

## Dover Corporation (DOV)

**\$100.53** (As of 03/10/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:C

Value: C

Growth: A

Momentum: F

### Summary

Dover expects earnings per share between \$6.20 and \$6.40 for 2020. The midpoint of the guidance range reflects year-over-year growth of 6%. Solid order backlog across all business segments, productivity and cost initiatives, and execution of margin targets are likely to result in this upside. Robust order backlog, augmented by customer wins, is likely to aid the current quarter's results. Dover is also poised to gain from product digitization, e-commerce, new product development, and inorganic investment in core business platforms. The company has a long tradition of making successful acquisitions in diverse end markets. However, the company's results will be hurt by soft retail refrigeration demand and input cost inflation. It is also bearing the brunt of foreign-exchange headwinds, which will likely thwart margins in the ongoing year.

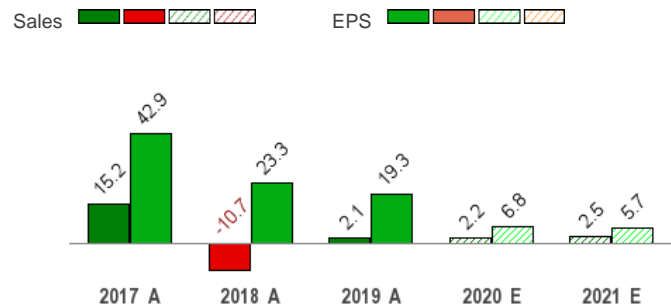
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$120.26 - \$87.07</b>
20 Day Average Volume (sh)	<b>1,068,957</b>
Market Cap	<b>\$14.5 B</b>
YTD Price Change	<b>-12.8%</b>
Beta	<b>1.51</b>
Dividend / Div Yld	<b>\$1.96 / 1.9%</b>
Industry	<a href="#">Manufacturing - General Industrial</a>
Zacks Industry Rank	<b>Bottom 31% (175 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>5.5%</b>
Last Sales Surprise	<b>-1.6%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>04/16/2020</b>
Earnings ESP	<b>-12.7%</b>
P/E TTM	<b>16.9</b>
P/E F1	<b>15.9</b>
PEG F1	<b>1.4</b>
P/S TTM	<b>2.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,749 E	1,900 E	1,905 E	1,887 E	7,478 E
2020	1,720 E	1,854 E	1,868 E	1,853 E	7,296 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	\$1.72 E	\$1.73 E	\$1.68 E	\$6.69 E
2020	\$1.43 E	\$1.61 E	\$1.66 E	\$1.60 E	\$6.33 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 03/10/2020. The reports text is as of 03/11/2020.

## Overview

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

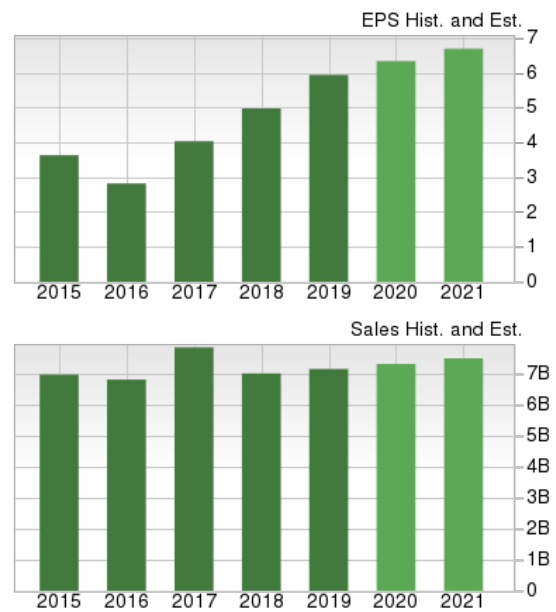
Since Oct 1, 2019, the company has transitioned from a three-segment to a five-segment structure as a result of a change to its internal organization. These segments are Engineered Products, Fueling Solutions, Imaging & Identification, Pumps & Process Solutions and Refrigeration & Food Equipment.

**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.



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## Reasons To Buy:

- ▲ Dover's backlog increased 7.4% year over year to \$1.45 billion at the end of the fourth quarter of 2019. Robust order backlog augmented by customers' wins and execution of margin targets, is likely to aid first-quarter 2020 results. In the current year, Engineered Products is expected to grow on continued strength in waste handling, vehicle services and aerospace and defense business. Imaging & Identification is likely to grow on improved outlook in Asia for both marking and coding and textile printing. Refrigeration & Food Equipment is also expected to grow modestly in 2020. Backed by solid order backlog across all business segments, productivity and cost initiatives, M&A and continued execution of margin targets, the company now expects its adjusted earnings per share guidance in the band of \$6.20-\$6.40 for the current year from the prior estimate of \$5.75-\$5.85.
- ▲ Dover will gain from product digitization, e-commerce, new product development, and inorganic investment in core business platforms. Meanwhile, the company's cost-reduction initiative, which includes overhead reduction, will boost margins. Dover also executed restructuring programs to better align the costs and operations with current market conditions through targeted facility consolidations, headcount reductions and other measures. The company has initiated several growth and productivity capital projects and is starting investments in can forming and heat exchanger businesses to capture growing volumes and upgrade competitive capabilities.
- ▲ Dover continues its efforts to simplify its portfolio and increase focus on the markets with growth prospects. 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. This new structure is likely to increase management efficiency and better align Dover's operations with strategic initiatives and capital-allocation priorities across its businesses. Moreover, Dover's Apergy spin-off has enabled it to expand core platforms, which compete in lower volatility industrial markets, and is well poised to provide a strong foundation for reinvestment, long-term sustainable revenues, earnings growth and strong free cash flow generation.
- ▲ 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. The company has completed the acquisition of All-Flo Pump Co during the second quarter, reflecting benefits from retail fueling, margin improvement and acquisitions. In January 2020, 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. The deal is expected to accretive to the first-year adjusted EPS. On the same date, Dover entered into an agreement to acquire Soft-Pak, Incorporated. Further, the company expects to generate strongest free cash flow in the current year.

