

Dover Corporation (DOV)

\$105.24 (As of 08/07/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Dover's second-quarter 2020 earnings per share (EPS) and sales beat the Zacks Consensus Estimates but declined year on year. It has re-initiated the current-year guidance on solid year-to-date margin performance and expectations of a possible demand improvement in the third quarter. Dover now expects adjusted EPS between \$5.00 and \$5.25 for 2020. However, Dover expects demand uncertainties and challenges related to COVID-19 to continue in the current year. It is poised to gain from solid order backlog across its segments, strong growth in biopharma, aerospace & defense, heat exchangers and marking & coding business for the current year. Dover's cost reduction initiatives, M&A and execution of margin targets are likely to aid third quarter earnings. Dover's strong financial position and prudent capital structure bode well.

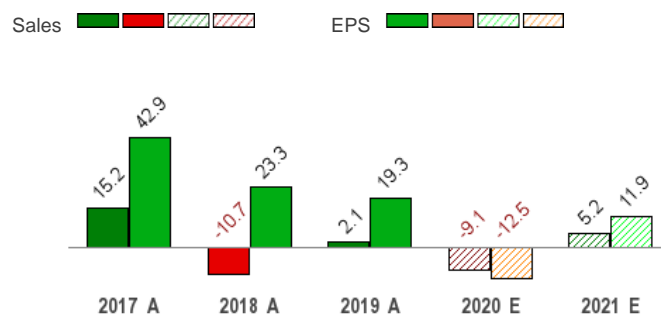
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$120.26 - \$62.95
20 Day Average Volume (sh)	827,161
Market Cap	\$15.6 B
YTD Price Change	-6.3%
Beta	1.39
Dividend / Div Yld	\$1.96 / 1.8%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Top 48% (121 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.0%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	9.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	19.1
P/E F1	20.3
PEG F1	1.8
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,663 E	1,697 E	1,774 E	1,806 E	6,824 E
2020	1,656 A	1,499 A	1,633 E	1,694 E	6,485 E
2019	1,725 A	1,811 A	1,825 A	1,776 A	7,136 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.40 E	\$1.41 E	\$1.54 E	\$1.53 E	\$5.81 E
2020	\$1.39 A	\$1.13 A	\$1.30 E	\$1.36 E	\$5.19 E
2019	\$1.24 A	\$1.56 A	\$1.60 A	\$1.54 A	\$5.93 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

Overview

Incorporated in 1955, New York-based Dover Corporation is an industrial conglomerate producing a wide range of specialized industrial products and manufacturing equipment.

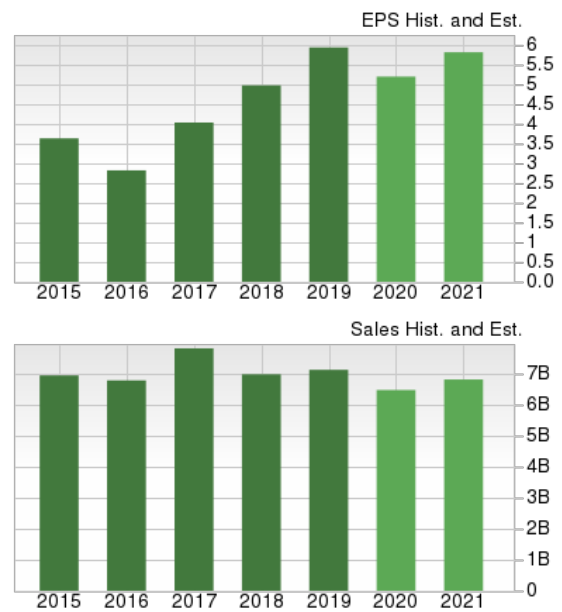
Since Oct 1, 2019, the company has transitioned from a three-segment to a five-segment structure as a result of a change to its internal organization. These segments are Engineered Products, Fueling Solutions, Imaging & Identification, Pumps & Process Solutions and Refrigeration & Food Equipment.

Fueling Solutions (41% of total revenues in 2019) segment serves the Fueling & Transport, Pumps and Process Solutions end markets. The division also focuses on the safe handling of critical fluids across the retail fueling, chemical, hygienic, oil and gas and industrial end markets. The unit's brands include Finder, Maag, OPW, and Hydro Systems.

Engineered Products (38%) segment comprises two platforms, Printing & Identification, and Industrials. The segment focuses on the design, manufacture and service of critical equipment and components serving the fast-moving consumer goods, digital textile printing, vehicle service, environmental solutions and industrial end markets. Industrial brands include Warn and Texas Hydraulics. The printing and identification business provide integrated printing, coding and identification solutions. Brands and products include IMAJE & Markem product labeling equipment, Datamax barcode equipment, Everett Charles Tech semi-cap machinery, and DEK circuitboard assembly equipment.

