for us this year than years past where you can actually now think about plant absorption, return to volume, not just price.

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

Helpful. It makes a lot of sense. And then when you think about the pumps business, the industrial pumps piece, maybe just talk about what you're seeing underneath the hood on that side, trajectory, order trends, et cetera, and how you're thinking about that for the year?

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

It's decent. It really -- the industrial pump side never really had the kind of headwind in terms of stocking and destocking. And that's really high-value equipment. So it's -- it's more or less fundamental demand. I think there was some caution in the back half of '23 just because of the carryover of interest rates and everything else. I think what's baked into our forecast this year is some growth, but not anything extraordinary on the industrial side.

Operator

The next question comes from Steve Tusa with JPMorgan.

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

Where are you in the like standoff on price and volume? And what do you assume for price for the year?

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

Price is about 1 point to 1.5 points -- and on volume, I think -- what's that?

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

Roughly, the same thing. 50-50.

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

Yes. 1 point to 1.5 point, and so it's 50-50 on price volume. And I think that we've done the hard work because of what the argument of against price is inventory balances, and I think that -- but one way you can protect price is not get over your skis in terms of inventory. And I think based on what you see in our cash flow that we've done the hard work, it's set up there. So right now, all we need to do in toggle production with orders at this point.

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

How much do you think that production take down in the quarter? Did that impact margins to a degree?

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

Yes. I mean you can see it in clean energy for sure.

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

Got it. And then lastly, just any kind of more specific color on total margins for the year, whether it's basis point improvement or a hard number for margins.

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

How's up for an answer? It's so dependent on mix. We'd like to see we'd like to see a quarter or 2 before we want to put a hard number on it. But I think that by and large, we should mix up this year.

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

Sorry, one more for you. EPS seasonality too, how do you see that kind of feathering in over the course of the year? What do you expect in 1Q? And then how does that build?

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

Right. I think that Q1 will be more of a reflection to Q4. So don't get all worked up about the comp. And then we bought -- we get the absorption because we ramp from there and then regular seasonality -- the vast majority of the accretion in EPS should be Q2 and Q3. And by the time we get to the half year, we'll probably have a good idea of where we stand on Q4. But I think that we put it in all the caution that we can just in terms of the macro, right?

This is -- our fundamental forecast is basically what we think volume is going to be by vertical here that's -- so we think that we can hit these numbers. And if we get a better macro or we get biopharma or a return on some out of HVAC, then we're ready to go, but we prefer -- rather than trying to lead that like we have over the last couple of years and speaking to those end markets, it's more of a show me. [It comes, we'll operate our forecast.]

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

Yes. And on those 2 businesses, specifically, we're talking about SWEP and CPC. When the volume does come, they do convert, and the mix is up. So that's the good news.

Operator

The next question comes from Joe Ritchie with Goldman Sachs.

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

So Rich, a lot of discussion around your portfolio these days. Just curious what you'd like to share about the potential to unlock value by divesting some of the pieces of the portfolio? Any comments you'd like to share there would be great.

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

I mean we're committed to managing the portfolio. I think -- we sold DE-STA-CO, I think, at a pretty good price in 2023. We've just -- we've closed 3 acquisitions over the last 5 months where I think -- are margin accretive and more growth-oriented assets. So I think we'll do the same thing. I think that bigger portfolio moves, you need balance sheet optionality. And I think that if you look -- well, you know the knock-on effect of the really good cash flow that we have this past year is our balance sheet optionality is in a really good place. So -- which -- we can be a be more prosaic about what that means, but at least the building blocks that we need to continue the same portfolio have improved year-over-year. (inaudible) put it in that way.

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

Okay. That's helpful. And I missed some of the initial commentary around the guide. I know that organically, I think you guys have talked about maybe 5% to 7% EPS growth. But just maybe kind of help me understand the low end, the high end, what kind of shapes both of those.

