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PRESENTATION

Operator

Good morning. My name is Chantal, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Thank you.

Sarika Dhadwal, Director, Investor Relations. You may begin your conference.

Sarika Dhadwal ***Donaldson Company, Inc. - Director, Investor Relations***

Good morning. Thank you for joining Donaldson's Second Quarter Fiscal 2022 Earnings Conference Call. With me today are Tod Carpenter, Chairman, CEO and President; and Scott Robinson, Chief Financial Officer. This morning, Tod and Scott will provide a summary of our second quarter performance and details on our outlook for the balance of fiscal 2022.

During today's call, we will reference non-GAAP metrics. 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'll now turn the call over to Tod Carpenter.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Thanks, Sarika. Good morning, everyone. This quarter, our company hit an important milestone as our sales exceeded $800 million, growing 18% over prior year. Strategic pricing, combined with continued levels of robust demand, drove our top line results.

EPS was up 30% or 10% on an adjusted basis. Cost inflation, supply chain disruptions and labor shortages were once again a large part of our story. Despite this challenging environment, our team was able to produce a solid quarter in which we worked to meet the needs of our customers to our global footprint and delivered the value synonymous with Donaldson, implemented additional pricing actions throughout our business to offset inflationary pressures, upgraded our global ERP system, which Scott will discuss later in the call, and effectively managed expenses while thoughtfully investing in our growth initiatives.

To expand on the last point, we continue to use our financial flexibility and strong balance sheet to invest for the longer term. We've been directing capital towards capacity expansion in various geographies, including North America, China and Poland. We are also increasing our manufacturing capabilities in strategically important areas, such as our Advance and Accelerate businesses, including Industrial Venting Solutions.

In terms of R&D, we continue to leverage our existing technology as well as create innovative new technology to meet the future filtration needs of our customers in key areas, including Process Filtration and Life Sciences. And last, but certainly not least, we are aggressively pursuing M&A activity. We are pleased with the progress being made on integrating the 2 acquisitions announced last quarter, Solaris Biotech and P-A Industrial Services. Our teams are excited about the additional capabilities these acquisitions bring to Donaldson, and we are confident in our ability to scale the additional technology and services.

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Coming back to our financial performance, there is no doubt the first half of the year has been challenging. As we look ahead to the balance of the year, we expect the macro headwinds to continue to impact gross margin. As commodity, freight and labor inflation continue, we will take additional pricing actions to mitigate the ongoing pressure. It is worth noting that while we are aggressively raising prices, there is a delayed impact to sales and margin. Similarly, the benefits from potential cost normalization lag due to the lead time required to buy and build inventory. That said, and to emphasize, continued progress on meeting customer demand, combined with the benefits from ongoing pricing actions, should drive a stronger second half compared with the first half.

Stepping back, given our first half results, higher sales expectations and continued operating leverage, we are raising our top and bottom line guidance for fiscal 2022. Scott will share more details about our fiscal '22 outlook later in the call, so I will now provide some context on second quarter sales.

Total sales were $803 million, up 18% from last year, with pricing contributing roughly 6%. In Engine, total sales were $554 million, up 20%, with strength in both our first-fit and replacement parts businesses.

Sales in Off-Road of $96 million were up 23% with growth in all geographies, reflecting higher levels of equipment production across our end markets. Additionally, growth was further supported by exhaust and emission sales, which are benefiting from a production ramp-up related to new emission standards in Europe. However, it is worth noting that these sales come at a lower margin, presenting a modest mixed headwind.

On-Road sales of $33 million reflect a 70 basis point decrease from prior year. The majority of the decline came from North America, where we continue to be impacted by the discontinuation of some directed by equipment to a large OEM customer. Excluding this impact, total On-Road sales were up approximately 12% globally and up 15% in North America.

In Engine Aftermarket, sales in the second quarter were $398 million, an increase of 21% with growth across all geographies and most notably in North America. Broad market strength across most end markets and our strong production output drove results. Sales in both Aftermarket channels were up with independent channel sales increasing in the high teens and OE channel sales up in the mid-20s.

