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PRESENTATION

Operator

Good morning. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson Company Second Quarter 2023 Earnings Conference Call. (Operator Instructions) Thank you. Sarika Dhadwal, Senior Director of Investor Relations. You may begin your conference.

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

Good morning. Thank you for joining Donaldson's Second 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 second quarter performance and an update on our outlook for fiscal 2023. As a reminder, we are now reporting our results under three segments: Mobile Solutions, Industrial Solutions and Life Sciences. On January 25, we provided an 8-K showing select historical financial performance under this new segment structure. This 8-K as well as our regular supplemental quarterly earnings presentation can be found on our Investor Relations website at ir.donaldson.com.

During today's call, we will discuss non-GAAP or adjusted results. For the second quarter of fiscal 2023, non-GAAP results exclude \$9.3 million of nonrecurring pretax restructuring and other charges, largely related to our previously announced organizational redesign as well as costs associated with the exiting of a lower-margin customer program. 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. Please go ahead.

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

Thanks, Sarika. Good morning, everyone. I am pleased to report Donaldson Company's strong second quarter earnings results, significant gross margin expansion, driven by favorable pricing and the continued stabilization of input costs, resulted in an operating margin above 15%. For the second quarter in a row, we achieved an operating margin at a 6-year quarterly high.

This quarter, Donaldson operated under our new organization structure designed to better serve our end market customers, and I am confident and excited about the direction in which we are heading. We are now positioned to manage the organization more efficiently with our three segments supported by our operational capabilities, strong balance sheet and targeted strategic investments. For example, we now have a more straightforward path to sharpen our focus on the newly created Life Sciences segment and pursue accelerated growth.

In February, we added to our Life Sciences portfolio by acquiring Isolere Bio, an early-stage biotechnology company for approximately \$63 million. Based in Durham, North Carolina, Isolere develops novel and proprietary reagents and accompanying filtration processes used for the purification and streamlined manufacturing of bio-pharmaceuticals. This technology is designed to substantially improve product quality and purity with faster time lines compared to competing solutions, enabling accelerated and more affordable delivery of

life-changing therapies to patients globally. One of the most compelling components of this acquisition is the ability for Donaldson through our portfolio of offerings, including those from Solaris and Purilogics to provide customers a full suite of products, which can be integrated into the downstream bio-manufacturing process. This highlights the string of pearls approach we have taken to grow the Life Sciences segment. As we execute our go-to-market strategy for these combined solutions, we are building a biopharma-focused sales force to capitalize on the opportunities ahead.

I'll talk more about Donaldson's path forward a little later, but first, we'll cover second quarter highlights.

Sales were up 3% year-over-year, driven by pricing of 10% and offset by a currency translation headwind of approximately 4%. Volume decreased slightly this quarter primarily due to the softness in our Aftermarket and Disk Drive businesses. Adjusted EPS of \$0.75 was up 32% versus the second quarter of fiscal 2022.

We continue to see top line and margin benefits from our pricing actions and while input costs undoubtedly remain elevated, many are slowly coming off peak levels.

Overall, end market demand remains solid and with improvements in global supply chain conditions, this quarter, we improved our fill rates, reduced our backlog and are returning to more normalized on-time delivery rates.

Each quarter, while we focus on near-term execution, we also thoughtfully plant seeds for future profitable growth through our investments, including those in M&A and R&D.

I'm pleased with the pieces of the Life Sciences business we have put together and with the integration progress we are making with Solaris and Purilogics. However, we still have a long way to go in building this business and are actively pursuing other opportunities, both organic and inorganic in this space.

We are also investing in other higher-margin areas such as services.

For example, within the Industrial Solutions segment this quarter, we added on to our service offering through the rollout of managed filtration services. Through this offering, Donaldson provides complete and customizable service plans for industrial filtration equipment. These range from condition-based maintenance plans that leverage our proprietary IQ technology to traditional time-based maintenance and repair services needed to keep critical industrial equipment and compliance and online.

From a capital expenditure standpoint, our investments are also heavily weighted towards growth with capacity expansion, particularly in North America, accounting for the largest portion.

To summarize, we are encouraged by the ongoing improvements we are seeing from an operational standpoint and excited about the groundwork we are laying for Donaldson's future.

Now I'll provide some detail on second quarter sales.