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

Well, I mean, the headline figure at 1% to 3%, you need to take into account that we know where we have cyclical headwinds going forward, right? So we had banked significant profits out of polymer processing and can-making equipment that we knew this headwind was coming. So in that 1% to 3%, we're making all that up. We've got a bit of a headwind in terms of the disposal of DE-STA-CO coming out that -- the acquisitions, I think from a profit point of view neutralizes it, not from a top line point of view.

And then I think that we've -- unlike previous years, where we've kind of led forecasting in terms of biopharma and HVAC components because those are battlegrounds. We've taken a very cautious stance on that, and we're going to wait to see how the market develops.

Operator

The next question comes from Jeff Sprague with Vertical Research.

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

Rich, just back to capital deployment. If I think about what you've laid in the guide here today, is there any prospective capital deployment on share repurchase or deleveraging or anything like that in the numbers?

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

Some, right. Look, if you calculate the EPS accretion on a cautious top line that you'd come with an incremental margin that is pretty high, right? So at the end of the day, what's incorporated in there is a little bit of capital deployment, whether that be in M&A activity or share repurchase. The timing of which we'll let you know when it happens.

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

And then on your Slide 10, right? I mean you do have 2 segments that are net negative M&A. I mean, does this kind of inform where we're headed over time. There's (inaudible) DCST, obviously, CO2, but should we take that chart at face value on where you're -- how you're thinking about reshaping the portfolio.

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

Well, that chart actually foots to the chart that we put out in 2020 in terms of the hierarchy of capital allocation to a certain -- well, I think the DPPS and DCF kind of flipped. But that because you can't control in terms of closing acquisitions.

Yes. I mean, overall, yes. I mean if you think that Engineered Products outside of defense has been an organic issue for us for some time. And DCST, Belvac and SWEP are organic.

And I think in refrigeration, I think that what we've done with the total investment, that would be an organic play also. So yes. I think that the hierarchy there, they may flip around a little bit, but it's largely correct.

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

Okay. And just on the -- back on the orders, Rich, that strengthened process orders in the quarter. Was that all bio or did something else notably pick up in there?

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

I think it's broad based, and I think it's more influenced by -- what are we calling this -- the thermal connectors.

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Operator

The next question comes from Julian Mitchell with Barclays.

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

Maybe I just wanted to start with the operating margins. So I realize you're not giving a sort of firm-wide number for this year or much segment color. So maybe trying to think about some of the firm-wide drivers of margin this year. So I think there's some positive volume leverage because those are up 1, 1.5 points. Price cost is broadly neutral. M&A and divestment seems maybe neutral what you've announced so far. So wondered if those 3 assumptions were right.

And then mix, I guess, anything you'd characterize from all those moving parts sort of biopharma, stable; heat pump, down; polymer and can, down; maybe fueling, up. In aggregate, is there much of a mix impact, do you think, on margins in your guide?

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

Well, you touched on them all, Julian. Yes. I mean, look, we -- we cut production in DCF to manage inventories. So that is not just a lost products that we sell. It's all -- and we did it on the underground portion of the business, which is highly margin accretive.

And -- so we get that back and it's reflected in Q4, and it's reflected in year-over-year. So we would expect as we balance production that returns. Engineered Products, really the bulk of the margin accretion in '23 was driven by ESG, but that was more or less back half, and we expect a full year of that going into 2024. And if you recall, we had a little bit of a hiccup with an implementation of the ERP and VSG last year, which we don't expect to reoccur again.

So that's helpful. DII, where do we close at 25% margins. That's great. So that's more a revenue issue for us. DPPS has had a biopharma headwind now for 2-plus years. What we're calling here is it's no longer a headwind and whatever we get on the top side, which we're not baking in a lot right now or hardly anything, is going to be accretive.

And the DCST has got right now in our forecast would be margin down on mix because Belvac, which we knew was going to come down and our cautious stance on heat pumps. If we're wrong about being cautious about heat pumps, then that will flex that -- the headwind will be less than we've got modeled into our forecast for the year.