Before covering Aerospace and Defense, I want to touch on China. China Engine sales were down approximately 5% in the quarter. However, this is against a 40% increase last year as China rebounded faster from the pandemic in 2021 than other geographies. Despite the relative market weakness in China, we are winning platforms using PowerCore technology and are optimistic as we build Donaldson brand awareness in this massive market.

Moving to Aerospace and Defense. Second quarter sales of $27 million were up 30% year-over-year as we benefited from the strengthening commercial aerospace industry. We also have had recent success in increasing our market share within this segment due to our high-quality products.

Now turning to the Industrial segment. The Industrial segment had another solid quarter with total sales increasing 15% to $248 million. Sales of Industrial Filtration Solutions, or IFS, grew 14% to $171 million with over half of that growth coming from industrial dust collection. We saw growth in both new equipment and replacement parts due to high industrial capacity utilization.

Also within IFS, Process Filtration contributed double-digit sales growth. We remain pleased with our performance in this important growth area which serves the food and beverage market. We have increased our market penetration through the expansion of existing customer contracts and are eager to market and leverage the Solaris product portfolio to drive additional growth.

Second quarter sales of Gas Turbine Systems, or GTS, were approximately $30 million, reflecting a 26% increase as project delivery timing drove results. There is always some degree of variability in GTS based on delivery timing, and sales this quarter, and as expected, were an offset to the shortfall we saw in the first quarter.

Second quarter sales of Special Applications were $48 million, up 10% with growth across our product portfolio, including double-digit

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increases in our membranes and semiconductor businesses. Also within Special Applications, sales of venting products grew year-over-year. We are expanding our reach through new program wins globally, including our high-tech vents for batteries and powertrains in the auto industry. This is a key strategic area for us, and the pipeline of new customer opportunities is strong.

Overall, I'm pleased with sales this quarter and proud of the work the team has done, particularly given the tough environment.

Before I turn the call over, I'd like to acknowledge the situation in Eastern Europe. Currently, sales to the affected areas, Ukraine, Russia and Belarus, account for less than 2% of total company sales. Like everyone else, we're closely monitoring the situation for any business impacts.

Now I will turn the call over to Scott for more details on the financials. Scott?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Thanks, Tod. Good morning, everyone. This quarter reflects a continuation of the themes we've seen since the beginning of the fiscal year, strong demand, pricing and operating expense leverage to mitigate inflationary pressures and drive earnings. Second quarter sales grew 18%.

Operating income was up 26% or 5% adjusted for last year's restructuring charges, and EPS of $0.57 was 30% above the prior year or up 10% on an adjusted basis.

Second quarter operating margin increased 70 basis points to 11.9% but was down 150 basis points on an adjusted basis, reflecting continued gross margin pressure in the quarter.

Similar to last quarter, gross margin pressure was significant due to increased cost of raw materials, freight and labor. This impact was compounded by the fact that we are experiencing a deflationary environment 1 year ago. As a reminder, we expect our second quarter gross margin to be the trough for this fiscal year. Within the second quarter, January was the strongest gross margin month, which is the month we instituted significant pricing actions. As pricing continues to get layered in, we should see gross margin improve sequentially each quarter in the second half of the year.

In terms of operating expense, we remain disciplined and thoughtful in our spend, balancing near-term challenges on the gross margin line with our commitment to investing for the future. Strategically, we are following our portfolio approach by continuing to allocate spend to our Advance and Accelerate portfolio.

Second quarter operating expense as a percent of sales was 19.2%, favorable by 280 basis points on a GAAP basis and favorable by 150 basis points on an adjusted basis driven primarily by volume leverage.

Before turning to the balance sheet and cash flow statement, I want to touch on segment profitability. This quarter was a tale of 2 segments. Second quarter Engine pretax profit margin was 11.7%, down 200 basis points year-over-year on an adjusted basis, while Industrial margin was 15.1%, up 30 basis points on an adjusted basis. The dichotomy between the performance of the 2 segments is largely due to the time it takes to implement price increases in certain areas of the business.

Through much of our Industrial segment and in Engine Aftermarket, we are able to institute and realize the benefits of pricing actions more quickly, while the process in the OEM portion of our Engine business takes longer due to certain contracts in place. Therefore, while we have made progress with our overall pricing, we still have work to do.

