



# Dover Corporation (DOV)

Updated February 3<sup>rd</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$114	<b>5 Year CAGR Estimate:</b>	4.4%	<b>Market Cap:</b>	\$16.5 billion
<b>Fair Value Price:</b>	\$102	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	2/27/2020 <sup>1</sup>
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.2%	<b>Dividend Payment Date:</b>	3/16/2020 <sup>2</sup>
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$130	<b>Years Of Dividend Growth:</b>	64
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.1%

## Overview & Current Events

Dover Corporation is a diversified global industrial manufacturer with annual revenues in excess of \$7 billion. Dover is composed of five reporting segments: Engineered Systems, Fueling Solutions, Process Solutions, Imaging & Identification and Refrigeration, & Food Equipment. Dover is a Dividend King with 64 years of consecutive dividend increases. Slightly more than half of revenues come from the U.S., with the remainder coming from international markets. Dover spun off its energy business Apergy at the beginning of May 2018.

Dover released fourth quarter and full-year earnings results 1/30/2020. The company's adjusted earnings-per-share totaled \$1.54 per share, \$0.09 above consensus estimates and representing growth of 7.7% from the previous year. Revenue decreased 1.8% to \$1.8 billion, missing estimates by \$24 million. Organic revenue was down 1% in the quarter. Adjusted earnings-per-share improved 19.3% for the year. Revenue increased 2.1% to \$7.1 billion for the year, with 3.8% organic growth. Currency exchange impacted revenue results by 1% for the quarter and 2% for the year.

Engineered Systems grew 2.4% in the quarter due to continued strength in waste handling, vehicle services and aerospace and defense. Fueling Solutions improved 7% as demand grew in all regions, especially in North America. Refrigeration & Food Equipment, which had struggled in recent quarters, was up 6%. This segment benefited from new store builds and foodservice equipment orders. Process Solutions was lower by 11% on slowing in the segment's pumps and precision business. Imaging & Identification was down 3.5% as demand weakened in Asia and digital textile printing was down. Segment margins for the quarter grew 70 bps to 16.3%. Each region saw organic growth in the full year, led by 4% improvements in the U.S. and a 6% increase in Europe. Dover expects adjusted earnings-per-share of \$6.20 to \$6.40 for 2020 on revenue growth of 2% to 3%.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$3.48	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.84	<b>\$6.30</b>	<b>\$8.04</b>
<b>DPS</b>	\$1.07	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.96	<b>\$1.96</b>	<b>\$2.50</b>
<b>Shares<sup>3</sup></b>	187	184	175	170	163	155	155	155	153	147	<b>147</b>	<b>140</b>

Most of Dover's segments are experiencing growth right now. The engineered systems segment, which is the company's largest, enjoyed 5% organic revenue growth in 2019 and is expected to grow by 3% to 5% this year. The digital textile printing division in the engineered systems segment is expected to grow at around 30% per year over the next decade, according to management.

Given management's long-term target of 3%-5% revenue growth and a 1.5% average annual buyback rate in the last decade, it is reasonable to expect the company to continue to grow its earnings-per-share by at least 5% per year in the next five years, particularly given its strong momentum. If this occurs, the company will grow its earnings-per-share to

<sup>1</sup> Estimated date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> In millions of shares

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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\$8.04 in 2025. Dover raised its dividend 2.1% for the 9/16/2019 payment, marking 64 consecutive years of dividend growth. This is the second longest dividend growth streak among U.S. companies.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.0	13.4	13.2	15.4	18.5	18.5	20.7	19.5	17.1	19.7	18.1	16.2
Avg. Yld.	2.2%	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.3%	1.7%	1.7%	1.9%

Shares of Dover have increased \$13, or 13%, since our 10/18/2019 update. Using the company's guidance for 2020, Dover is trading at a current price-to-earnings ratio (P/E) of 18.1 and has traded at an average P/E ratio of 16.2 over the last decade. If the company's P/E ratio reverts to its long-term average over the next five years, annualized returns will be reduced by 2.2% during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