Total company sales were \$828 million, up 3% compared with 2022. In Mobile Solutions, total sales were \$522 million, up about 2%. Pricing added 12% and FX was an approximate 4% headwind. Sales in Off-Road of \$106 million were up 16%. Elevated equipment production levels and strength in our Exhaust and Emissions business in Europe drove sales. On-Road sales were \$35 million, a 4% increase from prior year benefiting from strong medium- and heavy-duty truck production.

Excluding currency, sales in both of our first-fit businesses were up in all regions.

Mobile Solutions Aftermarket sales were \$382 million, down approximately 2% versus prior year. Excluding currency, sales were up roughly 2% as pricing was partially offset by customer inventory reductions in both the OE and independent channels. Not surprising, the improvement in global supply chain conditions has a lot of return to more normalized channel inventory levels.

Lastly, for Mobile Solutions, I would be remiss if I did not talk about China. Broad-based market pressures, negative impacts from the end of zero COVID and the timing of Chinese New Year, which fell in January this year versus February last year, all weighed heavily on second quarter China results. Sales declined 30% year-over-year and 25% in constant currency. The environment in China has certainly been challenging. However, given the sheer market size and our differentiated technology and high-quality offerings, we continue to view China as a long-term growth opportunity.

Now I'll turn to the Industrial Solutions segment. Industrial sales increased 13% to \$246 million. Pricing added 6%, and FX was a 4% headwind. Industrial Filtration Solutions, or IFS, grew 11% to \$212 million, driven by dust collection new equipment and replacement part sales and power generation project timing. Aerospace and Defense sales, which now fall within the Industrial segment, continued to benefit from the recovering commercial aerospace industry and were up 28% versus prior year.

Now on the Life Sciences segment. Life Sciences sales were \$59 million, down 16% as continued Disk Drive market weakness weighed heavily on segment sales. Excluding Disk Drive, Life Sciences sales would have increased approximately 7%. We are seeing encouraging sales trends in food and beverage and bioprocessing equipment. These remain key strategic growth areas for Donaldson and we look forward to providing updates on our progress in the future.

Overall, our first half of 2023 results were robust, and I'm confident we will continue to deliver on our financial and strategic commitments, for the balance of the year. As such, we are tightening our full year EPS guidance range to the high end of our previous range to reflect our conviction. We are proud of our performance and remain on pace to achieve another year of record sales, record earnings and multi-decade high operating margins.

Now I'll turn it over to Scott for more details on the financials and a more detailed update on our outlook for fiscal '23. Scott?

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

Thanks, Tod. Good morning, everyone. Our results this quarter were solid. In our view, this is a reflection of how well our employees around the globe maintain their focus on delivering to our customers while working through the completion of the organizational redesign. This redesign was certainly a heavy lift for the company, but I truly believe we are now better positioned than ever for future profitable growth, and I thank our teams for their contributions in this regard.

I will provide color on our outlook for the balance of the year in a few minutes, but first, I will give more details on second quarter results.

To summarize the quarter, sales grew 3%, operating income was up 31% and adjusted EPS of \$0.75 increased 32% year-over-year.

Gross margin of 34.5% improved 340 basis points versus 2022. It was worth noting that gross margin in the second quarter of fiscal 2022 was 31.1%, a very low level for the company as the timing of our pricing actions lagged historic levels of inflation. Pricing now, of course, plays a significant role in our year-over-year improvement as to the stabilization of input costs. From a sequential standpoint, gross margin did not follow our typical seasonal pattern and increased 60 basis points due mainly to inventory valuation. As a result, for the third quarter, we are forecasting gross margin to step down sequentially. However, we still anticipate a year-over-year improvement.

Operating expenses as a percent of sales were 19.3%, slightly above 19.2% a year ago. The slight increase was due in large part to the comparison of the prior year as we were still in the early days of a pandemic-related recovery.

Operating margin was 15.2%, up 330 basis points versus prior year resulting from gross margin expansion. Operating margin was up 20 basis sequentially. Again, this does not follow our typical seasonal pattern. Further, given our third quarter gross margin expectations, we also anticipate a corresponding step-down in sequential operating margin in the third quarter but a year-over-year improvement.

Now I'll touch on segment profitability.

Mobile Solutions' pretax profit margin was 15%, up 360 basis points year-over-year and Industrial Solutions' pretax margin was 18.8%,

up 640 basis points from prior year. Gross margin expansion, along with operating expense leverage were the drivers in both segments.

