



DONALDSON COMPANY

# THIRD QUARTER FISCAL YEAR 2024

JUNE 2024





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FILTRATION SOLUTIONS

# Forward-Looking Statement Safe Harbor

Statements in this presentation regarding future events and expectations, such as forecasts, plans, trends, and projections relating to the Company's business and financial performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are identified by words or phrases such as "will likely result," "are expected to," "will continue," "will allow," "estimate," "project," "believe," "expect," "anticipate," "forecast," "plan" and similar expressions. These forward-looking statements speak only as of the date such statements are made and are subject to risks and uncertainties that could affect the Company's performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed. These factors include, but are not limited to, challenges in global operations; impacts of global economic, industrial and political conditions on product demand, including the Russia and Ukraine conflict; impacts from unexpected events, including the COVID-19 pandemic; effects of unavailable raw materials or material cost inflation; inability to attract and retain qualified personnel; inability to meet customer demand; inability to maintain competitive advantages; threats from disruptive technologies; effects of highly competitive markets with pricing pressure; exposure to customer concentration in certain cyclical industries; inability to manage productivity improvements; results of execution of any acquisition, divestiture and other strategic transactions; vulnerabilities associated with information technology systems and security; inability to protect and enforce intellectual property rights; costs associated with governmental laws and regulations; impacts of foreign currency fluctuations; and effects of changes in capital and credit markets. These and other factors are described in Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2023. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. The results presented herein are preliminary, unaudited and subject to revision until the Company files its results with the United States Securities and Exchange Commission on Form 10-Q.

## **Non-GAAP Financial Measures**

This presentation contains non-GAAP financial measures, such as adjusted diluted EPS, adjusted gross margin, adjusted operating expense, adjusted EBIT, adjusted operating income, adjusted operating margin, and free cash flow, which exclude the impact of certain matters not related to ongoing operations. See the Reconciliation of Non-GAAP Financial Measures schedules in the appendix for additional information.



# Third Quarter Fiscal Year 2024 Update and Overview

## Key Updates

### Strong Execution Through Mixed End-Market Conditions

- ✓ Robust **gross margin** expansion
- ✓ **Sales growth and profitability** across all three segments
- ✓ Ongoing **investments in innovation and scaling of acquisitions**
- ✓ **Returned \$57M to shareholders** in dividends and share repurchases

## Third Quarter Financials

### Sales and EPS up YoY

- ✓ **Sales of \$928M** increased 6.0% year over year
- ✓ **EPS<sup>(1)</sup> of \$0.92** up 21.7% year over year
  - Gross margin increase of 260 bps
  - Operating margin expansion of 130 bps
- ✓ **Free cash flow conversion<sup>(2)</sup> of 106%**

## FY 2024 Guidance

### Increasing Fiscal 2024 EPS Guidance

- ✓ **Sales outlook of 4% to 6% growth**
- ✓ **Year-over-year operating margin expansion to between 15.0% and 15.4%**, driven by higher gross margin
- ✓ **Raising EPS guidance to a range of \$3.33 - \$3.39**

<sup>1</sup> All EPS figures refer to diluted EPS.

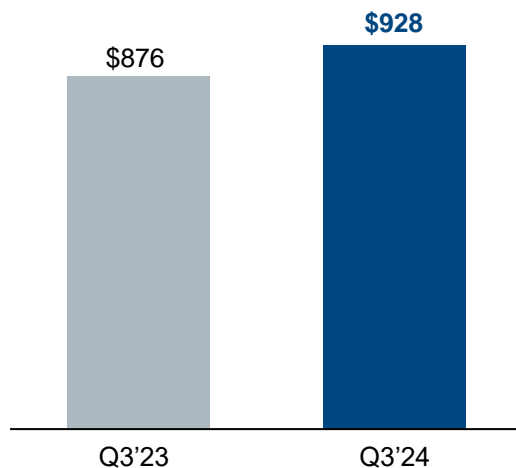
<sup>2</sup> Free cash flow = cash from operations minus capital expenditures; Adjusted free cash flow conversion = free cash flow / adjusted net earnings.



