



Dover Corporation (DOV)

Updated October 20th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	4.3%	Market Cap:	\$16.5 billion
Fair Value Price:	\$88	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/27/2020
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.1%	Dividend Payment Date:	12/16/2020 ¹
Dividend Yield:	1.7%	5 Year Price Target	\$129	Years Of Dividend Growth:	65
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.1%

Overview & Current Events

Dover Corporation is a diversified global industrial manufacturer with annual revenues of just over \$6 billion. Dover is composed of five reporting segments: Engineered Systems, Fueling Solutions, Pumps & Process Solutions, Imaging & Identification and Refrigeration, & Food Equipment. Dover is a Dividend King with 65 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 announced third quarter earnings results on 10/20/2020. Revenue fell 4.1% to \$1.8 billion, but beat estimates by \$110 million. Adjusted earnings-per-share of \$1.60 matched last year's result, but was \$0.28 above estimates. Organic revenue was lower by 5%, which was a deceleration from second quarter's decline of 16%.

As with the previous two quarters, third quarter results were severely impacted by the COVID-19 pandemic. Organic sales for Engineered Products were down 10%. Industrial capital spending remains muted, especially in the areas of industrial automation and waste handling. Aerospace and defense were higher by double-digits due to backlog conversion. Fueling Solutions decreased 8% due to weakness in above ground equipment in North America. Imaging & Identification also fell 8% due to a drop in volumes for digital textile printing, a theme that has played out over the past several quarters. Pumps & Process Solutions decreased just 1% due to performance in biopharma, medical and hyenic applications. Refrigeration & Food Equipment was lower by 0.5%. Food and retail sales posted positive growth.

Dover raised guidance for 2020 and now expects adjusted EPS of \$5.40 to \$5.45, up from \$5.00 to \$5.25 previously.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
EPS	\$3.48	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.84	\$5.43	\$7.98
DPS	\$1.07	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.96	\$1.98	\$2.50
Shares²	187	184	175	170	163	155	155	155	153	147	145	140

Under normal circumstances, we would expect Dover to grow earnings by 3% to 5% as most of its divisions were experiencing growth with future gains likely. For example, 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.

However, the impact from COVID-19 has resulted in shutdowns and closures of some its businesses. While short term results are likely to be impaired, we expect growth to be significantly higher following the end of the pandemic. We maintain our expected earnings growth rate of 8% through 2025 as Dover experiences higher demand for products following a recovery from COVID-19.

Dover raised its dividend 1% for the 9/15/2020 payment, marking 65 consecutive years of dividend growth. This is the second-longest dividend growth streak among U.S. companies.

¹ Estimated dividend payment date

² 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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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	21.0	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 \$9, or 8.6%, since our 7/22/2020 update. Shares trade with a price-to-earnings ratio of 21 times expected adjusted earnings-per-share. The stock 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 5.1% during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

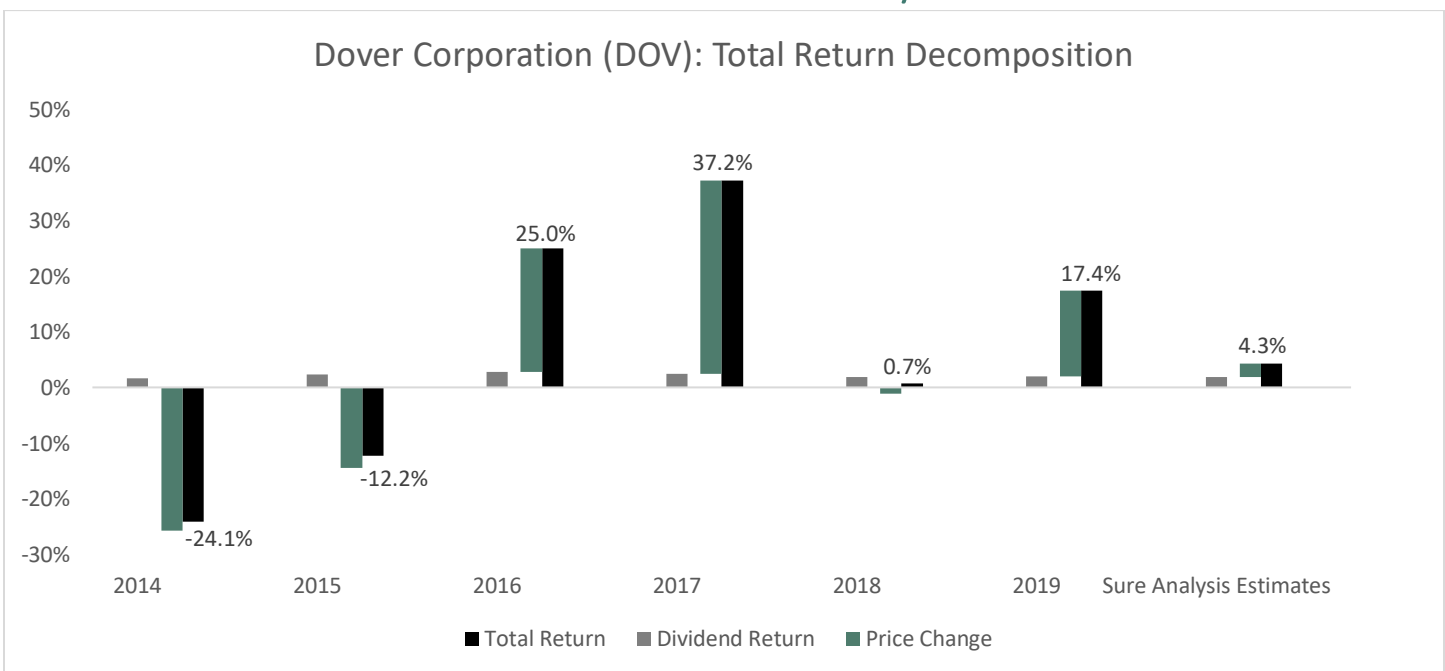
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	31%	26%	29%	28%	34%	45%	58%	42%	32%	34%	36%	31%

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

Following third quarter results, Dover Corporation is now projected to offer a total annual return of 4.3% through 2025, down from our prior estimate of 4.9%. The COVID-19 pandemic continues to weigh on results, though there were areas of strength for Dover, especially in aerospace and defense and food and retail. We have raised our 2025 price target \$7 to \$129, but continue rate shares of Dover as a hold due to expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	8563	9501	10444	10855	9030	8606	10116	10658	8366	8,669
Cash & Equivalents	1187	1207	800	804	682	362	349	754	396	397
Accounts Receivable	N/A	1119	1226	1077	1187	1120	1265	1386	1232	1,217
Inventories	714	734	873	715	864	803	870	879	749	806
Goodwill & Int. Ass.	4276	4691	5740	4367	4861	5151	6366	6202	4812	4,838
Total Liabilities	4036	4570	5525	5478	5330	4962	6316	6274	5597	5,637
Accounts Payable	469	516	651	523	615	651	830	979	N/A	983
Long-Term Debt	1808	2187	2800	2828	3031	2755	3621	3568	3164	3,070
Shareholder's Equity	4527	4931	4919	5377	3701	3645	3800	4383	2769	3,033
D/E Ratio	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
Return on Assets	8.5%	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%	8.0%
Return on Equity	16.3%	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%	23.4%
ROIC	11.4%	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%	11.3%
Shares Out.	187	184	175	170	163	155	155	155	153	147
Revenue/Share	32.30	39.01	36.02	41.23	45.92	43.70	43.38	49.64	45.96	48.55
FCF/Share	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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