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PRESENTATION

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson Company, Inc. First Quarter 2023 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to Sarika Dhadwal. Please go ahead.

Sarika Dhadwal ***Donaldson Company, Inc. - Director of IR***

Good morning. Thank you for joining Donaldson's First Quarter Fiscal 2023 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 first quarter performance and an update on our outlook for fiscal 2023. As a reminder, we have posted a supplemental quarterly earnings presentation summarizing our results and our outlook on our Investor Relations website at IR.Donaldson.com.

During today's call, we will discuss non-GAAP or adjusted results. For fiscal 2023, non-GAAP results exclude $7.6 million in pre-tax restructuring and related charges stemming from our previously announced organizational redesign. It is important to note that the redesign is ongoing, and there will be additional charges forthcoming. For fiscal 2022, non-GAAP results exclude $3.4 million in pre-tax charges related to the termination of our operations in Russia. 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 the 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. Please go ahead.

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

Thanks, Sarika. Good morning, everyone. I am pleased to report a strong start to fiscal 2023 as we build upon momentum we had in the fourth quarter. Once again, we delivered double-digit top and bottom- line growth. Our margins improved - gross margin increased both sequentially and year-over-year and operating margin of 15% reached a 6-year quarterly high. This improvement resulted in solid incremental margins and contributed to strong free cash flow conversion.

Before diving deeper into sales, I will address the organizational redesign we announced in October. This company-wide redesign is aimed at better positioning us to serve our end market customers. One of the key value propositions of Donaldson is our deep, long-standing customer relationships. Once completed, this redesign will allow us to more efficiently direct resources to strengthen commercial execution across our entire customer base. We have moved away from our previous matrix organization structure, which included a regional focus towards a more comprehensive end-market customer-focused model. That said, due to our global presence, all of our employees play an important role in our growth.

With the new model, our 3 focus areas now include: one, End Market Customers - We're aligning resources and cost structures to meet the specific needs of each end market in which we operate. This will enable expedited decision-making and allow us to serve customers

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in a more efficient and effective manner. Two, Employee Development - This simplified structure reduces our organizational complexity and enables clear advancement paths for our employees. Three, Profitable Growth, our business units will now have full P&L responsibility as opposed to that previously shared with the regions. This creates greater internal ownership and accountability for short- and long-term performance. It also provides strong alignment with respect to strategic capital allocations.

With these changes and as of the beginning of second quarter, we have 3 new reportable segments: Mobile Solutions, Industrial Solutions and Life Sciences. We expect to provide new financial segment information to help with modelling under the new construct during the second quarter.

Now I will cover some highlights from our first quarter.

Sales were up 11% year-over-year, driven by the combination of pricing of 11% and volume growth of 8%, partially offset by a currency translation headwind of approximately 8%. Adjusted EPS of $0.75 was up 23% versus the prior year.

As expected, pricing implemented to offset inflationary pressures drove much of the sales growth and is a reflection of the hard work that Donaldson team put forth over the last year. From a cost perspective, inflation continues to be at high levels. However, we've been encouraged by the moderation of input costs throughout the first quarter and expect to be price/cost positive for the balance of the year when comparing to the prior year.

On the demand side, overall end market conditions remained favorable. Further, with the stabilization of global supply chain pressures, we have worked down some of our late backlogs and are seeing improved fill rates. And once again, our region-for-region strategy is paying dividends as the relocalization of our manufacturing is enabling a return towards more normal on-time delivery rates. Customer service is always our focus and our investments in the first quarter, such as those for capacity expansion are aimed at continuous improvement in this regard.

This quarter, we also reinvested back into our business through R&D and the scaling of our acquisitions. We are strengthening our organic growth capabilities through R&D, which is forecasted to be up approximately 10% for the full year.