# Third Quarter FY24 Overview & Highlights

## Sales (\$M)

Up 6.0% YoY

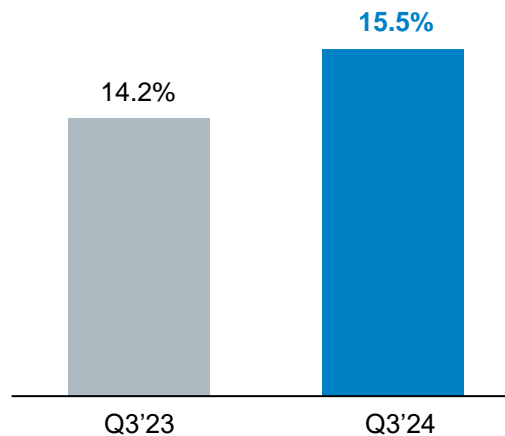


### Highlights

- ~5% YoY contribution from volume
- Segment Performance YoY:
  - Industrial Solutions +3%
  - Mobile Solutions +6%
  - Life Sciences +24%

## Operating Margin

Up 130 bps YoY

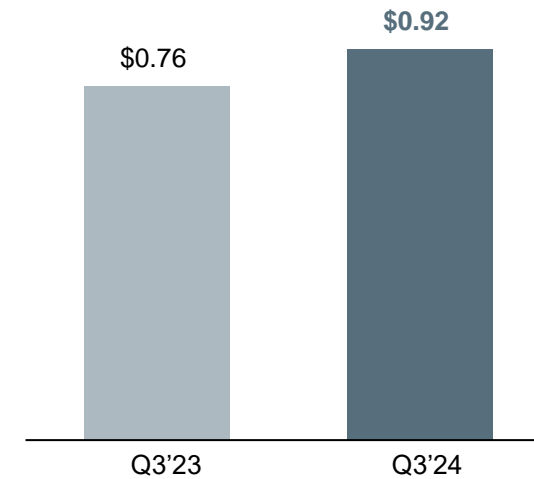


### Highlights

- Gross margin increased 260 bps versus prior year driven by leverage on higher sales, pricing benefits, and input cost deflation
- Operating expenses as a percent of sales up 130 bps YoY from increased people-related costs and scaling of Life Sciences acquisitions

## Diluted EPS

Up 21.7% YoY



### Highlights

- Operating income increased 16% YoY
- Below-the-line benefits including other income and tax



# Mobile Solutions Segment Third Quarter FY24 Results



	Q3'24	Q3'23	YoY
<b>Sales</b>	<b>\$585</b>	\$555	+6%
<b>EBT</b>	<b>\$108</b>	\$83	+29%
<b>% of sales</b>	<b>18.4%</b>	15.0%	+340 bps

## Third Quarter Overview

### Sales

- Total Sales YoY: +6%
  - Strength in Aftermarket from share gains and prior year destocking, partially offset by decreases in On-Road and Off-Road due to lower global equipment production
- Performance by end-market YoY:
  - Aftermarket +11%
  - On-Road -6%
  - Off-Road -10%
- Performance by region YoY:
  - US/CA +15%
  - EMEA -3%
  - APAC -10%
  - LATAM +17%
- China Sales YoY:
  - Down 32% YoY, primarily due to weak overall market demand

### Margins and Key Updates

- Segment EBT margin +340 bps YoY driven by driven by volume growth, mix, and pricing benefits



# Industrial Solutions Segment Third Quarter FY24 Results



	Q3'24	Q3'23	YoY
<b>Sales</b>	<b>\$269</b>	\$262	+3%
<b>EBT</b>	<b>\$50</b>	\$49	+2%
<b>% of sales</b>	<b>18.7%</b>	18.8%	-10 bps