Refrigeration & Food Equipment (21%) segment serves the Refrigeration and Food Equipment end markets, and provides a variety of commercial refrigeration units, appliances, and heat exchangers for the foodservice, food processing, beverage and retail industries. Brands include Anthony and Hillphoenix refrigeration cases, and Belvac Production Machinery.

On Jan 22, 2019, Dover has entered an agreement to acquire Belanger, a leading full-line car-wash equipment maker. The buyout have boosted Dover's OPW business unit's performance, using Belanger's strong engineering and innovative solutions.



Reasons To Buy:

- ▲ Dover's backlog remains healthy across its segments. Its backlog increased 7.8% year over year to \$1.52 billion at the end of the second quarter of 2020. Robust order backlog by its long business cycle as well as sequential intra-quarter improvement in many shorter cycle businesses are likely to aid third-quarter 2020 results. The company is poised to gain from growth in biopharma, aerospace & defense, heat exchangers and marking & coding business for remaining period of the current year. In the Engineered Products, vehicle service and industrial automation are showing signs of improvements, while structural cost actions will support the segment's margin in the current year. In Fueling Solutions, order trends have been robust on US EMV conversion. The Imaging & Identification segment will continue to gain from strong demand for consumables and fast-moving consumer goods solutions. Dover expects the segment performance to improve in the second half driven by the pick-up in textiles consumable volumes and demand rebound in digital printing business. In the Pumps & Process Solutions segment, strong demand for food and beverage, recovery in industrial pumps and strong growth in biopharma and hygiene market on account of the coronavirus outbreak are likely to be conducive to the segment's performance in the current year. In Refrigeration & Food Equipment segment, recovery in volumes, along with cost-control actions, will drive the segment's margin and profitability in 2020.
- ▲ Dover will gain from product digitization, e-commerce, new product development, and inorganic investment in core business platforms. Despite travel restrictions, global lockdowns, production curtailments and reduced volumes, Dover's productivity and cost-control initiatives boosted margin performance in the second quarter of 2020, positioning it well to exceed the margin conversion target of 25-30% for 2020. Dover also aims to lower capital expenditure forecast for the current year. It executed restructuring programs to better align the costs and operations with current market conditions through targeted facility consolidations, headcount reductions and other measures, which will support the company's margins in second half of the current year. The company has initiated several growth and productivity capital projects and has started investments in can forming and heat exchanger businesses to capture growing volumes and upgrade competitive capabilities.
- ▲ Dover continues to lower its debt levels and strengthen the balance sheet. Its long-term debt was around \$3 billion at the end of second-quarter 2020, flat with the prior quarter. Its total debt to total capital stands at 49.3%, lower than its industry's 53%. Moreover, the company's times interest earned ratio has been improving for the past six quarters and came in at 8.0x at the end of the second quarter. This indicates that the company will be able to meet debt obligations in the near future. Dover has current liquidity of \$1.6 billion consisting \$650 million of cash and revolving credit capacity of \$1 billion. In the June-end quarter, the company secured new incremental \$450 million revolving credit facility to bolster liquidity position. Moreover, Dover has lifted its recent suspension on share repurchase and will continue to buy back stocks. Dover's strong financial position, prudent capital structure, refinancing efforts and momentum in operational execution poise it well to navigate through the current turbulent situation.
- ▲ Dover has a long tradition of making successful acquisitions in diverse end markets. In 2019, the company acquired three businesses for a total consideration of \$216.4 million. The company made these acquisitions to complement and expand upon the existing operations within the Fueling Solutions and Pumps & Process Solutions segments. Dover has deployed nearly a \$250 million on accretive acquisitions so far this year and continue to pursue attractive acquisitions. In January, Dover completed the acquisition of Systech International. The buyout supports Dover's marking and coding portfolio, and expand software and service revenues within Markem-Imaje segment. Dover is on track to integrate Systech which poise it well to increase backlog in the segment.

Dover is poised to gain from solid order backlog, cost-reduction initiatives and execution of margin targets. Further, product digitization, e-commerce, new product development will boost growth.

