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Q1 2025 DONALDSON COMPANY INC EARNINGS CALL

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CORPORATE PARTICIPANTS

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- **Tod Carpenter** *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*
- **Brad Pogalz** *Donaldson Company Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Angel Castillo** *Morgan Stanley - Analyst*
- **Bryan Blair** *Oppenheimer & Co. Inc. - Analyst*
- **Brian Drab** *William Blair & Company - Analyst*
- **Daniel Rizzo** *Jefferies - Analyst*
- **Adam Farley** *Stifel Financial Corp. - Analyst*
- **Robert Mason** *Robert W. Baird & Co. Incorporated - Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to the Donaldson Company first-quarter fiscal year 2025 earnings conference call. (Operator Instructions)

I'd now like to turn the call over to Sarika Dhadwal, Senior Director of Investor Relations. You may begin.

Sarika Dhadwal *Donaldson Company Inc - Investor Relations*

Good morning. Thank you for joining Donaldson's first-quarter fiscal 2025 earnings conference call. With me today are Tod Carpenter, Chairman, President and CEO; and Brad Pogalz, Chief Financial Officer. Also on the call is Scott Robinson, former CFO and current Strategic Adviser. This morning, Tod and Brad will provide a summary of our first-quarter performance and reaffirm our outlook for fiscal 2025.

During today's call, we will discuss non-GAAP or adjusted results. For first quarter 2025, non-GAAP results exclude pretax restructuring and other charges of \$3.3 million, primarily related to cost reduction initiatives in the life sciences segment. A reconciliation of GAAP to non-GAAP metrics is provided within the schedules attached to this morning's press release. Additionally, please keep in mind that any forward-looking statements made during this call are subject to risks and uncertainties which are described in our press release and SEC filings.

With that, I will now turn the call over to Tod.

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Sarika. Good morning. Before we get started, on behalf of the Board of Directors and Donaldson Company, I want to thank Scott Robinson for his contributions over the past nine years. We are better as an organization because of him. He led us through several significant global initiatives, which undoubtedly resulted in improved financial performance and shareholder value creation.

He also built a world-class finance team, the best Donaldson Company has ever had. So Scott, enjoy your retirement. You've earned it, and we look forward to hearing stories about your continued adventures, hunting, fishing, traveling, and the like. With that, I also want to formally acknowledge Brad Pogalz, our current CFO. Many of you already know Brad from his former positions, including as Head of Investor Relations for Donaldson. He has been with the organization for nearly a decade, and I'm confident his experience and deep understanding of our business will enable his success in his new role.

Now on to the first-quarter results. Our record first-quarter earnings mark a strong start to fiscal 2025. We increased sales in all three segments, gained share in key business units through our technology-led solutions, and maintained strong gross margins. Also, as part of our ongoing work to optimize and elevate the margin profile of the company, we took actions to focus our expense structure within the life sciences segment in response to continuing market pressures. This work is part of the footprint and cost optimization program we began last quarter. In summary, this quarter, we executed and laid the foundation for higher profitability.

Now some highlights from each of our segments. In mobile solutions, we delivered strong sales growth and improved profitability with the backdrop of weak end market conditions including in agriculture and transportation. We achieved this through higher volumes and mix benefits from our aftermarket business. To support our growth, we opened a new distribution center in Olive Branch, Mississippi, strengthening our ability to deliver aftermarket products with speed and reliability to our customers. In Industrial Solutions, our Aerospace and Defense business performance continued to be excellent, driven by a notable increase in both new and replacement part sales as end market conditions remain strong.

Connected Solutions sales, while still a small part of the industrial segment, rose significantly year over year as we increase the number of connected machines and connected customer facilities. In life sciences, sales increased double digits from share gains and improved market conditions in disk drive as well as strength in our food and beverage business. Early in the quarter, we expanded our presence in food and beverage markets with the launch of filtration services in France, Germany, and Austria. This expansion brings Donaldson's specialists and product and process integrity directly to customer locations. It also sets the stage for further expansion and share gains across Europe.

With respect to our bioprocessing acquisitions, we are making progress in our work towards penetrating the market through product launches. Univercells Technologies launched the scale-X nexo bioreactor, a miniature fixed bed system designed for efficient cell culture process development across multiple modalities. Our solution reduces media and reagent consumption and makes biomanufacturing more cost effective.

