ZACKS | Our Research. Your Success.

Jan 16, 2020

Dover Corporation (DOV)

$117.61 (As of 01/15/20)

Price Target (6-12 Months): **$125.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/01/19) Prior Recommendation: Outperform	Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B	Momentum: B

Summary

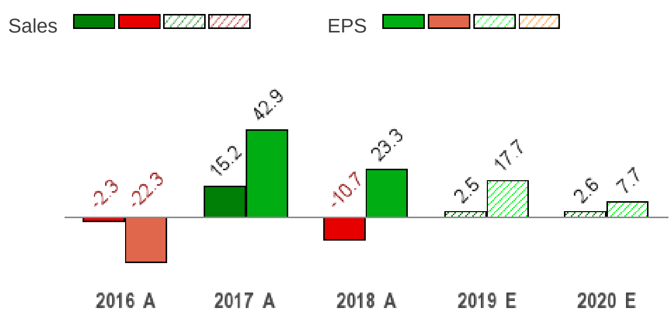
Dover expects 2019 earnings per share at $5.82-$5.85, up from the prior guidance of $5.75-$5.85 driven by solid order backlog across all business segments, productivity and cost initiatives, and execution of margin targets. Robust order backlog augmented by customers wins and execution of margin targets, is likely aid fourth-quarter 2019 results. The company is also poised to gain from product digitization, e-commerce, new product development, and inorganic investment in core business platforms. However, the company's results will be hurt by soft retail refrigeration demand and input cost inflation due to the implementation of tariffs. Dover is also bearing the brunt of foreign-exchange headwinds, which is expected to have thwarted margins in the fourth quarter. The company has a positive record of earnings surprises in the last few quarters.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$118.38 - $77.41**
20 Day Average Volume (sh)	**582,443**
Market Cap	**$17.1 B**
YTD Price Change	**2.0%**
Beta	**1.50**
Dividend / Div Yld	**$1.96 / 1.7%**
Industry	**Manufacturing - General Industrial**
Zacks Industry Rank	**Bottom 21% (200 out of 254)**
Last EPS Surprise	**4.6%**
Last Sales Surprise	**0.8%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/04/2020**
Earnings ESP	**1.7%**
P/E TTM	**20.2**
P/E F1	**18.7**
PEG F1	**1.7**
P/S TTM	**2.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,731 E	1,861 E	1,866 E	1,868 E	7,350 E
2019	1,725 A	1,811 A	1,825 A	1,804 E	7,167 E
2018	1,922 A	1,798 A	1,747 A	1,809 A	6,992 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.30 E	$1.71 E	$1.73 E	$1.60 E	$6.30 E
2019	$1.24 A	$1.56 A	$1.60 A	$1.46 E	$5.85 E
2018	$1.16 A	$1.30 A	$1.36 A	$1.43 A	$4.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/15/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/16/2020.

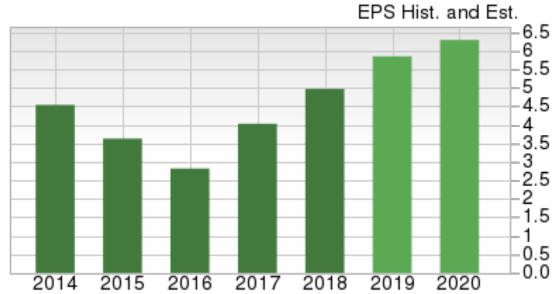
Overview

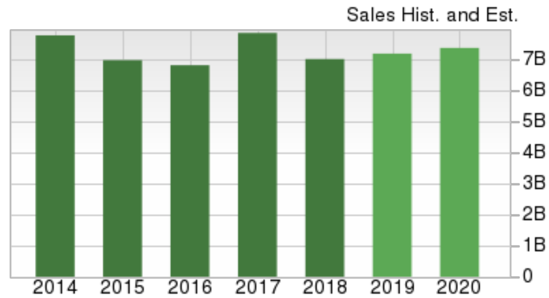
Incorporated in 1955, New York-based Dover Corporation is an industrial conglomerate producing a wide range of specialized industrial products and manufacturing equipment.

In the second quarter of fiscal 2018, Dover completed the Apergy spin-off within its Energy segment. Following the spin-off, the company no longer has the Energy segment and has been aligned into three reportable segments.

Fluids (41% of total revenues in 2018) 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 Systems (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 Hillphonenix 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 will boost Dover's OPW business unit's performance, using Belanger's strong engineering and innovative solutions. Following the close of the transaction, Belanger will become part of Dover's OPW business unit — a global leader in fluid handling solutions — in Dover's Fluids segment.