Reasons To Sell:

- ▼ Demand environment across the company's business remains uncertain. Even though activity across most markets improving, it remains below the pre-pandemic levels. In the first quarter 2020, Dover has withdrawn current year guidance on account of the uncertainty related to the coronavirus pandemic and its negative impact on the demand environment. However, backed by solid year-to-date margin performance and expectations of a possible improvement in demand during the September-end quarter, Dover has re-initiated the current-year guidance. The company now expects adjusted earnings per share (EPS) between \$5.00 and \$5.25 reflecting a year-over-year decline of 11.7% at the mid-point.
- ▼ Demand conditions in textile printing and food service remain at dismal levels, while food retail and automotive aftermarket were challenged during the June-end quarter. In the Engineered Products segment, waste handling business might face headwinds due to tightening of industry capital expenditure and municipal finances after several years of solid growth. In Imaging & ID, digital textile printing will be affected in 2020 as apparel markets have been hit hard by the shutdown of Apparel Retail globally. In Pumps & Process Solutions, the oil and gas mid- and downstream markets served primarily by precision components business continues to be impacted by deferral of capital expenditure and refurbishment spending in refining and pipelined operators.
- ▼ Dover is facing near-term demand headwind due to weak food and retail construction markets in the Refrigeration & Food Equipment segment. Commercial food service market is adversely impacted by restaurant and school closures in the United States. Decline in order trends and postponing construction projects due to peak traffic volumes are contributing to lower demand in the segment. Also, the SWEP heat-exchanger business has faced operational disruptions in Asia and demand reduction in the HVAC industry globally. These factors are likely to impact the segment's results in the near term.
- ▼ Overall slowdown in the manufacturing sector pose a threat for the company. Per the Institute for Supply Management's report, the U.S Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. Even though the index climbed to 52.6% in June, the manufacturing index averaged 45.7% for the second quarter. The July PMI reading came in at 54.2%. It remains to be seen whether the recovery in the past two months will sustain considering the surge in coronavirus cases.

Dover's results in 2020 is likely be hurt by the pandemic as well as weak demand across end-markets. Also, challenging market conditions in retail refrigeration remain a headwind.

Last Earnings Report

Dover's Q2 Earnings & Sales Beat Estimates, Down Y/Y

Dover recorded second-quarter 2020 adjusted earnings per share from continuing operations of \$1.13, beating the Zacks Consensus Estimate of 89 cents per share. The figure, however, declined 28% from the prior-year quarter's \$1.56 per share as the COVID-19 pandemic impacted its end markets.

On a reported basis, Dover delivered earnings per share of 86 cents in the June-end quarter, reflecting a year-over-year plunge of 36%.

Total revenues in the second quarter came in at \$1,499 million, marking a decline of 17% from the year-ago quarter. The revenue figure, however, surpassed the Zacks Consensus Estimate of \$1,458 million.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	2.82%
EPS Surprise	26.97%
Quarterly EPS	1.13
Annual EPS (TTM)	5.66

Costs and Margins

Cost of sales fell 17% year over year to \$948 million during the April-June quarter. Gross profit declined 18% year over year to \$552 million. Gross margin came in at 36.8% compared with the year-ago quarter's 37.2%.

Selling, general and administrative expenses slipped 7.5% to \$367 million from the prior-year quarter. Operating profit decreased to \$185 million from the year-ago quarter's \$276 million. Operating margin came in at 12.3% compared with the year-ago quarter's 15.2%.

Segmental Performance

The Engineered Products segment revenues went down to \$342.3 million from the \$429.9 million recorded in the year-ago quarter. The segment's income decreased 37.6% year over year to \$48 million.

Fueling Solutions segment revenues declined to \$326.5 million from the \$390.6 million recorded in the prior-year quarter. The segment's income declined 11.3% year over year to \$47 million.

The Imaging & Identification segment revenues fell to \$228 million from the \$267 million recorded in the comparable period last year. The segment's income plunged 31% year over year to \$38 million.

The Pumps & Process Solutions revenues dropped 8.8% year over year to \$309 million in the quarter. The segment income came in at \$68 million compared with the year-ago quarter's \$76 million.

The Refrigeration & Food Equipment segment's revenues declined 23.6% to \$294 million from the year-earlier quarter's \$385 million. The segment's operating income slumped 75% year over year to \$11.5 million.

Bookings and Backlog

Dover's bookings at the end of the second quarter were worth \$1.41 billion, down 22.5% year over year. Backlog increased 7.8% year over year to \$1.52 billion at the end of the reported quarter.

Financial Position

Dover generated free cash flow of \$232.8 million in the reported quarter compared with the prior-year quarter's \$154.7 million. Cash flow from operations came in at \$271.8 million in the June-end quarter compared with the year-ago quarter's \$208.7 million.

Outlook

Dover has re-initiated the current-year guidance on the solid year-to-date margin performance and expectations of a possible improvement in demand during the September-end quarter. The company now expects adjusted earnings per share (EPS) between \$5.00 and \$5.25.

Dover is poised to benefit from year-over-year higher backlog driven by its long business cycle and sequential intra-quarter improvement in many shorter cycle businesses.