We are also expanding upon our inorganic growth, leveraging our recent acquisitions to further diversify the company. First, we announced that Solaris Biotech, the first Life Sciences acquisition we completed in fiscal 2022, entered into a new agreement with San Francisco-based Wildtype, a company focused on creating cultivated seafood. We will collectively collaborate to develop and design a next-generation family of bioreactor systems to help meet the growing demand for seafood. When we acquired Solaris, we knew the company was uniquely positioned for growth in the food and beverage industry through its product portfolio, and this is the first step in expanding into the rapidly growing market of alternative proteins.

Second, following the acquisition of PA Industrial Services, we further expanded our service capabilities through our iCue monitoring service, which offers remote monitoring of industrial dust collection equipment by Donaldson product specialists. This accelerates response time and service levels. iCue provides operational insights to customers via a web-based dashboard.

In conclusion, from an operational and strategic standpoint, we are pleased with what we accomplished this quarter.

Now I'll provide some segment detail on first quarter sales. Total company sales were $847 million, up 11% compared with 2022.

In Engine, total sales were $605 million, up about 15%. Pricing added 13% and FX was an approximate 7% headwind.

Sales in Off-Road of $108 million were up 15% with growth in all major regions, except APAC, and were driven by continued high levels of equipment production and growth in our Exhaust and Emissions business in Europe.

On-Road sales of $36 million were up 14% from prior year supported by an increase in medium and heavy-duty truck builds, particularly in North America. Supply chain conditions are improving but are still limiting growth in this business. Excluding currency, sales in both

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Off-Road and On-Road were up in all major regions.

In Engine Aftermarket, sales were $427 million, an increase of 14% with both the OE and independent channels up double digits. As always, proprietary product performance is an important driver and PowerCore sales were up over 20% in the quarter. On the independent side of engine aftermarket, we continue to focus on expanding share in underpenetrated markets such as Mexico and Brazil, where we're seeing encouraging growth rates.

In Aerospace and Defense, sales of $34 million were up 22% year-over-year, with strength in new equipment and replacement parts as the commercial aerospace industry continues to recover from pandemic-related softness.

Now I will touch specifically on our China engine business given the importance of the geography for us over the long term. Sales were down 6% versus the prior year, but up 1% on a constant currency basis. The overall market continues to be challenging and is further negatively impacted by ongoing COVID-19 lockdowns. That said, our strategy has not changed as we see opportunities to grow our share through our technology and the best-in-class quality of our offerings. We look forward to reporting on our progress in China in the quarters to come.

Now I'll turn to the Industrial segment.

Industrial sales increased 4% to $243 million. Pricing added 7% and FX was an 8% headwind. Industrial Filtration Solutions, or IFS, was the largest contributor, growing 9% to $181 million, mainly due to industrial dust collection new equipment and replacement part sales. Our Process Filtration business continues to exhibit strong growth and growth potential. Excluding currency, this business grew greater than 20% over prior year.

Sales of Gas Turbine Systems, or GTS, were approximately $26 million, reflecting a 53% increase. Timing of orders is a big factor in the cadence of GTS sales. And last year, we had an unseasonably soft first quarter due to order timing.

Sales of Special Applications were $36 million down 29% and the story centers largely around our Disk Drive business. Last year, our Disk Drive customers pulled forward orders in an effort to mitigate global supply chain issues and are now destocking. This and an overall reduction in disk drive market demand has caused the sales degradation larger than expected. Although Disk Drive performance has driven an overall decline in Special Applications, one bright spot continues to be sales of our high-tech venting products for batteries and powertrains in the auto industry. This remains a key strategic area for Donaldson given how well our venting technology can serve this rapidly expanding market.

To summarize, we feel good about the way we started the year. We are reiterating our full year guidance, which reflects record sales and record earnings results, gross margin expansion and operating margins at a multi-decade high.

Now I will turn it over to Scott for more details on the financials and an update on our outlook for fiscal '23.

Scott?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Thanks, Tod. Good morning, everyone.

I would like to start by saying how pleased I am for the employees around the globe who are able to see the results from their hard work and dedication over the last several quarters. It was undoubtedly an unprecedented and challenging operating environment.

I will provide some additional color on our outlook for the balance of the year. But first, we'll give more details on first quarter results.

