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DOVER Corp  
Form 10-Q  
April 20, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-4018

Dover Corporation  
(Exact name of registrant as specified in its charter)

Delaware 53-0257888  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3005 Highland Parkway  
Downers Grove, Illinois 60515  
(Address of principal executive offices) (Zip Code)  
(630) 541-1540  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer  (Do not check if smaller reporting company)  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the Registrant's common stock as of April 13, 2017 was 155,669,697.

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## Item 1. Financial Statements

DOVER CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
 (In thousands, except per share data)  
 (Unaudited)

	Three Months Ended	
	March 31,	
	2017	2016
Revenue	\$1,813,372	\$1,622,273
Cost of goods and services	1,152,198	1,033,009
Gross profit	661,174	589,264
Selling, general and administrative expenses	485,290	443,448
Operating earnings	175,884	145,816
Interest expense	36,409	33,318
Interest income	(2,580)	(1,604)
Gain on sale of businesses	(90,093)	(11,228)
Other expense (income), net	176	(2,294)
Earnings before provision for income taxes	231,972	127,624
Provision for income taxes	59,725	28,268
Net earnings	\$172,247	\$99,356
Net earnings per share:		
Basic	\$1.11	\$0.64
Diluted	\$1.09	\$0.64
Weighted average shares outstanding:		
Basic	155,540	155,064
Diluted	157,399	156,161
Dividends paid per common share	\$0.44	\$0.42

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS  
 (In thousands)  
 (Unaudited)

	Three Months Ended March 31,	
	2017	2016
Net earnings	\$172,247	\$99,356
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments:		
Foreign currency translation gains during period	39,897	8,769
Reclassification of foreign currency translation losses to earnings upon sale of subsidiaries	3,875	—
Total foreign currency translation adjustments	43,772	8,769
Pension and other post-retirement benefit plans:		
Amortization of actuarial losses included in net periodic pension cost	1,338	1,409
Amortization of prior service costs included in net periodic pension cost	702	1,041
Total pension and other post-retirement benefit plans	2,040	2,450
Changes in fair value of cash flow hedges:		
Unrealized net gains (losses) arising during period	78	(49 )
Net gains reclassified into earnings	(217 )	(47 )
Total cash flow hedges	(139 )	(96 )
Other	337	1,839
Other comprehensive earnings	46,010	12,962
Comprehensive earnings	\$218,257	\$112,318

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$415,530	\$349,146
Receivables, net of allowances of \$27,182 and \$22,015	1,299,427	1,265,201
Inventories	942,176	870,487
Prepaid and other current assets	104,786	104,357
Total current assets	2,761,919	2,589,191
Property, plant and equipment, net	946,376	945,670
Goodwill	4,508,720	4,562,677
Intangible assets, net	1,782,107	1,802,923
Other assets and deferred charges	239,186	215,530
Total assets	\$10,238,308	\$10,115,991
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$748,426	\$414,550
Accounts payable	880,755	830,318
Accrued compensation and employee benefits	189,665	226,440
Accrued insurance	103,230	96,062
Other accrued expenses	320,555	332,595
Federal and other income taxes	76,572	40,353
Total current liabilities	2,319,203	1,940,318
Long-term debt	2,887,962	3,206,637
Deferred income taxes	643,363	710,173
Other liabilities	434,365	459,117
Stockholders' equity:		
Total stockholders' equity	3,953,415	3,799,746
Total liabilities and stockholders' equity	\$10,238,308	\$10,115,991

See Notes to Condensed Consolidated Financial Statements

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## DOVER CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock \$1 Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2016	\$256,538	\$946,755	\$(4,972,016)	\$7,927,795	\$ (359,326 )	\$3,799,746
Net earnings	—	—	—	172,247	—	172,247
Dividends paid	—	—	—	(68,516 )	—	(68,516 )
Common stock issued for the exercise of share-based awards	229	(9,106 )	—	—	—	(8,877 )
Share-based compensation expense	—	12,805	—	—	—	12,805
Other comprehensive earnings, net of tax	—	—	—	—	46,010	46,010
Balance at March 31, 2017	\$256,767	\$950,454	\$(4,972,016)	\$8,031,526	\$ (313,316 )	\$3,953,415