Valuation

Dover shares are down 6.3% in the year-to-date period and up 19.8% over the trailing 12-month period. Stocks in the Zacks Manufacturing – General Industrial industry and the Zacks Industrial Products sector are down 5.2% and 3.6% in the year-to-date period, respectively. Over the past year, the Zacks sub industry and sector are up 9% and 12.2% respectively.

The S&P 500 index is up 3.9% in the year-to-date period while up 16.3% in the past year.

The stock is currently trading at 19.40X forward 12-month earnings, which compares to 27.13X for the Zacks sub-industry, 21.81X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.75X and as low as 10.47X, with a 5-year median of 17.18X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$113 price target reflects 20.29X forward 12-month earnings per share.

The table below shows summary valuation data for DOV:

Valuation Multiples - DOV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.4	27.13	21.81	22.77
	5-Year High	26.75	27.13	21.81	22.77
	5-Year Low	10.47	15.6	12.55	15.25
	5-Year Median	17.18	19.7	17.48	17.58
P/S F12M	Current	2.32	3.44	2.90	3.66
	5-Year High	2.39	3.44	2.9	3.66
	5-Year Low	1.15	1.58	1.52	2.53
	5-Year Median	1.69	2.25	2.04	3.05
EV/EBITDA TTM	Current	13.1	19.47	19.49	12.62
	5-Year High	17.35	19.47	19.49	12.84
	5-Year Low	7.6	8.85	10.84	8.24
	5-Year Median	12.45	12.2	14.9	10.9

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
Colfax Corporation (CFX)	Neutral	3
Carlisle Companies Incorporated (CSL)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
John Bean Technologies Corporation (JBT)	Neutral	3
3M Company (MMM)	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	DOV	X Industry	S&P 500	CSL	JBT	MMM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	B	A
Market Cap	15.55 B	1.26 B	23.30 B	6.87 B	3.26 B	91.20 B
# of Analysts	8	3	14	4	5	7
Dividend Yield	1.81%	0.00%	1.76%	1.59%	0.39%	3.71%
Value Score	B	-	-	A	C	B
Cash/Price	0.04	0.11	0.07	0.11	0.02	0.05
EV/EBITDA	14.43	12.67	13.32	9.47	15.31	14.60
PEG Ratio	1.88	3.31	2.94	1.49	4.76	2.03
Price/Book (P/B)	5.03	2.14	3.19	2.73	5.46	8.36
Price/Cash Flow (P/CF)	13.71	11.41	12.51	10.44	14.47	13.17
P/E (F1)	21.27	28.01	22.02	22.42	26.28	19.24
Price/Sales (P/S)	2.30	1.23	2.53	1.53	1.71	2.91
Earnings Yield	4.80%	3.11%	4.37%	4.46%	3.81%	5.20%
Debt/Equity	0.97	0.51	0.77	0.83	1.09	1.82
Cash Flow (\$/share)	7.88	2.49	6.94	12.06	7.10	12.02
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	16.20%	10.21%	10.46%	10.24%	27.36%	4.06%
Proj. EPS Growth (F1/F0)	-12.44%	-24.63%	-6.80%	1,095.21%	-21.25%	-7.34%
Curr. Cash Flow Growth	10.20%	0.16%	5.39%	19.98%	14.88%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	1.28%	7.29%	8.55%	13.96%	25.60%	1.67%
Current Ratio	1.32	2.06	1.33	3.51	1.55	1.94
Debt/Capital	49.27%	34.34%	44.50%	45.22%	52.05%	64.56%
Net Margin	9.99%	4.34%	10.13%	8.43%	7.20%	16.38%
Return on Equity	27.33%	10.81%	14.39%	15.60%	27.66%	46.86%
Sales/Assets	0.76	0.77	0.51	0.77	1.01	0.70
Proj. Sales Growth (F1/F0)	-9.13%	-7.71%	-1.51%	-11.76%	-11.55%	-1.43%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	2.65%	1.46%	0.90%	3.74%	3.96%	1.49%
1 Week Price Chg	-2.45%	-1.68%	0.14%	-1.46%	4.24%	-5.86%
4 Week Price Chg	13.88%	9.37%	8.95%	11.44%	26.62%	4.54%
12 Week Price Chg	26.37%	23.33%	18.90%	18.04%	68.16%	16.43%
52 Week Price Chg	16.89%	-3.08%	1.18%	-10.63%	-2.37%	-3.59%
20 Day Average Volume	827,161	67,224	2,057,775	555,795	184,631	2,861,299
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.91%	0.70%
(F1) EPS Est 4 week change	9.78%	0.28%	1.36%	1.04%	7.96%	4.05%
(F1) EPS Est 12 week change	9.78%	1.03%	1.57%	0.00%	8.68%	3.90%
(Q1) EPS Est Mthly Chg	2.79%	2.85%	0.54%	-13.23%	-3.78%	4.90%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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