Now turning to the balance sheet and cash flow statements. We ended the quarter with inventories up $36 million sequentially and $133 million year-over-year, mainly due to the impact of inflation, taking a proactive approach to build inventories to meet customer demand, supply chain challenges we've had internally and with our customers on order deliveries.

Second quarter capital expenditures were $15 million as we invested in various projects, including PowerCore capacity expansion. As

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always, we remain committed to returning capital to shareholders this quarter, which amount to $40 million in the form of dividends and share repurchases. Year-to-date, we've repurchased 1.4% of our shares outstanding and are on track to reach our 2% target by the end of the fiscal year. Also in line with our disciplined adherence to capital deployment priorities, we invested $49 million on our 2 acquisitions.

Our balance sheet continues to be an important asset, allowing us to navigate this challenging environment and providing us with financial flexibility. We ended the quarter with a net debt-to-EBITDA ratio of 0.8x.

Now I'll walk through our fiscal '22 outlook, first, on sales. We are increasing our fiscal 2022 sales guidance to a range between 11% and 15%, including a negative impact of currency translation of about 2%. This increase from our previous guidance of 8% to 12% is driven by first half results, ongoing pricing actions as well as increased momentum in certain businesses.

From a segment perspective, we've raised our full year sales guidance for both Engine and Industrial. For the Engine segment, we expect a revenue increase of between 12% and 16%, up from our previous expectation of between 8% and 12%. We have increased our outlook for Engine Aftermarket and Aerospace and Defense while reiterating our guidance for our first-fit businesses. Engine Aftermarket sales are now expected to grow in the mid-teens, up from our previous estimate of high single-digit increase. Incremental pricing, combined with high levels of equipment utilization globally, are driving the higher sales forecast, and our proprietary products allow us to continue to gain share.

In Aerospace and Defense, we are now forecasting growth in the low 20% range, up from the low double digits previously as the commercial aerospace market continues to improve and as we benefit from share gains in the aftermarket.

In terms of our first-fit businesses, we continue to expect Off-Road sales to grow in the high teens versus last year as overall end market demand remains high due to elevated levels of equipment production. We also anticipate ongoing exhaust and emission sales strength as backlog levels remain high.

In On-Road, we continue to forecast a low single-digit decrease year-over-year. The ongoing impact from the discontinued product line Todd mentioned earlier as well as broad-based customer supply chain issues, including chip shortages, are driving the weakness versus prior year.

Now on the Industrial segment. We expect sales to be up between 9% and 13% versus our previous expectation of 7% to 11%. We have increased our outlook for Special Applications while maintaining our guidance for Industrial Filtration Solutions and GTS. Special Applications are now forecasted to be up mid-single digits versus our prior guidance of low single-digit increase as we expect continued strength, particularly within our Disk Drive business. Sales of IFS are planned up in the low double-digit range. Sales of new equipment and replacement parts, particularly for dust collection, along with strength in Process Filtration, will drive the growth. Our 2 recent acquisitions fall into this category as well. And while we are pleased with the integration process and sales outlook, the numbers are not yet material.

Moving to GTS. We continue to expect fiscal '22 sales to be up high single digits with large turbine sales driving the year-over-year increase.

Now I'll touch on the gross margin dynamics. We do expect our gross margins to be on a positive trajectory as we move through the second half of the year. However, since results this quarter were below expectations and the price increases in the second half are only expected to partially offset cost inflation, we are reducing our gross margin outlook to be down 100 to 150 basis points versus the 50 to 100 basis point decline previously anticipated. We expect to pay between 12% to 14% more year-over-year for our raw materials or about 400 basis points. Importantly, this excludes freight, labor and energy inflation, which are also providing a notable headwind this year. Although there are some indicators that pieces of inflation could be leveling off, as a whole, we have not yet found this to be the case. Also, due to our advanced buying terms, our cost basis often trails the indices.

Given the gross margin dynamics, combined with our discipline on the operating expense line, we are now forecasting an operating margin range between 14.0% and 14.4%, which is slightly lower than our previous 14.1% to 14.7% range. Last year's adjusted operating

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margin was 14%. Expense leverage is expected to be the driver of the year-over-year benefit.

