



# Dover Corporation (DOV)

Updated February 1<sup>st</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$118	<b>5 Year CAGR Estimate:</b>	6.6%	<b>Market Cap:</b>	\$16.9 billion
<b>Fair Value Price:</b>	\$103	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	2/27/2021
<b>% Fair Value:</b>	115%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	3/16/2021 <sup>1</sup>
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$151	<b>Years Of Dividend Growth:</b>	65
<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 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 reported fourth quarter and full year earnings results on 1/28/2021. Revenue of \$1.8 billion was flat compared to the prior year, but \$60 million higher than expected. Adjusted earnings-per-share of \$1.55 was 0.6% higher than prior year and \$0.17 better than expected. For the year, revenue declined 6% to \$6.68 billion. Adjusted earnings-per-share decreased 4% to \$5.67, though this was \$0.24 ahead of our estimates.

Organic sales fell 2% for the quarter and 7% for the year, primarily due to the impact of COVID-19. Bookings improved 5% in the quarter, with growth in all four business segments. Engineered Products declined 9% year-over-year as strength in aerospace and defense was offset by weaker demand for industrial winches and waste handling. Fueling Solutions fell 9%. This segment saw a return to growth in North America above-ground retail fueling and a recovery in Europe on a sequential basis, but Asia and fuel transport were headwinds. Imaging & Identification improved sequentially as sales were down just 3%. Marking and coding remains a positive for this segment, but continues to be offset by textile printing. Pumps & Process Solutions returned to growth as sales were higher by 2% due to gains made in biopharma and a recovery in short-cycle industrial pumps. Refrigeration & Food Equipment also had a strong quarter, with sales up 13%. Food retail, heat exchangers and can making more than offset weaker foodservice equipment sales. Dover expects adjusted earnings-per-share of \$6.25 to \$6.45 for 2021 versus consensus estimates of \$6.24. We have initiated our expectations for the year accordingly.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.84	\$5.67	<b>\$6.35</b>	<b>\$9.33</b>
<b>DPS</b>	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.96	\$1.97	<b>\$1.98</b>	<b>\$2.53</b>
<b>Shares<sup>2</sup></b>	184	175	170	163	155	155	155	153	147	145	<b>145</b>	<b>140</b>

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 2026 as Dover experiences higher demand for products following a recovery from COVID-19.

<sup>1</sup> Estimated dividend payment date

<sup>2</sup> In millions of shares

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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.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.4	13.2	15.4	18.5	18.5	20.7	19.5	17.1	19.7	22.3	18.6	16.2
Avg. Yld.	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.3%	1.7%	1.6%	1.7%	1.7%

Shares of Dover have increased \$4, or 3.5%, since our 10/20/2020 update. Shares trade with a price-to-earnings ratio of 18.6 times expected adjusted earnings-per-share for the year. 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 2.7% during this time period.

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

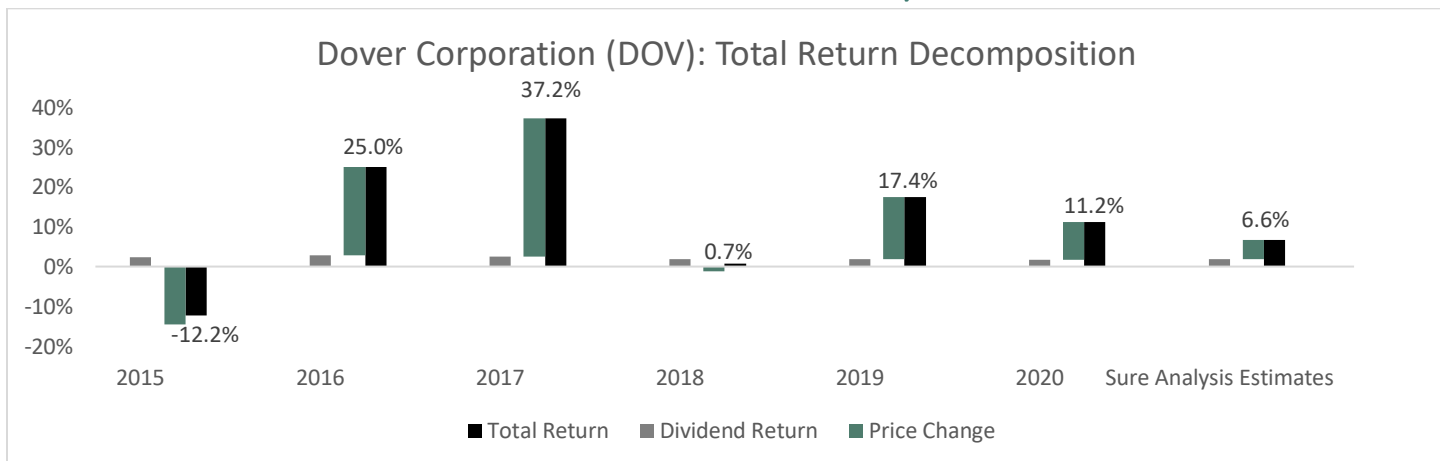
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	29%	28%	34%	45%	58%	42%	32%	34%	35%	31%	27%