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

That's very helpful. And I just wanted to follow up when you were talking about sort of some of the quarterly earnings trends. So do we assume sort of Q1 earnings or EPS is flattish? And then as you said, you get into the meat of the earnings growth in Q2 or Q3?

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

Yes, I'm not going to go -- it's -- Q1 will be more of a reflection of the carryforward of Q4. What we'll get is some amount of production ramp but a lot of bad comps and then we accelerate right out of there.

Operator

The next question comes from Nigel Coe with Wolfe Research.

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

We've cover a lot of ground. And Rich, you clearly don't want to give too much color on margins, but I just want to have another crack here. Clearly, margin leverage is a big driver of earnings this year. So -- maybe just talk about what you baked in structural cost savings? I know we've got some roll forward from some of the actions you took in '23. But maybe just itemize any other significant cost actions you've taken driving margins in '24.

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

Yes. If we go back and look at the transcript, Nigel. We do have carryforward from actions that we took in the back half of the year. We've got some coming.

I'm not ready to calendarize it yet because they're not fully baked, but we do have a list of -- we do have a list of cost actions which are more of a revenue hedge. So if we take those actions and we're right on the demand profile, those should actually be accretive to us. So they're not necessarily baked in at this point. And the reason they're not baked in is because we're working on the timing in terms of the execution.

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

Okay. And then on pricing, you've been very conservative in pushing price. I mean, I think we've all been a little bit nervous about some of the more raw material sensitive businesses, SWEP, Hill PHOENIX and maybe parts of ESG as well.

But it sounds like your customers are forecasting inflation on their components, specifically with the HVAC end market. So just curious what you're seeing in terms of pricing power across the portfolio in '24, specifically within some of these more raw material sensitive end markets.

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

Yes, it's interesting. I mean if you go back and look at our realized pricing, and I'm talking about the (inaudible) of the pricing that's fallen all the way to the bottom line. It has not been dramatic for us. And it's a source of consternation around here of what is capable in pricing. And so if we look at some of our end market customers and what they've passed through on pricing, I guess that we've been jealous for lack of better word. So to us, it's been -- we've -- I don't want to be negative. I think we've taken some price. I don't feel that -- we've got a couple of businesses that have escalation, de-escalation clauses in terms of inputs. I think we've been on the front foot in those businesses of being proactive about locking in our pricing, especially going into this year.

So right now, we've actually got a little bit of room if we had to give back pricing, but that's not my expectation. Our issue has always been that the way to defend pricing is not to get over your skis in inventory, and that's why we took it into the neck to a certain extent to kind of manage that position at the end of last year, going into kind of the demand environment at least the setup as we see it today, I think that we feel good about our ability to protect price.

Operator

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

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

Was there any comments, puts or takes on how January started, just a couple of minutes ago, the ISM January New Orders came out at above 50 for the first time, I think, in like 1.5 years. So at 52.5 but any puts and takes from your perspective there?

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

You know what, I don't know. So I would expect if it's been terrible, I would have heard something. Usually, when it's positive, no one tells me anything. But -- so we haven't even closed the month yet, Deane. So -- but I'm unaware of it being worse than what we have baked in.

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

All right. Good to hear. And then just a quick question. Data center cooling came up a couple of different times. Your heat exchangers play a key role there. Do you have a sense of how that is geared towards air cooling versus liquid cooling because there's a big investment cycle starting -- I mean it's more than 30% growth in liquid cooling side. Will you participate in that?

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

It's almost exclusively levered towards liquid cooling.

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

Yes. And are you not tied to a particular vendor, you'll be -- you're a component supplier to -- for that. Is that correct?

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

That's correct.

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

Yes. When we say thermal, we mean liquid cooling in data centers.

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

We supply everybody.

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

So it's not just heat exchangers, it's connectors, too.

Operator

Thank you. That concludes our question-and-answer period and Dover's Fourth Quarter and Full Year 2023 Earnings Conference Call. You may now disconnect your line at this time, and have a wonderful day.