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.

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### Reasons To Sell:

- ▼ Dover's Fueling Solutions is expected to have a sluggish 2020 compared with the strong past couple of years as the underground upgrade cycle in China rolls off and EMV activity in the United States picks up.
- ▼ Tariffs imposed on steel and aluminum products have led to higher input costs. This, in turn, will dent margins if the company is not able to pass the price increases to customers. Dover is bearing the brunt of foreign-exchange headwinds, which is expected to thwart margins in the first quarter.
- ▼ Dover's Refrigeration & Food Equipment segment has been hurt by weak food and retail construction markets on its revenues for the past few quarters. In the third quarter of 2019, the segment's margin was partially affected by lower volumes in the SWEP heat exchanger business, notably in Asia and reduced retail refrigeration systems demand.

Dover's results in 2020 will be hurt by input cost inflation due to the implementation of tariffs. Also, softer demand conditions in retail refrigeration remain a headwind.

## Last Earnings Report

### Dover's Earnings Trump, Sales Miss Estimates in Q4

Dover reported fourth-quarter 2019 adjusted earnings per share from continuing operations of \$1.54. The figure improved 7.7% from the prior-year quarter's \$1.43 per share. Earnings also beat the Zacks Consensus Estimate of \$1.46.

On a reported basis, Dover delivered earnings per share of \$1.15 in the December-end quarter, up 7.5% year over year.

Total revenues in the quarter came in at \$1,775.5 million, marking a decline of 1.8% from the year-ago quarter's \$1,808.9 million. The revenue figure also missed the Zacks Consensus Estimate of \$1,804 million.

### Costs and Margins

Cost of sales fell 3.4% to \$1,124 million in the October-December quarter. Gross profit inched up 0.9% year over year to \$651.3 million.

Selling, general and administrative expenses slipped 5.4% to \$403.2 million from the \$426.2 million reported in the prior-year quarter. Operating profit increased to \$248 million from the year-ago quarter's \$218.7 million.

### Segmental Performance

The Engineered Products segment revenues went up to \$422 million from the \$412.3 million recorded in the year-ago quarter. The segment's income increased 19.6% year over year to \$73 million.

The Fueling Solutions segment revenues increased to \$444.7 million from the \$415.3 million recorded in the prior year quarter. The segment's income rose 37% year over year to \$74 million.

The Imaging & Identification segment revenues went down to \$274.4 million from the \$284.4 million recorded in the comparable period last year. The segment's income went up 8.5% year over year to \$57.2 million.

The Pumps & Process Solutions revenues declined 11.3% year over year to \$328 million in the quarter. The segment income slipped 4.4% year over year to \$71.3 million.

The Refrigeration & Food Equipment segment's revenues declined 6.3% to \$306.2 million from the year-ago quarter's reported figure of \$326.8 million. The segment's operating income rose 10% year over year to \$14.4 million.

### Bookings and Backlog

Dover's bookings at the end of the fourth quarter were worth \$1.84 billion, down from the \$1.85 billion recorded at the end of fourth-quarter 2018. Backlog increased 7.4% year over year to \$1.45 billion at the end of the reported quarter.

### Financial Position

Dover generated free cash flow of \$759 million in 2019 compared with the \$618 million recorded in 2018. Cash flow from operations came in at \$945.3 million in 2019 compared with the \$789 million witnessed in 2018.

### 2019 Performance

Dover reported adjusted earnings per share of \$5.93 for 2019, up 19.3% from the \$4.97 per share recorded in the prior year. Earnings also surpassed the Zacks Consensus Estimate of \$5.85.

Revenues grew 2.1% year over year to \$7.14 billion from the \$6.99 billion witnessed in 2018. Nevertheless, revenues lagged the Zacks Consensus Estimate of \$7.17 billion.

### Outlook

Dover is focused on expanding productivity initiatives while its mergers and acquisitions pipeline remain robust. The company is well poised to register top-line growth, margin expansion and solid earnings per share (EPS) accretion in the current year. It continues to create value through sustainable growth, profitability improvement, strong cash flow, smart organic and inorganic capital deployment.