## Third Quarter Overview

### Sales

- Total Sales YoY: +3%
  - Sales driven by volume growth and pricing
- Performance by end-market YoY:
  - Aerospace & Defense +6%
  - Industrial Filtration Solutions (IFS) +2%
- Performance by region YoY:
  - US/CA +3%
  - EMEA +4%
  - APAC -9%
  - LATAM +46%

### Margins and Key Updates

- Segment EBT margin continues to be elevated, approximately flat YoY



# Life Sciences Segment Third Quarter FY24 Results



	Q3'24	Q3'23	YoY
<b>Sales</b>	<b>\$74</b>	\$59	+24%
<b>EBT</b>	<b>\$1</b>	\$0	NM
<b>% of sales</b>	<b>0.7%</b>	0.3%	+40 bps

## Third Quarter Overview

### Sales

- Total Sales YoY: +24%
  - Sales increase driven by Bioprocessing Equipment project timing and Disk Drive strength
- Performance by region YoY:
  - US/CA +28%
  - EMEA +31%
  - APAC +13%
  - LATAM +80%

### Margins and Key Updates

- Segment EBT margin +40 bps YoY
- Headwind from acquisitions of 16 percentage points



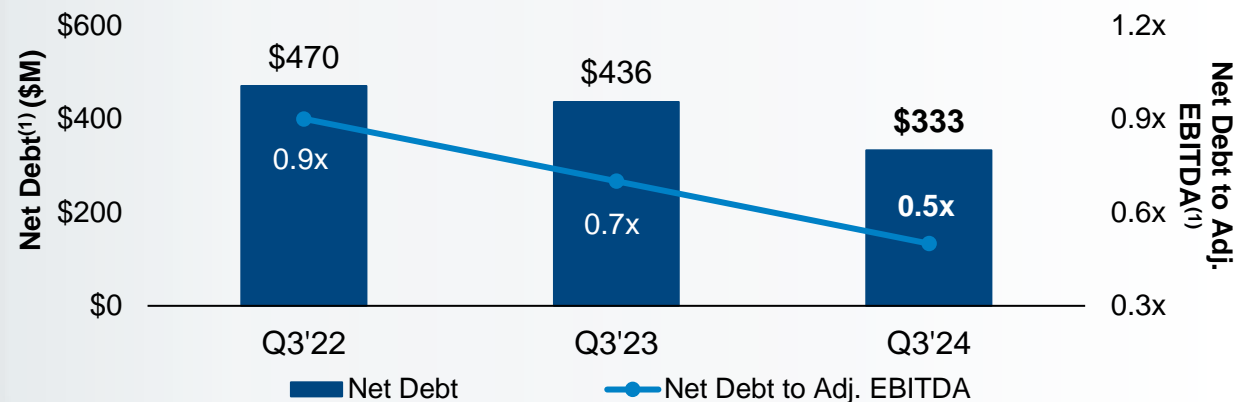
# Balance Sheet and Cash Flow Overview

## Highlights

- Free cash flow conversion<sup>(2)</sup> of 106% in Q3'24
  - Strong conversion driven by continued focus on working capital efficiency
- Returned \$57 million to shareholders
  - \$30 million in dividends
  - \$27 million in share buybacks
- Strong balance sheet supports future growth and strategic investments



## Net Debt and Financial Leverage



## Consolidated Results (\$M)

	Q3'24	Q3'23
Cash from Operations	\$142	\$133
Capital Expenditures	(\$21)	(\$35)
Free Cash Flow <sup>(2)</sup>	\$120	\$98
Dividends	(\$30)	(\$28)
Share Buybacks	(\$27)	(\$4)

<sup>1</sup> Adjusted for restructuring and other charges. See the Reconciliation of Non-GAAP Financial Measures appendix for additional information.

<sup>2</sup> Free cash flow = cash from operations minus capital expenditures; Adjusted free cash flow conversion = free cash flow / adjusted net earnings.