To summarize, sales grew 11% operating income was up approximately 18% and EPS of $0.75 increased 23% year-over-year. Gross margin of 33.9% improved 10 basis points versus 2022 and 100 basis points sequentially. As our pricing actions from last year continue

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to work through our financials and given the expectation for ongoing input cost stabilization, we anticipate continued year-over-year gross margin improvement through the balance of the year.

Operating expenses as a percentage of sales were 18.9%, favorable by 80 basis points over prior year driven primarily by leverage on higher sales.

Operating margin of 15.0% was up 90 basis points versus prior year largely due to operating expense leverage.

I'll now touch on segment profitability.

On the Engine side, pre-tax profit margin of 15.0% was up 130 basis points year-over-year as our pricing efforts more than offset inflationary pressures.

On the Industrial side, pre-tax profit margin was 15.6%, down 80 basis points versus prior year. As a reminder, our 3 fiscal 2022 acquisitions, Solaris, PAIS and Purilogics fall into the segment. Excluding these acquisitions, pre-tax profit margin would have been up 50 basis points versus prior year. As Tod discussed earlier, we remain focused on growing these businesses. We are pleased with the integration progress and look forward to seeing them scale.

Now turning to a few balance sheet and cash flow statement highlights.

First quarter capital expenditures were $28 million, mainly driven by capacity expansion investments in North America.

Cash conversion in the quarter was just shy of 100% versus about 30% in 2022. We're now back to more normalized levels of conversion following the negative inventory-related working capital impacts from the prior year.

In terms of capital deployment, we returned $74 million to shareholders with $28 million in the form of dividends and $46 million in share repurchases.

Our balance sheet remains a great asset for the company, and we ended the quarter with a net debt-to-EBITDA ratio of 0.8x.

Now I'll walk through our fiscal '23 outlook, beginning with sales.

We expect fiscal 2023 sales to increase between 1% and 5%, consistent with our previous guidance. This includes a negative impact from currency translation of about 5%, which is 100 basis points higher than we expected at the beginning of the year. Pricing should contribute about 6% of sales.

To help with modelling, we detail pricing a bit more as the cadence of our pricing actions in fiscal 2022 create more difficult comparisons as we progress through this fiscal year. Last year, price in the second half of the year was twice what it was in the first half. Consequently, 2023 pricing benefits will decrease as we begin to lap the prior year's actions resulting in stronger sales growth earlier in the year.

For Engine, we expect a revenue increase of between 1% and 5%, slightly stronger than our previous guidance driven in part by an improvement in our Off-Road and On-Road projections. Off-Road and On-Road sales are expected to be flat versus 2022, which is up from our previous negative low single-digit outlook. In both of these business units, we are seeing somewhat improved end market conditions. For example, the chip shortage, which has impacted On-Road sales appears to be improving slowly, allowing us to meet pent-up demand. As mentioned last quarter, our focus is on higher-margin opportunities in these businesses, and we are intent on ensuring alignment of the value we deliver with the margin profile of our programs.

With respect to Aftermarket, and Aerospace and Defense, we continue to forecast mid-single-digit growth despite strong prior results, reflecting ongoing favorable end market conditions. In Engine Aftermarket, high levels of vehicle utilization in most major regions and market share gains in underpenetrated regions are the drivers. Aerospace and Defense sales are expected to continue to benefit from the

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stronger commercial aerospace industry, which remains below pre-pandemic levels.

Now I'll discuss our outlook for the Industrial segment.

We expect sales growth of between 1% to 5%, down about 200 basis points from our previous guidance. The reduction in guidance is driven by weakness in our Disk Drive business, which falls within Special Applications.

We had previously forecasted Disk Drive to be pressured during the first half of fiscal 2023 based on trends we were starting to see late in fiscal 2022. This is our most consumer-facing business and has been impacted by weaker demand from PC markets and cloud providers. End-market behavior has caused the client to be steeper than and likely to persist longer than originally expected, driven by customer inventory destocking and softer market demand. As such, we now anticipate Special Application sales to be down mid-teens versus our previous guidance of flat year-over-year.