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Operating Activities:		
Net earnings	\$ 172,247	\$ 99,356
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	95,598	88,604
Stock-based compensation expense	12,805	11,387
Gain on sale of businesses	(90,093 )	(11,228 )
Cash effect of changes in assets and liabilities:		
Accounts receivable, net	(23,207 )	20,103
Inventories	(75,485 )	(29,478 )
Prepaid expenses and other assets	(8,189 )	(1,522 )
Accounts payable	43,833	(14,299 )
Accrued compensation and employee benefits	(42,186 )	(65,887 )
Accrued expenses and other liabilities	(41,782 )	3,202
Accrued and deferred taxes, net	41,572	45,654
Other, net	(7,042 )	(12,479 )
Net cash provided by operating activities	78,071	133,413
Investing Activities:		
Additions to property, plant and equipment	(42,259 )	(37,230 )
Acquisitions, net of cash and cash equivalents acquired	—	(436,058 )
Proceeds from sale of property, plant and equipment	1,273	619
Proceeds from sale of businesses	120,397	47,300
Other	2,369	(488 )
Net cash provided by (used in) investing activities	81,780	(425,857 )
Financing Activities:		
Proceeds from exercise of share-based awards, including tax benefits	—	2,181
Change in commercial paper and notes payable	(15,900 )	247,099
Dividends paid to stockholders	(68,516 )	(65,940 )
Payments to settle employee tax obligations on exercise of share-based awards	(8,877 )	(4,833 )
Net cash (used in) provided by financing activities	(93,293 )	178,507
Effect of exchange rate changes on cash and cash equivalents	(174 )	(4,528 )
Net increase (decrease) in cash and cash equivalents	66,384	(118,465 )
Cash and cash equivalents at beginning of period	349,146	362,185
Cash and cash equivalents at end of period	\$ 415,530	\$ 243,720

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

1. Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim periods and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These unaudited Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes for Dover Corporation ("Dover" or the "Company") for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on February 10, 2017. The year end Condensed Consolidated Balance Sheet was derived from audited financial statements. Certain amounts in the prior year have been reclassified to conform to the current year presentation.

The accompanying unaudited interim Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair statement of results for these interim periods. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Acquisitions

During the three months ended March 31, 2017, the Company did not have any acquisitions. During the three months ended March 31, 2016, the Company acquired the dispenser and systems businesses of Tokheim Group S.A.S. ("Tokheim") within the Fluids segment for net cash consideration of \$436,058. During the measurement period, we recorded working capital adjustments which resulted in final net cash consideration of \$417,238.

See Note 6 — Goodwill and Other Intangible Assets for purchase price adjustments related to acquisitions made in 2016. Purchase price allocation adjustments may arise through working capital adjustments, asset appraisals or to reflect additional facts and circumstances in existence as of the acquisition date. Identified measurement period adjustments will be recorded, including any related impacts to net earnings, in the reporting period in which the adjustments are determined and may be significant.

Subsequent Event - Acquisition

On April 5, 2017, the Company purchased 100% of the voting stock of Caldera Graphics S.A.S. for approximately €35 million (approximately \$37 million). At the date of issuance of the consolidated financial statements, the initial purchase price allocation was not complete for this acquisition. See Note 19 — Subsequent Event for additional information regarding the acquisition.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of 2016 acquisitions on the Company's revenue and earnings from operations for the three months ended March 31, 2017 and 2016, respectively. In 2016, the

Company acquired six businesses in separate transactions for total net consideration of \$1,562 million. During the measurement period, we recorded working capital adjustments which resulted in final net cash consideration of \$1,559 million.

The pro forma information assumes that the 2016 acquisitions had taken place at the beginning of the prior year. Pro forma earnings are also adjusted to reflect the comparable impact of additional depreciation and amortization expense, net of tax, resulting from the fair value measurement of tangible and intangible assets relating to the year of acquisition.

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## DOVER CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

The proforma effects for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended	
	March 31,	
	2017	2016
Revenue:		
As reported	\$ 1,813,372	\$ 1,622,273
Pro forma	1,813,372	1,820,228
Earnings:		
As reported	\$ 172,247	\$ 99,356
Pro forma	172,247	110,690
Basic earnings per share:		
As reported	\$ 1.11	\$ 0.64
Pro forma	1.11	0.71
Diluted earnings per share:		
As reported	\$ 1.09	\$ 0.64
Pro forma	1.09	0.71

## 3. Disposed Operations

On February 14, 2017, the Company completed the sale of Performance Motorsports International ("PMI"), a wholly-owned subsidiary of the Company that manufactures pistons and other engine related components serving the motorsports and powersports markets. Total consideration was \$147,313 for the transaction, including cash proceeds of \$118,706. We recognized a gain on sale of \$88,402 for the three months ended March 31, 2017 within the Condensed Consolidated Statements of Earnings and recorded a 25% non-controlling interest at fair value of \$18,607 as well as a subordinated note receivable of \$10,000.

On February 17, 2016, the Company completed the sale of Texas Hydraulics, a custom manufacturer of fluid power components. Upon disposal of the business, the Company recognized total consideration of \$47,300, which resulted in a gain on sale of \$11,228 included within the Condensed Consolidated Statements of Earnings for the three months ended March 31, 2016.

These disposals did not represent a strategic shift in operations and, therefore, did not qualify for presentation as discontinued operations.