Reasons To Buy:

▲ Dover's backlog increased 3.5% year over year to $1.38 billion at the end of the third quarter of 2019. Robust order backlog augmented by customers wins and execution of margin targets, is likely aid fourth-quarter 2019 results. Impressive performances by the Engineered Systems and Fluids segments, benefits from cost-containment actions as well as footprint optimization projects and retail refrigeration will negate the impact of weak demand in the Refrigeration & Food Equipment segment. Backed by solid order backlog across all business segments, productivity and cost initiatives and execution of margin targets, the company tightened its adjusted earnings per share guidance to $5.82-$5.85 from the prior estimate of $5.75-$5.85 for full-year 2019.

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.

▲ Dover will gain from product digitization, e-commerce, new product development, and inorganic investment in core business platforms. It is also expected to benefit from its targeted cost-reduction initiatives. 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.

▲ Dover continues its efforts to simplify its portfolio and increase focus on the markets with growth prospects. In sync with this, Dover successfully completed the spin-off of its upstream energy businesses — Wellsite — which was later named Apergy on May 9, 2018. Following the spin-off, the company no longer has the Energy segment and is aligned into three reportable segments. Consequently, Dover's core platforms, which compete in lower volatility industrial markets, will be 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. The company has completed the acquisition of All-Flo Pump Co during the second quarter, which contributed to the Fluids segment margins in the reported quarter. In the September-end quarter, the segment reflected the benefits from retail fueling, margin improvement and acquisitions. Further, the company expects to generate strongest free cash flow in the fourth quarter. Also, capital expenditures are expected to ramp-up in the current quarter.

Reasons To Sell:

- 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 fourth quarter.

- Dover's Refrigeration & Food Equipment segment has been hurt by weak retail refrigeration 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 2019 will be hurt by input cost inflation due to the implementation of tariffs. Also, softer demand conditions in retail refrigeration remain a headwind.

- The company expects weak refrigeration demand and lower shipments in Asia to hurt margins in the near term. Considering this, Dover's Refrigeration & Food Equipment segment's top line will likely remain weak this year.

Last Earnings Report

Dover Earnings & Revenues Top Estimates in Q3, Up Y/Y

Quarter Ending	09/2019
Report Date	Oct 17, 2019
Sales Surprise	0.77%
EPS Surprise	4.58%
Quarterly EPS	1.60
Annual EPS (TTM)	5.83

Dover reported third-quarter 2019 adjusted earnings per share from continuing operations of $1.60. The figure improved 18% from the prior-year quarter's $1.36 per share. Earnings also beat the Zacks Consensus Estimate of $1.53.

On a reported basis, Dover delivered earnings per share of $1.40 in the third quarter, up 33% year over year. Earnings included acquisition-related amortization costs of 17 cents and rightsizing costs of 2 cents.

Total revenues in the quarter came in at $1,825 million, suggesting growth of 4.5% from the year-ago quarter's $1,747 million, backed by organic growth of 5.6% and acquisition growth of 1%. This was partly offset by a 1.6% unfavorable foreign-exchange impact. The revenue figure surpassed the Zacks Consensus Estimate of $1,811 million.

Costs and Margins

Cost of sales grew 4.7% to $1,152 million in the September-end quarter. Gross profit increased 4.2% year over year to $673.4 million.

Selling, general and administrative expenses slipped 8.3% to $390.7 million from the $426.4 million reported in the prior-year quarter. Operating profit increased to $282.7 million from the year-ago quarter's reported tally of $220 million.

Segmental Performance

The Engineered Systems segment revenues went up to $701.7 million from $671.5 million recorded in the year-ago quarter. The segment's income increased 25% year over year to $136 million.

The Fluids segment revenues climbed 9.1% year over year to $753 million in the quarter. The segment income jumped 44% year over year to $145.5 million.

The Refrigeration & Food Equipment segment's revenues declined 4.1% to $370 million from the year-ago quarter's reported figure of $386 million. The segment's operating income also dropped 17% year over year to $35.2 million.

Bookings and Backlog

Dover's bookings at the end of the third quarter were worth $1.81 billion, down from $1.71 billion recorded at the end of third-quarter 2018. Backlog increased 3.5% year over year to $1.38 billion at the end of the reported quarter.

Financial Position

Dover generated free cash flow of $304.7 million during the July-September quarter compared with the $205.7 million recorded in the prior-year quarter. Cash flow from operations came in at $350.8 million in the reported quarter compared with the $244 million witnessed in the year-ago period.

Outlook

Backed by solid third-quarter performance, Dover tightened its adjusted earnings per share guidance to $5.82-$5.85 from the prior estimate of $5.75-$5.85 for full-year 2019.