On the Life Science side, pretax profit margin was 10.6%, down notably from 23.7% a year ago. The decline in Disk Drive sales was the largest driver combined with increased operating expenses as we continue to invest heavily in this segment. Excluding acquisitions, pretax profit margin would have been 16.4%.

Turning to a few balance sheet and cash flow statement highlights.

Second quarter capital expenditures were roughly \$30 million, mainly driven by capacity expansion investments in North America.

Cash conversion in the quarter was 78% versus about 30% in 2022. This improvement reflects a return to more normal levels of conversion following the negative inventory-related working capital impacts in the prior year.

In terms of capital deployment, we returned \$98 million to shareholders with \$28 million in the form of dividends and \$70 million in share repurchases. Our balance sheet is in great shape as we ended the quarter with a net debt-to-EBITDA ratio of 0.8x.

Now moving to our updated fiscal '23 outlook.

For sales, given the new segmentation, I won't go through the exercise of bridging back to our previous guidance for each segment. That said, at a high level, our outlook for total company sales and legacy Engine and Industrial segments has not materially changed. We expect fiscal 2023 sales to increase between 2% and 6%, above our previous guidance of between 1% and 5%. This includes a negative impact from currency translation of about 4%, which is an improvement of 100 basis points from what we expected last quarter. Pricing should contribute about 6% to sales. As a reminder, second half year-over-year sales growth will be lower than first half as incremental pricing benefits begin to fade.

For Mobile Solutions, we are forecasting a revenue increase of between 1% and 5%. Given recent trends, the composition of mobile sales is now expected to be different from our initial projections as stronger-than-expected end market demand for our first-fit products, mainly Off-Road, is forecast to offset weaker-than-expected aftermarket sales. On-Road and Off-Road sales are expected to be up mid-single digits and high single digits, respectively. Aftermarket sales are projected to be up low single digits. As Tod mentioned, customer inventory reductions are a response to improved supply chain conditions are impacting sales in both aftermarket channels.

In the Industrial Solutions segment, we expect sales growth of between 8% and 12%, driven by continued strength in IFS, dust collection, new and replacement parts, in particular, and Aerospace and Defense. IFS are forecasted to increase high single digits, and Aerospace and Defense sales are projected to grow low double digits.

For the Life Sciences segment, we are forecasting a sales decline of between 5% and 9%. Disk Drive sales have been negatively impacting results. However, we do anticipate a stabilization of the sales in the second half of the year. We also expect continued strength in food and beverage and bioprocessing equipment or Solaris sales.

In terms of operating margin, we are narrowing our guidance to between 14.6% and 15.0%. The midpoint of this range reflects a 130 basis point increase from prior year, primarily driven by gross margin improvement.

From an operating expense perspective, while we continued exercise discipline, particularly given the uncertain macro environment, we are committed to building for the future through our reinvestments back into the business.

With respect to EPS, we are now expecting results within the range of \$2.99 and \$3.07 towards the higher end of our previous range of \$2.91 and \$3.07. The midpoint of our new EPS guidance range represents an approximately 13% increase from a record fiscal 2022.

Now on to our balance sheet and cash flow outlook.

Cash conversion is forecast in the range of 110% and 120%, higher than our historical averages and in line with our previous guidance. The strong cash conversion from this year is expected to be driven by benefits from improved inventory efficiency as we continue to refine our processes and as supply chain conditions normalize.

Our capital expenditures forecast heavily weighted towards growth initiatives is between \$115 million and \$130 million. This includes investments in capacity expansion along with tooling and equipment for new products and technology.

Our remaining capital deployment priorities include additional investments in Donaldson's inorganic growth, specifically in Life Sciences, as evidenced by the Isolere acquisition and services as well as our ongoing commitment to 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 express my deep gratitude to our dedicated Donaldson team. Their commitment to our organization and to our customers and their professionalism through the redesign has been truly wonderful. I'm excited about our path forward.

Looking ahead, Donaldson's goal is to remain the leader in technology-led filtration and to support our people, our customers and our communities in advancing filtration for a cleaner world.

First, on supporting our people. Building on our strong technological foundation, our engineers, for example, are hard at work every day growing our innovation engine. They're supported by our commitment to R&D and are developing products and services in our higher margin, higher growth areas.