For 2020, Dover now expects to generate adjusted EPS in the band of \$6.20-\$6.40 based on 2-3% revenue growth.

On Jan 24, the company completed the acquisition of Systech International. The transaction is expected to accretive to the first-year adjusted EPS. On the same date, Dover entered into an agreement to acquire Soft-Pak, Incorporated. The deal is likely to close in the ongoing quarter.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-1.60%
EPS Surprise	5.48%
Quarterly EPS	1.54
Annual EPS (TTM)	5.94

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## Valuation

Dover shares are up 11% over the trailing 12-month period. Stocks in the Zacks Manufacturing – General Industrial industry and the Zacks Industrial Products sector are down 0.7% and 10.2% over the past year, respectively.

The S&P 500 index is up 2.1% in the past year.

The stock is currently trading at 15.72X forward 12-month earnings, which compares to 18.16X for the Zacks sub-industry, 15.22X for the Zacks sector and 16.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.75X and as low as 11.85X, with a 5-year median of 16.68X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$107 price target reflects 16.73X 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	15.72	18.16	15.22	16.58
	5-Year High	26.75	22.58	19.89	19.34
	5-Year Low	11.85	15.2	12.6	15.18
	5-Year Median	16.68	18.95	16.43	17.42
P/S F12M	Current	1.98	2.07	2.3	3.05
	5-Year High	2.38	2.38	2.73	3.44
	5-Year Low	1.15	1.44	1.51	2.54
	5-Year Median	1.65	2.01	1.99	3.01
EV/EBITDA TTM	Current	12.02	12.35	15.31	11.04
	5-Year High	17.06	14.3	17.44	12.87
	5-Year Low	7.84	8.83	10.92	8.49
	5-Year Median	12.34	11.83	14.79	10.79

As of 03/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



## Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	DOV Neutral	X Industry	S&P 500	CSL Neutral	JBT Neutral	MMM Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>D</b>
Market Cap	14.51 B	1.32 B	20.21 B	7.98 B	2.58 B	88.16 B
# of Analysts	8	4	13	3	5	7
Dividend Yield	1.95%	0.00%	2.18%	1.40%	0.49%	3.84%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Cash/Price	0.03	0.07	0.05	0.04	0.01	0.03
EV/EBITDA	13.78	10.44	12.36	10.35	12.88	14.21
PEG Ratio	1.40	2.07	1.78	1.06	2.35	1.71
Price/Book (P/B)	4.82	2.00	2.77	3.06	4.53	8.71
Price/Cash Flow (P/CF)	12.76	9.66	11.04	11.83	11.48	12.75
P/E (F1)	15.88	15.95	16.09	15.89	15.65	16.22
Price/Sales (P/S)	2.03	1.09	2.17	1.66	1.33	2.74
Earnings Yield	6.30%	6.25%	6.20%	6.29%	6.39%	6.16%
Debt/Equity	0.98	0.52	0.70	0.51	1.23	1.79
Cash Flow (\$/share)	7.88	2.74	7.01	12.06	7.10	12.02
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	11.69%	7.79%	10.85%	11.77%	28.51%	5.88%
Proj. EPS Growth (F1/F0)	6.73%	4.15%	6.14%	9.42%	4.88%	3.89%
Curr. Cash Flow Growth	10.20%	9.51%	6.09%	19.98%	14.88%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	1.28%	4.53%	8.52%	13.96%	25.60%	1.67%
Current Ratio	1.46	1.96	1.24	1.95	1.49	1.41
Debt/Capital	49.61%	34.45%	42.57%	33.67%	55.08%	64.16%
Net Margin	9.50%	6.24%	11.69%	9.83%	6.63%	14.22%
Return on Equity	29.46%	11.75%	16.74%	18.21%	30.75%	51.39%
Sales/Assets	0.82	0.78	0.54	0.89	1.07	0.78
Proj. Sales Growth (F1/F0)	2.24%	0.00%	3.71%	4.61%	3.69%	4.25%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>B</b>	<b>B</b>	<b>F</b>
Daily Price Chg	7.23%	1.12%	4.87%	2.07%	1.19%	6.41%
1 Week Price Chg	-1.22%	-1.94%	-0.67%	-0.76%	-9.34%	2.95%
4 Week Price Chg	-15.51%	-17.75%	-15.65%	-10.82%	-28.37%	-5.63%
12 Week Price Chg	-12.02%	-16.44%	-13.60%	-11.49%	-28.50%	-9.79%
52 Week Price Chg	11.16%	-13.03%	-2.27%	17.71%	-9.55%	-25.51%
20 Day Average Volume	1,068,957	63,258	2,778,843	587,068	184,051	5,137,947
(F1) EPS Est 1 week change	-0.02%	0.00%	0.00%	0.00%	0.00%	-0.27%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.16%	0.23%	-0.23%	-0.60%
(F1) EPS Est 12 week change	0.46%	-1.51%	-0.57%	-0.37%	-0.84%	-1.59%
(Q1) EPS Est Mthly Chg	-0.35%	-0.12%	-0.49%	0.00%	-7.37%	-1.19%

## 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	C
Growth Score	A
Momentum Score	F
VGM Score	C

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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