Based on our updated forecast, we are raising our EPS outlook to a new record with a range of between $2.66 and $2.76 versus the previous range of $2.57 and $2.73, implying an increase from last year's adjusted EPS of 15% to 19%.

Moving to our balance sheet and cash flow outlook. Capital expenditures are forecasted to be between $90 million to $110 million, and we anticipate free cash flow conversion to be about 70% to 80% for the year.

In summary, as we think about the financial results for this fiscal year, the profit margins in the first half have been challenging, but we are taking the right steps to protect our margins and deliver record levels of sales and earnings for this fiscal year. Further, we remain committed to managing the business for the long term and have made investments in that regard.

Before turning the call back to Tod, I want to provide some well-deserved recognition to the team for an important project we completed this quarter. As part of our ongoing efforts to cement our technological infrastructure, we completed an upgrade for our global ERP system. We capitalized on the opportunity to solidify our business system and put the process and procedures in place to achieve our growth plans. This work involved shutting down our systems for 5 days over the last week of December. This process required a significant amount of planning, commitment, execution and effort, which would not have been possible without the incredible team we have in place. I want to thank our employees for their tremendous efforts in making the upgraded a success.

Now I'll turn the call back to Tod.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Thanks, Scott. While this year has probably been the most difficult inflationary and supply chain environment I've seen in my 26 years at Donaldson, I know we are on the right path to continue building our company for the future.

Our vision is clear: first, our portfolio approach and existing businesses. We have maintained our commitment to investing in our Advance and Accelerate portfolio, including Engine Aftermarket, Process Filtration and dust collection replacement parts. These businesses will help drive our future organic growth.

Second, diversification. Donaldson is evolving to meet the needs of our existing and future customers globally. I talked earlier about our commitment to R&D. We will demonstrate that commitment again this year as our related investment on product innovation is expected to be up 10% versus prior year, and prior year was up 11% against fiscal 2020. Our world-class engineers are ensuring we remain on the cutting edge of technology-led filtration solutions now and for years to come. Diversification will also come in the form of acquisitions, and the life sciences space remains a core focus. Last quarter, we took the first step in our string of pearls strategy with the Solaris acquisition. As we are working to integrate the businesses, we have already seen tangible opportunities to further penetrate the food and beverage market given a high degree of interest from our existing food and beverage customers.

Third, our people. Our people are the backbone of this company, and we are thoughtful and deliberate about how we build our team of employees. People investments in our growth areas, such as life sciences and food and beverage and socially responsible investments in ESG and diversity, equity and inclusion teams, have been a priority. We recently hired a Director of Diversity, Equity and Inclusion, and I look forward to building out our efforts in this regard in the quarters and years to come.

Now I'll turn the call back to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bryan Blair with Oppenheimer.

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Bryan Francis Blair ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***

Thinking about your revised guidance, how much of the 4% top line lift at midpoint is driven by price? And for the full year, what is your team now contemplating for volume and price contribution within the 11% to 15% growth?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Sure. So we have -- for the second quarter, we have a price impact of approximately 6%, just to give you a feel, and a volume and FX impact of 12% for a total increase in revenues of 18%. And you can think of FX of about a 2% headwind throughout the year. In our guidance for the full year, we have price for the full year of about 6% and then volume and FX at 7% for a total of 13%.

Bryan Francis Blair ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***

Okay. Appreciate the detail. And Tod, you mentioned the direct exposure of Ukraine, Russia, Belarus being less than 2% of sales. That region has been a good guy in terms of share gains for Donaldson, and you've been investing there understandably. So with the understanding that the immediate impact is not that material to run rate operations, how are you thinking about the potential to impact your strategy and investment going forward?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes, Bryan. It's a little early to actually make a little bit of a longer-term call. We are just days into the overall conflict there. And so we'll make some strategic choices after we figure out a little bit more where the area settles out at. We do have -- we actually service Ukraine, for example, from a different country, so we are fortunate not to have employees in Ukraine. However, we do have employees with many families there. And so consequently, we really wish safety to them. But strategically, we'll look at that more longer term after we get more definition.