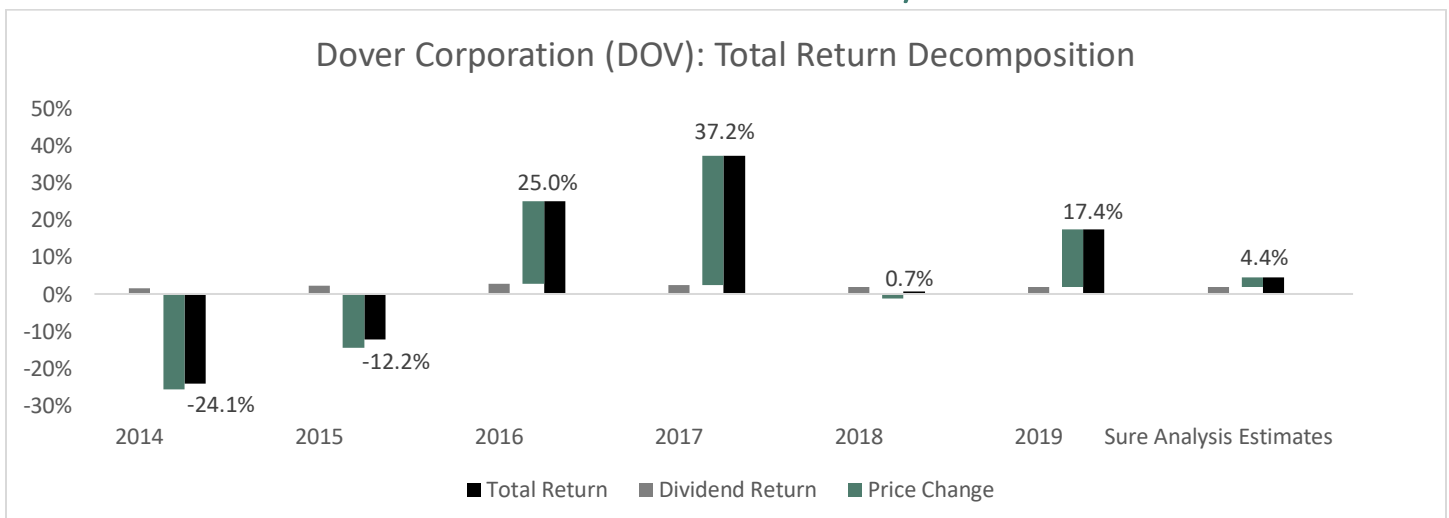
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	31%	26%	29%	28%	34%	45%	58%	42%	32%	34%	31%	31%

Investors should keep in mind that Dover is vulnerable to recessions due to its cyclical nature. In 2009, its earnings-per-share plunged 45%, from \$3.67 to \$2.00. Accordingly, this stock should not be seen as a defensive portfolio constituent. Dover's key competitive advantage is its focus on niche industries. The company offers highly engineered products that customers have come to depend on, as switching to a different provider may not yield the same results for their businesses. Dover's spinoff of Apergy will likely reduce the amount of capital expenditures, while at the same time increasing margins.

## Final Thoughts & Recommendation

After reviewing quarterly and full-year results, Dover Corporation is expected to offer a total annual return of 4.4% through 2025, down from our prior estimate of 5.5%. The company had revenue gains in three out of five segments, with Refrigeration & Food Equipment returning to growth in the fourth quarter. Organic growth for the full year was in-line with Dover's guidance. Shares don't offer much in the way of income, but the company does have an extremely long history of dividend growth. We have raised our 2025 price target \$9 to \$130 because of adjusted earnings-per-share guidance for 2020, but reiterate our holding rating on Dover due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	6110	7369	6627	7155	7753	6956	6794	7830	6992	7,136
<b>Gross Profit</b>	2423	2845	2580	2779	2974	2568	2472	2890	2560	2,621
<b>Gross Margin</b>	39.7%	38.6%	38.9%	38.8%	38.4%	36.9%	36.4%	36.9%	36.6%	36.7%
<b>SG&amp;A Exp.</b>	1500	1721	1521	1617	1759	1647	1758	1976	1716	1,599
<b>D&amp;A Exp.</b>	229	290	230	278	307	327	361	394	283	272
<b>Operating Profit</b>	923	1124	1059	1162	1215	921	714	914	843	1,022
<b>Operating Margin</b>	15.1%	15.3%	16.0%	16.2%	15.7%	13.2%	10.5%	11.7%	12.1%	14.3%
<b>Net Profit</b>	700	895	811	1003	775	870	509	812	570	678
<b>Net Margin</b>	11.5%	12.1%	12.2%	14.0%	10.0%	12.5%	7.5%	10.4%	8.2%	9.5%
<b>Free Cash Flow</b>	774	817	1120	1011	810	681	697	625	618	759
<b>Income Tax</b>	194	237	281	248	316	205	180	162	134	165

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	8563	9501	10444	10855	9030	8606	10116	10658	8366	8,669
<b>Cash &amp; Equivalents</b>	1187	1207	800	804	682	362	349	754	396	397
<b>Accounts Receivable</b>	N/A	1119	1226	1077	1187	1120	1265	1386	1232	1,217
<b>Inventories</b>	714	734	873	715	864	803	870	879	749	806
<b>Goodwill &amp; Int. Ass.</b>	4276	4691	5740	4367	4861	5151	6366	6202	4812	4,838
<b>Total Liabilities</b>	4036	4570	5525	5478	5330	4962	6316	6274	5597	5,637
<b>Accounts Payable</b>	469	516	651	523	615	651	830	979	N/A	N/A
<b>Long-Term Debt</b>	1808	2187	2800	2828	3031	2755	3621	3568	3164	3,070
<b>Shareholder's Equity</b>	4527	4931	4919	5377	3701	3645	3800	4383	2769	3,033
<b>D/E Ratio</b>	0.40	0.44	0.57	0.53	0.82	0.76	0.95	0.81	1.14	1.01

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	8.5%	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%	8.0%
<b>Return on Equity</b>	16.3%	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%	23.4%
<b>ROIC</b>	11.4%	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%	11.3%
<b>Shares Out.</b>	187	184	175	170	163	155	155	155	153	147
<b>Revenue/Share</b>	32.30	39.01	36.02	41.23	45.92	43.70	43.38	49.64	45.96	48.55
<b>FCF/Share</b>	4.09	4.32	6.09	5.82	4.80	4.28	4.45	3.96	4.06	5.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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