Now moving to IFS sales, which make up the majority of our Industrial segment. We continue to project a high single-digit increase as the performance of our dusk collection and process filtration businesses remained strong. Further, sales from our recent acquisitions fall into this business unit.

Lastly, within Industrial, our GTS sales outlook of low single-digit increase is unchanged.

Now I will discuss our margin outlook.

Consistent with previous guidance, we expect to deliver an operating margin within a range of 14.5% and 15.1%, up from 13.5% in the prior year due to gross margin expansion and operating expense leverage. Expense discipline is always a focus for the company and becomes increasingly important as we face a potential recessionary environment, while maintaining our commitment to strategic investments.

With respect to EPS, we are reiterating our previous range of between $2.91 and $3.07, which at the midpoint represents an approximate 11% increase from a record fiscal 2022.

Now on to our balance sheet and cash flow outlook.

We expect cash conversion in the range of 110% and 125% in line with our previous guidance, driven by benefits from improved inventory efficiency. Notably, this implies a higher than historical average year.

Our capital expenditures forecast remains between $115 million and $135 million. This includes investments in tooling and equipment for new products and technology, maintenance and infrastructure investments, capacity expansion and continuous improvement projects.

With respect to capital allocation for the balance of the year, we remain committed to M&A to further our presence in life science markets and to consistently return capital to shareholders through dividends and share repurchases.

Now I'll turn the call back to Tod. Tod?

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

Thanks, Scott.

I would like to thank the Donaldson team for the tremendous work they continue to do every day. I view our results this quarter as a testament to their strength, agility and talent. We are well positioned for a successful fiscal 2023. Our job now is to not only deliver for our customers and shareholders this year, but to lay the groundwork for the future. A major component of this groundwork is the organizational redesign we have embarked upon, and I look forward to reporting on our progress in this regard as we move throughout the year. While the potential for a recessionary environment looms, we can and will build upon our position as the leader in

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technology-led filtration.

Our free cash flow generation and balance sheet strength put us in a position to continue our company's evolution irrespective of macroeconomic fluctuations through the following: one, our Advance and Accelerate solutions - our more resilient existing businesses such as Replacement Parts, Process Filtration and Venting Solutions remain priority areas of investment as we build out our capabilities and work to drive increased market share gains. Two, R&D investments - At the core, we are technology-led, and our commitment to R&D is steadfast. We are very excited about the work that is taking place in areas such as our Materials Research Center, which was built to further the development of our polymer-based chemistry solutions. Three, M&A- Last year, we acquired 3 companies, 2 in the life sciences space and 1 in services, all in sectors with structurally higher margin profiles than our company average. While we are thoughtful about our acquisition strategy, we are committed to deploying capital in this regard.

Finally, our outlook for the remainder of the year reflects some caution. However, I am excited about our future growth prospects. Aided by the new organizational structure and our strong leadership team, Donaldson is poised to execute and invest faster, delivering for our customers and shareholders and continuing on our mission of Advancing Filtration for a Cleaner World.

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 will come from the line of Brian Drab with William Blair.

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

Tod, you just mentioned that the prospects of a recession loom. But like many other industrial companies, you're not seeing it right now, at least not outside of special apps. Your large customers like CAT and Deere reported strong results recently and don't appear to be seeing a recession. I'm just wondering if you could talk a little bit more about what you're seeing? What you're hearing from your customers about what they're expecting for the operating environment in calendar '23.

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

That's correct, Brian, we're really not seeing the oncoming recession at this point in time. Order intake is kind of about what we would have expected. We do have slight destocking on some of the OES channels. And so therefore, a little bit of a softness just as we would have expected to have happened that we've talked about in the past. But right now, across all end markets, all geographies, our backlog remains strong and the end market remains strong across the full portfolio with the noted exception of our disk drive business.

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

So I guess is it fair to say -- when you say a recession might be looming, it's more the headlines what the economists are saying. But if you were operating Donaldson without seeing all these headlines, you wouldn't be expecting a recession at this point. Is that correct?