Bryan Francis Blair ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***

That makes perfect sense. And to kind of level set, for the first half, what was the growth rate of your Advance and Accelerate portfolio versus the remainder of the company?

Sarika Dhadwal ***Donaldson Company, Inc. - Director, Investor Relations***

Bryan, I can get you the first half off-line. But for the quarter, it was up 20%, and that's about 60% of the business.

Bryan Francis Blair ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***

Okay. Understood. And Process Filtration was noted as growing double digits again. You're obviously facing very healthy stacked comps in terms of that growth. Tod, you had said before that you expect double-digit growth for the full year. Is it fair to assume that, that's still intact and that momentum is there?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes, we'd say so. We've baked into the current guide, and we do have that outlook, yes.

Operator

Our next question comes from Dillon Cumming with Morgan Stanley.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

Great. A couple of questions. Just to start, maybe, Scott, you said that January was the highest gross margin month, which I guess that wouldn't have kind of expected, just given that's also when Omicron was peaking. So is that dynamic what's kind of giving you confidence in the sequential margin improvement from here and that you kind of saw gross margin improvement towards the end of the quarter kind of despite all the headwinds that you called out? And kind of related to that, do you agree that you feel like the worst of the supply chain and kind of absenteeism headwinds were kind of hitting the business in January? Or do you feel like it was still kind of deteriorating actually in the quarter?

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Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Yes. We feel pretty -- I mean, we weren't real pleased with the gross margin performance in the quarter. Costs continued to increase. And the first quarter is always a tougher time for us. We have more holidays. We took 5 days to upgrade our Oracle system, and we had a lot of COVID absences. And also, during that same time, we're increasing prices to chase costs.

So we always knew our second quarter would be the lowest gross margin and that we were going to be layering in price increases. January was a big month for price increases, and we saw the gross margin come up in January. We're going to be continuing to increase prices as costs have continued to increase, so we feel pretty good about our position in terms of quarter-over-quarter growth in gross margin percent as we move throughout the year.

Certainly, at this point, COVID seems to be getting better. That will help with just the health of our employees in our attendance, and that gives us a benefit. There's fewer holidays. Prices are going to be layered in. Volume should continue to be strong. So those things are what give us confidence we can continue to increase that gross margin.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

Okay. Got it. That's helpful color. And then maybe to go over to Solaris for a second. You guys have been kind of under the hood for a quarter now. I think, Tod, you mentioned in your prepared remarks that Solaris is kind of helping conversations on the food and beverage side but just any learnings you can kind of expand around in terms of leveraging that portfolio for new life sciences wins and kind of if having that portfolio has helped you in discussions with those new life sciences customers?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes. We're really happy with the integration to date. We have been able to meet and actually a little bit exceed some of the bookings expectations that we had by combining the 2 corporations, so very happy with the partnership. We do have some food and beverage opportunities but also within specifically the biopharmaceutical now on the books that we had not had prior. So very pleased with the integration, and it's going quite well.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

Okay. That's great to hear. And then maybe last question for me. The aftermarket sales are really strong this quarter, kind of off of a tougher comp. I mean, I'm just curious, there's obviously a lot that kind of goes into that revenue line from an end market perspective. So just wondering if you can kind of give a little bit more color on which end markets were kind of driving the strength in the quarter.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes. So on the replacement parts side, all of them, actually. There -- the vehicle utilization rates are quite nice in Latin America, in the United States and Europe. All of those areas are strong. I would tell you, in Asia Pacific, they're probably good. However, China would be weak. And so China is the only tough spot. Everywhere else is going strong.

Operator

Our next question comes from Daniel Rizzo with Jefferies.

Daniel Dalton Rizzo ***Jefferies LLC, Research Division - Equity Analyst***

You mentioned and you spelled out what the raw material headwind was. I was wondering if energy itself is a meaningful headwind, if it's a large part of your cost of goods sold?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Yes. So we did spell out our commodity costs are relatively in line with what we expected last quarter, just slightly worse. But certainly, freight has continued to increase. Our labor costs have continued to increase as well as energy. And so that's really driving the majority of the additional cost increases we've seen on top of the commodity price increases. So we've increased our estimate for those costs, and we've also increased our estimate for what we believe we can achieve in pricing this year, but that's caused us to really add -- we were at minus 50 to 100 in terms of gross margin decline, and we just thought it was prudent to move that to minus 100 to 150 basis points. And certainly, energy is a decent piece of that cost increase that we're experiencing.