Valuation

Dover shares are up 48.8% over the trailing 12-month period. Stocks in the Zacks Manufacturing – General Industrial industry and the Zacks Industrial Products sector are up 33.1% and 16.3% over the past year, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 18.64X forward 12-month earnings, which compares to 21.27X for the Zacks sub-industry, 18.18X for the Zacks sector and 18.97X 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 16.56X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $125 price target reflects 19.81X 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	18.64	21.27	18.18	18.97
	5-Year High	26.75	22.52	19.9	19.34
	5-Year Low	11.85	15.16	12.59	15.17
	5-Year Median	16.56	18.9	16.54	17.44
P/S F12M	Current	2.32	2.45	2.76	3.53
	5-Year High	2.37	2.45	2.76	3.53
	5-Year Low	1.15	1.43	1.51	2.54
	5-Year Median	1.64	2	1.96	3
EV/EBITDA TTM	Current	13.71	13.47	16.94	12.12
	5-Year High	17.06	13.97	17.43	12.86
	5-Year Low	7.84	8.8	10.89	8.48
	5-Year Median	12.19	11.6	14.71	10.67

As of 01/15/2020

Industry Analysis **Zacks Industry Rank:** Bottom 21% (200 out of 254)

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

	DOV Neutral	X Industry	S&P 500	CSL Neutral	JBT Neutral	MMM Neutral
				Industry Peers		
VGM Score	B	-	-	B	C	C
Market Cap	17.08 B	2.00 B	24.22 B	9.09 B	3.51 B	103.38 B
# of Analysts	8	4	13	3	5	6
Dividend Yield	1.67%	0.00%	1.75%	1.25%	0.36%	3.20%
Value Score	C	-	-	C	D	C
Cash/Price	0.02	0.05	0.04	0.07	0.01	0.07
EV/EBITDA	17.26	13.64	14.11	14.53	21.07	13.39
PEG Ratio	1.66	2.15	2.06	1.18	2.32	1.97
Price/Book (P/B)	5.66	2.63	3.34	3.39	6.70	9.60
Price/Cash Flow (P/CF)	16.57	12.89	13.57	16.77	17.90	13.45
P/E (F1)	18.80	18.68	18.90	17.73	21.24	18.71
Price/Sales (P/S)	2.38	1.38	2.65	1.92	1.81	3.23
Earnings Yield	5.36%	5.30%	5.29%	5.64%	4.70%	5.35%
Debt/Equity	0.96	0.57	0.72	0.59	1.47	1.68
Cash Flow ($/share)	7.10	2.51	6.94	9.57	6.19	13.37
Growth Score	B	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	8.45%	5.37%	10.56%	11.65%	28.53%	6.54%
Proj. EPS Growth (F1/F0)	7.58%	7.06%	7.59%	13.13%	7.28%	6.27%
Curr. Cash Flow Growth	12.99%	15.81%	14.73%	9.03%	29.97%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	-2.75%	7.16%	9.00%	11.06%	25.68%	5.24%
Current Ratio	1.42	2.04	1.24	3.04	1.53	2.30
Debt/Capital	49.08%	37.08%	42.99%	37.23%	59.48%	62.66%
Net Margin	9.08%	6.55%	11.14%	9.66%	6.70%	15.48%
Return on Equity	29.62%	13.61%	17.16%	17.99%	33.52%	54.02%
Sales/Assets	0.83	0.83	0.55	0.88	1.14	0.81
Proj. Sales Growth (F1/F0)	2.55%	1.94%	4.23%	5.44%	4.22%	5.02%
Momentum Score	B	-	-	F	C	C
Daily Price Chg	0.42%	0.00%	0.27%	-0.81%	0.03%	-0.88%
1 Week Price Chg	-0.01%	-0.25%	0.39%	-0.61%	-3.63%	1.13%
4 Week Price Chg	3.53%	0.38%	2.17%	0.29%	-2.35%	6.36%
12 Week Price Chg	13.86%	7.40%	6.65%	3.93%	3.14%	6.53%
52 Week Price Chg	51.31%	13.96%	22.43%	52.18%	42.83%	-5.12%
20 Day Average Volume	582,443	46,140	1,545,017	274,580	134,176	2,389,385
(F1) EPS Est 1 week change	0.04%	0.00%	0.00%	-0.55%	0.00%	-0.37%
(F1) EPS Est 4 week change	0.04%	0.00%	0.00%	-0.55%	-0.23%	0.01%
(F1) EPS Est 12 week change	0.04%	-1.17%	-0.41%	0.84%	-2.51%	-2.85%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-4.64%	0.00%	0.00%

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	C
Growth Score	B
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.