Isolere Bio announced the availability of its research-grade IsoTag AAV reagent. This latest addition to the IsoTag reagent platform represents a significant leap forward in AAV purification for gene therapies, accelerating the purification process, enhancing yield, purity, and quality. Our manufacturing-grade reagent is on track to be available in calendar 2025.

These technologies are just a few of the exciting solutions our bioprocessing businesses have been developing. We are optimistic about our growth prospects in these markets and remain focused on scaling our acquired businesses. Now I'll cover some consolidated company highlights.

Sales of \$900 million were up 6% year over year, driven primarily by volume growth. Pricing added 1%, and currency was a 1% tailwind. Adjusted EPS in the quarter was \$0.83, up 11% versus prior year. Our operating margin improved versus 2024 through leverage on higher sales. We delivered our products and services to our customers, worked down our backlogs, and improved on-time delivery rates.

While supply chain constraints continue in some areas of our business, overall, we are benefiting from more normalized conditions. During the quarter, we continued to thoughtfully invest for future profitable growth through CapEx and R&D investments. Capital expenditures included investments in talent recruitment and retention, new products and technologies including in our life sciences segment, and capacity. Our R&D investments increased year over year, driven in large part by life sciences projects.

Looking ahead, Donaldson's strong free cash flow generation and robust balance sheet puts us in a great position to continue to strategically invest and remain the leader in technology-led filtration for years to come. Now I'll provide some detail on first-quarter sales.

In mobile solutions, total sales were \$572 million, a 6% increase versus 2024. Similar to recent quarters, intrasegment performance was mixed. Aftermarket sales of \$451 million were up 11% year over year. Within aftermarket, OE channel sales were up mid-teens

as we continue to cycle against destocking in the prior-year period. Beginning in the second quarter, we will compare against more normalized levels of demand a year ago.

Independent channel sales grew mid-single digits from market share gains and high vehicle utilization rates. Off-road sales of \$89 million were down 6% due to sustained weak end market conditions largely in the global agriculture market. Sales in on-road were \$32 million, down 15%, driven by lower equipment production predominantly in the US and China. Now I'll touch on China as a whole within mobile solutions.

Sales increased 4% versus 2024 driven by double-digit growth in aftermarket. On the first-fit side, weak on-road sales were partially offset by off-road performance which turned positive after five quarters of declines. Over the long term, we are committed to growing our business in China, which, importantly, has been and will continue to be largely supported by our in-region manufacturing. Turning to the industrial solutions and life sciences segments.

Industrial sales increased 5% to \$258 million. As noted earlier, aerospace and defense sales had very strong growth and rose 27%. Industrial filtration solutions or IFS sales grew 1% to \$212 million, driven by power generation project timing. Life sciences sales were \$70 million, up 17% year over year. As previously mentioned, disk drive and food and beverage sales were the drivers. Overall, I am pleased with our first-quarter results. This year, we expect once again to deliver value to our shareholders through record fiscal 2025 sales and earnings.

Now I'll turn it over to Brad who will provide more details on the financials and our outlook for fiscal 2025. Brad?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Thanks, Tod. Good morning, everyone. Before discussing our first-quarter results, I want to take a moment to thank Scott for his leadership and the smooth transition over the past several weeks. I'm excited for the opportunity to lead the finance and IT functions at Donaldson and to build upon all the great work that has been done. Now on to results for the quarter and our outlook for the full year.

Note that my profit comments will exclude the impact of the restructuring charges Sarika referenced earlier. First-quarter total company sales were up 6% versus 2024. Operating margin was up 20 basis points, and EPS of \$0.83 increased 11% year over year. Gross margin of 35.6% was flat to the prior year. Benefits from select input cost deflation were offset by increased costs including investments in manufacturing, efficiency, and distribution which allow us to better serve our customers, and we also had higher labor costs.

Operating expense as a rate of sales was 20.7% compared with 20.8% a year ago. Leverage on higher sales was partially offset by an increase in people-related costs. This expense leverage increased operating margin to 14.9% from 14.7% in 2024. Now a few comments on segment profitability. Mobile solutions pretax profit margin was 18.3%, up 120 basis points year over year, driven by higher volume, favorable mix related to replacement part sales, and lower select input costs.

Industrial solutions pretax profit margin was 15.9%, down 170 basis points due to a couple of things. We had increased costs including those related to our footprint optimization initiatives, combined with an unfavorable mix of sales. Importantly, our industrial backlogs remain high. As we work down our backlog through the balance of this year, we expect profitability to improve as we get leverage on higher sales. Life sciences had a pretax loss of approximately \$5 million in the quarter, including a headwind from acquisitions as we continue to ramp those businesses up.