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Daniel Dalton Rizzo ***Jefferies LLC, Research Division - Equity Analyst***

Are your customers showing any signs of, I guess, pricing fatigue, so to speak, where -- I mean, it's just been such a rough year. And I guess, does that affect taking price because of a value-added product, if you follow? So you're raising price to offset costs but also when you introduce something new, when you raise prices there as well. I was wondering if there's kind of a conflict now, just because customers are exhausted with the environment.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

I think everyone is looking for some sort of normalization and some stabilization out there. We are with our supply base, and I'm sure our customers are with us as well. However, it's not there yet. And so when you look at our actions and what we're doing in pricing, in many cases, we're taking a second or a third bite of the apple, and it's just necessary to do that. People get it. They understand it. We're aligned with taking those actions. Pricing fatigue, frankly, I think the world is tired of the pricing activities. So -- but it has to be done, and it's the environment to get it done, and people are cooperating.

Daniel Dalton Rizzo ***Jefferies LLC, Research Division - Equity Analyst***

Okay. And then finally, with your free cash flow conversion, I think you kept it at 70% to 80%, same as last quarter. I was wondering if that's getting more challenging, too, just again given with everything that's going on?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Certainly, our earnings are higher, but we are adding to the balance sheet in terms of working capital to account for increasing levels of sales. So we feel relatively comfortable with our cash conversion. Over time, it needs to be higher than 70% to 80%. But when we're going to grow revenues 20%, there's going to be a need to add some dollars to the balance sheet. We're certainly increasing our inventory levels to meet customer demand and also driven by inflation. And we want to be ready to ship when, as Tod calls it, the golden screw shows up, we want to be ready to finish everything that we have in queue and really help our customers in meeting their demand. So it's a little bit challenging right now, but I think we're on top of it. And I think 70% to 80% is a reasonable estimate for the year.

Operator

(Operator Instructions) Our next question comes from Rob Mason with Baird.

Robert W. Mason ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Yes. Tod, just to go back on the prior question a bit. Tod, could you just comment on fill rates, how your ability to meet demand may have evolved over the quarter and where you think you're exiting?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

We would tell you that our supply chain has actually improved slightly. Our ability to fill improved slightly. However, our backlogs remain very high, and our delinquent backlog to customers remain very uncomfortable for who we are and the way we operate this company. And so we have work to do. Our ability to fulfill them did improve, but we were very impressed with the fact that we were able to hit $800 million in the quarter in spite of large holidays, shutting down our business system for 5 days and the Omicron spike of absenteeism across our factories. We still did quite well on the fulfillment side, so we look for a solid second half.

Robert W. Mason ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. And related, you mentioned some market share gains in the aerospace -- commercial aerospace area. You mentioned the quality of the product. So that was a -- that sounds more sustainable than if it was just based on availability. Is that fair?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes, absolutely.

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Robert W. Mason ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. And then just last question. If you could just step back and review your pricing actions this year and specifically what I was trying to get at, I noticed into first-fit, there was no change to the outlook. So is that reflective of no pricing expectations, lagged pricing that you're capturing there? Any changes in the volume? So that's one point. And I guess, a larger picture, just given the timing of your pricing actions, what will potentially trail into the second half of this calendar year?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

When we look at the way we executed pricing actions, we went out of the gate very aggressively. Everybody knew there was an inflationary environment. We were not bashful. We had a great environment to be able to go, even -- and negotiate with the OEs. We had good cooperation. We went through the cycle. We chose the line in the sand where we thought things would end up. We've done okay on a commodity basis. We've come close, but things continue to expand at a much greater rate than we expected. And so we're at a second bite of the apple and sometimes, not very often, but a third bite of the apple.

