



# Second Quarter Fiscal Year 2023 Earnings Call

March 2023



**Donaldson.**  
FILTRATION SOLUTIONS

Statements in this presentation regarding future events and expectations, such as forecasts, plans, trends, and projections relating to the Company's business and financial performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are identified by words or phrases such as "will likely result," "are expected to," "will continue," "will allow," "estimate," "project," "believe," "expect," "anticipate," "forecast," "plan" and similar expressions. These forward-looking statements speak only as of the date such statements are made and are subject to risks and uncertainties that could affect the Company's performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed. These factors include, but are not limited to, challenges in global operations; impacts of global economic, industrial and political conditions on product demand, including the Russia and Ukraine conflict; impacts from unexpected events, including the COVID-19 pandemic; effects of unavailable raw materials or material cost inflation; inability to attract and retain qualified personnel; inability to meet customer demand; inability to maintain competitive advantages; threats from disruptive technologies; effects of highly competitive markets with pricing pressure; exposure to customer concentration in certain cyclical industries; inability to manage productivity improvements; results of execution of any acquisition, divestiture and other strategic transactions; vulnerabilities associated with information technology systems and security; inability to protect and enforce intellectual property rights; costs associated with governmental laws and regulations; impacts of foreign currency fluctuations; and effects of changes in capital and credit markets. These and other factors are described in Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2022. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. The results presented herein are preliminary, unaudited and subject to revision until the Company files its results with the United States Securities and Exchange Commission on Form 10-Q.

## **Non-GAAP Financial Measures**

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

## Continued Operational Improvements, Strategic Investments, and Shareholder Value Creation

- Achieved 6-year quarterly high operating margin on low-single digit sales growth
- Returned \$98M in second quarter and \$171M year to date to shareholders in dividends and share repurchases
- Further strengthened Life Sciences market position
  - Acquired Isolere Bio, Inc., adding to existing life sciences portfolio and positioning Donaldson to offer customers full suite of products to be integrated into downstream biomanufacturing process

## Second Quarter Financial Highlights

- Sales of \$828M up 3% year over year and up 8% on a constant currency basis
  - Pricing of 10% partially offset by currency translation headwinds of 4% and volume decline of 3%
- Adjusted EPS<sup>(1,2)</sup> of \$0.75 represents 32% year-over-year growth
  - Adjusted gross margin<sup>(1)</sup> improvement of 340 bps year-over-year and 60 bps sequentially
  - Adjusted operating margin<sup>(1)</sup> improvement of 330 bps year over year and 20 bps sequentially

## Narrowed Fiscal 2023 Guidance

- Adjusted EPS guidance tightened to a range of \$2.99 - \$3.07
  - Sales growth of 2% to 6%
  - Continued expectation of full-year gross margin and operating margin expansion

<sup>1</sup>Adjusted for fiscal Q2'23 restructuring and other charges of \$9.3M pretax, primarily from organizational redesign and exiting of lower-margin customer program. See the Reconciliation of Non-GAAP Financial Measures appendix for additional information.

<sup>2</sup>All EPS figures refer to diluted EPS

1.

Technology-led filtration company with deep customer relationships

2.

Diversified portfolio of global businesses with recurring revenue and expanding addressable market opportunities

3.

Experienced management team and engaged board of directors committed to our long-term strategic goals

4.

Global sales, production and distribution footprint with personalized service of a local firm

5.

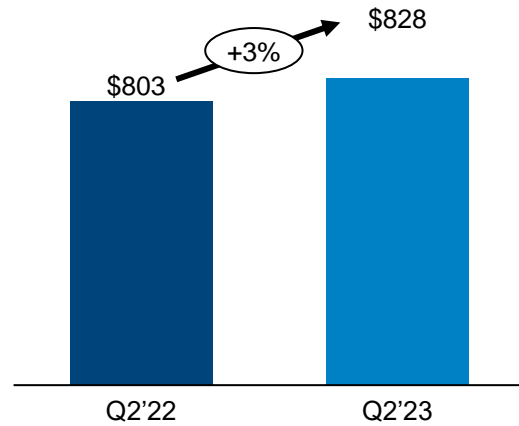
Culture of ownership aligns with shareholder interests; disciplined capital allocation strategy to drive strong shareholder returns

