

Dover Corporation (DOV)

\$93.19 (As of 04/27/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Dover's first-quarter 2020 earnings beat the Zacks Consensus Estimates and improved year over year. However, sales missed the consensus mark and declined year on year. Dover has suspended the current-year financial guidance due to the uncertainties related to the coronavirus pandemic and negative impact on end-market demand. Dover expects business uncertainties and challenges related to COVID-19 to continue in the second quarter and remaining of the current year. However, Dover is poised to gain from solid order backlog across all business segments, productivity and cost initiatives, debt refinancing, M&A and execution of margin targets. E-commerce growth and inorganic investment in core business platforms will also drive growth in the near term. Further, its strong financial position and prudent capital structure bode well.

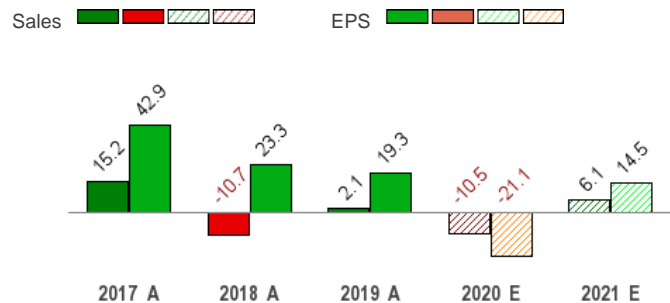
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$120.26 - \$62.95
20 Day Average Volume (sh)	1,157,646
Market Cap	\$13.4 B
YTD Price Change	-19.2%
Beta	1.50
Dividend / Div Yld	\$1.96 / 2.1%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 17% (209 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.8%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-19.0%
Expected Report Date	07/16/2020
Earnings ESP	0.0%
P/E TTM	15.3
P/E F1	19.9
PEG F1	1.8
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,645 E	1,662 E	1,750 E	1,794 E	6,775 E
2020	1,656 A	1,463 E	1,630 E	1,715 E	6,385 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	\$1.33 E	\$1.25 E	\$1.45 E	\$1.48 E	\$5.36 E
2020	\$1.39 A	\$0.86 E	\$1.27 E	\$1.33 E	\$4.68 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 04/27/2020. The reports text is as of 04/28/2020.

Overview

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

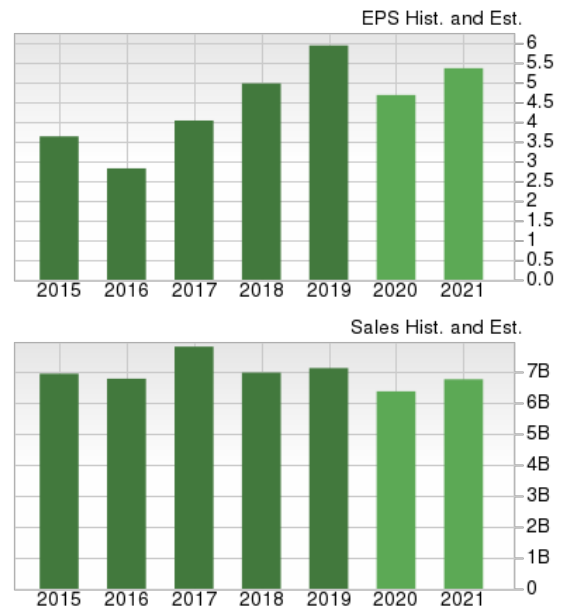
Since Oct 1, 2019, the company has transitioned from a three-segment to a five-segment structure as a result of a change to its internal organization. These segments are Engineered Products, Fueling Solutions, Imaging & Identification, Pumps & Process Solutions and Refrigeration & Food Equipment.