Pretax margin was a loss of 7.6% versus a loss of 7% a year ago. As Todd mentioned, we took actions this quarter to focus our expenses towards the top opportunities given the difficult market backdrop. There is no change in our commitment to expanding in life sciences, and we remain confident in our ability to win in this highly attractive market.

Turning to a few balance sheet and cash flow highlights. First-quarter capital expenditures were \$25 million. Cash conversion in the quarter was 47%, in line with our expectations. And in terms of other capital deployment, we expanded our reach within the life sciences market through a \$71 million investment that got us a 49% stake in Medica SpA.

We also returned approximately \$107 million to shareholders inclusive of \$32 million in dividends and \$75 million in share repurchase. Our strong cash flow generation and disciplined capital deployment allows us to maintain a healthy balance sheet, evidenced by our net debt-to-EBITDA ratio of 0.6 times.

Now our fiscal '25 outlook, first on sales. We continue to expect full-year total sales to increase between 2% and 6%, which includes a pricing benefit of approximately 1%. For mobile solutions, we're forecasting sales between flat and up 4%, consistent with previous

expectations. Off-road sales are projected to be up low single digits due to market share gains, partially offset by depressed end market conditions, particularly in agriculture. On-road sales are forecast down low double digits due to weak global truck production.

Aftermarket sales are expected to be up low single digits versus the prior year, driven by market share gains and strong vehicle utilization. In industrial solution, sales are projected to increase between 4% and 8%, also in line with our previous guidance. IFS sales are forecast to grow high single digits with strength across most businesses, including dust collection, industrial hydraulics, and industrial gases. Aerospace and defense sales are projected to be flat after lapping very strong comps in 2024.

For life sciences, our sales outlook is also unchanged. We're forecasting low double-digit growth driven by increases in our larger businesses including disk drive and food and beverage. Given our segment growth expectations, combined with our commitment to growing these businesses through targeted strategic investments, we continue to expect the life sciences full-year pretax profit will be about breakeven.

Total company operating margin expectations are unchanged and within a range of 15.3% and 15.9%. The midpoint of this range represents a 20-basis-point increase from the prior year, a record for Donaldson, and a return of value to shareholders through higher levels of profitability on higher sales. In terms of adjusted EPS, we are reaffirming our guidance range of \$3.56 to \$3.72, up from \$3.42 in fiscal 2024.

Now on to the balance sheet and cash flow outlook. Our capital expenditures forecast is \$85 million to \$105 million and is weighted towards growth initiatives, including capacity and new products and technologies. Cash conversion is expected to be in the range of 85% to 95%, in line with historical averages. With respect to capital deployment, our priorities continue to be: First, investing to grow the company, organically, as I just outlined, and inorganically through strategic M&A.

Second, dividends. Calendar 2024 will mark Donaldson's 69th consecutive year of paying a quarterly cash dividend and the 29th year in a row of annual dividend increases. We are proud to be a part of the S&P High-Yield Dividend Aristocrat Index, and we expect to maintain our membership.

Third and lastly, share repurchase. This year, we expect to repurchase between 2% and 3% of outstanding shares. Overall, we are in a strong position to deliver our full-year 2025 financial and strategic objectives.

Now I'll turn the call back to Tod.

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Thanks, Brad. When we completed the organizational redesign of Donaldson Company two years ago, we did so to better serve our end market customers. The intent was to enable a more efficient deployment of resources and to strengthen commercial execution. Our results are proof of our success. We have gained share in several businesses including mobile solutions aftermarket, industrial dust collection, aerospace and defense, and disk drive.

Through our filtration technology expertise, we have expanded our addressable market and grown a diversified portfolio of businesses with strong long-term fundamentals. This has allowed us to withstand pockets of market weakness and deliver record earnings to our shareholders. Now we're focused on building on this success. While we continue to optimize our expense base in response to macro conditions, we are intent on capitalizing on our growth potential through impactful strategic investments in all three of our segments.

In mobile, our teams are focusing on building our alternative power solutions business. We are enablers of a greener and more efficient modern economy and are committed to helping our customers achieve their sustainability goals through advanced filtration. In industrial, connectivity and services will support future growth. We are strengthening customer relationships by providing smart, connected solutions that provide real-time performance information, reducing equipment downtime and decreasing total cost of ownership including maintenance. In life sciences, we are targeting investments in the scaling of our bioprocessing businesses and strengthening our ability to gain share in businesses like food and beverage.