# Second Quarter FY23 Overview & Highlights



## Sales (\$M)

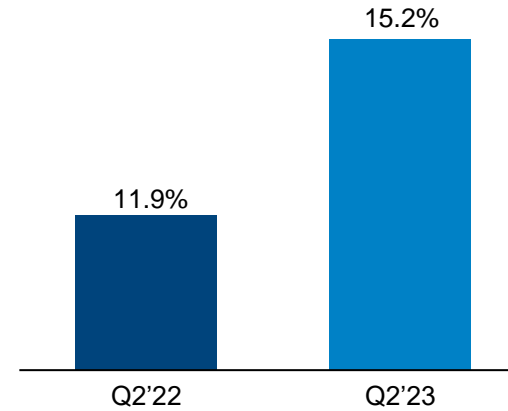
Up 8% YoY Constant Currency Basis



- Positive YoY contribution from price (+10%), partially offset by FX (-4%)
- Industrial Solutions +13% YoY, Mobile Solutions +2% YoY, and Life Sciences down 16% YoY

## Adj. Operating Margin<sup>(1)</sup>

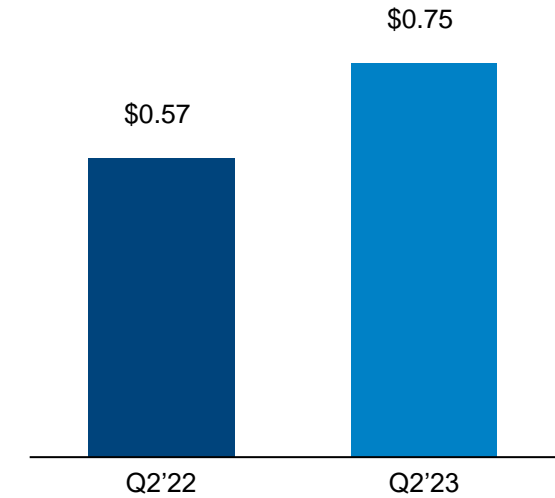
Up 330 bps YoY



- Adjusted gross margin up 340 bps year over year and 60 bps sequentially, driven by fiscal year 2022 pricing actions and input cost stabilization
- Adjusted operating expenses<sup>(1)</sup> as a percent of sales up 10 bps YoY, driven by pandemic-related expense softness in prior year

## Adj. Diluted EPS

Up 32% YoY



- Adjusted operating income increased 31% YoY
- Effective tax rate of 24.1% flat YoY
- Repurchased ~1.2M shares totaling \$70M

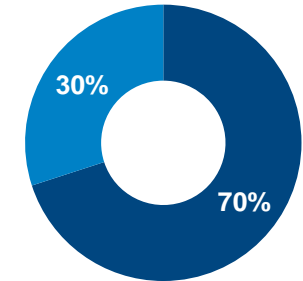
<sup>1</sup>Adjusted for fiscal Q2'23 restructuring and other charges of \$9.3M pretax, primarily from organizational redesign and exiting of lower-margin customer program. See the Reconciliation of Non-GAAP Financial Measures appendix for additional information.

# Redesigned to Further Leverage Strengths

## Old Donaldson

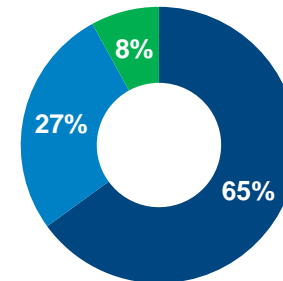
## New Donaldson

FY22 Sales by Segment



■ Engine ■ Industrial

FY22 Sales by Segment



■ Mobile Solutions ■ Industrial Solutions ■ Life Sciences

## Reportable Industries

Mobile Solutions

Off-Road  
On-Road  
Aftermarket  
Aerospace & Defense

Off-Road  
On-Road  
Aftermarket

Industrial Solutions

IFS  
Gas Turbine Systems  
Special Applications

IFS (new)  
Aerospace & Defense

Life Sciences

N.A.