So our execution, I don't think we would have gotten the numbers we're trying to get these days when you add the 2 increases on the first increase. So unfortunately, it seemed a necessary process to take a 2-step process. It wasn't the way we planned it. We thought we'd be one and done. But it's the way that the world has evolved and the way freight and overall labor has evolved and now energy. So that's -- yes.

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

And Rob, one thing maybe to consider also is the impact of currency headwinds picked up a bit. So we have to offset that. If you're trying to compare our old guidance to our new guidance, at the end of last quarter, currency was less than it is right now. So we're having to offset that. So that's just one more variable in the equation I think you're running.

Operator

Our next question comes from Brian Drab with William Blair.

Brian Paul Drab ***William Blair & Company L.L.C., Research Division - Partner & Analyst***

I was just curious. Just to build on the increasing energy prices, how does that potentially affect the Gas Turbine business over the next year or so and the project pipeline there potentially?

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Tough to say because -- we have good visibility on those types of projects, but we -- I would remind you that those would be large turbine projects, so peak and base station. And we have really gotten away from that business. We'll win those on our terms. So that likely wouldn't see any effect at all because those are just long-term projects, a 1-year or a 2-year type of visibility type of project.

To the degree that it would expand oil and gas and moving things down the pipeline, I would suggest it would probably be more of a replacement parts bump if we get anything rather than a first-fit bump. The first-fit bump, we would likely look for anything like that into next fiscal year, which is now only 5 months away rather than an immediate into this one.

Brian Paul Drab ***William Blair & Company L.L.C., Research Division - Partner & Analyst***

Got it. And then I'm not sure if I missed this, but can you give us an update on PowerCore? What were -- was PowerCore sales growth in the period? And I'm curious, too, where -- with all the success you've had with PowerCore, where are you now in terms of your share first-fit engine intake in North America and Europe? And also, I don't know if you could give any idea what the share is now in the Aftermarket and how that's improved.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

Yes. Maybe I'll start -- yes, this is Tod. Maybe I'll start, and then Sarika can give you the model-based numbers relative to growth. I would tell you the share within the On-Road in the U.S. with PowerCore is strong, within the Off-Road in the U.S. is strong, within Off-Road within Europe is strong. On-Road is lower in Asia. Especially with first-fit vehicles within China, it's growing rapidly. We continue to win quite nicely on those new platforms. And then where your first-fit really sits is down in Brazil and Latin America. And I would say that

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Brazil is really following the overall multinational that's building down there. And so it would be strong, but it's not really driven by the Brazilian market. It's presuming by the corporate offices of those areas. And then lastly, I would tell you, Japan is very strong.

Sarika Dhadwal ***Donaldson Company, Inc. - Director, Investor Relations***

And then Brian...

Brian Paul Drab ***William Blair & Company L.L.C., Research Division - Partner & Analyst***

Can I just follow up first. I'm curious like in the past, like in Europe, first-fit -- sorry, Engine Aftermarket share was more like 30% or something. I imagine it's much higher now. Can you quantify at all like the gains that you've had with that product line over the years or you're just going to stick with qualitative, I guess?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP, CFO & Principal Accounting Officer***

Yes. I think qualitatively, we can say PowerCore share as a percent of our total continues to grow. I mean, the majority of the programs we quote -- we want to quote with proprietary products. And as we win those new programs, the percent of proprietary products as a percentage of our total increases, and it's the same with Aftermarket, right? We have more proprietary fit programs out there, which drive the Aftermarket for both us and the customer. So as a percent of our totals over time, PowerCore continues to outperform our nonproprietary products and increase as a percent the total revenues. And Sarika can rattle off here the growth rate for you, so you can get a feel for that.

Sarika Dhadwal ***Donaldson Company, Inc. - Director, Investor Relations***

Sure. So Brian, from a total Engine perspective, this quarter, PowerCore was up 31%; on the first-fit side, about 15%; and on the replacement side, about 36%.

Operator

There are no further questions at this time. I will now turn the call back over to Tod Carpenter for closing remarks.

Tod E. Carpenter ***Donaldson Company, Inc. - Chairman, CEO & President***

That concludes today's call. I want to thank everyone who participated this morning, and we look forward to reporting our third quarter results early in June. Goodbye.

Operator

This concludes today's conference call. You may now disconnect.

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