All of this is underpinned by the talent and fortitude of the Donaldson team, which, combined with our balanced growth strategy, position us well to deliver on our fiscal 2026 financial targets.

With that, I will now turn the call back to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Angel Castillo, Morgan Stanley.

Angel Castillo Morgan Stanley - Analyst

Congrats on another strong quarter here. Just wanted to touch base on maybe just to start on the free cash flow conversion. You mentioned that that's kind of in line with your expectations. But can you just give us a little bit more color on maybe the 47% conversion and just as you think about -- it seems like it was maybe more kind of working capital, just kind of those drivers and maybe how you get back to that 85% to 95% for the year.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Yes, you're right. It's about working capital investments. And as Tod and I will touch on a little bit, investments, especially in inventory to get on-time deliveries in good shape and make sure we're delivering for the customers. So that's really the story. And then it just sort of cascades through the year as we expect more sales in the build and the typical stronger second half and more working -- better use of working cap as we go through the year.

Angel Castillo Morgan Stanley - Analyst

Okay. That's helpful. And then on life sciences, I was wondering if you could break out a little bit more. Just remind us how much disk drive is? And likewise, maybe how much FMBs, particularly as you think about the international expansion if you could provide more color on that. And then just the last piece on the underlying life sciences vertical as well, how much each of those makes up for fiscal year '25.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

We typically don't break out the details on the specific businesses, but I would say that the thing to keep in mind with disk drive is remember about 1.5 years ago, we created off the bottom. That market collapsed, which is very well documented publicly created a big pressure on our businesses. And so the growth rates and the growth this year are just continuation of that, along with some share gains there.

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, just maybe a little bit more. It's just a [renormalization] of the overall end market within disk drive is what's taking place.

Operator

Bryan Blair, Oppenheimer.

Bryan Blair Oppenheimer & Co. Inc. - Analyst

Scott, thank you for all your help over the years. It has been a pleasure. Brad, obviously, congrats on the promotion, well deserved.

I wanted to level set a little bit on mobile, aftermarket results remain encouraging there. We're still lapping or we're lapping OE channel destocking from last year. Was that the source of all of the double-digit growth on that side? And on independent channel, is

it strictly share gains that continues to drive growth there? And what are you contemplating on that front in the reiterated guidance?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, Bryan, this is Tod. So when you look at our aftermarket performance, the big story is share gains. It's share gains with a large customer that we talked about NAPA before. It's also share gains across the independent channel. It's a slight lapping of the destocking on the OE side and returning back to normal pull-through levels, let's say, but the story within our aftermarket organization is share gains, and they're pretty broad as evidenced by almost double-digit growth across all regions of the world.

Bryan Blair *Oppenheimer & Co. Inc. - Analyst*

I appreciate the color. And on price cost, sorry if I missed the detail, how did that shake out in Q1 and assuming the 1% price realization that you've guided current visibility on costs. How is your team thinking about price cost impact and cadence over the coming quarters?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

So price cost, you pointed out it was about 1% in the quarter. The thing to keep in mind is pricing it is a much more normal level now. This is typically what we'd expect is in that low single-digit range. And we would see that for the rest of the year, about 1% in the quarter. We guided to 1% for the full year. So that averages out pretty similarly.

The point on cost is it's still a mixed bag. Some are up, some are down. Labor is up, certain input costs are up, certain input costs are down. So I would say from our side, the teams are working really hard to balance that. And obviously, we want good relationships with our customers, too. So that's something we have to take into the equation. But for us, the way we sit right now, it's -- we think it's pretty well balanced.

Operator

Brian Drab, William Blair.

Brian Drab *William Blair & Company - Analyst*

Just a couple of questions. I know, Tod, you touched on it a little bit, I think, but can you elaborate on how you're thinking about and what you're seeing from your customers and the environment post-election? You mentioned that maybe there is some power project delays.

And I was wondering, have there been other challenges in the business leading up to the election or project delays that you're seeing that you think might get released now and just the overall environment? And then any concerns you have? Or how are you thinking about the tariff situation or potential situation?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, Brian. So when you really look at the macro across the company and the overall broad-based portfolio of businesses that we have, the election really normalizes, if you will. You get some positives in the power generation business potentially. Of course, based upon incoming administration's position relative to that. We have some potential risks in the sense of tariffs.