N.A.

## Second Quarter Overview

- Total sales increased 2% compared to prior year and grew 6% on a constant currency basis
- Sales performance by region: US/CA +5%, EMEA -1%, APAC -8%, LATAM +11%
- Sales in China down approximately 30% year over year and 25% on a constant currency basis
- Sales performance by end-market: Off-Road +16%, On-Road +4%, Aftermarket -2%
- Sales growth driven by pricing across all business and notable Off-Road strength
- Segment EBT margin up 360 bps YoY driven by benefits from pricing efforts and stabilization of input cost inflation

(\$ in millions)	Q2'23	Q2'22	YoY
<b>Sales</b>	\$523	\$514	+2%
<b>EBT</b>	\$79	\$59	+34%
<b>% of sales</b>	15.0%	11.4%	+360 bps

## Second Quarter Overview

- Total sales grew 13% compared to prior year and increased 17% on a constant currency basis
- Sales performance by region: US/CA +17%, EMEA +15%, APAC -14%, LATAM +37%
- Sales performance by end-market: Industrial Filtration Solutions (IFS) +11% and Aerospace & Defense +28%
- Sales growth driven by pricing and robust demand across industrial dust collection new equipment, Aerospace & Defense, and the timing of Power Generation project timing
- Segment EBT margin up 640 bps YoY driven by pricing benefits and stabilization of input cost inflation
- Rolled out Managed Filtration Services, expanding service offering

	Q2'23	Q2'22	YoY
<b>Sales</b>	\$247	\$219	+13%
<b>EBT</b>	\$46	\$27	+70%
<b>% of sales</b>	18.8%	12.4%	+640 bps

## Second Quarter Overview

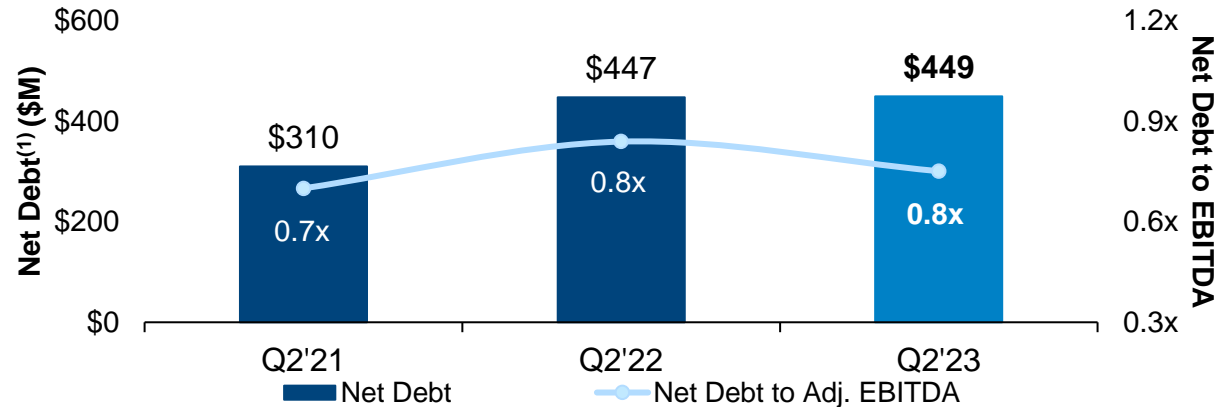
- Total sales decreased 16% compared to prior year and declined 10% on a constant currency basis
- Sales performance by region: US/CA +46%, EMEA 0%, APAC -42%, LATAM +45%
- Lower sales driven by continued Disk Drive market weakness partially offset by Food & Beverage and bioprocessing equipment sales strength
- Segment EBT margin down 1,310 bps YoY driven by lower Disk Drive volumes and incremental investment to grow and scale recent acquisitions
- Integration and investments continue in FY23, including the acquisition of Isolere Bio, Inc.

