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Dover Remakes Business Portfolio For Better Sales Growth

— Dover reported record sales and profit in 2011

— Dover has realigned it business portfolio since 2009

— Added 22 companies with emphasis on energy-related businesses

By Bob Tita

When Robert Livingston was promoted to chief executive of Dover Corp. (DOV) in 2008, it didn't take him long to figure out that some of Dover's businesses wouldn't be part of his vision for the company.

Livingston wanted the diversified industrial company made up of businesses with reliable enough sales growth to cover their costs of expanding overseas and sustaining product development without sacrificing profit margins.

Many of Dover's companies were in cyclical markets. Some had performed no better than mediocre even in good market conditions. Others lacked the size or sufficient investments to take advantage of opportunities to expand sales or increase their market shares. Dover's eclectic business lines range from gas station pumps and supermarket refrigerator cases to hearing aid microphones and synthetic diamonds used in drill heads for oil wells.

Under Livingston's leadership, Dover has added nearly two dozen companies to strengthen businesses with growth potential and sold companies that no longer fit his performance standards. At the same time, he consolidated purchasing of metals and freight transportation and some back office operations for Dover's 32 companies, shrinking expenses that the businesses had previously handled on their own. His transformation strategies helped to propel the Downers Grove, Ill., company to record high revenue and profit last year.

"It's not an accident," Livingston said. "Many of the decisions we made in 2008 positioned us fairly well. We're playing in areas where we've got some expertise, technology leadership or a market-leadership position."

Livingston's willingness to tackle major changes at Dover has been well-received on Wall Street, where investors have grown increasingly frustrated with industrial conglomerates' scattered business focus and their unpredictable performance.

"Dover was not known for having the best management team, but this management team now is considered to be very good," said Scott Davis, an analyst for Barclays Capital. "What Bob has done is he's added a sense of urgency to the management. The most powerful turnaround stories often come from internal people because they don't have to learn the business."

Livingston, 58 years old, joined Dover 29 years ago when the company acquired K&L Microwave, where Livingston was vice president for finance. He replaced Ronald Hoffman as CEO in late 2008. Before the leadership transition was complete Livingston had already ordered up an evaluation of Dover's businesses with the aim of identifying the companies and markets that Dover needed to emphasize. Dover had been sputtering even before the 2008 recession. Operating margins for most of the company's business groups were either flat or falling. Dover's organic sales, which exclude revenue from acquisitions, had grown by less than 2.5% a year for three straight years.

Livingston concluded that Dover should divest slow-growing companies or those with the most exposure to highly volatile industries, such as construction.

"It was obvious that if I made a commitment to product development and business development for those businesses, during a downturn I wouldn't have enough profit margin to play with and still generate earnings," he said.

Dover last year sold Paladin Brands Holding Inc., a maker of attachments for construction machinery; Crenlo Inc., a manufacturer of cabs for farm and construction equipment; and Heil Trailer International Co., which makes tank truck trailers. The three companies combined had accounted for about $600 million in annual revenue. Dover planned to sell Texas Hydraulics as well, but took the company off the market when it failed to attract an acceptable offer.

"They made good decisions on the industrial assets they sold and it gave them the more financial flexibility to focus on four or five end-markets," said Nicholas Heymann, an analyst for brokerage firm William Blair & Co.

Dover has spent about $2 billion since 2009 to buy 22 companies, including Sound Solutions last year, a Vienna-based manufacturer of speakers and receivers for cell phones and other consumer electronics. At a purchase price of $855 million, it was the largest deal in Dover's history. Sound Solutions and Dover's Knowles microphone unit have given Dover a market-leading position in acoustic components for mobile phones and the scale to quickly develop new products for an industry with short product life cycles.

Dover also used acquisitions to bulk up its component-manufacturing businesses for oil well pumps and drills. Nine of Dover's recent acquisitions have been energy-related, including spending $403 million for Harbison-Fischer Inc.,

Texas manufacturer of pump gear that compliments Dover's product lines. Dover had pursued the company for more than 20 years.

Profit last year from Dover's energy business group rose 43% from 2010, while revenue surged by 46%. With higher oil prices driving increased production and exploration, Livingston intends to keep investing in energy.

"You'll see another acquisition or two from us in the energy space this year," Livingston said.

Dover's overall profit last year rose 28% to $895.2 million, or $4.74 a share, while revenue grew 20% to $8 billion. Organic sales increased 11%. Livingston is counting on strong organic sales growth again this year to help produce another record year for income and revenue.

Nevertheless, pockets of weakness remain in the company. Profit from the printing and identification business group dropped 5% in 2011, capped off by dismal fourth-quarter declines in both sales and income. The printing group, which supplies equipment used in the assembly of printed circuit boards and solar-energy cells, has struggled as spending on solar power shrinks amid low natural gas prices. Analysts say the group's lackluster performance underscores that Dover remains susceptible to boom-and-bust markets.

"A lot of what people worry about is that Dover has been performing so well that the business has become even more volatile and cyclical" than in the past, said Barclays analyst Davis.