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 12% year over year to \$1.59 billion at the end of the first quarter of 2020. Robust order backlog augmented by customers' wins is likely to aid second-quarter 2020 results. In the Engineered Products, the waste handling business continues to gain on increase in residential volumes. In Fueling Solutions, order trends have been robust on US EMV, while retail fueling will gain from high fuel margins on low oil prices. The Marketing and Coding segment will gain from strong demand for consumables on surge in production volumes of consumer goods as consumers shift to home-based consumption of packaged goods. In the Pumps & Process Solutions segment, strong demand for food and beverage, power generation as well as 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 second quarter.

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. Despite concerns over the coronavirus pandemic, the company is poised to gain from productivity and cost initiatives. Dover also aims to lower capital expenditure forecast for the current year. Dover 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 has started investments in can forming and heat exchanger businesses to capture growing volumes and upgrade competitive capabilities.

▲ In response to the coronavirus outbreak, the company is curtailing production capacity to match supply with demand as well as reducing controllable costs. This is likely to contribute to the second quarter's earnings. The company's facilities were operational in the United States and Europe throughout the first quarter, while facilities in China, Italy, India and Malaysia were closed for several weeks during the quarter. Moreover, Dover is focused on ensuring the health and safety of its employees and partners as well as supporting the many important societal functions through its business portfolio of retail fueling, food retail, food packaging, biopharma, municipal waste removal and many others.

▲ Dover continues to lower its debt levels and strengthen the balance sheet. Its long-term debt was around \$2,963 million at the end of first-quarter 2020. This has been lowered from \$2,986 million at the end of 2019. Its debt-to-capital stands at 49.9%, lower than its industry's 53.0%. This favorable reading indicates that Dover is not a much leveraged company. Moreover, the company's times interest earned has been improving for the past six quarters and came in at 8.6 at the first-quarter end. This indicates that the company will be able to meet debt obligations in the near future. The company has drawn \$500 million under revolving credit facility given the volatility in the current commercial paper market. Although Dover has suspended share repurchases, it intends to keep paying dividends. 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. In January 2020, Dover completed the acquisition of Systech International. The buyout supports Dover's marketing 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.

Reasons To Sell:

- ▼ Dover has withdrawn the current-year revenue and adjusted EPS guidance on account of the uncertainty related to the coronavirus pandemic and its negative impact on the demand environment. The company's financials have been affected by the pandemic and related measures imposed by governments as well as increased business uncertainties. In the ongoing quarter, Dover expects a year-over-year drop in demand in the United States and Europe due to the pandemic. Further, the company will curtail production capacity on weak demand across its businesses to comply with governments' mandates to contain the spread of the virus.
- ▼ Slowdown in the Industrial Automation and vehicle aftermarket business due to operational interruptions in China and Europe-based facilities is likely to impact Engineered Products business results in the second quarter. Although the company is implementing capacity management actions across these businesses to rightsize cost and working capital. 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. Further, weak oil and gas markets are likely to hurt Pumps & Process Solutions business in the second quarter.
- ▼ Dover is facing near-term demand headwind due to weak food and retail construction markets in the Refrigeration & Food Equipment segment. Decline in order trends, postponing construction projects due to peak traffic volumes, uncertainty related to shipment timing 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 dampen margins in the near term.
- ▼ The company's global operations have been adversely impacted due to the coronavirus pandemic straining demand for its products, while overall slowdown in the manufacturing sector pose a threat. The U.S manufacturing sector is bearing the brunt of waning global demand and the U.S.-China trade tensions. Per the Institute for Supply Management, the U.S Purchasing Managers' Index (PMI) remained below 50 (indicating contraction) for five months in a row till December. Although the index climbed above 50 in January and February, it has again contracted to 49.1% in March owing to the coronavirus outbreak.

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

Last Earnings Report

Dover Beats on Q1 Earnings, Suspends 2020 Guidance

Dover reported first-quarter 2020 adjusted earnings per share from continuing operations of \$1.39. The figure improved 12% from the prior-year quarter's \$1.24 per share. Earnings also beat the Zacks Consensus Estimate of \$1.18. Despite lower revenues in the quarter thanks to the impact of the coronavirus pandemic, Dover's productivity initiatives, cost-containment efforts and prudent debt refinancing undertaken in late 2019 were instrumental in driving bottom-line growth.