	Q2'23	Q2'22	YoY
<b>Sales</b>	\$59	\$71	-16%
<b>EBT</b>	\$6	\$17	-62%
<b>% of sales</b>	10.6%	23.7%	-1,310 bps

# Balance Sheet and Cash Flow Overview



## Net Debt and Financial Leverage



## Consolidated Results (\$M)

	Q2'23	Q2'22	YTD'23	YTD'22
Cash from Operations	\$102	\$37	\$221	\$80
Capital Expenditures	(\$30)	(\$15)	(\$58)	(\$34)
Free Cash Flow (FCF) <sup>(1)</sup>	\$73	\$22	\$163	\$46
Dividends	(\$28)	(\$27)	(\$56)	(\$55)
Share Buybacks	(\$70)	(\$13)	(\$115)	(\$116)

## Highlights

- Adjusted free cash flow conversion of 78% in Q2'23, well above 30% in Q2'22 and 88% fiscal year-to-date compared to 31% in the prior year
- Year-to-date working capital a source of cash, aided by stabilization of inventory levels and the collection of receivables
- Strong balance sheet supports future growth and strategic investments

<sup>1</sup>Adjusted for fiscal Q2'23 restructuring and other charges of \$9.3M pretax, primarily from organizational redesign and exiting of lower-margin customer program. YTD'23 restructuring and other charges were \$16.9M. See the Reconciliation of Non-GAAP Financial Measures appendix for additional information.

## FY23 Total Company Outlook

	Prior (Q1'23)	Current
<b>Total Sales Growth</b>	+1% to +5%	<b>+2% to +6%</b>
<b>Gross Margin</b>	YoY expansion	<b>YoY expansion</b>
<b>Adj. Operating Margin</b>	14.5% to 15.1%	<b>14.6% to 15.0%</b>
<b>Tax Rate</b>	25% to 27%	<b>24% to 26%</b>
<b>Adj. Diluted EPS</b>	\$2.91 to \$3.07	<b>\$2.99 to \$3.07</b>
<b>Capital Expenditures</b>	\$115M to \$135M	<b>\$115M to \$130M</b>
<b>FCF Conversion</b>	110% to 125%	<b>110% to 120%</b>

## FY23 Segment Sales Outlook

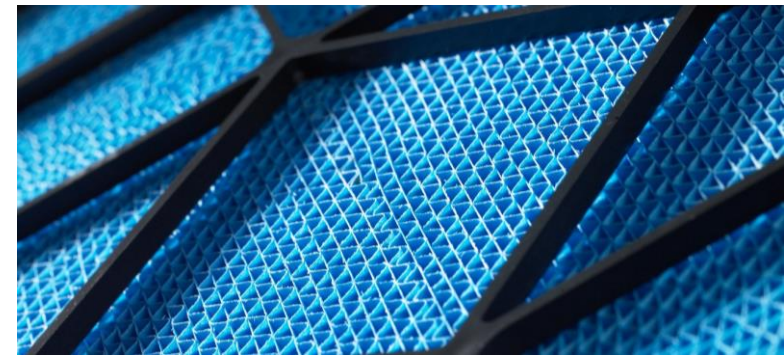
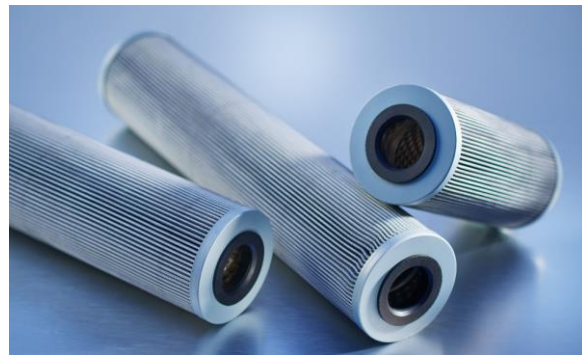
	Current
<b>Mobile Solutions</b>	<b>+1% to +5%</b>
Off-Road	<b>+ High-single digits</b>
On-Road	<b>+ Mid-single digits</b>
Aftermarket	<b>+ Low-single digits</b>
<b>Industrial Solutions</b>	<b>+8% to +12%</b>
Industrial Filtration Solutions	<b>+ High-single digits</b>
Aerospace & Defense	<b>+ Low-double digits</b>
<b>Life Sciences</b>	<b>-5% to -9%</b>