Second, supporting our customers. As a corporation, we have our own sustainability goals. However, and not to be understated, our products and solutions are inherently well suited to support our customers as they work to achieve their sustainability goals.

And last, but not least, supporting our communities. Being able to leverage our filtration and separation technologies into different verticals is one of the key competitive advantages of Donaldson. Through our expansion into life sciences, we have now begun to play an increasingly important role in supporting the improvement of global human health.

In closing, we are incredibly optimistic as we look out over the long term. We look forward to providing additional color on Donaldson's long-term strategy, growth drivers and key initiatives, including those related to innovation and ESG at our upcoming Investors Day on April 4. At that time, we will also share our longer-term financial objectives.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question today comes from the line of Bryan Blair of Oppenheimer.

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

Another very solid quarter. And I guess as we think about the back half, your -- I suppose someone was a victim of your own success given the stacked comps that you face. I apologize if I missed this and the breadcrumbs you did in the outlook. But how should we think about Q3, Q4 cadence top line and EPS? Is it I guess, at a high level, think of moderate growth in Q3, moderate decline in Q4? Or is there more nuance to that?

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

This is Scott. Nice to talk to you. So, we held our guidance for the year relatively flat, excluding FX, which had improved for us by 100 basis points. So that was the largest change in the guidance that impacted our back half of the year.

It is kind of interesting this year when we look at our revenue cadence. If you look at last year, we had a strong ramp throughout the year, starting with first quarter revenues of \$761 million and ending the year at \$890 million. So a strong and steady ramp throughout the year to get to \$3.3 billion.

This year, we said we were going to return to more normal level of seasonality, and for Donaldson, that's traditionally been 49, 51 or 48, 52. And so our revenues are much flatter throughout the year with a little bit of a tilt to the second half, just like we normally have historically to get to the \$3.4 billion.

So we're not going to give quarterly guidance, but our revenues in the back half of the year are relatively consistent. And you get a big percentage swings when you compare year-over-year because of the strong ramp from the prior year.

In terms of profit, we talked a little bit about gross margins and operating margins. And we're a little bit unseasonal, I would say, this year. And to the future gross margin questions that we're going to get, there's really a lot going on in terms of FX, in terms of inflation, in terms of accounting variances and you have some stuff moving from quarter-to-quarter to make sure you're matching your variances with the inventory.

And when you look at our margins, you really have to look at the first, second and third quarters and put them together because you got some stuff moving around and you got a lot of volatility in the income statement. And we would hope as we move to the future, that inflation stabilizes, currency stabilizes and we get some more accounting stabilization in our income statement, and that will make our gross margins a little more easy to understand.

But if you put the quarters together, you can see strong gross margin improvement, and we're just trying to manage third quarter versus second quarter, and that's why we had the comments in the script. So hopefully, that's a few more bread crumbs that help with your puzzle. And hopefully, that helps with your question.

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

Yes, absolutely. I appreciate the detail. And in terms of Life Sciences' Q2 profit decline, Scott, you said that the impact was weighted to the decline in Disk Drive business, which is understandable. It's a meaningful percentage of revenue and it's high margin. Could you specifically parse out what the impact was of Disk Drive declines versus growth investment, either in terms of the EBIT dollar decline or margin contraction?

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

We've not -- Bryan, it's Tod. So we've not really disclosed that level of detail. We will give you more forward-looking at the Investment Day -- at our Investor Day relative to our strategy on a forward look on Life Sciences.

Relative to what we're experiencing right now with Disk Drive, the decline has been very acute. It's down between 40% and 50%. And we would look for it to have tough comps for a few more quarters, think about 3. And then we'll have lapped this and then we'll be able to start crawling forward.

We do believe that it has bottomed. In fact, it looks like it has bottomed in December. But it is also going to bounce at these very low levels for the foreseeable future.

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

Okay. Understood. And you mentioned at Investor Day, looking forward to that next month, and I imagine we'll hear quite a bit more on this front at Investor Day. It would be great to hear a little more color on how Isolere furthers the string of pearls M&A build-out of your Life Sciences platform and how Solaris, Purilogics, Isolere piece together in terms of the platform capabilities and what that signals in terms of your path forward.

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

Absolutely. We'll give you that complete story on April 4.