On a reported basis, Dover delivered earnings per share of \$1.21 in the March-end quarter, reflecting a year-over-year jump of 68.1%.

Total revenues in the first quarter came in at \$1,656 million, marking a decline of 4% from the year-ago quarter's \$1,725 million. The revenue figure missed the Zacks Consensus Estimate of \$1,665 million. Pandemic-related challenges, mainly in China and Italy, along with the challenging trading conditions in the capital goods and textile sectors dented the company's revenues in the reported quarter.

Costs and Margins

Cost of sales fell 5.2% year over year to \$1,044 million during the January-March quarter. Gross profit edged down 1.8% year over year to \$612.2 million.

Selling, general and administrative expenses slipped 5.1% to \$387 million from the \$409 million reported in the prior-year quarter. Operating profit increased to \$225 million from the year-ago quarter's \$168 million.

Segmental Performance

The Engineered Products segment revenues went down to \$408 million from the \$419 million recorded in the year-ago quarter. The segment's income increased 3% year over year to \$69 million.

The Fueling Solutions segment revenues declined to \$360 million from the \$373 million recorded in the prior-year quarter. The segment's income jumped 43.2% year over year to \$53.5 million.

The Imaging & Identification segment revenues went down to \$257 million from the \$268 million recorded in the comparable period last year. The segment's income declined 8% year over year to \$51.5 million.

The Pumps & Process Solutions revenues dropped 3.2% year over year to \$319.5 million in the quarter. The segment income came in at \$66 million compared with the year-ago quarter's \$15 million.

The Refrigeration & Food Equipment segment's revenues declined 6.9% to \$312 million from the year-earlier quarter's \$335 million. The segment's operating income decreased 5.5% year over year to \$23.5 million.

Bookings and Backlog

Dover's bookings at the end of the first quarter were worth \$1.78 billion, flat year over year. Backlog increased 12% year over year to \$1.59 billion at the end of the reported quarter.

Financial Position

Dover generated free cash flow of \$35.7 million in the reported quarter compared with cash outflow of \$12.6 million in the prior-year quarter. Cash flow from operations came in at \$75.9 million in the March-end quarter compared with the year-ago period's \$24.5 million.

Outlook

Dover has withdrawn its current-year revenue and adjusted EPS guidance on account of the uncertainty related to the coronavirus pandemic and its negative impact on the demand environment.

The company's financials have been affected by the pandemic and related measures imposed by governments around the world as well as increased business uncertainty.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	-0.57%
EPS Surprise	17.80%
Quarterly EPS	1.39
Annual EPS (TTM)	6.09

Valuation

Dover shares are down 2.4% over the trailing 12-month period. Stocks in the Zacks Manufacturing – General Industrial industry and the Zacks Industrial Products sector are down 14.4% and 20.3% over the past year, respectively.

The S&P 500 index is down 2.9% in the past year.

The stock is currently trading at 23.50X forward 12-month earnings, which compares to 22.09X for the Zacks sub-industry, 17.78X for the Zacks sector and 20.21X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.23X and as low as 13.48X, with a 5-year median of 19.58X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99 price target reflects 24.96X 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	23.5	22.09	17.78	20.21
	5-Year High	27.23	25.64	19.93	20.21
	5-Year Low	13.48	14.13	12.55	15.19
	5-Year Median	19.58	18.96	16.65	17.45
P/S F12M	Current	3.23	2.52	2.21	3.2
	5-Year High	3.89	3.04	2.72	3.44
	5-Year Low	1.97	1.24	1.52	2.54
	5-Year Median	2.93	2.31	1.99	3.01
EV/EBITDA TTM	Current	15.56	12.17	13.79	10.52
	5-Year High	18.52	14.74	17.37	12.87
	5-Year Low	8.23	6.55	10.71	8.27
	5-Year Median	12.06	9.8	14.68	10.78