## Other Assumptions

- Pricing benefit of approximately 6%
- Currency translation expected to be a headwind of ~4% (~5% prior)
- Sales growth stronger in 1H'23 driven by pricing benefits

- FY23 interest expense approximately \$20M (\$18M prior)
- Other income between \$6M to \$10M
- Share repurchases of approximately 2%

# Appendix



# Reconciliation of Non-GAAP Financial Measures

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



## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(In millions)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 102.3	\$ 36.9	\$ 220.5	\$ 79.8
Net capital expenditures	(29.5)	(15.2)	(57.6)	(33.5)
Free cash flow	\$ 72.8	\$ 21.7	\$ 162.9	\$ 46.3
Net earnings	\$ 86.0	\$ 71.8	\$ 173.2	\$ 148.8
Income taxes	27.3	22.7	56.6	49.7
Interest expense	4.6	3.6	9.2	7.1
Depreciation and amortization	22.4	23.6	44.8	47.5
EBITDA	\$ 140.3	\$ 121.7	\$ 283.8	\$ 253.1
Adjusted net earnings	\$ 93.0	\$ 71.8	\$ 185.9	\$ 148.8
Adjusted income taxes	29.6	22.7	60.9	49.7
Interest expense	4.6	3.6	9.2	7.1
Depreciation and amortization	22.4	23.6	44.8	47.5
Adjusted EBITDA	\$ 149.6	\$ 121.7	\$ 300.8	\$ 253.1
Gross profit	\$ 284.4	\$ 249.8	\$ 571.6	\$ 506.8
Restructuring and other charges	1.5	—	1.5	—
Adjusted gross profit	\$ 285.9	\$ 249.8	\$ 573.1	\$ 506.8
Operating expense	\$ 168.1	\$ 154.1	\$ 336.0	\$ 303.6
Restructuring and other charges	(7.8)	—	(15.4)	—
Adjusted operating expense	\$ 160.2	\$ 154.1	\$ 320.5	\$ 303.6
Operating income	\$ 116.3	\$ 95.7	\$ 235.6	\$ 203.2
Restructuring and other charges	9.3	—	16.9	—
Adjusted operating income	\$ 125.7	\$ 95.7	\$ 252.6	\$ 203.2
Net earnings	\$ 86.0	\$ 71.8	\$ 173.2	\$ 148.8
Restructuring and other charges, net of tax	7.0	—	12.7	—
Adjusted net earnings	\$ 93.0	\$ 71.8	\$ 185.9	\$ 148.8
Diluted EPS	\$ 0.70	\$ 0.57	\$ 1.40	\$ 1.18
Restructuring and other charges per share	0.06	—	0.10	—
Adjusted diluted EPS	\$ 0.75	\$ 0.57	\$ 1.50	\$ 1.18

Amounts may not sum due to rounding

# Reconciliation of Non-GAAP Financial Measures

(\$ in millions, except per share amounts)

(Unaudited)



	January 31,		
	2023	2022	2021
Total debt	\$ 628.8	\$ 617.8	\$ 517.5
Less: Cash and cash equivalents	(179.4)	(170.4)	(207.3)
Net debt	\$ 449.4	\$ 447.4	\$ 310.2

	Twelve months ended January 31,		
	2023	2022	2021
Adjusted EBITDA	\$ 598.4	\$ 532.9	\$ 443.0
Net debt to adjusted EBITDA	0.8x	0.8x	0.7x