But I do want to mention that 75% of Donaldson's manufactured product to customers are manufactured within region to support that region. So we do not cross region a whole lot. And when we do, the US remains as Donaldson Company -- for Donaldson Company, a net exporter. So the tariff story for us is really more of a, should they go within region, North and South Mexico and Canada, clearly we would feel some pressures there. It's just uncertain what's going to happen.

I think the bigger story for us would be more what happened in the raw materials sector in the last Trump administration. They really hit tariffs on steel, and steel is our number one commodity used. And therefore, that's when we really started to feel things. But overall, as the manufacturing sector goes and how Donaldson supplies its customers, we're pretty comfortable there.

And we would have some opportunities relative to manufacturing expansion, relative to power generation expansion, and just generalized improved economy across the US clearly would give us a nice bump as well.

Brian Drab William Blair & Company - Analyst

And then just on the IFS business, you mentioned -- again, you mentioned this power project timing. You've got a up 1% result for this quarter, but up high single digit forecast for the full year. Can you just give us a little confidence or a window into what you're seeing for the back half of the year, maybe this project that was delayed is going to hit, et cetera?

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. It's just timing. That business is always -- it always has timing hanging over it. The projects just float on delivery from one quarter to the next. But at the macro, as we see relative to our backlogs, in that business are strong. They clearly support our forecast. There's potential upside there.

We're already filling in some of the backlog for next fiscal year. It's a pretty solid business cycle in power generation at this point.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

I'll just add one thing that's a bit more of the math on IFS specifically. Unlike most of the rest of the company, IFS toughest comp is actually in the first quarter of last year, whereas the rest of the company, this is one of our easier comps. IFS builds as a result of that, too. So just keep that in mind, please.

Operator

Laurence Alexander, Jefferies.

Daniel Rizzo Jefferies - Analyst

This is Dan Rizzo on for Laurence. You mentioned restructuring and reducing costs within life sciences. I was wondering where we are in terms of which inning -- I mean, is that going to continue through the end of the year? When should we expect, I mean, that business to be rightsized?

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yes. So where we are within the cycle of that is that the macro of the life sciences businesses we've been talking about, clearly, the end market conditions within the life sciences have really met with some headwinds, larger CapEx-based projects. So what we would call upstream of the overall bioprocessing cycle has really slowed. And then the downstream products have really -- those projects have elongated. And as typical in a Donaldson business, when, say, a mobile solutions project elongates, it will slip by one quarter or two, but a life sciences project slips by one year and sometimes two.

And so consequently, we round all that up and took a solid look at where we are and where the market condition is, and we adjust it. At this point, we have made the adjustments that we have planned. We continue to look at standard work across every business inside Donaldson Company where we are, meet the end market conditions as well. And should there be further necessary actions, clearly, we'll take them, but we feel like at this point in time, we're in a good spot to execute longer term our strategic plan and deliver on our guide which is to return the business to flat profitability within the fiscal year.

Daniel Rizzo Jefferies - Analyst

Okay. And then within -- sorry, within bioprocessing, I mean, once you restructure, are you going to need any macro improvement to get beyond returning to just basic profitability? Can you grow from a smaller footprint if nothing really gets better for the next three to five years?

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yes, we can. What we've really done is we had a broader base list of projects that we were working on in order to ready market. And so we just focus those projects, if you will. We really sharpened our pencil relative to our choices because the market appears to be a little bit slow to take on some of those new opportunities that we were starting to press so we backed down away from those. We elongated those out and said, hey, look, we'll put those on the to do list than the now list and we really focused our attention on what we can deliver quicker in order to monetize.

Daniel Rizzo Jefferies - Analyst

Okay. And then finally, last question. You mentioned that you saw a little bit of acceleration in off-road after five quarters of things decline. Do you think we've reached an inflection point where things should start to get better? Or is it really too soon to tell if there is actually a real rebound there?

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yes, tough to say. We're just kind of aggregating all the inputs across the customer base at this point in time. But it is tough to say on that first-fit side. We follow all the agriculture news which continues to get a little bit tougher. The construction news is a little bit more muted, if you will, but one of the other stories that we have, obviously a positive one, is China in the quarter.