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Colfax Corporation (CFX)	Neutral	4
Carlisle Companies Incorporated (CSL)	Neutral	4
Danaher Corporation (DHR)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	4
Eaton Corporation, PLC (ETN)	Neutral	4
Honeywell International Inc. (HON)	Neutral	4
John Bean Technologies Corporation (JBT)	Neutral	4
3M Company (MMM)	Underperform	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	DOV	X Industry	S&P 500	CSL	JBT	MMM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	F	-	-	C	C	C
Market Cap	13.41 B	1.06 B	19.77 B	6.84 B	2.44 B	88.36 B
# of Analysts	7	2	14	4	5	7
Dividend Yield	2.10%	0.00%	2.13%	1.61%	0.52%	3.83%
Value Score	D	-	-	C	C	D
Cash/Price	0.04	0.08	0.06	0.05	0.02	0.03
EV/EBITDA	12.79	10.00	12.09	9.03	12.34	14.24
PEG Ratio	1.79	2.33	2.36	1.42	3.70	1.99
Price/Book (P/B)	4.50	1.58	2.70	2.67	4.29	8.73
Price/Cash Flow (P/CF)	11.83	8.69	10.70	10.32	10.87	12.78
P/E (F1)	20.24	19.92	18.72	21.23	20.40	18.92
Price/Sales (P/S)	1.90	0.96	2.12	1.43	1.26	2.75
Earnings Yield	5.02%	4.96%	5.19%	4.71%	4.90%	5.28%
Debt/Equity	0.99	0.50	0.72	0.51	1.23	1.79
Cash Flow (\$/share)	7.88	2.74	7.01	12.06	7.10	12.02
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	14.55%	8.17%	10.88%	11.33%	28.51%	5.88%
Proj. EPS Growth (F1/F0)	-21.13%	-20.53%	-5.87%	-28.53%	-23.75%	-10.75%
Curr. Cash Flow Growth	10.20%	1.78%	5.92%	19.98%	14.88%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	1.28%	4.95%	8.55%	13.96%	25.60%	1.67%
Current Ratio	1.29	2.04	1.23	1.95	1.49	1.41
Debt/Capital	49.85%	33.54%	43.90%	33.67%	55.08%	64.16%
Net Margin	10.59%	6.43%	11.32%	9.54%	6.63%	14.22%
Return on Equity	29.80%	10.81%	16.60%	17.68%	30.75%	51.39%
Sales/Assets	0.81	0.77	0.55	0.87	1.07	0.78
Proj. Sales Growth (F1/F0)	-10.52%	-6.97%	-1.15%	-11.05%	-9.19%	-2.70%
Momentum Score	F	-	-	D	C	B
Daily Price Chg	2.44%	2.41%	2.63%	5.48%	5.24%	4.52%
1 Week Price Chg	2.80%	0.00%	-1.74%	-4.97%	2.35%	0.37%
4 Week Price Chg	8.82%	4.73%	8.71%	-0.70%	-0.44%	11.55%
12 Week Price Chg	-18.02%	-23.78%	-17.57%	-21.22%	-32.82%	-1.88%
52 Week Price Chg	-4.67%	-30.24%	-11.60%	-10.85%	-24.25%	-19.22%
20 Day Average Volume	1,157,646	58,483	2,734,148	410,255	241,398	3,499,193
(F1) EPS Est 1 week change	-6.15%	0.00%	0.00%	-13.75%	0.00%	-0.44%
(F1) EPS Est 4 week change	-19.02%	-14.75%	-6.57%	-28.62%	-22.75%	-7.92%
(F1) EPS Est 12 week change	-24.88%	-25.96%	-12.64%	-32.21%	-27.47%	-15.00%
(Q1) EPS Est Mthly Chg	-40.43%	-31.56%	-10.33%	-59.43%	-32.16%	-15.79%

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	D
Growth Score	D
Momentum Score	F
VGM Score	F

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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