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# A Sustainability Strategy For a Thriving Future



Scan to  
Access Our  
Sustainability  
Report

## PRODUCTS

### Creating Sustainable Value



#### Supporting Low-Carbon Transition

Playing key roles in battery-electric applications, internal combustion engines using alternative fuels, fuel cells, and the hydrogen energy value chain



#### Life-Changing Innovations

Creating sustainable solutions for daily life in industries such as fuel cell technology and life science

## PEOPLE

### Promoting Safety & Diversity



#### Progress towards eliminating serious accidents in the workplace<sup>1</sup> by the end of FY30:

Reduced both the total recordable incident rate (TRIR) by 25% and the number of life-changing incidents by 20% compared to FY22



#### Progress towards a 35% target for women in global leadership positions by FY30:

Raised proportion to 22% compared to 20% in FY22



Achieved Board diversity of 30% women and 30% people of color

## PLANET

### Operating Sustainably



#### Progress towards our goal of reducing Scope 1 and 2 GHG emissions by 42% by the end of FY30:

Reduced total Scope 1 and 2 GHG emissions by 25% from FY21 baseline



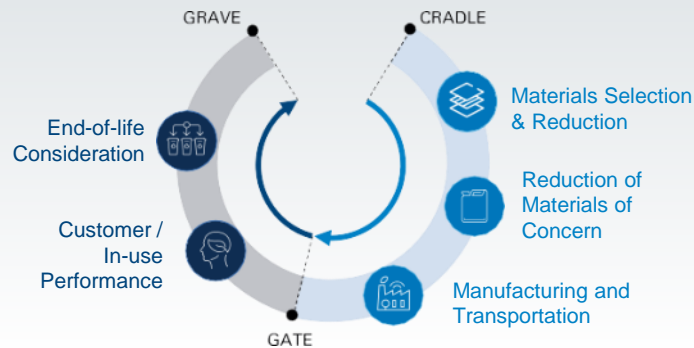
Grew renewable energy usage by 21% over FY21



Joined the Better Plants program, a national partnership initiative to drive energy efficiency improvement and waste & water reduction across industries

## UNDERPINNED BY AWARD-WINNING PRACTICES

### Managing Lifecycle Impacts



### Recognized Achievements



#### Newsweek

America's Greatest Workplaces for Diversity 2024

America's Most Responsible Companies 2024

### Decision-Useful Disclosures



<sup>1</sup> These include work-related fatalities, hospitalizations, amputations, or vision loss due to serious injury or illness.



# Fiscal 2024 Financial Outlook

## Total Company Sales Growth

Current	Prior (Q2'24)
+4% to 6%	+3% to 7%

## Total Company Gross Margin

Current	Prior (Q2'24)
YoY expansion	YoY expansion

## Total Company Operating Margin

Current	Prior (Q2'24)
15.0% to 15.4%	15.0% to 15.4%

## Adjusted Diluted EPS

Current	Prior (Q2'24)
\$3.33 to \$3.39	\$3.24 to \$3.32

## Capital Expenditures

Current	Prior (Q2'24)
\$90M to \$105M	\$95M to \$110M

## FCF Conversion

Current	Prior (Q2'24)
95% to 105%	95% to 105%

## Segment Outlook

	Current	Prior (Q2'24)
<b>Mobile Solutions</b>		
<b>Total Sales</b>	+2% to 4%	+1% to 5%
Off-Road	- Low-double digits	- Low-double digits
On-Road	- Low-single digits	Flat
Aftermarket	+ Mid-single digits	+ Mid-single digits
<b>Industrial Solutions</b>		
<b>Total Sales</b>	+6% to 8%	+3% to 7%
Industrial Filtration Services	+ Mid-single digits	+ Mid-single digits
Aerospace & Defense	+ Low-double digits	+ Mid-single digits
<b>Life Sciences</b>		
<b>Total Sales</b>	+ Mid-teens	Approximately +20%