But China didn't feel like an inflection point where we're drawing a line forward. It just felt like a moment. And so consequently, we'll just keep our eye on that. It's also too soon to call anything on China. So there's just a bowl of uncertainty out there, and we'll just keep our eyes on it.

Operator

Nathan Jones, Stifel.

Adam Farley Stifel Financial Corp. - Analyst

This is Adam Farley on for Nathan. I wanted to follow up on the aftermarket question. How should we think about the underlying demand level there adjusting for the destocking comps and the market share gains? Is it steady Eddie? Or are you seeing any acceleration there?

Tod Carpenter Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So if you really take a look at overall vehicle utilization, it's steady. There's not really an expansion, if you will, taking place which really speaks to my earlier comment, that's a story of our quarter and the story of what's taking place in mobile solutions aftermarket Donaldson Company is share gains. We're executing extremely well. We're making the necessary investments such as standing up new distribution centers to take care of our customers extremely well.

And as a direct result, we're continuing to gain share. Should there be more of an economic uptick, clearly, we're positioned well to take advantage of that upcycle. But in the meantime, we'll just continue to win share and move forward. I do -- maybe this is a good moment to suggest that when you look at our mobile solutions aftermarket business, and as we enter Q2, November, December, and January, that's typically our toughest quarter, right? And so -- because you're not planting, and they're not harvesting, and

there's not a whole bunch of construction projects going on.

So I do want to remind you, as you build your models out that Q2 is a little bit softer, typically, historically for Donaldson Company, but we do still expect to deliver positive things.

Operator

Rob Mason, Baird.

Robert Mason *Robert W. Baird & Co. Incorporated* - Analyst

Maybe, Tod, just to follow up on your last comment. Are you still thinking about the year breaking down first half versus second half, 48-52, where does does that percentage change any?

Tod Carpenter *Donaldson Company Inc* - Chairman of the Board, President, Chief Executive Officer

No, it hasn't changed. We said last time closer to 49-51. We're actually right of us in the middle between 48 and 49 if you build your models out, so it could swing a tenth or two-tenths and round down or up. So we're right there. And again, I do want, Rob, to do -- your model is exceptional. I do want to remind you that Q2 is typically because of holidays and such as you look to your 48%, 49%, that's usually the toughest Q of the year.

Robert Mason *Robert W. Baird & Co. Incorporated* - Analyst

Yeah. Makes sense. You didn't -- of course, you didn't change your outlook for any of the segments. So including aerospace defense, you got off to a really good start.

I mean, is -- your guidance looks conservative based on the first quarter start, but do you have visibility just on shipment timing to support that? Or is this -- should we think there's potential upside to that aerospace defense?

Tod Carpenter *Donaldson Company Inc* - Chairman of the Board, President, Chief Executive Officer

Yeah. Thanks for the question. So we know that we have a strong first quarter. What the guidance really embraces is the fact that more than any other business inside Donaldson Company, we have supply chain bubbles there. Particularly, we have a couple of piece parts that are really holding back seven-figure projects to be delivered.

And so should we be able to resolve those, there's clearly some upside, right? But right now, they are incredibly stubborn because we have been chasing them for over a year. And as you know, in aerospace and defense, when you want to recall and get a new supply, it's highly different than the other businesses that we have. And so that's why it has just been taken so long to try to drive down that supply chain challenge. But it does have upside should we be able to get the product in here.

Brad Pogalz *Donaldson Company Inc* - Chief Financial Officer

Rob, this is Brad. I'll just add on the cadence. Keep in mind, fourth quarter last year in this business was up around 40%. So there's clearly a comp story at the back end of last year. And part of that big jump was exactly what Tod just talked about.

Some of these parts as they come in, we'll sell it and send it as quickly as we can when we get the shipments from our suppliers.

Robert Mason *Robert W. Baird & Co. Incorporated* - Analyst

Understood. Okay. That's helpful. And just last question. I'm curious, Medica was in the results this quarter. How did that influence the life science op profit? Was it a contributor, detractor to overall profit?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Yeah, it was neither of those. I mean, essentially, it was immaterial in the quarter, rounds to 0. The biggest thing in the quarter was the cash outflow that I mentioned in my remarks, \$71 million for the 49% stake.

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

Well, congratulations to both Scott and you, Brad.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Tod Carpenter for some final closing remarks.

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

That concludes the call today. Thanks to everyone who participated. We hope everyone had a nice holiday season, and we look forward to reporting our second-quarter fiscal 2025 results in February. Goodbye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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