## 4. Inventories

	March 31,	December 31,
	2017	2016
Raw materials	\$475,708	\$ 428,286
Work in progress	157,653	138,652
Finished goods	418,775	409,314
Subtotal	1,052,136	976,252
Less reserves	(109,960 )	(105,765 )
Total	\$942,176	\$ 870,487

## 5. Property, Plant and Equipment, net

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	March 31,	December 31,
	2017	2016
Land	\$69,187	\$ 68,575
Buildings and improvements	601,612	597,523
Machinery, equipment and other	1,815,260	1,802,832
Property, plant and equipment, gross	2,486,059	2,468,930
Total accumulated depreciation	(1,539,683)	(1,523,260 )
Property, plant and equipment, net	\$946,376	\$ 945,670

Depreciation expense totaled \$44,718 and \$45,029 for the three months ended March 31, 2017 and 2016, respectively.

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## DOVER CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

## 6. Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill by reportable operating segments were as follows:

	Energy	Engineered Systems	Fluids	Refrigeration & Food Equipment	Total
Balance at December 31, 2016	\$ 1,045,774	\$ 1,567,216	\$ 1,413,508	\$ 536,179	\$ 4,562,677
Purchase price adjustments	—	(5,313 )	(44,785 )	—	(50,098 )
Disposition of business	—	(27,793 )	—	—	(27,793 )
Foreign currency translation	941	22,030	765	198	23,934
Balance at March 31, 2017	\$ 1,046,715	\$ 1,556,140	\$ 1,369,488	\$ 536,377	\$ 4,508,720

As noted in Note 3 — Disposed Operations, the Company completed the sale of its PMI business during the three months ended March 31, 2017. As a result of this sale, the Engineered Systems goodwill balance was reduced by \$27,793.

During the three months ended March 31, 2017, the Company recorded \$50,098 in adjustments for goodwill related to purchase price adjustments principally for deferred tax liabilities and working capital adjustments for 2016 acquisitions.

The Company tests goodwill for impairment annually in the fourth quarter of each year and whenever events or circumstances indicate an impairment may have occurred. In the first quarter of 2017, the Company re-aligned its reporting units after acquiring four companies in the retail fueling market in 2016, increasing its reporting units from nine to ten. The Company performed the goodwill impairment test for the three reporting units within the Fluids segment impacted by the change, concluding that the fair values of the reporting units were in excess of their carrying values.

The Company's definite-lived and indefinite-lived intangible assets by major asset class were as follows:

	March 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Customer intangibles	\$ 1,967,835	\$ 759,061	\$ 1,208,774	\$ 1,942,974	\$ 718,135	\$ 1,224,839
Trademarks	247,013	60,910	186,103	246,619	56,455	190,164
Patents	158,538	122,633	35,905	157,491	119,828	37,663
Unpatented technologies	157,146	68,791	88,355	155,752	64,648	91,104
Distributor relationships	119,267	47,344	71,923	113,463	44,914	68,549
Drawings & manuals	38,803	24,518	14,285	37,744	23,114	14,630
Other	33,037	21,866	11,171	31,632	21,184	10,448
Total	2,721,639	1,105,123	1,616,516	2,685,675	1,048,278	1,637,397
Unamortized intangible assets:						
Trademarks	165,591	—	165,591	165,526	—	165,526
Total intangible assets, net	\$ 2,887,230	\$ 1,105,123	\$ 1,782,107	\$ 2,851,201	\$ 1,048,278	\$ 1,802,923

Amortization expense was \$50,880 and \$43,574 for the three months ended March 31, 2017 and 2016, respectively.



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## DOVER CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

## 7. Restructuring Activities

The Company's restructuring charges by segment were as follows:

	Three Months Ended March 31,	
	2017	2016
Energy	\$185	\$6,416
Engineered Systems	1,064	1,967
Fluids	3,251	5,226
Refrigeration & Food Equipment	1,513	21
Corporate	—	757
Total	\$6,013	\$14,387

These amounts are classified in the unaudited Condensed Consolidated Statements of Earnings as follows:

Cost of goods and services	\$4,071	\$5,851
Selling, general and administrative expenses	1,942	8,536
Total	\$6,013	\$14,387

The restructuring expenses of \$6,013 incurred during the three months ended March 31, 2017 were related to restructuring programs initiated during 2017 and 2016. These programs are designed to better align the Company's costs and operations with current market conditions through targeted facility consolidations, headcount reductions and other measures to further optimize operations. The Company expects the programs currently underway to be substantially completed in the next 12 to 18 months.

The \$6,013 of restructuring charges incurred during the first quarter of 2017 primarily included the following items:

• The Engineered Systems segment recorded \$1,064 of restructuring charges related to headcount reduction and facility consolidations primarily within the Industrial platform.

• The Fluids segment recorded \$3,251 of restructuring charges principally related to operational synergies, headcount reductions and facility consolidations at various businesses across the segment.

• The Refrigeration & Food Equipment segment recorded \$1,513 of restructuring charges related primarily to facility consolidations.

The Company's severance and exit accrual activities were as follows:

	Severance	Exit	Total
Balance at December 31, 2016	\$ 10,908	\$ 1,439	