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 fourth quarter and full year results, Dover Corporation is now projected to offer a total annual return of 6.6% through 2026, up from our prior estimate of 4.3%. Our estimated return is based on 8% earnings growth and a starting yield of 1.7% offset by a slight multiple reversion. The COVID-19 pandemic negatively impacted results for the quarter and year. Still, Dover performed about as well as could be expected for an industrial company under the circumstances. The return to growth in Pumps & Process Solutions and, in particular, Refrigeration & Food Equipment are positive signs for the company. Dover's yield is on the low side, but its dividend growth streak is almost unmatched. We have increased our five-year price target \$22 to \$151, but maintain our hold rating on Dover due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,369	6,627	7,155	7,753	6,956	6,043	6,821	6,992	7,136	6,684
Gross Profit	2,845	2,580	2,779	2,974	2,568	2,228	2,529	2,560	2,621	2,474
Gross Margin	38.6%	38.9%	38.8%	38.4%	36.9%	36.9%	37.1%	36.6%	36.7%	37.0%
SG&A Exp.	1,721	1,521	1,617	1,759	1,647	1,519	1,722	1,716	1,599	1,541
D&A Exp.	290	230	278	307	327	250	283	283	272	279
Operating Profit	1,124	1,059	1,162	1,215	921	709	807	843	1,022	933
Operating Margin	15.3%	16.0%	16.2%	15.7%	13.2%	11.7%	11.8%	12.1%	14.3%	14.0%
Net Profit	895	811	1,003	775	870	509	812	570	678	683
Net Margin	12.1%	12.2%	14.0%	10.0%	12.5%	8.4%	11.9%	8.2%	9.5%	10.2%
Free Cash Flow	817	1,120	1,011	810	681	723	666	628	759	939
Income Tax	237	281	248	316	205	183	129	134	165	158

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9,501	10,444	10,855	9,030	8,606	10,116	10,658	8,366	8,669	9,152
Cash & Equivalents	1,207	800	804	682	362	349	754	396	397	513
Accounts Receivable	1,119	1,226	1,077	1,187	1,120	1,265	1,184	1,232	1,217	1,137
Inventories	734	873	715	864	803	870	677	749	806	836
Goodwill & Int. Ass.	4,691	5,740	4,367	4,861	5,151	6,366	4,969	4,812	4,838	5,156
Total Liabilities	4,570	5,525	5,478	5,330	4,962	6,316	6,275	5,597	5,637	5,766
Accounts Payable	516	651	523	615	651	830	882	970	983	
Long-Term Debt	2,187	2,800	2,828	3,031	2,755	3,621	3,568	3,164	3,070	3,109
Shareholder's Equity	4,931	4,919	5,377	3,701	3,645	3,800	4,383	2,769	3,033	3,386
D/E Ratio	0.44	0.57	0.53	0.82	0.76	0.95	0.81	1.14	1.01	0.92

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%	8.0%	7.7%
Return on Equity	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%	23.4%	21.3%
ROIC	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%	11.3%	10.9%
Shares Out.	184	175	170	163	155	155	155	153	147	145
Revenue/Share	39.01	36.02	41.23	45.92	43.70	38.58	43.24	45.96	48.55	45.97
FCF/Share	4.32	6.09	5.82	4.80	4.28	4.62	4.22	4.13	5.16	6.46

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

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