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

We're just trying to be balanced, Brian. As we take a look at our company as we consider all the potential factors going forward into the next fiscal year, we are looking to give a balanced outlook based upon all the economical factors as well as all the facts and data that we have when we do a hard internal look into our corporation, and we believe that we've achieved that with this guide. And so that's where we're coming from.

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

Yes. Got it. Okay. And then the $7.6 million in -- associated with the redesign, what was that spent on? Is that -- was there severance involved there? I'm just curious how that breaks down.

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Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Brian, this is Scott. So yes, it's both severance and then some costs associated with execution of the redesign. We're working through the redesign. And we still have a bit of a ways to go. So we'll have more to say about that at the end of next quarter, but those were the costs that were incurred in the first quarter.

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

Are there ongoing cost savings associated with the redesign?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Yes. Well, like I said, we're partway through that. So when we get -- we'll be done by the end of next quarter, and we'll have an update on total expenses and any associated savings at the end of the next quarter.

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

Okay. And then just what was organic volume growth in engine and organic volume growth -- revenue growth in industrial in the first quarter?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

We had total -- in terms of total impact for the quarter, we had 11% price, 8% volume and then a minus 8% in terms of FX. So our FX impact will be greatest. Presuming rates stay where they are, the FX impact will be the greatest this quarter. We bumped up the FX impact by 1% for the year, up to 5% now. So we kept the overall revenue guidance the same at 3%, even with an increase in the FX headwind from 4% to 5%.

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

Okay. Those numbers you gave are for consolidated, right?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Correct.

Operator

Your next question will come from the line of Laurence Alexander with Jefferies.

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

This is actually Dan Rizzo on for Laurence. You mentioned the pricing flowing through. As costs decreased, I was wondering if historically speaking price concessions? Or is it something you guys do or something that your clients look for -- customers look for?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Yes. So I mean it's different across the various components of the business. The largest piece would always be the OE piece, right? And we've been working with those customers for a couple of years now as costs started increasing to make sure the relationship was reasonable. And I think we've made good progress there. There's still a few actions left to complete to catch all the layup on costs. You can see that in our gross margin improvement over the last several quarters sequentially. It's slowly layering in. We were happy with the gross margin performance this quarter. And so we're expecting cost to be hopefully flat when we're all said and done with this year.

And if costs suddenly went down, I'm sure our OE friends would be knocking on our door, and we would have those conversations with them just as they were willing to have a conversation with us as costs are going up.

And the other businesses, if it's a business where we're providing a bid, we adjust based on current costs to stay competitive in the market. And then the independent aftermarket, we certainly have more latitude for pricing there. And we just want to make sure we stay competitive in the markets that we operate in.

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

And then I don't know if I missed this or not, but the COVID lockdowns in China or just everything that's going on there, is that having an effect on your -- I guess, your growth or your just demand within the region?

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

So clearly, it's having an effect on the demand within the region. Also the uncertainty looking forward within the region However, it's not having an effect on our ability to win new projects with Chinese-based national companies. and we continue to do so. So we look forward to when China opens up, their economy gets back to normal, and we would expect that to be a tailwind. We're just not sure when that is going to take place given the fits and starts relative to COVID within the country.

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

All right. And then finally, is there a target that I may have forgotten about for operating margin? I mean, is it like 15%? Or is it higher? I don't know if you've said this before.

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Well, we -- we gave -- I mean, a target for the guidance for this year or for the future?

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

No, no, just long-term outlook. In terms of this is what we think we can achieve, given what's going on, and this is what we hope to achieve, that type of thing. Not for this year.

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Yes. So I mean, we gave a prior target at our last Investor Day, April 9, 2019. We have another Investor Day April 2023, where we'll be glad to host you in Bloomington here, and we'll be providing longer-term targets at that point in time.

Operator

Your next question will come from the line of Dillon Cumming with Morgan Stanley.