Operator

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

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

It's Dan Rizzo on for Laurence. You mentioned that China obviously was down given the COVID and the new year. But as we've exited that, are you seeing order trends pick up? Or is it something you're anticipating in the future?

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

It would be more future looking. We're still feeling the pressures across China. We delivered this quarter even with the tough China story still present. And so for us, the more positive outlook to China still lies ahead.

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

Okay. And then with the strength in A&D, are we now back above pre-COVID levels in terms of demand?

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

No. We're still more modest in that business. Performing well, but certainly more modest.

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

Okay. And then final question. if we hit into a U.S. recession, I guess, towards -- in the next few months, I mean, could you still easily -- or not easily, but could you still hit the low end of your outlook based upon what we see now?

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

Well, we think so, just simply because -- that's why we give the range, and we have factored in everything we believe we know everything we're seeing on the incoming of the business. We baked in our backlog understandings, et cetera. So we believe that the guidance that we've really given today really takes those scenarios into account.

Clearly, the only headwind that we would see is if it would be a much more severe recession than anyone is currently considering, but we've baked into the guidance, everything that we believe we know. And as was indicated by the answer earlier, our second half is a bit more modest at this point with our outlook. So we believe we've taken a very balanced approach and a prudent approach to create this guide.

Operator

Your next question comes from the line of Rob Mason with Baird.

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

Tod, you made the comment that your overall sales outlook had not really changed, but clearly, the composition within mobile has changed a bit with first-fit being stronger and Aftermarket having slowed a little bit. The destocking impact, I know you had noted isolated incidents of that last quarter in the OED channel. And just you speak to where you think that is, how -- when it began? How long it may take to run its course? And how independent in the OED channels actually performed in the quarter, if you could?

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

Yes. Sure, Rob. So when you look at where we're at with destocking, it's clear that it was a bit more than we would have expected at this point. However, I would tell you, the OE channel was more severe than the independent channel. And the independent channel acted about as we would have expected.

We have had a number of people out at across our distributors. We feel as though we're at pull-through levels there. And so, while it could step down a little bit more, we've taken that into account within the guide. We're pretty comfortable on the independent channel.

The one that actually went a little bit further this quarter than we would have expected is the OE channel. They pulled their inventories down a bit more than we would have expected. Perhaps we should have seen that, knowing that they were the most aggressive relative to the inventory buildup last year when they couldn't get parts. But that's the net result.

So net-net, it's just a little bit more than we would have expected. Nothing to suggest, hey, there's a line here to be interpreted into something, and we're pretty comfortable with where we are.

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

Does -- there was also a mention of some of the restructuring charges assigned to customer program exits. And again, we've -- you've called those out already earlier this year your choice to move away from some business. Was this incremental? Or is this just catching up to the actions you've already called out, the cost restructuring that is?

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

I mean these are some actions we took during the quarter. So we're continuously focused on managing our pricing and managing our margins, and we want to have reasonable commercial relationships with our customers. And you remember, we had one particular program we talked about last year. This is another program that we focused on and work with our customer to work ourselves out of this particular program. And I think it's a good move for the company. We want to manage the capital required, and we don't want to have hollow revenues. So this is something that we're going to continue to focus on.

This one was a little bit bigger than average, and we did take a charge in the quarter to account for it, but it's something we're focused on. And I think our team is doing a really good job of managing pricing and working ourselves out of situations that we don't think are acceptable to the company.

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

I see. I see. If I could slip one more in real quick. Just Scott, maybe just to return to the margin outlook for the second half of the year. And you touched on some of the moving pieces there with inventory valuation gross margin. But just again, at a high level, it looks like margins would step down -- at the midpoint of your guidance, the margins would step down on maybe 5% more volume in the second half versus the first half. How much of the step-down should I think is in the gross margin line versus growth in OpEx -- investments...

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

Yes, a fair question. I think the OpEx will be relatively stable. That's a lot easier to control as and you spend, you expense. I think it all is related to gross margin. And I apologize for the volatility in our income statement, but I think it's kind of a function of the times that we live in. And our finance team does an excellent job of managing the variances and making sure we properly account for those, and we have to roll those off as the inventory rolls off.

And so, it's a little bit volatile. I think next year, hopefully, it will be a lot smoother in terms of gross margin and easier to understand. But we do have a little bit of volatility in those quarter, especially the sequential quarter comparisons, which challenges everyone's ability to understand it. That's why I say I think you want to try to take a little more of a balanced view and look at the first, second and third quarters together and you'll have a better view of the margin.