## Other Assumptions

- Tax rate of 23% to 24% (24% to 25% prior)
- Pricing benefit of approximately 2%
- Currency translation expected to be negligible (tailwind of roughly 1% prior)
- FY24 interest expense approximately \$22M (\$23M prior)
- Other income between \$15M to \$17M (\$10M to \$12M prior)



# Key Investment Points

1

**Leader in filtration** with long history of solving the most difficult filtration problems and forming mission critical partnerships across global customer base

2

**Best-in-class technology** and strategic organizational redesign strengthens ability to drive long-term profitable growth

3

**Enablers of a greener modern economy** by helping customers achieve their sustainability goals through advanced filtration

4

Clear **strategic and balanced growth strategy** focused on expanding leadership position in legacy markets and further penetrating new markets

5

**Progress towards Life Sciences market leadership** and exposure to mega trends provides significant addressable market and long-term profitable growth potential



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# Appendix



# Reconciliation of Non-GAAP Financial Measures

(\$ in millions, except per share amounts)  
(Unaudited)

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(In millions)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2024	2023	2024	2023
Net cash provided by operating activities	\$ 141.5	\$ 133.2	\$ 366.5	\$ 353.7
Net capital expenditures	(21.3)	(35.2)	(65.8)	(92.8)
Free cash flow	\$ 120.2	\$ 98.0	\$ 300.7	\$ 260.9
Net earnings	\$ 113.5	\$ 93.7	\$ 304.3	\$ 266.9
Income taxes	30.5	27.8	91.6	84.5
Interest expense	5.0	5.1	16.1	14.3
Depreciation and amortization	24.6	22.5	73.5	67.3
EBITDA	\$ 173.6	\$ 149.1	\$ 485.5	\$ 433.0
Adjusted net earnings	\$ 113.5	\$ 93.7	\$ 304.3	\$ 279.6
Adjusted income taxes	30.5	27.8	91.6	88.7
Interest expense	5.0	5.1	16.1	14.3
Depreciation and amortization	24.6	22.5	73.5	67.3
Adjusted EBITDA	\$ 173.6	\$ 149.1	\$ 485.5	\$ 449.9
Gross profit	\$ 330.1	\$ 288.8	\$ 939.6	\$ 860.5
Restructuring and other charges	—	—	—	1.5
Adjusted gross profit	\$ 330.1	\$ 288.8	\$ 939.6	\$ 862.0
Operating expense	\$ 186.5	\$ 164.8	\$ 541.7	\$ 500.9
Restructuring and other charges	—	—	—	(15.4)
Adjusted operating expense	\$ 186.5	\$ 164.8	\$ 541.7	\$ 485.4
Operating income	\$ 143.6	\$ 124.0	\$ 397.9	\$ 359.6
Restructuring and other charges	—	—	—	16.9
Adjusted operating income	\$ 143.6	\$ 124.0	\$ 397.9	\$ 376.6
Net earnings	\$ 113.5	\$ 93.7	\$ 304.3	\$ 266.9
Restructuring and other charges, net of tax	—	—	—	12.7
Adjusted net earnings	\$ 113.5	\$ 93.7	\$ 304.3	\$ 279.6
Diluted EPS	\$ 0.92	\$ 0.76	\$ 2.48	\$ 2.16
Restructuring and other charges per share	—	—	—	0.10
Adjusted diluted EPS	\$ 0.92	\$ 0.76	\$ 2.48	\$ 2.26



# Reconciliation of Non-GAAP Financial Measures

(\$ in millions)  
(Unaudited)

	April 30,		
	2024	2023	2022
Total debt	\$ 556.2	\$ 622.1	\$ 638.5
Less: Cash and cash equivalents	(223.7)	(186.0)	(168.7)
Net debt	\$ 332.5	\$ 436.1	\$ 469.8

	Twelve months ended April 30,		
	2024	2023	2022
Adjusted EBITDA	\$ 637.5	\$ 609.0	\$ 533.5
Net debt to adjusted EBITDA	0.5x	0.7x	0.9x