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

I just wanted to ask kind of on the [full year] sales outlook again, maybe framing this up a bit differently, but you mentioned you were starting to work down some of the late backlog in the quarter. When you look at your level of backlog coverage for the full year, kind of current levels of backlog versus implied, full year sales, would you say that coverage is maybe higher than normal or kind of in line with normal seasonality, just kind of like a flavor of how you're framing the full year sales guide relative to that backlog level?

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

Yes. Thanks, Dillon. So we'd say it's in line with the guide. We baked that in. We haven't seen an appreciable change since we gave full year guidance. Surely, we're really very, very proud of the quarter that we just turned in. But we also believe that we have really given a balanced approach to how we expect the year to play out.

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

Okay. Got it. And then maybe just one last one on Life Sciences. I know you mentioned you're going to release some intra-quarter data maybe to help frame up the modelling side of it, but just wanted to see if you can give us a flavor ahead of time around what the kind of revenue margin profile that Life Sciences business might look like when those numbers do come out.

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Yes. So like we said, we're going to -- our new organizational structure was effective the 1st of November. So we're completing our updated segment analysis as we speak, but we expect to have 3 segments going forward. and moving into more of a focus on the Life Sciences business. We would expect that business to have higher margins in our traditional businesses, which is where we've been

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investing in good solid growth rates. But before we issue the second quarter's results, we'll give you an 8-K with updated historicals for the new segments going forward. So people can see how those businesses performed and that will help our great analyst group with their modelling.

Operator

(Operator Instructions) Your next question will come from the line of Rob Mason with Baird.

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

I had a question just around your margin guidance. It did not change for the full year, and you certainly can appreciate we're only 1 quarter into the year, but you did get off to a very good start, particularly on the gross margin line. And Scott, I thought you mentioned operating margin this year would benefit from both gross margin expansion as well, operating expense leverage.

So I guess, thinking literally, it kind of suggests that -- yes, I'm not sure how much gross margin opportunity we still have for the balance of the year versus, again, the first quarter start. And again, understand the seasonality potentially in the second quarter is typically a seasonally lower quarter. But I'm just curious, was there anything unusual in the first quarter gross margin that benefited there? Or how we should think about gross margin for the year relative to the first quarter?

Scott J. Robinson ***Donaldson Company, Inc. - CFO***

Yes. So I mean we expect the majority of the operating income improvement to come from gross margin improvement. You had it right, our second quarter is always our seasonally weakest gross margin quarter mainly due to all the holidays that fall in that hurts production, and that brings our margin down. So we're expecting, I would say, relatively traditional seasonality for the company this year. And you can see we layered in this quarter, pretty significant pricing. So that will benefit the second quarter and the quarters going in. We are lapping pricing from last quarter. But we do expect year-over-year margin improvement for the rest of the year, which is what really drives that operating margin improvement, with the second quarter being the weakest.

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

Okay. Maybe just a follow-up. Tod, you kind of touched on a balanced outlook for the year within your guidance. When we established the guidance, it portended a fairly strong confidence level around the first half and wider range of outcomes, [additionally] around the second half. Has your second half visibility improved any at all since September or degraded? I'm just curious, based on your order rates, fill rates, how you're maybe thinking about the second half now?

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

Overall, our visibility in the second half really hasn't changed from the beginning of the fiscal year. We would say that the visibility that we do have supports the guidance that we have. We would tell you that we see typical structure first half, second half. Within this guidance, more like our typical behavior is 48% or 49% in the first half, 51% or 52% in the second half. We would expect that to really lay in that way for our company. We do believe the first half is a bit stronger on the comps in our balance guide than the second half. So for example, we just did $847 million and grew 11% in Q1, but keep in mind, in Q4 of last year, our number was $890 million.

And so when you really take a look at all of that and really kind of layer that in, we really believe that we have a properly balanced approach to first half, second half, and we're returning back to a more normal type of a cadence that we've seen in previous years.

Operator

We have no further questions at this time. With that, I'll turn the conference back over to management for any closing remarks.

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

That concludes the call today. Thanks to everyone who participated. I look forward to reporting our second quarter results in early March. Have a great holiday season, everyone. Bye.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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