Just to give everybody a feel if you track the margins, going back to Q2 of last year, 31.1%, then a 31.5% and then a 32.9% in Q4 of last year for 32.6% for the full year. And then this year, we did a 33.9% in the first quarter and a 34.5% in the second quarter. So you can see our pricing actions are coming through as we promised, and the costs that we're experiencing with this strong inflation is being capitalized in the inventory and then expensed off.

And this is kind of the peak of it, we think. Our costs seem to have stabilized, so we're happy about that. And we'll take it forward from there. So hopefully, that gives you a little bit more color for both you and Bryan.

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

It does. It does.

Operator

Your next question comes from the line of Nathan Jones with Stifel.

Unidentified Analyst

This is [Matt] on for Nathan Jones. I just wanted to talk about Life Sciences. Outside of the Disk Drive business, can you talk about the growth in food and beverage and fire processing and the opportunities there?

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

Sure. Food and beverage, Matt, grew in the quarter above 20%. And we continue our real positive momentum within the food and beverage initiatives that we have pressing forward. Unfortunately, obviously, the headwind in the Disk Drive has muted that rather significantly.

And again, I do want to emphasize that when it comes to the Life Sciences pieces, we'll give, at Investor's Day, a very forward-looking strategic view of how all of the acquisitions that we have made as well as our food and beverage initiatives really contributed to our strategy forward-looking.

Unidentified Analyst

Okay. And then turning back to kind of Mobile, Aftermarket sales. Is the -- with regards to inventory is the underlying market starting to contract? Do you believe the contraction is all due to more inventory normalization?

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

It's more balanced. It's more inventory across the overall channel. Ag still holding very good. Construction's holding good. Over-road trucking is good. Mining is good. So I -- it's just more a sign of supply chain really normalizing. And so, people have more confidence, and they're just walking down slightly, inventory management.

Operator

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

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

I apologize for fixating on this a little bit. I just wanted to come back to Life Sciences one more time. Can you just talk through the decision to include Disk Drive in Life Sciences? I think going forward, right, you talked about how Disk Drive is still a sectorally more challenged market relative to the more positive outlook you have process filtration. Was it more about the margin profile? Like what really caused the, I guess, impetus to include Disk Drive in Life Sciences?

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

Disk Drive belongs into the life sciences sector because the technologies of membranes are all how you -- are all included in that sector and how you -- how those technologies really apply directly into the Life Sciences sector.

So expanded polytetrafluoroethylene, to be able to make membranes, is really critical to the long-term strategy of how we view Life Sciences. And when you look at what we're inventing out of our Disk Drive-based businesses, that has allowed us to go into other medical-based applications, et cetera.

So it's really a foundational technology view. And then how that foundation then builds up directly into the end markets, enabling products to be invented on the in-between to solve customer problems. And that's why it really belongs in Life Sciences. It happens to deliver the Disk Drive today, and it's been terrific for us in inventing great membranes that now we can parlay over into our Life Sciences sector, and that's why it's there.

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

Okay. Yes. That makes a lot of sense. And then if I can just ask on the Industrial Solutions margin expansion in the quarter. I'm just wondering if you can kind of expand on that a bit. I know you called out the inventory valuation kind of gross margin tailwind at the company level. But I'm not sure if that benefit was felt more acutely in Industrial? If there was a more idiosyncratic price/cost benefit? Or what was actually driving the outsized margin expansion there?

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

Yes. I mean the Industrial business had a really strong quarter. They had good price and they had good volume. And so they grew pretty significantly 12.8% and 16.7% in local currency. So our Industrial team is hitting their stride and they had strong incremental margins this quarter. And that includes a currency drag.

So the business performed well, and you were coming off of COVID. So admittedly, we have weaker comps there, and we had a cost issue last year. So the overall margins for the company were pretty weak last year and we're coming off of weak comps and really good performance for the Industrial team this quarter. And so you see that strong operating margin growth. And so we're really pleased and grateful for their performance.

Operator

There are no further questions at this time. I 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. Thanks to everyone who participated, and we look forward to seeing you at our Investor Day, April 4 and reporting our third quarter results in late May. Have a great rest of the day. Goodbye.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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